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*Bureau for International Narcotics and Law
Enforcement Affairs*

International Narcotics Control Strategy Report

Volume I

**Drug and Chemical
Control**

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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

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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
LEDET	Law Enforcement Detachment, frequently embarked on patrol vessels
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)
SOCA	(British) Serious Organized Crime Agency
TIR Truck	Trucks inspected and sealed by Customs at point of origin. (Transport International Routier)
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

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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

UNCAC—UN Convention against Corruption

UN Convention against Transnational Organized Crime—and its supplementing protocols:

- **Trafficking in Persons Protocol**—Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime
- **Migrant Smuggling Protocol**—Protocol against the Smuggling of Migrants by Land, Air and Sea, supplementing the United Nations Convention against Transnational Organized Crime
- **Firearms Protocol**—Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the United Nations Convention against Transnational Organized Crime

INTRODUCTION

Legislative Basis for the INCSR 2009

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 2009 INCSR, published in March 2009, covers the year January 1 to December 31, 2008 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 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).

Two years ago, 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 actions 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 2009 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. The reports vary in the extent of their coverage. For key drug-control countries, where considerable information is available, we have provided comprehensive reports. For some smaller countries or entities where only limited information is available, we have included whatever data the responsible post could provide.

The country chapters report upon actions taken—including plans, programs, and, where applicable, timetables—toward fulfillment of Convention obligations. Because the 1988 UN Drug Convention’s subject matter is so broad and availability of information on elements related to performance under the Convention varies widely within and among countries, the Department’s views on the extent to which a given country or entity is meeting the goals and objectives of the Convention are based on the overall response of the country or entity to those goals and objectives. Reports will often include discussion of foreign legal and regulatory structures. Although the Department strives to provide accurate information, this report should not be used as the basis for determining legal rights or obligations under U.S. or foreign law.

Some countries and other entities are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations and cannot become parties. For such countries or entities, we have nonetheless considered actions taken by those countries or entities in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the Convention’s requirements. Other countries have taken reservations, declarations, or understandings to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, the Department has insufficient information to make a judgment as to whether the goals and objectives of the Convention are being met. Unless otherwise noted in the relevant country chapters, the Department’s Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

Information concerning counternarcotics assistance is provided, pursuant to section 489(b) of the FAA, in section entitled “U.S. Government Assistance.”

Major Illicit Drug Producing, Drug-Transit, Significant Source, Precursor Chemical, and Money Laundering Countries

Section 489(a) (3) of the FAA requires the INCSR to identify:

- (A) Major illicit drug producing and major drug-transit countries;
- (B) Major sources of precursor chemicals used in the production of illicit narcotics; or
- (C) Major money laundering countries.

These countries are identified below.

Major Illicit Drug Producing and Major Drug-Transit Countries

A major illicit drug producing country is one in which:

- (A) 1,000 hectares or more of illicit opium poppy is cultivated or harvested during a year;
- (B) 1,000 hectares or more of illicit coca is cultivated or harvested during a year; or
- (C) 5,000 hectares or more of illicit cannabis is cultivated or harvested during a year, unless the President determines that such illicit cannabis production does not significantly affect the United States. FAA § 481(e)(2).

A major drug-transit country is one:

- (A) that is a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; or
- (B) through which are transported such drugs or substances. FAA § 481(e)(5).

The following major illicit drug producing and/or drug-transit countries were identified and notified to Congress by the President on September 15, 2008, consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

Afghanistan, The Bahamas, Bolivia, Brazil, Burma, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, India, Jamaica, Laos, Mexico, Nigeria, Pakistan, Panama, Paraguay, Peru, and Venezuela.

Of these 20 countries, Burma, Bolivia, 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 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. Moreover, a vital national interests’ waiver permits funding to Bolivia for programs critical to our vital national interests.

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, Bolivia, Brazil, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guatemala, Guernsey, Guinea-Bissau, 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, Venezuela, and Zimbabwe.

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 15, 2008

Presidential Determination No. 2008-28

Pursuant to Section 706(1) of the Foreign Relations Authorization Act, FY03 (P.L. 107-228)(the FRAA), I hereby identify the following countries as major drug transit or major illicit drug producing countries: **Afghanistan, The Bahamas, Bolivia, Brazil, Burma, 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 (the FAA), one of the reasons that major drug transit or illicit drug producing countries are placed on the list is the combination of geographic, 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 Bolivia, Burma and Venezuela as countries that have failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this report (Tab A) are justifications for the determinations on Bolivia, Burma and Venezuela, as required by section 706(2) (B).

I have also determined, in accordance with provisions of Section 706(3)(A) of the FRAA, that support for programs to aid Venezuela's democratic institutions and continued support for bilateral programs in Bolivia are vital to the national interests of the United States.

Under the leadership of President Karzai, the Government of Afghanistan has made some progress in combating narcotics. However, drug trafficking remains a serious threat to the future of Afghanistan, contributing to widespread public corruption, damaging legitimate economic growth, and fueling violence and insurgency.

A successful counternarcotics strategy in Afghanistan hinges on maintaining security, building public capacity, attaining local support, and actively pursuing our joint counter-narcotics strategy.

Poppy cultivation continues to be marked by the divide between the increasingly poppy-free northern provinces and the insurgency-dominated regions in the south. Through political will, and by using a mixture of incentives and disincentives, governors in key northern provinces, like Badakshan and Nangarhar, have significantly reduced poppy cultivation.

Inspired by the Nangarhar model, the newly appointed governor of the southern province of Helmand has taken bold steps to implement the first truly serious counternarcotics campaign in the province. It is clear that progress in Helmand Province will not come easily. Drug control efforts in this area of pronounced

poppy cultivation are thwarted by heavily entrenched Taliban centers of power; in 2007 Helmand Province cultivated more than half of Afghanistan's illegal poppy crop.

Difficult security conditions greatly impede counternarcotics operations, particularly in the south and southwest provinces, areas in which the insurgency and organized crime groups predominate and where over 85 percent of Afghan poppy is cultivated.

Drug-related corruption in Afghanistan—one of the most intransigent problems in the country—must be confronted, particularly at provincial and district government levels. Corruption and illegal drugs in Afghanistan threaten to undermine all aspects of the country's efforts to build a sustainable economic infrastructure and functioning democracy.

The United States enjoys close cooperation with Canada across a broad range of law enforcement issues. Both of our nations face a serious challenge from the two-way flow of drugs across our long border. While Canada is primarily a drug consuming country, it is also a significant producer of highly potent marijuana and has become the primary source country for MDMA (ecstasy) available in the United States. Additionally, Canada serves as a transit or diversion point for precursor chemicals and over-the-counter pharmaceuticals used to produce illicit synthetic drugs, most notably MDMA. While methamphetamine use has decreased in the United States due, in large part, to past efforts to reduce precursor chemical diversion by Canadian authorities, production of finished methamphetamine is increasing in Canada and could lead to greater supplies in the United States. Canada is pursuing a new National Anti-Drug Strategy that focuses on proven approaches to reduce drug use and deter drug trafficking. The U.S. and Canada continue to work productively in joint law enforcement operations that disrupt drug and currency smuggling operations along the border.

The growing expansion of drug trafficking in Central America poses serious challenges to the region's limited capability to combat both the narcotics trade and organized crime. We are particularly concerned about the increasing presence of drug trafficking organizations in Central America that are fleeing more robust counternarcotics regimes elsewhere, especially in Mexico and Colombia. Often unimpeded, traffickers easily use long Central American coastlines for illegal maritime drug shipments. Even though there have been noteworthy seizures, a high proportion of drugs transiting Central America are not detected or seized.

The March 2008 gun battle between drug organizations in Guatemala demonstrates that criminal organizations such as the Sinaloa cartel are trying to reinforce their trafficking strongholds in Central America. In 2008, Guatemala passed new anti-organized crime and extradition laws. While such actions are encouraging, Guatemala must work aggressively to implement these measures, just as neighboring countries must redouble their practical efforts to implement adopted reforms aimed at thwarting criminal activity.

The United States is encouraged by the commitment of the Regional Integration System to a regional response, such as sharing counternarcotics intelligence. Support for cohesive regional institution building and practical law enforcement enhancements in Central America are critical components to a successful regional counternarcotics strategy. We look forward to working with Guatemala and other Central American nations to support counter-drug programs and the rule of law under the new Merida Initiative.

The Government of Ecuador is committed to protecting its borders and territory against drug trafficking and other transnational crimes. The increased presence of Ecuadorian security forces in its counternarcotics efforts provided a more effective deterrent to drug production and trafficking. The identification of new trafficking trends and increased staffing and inspection at all air, land and sea ports are also helping to hinder drug trafficking. With a system for tracking vessels already in place, Ecuador is

expanding this capability and more effectively utilizing it as a tool for working with partner nations. The country's ability to identify the nationality of ships is of special concern as considerable cocaine destined for the U.S. has been detected on Ecuadorian-flagged vessels.

The countries of West Africa have emerged as key transit hubs for Andean cocaine trafficked through Venezuela and Brazil and destined for European markets. This trafficking is undermining many of the already fragile institutions of countries in the region. Narcotics traffickers have focused their illegal activities in Guinea-Bissau, but have recently extended their operations south to Guinea. The presence of Latin American drug traffickers and the large quantities of cocaine trafficked openly suggest that drug criminals may exercise the prerogatives of sovereign nation-states in these two countries. West Africa has long been a hub for illicit criminal networks. West African states lack resources to sufficiently counter efforts by drug trafficking organizations whose activity threatens the stability of these countries and the wellbeing of their people. International donors and organizations are working to assist governments in their counterdrug efforts. We support these efforts to preserve and protect stability and positive growth in this region.

Nigeria, a major transit country for illicit drugs destined for the United States, continues to make some progress on counter narcotics, and has cooperated effectively with the United States on drug-related money laundering cases. Since it began operations in 2005, the Nigerian Financial Intelligence Unit has investigated numerous suspicious transaction reports that have resulted in high profile convictions recorded by the Economic and Financial Crimes Commission (EFCC). In the past, we have commended the role of the EFCC in Nigeria's counter-drug and anti-money laundering effort. However, recent developments in Nigeria raise questions about whether the EFCC will remain an effective anti-corruption agency. We have expressed our concerns to numerous Nigerian government officials and have conveyed that we expect to see improved progress on anti-corruption from the EFCC under its new leadership. The U.S. Government has had extradition requests pending in Nigeria for years and is concerned that Nigeria's extradition practices and procedures remain obstacles to the effectiveness of this essential counternarcotics law enforcement tool. We are encouraged that Nigeria's use of U.S.-donated body scanners at its four major international airports has resulted in the arrest of numerous drug traffickers. Moreover, we fully support the National Drug Law Enforcement Agency's recent cooperation in regional search and seizure operations.

The Government of India maintains a strong track record of regulating monitoring and curbing its licit opium production and distribution process. India has introduced robust, high-tech methods to control cultivation by licensed opium farmers. In this sense, India must continue to refine its control measures to guard against the continuing problem of diversion of licit opium crops, grown for the production of pharmaceutical products, to illegal markets. The U.S. continues to be concerned about illicit opium poppy production in certain areas of the country, such as West Bengal and the state of Uttaranchal along the India-China Border, previously thought to be free of such cultivation. Nevertheless, during the past year the country has destroyed substantial areas of illicit poppy cultivation. The Indian Government must also continue to investigate cases of large, criminal illicit poppy production and accordingly bring perpetrators to trial. The United States, along with other foreign governments and international organizations, has a good working relationship with India to interdict the flow of narcotics being smuggled across India's borders.

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 2009

Bolivia

Bolivia failed demonstrably to make sufficient efforts during the last 12 months to meet its obligations under international counternarcotics agreements or to take the counternarcotics measures set forth in Section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

The Government of Bolivia (GOB) failed to take sufficient action against illicit coca cultivation, processing, and trafficking. Although the GOB attained minimum annual levels of coca eradication under the terms of our bilateral Letter of Agreement (LOA), Bolivia's policies and actions encouraged the illicit cultivation of coca, the result being a net 14% increase in the area under illicit coca cultivation. The Government of Bolivia realized an increase in the amount of cocaine interdicted, but this was in large measure the result of increased cocaine production stemming from officially sanctioned increases in coca cultivation.

The Government of Bolivia has failed to close illegal coca markets, facilitated the legalization of additional coca markets, and has not imposed effective controls on commerce in coca leaf. Both production and sale of coca leaf far exceed the demand for traditional use and excess coca leaf is readily diverted to the production of cocaine hydrochloride. President Morales supports an increase in 'licit' cultivation well beyond the 12,000 hectares currently allowed under Bolivian law to 20,000 hectares. This not only contravenes provisions of the UN Convention to which the GOB is a signatory, but the inevitable result will be yet greater production of 'licit' coca leaf and even greater diversion of leaf to the production of cocaine hydrochloride.

On September 11, 2008, the GOB declared the U.S. Ambassador to Bolivia persona non grata, reinforcing that Bolivia does not want to cooperate with the United States on counternarcotics. Additionally the Government of Bolivia recently forced the removal of USAID operators in the Chapare working on programs designed to provide an alternative to cocaine production. The Government of Bolivia also required the withdrawal of Drug Enforcement Administration agents from the Chapare. These actions are elements of the Government of Bolivia's emerging policy of restricting the scope of United States Government involvement in counternarcotics activities. They are having a profound, negative impact on the performance of previously effective bilateral programs and relationships.

Despite some successes in interdiction, and success in meeting minimum levels of eradication, the total effort of the Government of Bolivia falls well short of its obligations to the international community. The Government of Bolivia's official policy of permissiveness with respect to the cultivation of coca, as evidenced by its policy decision to increase the total area allotted to licit coca cultivation and to allow 43,000 coca growers to cultivate coca on un-policed personal plots known as "catos", not only contravenes its obligations under the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, but also signals an official disregard to the injurious effects of coca cultivation and trafficking in cocaine hydrochloride on the health as well as the economic and political stability of its neighbors as well as the broader international community.

A determination as having failed demonstratively does not affect funding for humanitarian and counternarcotics programs. A vital national interest waiver permits funding for other programs critical to our foreign policy interests.

Memorandum of Justification for Presidential Determination on Major Drug Transit or Illicit Drug Producing Countries for FY 2009

Burma

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

Burma remains the largest source for methamphetamine tablets in Asia. The United Wa State Army, an ethnic minority organization seeking autonomy from Burma, is led by U.S. indicted criminals engaged in the manufacture and trafficking in narcotics. The Burmese Government does not consistently enforce Burma's anti-narcotics laws against the United Wa State Army. The United Wa State Army is in effect permitted to continue manufacturing of and trafficking in methamphetamine pills, which have a devastating impact on Burma's neighbors, especially Thailand.

Given the scale of the drug trade in Burma, corruption is a contributing factor. No action is taken against military and police units charged with border security and operating check points along major roads who are known to take bribes to pass drugs. It is probable that higher level officials of the military regime protect some traffickers. However, in June 2008, State Peace and Development Council member Lt General Ye Myint retired from his position as Chief of the Bureau of Special Operations Number 1 shortly after his son was arrested on drug trafficking charges.

Burma has not approved a U.S.-led Opium-Yield Survey since before 2005. However, Burmese officials expressed interest in 2006 and 2007, though they did not communicate their desire in time to conduct the survey. They have remained silent on the prospects of a survey this year. After a long period of declining opium production, Burma experienced an increase in production in 2007, underscoring the need to assess production trends during the current crop year. The Burmese continue to work with UNODC in conducting a yearly opium crop survey. Last year the Chinese conducted a survey and it is expected that a Chinese survey will occur during this year's planting season as well.

The Burmese junta's suspicions of non-governmental organizations (NGOs) deprive its people of better drug treatment. Few international NGOs are permitted to offer treatment in Burma, and the Burmese authorities themselves offer only minimal treatment and spend almost nothing on what they do provide. Despite the Burmese regime's failure to meet its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements, there have been positive developments. Opium production in Burma is down more than 80 percent from its 1996 peak, in part as a result of Burmese Government efforts. Seizures of opium during the first six months of 2008 appeared to be on a trend to increase slightly from last year, but methamphetamine drug seizures are sharply down in 2008.

Memorandum of Justification for Presidential Determination on Major Drug Transit or Illicit Drug Producing Countries for FY 2009

Venezuela

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

This determination comes as the result of the Government of Venezuela's failure to meet its international obligations and responsibilities to the international community by taking sufficient action against the rising drug trafficking problem within and through its borders. The Government of Venezuela has also failed to respond to specific U.S. Government requests for counternarcotics cooperation.

Although the Government of Venezuela indicated it has increased seizures and launched new initiatives to fight against drug trafficking, U.S. requests to take samples of seized narcotics have been refused. A small number of new initiatives, including the bombing of dirt airstrips near the border with Colombia, have been insufficient had little impact. There also continue to be a lack of significant inspections at ports of entry and exit, despite the completion in late 2006 of a cargo inspection facility in Puerto Cabello was completed in late 2006 with U.S. counter-narcotics assistance, but the Venezuelan government has since left the facility idle. The facility has since been seized by the State of Carabobo-controlled Port Authority. Venezuela has also not attempted meaningful prosecutions of traffickers or of 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. In 2007, 17 percent of the documented cocaine flow from South America went through Venezuela – a five-fold increase from the 51 metric tons estimated to have flowed through Venezuela in 2002. The vast majority of cocaine going to the United States or Europe is trafficked by sea. However, an increasing proportion is being moved by non-commercial air through the Caribbean toward the United States. Documented air flow of cocaine flights from Venezuela went from 21 flights in 2002 to 219 flights in 2007. We are particularly concerned about the corrosive effect of unchecked cocaine trafficking through Venezuela to the countries of West Africa as part of the route to Europe.

The Venezuelan government has not renewed formal counternarcotics cooperation agreements with the U.S. 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.

Last, the expulsion of our Ambassador by the Government of Venezuela reflects the country's unwillingness to cooperate with the United States on counternarcotics.

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

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2008

International narcotics trafficking is a directly threatens the national security of the United States. Drugs sold on U.S. streets lead to overdose deaths and ruined lives, erode families, and foster criminality and violence. Trafficking organizations, looking to build their customer base, sometimes pay in drugs instead of cash, promoting drug abuse and its social consequences in source and transit countries in Latin America, the Caribbean, Africa, and Asia. Many of these same countries are besieged by narcotics criminals who corrupt and financially undermine legitimate law enforcement and government institutions. The environment is equally threatened, as drug producers hack down forests and dump toxic chemicals in fragile ecosystems.

The United States Government (USG) confronts the threat of international narcotics trafficking through a combination of law enforcement investigation, interdiction, diplomatic initiatives, targeted economic sanctions, financial programs and investigations, and institutional development initiatives focused on disrupting all segments of the illicit drug market, from the fields and clandestine laboratories where drugs are produced, through the transit zones, to our ports and borders. In 2008, U.S. federal law enforcement officials worked cooperatively with the police of partner nations to conduct international investigations that successfully apprehended, among others, Zhenli Ye Gon, Eduardo Arellano Felix, and Haji Juma Khan. Another international law enforcement operation involving the DEA, the Royal Thai Police, the Romanian Border Police, the Korps Politie Curacao of the Netherlands Antilles, and the Danish National Police Security Services led to the arrest of Victor Bout on charges of attempting to provide sophisticated weapons to the narco-terrorist organization the Fuerzas Armadas Revolucionarias de Colombia.¹

The USG continued to provide partner nations with essential training assistance to strengthen their law enforcement and judicial systems and helped them improve their capacity to investigate, prosecute, and punish transnational criminal activity. Closer international cooperation among governments and financial institutions continues to close the loopholes that allow narcotrafficking organizations to legitimize their enormous profits through sophisticated money laundering schemes.

Much of our cooperation with partner nations occurred under bilateral arrangements for mutual legal assistance, extraditions, and training programs. Multilateral efforts also continued to be a key component of the overall U.S. counternarcotics strategy. Through multilateral organizations, the United States has the opportunity to encourage contributions from other donors so that we can

¹ *The focus of this report is on the international aspects of drug trafficking, but we want also to acknowledge the hard work of law enforcement, drug prevention, and drug treatment professionals within the United States who work every day to reduce the demand for illicit drugs and to reduce the misery they bring to our own citizens. Federal, state, local, and tribal law enforcement agencies within the United States dedicate significant resources to confronting drug criminals. The United States has substantial public and private sector programs focused on drug prevention and treatment 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, school and work-place drug testing coupled with counseling and other interventions, and medically sound treatment options that help addicted persons reclaim their lives. For more information about domestic drug control efforts, please see the National Drug Control Strategy of the White House Office of National Drug Control Policy, available on the ONDCP.GOV website.*

undertake counternarcotics assistance programs, jointly sharing costs and expertise. U.S. participation in multilateral programs also supports indigenous capabilities in regions where the United States is unable to operate bilaterally for political or logistical reasons. Counternarcotics assistance through international organizations promotes awareness that drug producing and transit countries inevitably become consuming nations; today it is clearly understood that drugs are not a U.S. problem, but a global challenge.

One example of working with partner donors is the Good Performers Initiative (GPI) in Afghanistan, a U.S.-UK-funded initiative launched in 2006 to reward provinces for successful counternarcotics performance. Based on the results of the UN Office on Drugs and Crime's annual Afghanistan Opium Cultivation Survey, this incentive program provides funds for development projects to provinces that were poppy-free or reduced their poppy cultivation by more than 10 percent from the previous year. In 2008, 29 of Afghanistan's 34 provinces qualified for over \$39 million in GPI development assistance projects. To date, the U.S. government has contributed over \$69 million to GPI and its predecessor the Good Performer's Fund, while the UK has provided approximately \$12 million. In Nangarhar province, for example, four micro-hydro projects that generate electricity for rural villages have been completed with these funds and 20 more are scheduled to be built in 2009.

International treaties are another key tool in the fight against international narcotics trafficking. Three mutually reinforcing UN conventions are particularly important:

- The Single Convention on Narcotic Drugs - 1961
- The Convention on Psychotropic Substances – 1971, and
- The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (the "1988 UN Drug Convention")

The 1988 UN Drug Convention is nearly universally accepted and serves as one of the bases for this report (For a full explanation, see the chapter titled "Legislative Basis for the INCSR"). A list of the countries that are parties to the 1988 UN Drug Convention is included in this report (source: UNODC). In 2008, there were no additional parties to the 1988 UN Drug Convention. 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.

In addition to the UN conventions that are focused exclusively on drugs, newer international instruments, such as the United Nations Convention against Transnational Organized Crime and the United Nations Convention against Corruption, have helped in the fight against the international narcotics trade by making law enforcement cooperation, extraditions, border security, and tracking of illicit funds more efficient among the parties to the treaties.

While most countries are parties to the UN conventions, the ultimate success of international drug control efforts does not hinge completely on whether countries are parties to them. The vast majority of countries also have their own domestic laws and policies to support their obligations under the conventions. Success in international drug control depends on international political will to meet the commitments made when countries joined the UN conventions. Sustainable progress also requires sufficient capacities to enforce 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 partner governments to uphold their international commitments.

Controlling Supply

Cocaine, amphetamine-type stimulants (ATS), marijuana and heroin are the internationally trafficked drugs that most threaten the United States and our international allies. The United States is a producer of two of these drugs, marijuana and ATS. The USG is committed to confronting the illicit cultivation and manufacture of these drugs. In 2007, the DEA-initiated Domestic Cannabis Eradication/Suppression Program was responsible for the eradication of 6,600,000 cultivated outdoor cannabis plants and 430,000 indoor plants. In 2008, California alone eradicated 5,250,000 plants. Pharmaceutical preparations containing ephedrine and pseudoephedrine are the primary chemicals necessary for methamphetamine production. The Combat Methamphetamine Epidemic Act (CMEA), passed in 2005, established regulations for the sale of such products in the United States and became effective at the national level for the first time in late 2006. In 2008, the Methamphetamine Production Prevention Act was passed allowing States to institute computerized log books of purchases of methamphetamine precursor preparations. According to the National Clandestine Laboratory Database, methamphetamine lab incidents reported by all law enforcement agencies nationwide declined from more than 17,000 in 2005 to 5,900 in 2007 (2007 is the last complete year for which there are statistics, preliminary 2008 statistics are discussed later in this chapter, but the number in 2008 is expected to remain well below 50% of the 2005 figure). This dramatic decline is due to increased enforcement, the controls authorized by the two recent methamphetamine acts, and public and private demand reduction efforts.

In addition to eradicating marijuana crops found within the United States as part of our drug control strategy, the USG has provided assistance to countries that have made a policy decision to eradicate illicit crops as part of their own comprehensive drug control strategies. Crops in the ground are one of the critical nodes of production. Coca and poppy crops require adequate growing conditions, ample land, and time to reach maturity, all of which make them vulnerable to detection and eradication.

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 their country. The term that is most often used for this by the United States, the United Nations, and other international actors is “alternative development.” 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. Anecdotal evidence suggests that in 2008 economic and environmental inducements caused many farmers in Afghanistan to plant wheat instead of poppy. One factor that possibly influenced this shift was the rise in global food prices, making wheat a more viable economic alternative to poppy. Other powerful inducements could include access to credit, improved security, and the provision of government services such as the building of roads, schools, and health centers, and a reliable supplying of basic services like electricity and water, and the threat of losing an investment in illicit crops to eradication or asset forfeiture. These programs are vulnerable to disruption from crime, corruption and non-state actors, such as the FARC in Colombia or the Taliban in Afghanistan. Establishing them on the ground is a lengthy, sometimes frustrating process; however, if implemented correctly, alternative development is an effective policy. Without it, crop eradication alone will never amount to more than a temporary palliative, and will not achieve sustainable reduction of illicit narcotic crops. However, without security and government control of outlaw areas, neither program can succeed.

For synthetic drugs, such as ATS, physical eradication is impossible. Instead, the United States and our 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. As with our domestic enforcement efforts, our international programs focus on all the links in the supply-to-consumer chain: processing, distribution, and transportation, as well as the money trail left by this illegal trade.

Cocaine

The rate of U.S. cocaine consumption has generally declined over the past decade. From 2002 to 2007, rates of past-year use among youths aged 12 to 17 declined significantly for cocaine as well as for illicit drugs overall (Source: SAMHSA, Office of Applied Studies, National Survey on Drug Use and Health). Despite the declines, cocaine continues to be a major domestic concern. Internationally, cocaine continues to pose considerable risk to societies in the Americas, and increasingly to fragile transit states in West Africa. The 2008 World Drug Report by the UN Office of Drugs and Crime noted, as it has in previous years, that the decline in cocaine consumption and demand in North America has been replaced by demand in Europe. The UN report is hopeful that demand in Europe is leveling off, but notes that, “the growth in markets which are either close to source (South America) or on emerging trafficking routes (Africa) indicate that further containment is still a challenge.”

Since all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, the U.S. Government provides assistance to help these countries develop and implement comprehensive strategies to reduce the growing of coca, processing coca into cocaine, abuse of cocaine within their borders, and illegal transport of cocaine to other countries.

Coca Eradication/Alternative Development: The 2008 Interagency Assessment of Cocaine Movement (IACM) estimates that between 500 and 700 metric tons (MT) of cocaine departed South America toward the United States in 2007, slightly less than the previous year’s estimate of 510 to 730 metric tons. We support efforts by these governments to eliminate illegal coca. 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.

In Colombia, USG alternative development (AD) initiatives supported the cultivation of over 238,000 hectares of legal crops and completed 1,212 social and productive infrastructure projects in the last seven years. More than 291,000 families in 18 departments have benefited from these programs, and the USG has worked with Colombia’s private sector to create an additional 273,000 full-time equivalent jobs.

At the close of the sixth year of the Peru alternative development program, more than 756 communities have renounced coca cultivation and over 49,000 family farmers have received technical assistance on 61,000 hectares of licit crops (cacao, coffee, African palm oil, etc.). With many of these long term crops now entering their most productive years, the alternative development program has expanded business development activities to link AD producers to local and world markets at optimum prices. The direct link between AD and eradication is successfully reducing coca cultivation and is a model for further progress against illicit cultivation.

In 2008, the annual value of USAID-promoted exports reached almost \$35 million in Bolivia, assistance to farm communities and businesses helped generate 5,459 new jobs, new sales of AD products of nearly \$28 million, and approximately 717 kilometers of roads were improved and 16 bridges constructed. However, these cooperative efforts were overshadowed by the Government of Bolivia's (GOB) ousting of USAID from the Chapare region.

The government of Colombia dedicates significant resources to reduce coca growing and cocaine production; however, its large territory and ideal climate conditions make Colombia the source of roughly 60 percent of the cocaine produced in the region and around 90 percent of the cocaine destined for the United States, with Peru and Bolivia a distant second and third respectively.

In 2008, the Colombian National Police (CNP) Anti-Narcotics Directorate reported aerial spraying of over 130,000 hectares of coca and manually eradicating over 96,000 hectares despite entrenched armed resistance by the FARC, a drug-trafficking organization that is also a designated Foreign Terrorist Organization. If harvested and refined, this eradicated coca could have yielded hundreds of metric tons of cocaine worth billions of dollars on U.S. streets.

In 2008, Peru exceeded its eradication goals for the second year in a row by eradicating more than 10,000 hectares. This success was achieved despite the continued targeting of eradication teams by the Shining Path, a designated Foreign Terrorist Organization (FTO). The Shinning Path, which is reliant on drug trafficking for its funding, was reportedly responsible for attacks on police and military personnel in the Upper Huallaga Valley (UHV) and the Apurimac and Ene River Valleys and threatened eradication workers and other government authorities and alternative development teams. Coca growers in the UHV engaged in violent acts to resist eradication.

Bolivian President Evo Morales continued to promote his policy of “zero cocaine but not zero coca” and to push for legitimization of coca. His administration continues to pursue policies that would increase government-allowed coca cultivation from 12,000 to 20,000 hectares—a change that would violate current Bolivian law and contravene the 1988 UN Drug Convention, to which Bolivia is a party. On September 11, 2008, President Morales expelled the U.S. Ambassador to Bolivia. During 2008, President Morales also expelled the Drug Enforcement Administration (DEA) from Bolivia and the U.S. Agency for International Development from the coca growing Chapare region. Coupled with continued increases in coca cultivation, cocaine production, and the Government of Bolivia's (GOB) unwillingness to regulate “licit” coca markets, President Bush determined on September 15 that Bolivia had “failed demonstrably” in meeting its international counterdrug obligations. For greater detail see the memorandum of justification in this report.

Cocaine Seizures: Colombian authorities reported seizing over 223 metric tons of cocaine in 2008, an all-time record, and destroyed 301 cocaine HCl labs and 3,238 cocaine base labs. Peru reported seizing over 22 metric tons of cocaine. In Bolivia, USG-supported counternarcotics units reported seizing 26 metric tons of cocaine base and cocaine hydrochloride (HCl) and destroying 6,535 cocaine labs and maceration pits.

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 among 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, monitor, and seize maritime drug shipments. The USG's bilateral agreements with Caribbean and Latin American countries have eased the burden on these countries by allowing the United States to conduct boardings and search for contraband on their behalf. They also allow the USG to gain jurisdiction over cases, removing the coercive pressure from large drug trafficking organizations on some foreign governments.

Mexican law enforcement reported seizing 19 metric tons (MT) of cocaine in 2008.

Venezuela reported seizures of over 54 metric tons of cocaine in 2008. However, the Government of Venezuela does not allow the USG to confirm its seizures, and these figures include seizures made by other countries in international waters that were subsequently returned to Venezuela, the country of origin. According to the U.S. government's Consolidated Counterdrug Database, 239 non-commercial cocaine flights departed Venezuela in 2008, some bound for Caribbean islands in route to major markets.

Dominican authorities seized approximately 2.4 metric tons of cocaine. There was a fifteen percent increase in drug smuggling flights to Haiti in 2008. While Haitian law enforcement units worked to improve their response to air smuggling of cocaine, the seizure and arrest results were limited.

West Africa has become a hub for cocaine trafficking from South America to Europe. Although according to the UNODC's 2008 *World Drug Report*, Africa accounts for less than 2 percent of global cocaine seizures, this number is expected to rise in future years. Seizures of cocaine in Africa reached 15 MT in 2006, but were below 1 MT between 1998 and 2002. Out of the total number of cocaine seizures made in Europe in 2007 (where the 'origin' had been identified), 22% were smuggled via Africa, up from 12% in 2006 and 5% in 2004. 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. It also reflects the vulnerability of West African countries to transnational organized crime.

Synthetic Drugs

Amphetamine-Type Stimulants (ATS): Abuse and trafficking in highly-addictive amphetamine-type stimulants (ATS) remain among the more serious challenges in the drug-control arena. The 2008 edition of the UN Office of Drugs and Crime's World Drug Report notes that a stabilization in the ATS market over the past three years appears to have occurred in parallel with the implementation of precursor control programs and prevention programs. The report states that ATS abuse has decreased in the United States and increases in consumption have slowed in some other markets, such as Europe and Asia. Consumption, however, has increased in the Middle East and Africa.

Methamphetamine production and distribution are undergoing significant changes in the United States. The number of reported methamphetamine laboratory seizures in the United States decreased each year from 2004 through 2007; however, preliminary 2008 data and reporting indicate that domestic methamphetamine production, while still well below its peak, is increasing

in some areas, and laboratory seizures for 2008 outpaced seizures in 2007. The pattern of decreased lab presence from 2004-2007 was probably due in part 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 United States 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, according to the National Drug Intelligence Center's 2009 National Drug Threat Assessment, ephedrine and pseudoephedrine import restrictions in Mexico contributed to a decrease in methamphetamine production in Mexico and reduced the flow of the drug from Mexico to the United States in 2007 and 2008. Methamphetamine shortages were reported in some drug markets in the Pacific, Southwest, and West Central Regions during much of 2007. In some drug markets, methamphetamine shortages continued through early 2008. In 2008, however, small-scale domestic methamphetamine production increased in many areas, and some Mexican drug trafficking organizations shifted their production operations from Mexico to the United States, particularly to California.

The United States is keenly aware that drug traffickers are adaptable, well-informed, and flexible. New precursor chemical 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. Some methamphetamine produced in Canada is distributed in U.S. drug markets and Canada is a source country for MDMA to U.S. markets as well as a transit or diversion point for precursor chemicals used to produce illicit synthetic drugs (notably MDMA, or ecstasy), according to the NDIC 2009 National Drug Threat Assessment.

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, following new enforcement measures by the Dutch Government. 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 ATS.

Pharmaceutical Abuse, and the Internet: According to the National Drug Intelligence Center's December 2008 *National Drug Threat Assessment*, the number of Internet sites offering sales of controlled prescription drugs decreased in 2008, for the first time after several years of increase. It is not known what percentage of this abuse involves international sources. In the United States, The Ryan Haight Online Pharmacy Consumer Protection Act of 2008 was enacted in October 2008. The new federal law amends the Controlled Substances Act and prohibits the delivery, distribution, or dispensing of controlled prescription drugs over the Internet without a prescription written by a doctor who has conducted at least one in-person examination of the patient.

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 2008 "Monitoring the Future" study, marijuana use among 8th, 10th, and 12th graders, was not statistically different from the year before. However, since the peak years of the mid-1990s, annual use 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 11 percent, 24 percent, and 32 percent for grades, 8, 10, and 12, respectively.

Drug organizations in Mexico produced more than 15,000 metric tons of marijuana in 2008, much of which was marketed to the more than 20 million users in the United States. Overall, Canada supplies a small proportion of the overall amount of marijuana consumed in the United States; however, large-scale cultivation of high potency marijuana is a thriving illicit industry in Canada. Other source countries for marijuana include Colombia, Jamaica, and possibly Nigeria. Production of marijuana within the United States may exceed 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 the United States in laboratory conditions using specialized timers, ventilation, moveable lights on tracks, nutrients sprayed on exposed roots and special fertilizer that maximize THC levels. The result is a particularly powerful and dangerous drug.

Opium and Heroin

Opium poppy, the source of heroin, is cultivated mainly in Afghanistan, Southeast Asia, and on a smaller 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. Opium gum can take less than 6 months from planting to harvest.

In Afghanistan, a combination of factors led to a reduction in the cultivation and production of opium for the first time in several years. Among these factors were: including Afghan government and international donor programs that rewarded entire provinces for decreasing or eliminating opium cultivation; increased prices for other commodities such as wheat; decreased prices for opium; and bad weather. Nangarhar province alone shifted from having the second highest area of poppy cultivation in 2007 to achieving poppy free status in 2008. This was due in large part to the high-profile law enforcement and incentives campaign implemented by the provincial governor. Even with this limited progress, Afghanistan continues to be the source of more than 90% of the world's illicit opiates. This glut of narcotics has fueled increasing addiction rates in Afghanistan, Pakistan, and Iran. The narcotics trade thrives in the conditions created by insurgents and warlords, who exact a portion of the profits for protection of crops, labs, trucks, and drug markets. Exact figures for the black market economy are impossible to obtain, but the UN estimates that the Taliban and other anti-government forces have extorted \$50 million to \$70 million in protection payments from opium farmers and an additional \$200 to \$400 million of income in forced levies on the more-lucrative drug processing and trafficking in 2008.

Most of the heroin used in the United States comes from poppies grown in Colombia and Mexico, although both countries are minor producers in global terms. 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 reported eradicating 381 hectares of opium poppy in 2008. We estimate that poppy cultivation decreased 25 percent from 2006 to 2007 in directly comparable areas of Colombia. This led to a 27 percent drop in potential production of heroin and a 19 percent decrease in purity of Colombian heroin seized in the United States, according to the DEA. The Government of Mexico (GOM) reported eradicating 12,035 hectares of opium poppy.

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 this report.

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 into sensitive ecosystems without regard for human health or the costs to the environment. 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, and depleting soil nutrients. By destroying timber and other resources, 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. These marijuana growing operations leave behind tons of garbage, biohazard refuse, and toxic waste. They also contribute to erosion as land is compacted and small streams and other water sources are diverted for irrigating the illegal marijuana fields.

Methamphetamine is also 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, 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. 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 regulatory 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 expected to be completed in early 2009 regarding spray drift and other issues.

Attacking Trafficking Organizations

Law enforcement tactics have grown more sophisticated over the past two decades to counter the ever-evolving tactics used by trafficking networks to 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. 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.

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 into the United States, with a strong presence in most of the primary U.S. distribution centers. President Calderon's counternarcotics programs seek to address some of the most basic institutional issues that have traditionally confounded Mexico's success against the cartels. The Government of Mexico is using the military to reestablish sovereign authority and counter the cartels' firepower, moving to establish integrity within the ranks of the police, and giving law enforcement officials and judicial authorities the resources and the legal underpinning they need to succeed.

To help Mexico achieve these goals, the United States Congress appropriated \$465 million in June 2008 to provide inspection equipment to interdict trafficked drugs, arms, cash and persons; secure communications systems for law enforcement agencies; and technical advice and training to strengthen judicial institutions. Similarly, Congress has provided support to Central American

countries, including the continued implementation of the USG's anti-gang strategy, support for specialized vetted units and judicial reforms, and enhanced land and maritime drug interdiction.

This appropriation will complement existing and planned initiatives of U.S. domestic law enforcement agencies engaged with counterparts in each participating country. On December 3, 2008, a Letter of Agreement (LOA) was signed with the Government of Mexico obligating \$197 million of the funding for counternarcotics programs. On December 19, the Governments of the United States and Mexico met to coordinate the implementation of the Mérida Initiative through a cabinet-level High Level Group, which underscored the urgency and importance of the Initiative. A working level inter-agency implementation meeting was held February 3 in Mexico City with the aim of accelerating the roll out of the 39 projects for Mexico under the Initiative. In addition, LOAs were signed with Honduras on January 9, El Salvador on January 12, Guatemala on February 5 and Belize on February 9.

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 95 persons to the United States in 2008. 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 208 defendants in 2008. Since President Uribe assumed office in 2002, 789 individuals have been extradited.

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 that dwarfs regular commodities and distorts the licit economy.

No government is completely safe from the threat of drug-related corruption, but fragile democracies in post-conflict situations are particularly vulnerable. 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 fighting corruption, we can help avoid the threat of a drug lord-controlled state.

Improving Criminal Justice Systems: A pivotal element of USG international drug control policy is to help strengthen enforcement, judicial, and financial institutions worldwide. Strong institutions limit the opportunities for infiltration and corruption by the drug trade. Corruption within a criminal justice system has an 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. Efforts by governments to enact

basic reforms involving transparency, efficiency, and better pay for police and judges helps to build societies based on the rule of law.

Strengthening Border Security: Drug trafficking organizations must move their products across international borders. A key element in stopping the flow of narcotics is to help countries strengthen their border controls. Through training and technical assistance we improve the capability of countries to control the movement of people and goods across their borders. Effective border security can disrupt narcotics smuggling operations, forcing traffickers to adjust their methods and making them vulnerable to further detection and law enforcement action.

Money Laundering and Financial Crimes

The illegal 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 profits through legitimate commercial and financial channels. We continue our efforts to block the drug business in all these areas, in particular focusing on the financial end to prevent drug proceeds from being legitimized and then diverted to fund insurgencies and terrorism, or to fund actions that undermine the institutions of government. Governments have the potential, by working together, to make it difficult for drug profits to enter the legitimate international financial system. Money laundering and financial crimes are of such importance to international narcotics control efforts that they are reviewed in volume two of this report.

Next Steps

Drug trafficking organizations are ever evolving as they seek to grow, manufacture, and move their products to market and then launder their profits in new ways. In recent years we have seen the introduction of internet sales for distribution, semi-submersible vessels for moving large shipments internationally, and trafficking branching off into new routes that are more difficult to detect. The USG and the international community have responded with national legislation, international agreements, and cooperative law enforcement actions. The USG remains committed to working with our international partners to confront every aspect of narcotics production, trafficking, and abuse.

Demand Reduction

Recognizing the threat posed by illicit drugs, the National Security Presidential Directive on International Drug Control Policy (NSPD-25) requests that the Secretary of State “expand U.S. international demand reduction assistance and information sharing programs in key source and transit countries”. Demand reduction has evolved as a key foreign policy tool for addressing interconnected threats of drugs, crime, and terrorism, and more recently, is a critical component in efforts to stop the spread of HIV/AIDS, particularly in countries with high numbers of intravenous drug users.

Drug abuse and addiction have a devastating impact on individual lives, families, and communities; drug abuse is inextricably linked with the spread of infectious diseases such as HIV/AIDS, Sexually Transmitted Disease (STD), tuberculosis, and hepatitis C. Drug abuse is also associated with family disintegration, loss of employment or income, school failure, domestic violence, child abuse, and other social problems and criminal acts. Based on the U.S. view of the U.S. experience in trying to reduce the demand for drugs, many foreign countries request INL-sponsored technical assistance to enhance the development of effective policies and programs to combat international narcotics abuse. INL continues to provide guidance for effective policy formation for a clear framework for a coordinated, balanced approach to drug prevention and treatment, including sharing critical information to promote and preserve the stability of societies threatened by the narcotics trade.

Our demand reduction strategy includes a wide range of initiatives to address the needs and national security threats posed by the illicit drug trade. These efforts cover strategies to prevent the onset of drug use, intervention with drug abusers, and improving treatment delivery. In achieving these goals, INL supports the following:

- training and technical assistance to educate governments and public organizations on science-based best practices in drug prevention and treatment;
- development and support of regional and international coalitions for drug-free communities, involving private/public social institutions and law enforcement;
- research and evaluation efforts, to measure the effectiveness of intended prevention and treatment programs; and
- dissemination of science-based information and knowledge transfer at multilateral and regional organizations.

Taking into account the unique needs of female drug addicts, INL supports substance abuse treatment, training and technical assistance that addresses women’s drug treatment issues, and related violence.

As a cornerstone of a strong demand reduction strategy, and with the understanding that local problems need local solutions, INL assists foreign partners to generate funding for training to reduce substance abuse among youth, and to strengthen the collaboration among organizations and agencies in the public and private sectors. Training activity has been conducted in Brazil, Colombia, Guatemala, El Salvador, Mexico, and Peru. Other completed and on-going INL-funded demand reduction projects for Fiscal Year 2008 included:

- Demand Reduction Seminar: “*What Works to Reduce Drug Use?*” Held in Budapest, Hungary on January 23-24, 2008. Reviewed several successful drug demand reduction projects in prevention and treatment programs, and highlighted the latest research on

specific drug use and addiction. Participants in this training were encouraged to facilitate collaboration and exchange ideas with the goals of preventing and reducing drug use.

- U.S.-Mexico 7th Binational Drug Demand Reduction Seminar: “*Unifying Efforts toward Best Practices*” July 23-25, 2008. The goal of the seminar centered on strategies, programs, and policies aimed at reducing the demand for illicit drugs and promoting best practices for prevention, intervention, and treatment
- UNODC Global: “*Best Practice*” *Drug Treatment Symposium*”, Dec. 16-18, 2008, in Vienna, Austria, to discuss and share with participants from across the world, the efficacy and effectiveness of science-based treatment practices to assist professionals, administrators, therapists, and other participants to identify and treat substance abuse disorders.
- Colombo Plan: The USG and the Colombo Plan Drug Advisory Program (DAP) will establish a training arm for treatment experts to prepare the process of professional certification of addiction professionals in Asia.
- Afghanistan: This initiative includes training of women in counseling techniques, family therapy, and support for group networks. It includes creation of five substance abuse treatment programs to address women’s drug abuse treatment needs.
- 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, funding includes a certification program for drug addiction counselors.
- 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 (the first such facility in Latin America). Also, INL-funded staff training in a juvenile corrections system in Sao Paulo included a pilot program targeting incarcerated juvenile females.
- Colombia: A science-based outcome evaluation revealed that overall drug use was reduced by 44% in individuals treated at residential treatment programs which received INL-sponsored training. Initial results suggest that training of professionals improve post recovery outcomes. The reduction suggests that training enhanced post treatment outcomes.

INL continues its funding for the Creation of Muslim Anti-Drug Outreach Centers in volatile regions where the U.S. has limited access to civil society in Afghanistan, the Philippines, Indonesia, and remote sections of Pakistan. This initiative includes collaboration with the INL-supported network of 400 Muslim-based Anti-Drug programs. Initiatives are designed to:

- enhance the appreciation for American drug-treatment programs in Muslim countries,
- reduce drug consumption that can fund terrorist organizations,
- reduce drug-related violence,
- cut into the recruitment base of terrorist organizations, and
- provide youth living in at-risk areas with alternatives to radical or terrorist indoctrination centers.

Methodology for Estimating Illegal Drug Production

Introduction: Illegal narcotics are grown, refined, trafficked, and sold on the street by criminal enterprises that attempt to conceal every step of the process. Accurate estimates of such criminal activity are difficult to produce. The estimates on illicit drug production presented in the INCSR represent the United States Government's best effort to sketch the current dimensions of the international drug problem. They are based on agricultural surveys conducted with satellite imagery and scientific studies of crop yields and the likely efficiency of typical illicit refining labs. As we do every year, we publish these estimates with an important caveat: they are *estimates*. While we must express our estimates as numbers, these numbers should not be seen as precise figures. Rather, they represent the midpoint of a band of statistical probability that gets wider as additional variables are introduced and as we move from cultivation to harvest to final refined drug. Although these estimates can be useful for determining trends, even the best USG estimates are ultimately only approximations.

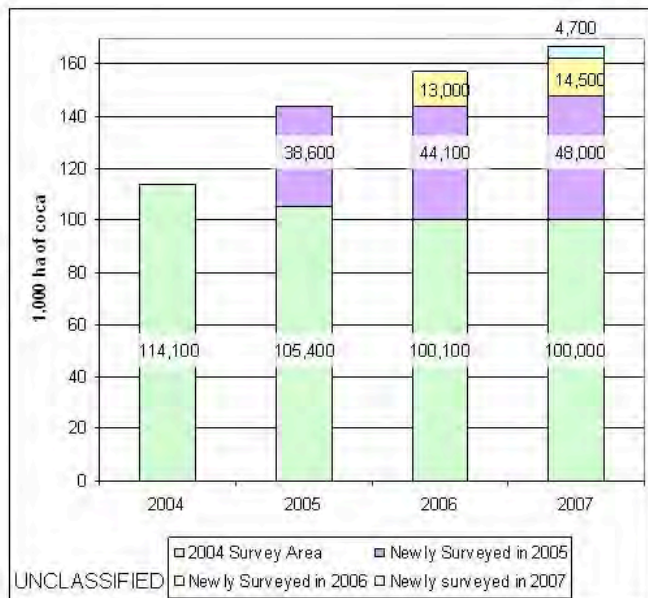
Each year, we revise our estimates in the light of field research. The clandestine, violent nature of the illegal drug trade makes such field research difficult. Geography is also an impediment, as the harsh terrain on which many drugs are cultivated is not always easily accessible. This is particularly relevant given the tremendous geographic areas that must be covered, and the difficulty of collecting reliable information over diverse and treacherous terrain. Weather also impacts our ability to gather data, particularly in the Andes, where cloud-cover can be a major problem.

Improved technologies and analysis techniques also produce 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 the subject of analysis is the size of the U.S. wheat crop, population figures, or the unemployment rate. When possible, we apply these new techniques to previous years' data and adjust appropriately, but often, especially in the case of new technologies, we can only apply them prospectively. For the present, these illicit drug statistics represent the state of the art. As new information becomes available and as the art and science improve so will the precision of the estimates.

Cultivation Estimates: With limited personnel and technical resources, we cannot look at an entire country for any hint of illicit cultivation. Analysts must, therefore concentrate their efforts on those areas that are most *likely* to have cultivation. Each year they review eradication data, seizure data, law enforcement investigations information, the previous year's imagery, and other information to determine the areas likely to have cultivation. They try to improve upon the previous year's search area if possible. They then make their best effort to estimate cultivation in the new survey area using proven statistical techniques.

The resultant estimates meet the USG need for an annual gross estimate of cultivation for each country. They also help with eradication, interdiction and other law enforcement operations. As part of the effort to provide a better and more comprehensive assessment, the areas surveyed are often expanded and changed, so direct comparison with previous year estimates are often impossible. The Table below shows how expanded geographic search areas have added to the estimates for one country, Colombia.

Year-to-Year Cultivation Comparison



UNCLASSIFIED
Numbers do not appear to add due to rounding.

- 2007 coca cultivation estimate: **167,000 ha***, a 6% increase over 2006
- Reconstitution and new planting in existing survey areas
- 4,700 ha (3%) in newly surveyed areas
- Survey Areas increased 6% over 2006

*90% confidence interval: 156,000—178,000 ha

1

Harvest Estimates. The size of the harvest depends upon a number of other factors. Small changes in soil fertility, weather, farming techniques, and disease can produce widely varying results from year to year and place to place. To add to the uncertainty, most illicit drug crop areas are not easily accessible to the United States Government, making scientific information difficult to obtain. We continually strive to improve our harvest estimates. Our confidence in coca leaf yield estimates has improved in the past few years, based upon the results of field studies conducted in Latin America. Such studies led to a reduction in our estimates of average productivity for fields that had been sprayed with herbicide, but not completely destroyed. In such fields, some, but not all of the coca bushes survive. The farmers of the illicit crop either plant younger bushes among the surviving plants or let what is left grow until harvest. In either case, the average yield of such plots is considerably less than if it had not been sprayed. Multiple studies in the same growing area over several years have helped us understand the effects of eradication and have helped us to measure the changes in average yield over time.

Coca fields which are less than a year old (“new fields”) produce much less leaf than mature fields. In Colombia, for example, fields might get their first small harvest at six months of age; in Bolivia fields are usually not harvested in their first year. The USG estimates include estimates for the proportion of new fields each year and adjust the estimated leaf production accordingly.

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 all affect production. While not completed in time for this year's estimates, we do have some indications that coca processing in Bolivia may be more efficient than previously estimated. If further research confirms this preliminary finding, estimates will be adjusted accordingly.

The USG estimates for cocaine and heroin production are *potential* estimates; that is, it is assumed that all of the coca and opium poppy grown is processed into illicit drugs. This is not a bad assumption for coca leaf in Colombia or for opium gum in any country. In Bolivia and Peru, however, the USG potential cocaine production estimates are overestimated to some unknown extent since significant amounts of coca leaf are legally chewed and used in products such as coca tea. In Southwest and Southeast Asia, it is not unrealistic to assume that virtually all poppy is harvested for opium gum, but substantial amounts of the opium are consumed as opium rather than being processed into heroin. (The proportion of opium ultimately processed into heroin is unknown.)

Other International Estimates: The USG helps fund estimates done by the United Nations in some countries. These estimates use slightly different methodologies, but also use a mix of imagery and ground-based observations. The UN estimates are often used to help determine the response of the international donor community to specific countries or regions.

There have been some efforts, for Colombia in particular, for the USG and the UN to understand each other's methodologies in the hope of improving both sets of estimates. These efforts are ongoing.

This report also includes data on drug production, trafficking, seizures, and consumption that come from host governments or NGOs. Such data is attributed to the source organization, especially when we cannot independently verify it.

Worldwide Illicit Drug Cultivation

2002-2008 (all figures in hectares)

	2008	2007	2006	2005	2004	2003	2002
Poppy							
Afghanistan	157000	202000	172600	107400	206700	61000	30750
Burma	22500	21700	21000	40000	36000	47130	77700
China		negl					
Colombia		1000	2300		2100	4400	4900
Guatemala				100	330		
India							
Iran							
Laos	1900	1100	1700	5600	10000	18900	23200
Lebanon							
Mexico	in process	6900	5000	3300	3500	4800	2700
Pakistan	700		984	769		1714	213
Thailand							750
Vietnam							1000
Total Poppy	182100	232700	203584	157169	258630	137944	141213
Coca							
Bolivia	in process	29500	25800	26500	24600	23200	21600
Colombia	in process	167000	157200	144000	114100	113850	144450
Peru	in process	36000	42000	34000	27500	29250	34700
Total Coca		232500	225000	204500	166200	166300	200750
Cannabis							
Lebanon							
Mexico	in process	8900	8600	5600	5800	7500	4400
Total Cannabis	0	8900	8600	5600	5800	7500	4400

Notes on Colombia poppy cultivation: Partial survey in 2007 due to cloud cover. 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.

Notes on Pakistan poppy cultivation: The 2005, 2006, and 2008 surveys included only the Bara River Valley growing area. No estimate was produced in 2002, but cultivation was observed.

Note on Colombia coca cultivation: Survey areas were expanded greatly in 2005, and to a lesser extent in 2006 and 2007.

Notes on Peru cultivation: In the 2006 survey, the Cusco growing area could not be completed; the value for that area is an average of the 2005 and 2007 estimates. Survey areas were expanded in 2005.

Note on China poppy cultivation: Yunnan Province surveyed in 2007; no poppy detected.

Worldwide Illicit Drug Production

2002-2008 (all figures in metric tons)

	2008	2007	2006	2005	2004	2003	2002
Opium							
Afghanistan	5500	8000	5644	4475	4950	2865	1278
Burma	340	270	230	380	330	484	630
China		negl					
Colombia		15	37		30	63	68
Guatemala				4	12		
India							
Iran							
Laos	17	5.5	8.5	28	50	200	180
Lebanon							
Mexico	in process	149	108	71	73	101	58
Pakistan	26		36	32		44	4.3
Thailand							9
Vietnam							10
Total Opium	5883	8439.5	6063.5	4990	5445	3757	2237.3
Coca Leaf							
Bolivia	in process	38500	37000	36000	37000	33000	35000
Colombia	in process	150000	158000	151000	123000	131000	147900
Peru	in process	43500	54500	52000	47900	51200	58300
Total Coca Leaf*	0	232000	249500	239000	207900	215200	241200
Potential Pure Cocaine							
Bolivia	in process	120	115	115	115	100	110
Colombia	in process	535	550	525	415	445	585
Peru	in process	210	265	250	230	245	280
Total Potential Pure Cocaine	0	865	930	890	760	790	975
Cannabis							
Lebanon (hashish)							
Mexico (marijuana)	in process	15800	15500	10100	10400	13500	7900
Total Cannabis	0	15800	15500	10100	10400	13500	7900

Notes on Colombia opium production: Partial survey in 2007 due to cloud cover. 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.

Note on Pakistan opium production: The 2005, 2006, and 2008 surveys are censuses that include the Bara River Valley growing area only.

Note on Bolivia coca leaf production: In 2006, CNC revised the 2001-05 values due to new yield information.

Note on Colombia coca leaf production: New research in 2007 led to revised leaf and cocaine production figures for 2003 - 2006. Survey areas were expanded greatly in 2005, and to a lesser extent in 2006 and 2007.

Notes on Peru coca leaf production: In the 2006 survey, the Cusco growing area could not be completed; the value for that area is an average of the 2005 and 2007 estimates. Survey areas were expanded in 2005. The 2001- 2005 values were revised in 2007 to reflect new yield numbers for immature fields.

Note on China opium production: Yunnan Province surveyed in 2007; no poppy detected.

Parties to the 1988 UN Convention

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

Policy and Program Development

Country	Date Signed	Date Became a Party
35. Chile	20 December 1988	13 March 1990
36. China	20 December 1988	25 October 1989
37. Colombia	20 December 1988	10 June 1994
38. Comoros	Accession	1 March 2000
39. Congo, Democratic Republic of	20 December 1988	28 October 2005
40. Costa Rica	25 April 1989	8 February 1991
41. Cote d'Ivoire	20 December 1988	25 November 1991
42. Croatia	Succession	26 July 1993
43. Cuba	7 April 1989	12 June 1996
44. Cyprus	20 December 1988	25 May 1990
45. Czech Republic	Succession	30 December 1993
46. Democratic People's Republic of Korea	Accession	19 March 2007
47. Democratic Republic of the Congo	20 December 1988	28 October 2005
48. Denmark	20 December 1988	19 December 1991
49. Djibouti	Accession	22 February 2001
50. Dominica	Accession	30 June 1993
51. Dominican Republic	Accession	21 September 1993
52. Ecuador	21 June 1989	23 March 1990
53. Egypt	20 December 1988	15 March 1991
54. El Salvador	Accession	21 May 1993
55. Eritrea	Accession	30 January 2002
56. Estonia	Accession	12 July 2000
57. Ethiopia	Accession	11 October 1994
58. European Economic Community	8 June 1989	31 December 1990
59. Fiji	Accession	25 March 1993
60. Finland	8 February 1989	15 February 1994
61. France	13 February 1989	31 December 1990
62. Gabon	20 December 1989	10 July 2006
63. Gambia	Accession	23 April 1996
64. Georgia	Accession	8 January 1998
65. Germany	19 January 1989	30 November 1993
66. Ghana	20 December 1988	10 April 1990
67. Greece	23 February 1989	28 January 1992
68. Grenada	Accession	10 December 1990
69. Guatemala	20 December 1988	28 February 1991
70. Guinea	Accession	27 December 1990
71. Guinea-Bissau	Accession	27 October 1995

Policy and Program Development

Country	Date Signed	Date Became a Party
72. Guyana	Accession	19 March 1993
73. Haiti	Accession	18 September 1995
74. Honduras	20 December 1988	11 December 1991
75. Hungary	22 August 1989	15 November 1996
76. Iceland	Accession	2 September 1997
77. India	Accession	27 March 1990
78. Indonesia	27 March 1989	23 February 1999
79. Iran	20 December 1988	7 December 1992
80. Iraq	Accession	22 July 1998
81. Ireland	14 December 1989	3 September 1996
82. Israel	20 December 1988	20 May 2002
83. Italy	20 December 1988	31 December 1990
84. Jamaica	2 October 1989	29 December 1995
85. Japan	19 December 1989	12 June 1992
86. Jordan	20 December 1988	16 April 1990
87. Kazakhstan	Accession	29 April 1997
88. Kenya	Accession	19 October 1992
89. Korea	Accession	28 December 1998
90. Kuwait	2 October 1989	3 November 2000
91. Kyrgyz Republic	Accession	7 October 1994
92. Lao Peoples Democratic Republic	Accession	1 October 2004
93. Latvia	Accession	24 February 1994
94. Lebanon	Accession	11 March 1996
95. Lesotho	Accession	28 March 1995
96. Liberia	Accession	16 September 2005
97. Libyan Arab Jamahiriya	Accession	22 July 1996
98. Liechtenstein	Accession	9 March 2007
99. Lithuania	Accession	8 June 1998
100. Luxembourg	26 September 1989	29 April 1992
101. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
102. Madagascar	Accession	12 March 1991
103. Malawi	Accession	12 October 1995
104. Malaysia	20 December 1988	11 May 1993
105. Maldives	5 December 1989	7 September 2000
106. Mali	Accession	31 October 1995
107. Malta	Accession	28 February 1996
108. Mauritania	20 December 1988	1 July 1993

Policy and Program Development

Country	Date Signed	Date Became a Party
109. Mauritius	20 December 1988	6 March 2001
110. Mexico	16 February 1989	11 April 1990
111. Micronesia, Federal States of	Accession	6 July 2004
112. Moldova	Accession	15 February 1995
113. Monaco	24 February 1989	23 April 1991
114. Mongolia	Accession	25 June 2003
115. Morocco	28 December 1988	28 October 1992
116. Mozambique	Accession	8 June 1998
117. Myanmar (Burma)	Accession	11 June 1991
118. Nepal	Accession	24 July 1991
119. Netherlands	18 January 1989	8 September 1993
120. New Zealand	18 December 1989	16 December 1998
121. Nicaragua	20 December 1988	4 May 1990
122. Niger	Accession	10 November 1992
123. Nigeria	1 March 1989	1 November 1989
124. Norway	20 December 1988	14 November 1994
125. Oman	Accession	15 March 1991
126. Pakistan	20 December 1988	25 October 1991
127. Panama	20 December 1988	13 January 1994
128. Paraguay	20 December 1988	23 August 1990
129. Peru	20 December 1988	16 January 1992
130. Philippines	20 December 1988	7 June 1996
131. Poland	6 March 1989	26 May 1994
132. Portugal	13 December 1989	3 December 1991
133. Qatar	Accession	4 May 1990
134. Romania	Accession	21 January 1993
135. Russia	19 January 1989	17 December 1990
136. Rwanda	Accession	13 May 2002
137. St. Kitts and Nevis	Accession	19 April 1995
138. St. Lucia	Accession	21 August 1995
139. St. Vincent and the Grenadines	Accession	17 May 1994
140. Samoa	Accession	19 August 2005
141. San Marino	Accession	10 October 2000
142. Sao Tome and Principe	Accession	20 June 1996
143. Saudi Arabia	Accession	9 January 1992
144. Senegal	20 December 1988	27 November 1989
145. Seychelles	Accession	27 February 1992

Policy and Program Development

Country	Date Signed	Date Became a Party
146. Sierra Leone	9 June 1989	6 June 1994
147. Singapore	Accession	23 October 1997
148. Slovakia	Succession	28 May 1993
149. Slovenia	Succession	6 July 1992
150. South Africa	Accession	14 December 1998
151. Spain	20 December 1988	13 August 1990
152. Sri Lanka	Accession	6 June 1991
153. Sudan	30 January 1989	19 November 1993
154. Suriname	20 December 1988	28 October 1992
155. Swaziland	Accession	3 October 95
156. Sweden	20 December 1988	22 July 1991
157. Switzerland	16 November 1989	14 September 2005
158. Syria	Accession	3 September 1991
159. Tajikistan	Accession	6 May 1996
160. Thailand	Accession	3 May 2002
161. Tanzania	20 December 1988	17 April 1996
162. Togo	3 August 1989	1 August 1990
163. Tonga	Accession	29 April 1996
164. Trinidad and Tobago	7 December 1989	17 February 1995
165. Tunisia	19 December 1989	20 September 1990
166. Turkey	20 December 1988	2 April 1996
167. Turkmenistan	Accession	21 February 1996
168. UAE	Accession	12 April 1990
169. Uganda	Accession	20 August 1990
170. Ukraine	16 March 1989	28 August 1991
171. United Kingdom	20 December 1988	28 June 1991
172. United States	20 December 1988	20 February 1990
173. Uruguay	19 December 1989	10 March 1995
174. Uzbekistan	Accession	24 August 1995
175. Vanuatu		26 January 2006
176. Venezuela	20 December 1988	16 July 1991
177. Vietnam	Accession	4 November 1997
178. Yemen	20 December 1988	25 March 1996
179. Yugoslavia	20 December 1988	3 January 1991
180. Zambia	9 February 1989	28 May 1993
181. Zimbabwe	Accession	30 July 1993

Policy and Program Development

Signed but Pending Ratification		
1. Holy See	20 December 1988	
Other		
1. Anguilla		Not UN member
2. Aruba		Not UN member
3. Bermuda		
4. BVI		Not UN member
5. Republic of the Congo		
6. Hong Kong		Not UN member
7. Marshall Islands		
8. Namibia		
9. Papua New Guinea		
10. Taiwan		Not UN member
11. Turks & Caicos		Not UN member

USG ASSISTANCE

Department of State (INL) Budget

2/12/09

FY 07-09 International Narcotics and Enforcement Funding

(\$000)

	FY 2007 Actual	FY 2007 Supp	FY 2008 Enacted	FY 2008 Supp	FY 2009 President's Request	FY 2009 Bridge Supp
ACP Country Programs						
Bolivia Total	66,000.00	0.00	29,757.00	0.00	31,000.00	0.00
<i>Interdiction/Eradication</i>	35,000.00	0.00	29,757.00	0.00	31,000.00	0.00
<i>Alter.Dev./Inst.Building</i>	31,000.00	0.00	0.00	0.00	0.00	0.00
Colombia Total	465,000.00	0.00	244,618.00	0.00	329,557.00	0.00
<i>Interdiction/Eradication</i>	298,930.00	0.00	244,618.00	0.00	298,970.00	0.00
<i>Alter.Dev./Inst.Building</i>	139,920.00	0.00	0.00	0.00	0.00	0.00
<i>Rule of Law</i>	26,150.00	0.00	0.00	0.00	30,587.00	0.00
Ecuador Total	17,300.00	0.00	6,943.00	0.00	7,200.00	0.00
<i>Interdiction/Eradication</i>	8,900.00	0.00	6,943.00	0.00	7,200.00	0.00
<i>Alter.Dev./Inst.Building</i>	8,400.00	0.00	0.00	0.00	0.00	0.00
Peru Total	103,165.00	0.00	36,546.00	0.00	37,000.00	0.00
<i>Interdiction/Eradication</i>	56,000.00	0.00	36,546.00	0.00	37,000.00	0.00
<i>Alter.Dev./Inst.Building</i>	47,165.00	0.00	0.00	0.00	0.00	0.00
Brazil	4,000.00	0.00	992.00	0.00	1,000.00	0.00
Critical Flight Safety Program	61,035.00	0.00	0.00	0.00	0.00	0.00
Panama	4,000.00	0.00	992.00	0.00	1,000.00	0.00
Venezuela	1,000.00	0.00	0.00	0.00	0.00	0.00
Subtotal Andean Counterdrug Program	721,500.00	0.00	319,848.00	0.00	406,757.00	0.00
FY 08 Alt Dev of \$192,500 is in ESF Funding and is not included in the ACI total. FY07 Alt Development transfer funding directly to USAID for Colombia includes previous \$10M commitment to Demob/IDP						
Africa						
Africa Regional	500.00	0.00	0.00	0.00	2,500.00	0.00
Burkina Faso	0.00	0.00	0.00	0.00	100.00	0.00
Cape Verde	0.00	0.00	496.00	0.00	500.00	0.00
Democratic Republic of Congo	0.00	0.00	1,488.00	0.00	1,700.00	0.00
Djibouti	0.00	0.00	298.00	0.00	300.00	0.00
Ethiopia	0.00	0.00	0.00	0.00	500.00	0.00
Ghana	0.00	0.00	496.00	0.00	500.00	0.00
Guinea	0.00	0.00	0.00	0.00	100.00	0.00
Guinea-Bissau	0.00	0.00	0.00	0.00	100.00	0.00
Kenya	0.00	0.00	0.00	0.00	100.00	0.00
Liberia	1,000.00	0.00	4,096.00	0.00	4,130.00	0.00
Mauritania	0.00	0.00	0.00	0.00	300.00	0.00
Mozambique	0.00	0.00	0.00	0.00	300.00	0.00
Nigeria	400.00	0.00	1,190.00	0.00	1,200.00	0.00
Sierra Leone	0.00	0.00	0.00	0.00	250.00	0.00
South Africa	500.00	0.00	0.00	0.00	0.00	0.00
Sudan	9,800.00	0.00	13,578.00	10,000.00	24,000.00	0.00
Tanzania	0.00	0.00	0.00	0.00	450.00	0.00
Uganda	0.00	0.00	0.00	0.00	350.00	0.00
Women's Justice Empowerment Initiative	7,500.00	0.00	0.00	0.00	0.00	0.00

DoS Narcotics Budget

Subtotal, Africa	19,700.00	0.00	21,642.00	10,000.00	37,380.00	0.00
East Asia and the Pacific						
Burma	350.00	0.00	0.00	0.00	0.00	0.00
China	0.00	0.00	0.00	0.00	600.00	0.00
Timor-Leste	0.00	0.00	20.00	0.00	1,010.00	0.00
Indonesia	4,550.00	0.00	6,150.00	0.00	9,450.00	0.00
Laos	900.00	0.00	1,567.00	0.00	1,000.00	0.00
Malaysia	0.00	0.00	0.00	0.00	400.00	0.00
Mongolia	0.00	0.00	0.00	0.00	420.00	0.00
Philippines	1,700.00	0.00	794.00	0.00	1,150.00	0.00
East Asia and Pacific Regional	0.00	0.00	0.00	0.00	300.00	0.00
Thailand	900.00	0.00	1,686.00	0.00	1,400.00	0.00
Vietnam	0.00	0.00	0.00	0.00	200.00	0.00
Subtotal, East Asia and the Pacific	8,400.00	0.00	10,217.00	0.00	15,930.00	0.00
Europe						
Turkey	0.00	0.00	298.00	0.00	300.00	0.00
Subtotal, Europe	0.00	0.00	298.00	0.00	300.00	0.00
Near East						
Algeria	0.00	0.00	198.00	0.00	0.00	0.00
Egypt	0.00	0.00	1,984.00	0.00	3,000.00	0.00
Iraq	20,048.00	150,000.00	0.00	85,000.00	75,000.00	0.00
Jordan	0.00	0.00	1,488.00	0.00	1,500.00	0.00
Lebanon	0.00	60,000.00	496.00	0.00	6,000.00	0.00
Morocco	1,000.00	0.00	496.00	0.00	1,000.00	0.00
Tunisia	0.00	0.00	198.00	0.00	0.00	0.00
West Bank/Gaza	86,362.00	0.00	7,000.00	18,000.00	25,000.00	50,000.00
Yemen	0.00	0.00	496.00	0.00	750.00	0.00
Subtotal, Near East	107,410.00	210,000.00	12,356.00	103,000.00	112,250.00	50,000.00
South Asia						
Afghanistan	209,739.88	42,000.00	272,574.00	35,000.00	250,000.00	101,000.00
Bangladesh	0.00	0.00	198.00	0.00	800.00	0.00
India	0.00	0.00	0.00	0.00	400.00	0.00
Nepal	0.00	0.00	30.00	0.00	10,000.00	0.00
Pakistan	24,000.00	0.00	21,822.00	0.00	32,000.00	0.00
Sri Lanka	0.00	0.00	20.00	0.00	350.00	0.00
Subtotal-South Asia	233,739.88	42,000.00	294,644.00	35,000.00	293,550.00	101,000.00
Western Hemisphere						
Argentina	0.00	0.00	198.00	0.00	305.00	0.00
Bahamas	500.00	0.00	496.00	0.00	500.00	0.00
Bolivia	0.00	0.00	397.00	0.00	0.00	0.00
Caribbean and Central America (Transit Zone)	1,700.00	0.00	0.00	0.00	0.00	0.00
Merida Initiative (Central America)	0.00	0.00	0.00	24,800.00	100,000.00	0.00
Merida Initiative (Mexico)	0.00	0.00	0.00	215,500.00	450,000.00	48,000.00
Chile	0.00	0.00	99.00	0.00	0.00	0.00
Colombia (Rule of Law/Judicial/Human Rights)	0.00	0.00	39,428.00	0.00	0.00	0.00
Colombia-Transfer from ACP for CNP Eradication Support	0.00	0.00	2,479.00	0.00	0.00	0.00

DoS Narcotics Budget

Dominican Republic	0.00	0.00	992.00	2,500.00	1,150.00	0.00
Eastern Caribbean	0.00	0.00	496.00	0.00	500.00	0.00
Ecuador	0.00	0.00	99.00	0.00	0.00	0.00
El Salvador	0.00	0.00	744.00	0.00	800.00	0.00
Guatemala	2,200.00	0.00	3,472.00	0.00	5,320.00	0.00
Haiti	14,850.00	0.00	8,927.00	2,500.00	15,000.00	0.00
Honduras	0.00	0.00	744.00	0.00	750.00	0.00
Jamaica	900.00	0.00	992.00	0.00	1,010.00	0.00
Mexico	36,678.00	0.00	26,553.00	0.00	27,816.00	0.00
Nicaragua	0.00	0.00	972.00	0.00	1,600.00	0.00
Paraguay	0.00	0.00	278.00	0.00	300.00	0.00
Southern Cone	500.00	0.00	0.00	0.00	0.00	0.00
Trinidad and Tobago	0.00	0.00	397.00	0.00	500.00	0.00
Subtotal, Western Hemisphere	57,328.00	0.00	87,763.00	245,300.00	605,551.00	48,000.00
Global						
Criminal Youth Gangs	0.00	0.00	7,935.00	0.00	5,000.00	0.00
Demand Reduction/Drug Awareness	8,000.00	0.00	4,903.00	7,000.00	3,500.00	0.00
International Organizations	5,400.00	0.00	3,967.00	0.00	4,500.00	0.00
<i>CICAD</i>	<i>1,400.00</i>	<i>0.00</i>	<i>1,406.80</i>	<i>0.00</i>	<i>2,430.00</i>	<i>0.00</i>
<i>UNODC</i>	<i>4,000.00</i>	<i>0.00</i>	<i>2,110.20</i>	<i>0.00</i>	<i>1,620.00</i>	<i>0.00</i>
<i>USEU</i>	<i>0.00</i>	<i>0.00</i>	<i>450.00</i>	<i>0.00</i>	<i>450.00</i>	<i>0.00</i>
Interregional Aviation Support	63,000.00	0.00	54,654.00	0.00	55,100.00	0.00
Trafficking in Persons	5,000.00	0.00	5,951.00	0.00	7,767.00	0.00
INL Anticrime Programs	13,500.00	0.00	11,903.00	0.00	14,000.00	0.00
<i>Alien Smuggling/Border Security</i>	<i>1,250.00</i>	<i>0.00</i>	<i>992.00</i>	<i>0.00</i>	<i>1,500.00</i>	<i>0.00</i>
<i>Cyber Crime, IPR and CIP</i>	<i>3,750.00</i>	<i>0.00</i>	<i>3,472.00</i>	<i>0.00</i>	<i>4,000.00</i>	<i>0.00</i>
<i>Fighting Corruption</i>	<i>4,500.00</i>	<i>0.00</i>	<i>3,967.00</i>	<i>0.00</i>	<i>4,500.00</i>	<i>0.00</i>
<i>Financial Crimes/Money Laundering/CT</i>	<i>4,000.00</i>	<i>0.00</i>	<i>3,472.00</i>	<i>0.00</i>	<i>4,000.00</i>	<i>0.00</i>
Global Peacekeeping Operations					4,000.00	0.00
Civilian Police Program	2,000.00	0.00	1,984.00	0.00	6,000.00	0.00
ILEA Operations	16,500.00	0.00	18,846.00	0.00	17,000.00	0.00
Subtotal, Global	113,400.00	0.00	110,143.00	7,000.00	116,867.00	0.00
PD&S	19,000.00	0.00	19,342.00	0.00	20,233.00	0.00
Subtotal, INCLE	558,977.88	252,000.00	556,405.00	400,300.00	1,202,061.00	199,000.00
TOTAL INL PROGRAMS	1,280,477.88	252,000.00	876,253.00	400,300.00	1,608,818.00	199,000.00

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 big goal of our counternarcotics efforts overseas supports effective host country enforcement institutions, which can remove drugs from circulation before they can reach the United States. U.S. law enforcement personnel stationed overseas help promote creation of host government systems that improve cooperation and joint efforts with the United States.

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 supports 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 meetings, 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 International Law Enforcement Academies (ILEAs) is 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 the world. 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 cohesive international law enforcement. This goal is to train professionals who will shape the future of the rule of law, human dignity, personal safety and global security.

The ILEAs are a new concept aimed at addressing regional law enforcement priorities. 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 focus such as transnational crimes, financial crimes, and counterterrorism.

The ILEAs help to develop an extensive network of alumni who exchange information with their regional and U.S. counterparts and assist in transnational investigations. Many ILEA graduates 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 the Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 28,000 officials from over 75 countries in Africa, Asia, Europe and Latin America.

Africa. ILEA Gaborone (Botswana) opened in 2001. Its main feature is a six-week intensive personal and professional development program—the Law Enforcement Executive Development Program (LEEDP)—designed for law enforcement mid-level managers. The LEEDP brings together approximately 40 participants from several nations for instruction in areas 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 counterparts 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, Burundi, Cameroon, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Gabon, Ghana, Guinea, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda and Zambia.

United States and Botswana trainers provide instruction. ILEA Gaborone has offered specialized courses on money laundering/terrorist financing-related topics such as Criminal Investigation (presented by FBI) and International Banking & 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 regional cooperation against the principal transnational crime threats in Southeast Asia—illicit drug trafficking, financial crimes, and alien smuggling. ILEA Bangkok provides a Core course—the Supervisory Criminal Investigator Course (SCIC)—designed to strengthen management and technical skills for supervisory criminal investigators and other criminal justice managers. In addition, it also presents one Senior Executive program and about 18 specialized courses—each lasting one to two weeks—on 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). ILEA Bangkok trains approximately 800 students annually.

Europe. ILEA Budapest (Hungary) opened in 1995. Its mission has been to support the region's emerging democracies by combating an increase in criminal activity that emerged against the backdrop of economic and political restructuring following the collapse of the Soviet Union. ILEA Budapest offers three different types of programs: an eight-week Core course, Regional Seminars and Specialized courses in a variety of criminal justice topics. Instruction is provided to participants from Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, 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. It 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; and the Caribbean and 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 (El Salvador) opened in 2005. Its training program is similar to the ILEAs in Bangkok, Budapest and Gaborone. It offers 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 2009, ILEA San Salvador will deliver four LEMDP sessions and approximately 20 Specialized courses that will concentrate on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing and financial crimes investigations. Segments of the LEMDP focus on terrorist financing (presented by the FBI) and financial evidence/money laundering application (presented by DHS/FLETC and IRS). Instruction is provided to participants from: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Nicaragua, Panamá, Paraguay, Perú, St. Kitts and Nevis, St. Lucia, St. Vincent, Suriname, Trinidad and Tobago, Uruguay and Venezuela. ILEA San Salvador trains approximately 800 students per year.

The **ILEA Regional Training Center** in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The center augments the delivery of region-specific training for Latin

America and concentrates on specialized courses on critical topics for countries in the Southern Cone and Andean Regions. The RTC trains approximately 300 students per year.

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 United States and smuggled into our country. These illegal drugs are smuggled from their country of origin and often transit other nations before arriving in the United States. Thus, a strong international commitment to counter-narcotics law enforcement is required to address 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 87 offices located in 63 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 counternarcotics intelligence gathering;
- Conduct 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 tailors 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 mission objectives. The following sections highlight the assistance/joint enforcement work in which DEA played a crucial role during 2008 in support of DEA's four established mission components.

Bilateral Investigative Activities

Drug Flow Attack Strategy

In response to the 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 (DTOs) operating in the source and transit zones. The threat assessment used interagency expertise as well as knowledge gained from previous joint enforcement operations.

Drug Flow Attack Strategy Highlights:

- During 2008 DEA, working with its host country counterparts, continued to disrupt and dismantle the major Mexican and Central American DTOs through the arrest of

Consolidated Priority Organization Targets (CPOTs) and other High Value Targets who occupy key positions in DTOs responsible for the smuggling of the vast majority of cocaine, heroin, methamphetamine, and marijuana into the United States.

- March 11, 2008, the Government of Mexico's Special Investigations Unit (SIU), in outstanding cooperation and coordination with DEA, arrested the then head of the Arellano-Felix Organization (AFO) CPOT Gustavo Riviera-Martinez as the result of a provisional arrest warrant issued out of the Southern District of California.
- May 1, 2008, the Government of Honduras' National Police, coordinating with DEA, arrested CPOT Jorge Mario Paredes-Cordova. Paredes was transported by DEA aircraft to the United States and arraigned in Miami, Florida, where he faced numerous drug-related charges stemming from an indictment out of the Southern District of New York.
- On June 6, 2008, the Government of Spain approved the extradition of DEA fugitive and international weapons trafficker Monzer al Kassar from Spain to the United States on terrorism charges pursuant to a provisional arrest warrant. Al Kassar is currently awaiting trial in the Southern District of New York on charges stemming from DEA indictments.
- On September 4, 2008, Spanish authorities arrested DEA CPOT Edgar Guillermo Vallejo-Guarin, one of DEA's top international narcotics fugitives, in Madrid, based on a provisional arrest warrant from the Southern District of Florida. This operation combined the efforts of DEA Madrid, the Charlotte District Office, the Miami Field Division, DEA Bogota, the Spanish Guardia Civil and the Spanish National Police.
- September 16, 2008, CPOT Antonio Ezequiel Cardenas-Guillen, brother of former Gulf Cartel leader Osiel Cardenas-Guillen, was arrested in coordination with DEA by Mexican authorities. Cardenas-Guillen was indicted in the Southern District of Texas based on a Federal Bureau of Investigation case, and in the District of Columbia as the result of a DEA investigation.
- October 9, 2008, William Tamamayo-Hernandez was arrested by Panamanian Police in coordination with DEA in the Republic of Panama. Tamamayo-Hernandez was one of the primary leaders of an assassination cell for CPOT Juan Carlos Ramirez-Abadia's and his DTO. On August 12, 2008, Tamamayo-Hernandez was indicted in the Eastern District of New York for multiple counts of murder, conspiracy to import cocaine, and international drug conspiracy.
- October 25, 2008, CPOT Eduardo Arellano-Felix was arrested by Mexican authorities in coordination with DEA, in Baja California, Mexico. Arellano-Felix, one of the original leaders of the AFO, was indicted on December 4, 2003, in the Southern District of California.
- November 7, 2008, Jaime Gonzalez-Duran was taken into custody by the Secretaria de Seguridad Publica in coordination with DEA. Gonzales-Duran was the third highest ranking member of the Gulf Cartel who controlled day-to-day operations for the Cartel. He reported directly to high level Cartel member Miguel Trevino-Morales and CPOT Heriberto LAZCANO-Lazcano. Gonzalez-Duran was indicted on March 13, 2008 in the District of Columbia.
- December 14, 2008, CPOT Esteban Rodriguez-Olivera was arrested by Mexican authorities in coordination with DEA at the international airport in Mexico City, Mexico. Rodriguez-Olivera was the co-leader of the Rodriguez-Olivera Drug Trafficking

Organization. He had been indicted on January 13, 2006 in the District of Columbia and was indicted again in March 2008 in the Eastern District of New York.

DEA and host nation counterparts have also continued to keep pressure on DTOs operating in Afghanistan. This means successfully identifying, disrupting, and dismantling major drug trafficking organizations that fuel the insurgency and profit from the narco-economy:

- In October 2008, Haji Juma Khan was arrested and his trial was pending in the Southern District of New York on narco-terrorism charges. Khan is one of the world's most significant heroin and opium traffickers. From his base of operations in Afghanistan, Khan allegedly used high level connections in the Afghan central and provincial government to facilitate drug trafficking and other illegal activities. Moreover, Khan was suspected of providing direct support to the Taliban from his drug trafficking revenue in the form of cash payments. Khan also supplied weapons and manpower to the Taliban leadership in support of their insurgent activities, investigations show.
- On January 23, 2008, DEA Foreign-deployed Advisory and Support Teams provided additional testimony to a Federal Grand Jury in the District of Columbia which resulted in the issuance of an indictment charging Khan Mohammed with drug trafficking and terrorism. The basis for the indictment stemmed from Mohammed's negotiations for rockets and bomb-making materials that Mohammed believed would be used against the U.S. Military and Coalition Forces. On May 15, 2008, Khan Mohammed was the first defendant ever to be convicted in U.S. federal court of narco-terrorism since the statute was enacted in March 2006.
- Haji Bashir Noorzai, the leader of the largest Southwest Asian-based heroin-trafficking organization, was convicted in September 2008. Noorzai's organization was responsible for smuggling hundreds of kilograms of heroin from Afghanistan and Pakistan into the U.S. In addition, Noorzai provided weapons and manpower to the Taliban in exchange for protection of his opium crops, heroin labs, and transportation routes.

On-Going Operations

Operation All Inclusive 2008-1: Operation All Inclusive (OAI) 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 the United States. This investigative operation expanded the geographical area coverage into the central Caribbean, Bolivia, and Peru; and provided U.S. interagency analytical support to seven countries. From January 2008 through September 30, 2008, DEA's operation in this sphere resulted in the seizure of 100.41 metric tons of cocaine, 225 kilograms of heroin, 130.45 metric tons of marijuana, \$92,310,578 and 1,278 arrests.

Enlace Program. The Enlace Program was established in the Southern Cone countries of South America more than five years ago to exchange law enforcement officers with the South American countries. The program has supported investigations and initiatives which have benefited both the DEA mission and missions of the host nations. Information and officer exchanges between neighboring countries in support of investigations have enabled Spanish, Guarani, Quechua, and other language speakers to conduct real-time translations of authorized wire intercepts resulting in sizeable seizures and arrests, share real-time intelligence, and target members of international drug trafficking organizations. Also, having transit country officers working with neighboring countries has enabled the successful coordination of international controlled deliveries and financial and transportation investigations, as well as the follow-up movement and illicit trafficking of narcotics,

chemicals, and money. The Enlace Program has become an excellent example of the power of law enforcement networking.

Operation Broken Bridge. Operation Broken Bridge, a 24-hour, 7 days-a-week operation is a progression from Operation Rum Punch that was initiated by the Dominican Republic Narcotics Counter Drug Unit (DNCD) and the DEA Santo Domingo Country Office. The DNCD and DEA have been conducting an interagency coordinated counter-drug operation in the vicinity of Hispaniola since August 2007. The objective of Operation Broken Bridge is to disrupt suspect aircraft flown from Venezuela and Colombia to the Dominican Republic, and further to dismantle drug trafficking organizations using air drops over water and land and, on occasion, conducting landings in the Dominican Republic. Participating elements include the DEA, Caribbean Field Division, Joint Interagency Task Force-South, Customs Border Patrol, host nation law enforcement and military support, and the intelligence community. Seizure statistics for Operation Broken Bridge through December 2008 include 2,066 kilograms of cocaine, one kilogram of heroin, five vehicles, two aircrafts and 22 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. Cumulative OPBAT statistics through the final quarter of Fiscal Year 2008 include seizures of approximately 2,318 kilograms of cocaine, 460,037 pounds of marijuana, four kilograms of heroin, and \$10,744,576 in USC, as well as 148 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 2008, Operation Containment resulted in the seizure of 6.4 metric tons of heroin, 1 metric ton of morphine, 1.6 metric tons of opium gum, 1 metric ton of precursor chemicals, 24.4 metric tons of cannabis, 238.935 metric tons of hashish, and 15 seized drug labs.

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 Joint Inter-Agency Task Force. Between 2000 through December 2008, as the result of Operation Panama Express, 576 metric tons of cocaine has been seized, 208 metric tons of cocaine has 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 1,676 individuals have been arrested. During the 4th Quarter of 2008 alone, Operation Panama Express strike force effected 15 interdictions, to include two self-propelled semi-submersible vessels, resulting in the arrest of 60 individuals, and seizure of 99 kilograms of heroin and 27,989 kilograms of cocaine.

Operation Windjammer. On May 19, 2005, based on information provided by DEA Cartagena and DEA Kingston, a priority target Investigation was initiated against a multi-ton, Jamaica-based, cocaine trafficker multi-ton quantities of cocaine to the U.S. and Europe via Panama and Mexico. On January 3, 2006, a two-count indictment was handed down by the U.S. District Court for the

District of Columbia alleging that the target, his father, and five co-conspirators were 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 2008, resulting from the success of Operation Windjammer include the seizure of 281.6 pounds of hashish oil, 26.80 tons of marijuana, 160.7 kilograms of cocaine, \$31,910 in U.S. currency, and 24 arrests.

Coordinate Counternarcotics Intelligence Gathering

Colombia. DEA Colombia expanded its joint intelligence gathering efforts with Colombian agencies in 2008. 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. While Spain and Portugal remain the primary arrival zones for Europe-bound cocaine shipments, 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.

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.

Centers for Drug Information Program. 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 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, Central America and South America. A fifth Regional Center (Kabul, Afghanistan) was established in 2005. The program presently

supports 50 countries and protectorates and includes over 250 users. Most recently, a Southeast Asia Regional Center, located in Bangkok, Thailand came online. Discussions continue in regards to expansion to Europe, Africa and additional Southeast Asian countries. Expansion will allow all CDI users increased capability to share globally.

Conduct Training Programs for Host Nation Police Agencies

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

Bilateral Training Programs:

DEA 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 2008, DEA conducted bilateral training seminars funded by INL for 318 participants from 11 countries.

Asset Forfeiture/Money Laundering Training Programs:

An inter-agency Terrorist Financing Working Group in Washington coordinates Department of State funding for approximately six international asset forfeiture and money laundering seminars per year. The actual training modules are developed by DEA in a joint effort with DOJ. During FY 2008, a total of 244 participants from seven countries were trained at six Basic and Advanced Asset Forfeiture and Money Laundering Seminars.

International Narcotics Enforcement Management Seminar (INEMS) Program:

The INEMS is a three-week program. Funded by the Department of State, it is conducted by the International Training Section of DEA in the United States principally 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. In FY 2008 the INEMS course trained 15 participants from 12 countries.

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 2009 in Afghanistan and Central Asia. DEA conducts one-week specialized counternarcotics courses in the region in support of the NRC program.

Development of Host Country Drug Law Enforcement Institutions

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.

DEA helps 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 cooperation 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.

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. For example, DEA's efforts to develop counternarcotics counterparts in Afghanistan have resulted in increasingly well-trained and successful counternarcotics units capable of taking on greater investigative roles.

During June 2008, the Europe and Africa Region, in conjunction with the Office of Diversion Control, hosted a Diversion Investigative Strategy Meeting in Gaborone, Botswana to discuss an African Chemical Control Investigative Strategy. Representatives from the 14 African nations of Botswana, Burundi, Djibouti, Gabon, Kenya, Lesotho, Madagascar, Mauritius, Nigeria, Seychelles, South Africa, Swaziland, Uganda and Zambia attended the meeting, as well as representatives from DEA Headquarters and DEA COs in Brussels, Cairo, Frankfurt, Lagos, Pretoria, and Paris.

Additionally, in September 2008, the Europe and Africa Region hosted the Regional African Executive Seminar Botswana. The seminar focused on encouraging West African law enforcement entities to cooperate on developing viable, prosecutable investigations against the most significant drug trafficking organizations and narco-terrorist organizations operating in West Africa. The seminar included law enforcement representatives from South Africa, Botswana, Sierra Leone, Nigeria, Liberia, Ghana, Togo, Benin, Cape Verde, Mali, Burkina Faso, as well as DEA personnel.

International Drug Enforcement Conference (IDEC):

DEA actively participates in a variety of several international meetings 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.

In July 2008 the Turkish National Police in cooperation with DEA co-hosted IDEC XXVI. This year's IDEC General Assembly brought together over 300 high-level drug law enforcement officials from 93 countries throughout the world. IDEC XXVII focused on pharmaceutical abuse, the nexus of drugs and terrorism, money laundering, and intelligence sharing across multi-national law enforcement agencies. IDEC was established in 1983 and to date 16 different countries have hosted the conference. This was Turkey's first time as host of IDEC and only the second time the event has been held outside of North and South America. The DEA's sponsored IDEC General

Assembly has grown over the past 26 years and is now attended by more nations than any other multilateral counternarcotics forum except for the UN-sponsored conference.

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), 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:** The United States Coast Guard (USCG) Operational Commanders aggressively conduct and support coordinated, flexible operations in the transit zone in response to tactical intelligence and information. In addition to benefiting from intelligence generated by other USG agencies, the Coast Guard also is a major source for actionable intelligence to Joint Interagency Task Force South (JIATF-S). The Coast Guard also continues to coordinate operations with local, state, and federal law enforcement and agencies of the U.S. Department of Defense.
- **International Engagement:** The Coast Guard continues to emphasize international partnering with intelligence interdiction forces, including the planning and execution of both large and small-scale joint and combined operations. The fact that bilateral maritime agreements and International Maritime Interdiction Support (IMIS) arrangements are in place throughout the theaters of operations facilitates this type of cooperation. Additionally, the Coast Guard provides Training and Technical Assistance (through deployable training teams, resident training and subject matter expertise exchanges) to partner nations' maritime services to serve as force multipliers in drug trafficking operations.
- **Technological Initiatives:** The Coast Guard is actively addressing operational shortfalls through research, development, and fielding detection, monitoring, and other non-lethal technologies.

Coast Guard foreign assistance efforts are designed to improve the effectiveness of U.S. counternarcotics partners around the world.

Combined Operations:

The Coast Guard conducted several maritime counterdrug combined operations in 2008. Combined operations partner countries and territories included: Colombia, Costa Rica, Mexico, the United Kingdom and its Overseas Territories, Netherlands and Netherlands Antilles, Belgium, and France and its Overseas Territories. In FY2008, Law Enforcement Detachments (LEDETs) conducting combined operations onboard British Naval Vessels removed a total of 17,087 pounds of cocaine. In FY 2008, LEDETs conducting combined operations onboard Dutch Naval Vessels removed 8,100 pounds of cocaine.

International Agreements:

There are now 28 bilateral maritime counterdrug agreements in place between the United States and our Central, South American and Caribbean partner nations. These arrangements help the Coast Guard move toward its goal of eliminating safe havens for drug smugglers. This year, the USCG reached agreement with the Ecuadorian Navy on Operational Procedures for maritime counterdrug cooperation, filling a large gap that the DTOs were routinely using. Most recently, the USCG signed a set of Standard Operating Procedures (SOP), in accord with a Letter of Intent with the Mexican Navy. This SOP facilitates cooperation in cases involving Mexican 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 to bring the CRA to come into effect. This important agreement has been pending since 2003.

International Cooperative Efforts:

In FY 2008, the Coast Guard disrupted 85 drug smuggling attempts, which resulted in the seizure of 35 vessels, the detention of 196 suspected smugglers, and the removal of 367,926 pounds of cocaine and 22,174 pounds of marijuana. Nearly all of the 85 interdiction activities involved some type of foreign partner support or cooperation, through direct unit participation, exercise of bilateral agreements, granting permission to board, or logistics support.

In an effort to thwart law enforcement efforts, DTOs are increasingly utilizing Self-Propelled Semi-Submersibles (SPSS) to smuggle cocaine. In FY 2008 there was a dramatic increase in the use of Self-Propelled Semi-Submersible (SPSS) vessels. From a total of 23 operations using of semi-submersibles between 2001 and 2007, they increased to at least 75 in 2008. SPSS vessels carried an estimated 423 metric tons (MT) of cocaine in FY 2008, of which only 71 MT were removed (56.3 MT removed by the Coast Guard in eight operations). Because the SPSS's are a relatively easy means of smuggling, they have displaced most other modes of drug trafficker maritime transportation with the exception of go-fast boats. The design of the SPSS vessels makes it difficult for law enforcement to detect large loads of illegal drugs, but the USCG continues to work closely with interagency and international partners to explore better ways to detect and interdict SPSS vessels. To counter this growing threat, the Coast Guard works closely with the Department of Justice and congressional staffs to draft and pass legislation to make operation of these vessels on an international voyage illegal. This legislation, the "Drug Trafficking Vessel Interdiction Act of 2008, 18 U.S.C. 2285", was signed into law by the President in October 2008. This law facilitates the establishment of new tactics to enable evidence collection and prosecution even when contraband cannot be seized.

The USCG routinely embarked law enforcement officials (ship riders) from Panama, Guatemala, Nicaragua, Costa Rica, Belize, Honduras, The Bahamas, and in the Pacific from 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 FY 2008, the USCG provided International Training and Technical Assistance in support of drug interdiction programs through a variety of support efforts.

The 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 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 efforts to improve the operational readiness of its small boat fleet. This detachment led training courses in port security, outboard motor maintenance, and small boat seamanship. The USCG has also partnered with U.S. Navy forces off the Gulf of Guinea to plan for and execute operations under the Africa Partnership Station in 2008. These efforts will continue in 2009.

The USCG’s International Training Division’s Mobile Training Teams (MTTs) 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, Incident Command System, and Small Boat Operations. Courses consist of formal classroom instruction with either on-board or on-locale hands-on skill training. In FY 2008, over 1,920 students from 55 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 2008, 257 students from 68 partner nations enrolled in resident courses at USCG training installations.

The third and fourth regular Trilateral Maritime Counter Drug Summits involving the U.S., Ecuador and Colombia, were held in Cartagena and Key West respectively during 2008. This year, the summits were expanded to include participation from Panama and Mexico. Results of these meetings include significant improvements in information exchange and operational coordination that have enhanced our collective ability to combat narcotics smuggling.

In November 2008, Colombia hosted the First Maritime Counter Drug Symposium of the Americas. The Symposium brought together representatives from 34 hemispheric and transatlantic countries to analyze and discuss their different maritime strategies to combat drug trafficking. Discussions focused on the waterways used by the different countries in the Americas, especially those located in, and affected by the Transit Zone for narcotics between the producing and consuming countries. The next Symposium will be held in the Dominican Republic in November 2009.

U.S. Customs and Border Protection

The Department of Homeland Security's U.S. Customs and Border Protection (CBP) process all goods, vehicles, and people entering and exiting the United States. CBP officers intercept contraband, improperly classified merchandise, unlicensed technology and materiel, weapons, ammunition, fugitives, undocumented immigrants, and unreported currency at America's 327 international ports of entry.

CBP uses a wide range of interdiction techniques, including the targeting of suspect shipments and persons through the use of risk management techniques. Using such scientific methods enables CBP to be effective in its primary mission while minimizing its impact on legitimate trade and travel. CBP uses this "selectivity" to identify high-risk shipments for more intensive examination.

Since its creation in 2003, CBP is also charged with the border regulatory functions of passport control and agriculture inspections in order to provide comprehensive, seamless border control services. This is intended to simplify border security operations and is termed, "One Face at the Border." Of current importance is CBP's role in protecting the borders of the United States from the introduction of weapons of mass effect and terrorists. CPB maintains its position as the nation's first line of defense against the introduction of narcotics and dangerous drugs from foreign sources.

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 (2007 statistics).

The State Department Bureau for International Narcotics and Law Enforcement Affairs and CBP promote international cooperation. CBP does so through interagency agreements and by designing and implementing training and assistance programs for its foreign counterparts worldwide. CBP also delivers a variety of training, high-tech tools and border security-related programs for combating transnational crime thereby promoting global cooperation and the international law enforcement effort.

CBP Advisors and Attachés:

A variety of far-reaching CBP initiatives includes the Container Security Initiative (CSI) that operates globally to pre-screen high-risk cargo shipments before they are loaded onto vessels. CBP has also deployed a growing network of long-term advisors and attachés who serve abroad in U.S. Embassies and consulates, coordinating closely with our foreign counterparts. These individuals play a key role in engaging other governments as our allies in the on-going war against drug-smuggling.

Attachés play a prominent role in representing the interests of CBP in the international arena. They have a broad mandate, ranging from enforcement and investigative activities on behalf of CBP to serving as delegates in such groups as the Shared Border Accords Coordinating Committee in Canada. They also established International Border Enforcement Team priorities and facilitated the exchange of information, improving member awareness of law enforcement activity, policies,

and resources relating to regional border enforcement efforts. Their efforts help to ensure that shared assets can be harnessed together to fight smuggling and they have proven to be effective channels for sharing intelligence as well.

The attaché assigned to Mexico, for example, will be heavily involved in the Merida Initiative, a significant effort funded by the State Department to strengthen and improve the capabilities of customs and border control agencies in Mexico and throughout Central America, including the Dominican Republic and Haiti. The Merida Initiative will encompass the acquisition and deployment of Non-Intrusive Inspection Equipment, canine enforcement training, upgrades to automated systems, and improvements in immigration control programs. The goal is to enable the governments of Mexico and other countries to defeat the drug cartels on their own ground by disrupting their operations locally before the drugs reach America's borders.

In Panama, the CBP Attaché works with Panamanian Immigration and Customs and other counterparts to identify and interdict travelers in possession of fraudulent documents, contraband or those engaged in narcotics and bulk cash smuggling. The CBP Attaché working with CBP Operation Wingclip in Miami and the National Targeting Center (NTC) has been able to support seizures of substantial amounts of smuggled and undeclared money and checks and financial instruments connected to businesses suspected of laundering proceeds of narcotics trafficking in the Colon Free Trade Zone. Many of these seizures form the basis for Immigrations and Customs Enforcement (ICE), JTTF and other criminal investigations in the United States.

Activities with Operation Wingclip, CBP Miami and the Defense Attaché Office resulted in the dismantling of a money laundering ring operating between Bolivia, Panama and the United States that was believed to be laundering narcotics proceeds. This resulted in the seizure of over \$ 100,000 in checks and cash and the interdiction of the perpetrator by CBP Miami. In August 2008 CBP provided 20 Panamanian Customs Officers with formal border security training in the interdiction of narcotics and other contraband cargo through targeting and risk management. CBP has also embedded Border Patrol Agents and CBP Officers with Panamanian Officers at Checkpoints to provide operational assistance in the interdiction of narcotics, illegal immigrants, and contraband.

The Attaché in Brasilia arranged for senior level Brazilian customs officials to observe canine training at the CBP Canine Enforcement Training Center (CETC) at Front Royal, Virginia and then to have two instructors from CETC spend two weeks observing the Brazilian canine training program as a means of strengthening their drug-detection activities. The CBP Attaché in the Dominican Republic assisted DEA and local authorities in the recent seizure of 1,500 gallons of liquid cocaine concealed in shampoo bottles at the port of Haina.

CBP Advisors are more narrowly focused than attachés in their missions. The advisors in Ecuador and Peru, for example, are assigned to Port Security programs, both airport and seaport, that have produced significant drug seizures, particularly when the contraband was concealed in containers destined for the United States or Europe. While not operational, the advisors have achieved this by helping their foreign colleagues establish intelligence units capable of collecting and analyzing documents to target high-risk shipments. They have also assisted by giving training and guidance to foreign customs and border control agents in detecting and intercepting bulk currency shipments under the auspices of Operation Firewall, as well as detecting fraudulent travel documents. Advisors have also been influential in recommending the training for, and maintenance of appropriate Non-intrusive Inspection Equipment. Their behind-the-scenes efforts and advice have led to record-breaking numbers of drug and currency seizures and arrests.

Although CBP does not have CBP Advisors assigned to U.S. Embassy Bogota, CPB provided a variety of support to the U.S. Embassy Narcotics Affairs Section (NAS) in 2008: Conducted a two-phase national assessment of the Colombian canine program, covering 10 cities; conducted the first regional Canine Enforcement Training in Bogota, to include Colombian and Peruvian Canine Officers; and invited Colombian officials to attend International Rail Interdiction Training in El Paso, Texas.

International Training and Assistance:

In 2008, CBP Office of International Affairs (INA) provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs currently operating in Bangkok, Budapest, Gaborone, and San Salvador.

CBP supported ILEA programs by developing and conducting core and specialized training on a variety of topics, including: Land Border Interdiction; Contraband Concealment Techniques; International Controlled Deliveries and Drug Investigations (conducted jointly with the Drug Enforcement Administration); Complex Financial Investigations (conducted jointly with Immigration and Customs Enforcement); and Customs Forensics Lab capabilities and techniques. Twelve such training programs were conducted in 2008.

Budapest: In April 2008, a CBP Border Patrol Agent served as an instructor representing CBP Office of Border Patrol. Course of instruction included a basic overview of OBP Checkpoint operations. A total of 47 enforcement officers attended the Budapest ILEA from Bosnia-Herzegovina, Serbia, Montenegro and Hungary.

Port Security Initiatives:

In response to increased threats of terrorism, CBP supported programs seeking to identify high-risk shipments destined for the United States. One important program supporting this objective is the Container Security Initiative (CSI). CSI addresses the threat to border security and global trade posed by the potential use of maritime shipping containers by terrorists. CSI consists of security protocols and procedures that, if fully implemented, ensure that all maritime shipping containers posing 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 and to develop investigative leads related to the terrorist threat to cargo destined for the United States. A total of over 50 foreign ports are participants in either the CSI or the Secure Freight Initiative (SFI).

Secure Freight Initiative (SFI): SFI is focused on applying advanced technologies in radiation scanning and x-ray imaging equipment to enhance the physical security of the international supply chain. Focused on strategic trade corridors, which are defined as a shipping lane that has service to the United States and includes foreign seaports that handle maritime containerized cargo that either transits or originates from areas of strategic importance or possess potentially high-risk cargo as defined by CBP's Automated Targeting System (ATS), SFI involves partnerships with foreign governments, ocean carriers, and terminal operators to design and implement security structures tailored to the specific location's operational requirements and risk factors. The resulting designs are implemented to ensure port efficiency, trade facilitation, and enhanced cargo security.

CBP implements a multi-layered, risk-based enforcement strategy designed to maximize security without causing economic disruption. This strategy encompasses the following security programs in the maritime environment:

- The “24-Hour” Manifest Rule
- Container Security Initiative (CSI)
- Customs-Trade Partnership Against Terrorism (C-TPAT)
- Use of Non Intrusive Inspection (NII) Technology
- Automated Targeting System (ATS)
- National Targeting Center for Cargo (NTC-C)
- Importer Security Filing “10+2”:

SFI represents another component of the CBP’s layered enforcement strategy for protecting the nation. The data from the SFI suite of systems (Radiation Portal Monitors, Non-Intrusive Inspection equipment, and Optical Character Readers) are integrated into CBP’s Automated Targeting System and reviewed alongside the targeting system’s risk assessment rule sets. This data is provided in real-time to CBP officers, who determine if the container should be referred to the host nation for secondary examination prior to lading. For the CBP officer’s stationed at U.S. ports of entry, the NTC-C, or a CSI or SFI port, SFI/ICS provides additional data points that are used in conjunction with advanced manifest data to allow CBP Officers to make a more informed decision when assessing the risk of each container coming to the United States.

CBP will be responsive to the legislative requirements of the 9/11 Act, which require 100% scanning of all U.S.-bound containers by July 12, 2012 and has developed a strategic direction for the SFI program which focuses on identifying and deploying operations to strategic trade corridors worldwide where the implementation of SFI would mitigate risks associated with the potential introduction of weapons of mass effect into the United States by way of maritime containerized cargo. An approach that prioritizes deployments to strategic trade corridors and focuses on placing scanning systems in the most sensible and efficient manner will provide CBP the opportunity to expend resources and efforts on the development of the technology and operational solutions necessary to address key challenges, such as transshipment and high volume port operations, while obtaining additional information on cargo traveling through trade corridors that warrant additional scrutiny.

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 coordinated operations on border interdiction, and industry partnership programs. Through this support, CBP provided basic tools, vehicles, high-tech equipment, training and technical assistance to Colombian National Police, Colombian Customs, and other Colombian law enforcement agencies. This CBP initiative ended in 2008. Goals and objectives were met and the funding expired. CBP continues to support the U.S. Embassy in Bogota as needed on border security issues.

Customs Mutual Assistance Agreements: CBP delivers a portion of U.S. support provided to host nations under Customs Mutual Assistance Agreements (CMAA). CMAA’s 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: CBP currently lists 43 training courses available to foreign specialists. This catalog of offerings is constantly being updated to reflect current techniques and methodologies as well as the stated needs of our foreign partners. In 2008, several new courses were added to the catalog, including Special Teams Operations (STOP), Commodity Identification, X-ray Systems, and the Corruption in the Global Environment course.

International Visitors Program: The State Department's International Visitors Program (IVP) provides an opportunity for foreign officials to consult with their U.S. counterparts and appropriate high level managers in CBP Headquarters as well as to participate in on-site tours of selected U.S. ports and field operations to observe actual CBP operations. The focus of this program includes narcotics enforcement, port security, counter terrorism and intelligence operations. In 2008 the IVP hosted five foreign delegations. This incorporated senior government officials from a broad array of countries including South Africa, Colombia, Kuwait, Azerbaijan, and Kenya.

Canine Training: CBP's Canine Center Front Royal (CCFR) continues to provide State Department-funded training courses, designed to assist foreign countries in the proper use of detector dogs. Canine El Paso Training Center (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 520 officers, representing over 50 countries, have been trained at the CCFR in Front Royal, Virginia. In 2008, canine training was provided to Peru, Colombia, Israel, and Kuwait.

Port of Entry Interdiction Training: This general description encompasses four specific training courses concerning border security issues found at the various types of international border environments, i.e., land (IBIT), seaport (ISIT), rail (IRIT) and airport (IACIT). Training has been designed for the problems encountered and interdiction techniques useful for each type of operation. Each training class is normally five days in duration and is comprised of interactive classroom discussion and practical exercises using actual CBP border facilities. In FY 2008, 26 of these courses were conducted. In addition to port of entry operations, CBP provides training in techniques used by smugglers who do not use official ports of entry to cross borders but who smuggle contraband between ports of entry. CBP uses Native American trackers as well as Border Patrol Agents to conduct this training in a variety of geographic environments.

HAZMAT Training: This training is comprehensive and is designed to enhance the participant's knowledge and effectiveness in responding to emergencies involving hazardous materials. It is conducted at CBP's Advanced Training Center in Harper's Ferry, West Virginia. It is designed to be very interactive. Approximately 60% of the training involves practical exercises.

International Bulk Currency Smuggling: 2008 saw increased interest in this topic. CBP assisted Immigration and Customs Enforcement (ICE) agents in six foreign training missions. The training was developed to assist foreign governments in identifying techniques used by bulk currency smugglers and to design and implement programs to counter that threat.

Training in Host Countries:

Overseas Enforcement Training: This training combines formal classroom training and field exercises for host nation border control personnel. Although many relate to counter proliferation

and terrorism, they run the gamut of issues faced by CBP and our foreign border control counterparts, including narcotics interdiction. The curriculum includes Border Enforcement Training, Supply Chain Security, Detection, Interdiction and Investigation; Concealment Methods, Bulk Currency Smuggling, False and Fraudulent Documents, Train-the-trainer, Anti-Corruption, Targeting and Risk Management, Hazardous Materials, and X-ray Systems. These courses are also conducted at foreign ports of entry. They include both basic training and follow-on training to training already received at U.S port facilities.

CBP also initiated several regional training programs in 2008 which included attendees from neighboring countries. In addition to sharing lessons learned, CBP fostered goodwill and cooperation among adjoining countries on border security issues. It is hoped that this practice will assist in establishing regional and global associations of border control officials who share concerns about transnational criminal networks and who will cooperate in their dismantling.

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 counter proliferation 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.

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. A new course titled Corruption in the Global Environment was designed and developed by CBP Office of International Affairs and the Office of Internal Affairs in 2008 and was vetted by the Office of Training and Development to ensure that it met adult training standards. It greatly expanded the existing curriculum to provide more practical guidance and suggestions on how to identify and resolve corruption issues involving government employees. The course was piloted in Slovakia in August 2008 and was very well received.

In February 2008, CBP arranged and coordinated with the government of the Dominican Republic to provide short term assistance on establishing an internal affairs unit. Similarly, the Office of International Affairs and Internal Affairs provided training in February and March 2008 to Ghanaian Customs on designing a computer database for internal affairs matters.

Looking Ahead:

In 2009, CBP will continue its border security mission through its initiatives that secure the supply chain of international cargo destined for the United States. 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 designing new ones as needs and techniques are updated. 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

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 MDMA (3,4-methylenedioxymethamphetamine or 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.

Efforts by the United States and other nations to prevent diversion of precursor and essential chemicals reached unprecedented levels in 2008. These efforts built on a variety of bilateral, regional and multilateral mechanisms, such as the United Nations and the Organization of American States.

Reporting from a variety of sources, including the press and the United Nations, indicate that the global abuse of amphetamines may have stabilized, including in the United States. Nevertheless, production of methamphetamine remains unacceptably high, and the potential remains for abuse rates to increase again. The United States, working with Mexico, has sought to target methamphetamine production in this hemisphere through both bilateral enforcement efforts, as well as multilateral cooperation, including through the United Nations—and through the Organization of American States drug coordinating body (known as CICAD). Such efforts have included raising awareness of the issue to promote internal changes to target diversion and smuggling efforts, as well as coordination of information sharing to facilitate operations preventing or stopping diversion and/or smuggling.

In 2008 Mexican authorities enacted both legislative and administrative changes to counter the shift from small-scale methamphetamine producers within the United States to large “super-labs” in Mexico. This pattern evolved in part due to effective US 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) and a quota system came into place in 2008.

The U.S. Government enhanced law enforcement cooperation with the Government of Mexico to target the production and trafficking of methamphetamine. For its part, the Government of Mexico continued to demonstrate 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 are required to deplete stores of products containing these chemicals by 2009, after which the use of these products will be illegal in Mexico.

The United States, in partnership with Mexico and the governments of Central America, Haiti and the Dominican Republic has developed a comprehensive, multi-year law enforcement cooperation strategy known as the “Merida Initiative.” The Merida Initiative will strengthen the institutional capabilities of the participating governments by supporting efforts to investigate, sanction and

prevent corruption within law enforcement agencies facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. This will help improve our partners' ability to interdict methamphetamine and other illegal drugs, disrupt methamphetamine production and strengthen their ability to attack drug trafficking organizations controlling the trade. Also included in the Merida Initiative is assistance to enhance border controls in Mexico's Central American neighbors, to prevent increased smuggling of precursor chemicals from Central America into Mexico—a trend that we believe is accelerating given the ban on ephedrine and pseudoephedrine imports into Mexico.

Fearing an influx of methamphetamine production and smuggling, several Central American countries have taken regulatory action or are considering legislation and stepped up surveillance and monitoring of these chemicals. For instance, Nicaragua added all pharmaceutical preparations containing ephedrine and pseudoephedrine to its list of controlled substances. Honduras is seeking to adopt legislation to control all pharmaceutical preparations containing ephedrine and pseudoephedrine through prescriptions. And in Belize, the Minister responsible for Supplies Control enacted a statutory instrument prohibiting the bulk importation of pseudoephedrine and ephedrine.

In 2008, Australia also enacted tighter controls over ephedrine and pseudoephedrine and South Africa amended legislation to control these substances.

Chemical control figures prominently in the year long review of review of commitments made at the 1998 UN General Assembly Special Session on drugs. Against this backdrop, the United States is seeking to further engage other Member States in targeting the chemicals used to produce narcotic drugs and psychotropic substances. In 2008, efforts by the United States to engage the United Nations and the International Narcotics Control Board (INCB) more actively on chemical control yielded significant seizures and the provision of information on methamphetamine and other synthetic drugs. International regulatory efforts to track the commercial flow of precursor chemicals were also given a boost. The United States promoted efforts to build on the 2007 *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.

In 2008, the United States joined with international partners to bring new focus on precursor chemical trafficking. Specifically, under the INCB Task Force Project Prism, 54 countries participated in a time-bound operation, *Ice Block*, to prevent precursor chemicals from being diverted into the manufacture of illicit amphetamine-type stimulants. The results of this nine-month operation developed information on 2,057 transactions and led to 49 tons of ephedrine and pseudoephedrine suspended, stopped or seized.

These efforts are a product of a 2006 Commission on Narcotic Drugs (CND) resolution that requested governments to provide an annual estimate of licit precursor requirements and to track the export and import of such precursors, and a 2007 CND resolution 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 the 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 online Pre-export Notification System (PEN) is a critical tool in this regard. 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.

Combating the supply of methamphetamine is critical, but chemical control is much broader than methamphetamine and other synthetic drugs. In 2008, 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% of the world's opium poppy, and the location of an increasingly high percentage of heroin production.

International seizures of heroin-producing chemicals had waned over the last few years, and the United States sought to reverse this drift in focus by increasing international attention to the issue in 2008. The United States joined with other nations to secure the adoption of Security Council resolution 1817/2008 that focuses on Afghanistan, and highlights the need for countries to cooperate in targeting trafficking in acetic anhydride used to produce heroin. Additionally, the United States gave strong support to *Operation Dice* (Data and Intelligence Collection and Exchange) under the INCB Task Force of Project Cohesion. The six-month operation filled in intelligence gaps related to the diversion of acetic anhydride and resulted in seizures, stopped shipments and identified suspicious consignments involving over 200 tons of heroin chemicals, including acetic anhydride and acetic acid.

Against this backdrop, the Government of Afghanistan recently informed the INCB that there is no legitimate use for acetic anhydride in Afghanistan and has indicated that it will not authorize any imports of the substance to their country.

Despite international efforts, the United States is keenly aware that drug trafficking organizations are increasingly adapting to the pressure from international cooperative efforts. And increasingly, specialized trafficking groups are splintering to fill a niche market and focus primarily as the middlemen supplying chemicals through smuggling or diversion efforts. Such efforts can be extremely profitable as the INCB-led *Operation Crystal Flow* indicated in 2007. Over 53 tons of ephedrine and pseudoephedrine were suspended, stopped, or seized and these chemicals were capable of producing approximately 48 tons of methamphetamine with an estimated street value of approximately \$4.8 billion. Diversion from licit commerce, gray markets, and new smuggling routes are only a few ways drug trafficking organizations are adapting. There are signs that middlemen and traffickers are already exploiting new transshipment routes through Southeast Asia and Africa, to smuggle and divert chemicals. It also appears that in the past year, reflected to China's efforts to tighten legislative and administrative efforts to monitor their legitimate chemical industry, traffickers have turned to India for their supply. Law enforcement information and intelligence resulting from 2008's *Operation Ice Block* indicate that India is now the primary source of ephedrine and pseudoephedrine. There is also ample evidence that organized criminal groups ship currently uncontrolled chemical analogues and intermediates 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 the United States and the international community, and we will continue to push for greater international activism to combat this threat in both bilateral and multilateral settings.

In addition to bilateral efforts, the U.S. will continue to encourage multilateral cooperation. The UNGASS review will provide opportunities to increasingly engage other Member States in cooperative efforts. Additionally, the United States will continue to work through the INCB, specifically following up on *Operation Dice* to target acetic anhydride. In South America, INCB's

Project Cohesion focuses on monitoring the imports of potassium permanganate to the cocaine processing areas. The lessons learned under *Operation Dice* and under *Project Cohesion* may provide further insights for targeting potassium permanganate, the most prevalent precursor chemical used to make cocaine. The U.S. is also considering 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.

Precursors and Essential Chemicals

Plant-based drugs such as cocaine and heroin 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.

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 tables 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.

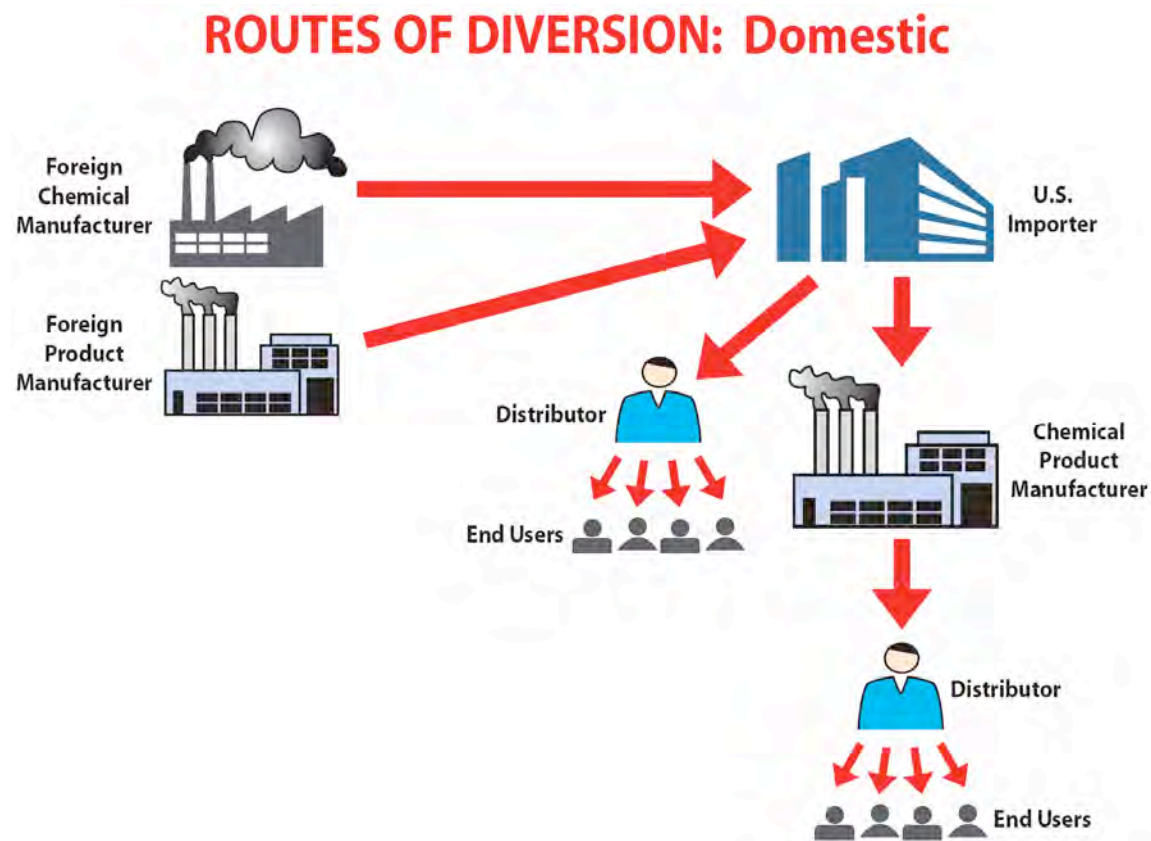
In 1996, the U.S. supported a CND resolution that added a special monitoring list of chemicals that are not included in the Convention but for which substantial evidence exists of their use in illicit drug manufacture. Reporting requirements on these non-listed chemicals is voluntary under international law, but widely implemented in practice under INCB supervision. As with officially controlled chemicals listed in the Table 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.

2008 Chemical Diversion Control Trends and Initiatives

The United States continues to be at the forefront in promoting international chemical control efforts. The diffuse nature of the threat requires international cooperation and commitment, and to increase our impact, the United States continues to cooperate closely with other governments. The multilateral institutions that have long underpinned international drug control, principally the United Nations and its affiliated International Narcotics Control Board (INCB) are critical to this effort and strong allies. In 2008, the INCB coordinated several law enforcement operations that bore notable results.

The most significant INCB-coordinated operation was *Operation Ice Block* a time-bound voluntary operation focusing on the trade of ephedrine and pseudoephedrine, including pharmaceutical preparations and ephedra to shipments to the Americas, Africa, Oceania, and West Asia. The operation was designed in accordance with the CND resolution and was conducted over a nine-month period in order to gather intelligence on how the precursor for amphetamine-type stimulants (ATS) are being diverted into clandestine laboratory environments the links to trafficking organizations. Both regulatory and law enforcement authorities participated and the INCB was the focal point for exchanging information and the pre-export notifications (PEN online) served as a primary source of information. At the conclusion of the operation, participants met in New Delhi and agreed that the operation was successful in preventing precursor chemicals in the manufacture of illicit ATS and key drug traffickers.

With 54 participating countries more than 49 tons of ephedrine and pseudoephedrine--possibly capable of producing up to 44 tons of methamphetamine with a street value of \$4.9 billion--were suspended, stopped, or seized. The operation revealed that many of the suspicious shipments were destined for Mexico. However, the operation also indicated a shift in the source of shipments from China to India. This shift may have resulted from new legislative and administrative efforts by China following last year's INCB led operation *Crystal Flow*. Additionally, it was clear that Africa and Central America were increasingly used as transit points to the final sources in the Western Hemisphere. Portending even greater challenges for the future, traffickers appear to be seeking intermediates and non-controlled substances to circumvent controls.

As the source of 93% 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. Under the auspices of the INCB-led Task Force participants including the United States agreed to a time bound voluntary operation focussing on the exchange of information on seizures, identified diversion attempts and suspicious shipments of chemicals used in the illicit manufacture of heroin, particularly acetic anhydride. *Operation Dice* – Data and Intelligence Collection and Exchange involved exchanging information through the INCB Secretariat's online PEN system over a six month period in 2008. These cases involved over 200,000 kg of chemicals from a range of countries in Europe, the Middle East and East Asia. The Operation was able to identify definite patterns of diversion and trafficking with a revelation of a number of unknown routings and source countries. It was also evident that heroin precursors are being smuggled as well as diverted from legitimate trade.

This operation emerged in coordination with several other efforts, including a political effort to engage the UN Security Council and to support the adoption of a resolution that focused on the need to target heroin production in Afghanistan, and raised the profile of target precursor chemicals used to produce heroin. This followed a series of meetings held in 2007/2008 by United Nations Office on Drugs and Crime (UNODC) 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. Other multilateral efforts in the region complement these initiatives.

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 waste water 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 South America, the Project Cohesion Task Force focuses on monitoring the imports of potassium permanganate to the cocaine processing areas. In 2007 Project Cohesion Task Force, participants expressed concern over the paucity of information pertaining to the trade of potassium permanganate in Latin America. And, while the number of multilateral operations focusing on potassium permanganate has dropped off this year, there has been an increase in large numbers of seizures—particularly in Colombia. Moreover, Colombian authorities have indicated efforts to seize illicit laboratories in Colombia.

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 2008 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 to 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 to a variety of countries worldwide, law enforcement training, including basic drug investigations, chemical control, and clandestine laboratory identification (and clean-up) training. These relatively low-cost programs help encourage international cooperation with these countries in pursuing our common anti-drug 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.

2008 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 CND resolution provided a way to institutionalize the process for collecting information on synthetic drug precursor chemicals. The resolution also requests countries to permit the INCB to share such information with concerned law enforcement and regulatory agencies. Over the past two years, the U.S. worked with the INCB and other international allies to urge countries to take steps towards implementation.

A prerequisite for implementing this is developing the considerable infrastructure of commercial information and regulation—not a simple task for many countries. However, at the end of 2008, 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 verification on the chemicals and the quantities proposed in commercial transactions. Authorities can then 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 2007, an additional \$700,000 in Fiscal Year 2008, and a \$700,000 contribution is planned for FY09.

The Road Ahead

The U.S. will continue to urge other countries to implement the provisions of the 1988 UN convention. Development of effective chemical control regimes is critical to implementation. Against this backdrop, countries will need to have in place the legislation to criminalize the diversion of precursors. Additionally, it is important to develop the administrative and procedural tools to successfully identify suspicious transactions, as well as making better use of watch lists and voluntary control mechanisms.

As a critical objective, and in conjunction with the INCB and other Member States, the United States will continue to promote efforts through the INCB task forces of Project Cohesion and Project Prism to target precursor chemicals. The United States will work to promote implementation of the new mechanisms that have been enacted to promote the broader exchange of information and expertise pertinent to the control of methamphetamine and other synthetics. The U.S. will also urge countries to avail themselves of the PEN system to actively provide and exchange information on legitimate commercial precursor chemical shipments and estimates on legitimate commercial needs to the INCB, and to provide the necessary support to the to enable it to fulfill its expanding role.

In this hemisphere, the USG will work through the Inter-American Drug Abuse Control Commission (CICAD), the counternarcotics arm of the Organization of American States (OAS) to further cooperation against diversion of precursor chemicals. 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, and is 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 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.

Over 60 participants from 20 CICAD Member States participated in the August 2008 Joint Meeting of the Groups of Experts on Chemical Substances and Pharmaceutical Products in Lima, Peru. At this meeting, member states agreed to re-evaluate their use of the Precursor Export Notification System (PEN). Member states also recognized the 1988 Vienna Convention Article 12 list of chemicals and agreed to begin tracking the six main chemicals for both methamphetamine and cocaine. The Group of Experts on Chemical Substances produced several documents for consideration, including a guide for establishing a “fee-for-service” approach in chemical control; a Training Curriculum Outline for technical interdiction, operation and administrative monitoring, and judicial investigations; and a legal framework for the control of synthetic drugs. The group also plans to draft guidelines on the inspection and handling of chemical transshipments in port facilities; to increase public-private sector cooperation on chemical control issues; and to develop a mechanism for assessing legitimate national needs for chemicals and precursors. The Group of Experts on Pharmaceuticals focused on a guide for combating counterfeit pharmaceutical products, on issues related to the control of ephedrine and pseudoephedrine, and on the issue of internet drug sales.

In 2008, OAS/CICAD held several specialized training seminars aimed at building member state capacity to control chemicals that may be used in the production of illicit drugs and providing law enforcement officers with the knowledge, skills, and resources to safely and effectively conduct chemical control operations. The U.S. supported a five-day workshop on interdiction, handling, transport, storage, and final disposal of chemical substances in coordination with the National Narcotics Directorate of Panama for 50 Panamanian public and private sector authorities. The U.S. also supported a five-day regional synthetic drugs control workshop in Colombia in collaboration with the French government’s Inter-Ministerial Center for Counterdrug Training (CIFAD) for 30 customs and police officers from Central America and Colombia.

Further efforts to showcase best practices and to increase implementation of existing multilateral tools will be a key theme at the March 2009 high level Commission on Narcotic Drugs to review the ten year UNGASS commitments. The US is seeking to highlight the increased use of unregulated substitute chemicals in synthetic drug manufacture, and the need for all countries to develop the necessary legislation to establish strong chemical control regimes and to use the online PEN system. The United States is also seeking ways to increase cooperation with international chemical producers and transporters in the private sector in order to promote effective diversion-prevention practices. In response to the 1998 UNGASS, the INCB will soon publish a draft code of conduct for the industry to promote ways to prevent diversion of chemicals. The U.S. will consider follow-up activities to build on this outreach to promote efforts implement voluntary measures and increased cooperation between the private and public sectors.

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

As one of South America's largest producers of pre-cursor chemicals, Argentina is vulnerable to diversion of chemicals into the illicit drug market. 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). To date, however, its registry of precursor chemicals and chemicals users lacked enforcement provisions against illicit diversion of chemicals. In late 2008, the Government of Argentina was working to establish a more robust regulatory framework for precursor chemicals and to establish better coordination among key government agencies.

During the first eight months of 2008, the country's lack of effective controls over ephedrine imports exposed it to a rapidly growing transshipment trade, according to press analysis and government sources. As demonstrated by the arrest of several Mexican nationals, the chemical was reportedly re-exported to Mexico and other destinations, with smaller amounts used to create synthetic drugs in Argentina in small-scale "kitchens." It follows that there are reports of an influx of Mexican Nationals involved in trying to source chemicals.

In September 2008 the GOA established a decree prohibiting the importation of the chemical ephedrine by pharmacies, one of the principal loopholes in regulations on ephedrine and a key channel for its diversion into illicit traffic. SEDRONAR, the MOJ, and the Ministry of Health will now oversee the importation of the limited amounts of ephedrine needed for the country's pharmaceutical industry. Further regulatory changes are being developed. 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.

Brazil

Brazil has South America's largest chemical industry and also imports significant quantities of chemicals to meet its industrial needs.

The GOB's 2004 decree designed to control the illegal production, diversion or trafficking in controlled chemicals is perhaps the most stringent in South America. The decree established control of 146 chemical substances (precursors or known substitutes), and requires all companies that manufacture, import, export, or distribute any of the listed substances to register with the DPF. More than 25,000 companies have done so. Registered companies are required to file monthly reports of purchases, sales, usage, and current inventory of all controlled substances. In addition, companies that handle any of the 22 identified precursors are also regulated by Brazil's National Sanitary Vigilance Agency (ANVISA). Brazil routinely provides advance notice of pending international shipments of precursor chemicals to DEA and carries out its responsibilities under the 1988 UN drug convention on chemicals. Brazil is also a signatory to various international agreements which require the maintenance of records of transactions involving a list of precursor and essential chemicals.

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.

Canada

Canada is a destination and transit country for precursor chemicals used to produce synthetic drugs, particularly methamphetamine and MDMA (Ecstasy). The U.S. 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 for both domestic and US 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. U.S.-Canadian law enforcement cooperation and Canada's efforts to strengthen its chemical control laws and enforcement have helped significantly to reduce the amount of Canadian-sourced pseudoephedrine discovered in clandestine U.S. methamphetamine labs. However, there is some evidence that Canada's domestic production of methamphetamine and MDMA is increasing – a situation that will require continued careful monitoring on both sides of the border. The U.S. will continue to work closely with Canadian partners to identify and dismantle MDMA and methamphetamine laboratories.

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 engaged in manufacturing, importation, and exportation of thousands of chemical products. Chile is a source of precursor chemicals used in coca processing in Peru and Bolivia. In 2003, Chilean law enforcement created specialized chemical diversion units and 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. In March 2008, law enforcement groups seized over 4,000 kg of precursor chemicals in Iquique, the largest seizure to date in Chile. Companies that import, export, or manufacture chemical precursors must register with CONACE, maintain customer records, and are subject to CONACE inspections. Chilean law enforcement entities also have specialized chemical diversion units.

Mexico

Mexico has major chemical manufacturing and trading industries that produce, import, and export most of the chemicals necessary for illicit drug manufacture. The Government of Mexico's (GOM) initiatives in chemical regulation and law enforcement efforts aimed at methamphetamine traffickers have produced several positive outcomes in 2008. According to the Drug Enforcement Administration (DEA), the price for illicit precursor chemicals and finished drug products rose in 2008 and six methamphetamine laboratories were located and destroyed. Traffickers of methamphetamine are becoming increasingly frustrated by law enforcement actions and have sought nontraditional entry points to introduce essential chemicals and derivatives into Mexico. The 2007 arrest of one of the most significant alleged suppliers of precursor chemicals for the manufacture of methamphetamine (Zhenli Ye Gon) created a serious void in the supply chain, according to DEA. However, the traffickers have quickly regrouped and sought markets elsewhere, including Central American countries (where more limited laws/regulations in place) and South America countries (Argentina, Peru, Paraguay, and Colombia) have become new sources of pseudoephedrine precursors and/or in tablet form.

During 2008, Mexico had several significant seizures of pseudoephedrine tablets, including the September 17th seizure of approximately 5.6 million 60 mg pseudoephedrine tablets (approximately/140 kilograms) at the Benito Juarez International Airport in Mexico City, Mexico.

There is a strong bilateral working relationship between USG and GOM authorities involving information exchange and operational cooperation. The two governments also cooperate to convey best practices to Central American countries that have become affected by the trafficking of precursor chemicals. Mexico is a party to the 1988 UN Drug Convention and has laws and regulations that meet the Convention's chemical control requirements.

In Mexico, chemicals, along with pharmaceutical controlled substances, are regulated by the Mexican Federal Commission for Protection Against Sanitary Risks (COFEPRIS). Since 2004, COFEPRIS has taken an aggressive, proactive role in identifying the problems with its current precursor chemical laws and implemented changes to remedy the situation.

Official GOM reports indicate that legal imports of pseudoephedrine, ephedrine, and its derivatives have fallen from approximately 216 tons in 2004 to less than 2 tons in 2008 – and only allowed to be brought in using 2007 import permits. The last permit was issued in November 2007 and was valid for 180 days. In 2008, the GOM imposed further measures to prevent the diversion of precursors and the manufacture of methamphetamine by implementing strict precursor chemical import quotas tied to estimated legitimate medical needs and internal chemical distribution controls. Over a period of time, COFEPRIS gradually diminished the authorized limits of imports to the point where no import permits were given for pseudoephedrine/ephedrine in 2008. The GOM implemented this reduction in part by forcing the pharmaceutical industry in Mexico to replace pseudoephedrine/ephedrine products with phenylephrine—a chemical that is difficult to use in the manufacture of methamphetamine. The USG continues to support GOM's efforts to track shipments of precursor chemicals and controlled medicines through a National Drug Control System (NDS) database.

During 2008, Mexico provided extensive training and seminars to Central American law enforcement agencies concerning precursor controls. With Mexico leading the way, four countries in Central America, Belize, El Salvador, Honduras and Nicaragua passed Ministerial Agreements that restricted the importation or sale of pseudoephedrine/ephedrine products in tablet form. Bulk-form imports were already controlled through the 1988 Vienna Convention, but this new trend of control will make it difficult for traffickers to obtain the precursors they need to manufacture methamphetamine.

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. The USG also actively works 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. USG

officials participate in a task force for both Project 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 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 are key indications from criminal investigations that large-scale illicit methamphetamine producers in other countries use Chinese-produced ephedrine and pseudoephedrine, to manufacture methamphetamine. Despite more aggressive efforts by Chinese authorities to stem the flow of these essential precursors through critical provinces such as Yunnan and Zhejiang, ephedrine and pseudoephedrine are still produced in super and mega-labs, in Burma or the Asia Pacific Rim nations, including Indonesia. Additionally, diverted Chinese precursor chemicals may be used to produce synthetic drugs in other countries as far away as Mexico, Belgium, and the Netherlands.

Chinese authorities continued to seize clandestine methamphetamine laboratories. In the past, the majority of the labs were discovered and/or seized in Fujian and Guangdong Provinces. Recently there have also been laboratories seized in northeast China, specifically Shenyang and Liaoning Provinces. On August 7, 2008, a special operations unit of MPS seized a methamphetamine manufacturing factory in Hui Zhou, China. Six suspects were arrested and nearly 1,700 kilograms of mixed liquid substance containing methamphetamine were seized.

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 United States and other concerned

countries by actively participating in the International Narcotics Control Board's Pre-Export Notification (PEN) system, which monitors the shipping of dual-use precursor chemicals. Information is exchanged through Projects Cohesion and Prism and bilaterally. China is the Asian representative on the Project Prism Task Force. China is also a participant in Operation Iceblock, an effort to combat diversion of precursor chemicals for the production of 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. An INCB-led Task Force indicated that traffickers are now targeting India as the key source of ephedrine and pseudoephedrine for methamphetamine processing.

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 Government of India (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 precursor chemical for heroin. 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.

India is one of only a few countries authorized by the international community to produce opium licitly for pharmaceutical use. India is the only country that uses the opium gum method. India already has a system of control to prevent diversion of ephedrine and pseudoephedrine. The NDPS (Regulation of Controlled Substances) Order, 1993, requires every manufacturer, importer, exporter, seller and user of controlled substances (both ephedrine and pseudoephedrine have been notified as controlled substances) to maintain records and file returns with the NCB. Every loss or disappearance of a controlled substance is also required to be reported to the Director General, NCB. Bulk exports of ephedrine and pseudoephedrine require a No Objection Certificate from the Narcotics Commissioner, who issues Pre-Export Notification to the Competent Authority in the importing country as well as to the International Narcotic Control Board (INCB). India has also been actively involved in operations like Project Prism which target precursors to manufacture ATS. India's efforts in identifying and stopping suspicious transactions have been noted by the INCB in INCB's Precursors Report, 2006. Despite its vigorous efforts to control precursor chemicals, India has been identified in a number of cases as the source of diverted precursor chemicals for a range of narcotic drugs, including methamphetamine and heroin.

India seized 395 kilograms of ephedrine up from 360 in 2007, and 1, 668 kilograms of acetic anhydride in 2008 up from 236 kilograms in 2007. Joint investigation by the DEA and NCB 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. destined for Mexico. 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 destined for 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.

India has been actively involved in international operations dealing with precursor control such as Project Cohesion and Project Prism and in October 2008 hosted the combined meeting of the Task Forces of Project Prism and Project Cohesion. India issues pre-export notifications (PEN) for export of precursors using the online system developed by the INCB. Law Enforcement Agencies in India continued to exchange information on a regular basis with Drug Law Officers (DLOs) based in India. The NCB and other drug law enforcement agencies continued their extensive cooperation with the U.S. Drug Enforcement Agency through its Country Attaché.

Indian-produced methaqualone (Mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methaqualone production, India is still believed to be among the world's largest known clandestine methaqualone producers. Seizures of methaqualone, which is trafficked in both pill and bulk forms, have varied widely, from 472 kg in 2005 and 4,521 kg in 2006, 1 kg in 2007 and as of September 2008, 2,361 kg has been seized.

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 intercept 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 that remain in country 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 accounted for nearly 8 percent of Singapore's GDP in 2006, 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, textiles, and industrial chemicals, acetic anhydride is also the primary acetylating agent for heroin.

Singapore participates in multilateral precursor chemical control programs, including Operation Purple, Operation Topaz, and Operation 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 CNB works closely with the DEA office in Singapore 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.

It 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 (GOS) 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. The ROK authority's ability to directly intercept the suspected transshipment of narcotics and precursor chemicals is limited by the fact that the vast majority of transiting shipping containers never formally enters ROK territory. Nonetheless, the ROK continued its international cooperation efforts to monitor and investigate transshipment cases. Redoubled efforts by the Korean Customs Service (KCS) have resulted in increased seizures of methamphetamine (12.8 kg.) transported by arriving passengers and through postal services at South Korea's ports of entry. Most methamphetamine smuggled into South Korea comes from China.

Taiwan

Taiwan's chemical industry has long been a driving force in boosting its economic development. Aided by both public and private sector investment, the industry has become competitive globally, 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. Taiwan Customs and DEA are progressing in the implementation of 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 the control of ephedrine and pseudo-ephedrine, 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 efforts by the Royal Thai Government, limited quantities of certain chemicals--especially acetic anhydride, and ephedrine--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, and the review of the ten year commitments made at the 1998 UNGA Special Session on narcotics issues.

Bilateral chemical control cooperation continues 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 a large manufacturer of pseudoephedrine and ephedrine used in its large licit pharmaceutical industry and exported to other countries. 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. 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 restructuring of the EU precursor control regime in 2005 required amendments to German law. The amendments, which became effective on March 18, 2008, supplement three EU directives by regulating the monitoring of the precursor market by the authorities. These are essentially the regulations of the competence and cooperation of agencies as well as the legal basis for fees and criminal and administrative offenses.

The Federal Office of Criminal Investigation (BKA) and the Federal Office of Customs Investigation (ZKA) have a very active Joint Precursor Control Center, based in Wiesbaden, devoted exclusively to chemical diversion investigations.

Germany continues to cooperate closely with the United States both bilaterally and multilaterally, to promote transnational chemical control initiatives. A DEA diversion investigator from DEA's Frankfurt office is assigned to Germany's police/customs Joint precursor Unit in Wiesbaden. Germany supports international initiatives to control the diversion of chemicals (e.g., Operation Crystal Flow and Operation Iceblock, which is expected to enter its third phase in early 2009). Germany also participates in Operation Counter Curse, which targets the internet sales of precursor chemicals and glassware used in the manufacturing of MDMA. These projects are now coordinated with the International Narcotics Control Board's Project Cohesion.

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 NR 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. The GONL signed an MOU with China concerning chemical precursor 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 is an active participant in the taskforce for the International Narcotics Control Board's Project Prism. In 1994, the Netherlands established procedures to maintain records of transactions of an established list of precursor chemicals essential in the production of certain illicit drugs. They also renewed their agreement to cooperate on interdiction of narcotics through third-country transit routes, by exchanging, on a police-to-police basis, information such as IP addresses, telephone numbers and, where appropriate, financial information on a regular basis.

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 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. DEA's London Country Office (LCO) continues to exchange information and training initiatives with several UK law enforcement agencies regarding the threat from methamphetamine.

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. Ecstasy consumed in the UK is believed to be manufactured in the Netherlands or Belgium; but tablet making sites have been found in the north of England. While the UK government made the "date rape" drug GHB illegal in 2003, GBL, a close chemical equivalent of GHB, remained uncontrolled. The UK is deferring to the EU-wide discussions on control of this substance.

Significant Drug Manufacturing Countries

Asia

Afghanistan

Afghanistan produces 93% of the world's opium. There are indications that the trend in processing heroin and morphine base by drug traffickers is increasing.

In Afghanistan, there is no domestic chemical industry, or legitimate use for acetic anhydride, the primary precursor chemical used in heroin production, and 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. and most shipments are smuggled in through the Central Asian states, the Persian Gulf, including Iran, Syria and Pakistan, after being diverted elsewhere. . (comment: Note that in 2008, Afghanistan informed the INCB that there were no legitimate uses for AA within the country, and GOA would therefore no longer issue permits for any import of AA.

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. Afghan law requires the tracking of precursor substances but the MCN has not created an active registry to record data. Progress in this effort requires the establishment of new laws, a system for distinguishing between licit and potentially illicit uses of dual-use chemicals, and a specialized police unit to enforce the new system. UNODC has established a five-man unit at CNPA that is charged with tracking precursor chemicals. Limited police and administrative capacity hampered efforts to interdict precursor substances and processing equipment. Yet, recent cooperative international interdiction efforts under the INCB's leadership have led to an increase in the number of identified diversion to Afghanistan, and large seizures have been reported there. In some cases where suspicious shipments in international trade have been identified, hundreds of tons of acetic anhydride have been prevented from reaching Afghanistan.

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.

Production and export of synthetic drugs (amphetamine-type stimulants, crystal methamphetamine and Ketamine) from Burma continued unabated. 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 tablets. Concerns remain over Burma’s efforts to deal with the burgeoning ATS production and trafficking problem; 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.

Currently there is no accurate methodology for estimating the scale of methamphetamine production in Burma. However, it is clear that production of ATS is very extensive, and production of the crystalline form of methamphetamine “ice” is growing sharply. Burma should develop with regional partners a reasonable methodology for estimating the scale of methamphetamine production in Burma to assist with enforcement and regional drug control efforts. An estimate derived from consistent, repeatable methodology carried out each year would allow Burma to measure its success suppressing methamphetamine production within the country.

Most ATS 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 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. The UNODC claims there is evidence that Burmese methamphetamine tablets are also shipped to Bangladesh, India, and Nepal. Heroin transits the Thai/Chinese borders over land. According to UNODC, the GOB seized eight methamphetamine labs in 2006 and five labs in 2007.

The GOB must take effective new steps to address the explosion of ATS production and trafficking from Burmese territory 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.

Indonesia

Diversion and unregulated importation of precursor chemicals remains a significant problem facing Indonesia's counter drug efforts. To date, Indonesian authorities have been unsuccessful in controlling the diversion of precursor chemicals and pharmaceuticals. Numerous large pharmaceutical and chemical corporations have large operations throughout Indonesia. In October 2007 1,000 metric ton of ephedrine was seized in connection with the Batam lab. The chemicals originated in China and India.

In an effort to more effectively control precursor chemicals and pharmaceutical drugs, the GOI reorganized the Ministry of Trade and Industry and the Ministry of Health. In 2004 the Ministry of Trade became a separate agency from the Ministry of Trade and Industry. Currently the Ministry of Trade is responsible for licensing of non-pharmaceutical precursor chemical imports. Similarly, in 2005, the Ministry of Health, assumed responsibility for the management of pharmaceutical precursor chemical licenses, from the National Agency for Drug and Food Control under the Ministry of Health. The National Agency for Drug and Food Control now only controls post-market or finished products of precursor chemicals.

Ministry of Health and Ministry of Trade accept, review, and approve precursor chemical import applications for pharmaceuticals and non-pharmaceuticals. The import applicants are categorized into Importer Producer (IP) and Register Importer (RI) but more commonly identified as IT, Importer Trader). All prospective applicants must submit a drug registration application to obtain market authorization.

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.

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. This limited law enforcement presence in rural areas creates a vulnerability to establishment of clandestine drug production or processing activities. Laos does not currently possess the means to accurately assess the extent of production, transport or distribution of ATS or its precursors. There was a significant increase in seizures of ATS transiting through Laos to neighboring countries in 2008. The number of reported drug arrest cases rose in 2008 by 63 percent. There are persistent rumors of some methamphetamine laboratories operating in the northwest, but no confirmation.

Malaysia

Malaysia is increasingly being used as a regional hub for methamphetamine production. International drug syndicates are increasingly turning to Malaysia as a regional production hub for crystal methamphetamine and MDMA (Ecstasy). Narcotics imported to Malaysia include heroin and marijuana from the Golden Triangle area (Thailand, Burma, Laos), and other drugs such as amphetamine type stimulants (ATS). Since 2006, Malaysia has also been a location where significant quantities of crystal methamphetamine are produced. This trend continued in 2008, with a large methamphetamine laboratory seized in Southern Malaysia, and frequent police reports of ethnic Chinese traffickers setting up labs in Malaysian authorities seized an operational methamphetamine laboratory in 2008, and had numerous other successful investigations, confiscating large quantities of methamphetamine, ketamine, and MDMA (Ecstasy). ATS production has shown a marked increase since 2006 and Malaysian authorities admit that international drug syndicates are using Malaysia as a base of operations. All methamphetamine labs seized in Malaysia since 2006 were financed by ethnic Chinese traffickers from Singapore, Taiwan, Thailand, or other countries. In 2008, a lab was seized in Malaysia in which the chemists were from Mexico.

The Philippines

Crystal methamphetamine, locally known as "shabu," continues to be the drug of choice in the Philippines. Methamphetamine is clandestinely manufactured in the Philippines. Precursor chemicals are smuggled into the Philippines from the People's Republic of China, India, and Thailand. Chinese and Taiwanese drug trafficking organizations remain the most influential foreign groups operating in the Philippines and control domestic methamphetamine production. Methamphetamine producers continue to compartmentalize production in diverse locations to prevent detection and to allow drug syndicates to produce large quantities during a production cycle. This sophisticated technique is employed by Chinese and Taiwanese drug trafficking organizations and may indicate a departure from the previous mega-lab production technique, which relies on quick production to avoid detection. Philippine authorities are also investigating five significant domestic trafficking organizations.

Chinese criminal organizations continue to establish and operate many methamphetamine clandestine laboratories. There are widespread reports that methamphetamine is produced in laboratories in areas controlled by separatist rebels, who use profits to fund their operations. There is also anecdotal evidence that rebel fighters take methamphetamine to combat lack of sleep and inadequate food intake, as well as to enhance aggression and withstand pain. Law enforcement investigations revealed that the Abu Syyaf Group (ASG) and elements of the Moro Islamic Liberation Front (MILF) are directly involved in the smuggling, protection of methamphetamine production, and transportation of illegal drugs to other parts of the country and across Southeast Asia. The Philippines is a source of methamphetamine exported to Australia, Canada, China, Japan, Malaysia, South Korea, and in relatively small quantities to the U.S. (including Guam and Saipan).

Significant successes included a series of seizures of clandestine laboratories and warehouses in Luzon, Visayas, and Mindanao. Authorities seized 1471 kilograms of methamphetamine, valued at \$17.6 million, and 10 kilograms of ketamine, valued at \$1 million (at \$106 per gram) in 2008; In May 2008, Philippine authorities seized 744 kilograms of methamphetamine that was smuggled by "go-fast" boats in Subic Bay, northwest of Manila. The estimated potential street price of the methamphetamine was \$8.9 million (at \$12,000 per kilogram). In July 2008, law enforcement authorities dismantled a large clandestine laboratory in northwest Luzon that could potentially facilitate the production of 180 tons of methamphetamine.

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. Precursor chemicals are shipped to Bolivia from Chile, Peru, Brazil, and Argentina. The Bolivian Special Counternarcotics Police (FELCN) Chemical Control Group, Grupo de Investigaciones de Substancias Quimicas, works with the Vice Ministry of Social Defense and Controlled Substances to control access to precursor chemicals and investigate diversion for illicit purposes. Following the closure of the South American Chemical Corporation in Oruro, a Bolivian sulfuric acid producing company, there was a significant increase in drug producers obtaining sulfuric acid from the unregulated auto battery market. In 2008 FELCN units seized 443.8 MT of solid precursor chemicals and 1,390,807 liters of liquid precursor chemicals. There are regulations in place to control the sale of pure ephedrine but they are not effectively enforced. Pseudoephedrine can be easily obtained in markets but there is little evidence of domestic methamphetamine production.

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-notification to "Fondo Nacional de Estupefacientes" (National Dangerous Drug Fund, equivalent to the U.S. Food and Drug Administration) is required to export chemicals from Colombia. No companies in Colombia have governmental authorization to export ephedrine or pseudoephedrine, key precursors in the production of methamphetamines. However, Colombian companies can and do import these precursors, which are necessary for the production of cold medications and other legitimate products. The Government of Colombia (GOC) controls legal importation to correspond to legitimate national demand. The GOC cooperates fully with the International Narcotics Control Board (INCB) and other multilateral chemical control initiatives. It provides annual estimates of licit chemical use to the INCB in accordance with international obligations.

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 are also 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 Colombian National Police (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 it difficult to trace their origin.

The CNP has a 45 person special investigative unit dedicated to national and international enforcement of precursor chemical control laws. The seizure and interdiction of precursor chemicals used to produce cocaine and heroin have been steadily on the rise. In 2008, the GOC seized over 3 million gallons and 4 million kilograms of precursor chemicals.

Peru

Peru is 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. Peru also produces some precursor chemicals such as sulfuric acid and calcium oxide that are used for processing coca leaf into cocaine base.

The PNP Chemical Investigations Unit (DICIQ) initiated Operation Chemical Choke, a multi-faceted initiative focused on chemical company audits, interdiction efforts, and liaison with industry and regulatory agencies. Its major objective has been to stop the illicit diversion of acetone, sulfuric acid, and hydrochloric acid. The total combined PNP efforts resulted in multi-ton seizures totaling almost 470 metric tons of these chemicals in 2008.

In 2008, Peru participated in Operation Seis Fronteras, which supports investigation and interdiction efforts against chemical trafficking and illicit diversion of controlled chemicals used in manufacturing cocaine and heroin. Operation Seis Fronteras targets and focuses on several different areas to include; regulatory inspections/audits of suspect chemical distributors, enforcement operations along rivers where chemicals are transported and potentially targeting suspected criminal organizations involved in the diversion and movement of illicit chemicals. Of the total seizures during the year, the Peruvian National Police Chemical Interdiction Group was responsible for the seizure of 63.7 metric tons of all types of precursor chemicals, as well as ensuring asset seizures of \$2,914,155.43 and the arrests of 49 violators-traffickers.

The GOP continues to work on developing a chemical users' registry, which is needed to fully implement the precursor chemical control law. The GOP 2008 budget includes, for the first time, funds to be used by different Ministries to stop the diversion of precursor chemicals.

Methamphetamine Chemicals

Recent efforts in reducing and preventing methamphetamine production through a global campaign to prevent diversion of precursor chemicals are producing significant results. The United States continues to work in close cooperation with two international entities that have played a critical role this regard: 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.

Amphetamine-type Stimulants (ATS) will be one of the top five issues under discussion at the decade review of the 1998 UN General Assembly Special Session commitments the CND in March 2009. During the year-long review process the ATS issues received unparalleled support from all nations and the final meeting is expected to endorse commitments that include bolstering implementation of key resolutions and activities including:

--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;

--a resolution drafted by the United States and 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 which was further strengthened this year by the availability of national licit estimates. (The INCB is using these estimates to help relevant countries evaluate whether a chemical shipment is suspicious. Countries can then take steps to block such shipments before they are diverted to methamphetamine production and to undertake other investigative and law enforcement action, as appropriate.)

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, not including the United States, 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, not including the United States, 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 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 export and import data on pseudoephedrine and ephedrine collected from major trading countries; however, 2007 is the most recent year with full-year data. It is important to note, however, that the data, including previous year data is continually revised as countries review and revise their data in subsequent years. GTA data have been used in the following tables.

Obtaining data on legitimate demand remains problematic, but it is more complete for 2007 than in any previous year. However it is still not fully sufficient to enable any accurate estimates of diversion percentages based on import data. There are still significant numbers of countries which have yet to report their legitimate domestic demand to the INCB on a regular basis. 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. Further challenges also include governments that 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. These circumstances prohibit reasonable estimates about the trade in 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 of the 183 signatories to the 1988 Convention have reported import requirements to the INCB for the bulk chemicals, ephedrine and

pseudoephedrine. Before 2006, only a nominal number of countries did so, and these rare communications were scattered and not provided on any systematic basis.

A further challenge to analyzing the data is that countries have not made any attempt to reconcile the trade data and their own reporting of licit requirements.

The economic analyses required by CMEA, is not possible because of insufficient data. However, more data is available this year than in any previous year. The United States 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. We are working 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 often requires a regulatory infrastructure that is currently beyond the means of some governments in question. Efforts to support the implementation of prior resolutions and global commitments has been a key USG objective in preparations for the high level Commission on Narcotic Drugs to review the 1998 UNGASS commitments. This report provides export and import figures for both 2006 and 2007 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 2006 and 2007 and provide an indication of the volatility of the trade in pseudoephedrine and ephedrine. We are using the 2007 data this cycle of review to identify the major participants in the trade in ephedrine and pseudoephedrine.

Exporters (KGs)

EPHEDRINE	2007
India	221,105
Germany	31,100
Singapore	12,426
Belgium	12,400
United Kingdom	5,900
SUBTOTAL	282,931
United States	5,821
All others	14,407
Total	303,159

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

Pseudoephedrine	2007	
	Reporting Total	
Germany		546,400
India		360,718
China		70,591
Taiwan		43,785
Singapore		43,750
Subtotal		1,065,244
United States		14,714
All others		52,707
Total		1,132,665

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

Analysis of Export Data: According to the GTA data the top five exporters of ephedrine in 2007 include —India, Germany, Singapore, Belgium, and the United Kingdom. The lists for 2006 and 2005 included India, Germany, Singapore, the United Kingdom, and China, though the aggregate amount of ephedrine exported by the top five countries increased from 247,006 in 2006 to 282,931 in 2007. Belgium edged out the United Kingdom for the third largest exporter and China was bumped to number seven on the list after the United States.

The worldwide aggregate volume of ephedrine exports that was reported by the Global Trade Atlas increased from 255,734 kilograms to 303,159 kilograms by 18.5 percent. This overall increase included increases by almost every exporter with the exception of Switzerland where exports dropped from 2,485 in 2006 to 641 kilograms in 2007. Exports of ephedrine from the United States increased from 596 in the 2006 level to 5,821 kilograms in 2007 and are more in line with the 2005 level of 5,542 kilograms.

For pseudoephedrine, the aggregate volume of worldwide exports showed an even greater increase to 1,132,665 kilograms from the previous year 2006 of 722,444, by 56.8 percent. The top five exporters of pseudoephedrine were Germany, India, China, Taiwan and Singapore. The past two years—2006 and 2005—the top five exporters were India, Germany, China, Taiwan, and Switzerland. Almost every country that reported showed an increase in exports with the most dramatic rise in exports in Germany from 229,700 to 546,400 kilograms in 2007, a 137.8 percent increase. Singapore edged out Switzerland from the top five. Exports from the United States as the seventh largest exporter did drop from 36,715 kilograms to 14,714 kilograms.

Importers (KGs)

Ephedrine	
	2007

Germany	21,500
Argentina	20,450
South Korea	15,650
Singapore	14,000
Belgium	13,600
Subtotal	85,200
United States	166,886
All Other	62,333
Total	314,419

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

Pseudoephedrine Imports	2007
Switzerland	56,399
Singapore	50,950

Indonesia	35,649
Thailand	34,929
United Kingdom	33,300
SUBTOTAL	211,227
United States	312,209
All Others	339,332
Total	862,768

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

Analysis of Import Data: This year's top five ephedrine importers include Germany, Argentina, South Korea, Singapore and Belgium. Only South Korea and Singapore were on the list last year. Indonesia, the United Kingdom and France—now off the list—continue to be important trading countries that have pharmaceutical industries that utilize ephedrine and pseudoephedrine. US imports of ephedrine rose from 89,624 kilograms to 166,886 kilograms. This increase may have been due to companies attempting to obtain more of the chemical in advance of the quota system called for in the CMEA. The aggregate volume also increased from 188,606 kilograms to 314,419 kilograms.

Shifts in trade of pseudoephedrine have also resulted in a change in the top five importers for 2007 that now include Switzerland, Singapore, Indonesia, Thailand, and the United Kingdom. Only, the United Kingdom's imports dropped significantly from 140,600 to 33,300 kilograms.

Mexico included in last year's top five dropped off the list. And, data supports that Mexico's declining volume was again dramatic in 2007—down from 43,428 kilos in 2006 to 11,502 in 2007. As noted previously in this report, Mexico stopped issuing licenses for imports of ephedrine, pseudoephedrine, and products containing these chemicals in November 2007.

In contrast, however, the United States imports more pseudoephedrine than all five of the top importers together with imports of 312,209 kilograms in 2007 up from 171,195 kilograms in 2006.

The aggregate imports from the top five importers this year significantly increased their imports of pseudoephedrine from 789,849 kilograms in 2006 to 862,768 kilograms in 2007. However, these aggregate total figures remain far below the 2005 levels of 1,201,629 kilograms. We have no way of knowing if the current increase in volume is an anomaly due purely to vagaries of the commercial market. Another possibility is that this increase may have been due to companies attempting to obtain more of the chemical in advance of the quota system called for in the CMEA.

Additional annual reporting will be required to determine whether this data points to an upswing sales or represents a temporary statistical variance.

The accuracy of this trade data also should be viewed with a great deal of 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. 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, increased smuggling of chemical precursors through Central American countries and across Mexico's southern border is already occurring. At the same time, however, a recent seizure of five tons of pseudoephedrine destined for Tanzania and onward to Mexico, suggests that traffickers are attempting to continue methamphetamine production in Mexico.

Trade data also fails to reflect illicit smuggling that has been detected by such law enforcement and other official reporting in Africa, the Middle East and other parts of Asia. During the INCB-led Operation Crystal Flow in 2006-07, it was observed that China was the origin of shipments to African destinations and India, to a lesser extent was a source country either directly or via Europe to the Americas. However, Operation Ice Block, a more recent time-bound operation agreed by the Project Prism Task Force, has indicated several key shifts in the methamphetamine production and trafficking in 2007-08. Forty –nine tons of ephedrine and pseudoephedrine were suspended, stopped, or seized during the nine month operation in 2008 that focused on gathering intelligence data. Of the 49 notifications, 22 shipments were either declared as going to or likely to be destined for Mexico. Moreover, a distinct shift towards India as the major source country with shipments to newly targeted countries in both Africa and Central America. Africa remains a major transit and diversion point for trafficking in diverted precursors and Europe emerged as a major transshipment point for precursor and pharmaceutical preparations destined to North and Central America.

Another key conclusion was that operations targeting ephedrine and pseudoephedrine resulted in efforts by traffickers to seek non-controlled substances such as 1-phenylacetylcarbinol to circumvent controls.

Available trade data is silent on legitimate commercial sales of commodities, including the substitutes. Similarly, in Burma, there is no available trade data to account for the massive scale of methamphetamine production that reportedly continues 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, Syria, and Egypt for example, have reported licit national requirements for pseudoephedrine (40 metric tons, 50 metric tons and 58 metric tons, respectively) that would place them among the top five importers worldwide, but no trade data for pseudoephedrine is available for these countries that could be used to verify whether these volunteered estimates are accurate.

Based on the available data, 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 tool for governments to get a sense of 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 for four precursor chemicals (and their preparations, as relevant), based on latest available data (status: 17 Dec 2005)

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	0	0	0	0	0	0
Albania	5					
Algeria			17 000			
Argentina	156			9 700		1
Australia	20	15	5 500	1 200	1	60
Azerbaijan	20			10		
Bangladesh				9 075		
Barbados	250			160		
Belarus		60	50			1
Belgium	250		21 000		0	200
Belize			P	P		
Benin				10		
Bosnia and Herzegovina	65		58	600	60	51
Botswana	300					
Brazil	2 370		13 875			6 500
Bulgaria	3 300					
Cambodia	200	50	300	900		
Canada	3 000	5	20 000		0	0
Chile	743			9 290		
China	140 000			110 000		
<i>Hong Kong, SAR of China</i>	7 525	0	8 625	0	0	0
<i>Macao, SAR of China</i>	0		0		0	0
Colombia	180		34			
<i>Cook Islands</i>		1				
Costa Rica			1055		0	0
Côte d'Ivoire	30	15				
Croatia	100		400			
Cuba				3		
Cyprus			100			
Czech Republic	72	10	1 980	2 671	0	0
Democratic People's Republic of Korea	2 300				10	
Democratic Republic of the Congo	250		900			
Dominican Republic	200		1 500			
Ecuador	320		8 000			
Egypt	12 000		58 000	3 900		
El Salvador	150	1	1 000	1 500		
Estonia	6					
<i>Farø Islands (Føroyar)</i>		1		1		
Finland	100			1 000		5
Georgia	300	5		5		
Germany	4 000		20 000		1	3 046
Ghana	2 000		700			
Greece	150		300			
Guinea	36					
Guyana	80		85			
Haiti	800		600		0	0
Honduras	150					
Hungary	800		0	0	300	1 421
Iceland	1					
India			0	0		0
Indonesia	9 896		32 505			
Iran (Islamic Republic of)	450		42 000			50
Iraq	50		1 400			
Ireland	80	1	1	753	5	
Israel	43		2 130	1 903		
Italy	200		9 000			450
Jamaica					0	0
Japan	210		10 000			

COUNTRY REPORTS

Afghanistan

I. Summary

Opium poppy cultivation in Afghanistan declined in 2008 by 19 percent, after two years of record highs. Despite the drop in poppy cultivation, however, Afghanistan remained the world's largest grower of opium poppy. Cultivation was largely confined to five contiguous provinces in the south of the country near the borders with Pakistan and Iran. The connection between poppy cultivation, the resulting narcotics trade, and funding of insurgency groups became more evident in 2008; nearly all significant cultivation now occurs in insecure areas with active insurgent elements.

According to the United Nations Office on Drugs and Crime (UNODC), opium poppy cultivation decreased from 193,000 hectares (ha) in 2007 to 157,300 ha in 2008. This reduction was due to a combination of poor weather conditions, decreased opium prices relative to other crops, and improved governance and security in key provinces. Nangarhar province alone shifted from having the second highest area of poppy cultivation in 2007 (18,000 ha) to achieving poppy-free status in 2008.² This accomplishment was primarily due to the high-profile law enforcement and incentives campaign implemented by the provincial governor.

UNODC estimates that Afghanistan produced 7,700 metric tons (MT) of raw opium in 2008, a decrease of six percent from the 8,200 MT produced in 2007. According to UN and International Monetary Fund estimates, the export value of this year's opium harvest, \$3.4 billion, represented the equivalent of a fifth of Afghanistan's estimated total Gross Domestic Product (GDP) of \$16.3 billion.

Although opium poppy cultivation is largely confined to insecure provinces in the south, Afghanistan's narcotics industry continues to threaten efforts to establish security, governance, and a licit economy throughout the country. The anti-government insurgency, most commonly associated with the Taliban, exploits the narcotics trade for financial gain. In 2008, the UN estimates that the Taliban and other anti-government forces made \$50 million to \$70 million from tax payments from opium farmers, and warlords, drug lords, and insurgents received an additional \$200 to \$400 million of income from drug processing and trafficking. Narcotics traffickers provide revenue and material support, such as vehicles, weapons, and shelter, to the insurgents, who, in exchange, provide protection to growers and traffickers and promise to prevent the Afghan government from interfering with their activities.

Opium poppy cultivation is almost entirely limited to five contiguous southern provinces: Helmand, Farah, Kandahar, Oruzgan, and Nimruz together account for 95 percent of Afghanistan's poppy cultivation. Helmand province alone cultivated 66 percent of the country's opium poppy in 2008. At the same time, poppy cultivation continues to decline in many of Afghanistan's northern, central, and eastern provinces. In 2008, 18 of Afghanistan's 34 provinces were declared poppy-free by UNODC, up from 13 in 2007 and 6 in 2006. According to UN estimates, Nangarhar province alone shifted from having the second highest area of poppy cultivation in 2007 (18,000 ha) to achieving poppy free status in 2008. Nine other provinces cultivated less than 1,000 ha, and could reach poppy-free status in 2009. Nationwide, UNODC estimates that nearly 10 percent of Afghans were involved in poppy cultivation in 2008, down from 14.3 percent in 2007.

For the most part, farmers choose to plant opium poppy because it is a profitable, hardy, and a low-risk crop. Advance credit is available from narco-traffickers to financially support the farmer while the crop is planted and matures, and when the opium is harvested, it is easy to sell, even in isolated areas where selling other crops might be a problem.

² These numbers track closely with USG estimates of 200,000 ha for 2007 and 160,000 for 2008. In this section of the INCSR we provide the UN figures because those figures are used by the international donor community, including the United States, to coordinate assistance, including under the Good Performer Initiative that provides assistance to provinces that have dramatically reduced poppy cultivation. For USG estimates, please refer to page 34.

Economic and development assistance alone is not sufficient to defeat the narcotics trade in Afghanistan; more comprehensive approaches are needed. Alternative development opportunities can and do yield reasonable incomes, but must also be backed by measures to increase risk to those who plant poppy, traffic in narcotics, and support cultivation and trafficking. An increasing number of provincial governors have shown success in significantly reducing or completely eliminating poppy cultivation in their provinces through determined campaigns of public information, law enforcement, alternative development, and eradication.

The Government of the Islamic Republic of Afghanistan (GIROA) generally cooperates with the international community in implementing its national counternarcotics strategy. However, more political will and effort, at the central and provincial levels, is required to decrease cultivation in the south, maintain cultivation reductions in the rest of the country, and combat trafficking in coming years. Afghanistan is a party to the 1988 UN Drug Convention. There are no U.S.-Afghanistan law enforcement treaties.

II. Status of Country

UNODC estimates that Afghanistan cultivated 93 percent of the world's opium poppy in 2008. 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. Improvements to Afghanistan's infrastructure since 2002 have created more economic alternatives to poppy cultivation and enhanced the Afghan government's ability to combat drug trafficking in some parts of the country. These improvements, such as roads and modern communications, can also be exploited by narcotics traffickers. Growing insecurity in Afghanistan's south, where most poppy was grown, impeded the extension of governance and law enforcement. Narcotics traffickers also exploited government weakness and corruption.

III. Country Actions against Drugs in 2008

Policy Initiatives. In January 2006, the Afghan government inaugurated an eight-pillar National Drug Control Strategy (NDCS), which articulated a coordinated, nationwide strategy in the areas of Public Awareness, Alternative Livelihoods, Law Enforcement, Criminal Justice, Eradication, Institutional Development, Regional Cooperation, and Demand Reduction. While the NDCS is generally viewed as a sound strategy, the Afghan government has been unwilling or unable to fully implement it and has, in some cases, failed to provide adequate support to provincial leaders who have shown greater willingness to take serious steps to combat narcotics cultivation, production, and trafficking in their provinces. In the latter part of 2008, the Ministry of Interior (MOI), which oversees the Afghan National Police (ANP), and the Ministry of Defense (MOD), agreed to work together on force-protected Poppy Eradication Force (PEF) operations and possibly governor-led eradication efforts in 2009. Joint PEF-Afghan Army eradication operations planned for 2009 may serve as a model for future joint operations on a larger scale. The Ministry of Counter Narcotics (MCN), which has direct responsibility for implementation of the NDCS, has less political influence and fewer resources than other government agencies (especially MOI or MOD), and therefore, depends heavily on their support to execute the policy. On March 1, 2008, the Afghan Parliament confirmed General Khodaidad as Minister of Counter Narcotics after a delay of eight months, during which he served as Acting Minister.

Following UNODC's announcement of high 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 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 session for provincial governors to focus on the 2008 growing season, as the Afghan government instructed provincial and district leaders to launch pre-planting information campaigns to reduce poppy cultivation. The response from governors was uneven. Aided by Counternarcotics Advisory Teams (CNAT), joint U.S.-Afghan teams formed in 2006 to support the Public Awareness pillar of the NDCS at the provincial level, some governors (notably those in Balkh, Nangarhar, and Badakhshan) developed vigorous anti-poppy campaigns and dropped their poppy cultivation to zero or near zero, while others did little to discourage poppy cultivation. Several governors were

unwilling or unable to implement successful poppy reduction programs due to the lack of security and high levels of insurgent activity in their provinces.

Nangarhar province, which went from having the second largest area of poppy cultivation in 2007 (18,000 ha) to achieving poppy free status in 2008, presents a compelling example of the counternarcotics progress a provincial governor can achieve through a combination of public information, forced self-eradication, and robust law enforcement. Governor Sherzai of Nangarhar conducted a potent anti-narcotics campaign throughout the province, which included requiring farmers to sign pledges not to grow poppy, implemented a series of public outreach events to inform tribal, religious, and other community leaders about not growing poppy, and promised development assistance in areas without poppy cultivation.

Throughout 2008, the Minister of Counter Narcotics engaged in public information campaigns directed at key poppy growing provinces, and worked with CNAT teams to hold anti-narcotics tribal councils or “shuras” and community councils with local leaders and senior government officials. Working with governors and key line Ministries such as the MCN and the Ministry of Agriculture, Irrigation and Livestock (MAIL), CNAT teams convened over 100 shuras and council meetings in 2008 across 7 provinces—including the southern provinces of Helmand, Farah, Kandahar and Uruzgan—in support of provincial governors’ counternarcotics campaigns. Most notably, the governor of Helmand launched an ambitious “Food Zone” campaign that provided agricultural inputs such as wheat seed and fertilizer to farmers in exchange for their pledges not to cultivate poppy. Over 30,000 farmers received wheat seed in this campaign. Coupled with credible law enforcement and security forces from the MOI, the Food Zone campaign is expected to produce a decrease in poppy cultivation in Helmand next year.

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 November 2008, the Afghan government agreed to arrest high-level traffickers and provide one battalion (600-700 personnel) of Afghan National Army forces as protection for Poppy Eradication Force (PEF) eradication operations. Despite initial concern that the Afghan forces would be stretched too thin, the Minister of Defense established a Counternarcotics Infantry Kandak (CNIK) brigade to provide force protection support to the MOI’s PEF during the 2009 eradication season.

The Good Performers Initiative (GPI), a U.S.-UK-funded initiative launched in 2007 to reward provinces for successful counternarcotics performance, continued to provide strong incentives to provinces that were poppy-free or reduced their poppy cultivation by more than 10 percent from 2007. In 2008, 29 of Afghanistan’s 34 provinces qualified for over \$39 million in GPI development assistance projects. To date, the U.S. government has contributed over \$69 million to GPI and its predecessor the Good Performers Fund, while the UK has provided approximately \$12 million. As of December 2008, at least \$17 million in GPI funds were awarded by MCN to several provinces based on the results of UNODC’s annual Afghanistan Opium Cultivation Survey, released in August 2008. In Nangarhar province, for example, four micro-hydro projects that generate electricity for rural villages have been completed with 20 more scheduled to be built in 2009.

Justice Reform/Criminal Justice Task Force. The Afghan government’s Criminal Justice Task Force (CJTF) and Counter Narcotics Tribunal (CNT) is a vetted, self-contained unit, which consists of 30 Afghan prosecutors, 35 Afghan criminal investigators, 7 primary court and 7 appellate court judges. The CJTF/CNT is mentored by DOJ Senior Legal Advisors. The CJTF/CNT has had a favorable impact on capacity building, and is working toward its first prosecutions. Regrettably, no major drug trafficker has been arrested or convicted in Afghanistan since 2006. It uses modern investigative techniques to investigate and ultimately prosecute narcotics traffickers under the December 2005 Counter Narcotics Law. The Counter Narcotics Law has Articles dealing with narcotics related corruption and wiretapping which the CJTF has implemented successfully. In late-2008, Afghanistan’s Counter Narcotics Law was at risk of being diluted of key provisions by Parliament. Both the United States and UK were working to ensure that key

provisions, such as wiretaps, were not eviscerated. Narcotics cases are tried by the CJTF through the CNT, which has exclusive national jurisdiction over mid- and high-level narcotics cases in Afghanistan. Under the existing law enacted in 2005, all drug cases from across Afghanistan, which 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. Since its inception in 2005, the CJTF/CNT has convicted approximately 1,550 violators. From January to August 2008, the CNT had 223 primary court convictions and 251 appellate court convictions.

To provide a secure facility for the CNT and CJTF, the United States has funded the construction of the Counter Narcotics Justice Center (CNJC) in Kabul. This facility is expected to open in the late spring of 2009. It includes a 56-bed detention facility, courtrooms, and office space for investigators, prosecutors and judges. Also funded and under construction at the CNJC are an additional 116 bed detention annex and a barracks. There are also plans for a DOD-funded Counternarcotics Police of Afghanistan (CNPA) forensic drug lab to be located adjacent to the CNJC. Once the CNJC facility opens, the United States through INL will fund all operation and maintenance costs for two years. At the end of this two year period it is hoped the Government of Afghanistan will assume all operation and maintenance expenses.

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. The number of hectares eradicated nationwide declined from 19,047 ha in 2007 to 5,480 ha in 2008. In 2008, governor-led eradication (GLE) accounted for 4,306 ha, and the Poppy Eradication Force (PEF), a U.S.-supported, centrally-led Afghan National Police unit specifically trained and equipped for eradication activities, eradicated another 1,174 ha of poppy in Helmand and Kapisa provinces. The decreased level of nationwide eradication can be attributed to the decrease in overall cultivation by 19 percent and success of pre-planting programs that compelled farmers to self-eradicate or choose alternate crops to poppy. Additionally, the high degree of insecurity in Afghanistan's southern provinces and the lack of GIROA force protection for the PEF hindered eradication operations in the provinces of highest poppy cultivation. PEF eradication in 2008 was no longer arranged through negotiations with poppy-growing communities to both increase eradication's deterrent effect and to prevent corruption. As a consequence, eradication-related security incidents, including targeted shootings and suicide bombings, increased significantly in 2008, resulting in 78 fatalities, up from 17 in 2007.

Counternarcotics law enforcement efforts were hampered by corruption and incompetence within the justice system as well as the absence of effective governance in many regions of the country. Although revenues from the opium economy represent the equivalent of approximately one-fifth of Afghanistan's GDP, no major drug traffickers have been arrested and convicted in Afghanistan since 2006. Although the capabilities of the Criminal Justice Task Force have significantly improved since its establishment in May 2005, the investigation and prosecution of high value targets remains a challenge because of a combination of insecurity, lack of political will, endemic corruption, and frequent turnover of Afghan investigators and prosecutors.

In 2003, the Ministry of Interior (MOI) established the Counter Narcotics Police of Afghanistan, comprised of investigation, intelligence, and interdiction units. By the end of 2008, the CNPA had approximately 2,737 of its 3,777 authorized strength, including the 500-member PEF. The U.S. Drug Enforcement Administration (DEA) has continued its close collaboration with the CNPA to offer training, mentoring, and investigative assistance in order to develop MOI capacity.

The DEA utilizes permanently assigned personnel at the Kabul Country Office (KCO) and 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 October 2006 through December 2008, KCO/FAST reported the following seizures: 4.099MT of heroin, 2.448MT of opium (which converts to 244 kg of heroin), and 238.935MT of hashish. During the same period, the CNPA/NIU also destroyed 17 drug labs. The CNPA seized 1,012 kg of solid precursor chemicals and 592 liters of liquid precursors. The CNPA/NIU also reported 75 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 Counter Narcotics Tribunal.

During 2008, the Afghan government, with DEA training, mentoring and support, made significant progress in developing its three specially vetted units: the National Interdiction Unit (NIU), the Sensitive Investigative Unit (SIU), and the Technical Intercept Unit (TIU), to investigate high-value targets. These units gather judicially authorized evidence under Afghanistan's Counternarcotics Law and prosecute violators through the Criminal Justice Task Force. Personnel in these units are recruited from a wide variety of Afghan law enforcement agencies and have to pass rigorous examinations. During 2008, the NIU was capable of conducting its own operations, including requesting and executing search and arrest warrants, while the SIU was able to independently initiate and complete investigative and undercover cases.

The aim of these specialized units is to have the cases and investigations developed based on judicially gathered evidence from the SIU and TIU culminate in the issuance of arrest and search warrants executed by the NIU. The investigations conducted by the SIU and NIU with DEA assistance are being 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.

During 2008, Afghan authorities assisted Department of Justice senior prosecutors in apprehending narco-terrorist Khan Mohammed in Afghanistan. He had been arrested in Nangarhar Province in October 2006 and agreed to be transferred to the United States to stand trial at the U.S. District Court for the District of Columbia in November 2007. Mohammed was convicted on the charge of narcotics distribution and the precedent-setting charge of narco-terrorism in May 2008. On December 22, 2008, he was sentenced to life in prison.

In October 2008, suspected Afghan narco-terrorist Haji Juma Khan Mohammadhasni was arrested at Jakarta, Indonesia's airport shortly after his arrival from Dubai, UAE. He was transferred to New York, where he will stand trial for producing and distributing large quantities of heroin and giving some of his drug trafficking proceeds to the Taliban.

In October 2007, major Afghan trafficker Haji Baz Mohammad 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 arrested in the United States in 2005, Baz Mohammad's indictment also alleged that he was closely aligned with the Taliban. Mohammad Essa, an insurgency-linked heroin distributor for Haji Baz Mohammad in the United States, volunteered to be transferred to the United States to stand trial in April 2007. Essa pleaded guilty of the charges in 2008 and is awaiting sentencing.

Corruption. 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. As a matter of policy, however, the Government of Afghanistan 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.

During 2008, several mid-level Afghan government officials were convicted of narcotics-related charges and narcotics-related corruption charges. For example, nine public officials, including several Kabul police commanders were convicted in the Central Narcotics Tribunal on charges relating to heroin trafficking. All the men received at least ten-year terms of imprisonment. Additionally, the ANP Commander of Takhar Province was convicted of drug related corruption and intimidation.

In 2008, President Karzai and the Afghan Government demonstrated a renewed commitment to fighting corruption by implementing the recommendations set forth by the interagency anti-corruption commission chaired by Supreme Court Chief Justice Abdul Salam Azimi. To this end, two new anti-corruption entities were established: the High Office of Monitoring, which oversees implementation of the Azimi Commission strategy; and a corruption oversight unit within the Attorney General's Office (AGO), which will ensure the AGO functions efficiently, fairly, and independently. President Karzai's October 2008 appointment of Mohamad Hanif Atmar as Interior Minister was seen as a signal that the Afghan Government remains serious about addressing corruption at all levels within the Afghan National Police (ANP). Atmar is seen as a professional administrator who has a track record of fighting corruption within the Ministries he has headed.

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 ratified the UN Convention Against Corruption on August 25, 2008. The Afghan government has no formal extradition or mutual legal assistance arrangements with the United States. The 2005 Afghan Counter Narcotics law, however, allows the extradition of drug offenders under the 1988 UN Drug Convention.

Illicit Cultivation/Production. Based on UNODC data, the number of hectares under poppy cultivation in Afghanistan decreased 19 percent, from 193,000 in 2007 to 157,300 ha in 2008. As a result, potential opium production decreased 500 MT from 8,200 MT in 2007 to 7,700 MT in 2008. At the same time, the estimated opium yield decreased from 39.6 kg/ha in 2007 to 35 kg/ha in 2008, according to USG figures. Consistent with the decline in cultivation, the number of people involved in opium cultivation decreased 28 percent from 3.3 million in 2007 to 2.4 million in 2008 – or 9.8 percent of the total population. Considered in terms of its estimated \$3.4 billion illicit export value, opium represented the equivalent of about one-fifth of Afghanistan's total GDP. On the other hand, the portion of narcotics money actually received by farmers was equal to only a small share of total GDP: opium poppy sold to traffickers brought in \$730 million at the “farm-gate,” the equivalent of only seven percent of total GDP.

Afghanistan's 18 poppy-free provinces are in the relatively secure central and northern parts of the country. In 2008, poppy cultivation was further consolidated in areas where the insurgency is strong and government authority is weak, particularly in the south and southwest. The United States, UK, UNODC, International Security Assistance Force (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 other material support to the insurgency in exchange for the protection of drug trade routes, poppy fields, laboratories, and members of their organizations. For their part, narcotics traffickers thrive in areas with weak or absent governance and where the Taliban and other insurgent groups are active.

The southern province of Helmand continued to be the world's leading producer of opium poppy. In 2008, Helmand cultivated 103,590 hectares of poppy or 66 percent of Afghanistan's total crop. Poppy cultivation has quadrupled in Helmand since 2005 and, employing thousands of seasonal migrant laborers and supporting farmers with systems of credit and distribution. In advance of the 2009 cultivation season, Governor Mangal of Helmand province is implementing a plan to establish a “food and security zone” in central Helmand to allow the extension of governance and development opportunities into a critical area for instability and poppy cultivation, with the objective of eliminating poppy growth in this part of Helmand.

Drug Flow/Transit: Drug traffickers and financiers lend money to Afghan farmers in order to promote poppy 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 local and 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 corrupt officials and insurgent groups tax the trade.

Drug laboratories 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 by about one-tenth, which facilitates its movement to markets in Asia, Europe, and the Middle East along transit routes through Iran, Pakistan, Central Asia, and to a lesser extent the United States. Opiates are transported to Turkey, Russia, and the rest of Europe by criminal groups that are often organized along regional and ethnic kinship lines.

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 not created an active registry to record data. Progress in this effort requires the establishment of new laws, a system for distinguishing between licit and potentially illicit uses of dual-use chemicals, and a specialized police unit 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. An updated report was due to be released in 2008, but has been delayed until 2009. Through methodology improvements, this survey is expected to show an estimated 2 million drug users in Afghanistan.

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. Feasibility studies on six clinics are on-going. The United States currently funds eight, 20-bed residential drug treatment centers in Afghanistan, including the only two residential facilities in the country (Balkh and Kabul Provinces) dedicated to serving female addicts. In 2008, the United States also supported 26 mosque-based drug education programs, two drop-in centers, 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. In addition, five drop-in centers, formally run by UNODC are being converted into 3 residential clinics

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2008, the United States continued to support the Government of Afghanistan's counternarcotics strategy, which calls for decisive action in the near term and identifies an extensive array of tactics in all sectors, including:

-- A public information campaign 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 which engage local community, religious, and tribal leaders on counternarcotics issues.

-- Focused efforts at the provincial level. The U.S. will continue to fund the Good Performers Initiative to provide financial 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, Nangarhar, and Kapisa.

-- A more robust eradication campaign. The United States will continue to support the centrally-led PEF program to eradicate in areas where Governor-led efforts need support or fail. The PEF and GLE forces will continue to conduct non-negotiated, manual eradication targeted at areas where it will have the greatest deterrent impact.

-- Alternative sources of income to poppy cultivation in rural areas. USAID will continue its comprehensive Alternative Development Program (AD), which in FY 2008 provided approximately \$176,000,000 for AD projects in the major opium cultivation areas of Afghanistan. Since late 2006, USAID has implemented a rural finance program that provides credit to farmers and small- and medium-sized enterprises in areas where financial services were previously unavailable.

-- Accelerated 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 2009.

-- Drug laboratory and stockpile destruction. The NIU and the Afghan Special Narcotics Force (ASNF), in cooperation with the DEA, will continue to target drug labs and seize drug stockpiles.

-- Efforts to 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 Tables

Drugs Seized (kg)						
(Through 2008)						
	2003	2004	2005	2006	2007	2008
Opium	2,171	17,689	50,048	40,052	39,304	37,530
Heroin	977	14,006	5,592	1,927	4,249	4,936
Morphine Base	111	210	118	105	617	3,232
Hashish	10,269	74,002	40,052	17,675	71,078	629,952
Precursor Chemicals Seized						
(Through 2008)						
	2003	2004	2005	2006	2007	2008
Solid (kg)	14,003	3,787	24,719	30,856	37,509	65,969
Liquid (liters)	0	4,725	40,067	12,681	33,008	2,577

Arrests (for trafficking)						
(Through 2008)						
	2003	2004	2005	2006	2007	2008
Arrests	203	248	275	548	760	703
Drug Labs Destroyed						
(Through 2008)						
	2003	2004	2005	2006	2007	2008
Labs Destroyed	31	78	26	248	50	94

The 2008 seizure and arrest statistics combine DEA and Counter Narcotics Police of Afghanistan figures for the year.

Albania

I. Summary

Albania is a transit country for narcotics traffickers moving primarily Afghan heroin from Central Asia to destinations around Western Europe. In 2008, seizures of heroin and marijuana declined. 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 2008

Policy Initiatives. In 2005, the GOA outlawed the circulation of speedboats and several other varieties of water vessels on all of Albania's territorial coastal 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). In May of 2008, Albania enacted a new law to fight against money laundering. 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 those 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 from January to September 2008, police arrested 354 persons for drug trafficking, and an additional 32 are being sought. The police seized over 59 kg of heroin, 2092 kg of marijuana, and 1kg of cocaine during this time. The police also destroyed 143,655 cannabis plants and 61 poppy plants. This coincides with a noted decrease in the number of drugs seized by Italian authorities, who for the first nine months of 2008 had seized only 10kg of heroin coming from Albania and 4 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. Prosecutions for organized crime offenses, according to the Prosecutor General's annual report, increased 30% from 2006 to 2007. During the same time period, the number of cultivating and trafficking in narcotics cases increased 16%.

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, judges, and customs officials, and corruption aids and abets organized crime and drug trafficking. As part of the government's anticorruption pledge, in May 2006, Albania ratified the UN Convention against Corruption. In 2007 and the first half of 2008, the police and judiciary have been more active in investigating government officials and law enforcement personnel for corruption. In her annual report to Parliament, the Prosecutor General reported that in 2007, the number of public officials charged for corruption-related offenses increased by 27 percent compared to 2006. In 2007, prosecutors registered 663 proceedings for corruption offenses against 385 defendants. As of the end of 2007, cases against 172 defendants were sent to trial, and 62 defendants had been convicted.

The overall increased number of corruption cases shows a commitment by prosecutors and police to crack down on corruption. 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. The fact that high government officials enjoy immunity from prosecution hinders corruption investigations generally. However, the creation of a Joint Investigative Unit to Fight Economic Crime and Corruption (JIU) has had a significant impact on the fight against corruption in Albania's capital. (See Section IV for a complete description of this unit and its work.)

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, and since February 2008, to the protocol against illicit trafficking in firearms. The TOC Convention enhances the bilateral extradition treaty by expanding the list of offenses for which extradition may be granted. The U.S. has applied the TOC most recently in a few extradition requests to Albania.

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 2008, 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. Unfortunately, police and customs officials are not trained to recognize likely diversion of dual-use precursor chemicals.

Drug Flow and Transit. Trafficking in narcotics in Albania continues as one of the most lucrative illicit occupations available. 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

Policy Initiative. The GOA continues to welcome assistance from the United States and Western Europe. The U.S. is intensifying its judicial sector assistance programs 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 political polarization 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 State Department-supported U.S. Department of Justice ICITAP and OPDAT programs continued their programs at the Ministry of the Interior, the General Prosecutor's Office, 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 illicit trafficking in people and drugs. 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. OPDAT worked closely with representatives from the Ministry of Interior, General Prosecutor's Office, and Ministry of Finance on a new law on the prevention of money laundering and terrorist financing, enacted in May 2008, which lowered the threshold of financial transaction reporting and imposed new identification procedures for those engaging in financial transactions.

In 2007, 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 financial crimes, especially money laundering and corruption. The JIU formally began operations in September of 2007 and has shown very promising initial success, opening 222 cases in the first year of operation and successfully convicting the Deputy Minister of Transportation and the General Secretary of the Ministry of Labor on corruption charges. Other high-profile cases include the arrest of a prominent surgeon for accepting bribes to perform surgeries, the arrest of a prosecutor for agreeing to bribe a judge for the reduction of a defendant's sentence, and the extensive investigation and arrest of 17 defendants in a wide-ranging ATM fraud scheme. OPDAT has supported the JIU throughout 2008 with an imbedded OPDAT anti-corruption legal advisor and an intensive program of training, along with equipment donation.

The Witness Protection (WP) Directorate in the Ministry of Interior continues to work with the U.S. and other members of the international community to strengthen the existing witness protection legislation. The WP Directorate has helped to protect a number of witnesses, and witness families, in trafficking and drug related homicide cases. During 2008, OPDAT and ICITAP provided extensive training support to the WP Directorate by sponsoring an in-country assessment and two week-long trainings on administrative procedures and physical protection techniques conducted by the Witness Security Division of the United States Marshals Service. In addition, OPDAT sponsored three high-ranking members of the Albanian Witness Protection Directorate and a Serious Crimes prosecutor to attend

the third International Symposium on Witness Protection in October, 2008, in Lyon, France, where they had the opportunity to learn and interact with WP officials from over 30 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 border policing resources answerable to one central authority. Other U.S., EU, and international assistance programs include support for customs reform, judicial training and reform, improving cooperation between police and prosecutors, and anticorruption programs. The USCG provided maritime law enforcement training to Albanian officers through two visits of a mobile training team. 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 the European Union and its entry in 2008 into 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.

Argentina

I. Summary

Argentina is a transshipment point for Andean-produced cocaine destined for Europe and for small quantities of Colombian heroin destined for the United States. It is a source country for precursor chemicals, as well as a transshipment country for ephedrine being sent to Mexico. Authorities have discovered several small ‘kitchen’ labs converting cocaine base to cocaine hydrochloride (HCl), and in 2008 authorities also exposed a number of small operations producing synthetic drugs. National data on seizures of cocaine and other illicit drugs has not been sufficiently consistent to make precise year-to-year comparisons, but available evidence points to increasing trafficking through the country. 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 some Colombian heroin en route to the United States. Large seizures of cocaine in Europe have been linked to Argentina, and individual carriers of small quantities from Argentina to Europe are regularly discovered. Survey data in 2008 showed that marijuana was the most commonly consumed illicit drug in Argentina, followed by cocaine (HCl) and inhalants, respectively. A cheap, readily available and mentally debilitating drug “paco” (from pasta de cocaina—a byproduct of cocaine HCl production) is consumed in Argentina’s impoverished neighborhoods. The United States and Argentina cooperated effectively in narcotics investigations in 2008. The Minister of Justice approved a comprehensive U.S.-Argentina initiative aimed at capacity-building under his ministry and has regularly accepted support for the Prefectura Naval (Coast Guard), Gendarmeria Nacional (Border Patrol equivalent), Federal Police, and Airport Police. Overall, however, Argentina’s effectiveness in combating the illegal drug trade is hampered by sometimes poor coordination between law enforcement institutions at the national and provincial levels and particularly by inefficiencies in the legal system. As one of South America’s largest producers of precursor chemicals, Argentina is vulnerable to diversion of chemicals into the illicit drug industry. The country’s lack of effective controls over ephedrine imports during the first nine months of the year exposed it to a rapidly growing transshipment trade. A tightening of regulations from mid-September 2008, following highly publicized incidents related to ephedrine trafficking, may reduce this vulnerability, but officials recognize the need for additional measures and enforcement.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2008, senior GOA officials discussed the idea of decriminalizing personal consumption of illicit drugs, arguing that such a measure would permit shifting of scarce police and judicial resources away from individual users and toward drug trafficking organizations, as well as freeing up funds for substance abuse treatment. Despite these suggestions from the executive branch, the federal legislature did not enact any new drug decriminalization laws in the course of the year.

Delays, lack of transparency, and inconsistency in judicial processes have reduced public confidence in the legal system. Argentina is transitioning from a written, inquisitorial jurisprudential system to an oral, accusatory system. Legislation to improve procedures for dealing with drug crimes has not been approved. The Ministry of the Justice, Security, and Human Rights (MOJ) has national authority over counter-drug law enforcement efforts, though independent provincial police and prosecutors are responsible for many seizures and trials. An independent agency responsible to the presidency, the Secretariat of Planning for the Prevention of Drug Addiction and Drug Trafficking (SEDRONAR), also plays a role in formulating national counter-drug policy and controls over precursor chemicals. Coordination between SEDRONAR and the MOJ appeared to be poor in 2008, and SEDRONAR appeared to have insufficient resources for its role in monitoring the use of precursor chemicals.

During the first half of 2008, traffickers exploited Argentina's lack of effective regulation over the importation of ephedrine to bring in large quantities of the substance then re-exporting it illicitly to Mexico. Some ephedrine has been used to manufacture synthetic drugs in Argentina. In September 2008, the GOA issued a decree prohibiting the importation of ephedrine by pharmacies, thereby closing a key loophole exploited by traffickers. The GOA now plans to have SEDRONAR, the MOJ, and the Ministry of Health oversee the importation of ephedrine for use by the country's pharmaceutical industry. The GOA still lacks the regulations required to impose criminal penalties for the illicit diversion of other precursor chemicals, and is still formulating plans to improve controls and penalties.

Accomplishments. In 2008, the GOA shut down UFIDRO, an entity created in 2005 in part to collect national data on drug crimes and seizures and established a new office under the Ministry of Justice to collect drug seizure data. Drug seizure data in Argentina is collected separately by national and provincial authorities and is not always reliable. National and provincial data through mid-November 2008 showed that security forces had seized nearly 7 metric tons of cocaine (HCl) and over 100 metric tons of marijuana. Federal authorities accounted for 80 percent of the recorded marijuana seizures and 55 percent of the cocaine. In the country's largest province, Buenos Aires, there was an increase in seizures and arrests during the first eight months of 2008 compared to 2007, including 1,400 kilograms (kg) of cocaine seized compared to 400 kg in 2007 and 200,000 doses of MDMA (Ecstasy) compared to 2,400 the year before. Following an August 2008 triple homicide reportedly linked to ephedrine trafficking, national police and prosecutors achieved a string of successes in uncovering illicit ephedrine supplies and small-scale synthetic drug production facilities. During 2008, the MOJ also established three new drug analysis laboratories around the country to help with investigations and analysis of seized products.

Law Enforcement Efforts. The ongoing transition from a written, inquisitorial legal system to an oral, accusatorial system has caused delays between arrest and final rulings and there is a backlog of cases, the result being a further erosion of confidence in the judicial system. The GOA continues to implement reforms, including providing prosecutors and judges greater discretion in terms of selecting which cases to prosecute, the objective being to give authorities the ability to target major drug trafficking organizations.

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. The frequency with which investigations of narcotics-related cases fail to result in actual prosecutions or convictions has been cited as a basis for public concern about corruption.

Agreements and Treaties. Argentina 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 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 (MLAT) 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. In addition, Spain, the United Kingdom, Germany, Australia, France, Italy and the Netherlands provide limited counternarcotics training and equipment. In 1990, 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. The government of Argentina contends that drug production in Argentina remains largely insignificant despite occasional discoveries of small "kitchen" labs converting cocaine base to HCl and despite the widespread use of a cocaine HCl byproduct, "paco," in impoverished areas. There were several discoveries of labs producing ephedrine-based drugs in Argentina in 2008 as well. There is some marijuana cultivation in Argentina.

Drug Flow/Transit. Some Colombian-produced heroin is smuggled through Argentina via commercial flights going directly to the United States, or through Mexico and across the southwest U.S. border. There were no major heroin seizures reported during the first nine months of 2008. Colombian cocaine HCl entering Argentina is largely destined for international cocaine markets, primarily Europe but also Asia and the U.S. Cocaine HCl seizures have risen over time, from a reported 2.5 metric tons in 2006 to at least 7 metric tons in each of the past two years. There is an indigenous population along the northern border with Bolivia that traditionally consumes coca leaf, but the last maceration pit discovered in Argentina was 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 investment or smuggled directly into the United States. Most of the marijuana consumed in Argentina originates in Paraguay and is smuggled across the border into the provinces of Misiones and Corrientes, from where it is then transported overland to urban centers or onward to Chile.

Demand Reduction Programs. SEDRONAR coordinates GOA demand reduction efforts. The GOA, in collaboration with private sector entities, sponsors a variety of print and broadcast information campaigns which have a nationwide reach. Argentina inaugurated its first National Drug Plan in 2005 and initiated a number of demand reduction programs in 2006 that continued into 2008, including 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 the inexpensive but harmful drug “paco”

IV. U.S. Initiatives and Programs

Policy Initiatives. U.S. efforts in Argentina focus 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 Drug Enforcement Administration (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. The Eastern Border Task Force (EBTF), created in 2007, extended its focus in 2008 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, to improve coordination, cooperation, training and exchanges. DEA and the Embassy’s Legal Attaché office (LEGATT) are particularly focused on working with prosecutors and judges on improving and updating investigation and prosecution techniques vis-à-vis narcotics trafficking and other complex crimes.

DEA agents in the region develop intelligence that is shared among counternarcotics agencies and is key to the success of local law enforcement efforts. The decision by the Government of Bolivia to expel DEA agents from that country has already affected the ability of Argentine law enforcement agencies to develop and execute intelligence-driven operations.

U.S. Immigration and Customs Enforcement (ICE) provided advisory support for precursor shipment identification and investigative response. The Embassy’s Military Group helped organize training for the Gendarmeria Nacional, Prefectura Naval and other law enforcement agencies to strengthen the core capabilities of these forces to analyze information, conduct operations, provide first responder medical care, enforce maritime law, provide port physical security, and invest in professional development. The U.S. Coast Guard provided a Maritime Law Enforcement Curriculum Infusion course. Instructors conducted an intensive curriculum review and assisted in the establishment of a syllabus, and honed instructional skills to further advance GOA training programs.

The Road Ahead. The GOA continues a slow process of institutional reform of its legal system and serious weaknesses remain. The GOA is seeking to tighten control of precursor chemicals, improve coordination among law enforcement agencies, integrate databases to enable more thorough investigations, and pursue greater transparency and more efficient operations in the judicial system. The U.S. Embassy in Buenos Aires will continue to make bilateral law enforcement cooperation the foundation of its efforts, using the Northern Border Task Force (NBTF) and the Eastern Border Task Force (EBTF) as the centerpieces to augment GOA interdiction and enforcement capabilities. The USG encourages the GOA to continue its operations at border areas against smuggling of bulk-cash, ephedrine and other precursor chemicals. The GOA should strengthen Argentina's anti-money laundering efforts and address its lack of clear regulations and procedures for forfeiture of criminally-obtained goods and assets.

Armenia

I. Summary

Armenia is not a major drug-producing country and domestic abuse of drugs is relatively small. Drug-related arrests and interdictions of illegal drugs declined overall in the first six months of 2008 compared to the same period in 2007, reversing an increase from 2006 to 2007. Because the number of cases and the volume of illegal drugs seized remain small, even modest fluctuations in these figures can appear as large percentage changes. The Government of Armenia recognizes Armenia's potential as a transit route for international drug trafficking. In an attempt to improve its interdiction ability, Armenia, 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 advisory assistance to promote the use of European standards for drug prosecutions, collection of drug-related statistics, rehabilitation services to addicts, and 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. However, Armenia's two longest borders, those with Turkey and Azerbaijan, are currently closed. The resulting limited transport options between Armenia and its neighboring states have kept the country a secondary traffic route for drugs. 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 is not widespread in Armenia, and according to the police the local market for illicit narcotics is relatively small. The majority of Armenian drug users use hashish or other forms of cannabis. Opiates, especially opium, are the second most abused drug group. Over the last decade there has been a general increasing trend in the abuse of heroin, but the overall demand for both heroin and cocaine remains fairly low. Illegal drug use in Armenia is not solely the province of the young. Police statistics show that over 60% of convicted traffickers are male Armenian citizens between the ages of 30 and 49. Of those registered for drug treatment, 91% are over age 25 and 56% are over 35.

III. Country Actions against Drugs in 2008

Policy Initiatives. In June 2008 the Armenian government introduced legislative changes designed to bring Armenian drug laws closer into line with EU standards and to focus law enforcement efforts on drug trafficking while emphasizing prevention and treatment in dealing with drug users. Specifically, these changes decriminalized the use of illegal drugs and the transfer of small amounts of drugs without purpose of sale (e.g., sharing of small quantities among users). Previously, a person convicted of using drugs could be jailed for up to two months for a first offense, a threat which the UN SCAD Program's experts found discouraged drug addicts from seeking treatment. Under the new system, a first-offense user is subject to a fine up to 200,000 Armenian drams, or roughly \$600, but that fine is waived for a user who voluntarily seeks drug treatment.

The Ministry of Justice has also enlisted SCAD support in developing a new National Drug Strategy for 2009 to 2014.

A USG-funded project to expand Armenia's own Border Management Information System (BMIS) to all border crossing points is near completion and will centralize immigration data, giving law enforcement agencies access to information relevant to drug interdiction efforts at Armenia's borders.

Law Enforcement Efforts. Police statistics for the first six months of 2008 show clear declines in total number of offenses, total number of traffickers, and total amount of drugs seized compared to the first six months of 2007 (451 to 383 offenses, 221 to 193 individuals, and 4,739 kg to 4,415 kg drugs seized, respectively). Amid this overall positive trend, however, there is a disturbing increase in opium abuse. For example, seizures of marijuana, cocaine and heroin fell by 75%, 99% and 100% respectively between these two periods, but the quantity of opium seized more than doubled. Also, the number of patients registered for treatment for addiction to opiates nearly doubled from 71 to 138, while the number treated for cannabis and synthetic drugs remained nearly unchanged. As noted before, given the small scale of the drug problem in Armenia, fairly minor changes in absolute figures can generate large percentage variations, especially when comparing relatively short periods of time—in the figures above, cocaine and heroin confiscations fell from “highs” of less than 200 grams each. Nevertheless, the drastic increase in opium poppy found and destroyed in Armenia this year suggests that the apparent rise in opium abuse is not merely a statistical aberration.

Measures to identify and eradicate both wild and illicitly cultivated cannabis and opium poppy continued in 2008. In August and September the Police Service, along with elements of the Ministry of Defense and local governments, conducted an annual search for hemp and opium poppy fields in the countryside, as well as distribution networks in the cities. The search netted over 80 tons of hemp and over one ton of poppy, marking a slight decrease in hemp but an eight-fold increase in poppy from 2007.

Beginning in mid September, Armenian law enforcement agencies participated in “Channel,” an annual joint operation among the member states of the Collective Security Treaty Organization (Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan) dedicated to stopping the cross-border flow of illegal drugs and other contraband and disrupting the travel of criminals. During this exercise, the Armenian authorities scrutinized all vehicles and cargo crossing the border. All Armenian law enforcement agencies (Police, National Security Service, Customs, Border Guards, Police Internal Troops, Ministry of Defense, and the Prosecutor General’s Office) participated in this operation.

Corruption. Corruption in general remains a serious problem throughout Armenia, but there appears to be little high-level corruption related to drug trafficking. The new administration that took office in April 2008 has cracked down on corruption in some government agencies, including the customs service. However, the corruption targeted in these agencies generally was not drug-related. The Government of Armenia does not encourage or facilitate illicit production or distribution of narcotic drugs and psychotropic substances, nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions. No senior government officials have been reported to engage in these activities. The main form of drug-related corruption occurs when individual drug users found with drugs in their possession bribe police to avoid arrest. The decriminalization of drug use could reduce this tendency, but many drug users may be unaware of the legislative changes or may still resort to bribes to avoid the administrative fines under the new law.

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 southwest-central part of Armenia; poppy grows in the northern part, particularly in the Lake Sevan basin and some mountainous areas. There is also some small-scale illegal cultivation of both these crops. The best available estimates of crop size come from eradication efforts by law enforcement authorities. As noted previously, this year’s eradication campaign seized over 80 tons of hemp and over one ton of poppy. This figure represents a sharp percentage increase in opium poppy seized, though the total amount remained very small compared to major producing countries.

Drug Flow/Transit. There is very little transit of illegal drugs through Armenia to other countries, and there is no known transit through Armenia of drugs bound for the United States. The principal production and transit countries from which drugs are smuggled into Armenia are Iran (heroin and opiates) and Georgia (opiates, cannabis and hashish). Armenia's borders with Turkey and Azerbaijan remain closed, but small amounts of opiates and heroin are smuggled to Armenia from Turkey via Georgia. There have also been cases of small-scale importation from other countries, mostly by mail or by airline passengers arriving in Yerevan. Should Armenia's closed borders reopen, police predict drug transit will increase significantly.

Domestic Programs/Demand Reduction. Armenia has adopted a policy of focusing on prevention of drug abuse through awareness campaigns and treatment of drug abusers. These awareness campaigns are being implemented and manuals are being published under the framework of the SCAD program. The Drug Detoxification Center, part of the Armenian Narcological Clinic and funded by the Ministry of Health, provides short-term drug treatment, but so far the lack of longer-term treatment and counseling has limited the success of treatment efforts. As of 2008 the Narcological Clinic was prepared to begin offering methadone substitution treatment pending state registration of the procedures for prescription and supply.

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. Recent and ongoing joint activities include the development of an independent forensic laboratory, the improvement of the law enforcement infrastructure and the establishment of a computer network enabling Armenian law enforcement offices to access common-use databases. In 2008, the Department of State continued to assist Armenian law enforcement with funding from the FREEDOM Support Act and through the Export Control and Related Border Security (EXBS) program. 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.

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 problem. Australian law enforcement agencies work closely with U.S. counterparts in the U.S. and Australia, and have a robust and growing law enforcement liaison relationship in numerous overseas locations. Australia is a party to the 1988 UN Drug Convention.

II. Status of Country

While Cannabis is still the most abused drug in Australia, the 2007 annual report of the United Nations International Narcotics Control Board reported for a second year that amphetamine type substances (ATS) are the second most widely used illegal substance in Australia. The report also lists ATS abuse in Australia as among the highest in the world. Marijuana, crystal methamphetamine, cocaine, and MDMA usage is widespread throughout Australia. Significant seizures of these drugs are of particular concern to Australian law enforcement officials. Australian officials have seized notable quantities of southeast Asian and Afghan heroin in 2008. In November 2007, the Australian Federal Police (AFP) reported that the drug harm index, their measurement of the estimated damage seized drugs may have caused society had they not been seized, had increased to A\$621 million (US\$391 million) in 2006/2007 from A\$165 million (US\$104 million) in 2005/2006.

Law enforcement agencies throughout Australia continue to seize significant quantities of precursor chemicals from China, India, and most recently, Thailand. In addition, officials continue to seize small, toxic, and sophisticated methamphetamine and MDMA clandestine laboratories throughout Australia although, the number of clandestine laboratories destroyed has decreased slightly in 2008.

MDMA remains popular in Australia. According to the Australian 2007 Ecstasy and Related Drugs Reporting System (EDRS) report, MDMA is easy to obtain and purity ranges from medium to fluctuating quality. Night clubs are the most common places of use and prices range from A\$30–A\$50 (US\$19 – US\$32) per pill. Substantial MDMA shipments originating from Europe and Asia continue to be seized in Australia.

Cocaine use is stable throughout Australia, and for the most part, is more prevalent in larger metropolitan areas. While cocaine remains expensive in Australia, it also remains readily available. Cocaine seizures are constant and the majority of seizures involve the postal system and couriers transporting small amounts, many of which continue to originate directly from source countries in South America. In 2008, Australian authorities seized hundred kilogram cocaine shipments from Canada, and in March of 2008, a 250 kilogram shipment from China.

The availability of heroin in Australia remains steady and although many prior users of heroin are reportedly using crystal methamphetamine, recent local reporting indicates an increase of heroin use in Australia's larger cities among users who inject drugs. Health officials in Sydney and Melbourne have reported an increase in heroin overdoses and law enforcement and local news reports indicate heroin trafficking and use is on the rise. Similar to cocaine, most heroin seizures involve small amounts being transported by courier and the postal system. However, law enforcement authorities have also made some significant heroin seizures, such as the two kilograms from New Delhi and 28 kilograms from Indonesia in March 2008.

III. Country Actions against Drugs in 2008

Policy Initiatives. The result of Australian Government initiatives in past years to address the increase of clandestine synthetic drug laboratories is reflected in a slight decrease in the number of laboratory seizures recently. Changes in legislation 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, primarily China, India, and Thailand. Australian law enforcement officials have been successful in seizing record amounts of pseudoephedrine in 2008.

In June 2007 the Australian Crime Commission (ACC), in partnership with Health, State and Territory Drug Squads and Industry Associations, commenced the "National Awareness Raising Campaign for Chemical and Scientific Industries". The objective of the program is to educate industry about the diversion of chemicals and equipment into the illicit drug manufacture market, new and proposed legislation and regulations on controls over chemicals and equipment, and to encourage compliance with the industry code of practice. The program has served to foster closer working relations between industry State based chemical diversion programs and the ACC.

The ACC also commenced the National Clan-Lab Database. This program is designed to provide a user friendly, nationally consistent platform for recording seizure information from clandestine drug laboratories. The program operates from laptop computers at the crime scene, and allows officers to record all site information, exhibits, drug manufacture methods, and a great deal of additional real time information as the scene is processed. After processing, the seizure information is uploaded to the national database from each jurisdiction. The centralized collection of this information allows law enforcement from all jurisdictions to access the information and develop national statistical data for investigative and management purposes.

The AFP's International Deployment Group continues to support regional Asian governments to ensure stability and combat drug and crime organizations. In addition, the AFP has deployed additional resources to Afghanistan in support of drug enforcement and intelligence operations. The AFP's international network has grown slightly in 2008 to 87 officers at 34 posts in 28 countries worldwide. The AFP's international liaison network coordinates closely with DEA offices on matters of mutual interest.

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. In 2008, Australian law enforcement officials have successfully targeted significant drug trafficking organizations impacting the country. Asian and European organized crime groups (particularly from the Netherlands, Belgium, Italy and Israel) are targeting Australia for large-scale shipments of MDMA tablets. In June 2008, subsequent to the seizure of approximately 4.4 tons of MDMA tablets the previous year in Melbourne, the AFP conducted enforcement operations and totally dismantled an international MDMA trafficking organization. The investigation revealed multiple criminal organizations with international links involved in this import, the largest MDMA shipment ever seized.

Asian organized crime groups continue to dominate the distribution and trafficking of methamphetamine and to a lesser extent, cocaine, MDMA, and heroin. Australian authorities continued to seize substantial quantities of these drugs. Local law enforcement reporting for the period of 2006-2007 indicates ATS seizures increased by approximately 25% and the number of arrests has increased by 28%. Total weight of cocaine seized by the ACS increased by approximately 600% and arrests increased by 75%. And finally, heroin border seizures are the highest recorded, with the total weight of heroin seized at the border up 79%. These trends are continuing in 2008. For example, in January 2008, authorities seized approximately 28 kilograms of methamphetamine originating from Lithuania. In March 2008, authorities seized 250 kilograms of cocaine transiting from China and approximately 22 kilograms of methamphetamine and 35 kilograms of MDMA in Perth. In June 2008, authorities seized 124 kilograms

of cocaine, 66 kilograms of methamphetamine, and 121 kilograms of MDMA, all originating from Canada. Asian organized crime groups are primarily responsible for these imports and will continue to influence and control the majority of drug trafficking activity and related crimes in Australia.

Since domestically produced marijuana is Australia's most abused illicit drug, authorities maintain a robust marijuana eradication program, primarily on the state level. Australia produces enough marijuana to satisfy domestic demand, and the majority of marijuana produced in Australia is distributed for local consumption. Use of hydroponic grow sites is the preferred method of the more advanced marijuana trafficking organizations. However, authorities continue to seize substantial numbers of marijuana plants from outdoor cultivation. In March 2008, the New South Wales Police Force seized approximately 11,000 marijuana plants from a single plot. Most outdoor cultivation site seizures consist of 70-100 plants spread over multiple sites in close proximity. There are limited instances of small amounts of Australian produced hydroponic marijuana being transported to Asian nations.

Corruption. Historically, corruption and misconduct are not issues at the federal level in Australia. Some misconduct does occur at the state level and is vigorously investigated by the appropriate authorities within Australia. All state level agencies have internal units dedicated to investigating alleged police corruption. In June 2008, an Assistant Director of Investigations with the New South Wales Crime Commission was arrested by the Australian Federal Police after an 18 month investigation. The subject was charged for his involvement in attempting to import a quantity of pseudoephedrine into Australia. The arrest was widely reported by the local media, and he is one of the most senior law enforcement officials ever arrested and charged in Australia. His case is currently pending before the courts. The Government of Australia 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

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 its protocols against trafficking in persons and migrant smuggling, 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 approximately 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.

Drug Flow/Transit. There has been no evidence regarding the use of Australia as a flow/transit point for illegal narcotics.

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 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 countries 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 International Deployment 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.

Austria

I. Summary

Austria is primarily a transit country for illicit drugs; it is not a drug-producing country. Experts see no change in the usual strategies of illegal trade of narcotic substances in 2008, except for precursor substances, where since 2007 Austria has begun to serve as a depot country for interim storage. Foreign criminal groups from former Soviet-bloc countries, and Turkey, West Africa, and Central and South America, dominate the organized drug trafficking scene in the country. Austria's geographic location along major trans-European drug routes makes it easier for criminal groups to bring drugs into the country. Production, cultivation, and trafficking by Austrian nationals remain insignificant. Drug consumption in Austria is well below average west European levels and authorities do not consider it to be a severe problem. However, they see a trend toward more high-risk drugs. The number of drug users is currently estimated at around 35,000. The number of drug-related deaths has gone down recently (2007). Cooperation with U.S. authorities continued to be excellent during 2008. International cooperation led to significant seizures, frequently involving cooperation among multiple countries.

In 2008, Austria continued its efforts to intensify regional police cooperation, particularly with regard to the Balkans. Austria also continued its years-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

There was no significant increase in the number of drug users in Austria during the period, January-October 2008. 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 2008. Austria counted 175 drug-related deaths in 2007 and expects a similar, low figure for 2008—a downward trend compared to the previous three years. However, the number of deaths from mixed intoxication continues to rise as drug users consume more high-risk substances. According to police records, total violations of the Austrian Narcotics Act increased marginally in 2007 and 2008. The latest prosecution statistics (for 2007) show 24,166 charges, a rise of 1.05 percent from the previous year's total. Of these charges 1,236 involved psychotropic substances and 22,929 involved narcotic drugs. One offense involved precursors. Ninety percent of the charges were misdemeanors. Amphetamines and derivatives ("Ecstasy" pills) are predominantly smuggled in from the Netherlands via Germany, whereby Austria increasingly serves also as a transit country for onward smuggling to Slovenia and Bosnia-Herzegovina. Usage of amphetamines rose 114 percent from 2007 to 2008, tracking a Europe-wide trend as these substances are increasingly available outside of 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 lifetime. 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 2008

Policy Initiatives. Throughout 2008, the Austrian government retained its no tolerance policy regarding drug traffickers and its traditional "therapy before punishment" policy for non-dealing offenders. The government introduced legislation in 2007 for better data quality of drug users. According to critics, this would restrict

prescriptions and infringe on patient privacy rights through increased surveillance of medical narcotics users. Legislation is expected to be passed by the end of 2008. Certain types of surveillance of illegal drug behavior are already possible under a 2005 amendment allowing the 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 provided 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. Austrian authorities continue to demand stricter regulations on an EU-wide scale regarding internet trade of illegal substances. At the end of 2008, drug experts were debating a possible ban of the “fashion drug” commonly called “Spice.”

During its latest 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 2007, Austria sponsored a conference entitled “Drug Policing Balkans,” during which high-level officials, including Embassy Vienna’s DEA representative, discussed operational aspects with respect to drug smuggling along the Balkans route. Austria also participated in a pertinent follow-up meeting in Zadar, Croatia in 2008.

At the EU level, the GOA continues to push for a European Narcotics Institute (European Drug Academy) styled along the lines of the U.S.NIDA. Austria remains critical of the EU Drug Action Plan however, saying it contains no evaluation of harm reduction measures. Throughout 2008, Austria maintained its lead role within the Central Asian Border Security Initiative (CABSI) and the Vienna Initiative on Central Asia (VICA), and participated in conferences in Astana and Dushanbe. 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 (\$709,000) to this organization in 2008. In past years, Austria has been working with the UNODC, the EU, and Iran to establish more effective 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. At an ECOWAS anti-drug trafficking conference in Cape Verde in October, Austria pledged 300,000 Euros for drug interdiction in the ECOWAS region. Austria values the “vital role” played by foreign liaison drug enforcement officers accredited in Austria, as well as by the network of Austrian liaison personnel stationed in critical countries abroad.

Law Enforcement Efforts. Comprehensive seizure statistics for 2007 (the latest available figures) show a strong increase in seizures of heroin (up 240 percent), “Ecstasy” (up 114 percent), and Cocaine (up 26 percent), and a decrease in seizures for various types of cannabis, LSD, and other amphetamines. 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. The labs use precursors, such as acetic anhydride and potassium permanganate, to produce illicit drugs. The 2007 drug report from the Interior Ministry states that Austria’s Precursor Monitoring Unit dealt with 206 cases in relation to precursors and clandestine drug laboratories—representing a noticeable increase of 31 percent—compared to 157 cases in 2006. In 2007, one illegal drug laboratory was raided in Austria, producing a relatively small seizure of synthetic methamphetamines. The estimated total street value of illicit drugs was higher in 2007 than during previous years. One gram of cannabis sold for EUR 10.00 (\$14); one gram of heroin for EUR 85.00 (\$120); and one gram of cocaine for EUR 80.00 (\$112). Amphetamines sold for EUR 25.00 (\$35) per gram and one LSD trip for EUR 35.00 (\$49).

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 which went into effect January 1, 2008 substantially increased penalties for bribery and abuse of office offenses. As of fall 2008, there were no corruption cases pending involving bribery of foreign public officials. In September 2008, a Vienna appellate court upheld a guilty verdict from 2007 involving a senior Vienna police official for minor bribery charges, which were 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. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force.

Cultivation. Production of illicit drugs in Austria continued to be marginal in 2008. The Interior Ministry's annual report on drug-related crime noted a rise in private, indoor-grown, high-THC-content cannabis. Austria recorded no domestic cultivation of coca or opium in 2008.

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 the DEA's quarterly trafficking report, illicit drug trade by Austrian nationals is negligible. Foreign criminal groups (e.g. Turks, Serbs, Bosnians, Russians, Albanians, and Bulgarians) carry out organized drug trafficking in Austria. The Balkan route into the country is a particularly difficult one to control. 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. A continuing trend in Austria is West African narcotics smugglers using Caucasian women from former Soviet-bloc countries to smuggle drugs into Austria. The GOA reports a noticeable increase in Austria's growing role as a transit country for "Ecstasy" coming from the Netherlands to the Balkans.

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. The 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 are commonplace among intravenous drug users at 59 percent. Policies toward greater diversification in substitution treatment (methadone, prolonged-action morphine, and buprenorphine) continued in 2008. Austria currently has approximately 10,000 people in rehabilitation programs. The government remains skeptical regarding heroin substitution programs however, 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 2008. 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.

The U.S. worked with Austria's Federal Crime Office (BKA) and its regional chapters on a multilateral investigation involving a Colombian violator in Vienna linked to a Colombian trafficking organization, who was trafficking cocaine

from South America into Europe. Similarly, Airport Police at Austria's Schwechat airport worked jointly with DEA Vienna on the arrest of two couriers from New York charged with importing approximately 5 kilograms of cocaine into Austria. The cooperative investigation led to the identification of the responsible organization. Also, leads passed from the Bangkok DEA office to Airport Police at Schwechat airport proved valuable with respect to drug seizures, arrests and intelligence sharing between agencies. Austrian national and regional crime fighting agencies facilitated interviews by U.S. prosecutors and DEA agents of defendants incarcerated in Austria on a huge cocaine importation case from 2005. The interviews were important for the larger, overall prosecution of the main, global criminal organization. DEA continued to work together with the BKA in support of important annual BKA/Croatia Balkan Drug Conference in Zadar, Croatia, which was held in September 2008. In addition, the U.S. Embassy regularly sponsors speaking tours for 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. As in past years, 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 2007-2008. The United States has funded counternarcotics assistance to Azerbaijan through the FREEDOM Support Act since 2002. Azerbaijan is 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" during wars among the countries of the former Yugoslavia. According to the Government of Azerbaijan (GOAJ), most of the narcotics transiting Azerbaijan originate in Afghanistan and follow any of four primary routes to Western Europe and to Russia. Azerbaijan shares a 380 mile (611 km) frontier with Iran, and its security forces need additional material resources and training to combat increasingly sophisticated trafficking groups. Iranian and other traffickers are exploiting this situation. The most widely abused drugs in Azerbaijan are opiates, such as heroin, while illicit medicines, hemp, Ecstasy, hashish, cocaine and LSD make up the rest. Domestic consumption continues to grow, with the official GOAJ estimate of drug addicts reaching 21,000 persons. Unofficial figures are estimated at approximately 200,000, the majority of which are heroin addicts. Students are thought to be a large share of total drug abusers at 30-35 percent. The majority of heroin users are concentrated in the region of Absheron, which includes the capital of Baku, while the rest are primarily in the Lankaran District near Iran. Drug use and drug dealing among women has been rising, and illegal drug use among unemployed young men in rural areas is a chronic problem.

III. Country Actions against Drugs in 2008

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 held the chairmanship of GUAM (Georgia-Ukraine-Azerbaijan-Moldova) from July 2007-July 2008 and has pushed for sharing 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. During meetings on April 29 and June 30, ministers from the GUAM member states reaffirmed their joint commitment to these efforts. However, the extent to which their information is shared through the VLEC appears to be limited. Azerbaijan is also a party to the European Commission-funded South Caucasus Anti-Drug Program, which aims to reduce supply and demand by improving governments' capacity to address these problems. Phase five of the program, which runs from 2007-2009, aims to promote drug policies and legislation that are in harmony with EU standards, refurbish a rehabilitation and treatment center for the Ministry of Justice, sponsor an awareness campaign and training courses, gather information about drug addicts in the penitentiary system, and improve coordination between EU and Azerbaijani law enforcement agencies.

Law Enforcement Efforts. During the first 10 months of 2008, Azerbaijani law enforcement agencies confiscated nearly one and a half tons of narcotics. Of this, the bulk was seized while being smuggled across the border with Iran. MIA statistics indicate that 95.3 percent of drug related crimes were solved. The MIA reported that 862 of 4,638 crimes in Azerbaijan were related to the illegal trade in narcotics. During the reporting period, there was an 11.9 percent increase in crimes related to the illegal trafficking of narcotics and a 27.2 percent increase in crimes related to

the sale of narcotics. Of the 1,186 people who were arrested for drug-related crimes in Azerbaijan, 1,096 were described as able bodied, unemployed people who were not in school, 293 had a previous criminal record, 27 were women and 2 were underage children. On August 5, the Ministry of National Security seized 8 kg of heroin and 86 kg of hashish that were smuggled by a group of Azerbaijanis and Iranians through the southern border with Iran. This case is illustrative of numerous seizures that occurred throughout the year, in which large quantities of drugs were transported from Iran and through Azerbaijan by multinational criminal groups. The majority of drugs enter Azerbaijan via land routes from Iran, though some are transported by ships on the Caspian Sea.

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 much of society. Azerbaijani judges, prosecutors and investigators attended DOJ-sponsored training courses on investigating money laundering and terrorist-financing. These broad-based skills may aid in the prosecution of drug-related cases and limit the scope of corruption. On October 14, several police officers from a Baku anti-drug trafficking unit were arrested on distribution charges. One kilogram of heroin was seized during the search of their offices.

Agreements and Treaties. Azerbaijan is 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 only to a modest extent. Law enforcement agencies destroy large quantities of drugs from cultivation sites and wild bushes each year.

Drug Flow/Transit. Afghan opiates transit to Azerbaijan by three primary routes: from Central Asia and across the Caspian Sea, or from Iran through the south of the country or Nagorno-Karabakh. The Iranian route accounts for 95 percent of this flow, with commercial trucks and horses serving as the mode of transportation across the border. Drugs are then smuggled through Azerbaijan to Russia, and finally, on to Central and Western Europe. Efforts by Turkey to increase enforcement along its border with Iran may have contributed to increased transit through Azerbaijan. 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. Azerbaijan is now in the third phase of its border guard development program, which has resulted in the creation of 50 new border guard outposts and coast guard bases and a canine training center. Additionally, the Government of Azerbaijan is currently in the process of ratifying a new customs code which has not been modernized since Soviet times. On April 4, the Ministry of Internal Affairs signed an agreement with the Russian Federal Drug Control Service that facilitates joint operations, cooperative training and the sharing of interdiction techniques. A subsequent joint operation resulted in the arrest of 11 suspects and 140 kg of hashish. On September 17, customs officials from 37 nations gathered in Baku for a two day conference on methods for combating the transit of drugs from Afghanistan to Europe.

Domestic Programs/ and Demand Reduction. In 2008, the GOAJ continued to post anti-narcotics public service announcements about the dangers of drug usage. The advertisements were aimed at a younger audience and were displayed in kiosks and on billboards in downtown Baku. Under phase five of the South Caucasus Anti-Drug Program, new media guidelines are being established for reporting on drug-related issues.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2008, 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 enhanced Azerbaijan's ability to control its borders and to interdict contraband, including narcotics. During the year, EXBS sponsored border control and management courses for SBS and SCC officers. Some of these courses taught new inspection methods and border control tactics for ports of entry, including air terminals, sea ports and green border zones. 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, such as all terrain vehicles, watchtower construction materials and x-ray analyzers, improved the Customs Contraband Teams' detection capabilities and significantly enhanced the Border Guards' ability to hamper illegal penetrations of Azerbaijan's southern border. 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 EXBS office recently began negotiations for U.S. technical assistance for a National Targeting Center being constructed as SCC HQ in Baku. During 2006, DTRA and EXBS helped equip a maritime base near Azerbaijan's southern border in Astara. The base now hosts two patrol boats and two fast response boats, and is also used for extended patrols by larger vessels from Baku. The Bureau for International Narcotics and Law Enforcement Affairs (INL) sponsored several basic and mid-level management courses for Azerbaijani law enforcement. One boat operator at the base attended a U.S. Coast Guard Boatswain's Mate training course in 2008, as well as a Boarding Officer course. In March of 2008, the Department of Justice International Criminal Investigative Training Assistance Program (DOJ/ICITAP) provided a two-week advanced gas chromatography narcotics detection course which was funded by INL. 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 GOAJ will continue to expand their efforts to conduct law enforcement assistance programs in Azerbaijan. While our assistance programs in most of Azerbaijan are robust, 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. Unfortunately, Azerbaijan's increasing wealth might well lead to increasing drug consumption under these circumstances. As drug trafficking and corresponding countermeasures have increased, so to have incidents of violence between smugglers and security personnel. Several incidents are illustrative of the growing sophistication and danger of these confrontations. On June 3, one trafficker was killed and four were wounded during a shootout with border guards near the border with Iran. The gang of drug runners had two sets of U.S.-made night vision devices and automatic rifles. Similar deadly clashes occurred on other occasions during 2008. There are signs that a larger proportion of the Ministry of Internal Affairs budget is going into counternarcotics operations and seizures.

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. The Government of the Commonwealth of The Bahamas (GCOB) cooperates closely with the USG, including participating in Operation Bahamas, Turks and Caicos Island (OPBAT), to stop the flow of illegal drugs through its territory. The GCOB also cooperates to target Bahamian drug trafficking organizations, and to reduce the Bahamian domestic demand for drugs. In 2008, the GCOB increased funding to strengthen its interdiction capabilities in vulnerable regions of the country. The Bahamas is a party to the 1988 UN Drug Convention.

II. Status of Country

Cocaine, marijuana and other illegal drugs are transshipped through The Bahamas. 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 make detection difficult. Although there is no official estimate of the number of hectares under cultivation, marijuana grown on remote islands and cays is of concern to Bahamian authorities. In 2008, The Bahamas continued to participate in 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.

III. Country Actions against Drugs in 2008

Policy Initiatives. The GCOB's plans to upgrade the Royal Bahamian Defense Force (RBDF) base on Great Inagua suffered a set-back when Hurricane Ike struck the island in September 2008. The U.S. Coast Guard (USCG), Drug Enforcement Administration (DEA), and the Department of State are working closely with the GCOB to return the base to full operating status. Immediately following the storm, the USCG helicopters that had been operating out of Great Inagua were moved to Providenciales, Turks and Caicos. Plans are under discussion to temporarily relocate the USCG's helicopters to Guantanamo Bay, Cuba due to logistical considerations.

Also in 2008, the GCOB began to enforce a ban on Haitian sailing vessels in Bahamian waters. In addition to posing serious safety concerns, these so called "wooden hulled sloops" were a convenient method of transporting narcotics to the Bahamas. The GCOB and the Government of Haiti continued negotiations concerning the placement of Haitian National Police officers on Great Inagua Island to improve the collection of intelligence from Haitian vessels passing through Bahamian territorial waters.

Accomplishments. In 2008, the RBPF's Drug Enforcement Unit (DEU) cooperated closely with U.S. and foreign law enforcement agencies on drug investigations. Including OPBAT seizures, Bahamian authorities seized 1,878 kilograms (kg) of cocaine and approximately 12 metric tons (MT) of marijuana. The DEU arrested 1,030 persons on drug-related offenses and seized \$3.9 million in cash.

Law Enforcement Efforts. The DEU and Bahamian Customs in conjunction with DEA, continued a program in Great Inagua to enforce GCOB requirements that vessels entering Bahamian territorial waters report to Bahamian Customs. During 2008, the RBDF assigned three ship-riders each month to USCG cutters. The ship-riders extended the law enforcement capability of the USCG into the territorial waters of The Bahamas. During the year, OPBAT assets intercepted 21 vessels engaged in smuggling. The RBPF participated actively in OPBAT, and officers of the DEU and the Royal Turks and Caicos Islands Police also flew on OPBAT missions, making arrests and seizures. The RBDF and RBPF conducted maritime smuggling and security patrols through the use of a variety of small to medium-

sized vessels based throughout The Bahamas. The RBDF fleet of 14 vessels and various small boats operated out of bases on New Providence, Grand Bahama, and Great Inagua. RBDF assets include 4 Nortec interceptor “fast boats” donated under SOUTHCOM’s Enduring Friendship program. The RPBF operated 11 small, short range vessels based in New Providence, Grand Bahama, Bimini, Andros, and other small islands and cays. The RBDF and RPBF vessels are generally well-maintained by properly trained crews, however the effectiveness of their maritime interdiction and security efforts is limited by the few resources they have to cover the large expanse of Bahamian territorial waters.

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 investigated for drug related offenses in 2008. The RPBF 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. On September 28, 2008, the Bahamas became party to the UN Convention against Transnational Organized Crime and its three Protocols. 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 45 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. There are no official estimates of hectares of marijuana under cultivation, but much of the marijuana seized in 2008 was in plant form grown by Jamaican nationals on the remote islands and cays of the Bahamas. OPBAT and the RPBF cooperated in identifying, seizing and destroying 12 MT of marijuana in 2008.

Drug Flow/Transit. Cocaine transits The Bahamas via go-fast boats, small commercial freighters, or small aircraft from Jamaica, Hispaniola and Venezuela. DEA estimates that this accounts for approximately 5 percent of the cocaine flow to the U.S. 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 of marijuana from Jamaica to The Bahamas. These shipments are then moved to Florida in the same manner as cocaine. During 2008, law enforcement officials identified 25 suspicious go-fast type boats on Bahamian waters.

DEA/OPBAT estimates that there are a 12 to 15 major Bahamian drug trafficking organizations operating in The Bahamas. Bahamian law enforcement officials also identified shipments of drugs in Haitian sloops and coastal freighters. Intelligence acquired by the GCOB suggests large cocaine shipments to the Turks and Caicos Islands and The Bahamas from Venezuela and Colombia took place during the year. However, only one of these shipments was successfully interdicted in 2008. Illegal drugs have also been found in cargo containers transiting the port container facility in Freeport.

Domestic Programs/Demand Reduction. 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 2008 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 stem the flow of illegal drugs through The Bahamas and into the United States, to dismantle drug trafficking organizations, and to 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 2008, 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 computer equipment to the National Drug Council; supported the expansion of treatment facilities at the Bahamas Association for Social Health; and funded a survey of drug use among individuals admitted into hospital emergency rooms. The Department of Defense provided four 43-foot interceptor boats, communications equipment, and training to the RBDF under Southern Command's Enduring Friendship program. The USCG provided resident, mobile and on-the-job training in maritime law enforcement, engineering and maintenance, professional development for the officer and enlisted corps, and medical practices to the RBDF.

The Road Ahead. We welcome the Bahamian Government's strong commitment to joint counternarcotics efforts and to extradite drug traffickers to the U.S. Unfortunately, momentum in 2008 was hampered by an understaffed and underfunded GCOB Drug Secretariat and devastation by Hurricane Ike, especially in Great Inagua. Standing up, staffing, and fully funding the National Drug Secretariat will greatly assist the GCOB's efforts to implement its 2004 National Anti-Drug Plan. The GCOB can further enhance its drug control efforts by integrating Creole speakers into the DEU and by working with Haitian National Police officers to be stationed in Great Inagua to develop information on Haitian drug traffickers transiting the Bahamas. The USG encourages the GCOB to continue to further integrate the RBDF into OPBAT operations by encouraging them to base intercept boats acquired under Enduring Friendship in Freeport and Great Inagua. This will provide OPBAT with maritime interdiction capabilities in the northern and southern Bahamas.

Bangladesh

I. Summary

There was no evidence that Bangladesh was a significant cultivator or producer of narcotics, but Government of Bangladesh (GOB) officials charged with controlling and preventing illegal substance trafficking lacked training, equipment, continuity of leadership, and other resources to detect and interdict the flow of drugs. Corruption at all levels of government hampers the country's drug interdiction efforts. Law-enforcement officials initially said an anti-graft campaign launched by the Caretaker Government had made efforts to prosecute politically connected drug dealers easier. The anti-graft push, however, slowed toward the end of 2008 as courts released scores of corruption suspects on bail and stayed many cases. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of Country

The country's porous borders made the illegal flow of narcotics from neighboring countries easy and made Bangladesh an attractive transfer point for drugs transiting the region. Assessments conducted by several U.S. agencies in 2008 found numerous land, sea and air border security vulnerabilities in Bangladesh that could be easily exploited by narcotics traffickers. The Bangladesh Department of Narcotics Control (DNC) said it did not have an estimate for the number of drug addicts in the country. The number of drug users had been estimated unofficially 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. Other drugs used in Bangladesh were methamphetamines, marijuana, and the codeine-based cough syrup phensidyl. 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, East Asian "yaba" tablets which consist of caffeine and methamphetamine) use among the young elite.

III. Country Actions against Drugs in 2008

Policy Initiatives. Efforts to create a coordinated government response to counter narcotics abuse appeared to founder in 2008. Although government officials said in 2007 a new interagency monitoring group had been created, the Home Affairs Ministry said in October 2008 no such agency existed.

Law Enforcement Efforts. Law enforcement units engaged in operations to counter narcotics included 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 played a leading role in fighting terrorism, corruption and narcotics abuse. Customs, the navy, the coast guard and the DNC all suffered from poor funding, inadequate equipment, understaffing and lack of training. For example, the DNC budget for 2008-2009 was a paltry 184 million taka (about \$2.6 million), only slightly more than the actual expenditure for the previous fiscal year. Its work force of about 900 people also was 375 positions short of the number of positions approved by the government. There was no DNC presence at the international airports in Chittagong and Sylhet and only two at Dhaka airport, and DNC officers throughout the country were not authorized to carry weapons. Although RAB had become perhaps the highest-profile anti-narcotics force in the country, it did not have a special counter-narcotics section. Its drug-fighting resources, which appeared stronger than other law-enforcement agencies, included a recently expanded canine corps of 51 dogs.

The smuggling, diversion and abuse of pharmaceuticals originating from India is considered one of the single largest drug problems in Bangladesh. The DNC keeps tabs primarily on seizures by its own officers. Drugs seized by the department from January through September 2008 (latest statistics) are as follows: 23.8 kg of heroin (compared to 16.3

kg in all of 2006 and 20.9 kg in 2007); 1,824 kg of marijuana (compared to 1,345 kg in 2006 and 1,768 kg in 2007); more than 41,000 bottles of phensidyl, a codeine-based, highly addictive cough syrup produced in India; 226 ampoules of pethedine, an injectable opiate with medical application as an anesthetic; and 4,858 tablets of yaba. Meanwhile, RAB reported its seizures of phensidyl were way up in 2008, while seizures of yaba were way down. RAB said in the first 10 months of 2008 it seized 299,746 bottles of phensidyl (up from more than 80,000 for the same period in 2007); 15,104 tablets of yaba (down from nearly 133,000 tablets a year earlier, almost all of which came in one Dhaka raid); and 32 kilograms of heroin (19.8 kilograms a year earlier).

Corruption. The Caretaker Government that came to power in January 2007 made fighting the country's endemic corruption a top priority. As of September 2008, 97 people were convicted out of 512 graft cases. Between July 14 and September 8, judges granted bail to 158 suspects and stayed 88 cases. Many feared the fight against graft was losing steam as the Caretaker Government prepared for the end of its tenure in late 2008. The GOB did 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 had 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 counter-narcotics activities.

Cultivation/Production. The International Narcotics Control Board estimated small quantities of cannabis are cultivated in Bangladesh for local use. 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 reached its officers, that crop was destroyed in concert with law enforcement agencies. The DNC said there were no significant crop destruction activities in the first 10 months of 2008.

Drug Flow/Transit. There were few media reports of major narcotics seizures in the first 10 months of 2008. Local media reported a huge seizure of heroin and other narcotics at Zia International Airport in Dhaka in April, but Government officials later confirmed that testing found the seized materials were not illegal substances. Subsequent news articles identified the seized goods as legal food supplements. The International Narcotics Control Board in its 2007 report cited evidence that “heroin consignments destined for Europe are increasingly passing through Bangladesh.” It said heroin was smuggled into Bangladesh by courier from Pakistan, by commercial vehicle or trains from India, by truck or public transport from Burma and by sea via the Bay of Bengal. The Chittagong seaport appeared to be the main exit point for narcotics leaving Bangladesh, the report added. Bangladesh Navy officials said they suspected Bangladesh was a transit zone for heroin smuggled out of the Golden Crescent in South Asia and the Golden Triangle in Southeast Asia.

Several recent U.S. government assessments found great vulnerabilities along Bangladesh's land, sea and air borders. One report from the Department of Homeland Security described a chaotic situation at Benapole, the main land border crossing between India and Bangladesh, which could easily be exploited by narcotics traffickers. The report said the main concern of customs officers at Zia International Airport in Dhaka appeared to be a desire not to inconvenience passengers. Examination of luggage items was said to be cursory at best. Opium-based pharmaceuticals and other drugs containing controlled substances 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. The

Department of Narcotics Control ran treatment centers in Dhaka, Chittagong, Rajshahi, Khulna, Jessore and Comilla. In the nine months through September 2008, 3,120 patients received treatment at the government facilities, the vast majority of them being male. That appeared to confirm a trend of dwindling numbers of patients, which totaled nearly 5,000 for all of 2007, about 6,000 in 2006 and more than 9,000 in 2005. 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. The International Narcotics Control Board in its 2007 report said prescription controls in Bangladesh were not adequately enforced at the retail level. It said pharmaceutical preparations were stolen from both hospitals and pharmacies.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continued to support Bangladesh's counter-narcotics efforts. The U.S. Government provided 2,100 drug identification kits to several enforcement agencies, including the Department of Narcotics Control, the Bangladesh Criminal Investigation Department of Police and the Rapid Action Battalion. The kits allowed law enforcement personnel in the field to quickly test substances for methamphetamine, Ecstasy, marijuana and opiates. The U.S. Embassy in Dhaka also provided a grant of \$52,000 to APON for a new rehabilitation center for female drug addicts. The U.S. Coast Guard provided residential training to Bangladesh's officers in the areas of International Crisis, Command and Control, as well as residential training in Seaport Security and Anti-Terrorism.

The Road Ahead. The USG will continue to provide law enforcement and forensic training for GOB officials, which the USG hopes will be useful to Bangladesh's counter-narcotics efforts. New Delhi-based Drug Enforcement Administration officials visited Dhaka in August 2008 to liaise with Bangladeshi law enforcement agencies about future counter-narcotics cooperation.

Belarus

I. Summary

Belarus remains a transit route for illicit drugs and drug precursors. Reports of drug use and drug-related crime in Belarus increased in 2008, although there is no evidence of large-scale drug production in the country. A December 2007 law strengthened Belarusian laws against drug production and distribution, and in 2008 a National Action Plan was formulated to coordinate government and NGO anti-drug efforts. In addition, legal steps have been taken to facilitate UN technical assistance programs. Some significant drug seizures were made during 2008, but the quantities involved may only hint at the true scale of trafficking. Law enforcement suffers from a lack of coordination as well as inadequate funding and equipment shortfalls. The estimated number of drug users in Belarus remains unchanged from 2007, although the number of registered addicts increased. Some non-governmental organizations concerned with narcotics treatment and mitigation which were denied registration in previous years have been permitted to resume operation; in short, availability and quality of drug treatment services have improved somewhat but a great deal of work still remains. Belarus is a party to the 1988 UN Drug Convention.

II. Status of Country

Because of its geographical location, good transportation infrastructure, and endemically corrupt law enforcement system, Belarus is an attractive transit route for illicit drugs. Belarus' customs union with Russia and the resultant lack of border controls between those two countries make drug transit easier. This problem may be exacerbated if members of the Eurasian Economic Community (Belarus, Russia, Kazakhstan, Kyrgyzstan Republic and Tajikistan) create a customs union by 2010, as proposed. There is no evidence of large-scale drug production in, or export from Belarus, although synthetic and plant-based narcotics production seems to be growing. Indications are that although plant narcotics dominate the illicit drug market (approximately 80-85% plant-based to 15-20% synthetic) the ratio appears to be shifting toward synthetic drugs. Most synthetic drugs found in Belarus are produced in Poland, with a lesser amount produced in the Baltic states. Although law enforcement officials of neighboring countries maintain that Belarus is a source of precursor chemicals, senior officials of Belarus' Interior Ministry flatly deny this. Whatever drug production and cultivation may exist in Belarus, they are not perceived in Belarus as the most pressing problem. Drug abuse prevention, treatment, and transit issues must be addressed first, if the country is to reach full compliance with the 1988 UN Drug Convention.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2008, the Interior Ministry and other governmental agencies jointly drafted a National Action Plan to counteract drug abuse and illicit drug trafficking and related crimes in Belarus. From 2009 through 2013, this Plan will consolidate the counter-drug efforts of all government agencies and NGOs under Interior Ministry coordination. Drug trafficking is routinely addressed at the regular meetings of the Domestic Belarus National Security Council's Interagency Committee on crime, corruption and drugs. In December 2007 Belarusian President Aleksandr Lukashenko signed a bill which listed “particularly dangerous narcotics and psychotropic substances” and toughened criminal penalties for distribution of these substances in public recreation areas, educational facilities and penal facilities. This same law instituted criminal liability for the planting and cultivation of narcotic plants for purposes either of sale or production of drugs and psychotropic substances, as well as the illicit trafficking in precursors, regardless of production or intent to produce drugs or psychotropic substances. Also in December 2007, Belarus Trade Ministry issued a resolution to prohibit the retail trade in poppy seeds at grocery markets, and the Council of Ministers signed a resolution to prohibit mailings of anonymous packages to prisons and other correctional facilities.

Law Enforcement Efforts. Media reports reflect more instances of local drug use and drug-related crimes in Belarus in 2008 than in 2007. Belarusian law enforcement authorities attribute this increase to improved detection and state that the actual underlying crime rate is no higher than a year ago. Police discovered a methamphetamine lab in Grodno in May 2008, and a pseudoephedrine lab in Minsk in October 2008. Later in October, in a separate Minsk operation, police seized 113 kilograms of pseudoephedrine—the largest seizure of an amphetamine-type stimulant (ATS) precursor in the history of the country. Between January 1 and November 1, 2008, authorities seized approximately 126.5 kg of psychotropic substances and 574 kg of other drugs. Drugs seized (in kg) are as follows: Poppy Straw (410.4); Marijuana (136.2); Raw Opium (0.561); Heroin (0.387); Amphetamine (2.8); Methamphetamine (3.6); Ecstasy (MDMA) (1.98) Acetylated Opium (2.9); Hashish (18.7); Cocaine (0.26); Semi-processed opium (19.5) Methadone (2). Morphine (0.12) Pseudoephedrine (113). In the first six months of 2008, 1,183 people were convicted for drug related crimes in Belarus. During the same period police discovered 2,413 illegal plantations, and destroyed 52 tons of poppy straw from a total planting area which exceeded 266 square kilometers. Poppy straw is converted into acetylated opium, an injectable opiate that is cheaper and easier to produce than heroin and is widely abused throughout the region.

According to official statistics, 3,449 drug-related crimes were recorded in the first ten months of 2008. These comprised of: thefts of narcotics substances—35, instances of illicit trafficking in controlled substances—3,307, cultivation of narcotic plants—13, street drug sales—24, and the organizing of illicit drug consumption rooms—70.

In September and November 2008, more than 2,170 officers of Belarus' Interior Ministry, Customs Committee, KGB and Border Guard Committee actively participated in CANAL-2008, a joint operation with Belarus' neighbors aimed at prevention and interdiction of illicit drug deliveries from Afghanistan. During this operation, 214 drug-related crimes were recorded, criminal charges were brought against 185 persons, and 145 kilograms of narcotics were seized. The State Border Troops' Committee conceded that official seizure figures do not reflect the true scale of the problem.

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. A few high-level personnel within the Interior Ministry and General Prosecutor's Office were arrested and charged for corruption in 2008, but none of the charges were drug-related. The perception that corruption remains a serious problem among border and customs officials and makes interdiction of narcotics difficult was supported by Lukashenko's March 2008 remark that corruption is “a cancerous tumor” in the State Customs Committee.

Agreements and Treaties. Belarus is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Belarus is also a party to the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons and manufacturing and trafficking in illegal firearms. Belarus is a member of the Collective Security Treaty Organization (CSTO) with Armenia, Kazakhstan, Kyrgyzstan, Tajikistan and Russia and conducts joint counter-narcotics operations with those countries. Before the end of 2008, Russia and Belarus plan to complete a unified list of list of narcotics, psychotropic substances and their precursors subject to state control, in order to avoid criminal liability in one country for drugs which are legal in the other.

Cultivation/Production. Some cultivation and production exists, but the scale is hard to estimate. Official government figures are unreliable. Precursor chemicals continue to be imported in volume, but the current legal structure makes it difficult to prevent their diversion to illicit uses. In 2007, 1,990 entities had licenses for manufacturing and storage of precursors and 15,000 employees have access to the substances. There is no indication that these numbers have changed. Reported increases in demand for poppy-seed, and subsequent tenfold increase in price, prompted a December 2007 ban on retail sale of poppy at grocery markets.

Drug Flow/Transit. Heroin enters and transits Belarus from Afghanistan via Central Asia and Russia. Poppy straw, opium, and marijuana enter through Ukraine; Ecstasy, amphetamines, hashish and marijuana come from Poland and Lithuania; cocaine comes from Latin America and precursor chemicals for the preparation of drugs from Russia. Heroin and methadone from Russia transit Belarus en route to Lithuania and other European countries. East-bound marijuana, hashish and cocaine transit Belarus and Lithuania as well. Press reports continue to indicate that the control infrastructure along the border with Ukraine is particularly weak. In accordance with their bilateral customs union agreement, Belarusian border guards are not deployed on the border with Russia, which is policed by Russian forces. Apparently, customs officers currently inspect only five percent of all inbound freight, and border guards often lack the training and equipment to conduct effective searches.

Domestic Programs/Demand Reduction. Belarusian authorities have begun to recognize the growing domestic demand problem, particularly among young people. Ministry of Health chief addiction officer Vladimir Maksimchuk announced that the number of registered drug users in the country has increased threefold since 1995, to 6,907 registered drug abusers (as of May 1, 2008), but acknowledged that the actual number of users was much higher. Maksimchuk's 2007 estimate of 60,000 actual drug abusers remained unchanged for 2008. In 2007 the youngest registered addict was 16 years old; in 2008 children as young as ten years of age made the list. The largest number of drug users is between 20 and 30 years old, and prevention programs in schools remain under-funded. News reports indicate that the ratio of consumers of oral (vs. injected) drugs is growing due to the relative ease of concealment of oral drug use. The government generally treats drug addicts in psychiatric hospitals or at outpatient narcotics clinics (of which there are 21 in Belarus), either as a result of court remand or self-enrollment, or in prison. On the whole, treatment emphasizes detoxification over stabilization and rehabilitation.

As of June 2008, the Ministries of Health and Interior announced that they were reviewing the possibility of mandatory treatment in lieu of criminal liability for first-time users, unless guilty of a serious crime. To date no decision has been made. The methadone substitution clinic opened by the Ministry of Health in Gomel in September 2007 was the first and is still the only such clinic in operation. A second clinic in Minsk was planned, but so far has not been built or even funded. The Gomel clinic reportedly served 7 people in 2007, and planned to expand to 15 this year; however, no legislation calling for the expansion of this or any other rehabilitation programs has been passed.

There are at least twelve small-scale NGO-run rehabilitation centers in various areas of Belarus. On the whole, availability and quality of services have improved somewhat, but they remain available only to registered drug addicts. Since drug use remains highly stigmatized in Belarusian society, and because the official drug addict registry is readily available to Belarusian law enforcement and other government agencies, drug addicts often avoid seeking treatment, fearing adverse consequences at work, school, and in society if their addiction becomes known.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG has not provided counter-narcotics assistance to the GOB since February 1997. Although some working-level assistance and contacts have existed in the area of law enforcement, these ceased in early 2008, when the GOB forced a drawdown of the official American presence in Belarus from 35 to 5 persons and began denying visit visas to law enforcement personnel. The 2005 imposition of restrictions of technical assistance and taxation of humanitarian aid by the Government of Belarus pose other hurdles to assistance. Although the USG hopes for improvement in the bilateral relationship, present conditions do not permit close cooperation.

The Road Ahead. The USG will continue to encourage Belarusian authorities to enforce their counter-narcotics laws, render working-level assistance when appropriate, and monitor the progress of existing assistance programs.

Belgium

I. Summary

With a major world port at Antwerp, an airport with connections throughout Africa, and with its proximity to major consumers in the UK and the Netherlands, Belgium has become a crucial transit point for a variety of illegal drugs, especially cocaine and heroin. 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. Methods of shipment vary but most drugs seized have been in cargo freight or from couriers using air transportation. The number of couriers arriving in Belgium by plane from West Africa and Central America has increased in the past couple of years. Colombian drug cartels are stockpiling cocaine in Africa and using established African operations to move drugs to Europe. Continuing a recent trend, usage and trafficking of cocaine in Belgium continued to increase in 2008.

Heroin seizures have risen the past several years. Belgian Federal Police interdict heroin transiting through Belgium en route to the Netherlands and the U.K. It is estimated Belgium consumes around 4 tons of heroin, which is mostly traceable to drug tourism from neighboring countries. To date (October 2008) Belgian authorities have seized 52.41 kg of heroin. Officials say it is difficult to have an impact on the heroin trade because of the difficulty in penetrating the Turkish trafficking groups behind it.

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 due to the large ethnic population centers, language, and cultural differences and the cross border nature of the trafficking trend. Despite this, Belgian authorities continue to combat the production and trafficking of illicit drugs within their borders, through bilateral cooperation with neighboring countries and by incorporating methods like canine checks and aerial surveillance.

Belgium has also become yet another transshipment point for ephedrine, used as a chemical precursor to methamphetamine, destined for the United States via Mexico. In instances where there is suspicion of ephedrine diversion for methamphetamine manufacturing purposes, Belgians cooperate by executing controlled deliveries to the destinations. This evidence of increased ephedrine shipping is seen throughout Europe due to stricter methamphetamine laws in the U.S.

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 small amounts of amphetamine type stimulants and Ecstasy as well as cannabis and hashish. Seizures of amphetamine type stimulants and Ecstasy have dropped compared to previous years, suggesting a decrease in production.

Belgium 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. The majority of large cocaine shipments are bound for the Netherlands, where Colombian groups continue to dominate drug trafficking. In the past, Israeli groups controlled most of the Ecstasy distribution 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. 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. Belgian authorities seized 1,042 kg of hashish to date in 2008.

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 2008

Policy Initiatives. The National Security Plan for 2004-2007 had ambitious goals to combat drug trafficking in Belgium but due to the previous collapse of the government, the plan was never enacted. No new plans have been drafted or published.

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.

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 police search for drug couriers and have become increasingly proficient. Authorities utilize 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 last 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 (2008), Belgian authorities have discovered three synthetic drug laboratories: 1 tableting unit, 1 Ecstasy lab, and 1 amphetamine lab. Belgian authorities have also seized 55 kg of phenacetine, 6.7 liters of GHB, 4146 kg of khat, 0.6 kg of opium, and 134,157 Ecstasy tablets.

Corruption. Legal measures exist to combat and punish corruption. No serious cases of organized corruption related to drugs have been uncovered in Belgium. 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.

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), and Belgium is in the process of ratifying the new U.S. – E.U. MLAT and Extradition Agreements. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The U.S. Senate has approved them, but they are still pending Belgian parliamentary and EU approval. 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 heroin and cocaine, is more significant than its own production of illegal drugs. Cultivation of marijuana increasingly involves elaborate, large-scale operations in Belgium. Belgian authorities seized 530 kg of marijuana this year (2008). 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. Belgian authorities seized 179 kg of amphetamines as of October 2008.

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 one of the preferred destinations for cocaine imported to Europe. The flow of cocaine to Belgium is controlled by Colombian organizations with operatives residing in Africa and in Belgium itself and neighboring countries. A few corrupt Antwerp port employees have been prosecuted for involvement in the receipt and off-loading of cocaine upon arrival at the port. Zaventem National Airport has become a major point of entry for couriers from Africa, using both baggage and human couriers or “mules”. Most of the cocaine originates in South America and transits through either West Africa or other countries in South America. The majority of the couriers 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. 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 over the past four years and intelligence reporting indicate that Belgium has also become a secondary distribution and packaging center for heroin coming along the Balkan Route. Seized heroin has reached 52.41 kg this year. 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/Demand Reduction. 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. The United States recently trained and certified several Belgian Federal Officers in clandestine ATS 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 continued cooperation and support from Belgium in drug-related crime. With the recent rise in cocaine trafficking across Europe and the establishment of Colombian organizations controlling this trend, there will be increased levels of bilateral investigative activity.

Belize

I. Summary

Belize is a transit point for narcotics destined for the United States. The Government of Belize (GOB) collaborated with the United States on joint counter narcotics operations and investigations in 2008 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 shared borders with Guatemala and Mexico, miles of unpopulated jungles, navigable inland waterways, and unprotected coastline with hundreds of small islands make it vulnerable to trans-shipment of illicit drugs between Colombia and Mexico and the U.S. Authorities' ability to counter the threat is hampered by limited infrastructure and corruption. 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 2008

Policy Initiatives. Legislation submitted in 2007, requesting wider authority relative to intelligence collection and electronic intercepts, as well a draft for a Chemical Precursors Control Act is still pending due to general elections held in 2008, two natural disasters, an economic crisis, and limited resources. However, on June 19, 2008 the Minister responsible for Supplies Control enacted a statutory instrument prohibiting the bulk importation of pseudoephedrine and ephedrine.

Law Enforcement Efforts. In 2008 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 continued 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. In March, drug traffickers landed a plane on the northern highway and managed to escape with an estimated one metric ton of cocaine. However, the BDF arrived before the plane refueled and took off again, seizing the plane used to transport the drugs. The BDF maritime units responsible for patrolling Belize's inland waterways along with the BNCG's continuous patrolling of the coastline have not resulted in any drug seizures. The Belize National Forensic Science Services (NFSS) laboratory increased its technical capacity through training provided by the USG, and, as a result, more forensic evidence is now allowed in the courtroom.

Seizures through December 2008 include: 16.2 kilograms (kg) of cocaine; 0.7 kg of crack cocaine; 275.5 kg of marijuana; 50,050 marijuana plants; 100,892 marijuana seeds; and minor quantities of other drugs. Narco-funds in the amount of \$112,510 were seized and law enforcement made 1,539 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, in 2008 there were several notable cases of official corruption that proved that it exists. In April, one Customs officer was suspended and two others investigated in an incident in which they failed to follow established Customs protocol and report a suspicious container to the investigations section. The truck carrying the container was improperly released from Customs and reportedly "hijacked" of its contents after its release. In another case in May, suspicious Customs officials discovered that the contents of two shipping containers were lost and that the containers had been fraudulently cleared from the Customs compound. The investigation was ongoing at the time of this report, and the two suspected customs officials have

been suspended pending the outcome of internal proceedings expected in early 2009. In September, three Customs officers were charged with forgery of an official document to facilitate the unauthorized removal of a 40-foot container from the port compound, which is privately owned.

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 and does not have laws specifically addressing narcotics-related public corruption. Although corruption in general is covered under the 1994 Prevention of Corruption in Public Life Act, the GOB takes very limited legal and law enforcement measures to prevent and punish public corruption due to limited prosecutorial and judicial resources. The Act's Integrity Commission, which has powers to investigate corruption and impose civil penalties, has received many allegations, however, it is unclear whether credible allegations are ever investigated, and, 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 2008 there were several high profile cases of conflict of interest or suspected or confirmed corruption in high levels of the government, including the former Minister of Health, the former Minister of Home Affairs, and the former Prime Minister, who were charged with theft of \$10 million of the "people's money" (public funds) donated by the Venezuelan Government.

Agreements and Treaties. Belize is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotics Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. 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. citizen fugitives is excellent (12 fugitives deported in 2008), response to other U.S. requests for assistance extraditing Belizean nationals has been frustratingly slow due to limited criminal justice system resources and a system lacking judicial incentives to promote speedy trials. Belize is a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. 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 fair amount of marijuana is cultivated for local consumption in scattered plots throughout Belize. Police investigate and burn the plants, but often the marijuana fields are planted on government property, ownership of the illegal plants cannot often be determined and no further action is taken. There are no industries in Belize requiring the import of precursor chemicals, however, in 2008, significant trafficking in precursor chemicals in Belize was observed through police reports.

Drug Flow/Transit and Distribution. Cocaine is trans-shipped through Belize's territorial waters for onward shipment to Mexico. The primary means for smuggling drugs are "go-fast" boats transiting Belizean waters for transshipment along navigable inland waterways and then to remote border crossings into Mexico. Interdiction is hampered by the lack of adequate host nation resources and lax customs enforcement. In four instances, during 2008, pseudoephedrine pills were illegally imported into Belize for onward distribution to either Guatemala or Mexico. In one such case, police seized approximately 20 million pills shipped from Belgium and China and destroyed them.

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. Drug abuse and treatment statistics are not readily available in Belize and drug rehabilitation facilities are virtually non-existent for the local population. In 2008, the USG provided funds for two officers from NDACC to train at the

United Nations Office against Drugs and Crime (UNODC) in the assessment of treatment, rehabilitation and social integration facilities for drug abusers. The U.S. also funded an after-school anti-drug program through the NDACC.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2008, the U.S. assisted the GOB in developing its capability to combat drug trafficking and coordinated 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. Belize needs to pass and implement pending legislation requesting wider authority relative to intelligence collection and electronic intercepts and a Chemical Precursors Control Act with punitive sanctions. The GOB needs to adequately fund and train prosecutors in the Public Prosecutors office as well as police prosecutors in narcotics prosecutions.

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, construction of a new BNCG headquarters building, and donation of equipment and boats through Enduring Friendship.

Benin

I. Summary

Benin remains a low volume narcotics producer, and continues to be a transit point for illegal narcotics. During 2008, no new counter-narcotics laws or initiatives were introduced in Benin. Benin's drug enforcement police squad, Central Office for Repression of Illicit Drug Trafficking (OCERTID), is a police-only squad with limited resources. The rate of illegal drug seizures was low in Benin during 2008 as were quantities seized. Benin is a party to the 1988 UN Drug Convention (UNDC), and its anti-narcotics legislation adopted into law in 1997 is based on the UNODC model.

II. Status of Country

Benin is a small producer of illegal narcotics. Marijuana is the only drug produced in significant quantities, and there is no production of synthetic drugs such as methamphetamines. Marijuana is sparsely cultivated in the regions of Benin along the western and eastern borders with Nigeria and Togo. It is also produced in the central area of the country. The primary market for this cultivation is within Benin itself. During 2008, there were no new efforts by the government to eradicate domestic drug production. Benin's porous borders and lack of port security permit the easy transshipments of narcotics by regional traffickers. All forms of narcotics are known to transit through Benin.

III. Country Action against Drugs In 2008

Policy Initiatives. In 2008, there have been no new efforts towards combating the trafficking of illegal narcotics. Legislation adopted in 1997, which increased sentences for traffickers, criminalized drug-related money laundering, and permitted the seizure of drug-related assets remains in effect but implementation/enforcement is limited.

Law Enforcement Efforts. Benin's Drug Enforcement Coordination Office called CILAS (Interdepartmental Committee to Fight Against Drugs and Narcotics Abuse) encompasses representatives from the Ministries of Health, Family, Social Protection, Finance, Economy, Environment, and Youth. CILAS is responsible for implementing Benin's domestic drug policy, but no results on the effectiveness of its programs are available. The chairman of CILAS was the former National Director of Police, who was recently relieved of duties due to the drug corruption scandal. CILAS is now without a chairperson.

Benin has participated in regional anti-narcotic efforts during 2008 such as the DEA funded African Drug Trafficking Seminar held in Gaborone, Botswana, September 22-24, 2008, and a regional sponsored seminar on drug trafficking in Bamako, Mali from October 14-16, 2008. Benin also participated in a regional seminar in Grand-Bassam, Cote d'Ivoire, from October 20-24, 2008.

OCERTID still has an enforcement 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 US Millennium Challenge Compact 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.

The total reported drug seizures in Benin, through October, during 2008 were: cannabis: 6.7 Kg, cocaine: 22.7 Kg, and heroin: 2.1 Kg. There were a total of 60 people arrested and prosecuted. The breakdown of nationality is: 35 Beninese, 25 Nigerians. Law enforcement resources continue to target small-scale couriers, users, and criminals involved in other forms of crime who are arrested with various quantities of illegal drugs in their possession. There is

neither investigative nor prosecutorial capacity to pursue leaders of conspiracies to traffic in drugs. Benin also has no legal mechanism in place to seize assets of narcotics offenders.

Corruption. The Government of Benin 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. However, there is no legislation or legal framework in Benin to prevent or punish narcotics-related corruption. In 2008, Benin pursued judicial cases against certain officials involved in illegal activity.

The judiciary proceedings initiated against high-ranking police officials in February 2007 are still pending. Several other government officers are in pre-trial detention at the prisons of Cotonou, Ouidah, and Porto-Novo on narcotic-related charges.

Agreements and Treaties. Benin is a party to the 1988 UN Drug Convention, the 1961 UN 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 three protocols. The U.S. and Benin entered into several bilateral counter-narcotics assistance agreements (LoA-Letter of Agreement and Amendments) in 1995 and 2001. Benin also signed a bilateral agreement with Nigeria in 2006 under which the two countries implemented joint border control teams and procedures for trans-border crime detection including narcotics control.

Cultivation/Production. Only marijuana is cultivated in Benin, and then only on a modest scale for domestic consumption.

Drug Flow/Transit. Criminal groups operating in West Africa organize drug “mule” traffic, including “swallowers” through Benin’s airport. Drugs also probably transit Benin’s port, but with such a rudimentary system in place for detection and enforcement, there is only limited evidence through drug seizures to substantiate this.

Domestic Programs/Demand Reduction. No drug treatment as such is available in Benin. Drug abusers are dependent on the limited facilities offered at government supported health clinics.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. With the strong anti-corruption stance by the Beninese government, there is a good possibility that aggressive implementation of counter-narcotics will be brought back to the foreground. Efforts by the US Government towards improving port and border security, such as the Millennium Challenge Corporation program, of which \$169M is to be invested in port modernization and efficiency improvements, should greatly assist these efforts.

The Road Ahead. The lack of training and resources for counter-narcotics units remain problematic. The U.S. hopes to assist by offering training opportunities at ILEA and other regional training programs.

Bolivia

I. Summary

On September 15, 2008, the President of the United States determined for the first time that Bolivia had “failed demonstrably” to adhere to its obligations under international counternarcotics agreements. This determination was made due to a number of factors, including the forced departure of the U.S. Agency for International Development (USAID) and the Drug Enforcement Administration (DEA) from the coca growing Chapare region, continued increases in coca cultivation and cocaine production, the Government of Bolivia's (GOB) policies to expand the cultivation of “licit” coca, and its unwillingness to regulate coca markets. The GOB's decisions to expel the U.S. Ambassador in September and all Drug Enforcement Administration (DEA) personnel in November, based on false accusations of conspiracy – seriously damaged counternarcotics cooperation, and call into question whether the GOB will continue any bilateral efforts with the United States in this area.

In 2008, the GOB eradicated over 5,000 hectares of coca nationwide, about 95 percent of which took place in the Cochabamba tropics (Chapare) and Yacapani region. Nonetheless, coca cultivation and cocaine production capacity increased rapidly due both to greater cultivation as well as Bolivian traffickers adopting more efficient cocaine manufacturing methods. Bolivia is a party to the 1988 UN Drug Convention.

II. Status of Country

Bolivia remains the world's third largest producer of cocaine, and it is a significant transit zone for Peruvian-origin cocaine. Bolivia's estimated potential cocaine production has increased, from 100 metric tons in 2003 to at least 120 metric tons in 2008. According to DEA, given the increasing number of labs using much more efficient Colombian technology, potential cocaine production may have grown to as much as 192 metric tons. The majority of cocaine trafficked from or through Bolivia is destined for Brazil, Chile, Argentina, and Paraguay with a significant amount transshipped to Europe. From 2003 to 2007, coca cultivation in Bolivia increased from 23,200 to 29,500 hectares, according to official USG estimates. UNODC estimates followed a similar upward trend line. Bolivia is also a producer of marijuana, primarily for domestic consumption, with production increasing from 35 metric tons in 2005 to more than 113 metric tons in 2008.

President Evo Morales, who also remains the president of the Chapare region's coca growers' federations, continues to promote a policy of “zero cocaine but not zero coca,” while cocaine production continues to increase sharply. His administration proposed an increase in legal coca cultivation from 12,000 to 20,000 hectares, in violation of current Bolivian law and international agreements. With political support from the highest levels of the Bolivian Government, coca growers continue to increase plantings, especially in the Yungas, where cocaine production has risen sharply. In June, the United States Agency for International Development (USAID) was forced to leave the Chapare due to security threats from the leaders of the coca grower federations. In September, the GOB denied permission for DEA aircraft to fly inside of Bolivia, based on a false assumption that the aircraft were used for surveillance. The aircraft were used solely to transport American and Bolivian personnel in counternarcotics missions. In September, President Morales declared the U.S. Ambassador to Bolivia *persona non grata*, falsely accusing him of supporting the opposition and fomenting the division of Bolivia.

On November 1, President Morales announced the immediate suspension of DEA's activities in Bolivia. A diplomatic note followed demanding the departure of DEA personnel and dependents within 90 days. The GOB alleged, without presenting any evidence, that DEA engaged in political espionage, conspired against the government, promoted narcotrafficking, and shot peasant farmers. These allegations are completely unfounded. With the removal of DEA from Bolivia, counternarcotics programs, especially in the area of interdiction, will suffer serious degradation. As a result of Bolivia's failure to cooperate with the United States on counternarcotics efforts, President Bush suspended

Bolivia's designation as a beneficiary of the Andean Trade Promotion Act (ATPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) effective December 15, 2008.

III. Country Actions against Drugs in 2008

Policy Initiatives. Bolivia produces coca leaf for traditional uses, such as chewing, making tea and religious rites. However, according to the International Narcotics Control Board (INCB), under the provisions of the UN Convention, cultivating coca for traditional purposes in Bolivia should have come to an end in 1989. Current Bolivian law permits up to 12,000 hectares of legal coca cultivation, mostly cultivated in the Yungas area to supply the licit market. In September, the GOB signed an agreement with 25,000 coca growers from the Yungas federation to eventually eradicate 6,900 hectares by 2010. Eradication began on October 4, 2008; the GOB's goal is to eradicate one hectare per day. Nevertheless, this agreement also legalizes coca cultivation in new areas of the Yungas by an additional 6,500 hectares, thus raising "legal" production levels to over 18,500 hectares. With the 7,000 legalized hectares in the Chapare, total Bolivian "legal" coca exceeds 25,500 hectares, violating Bolivian Law 1008, and the GOB's international obligations. The Yungas agreement also contradicts the GOB's expressed intention to reduce coca cultivation to 20,000 hectares primarily working through concerted voluntary eradication and social control.

With financial assistance from Venezuela, the GOB continued with its plan to industrialize coca and continued discussion on building two coca industrialization plants, one in the Chapare and the other in the Yungas in contravention of the 1961 UN Single Convention on Narcotics Drugs, Article 4 that states that the Parties must "limit exclusively to medical and scientific purposes the production, manufacture, export, import, distribution of, trade in, use and possession of drugs." The European Union (EU) has had difficulty finalizing the terms of a series of studies to determine the actual licit demand for coca in Bolivia. The GOB reportedly attempted on several occasions to modify the terms of reference. This delay has increased costs of the study and delayed results to at least January 2010.

In 2008, the Bolivian government with some support from the USG and neighboring countries, refined a proposal, first drafted in 2006, to improve money laundering and asset forfeiture legislation, and plea bargaining in criminal cases. If approved by the Bolivian Congress, this draft legislation would provide the tools needed by law enforcement units to improve their ability to conduct and prosecute narcotics, money laundering, terrorism, and corruption cases in Bolivia. Pending legislative reforms also include a provision for judicial intercepts of wire communications, and reform of the Code of Criminal Procedure. The Bolivian Congress has not yet addressed the proposed legislation. The Counternarcotics Council of Ministers responded favorably to the draft legislation in July, and plans are underway to submit this legislation for review by Congress by December 2008.

Accomplishments. The GOB eradicated 5,484 hectares of coca nationwide in 2008—95 percent of eradication occurred in the Chapare and Ypacani, and only 5 percent (just over 300 hectares in Caranavi and La Asunta) in the Yungas. Interdiction of cocaine base and cocaine hydrochloride (HCl) totaled more than 26 metric tons in 2008, compared to about 14 metric tons in 2007, and GOB counternarcotics units located and destroyed 6,535 cocaine labs and maceration pits, compared to 3,093 in 2007. Increased seizures are due to an increase in drug production and transshipment of drugs from Peru.

Law Enforcement Efforts. The Bolivian Special Counter-Narcotics Police (FELCN) intercepts illicit drugs, precursor chemicals and investigates money laundering activities. The USG provides logistical support and training to FELCN units. The FELCN is structured to combat all aspects of drug trafficking to include interdiction of drugs, illicit coca, and precursor chemicals, intelligence gathering, money laundering, and rural operations. Even with the loss of DEA, the Department of State Bureau for International Narcotics and Law Enforcement Affairs' (INL) Narcotics Affairs Section (NAS) continued to support most FELCN programs in Bolivia. Throughout 2008, FELCN focused on higher level violators, resulting in more Priority Target Organizations being investigated with the regional partner nations. However, with growing cocaine supply, more drug trafficking activities, more sophisticated organizations operating in Bolivia, and the seizure of massive and sophisticated Colombian-managed cocaine laboratories in the

Santa Cruz area it will be increasingly difficult for the FELCN to meet these challenges without DEA resources and the integrity of some of the programs will be difficult to ensure without DEA involvement.

Corruption. There are no proven cases of senior GOB officials encouraging or facilitating the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. As of October 2008, the Office of Professional Responsibility (OPR) within the Bolivian National Police (BNP) and FELCN has investigated 2,043 allegations of various forms of misconduct (vehicle accidents, misuse of official equipment, and insubordination). Of the 176 cases that involved FELCN members, none of the investigations resulted in findings of corruption. Presently, 827 of these OPR cases were reviewed by a disciplinary board and the remainder are still in the investigative stage and/or awaiting tribunal action.

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 and its Protocols on Trafficking in Persons and Migrant Smuggling, 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.

Extradition: The GOB and the United States 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. During 2008, the USG requested the extradition of one Bolivian national for narcotics trafficking; that request remains pending. Bolivia requested the extradition of two co-defendants charged with homicide; those requests also remain pending.

Cultivation/Production. Overall coca cultivation has increased from 25,800 hectares in 2006 to 29,500 hectares in 2007, according to official USG estimates. Of the two main coca growing regions, cultivation in the Yungas increased sharply to 22,500 hectares, while cultivation in the Chapare declined to 5,700 hectares – an overall increase of 14 percent. The UNODC overall estimates also showed an overall increase of 5 percent – a similar upward trendline.

Over the last year, a steady increase in the use of the more efficient “Colombian method” for cocaine production (using mechanized coca maceration as well as solvents instead of acids for alkaloid extraction) was also noted. According to DEA, as a result, the current annual production estimate of 120 metric tons of cocaine could increase as much as 60 percent. It should be noted that the increase in seizures of labs and cocaine in Bolivia from 2007 to 2008, is likely a direct result of an increase in cultivation in 2007 and a proliferation of labs in 2008 to process the coca.

Increased cocaine production in Bolivia is a threat to neighboring countries as well as to the U.S. and Europe. Chilean and Argentine authorities report an increase in cocaine HCl labs in their countries, supplied by Bolivian cocaine base. Brazilian authorities have stated that most of the cocaine seized in Sao Paulo comes from Bolivia, with an increasing percentage of that cocaine of Peruvian-origin that transits Bolivia to Brazil.

Drug Flow/Transit. Although cocaine produced in Bolivia is increasing, there is limited documentation concerning Bolivian cocaine being seized outside of Bolivia, and, as noted above, most Bolivian-origin cocaine exports flow to other Latin American states and onward to Europe; relatively little is exported to the U.S. Increasing intelligence suggests a nexus with Mexicans, Colombians and the tri-border area (Argentina, Brazil and Paraguay). In 2008, the USG dismantled three prime target organizations linked to Bolivian cocaine supplies and Mexican organizations.

In the meantime, as cocaine availability increased in Bolivia under the Morales administration, conflict increased between rival organizations trying to carve out territory and trafficking routes. This is most evident in Cobija, with dozens of rival traffickers killed in 2008. This type of violence was previously rare in Bolivia. Violence in Cobija has forced many to flee across the border to Brazil, a trend that is likely to continue into 2009.

Alternative Development (AD). The USG's Integrated Alternative Development program provides support 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 (AD) 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), and improve rural road infrastructure and access to markets. Beginning in FY 2007, AD support had begun to shift from the Chapare region to the Yungas region in accordance with the Government of Bolivia's rationalization plans.

In 2008, bilateral cooperation in Integrated Alternative Development suffered following the GOB's issuance of two Supreme Decrees the purpose of which were to bring greater GOB control over bilaterally administered donor resources and specifically require that donor funds directly support GOB entities or be channeled through the General Treasury. The USG, via USAID, currently funds one GOB entity for the purpose of road maintenance and improvement, but also relies on other implementing mechanisms including local government and non-government organizations to deliver assistance. Strict USG accountability requirements, with an emphasis on results, and concerns over the capacity of other GOB entities to meet these requirements, constrain the USG's ability to adhere solely to the new policy directives governing donor resources. An intensive review of the AD program led by the GOB demonstrated the magnitude of results achieved by implementing partners under the program, but did not succeed in convincing Bolivian authorities to revisit their Decrees.

While implementation proceeded in the interim, relations between USAID and GOB counterparts in the Vice Ministry of Coca and Integrated Development remained strained for much of the year. Matters deteriorated sharply in June when the leaders of the six federations of coca producers in the Chapare voted to expel USAID projects from the region followed by the expressed endorsement of the President and of most municipal governments with whom USAID projects had previously been operating productively. Yungas federations, on the other hand, expressed their desire to continue cooperating with USAID and its implementing partners. The USG expressed its desire to reach agreement with the GOB on an orderly phase-out of assistance in the Chapare in favor of shifting resources toward the Yungas but to date the GOB has not responded and there is no such agreement.

U.S. support for the Yungas region, dating back to 2001, is of much more recent origin than that undertaken in the Chapare. The Yungas is an underdeveloped region, and home of the so-called traditional zone, where most of Bolivia's legal coca is cultivated. However, there is also considerable excess coca grown there. Recently, the GOB signed an agreement with the Yungas social organizations to define the area where coca cultivation is permitted and reduce coca cultivation in areas outside of that zone. Preliminary data on results achieved over the last year indicate that USAID's Integrated Alternative Development program activities continued to produce significant results, mostly exceeding established targets for the year, despite the stalled bilateral cooperation. U.S. assistance directly supported the cultivation of 12,800 hectares of new or improved crops such as bananas, cocoa, palm hearts and coffee, and areas under forest management plans.

In FY 2008, the annual value of USAID-promoted exports reached almost \$35 million. Assistance to farm communities and businesses helped generate 5,459 new jobs and new sales of AD products of nearly \$28 million. In FY 2008, 13,432 families benefited directly from U.S. assistance. Approximately 717 kilometers of roads were maintained or improved and 16 bridges constructed in the two regions where AD programs were undertaken. In addition, USAID's support helped the Government register the last 51,400 hectares of land to reach a total of 466,000 hectares in the Tropics of Cochabamba in preparation for its titling, thus strengthening land ownership rights and encouraging further farmer investments in alternative development products.

Domestic Programs/Demand Reduction. A 2008 UNODC report shows a continued increase in Bolivian domestic drug consumption. The GOB continues to inadequately support drug abuse prevention programs in spite of evidence of increased drug use in Bolivians reported by the UNODC. Recent statistics show that 4.6% of the population use illegal drugs (cocaine, marijuana, hallucinogens and others) in Bolivia, and that this number is expected to rise. The

USG supported an expansion of the Drug Abuse Resistance Education (D.A.R.E.) program and continued to support 20 municipalities that 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 22,000 students, short of its 28,000 student goal due to social problems and the flooding that occurred in Bolivia earlier in the year. In cooperation with non-governmental organizations (NGOs), the USG concluded the master's degree program in drug abuse prevention and rehabilitation that had included 32 students, and implemented a community based drug abuse prevention program reaching 50,000 people. In 2008, most USG supported demand reduction efforts were coordinated with local municipalities and departmental governments. At the national level it has become increasingly more difficult to achieve results, as the GOB has yet to put forward a coherent demand reduction strategy.

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 Bolivia National Police (BNP) officers in modern investigative techniques to curb money laundering and terrorism financing.

Bilateral Cooperation. Bilateral cooperation declined significantly in 2008 with the expulsion of DEA from the country, the limitation of USAID's alternative development programs, the expulsion of the U.S. Ambassador and the increasingly hostile rhetoric from the GOB. However, Bolivian and U.S. officials still meet regularly to implement programs and operations and to resolve issues. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) principally supports and assists Bolivian interdiction and eradication forces. Before their expulsion, DEA provided direct operational advisory, liaison, intelligence and funding support to the FELCN's Sensitive Investigative Units, and USAID provided significant support to GOB efforts on alternative development.

Despite this decline in the bilateral relationship, the USG continued to support institution building and development of both the BNP forces and counternarcotics prosecutors under a 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: crisis command and control, leadership and management, 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.

Unfortunately, the Bolivian legal system is unable to efficiently process the majority of drug cases and many criminals avoid prosecution. To address this, the USG has continued to enhance training for prosecutors, and the Public Ministry through implementation of a nationwide program to enhance the capability of the prosecutors to identify, investigate and prosecute violations of controlled substances, transnational crime, human rights issues and corruption.

The Road Ahead. The GOB faces significant challenges because its policies allow expansion of coca cultivation, limit eradication efforts, and loosen controls over the licit coca market. We are concerned about the growing influence of Colombian and Mexican cartels and the possibility of a growing number of drug-related crimes in Bolivia. We encourage the GOB to reverse its policies on expansion of coca cultivation. We also encourage the GOB to expand eradication in the Yungas, redouble its efforts in the Chapare, eliminate new coca plantings, and enhance its efforts to interdict illegal drugs and precursors throughout Bolivia. This effort should include the return of DEA to Bolivia. The

U.S. also encourages the GOB to exert strict controls over the licit coca market, close illegal markets and increase cooperation with neighboring countries in counternarcotics efforts.

V. Statistical Tables

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Coca											
Net Cultivation (ha)	-	29,500	25,800	26,500	24,600	23,200	24,400	19,900	19,600	21,800	38,000
Eradication (ha)	5,484	6,269	5,070	6,073	8,437	10,000	11,839	9,435	7,953	16,999	11,621
Leaf: Potential Harvest ¹ (mt) ³		51,000	37,000	36,000	37,000	33,000	35,000	32,000	-	-	-
HCl: Potential (mt)		120	115	115	115	100	110	100	-	-	-
Seizures											
Coca Leaf (mt)	2066	1,330	1,344	887.4	395.0	152.0	101.8	66.0	51.9	56.0	93.7
Cocaine Base (mt)	21.6	11.4	12.7	10.2	8.2	6.4	4.7	4.0	4.5	5.5	6.2
Cocaine HCl (mt)	7.2	2.4	1.3	1.3	0.5	6.5	0.4	0.5	0.7	1.4	3.1
Combined HCl & Base (mt)	28.8	13.8	14	11.5	8.7	12.9	5.1	4.5	5.3	6.9	9.3
Arrests/Detentions	3,525	3,380	4,503	4,376	4,138	3,902	3,229	2,948	3,414	3,503	407
Labs Destroyed											
Cocaine HCl	7	6	3	3	4	2	2	1	2	1	1
Base	4988	3,087	4,070	2,619	2,254	1,769	1,285	877	620	893	1,205

¹ The reported leaf-to-HCl conversion ratio is estimated to be 370 kilograms of leaf to one kilogram of cocaine HCl in the Chapare.

In the Yungas, the ratio is 315:1.

³ The reported leaf-to-HCl conversion ratio is estimated to be 370 kilograms of leaf to one kilogram of cocaine HCl in the Chapare. In the Yungas, the ratio is 315:1.

Bosnia and Herzegovina

I. Summary

Narcotics control capabilities in Bosnia and Herzegovina (“Bosnia”) remain in a formative stage 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 also contribute to Bosnia’s vulnerability. The political will to improve narcotics control performance exists in some quarters of the Bosnian government. However, faced with ongoing post-war reconstruction issues, the government has to date focused limited law enforcement resources on investigating and prosecuting war crimes, counterterrorism and combating trafficking in persons and has not developed comprehensive antinarcotics intelligence and enforcement capabilities. Despite some improvement in cooperation among entity and cantonal law enforcement agencies, gradual improvements in the oversight of the financial sector, and substantial legal reforms, the current political divisions which hamper reform efforts have contributed to poorly coordinated counternarcotics 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 2008, Bosnia took almost no additional 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. However, law enforcement agencies, often in cooperation with neighboring countries, succeeded in making some substantial heroin-related arrests and seizures. 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 a developing 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 for illicit drugs 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 2008

Policy Initiatives. On November 8, 2005, the Bosnian House of Representatives passed legislation designed to address the problem of narcotics trafficking and abuse. The state-level counternarcotics coordination body and national counternarcotics strategy mandated by the legislation were not fully in place as of October 2008 partly due to the generally negative political climate and a dispute between the Ministries of Security and Civil Affairs as to which Ministry is responsible for moving the initiative forward. 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 Border Police (BP) 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. Law enforcement agencies made some significant drug-related arrests during 2008; however, overall counternarcotics efforts 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 2008 (latest available statistics), law enforcement agencies in Bosnia-Herzegovina (including the State Investigation and Protection Agency (SIPA), the Border Police, Federation Ministry of Interior, Republika Srpska Ministry of Interior and Brcko District Police) have filed criminal reports against 1294 persons for drug related offenses. These agencies also report having seized 15.86 kg of heroin, 883 g of cocaine, 1.3 kg of amphetamines, 81.6 kg of marijuana, 3,021 cannabis plants, 490 cannabis seeds, 784 Ecstasy tablets, and 235 grams of hashish. The above statistics do not include approximately 50 kg of heroin seized by police forces in neighboring countries in operations conducted with the assistance of BiH law enforcement agencies. The Border Police (BP), founded in 2000, is responsible for controlling the country's three international airports, as well as Bosnia's 55 international border crossings covering 1,551 kilometers. The BP has been considered one of the better border services in Southeast Europe and is one of the few truly multi-ethnic institutions in Bosnia. However, declining relative wages vis-à-vis other local and entity law enforcement agencies along with harsh working conditions have led to sustained personnel shortages in the BP. There are still a large number of illegal crossing points, including rural roads and river fords, which the BP is unable to patrol. Moreover, many official checkpoints and many crossings remain understaffed. SIPA, once fully operational, is supposed to be a conduit for information and evidence between local and international law enforcement agencies, however, several local law enforcement agencies, including the Republika Srpska police, have at times refused to cooperate with SIPA.

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 synthetic 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 a party to 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 and its protocols against migrant smuggling, trafficking in persons, and trafficking in illicit firearms, and to the UN Convention against Corruption. A 1902 extradition treaty between the U.S. and the Kingdom of Serbia applies to Bosnia as a successor state.

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, 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. As part of an overall public campaign to promote a "122 Crime Stoppers" hotline that citizens can use to report crimes in progress, the Federation police included a short video that encourages citizens to report any drug deal they witness. The Citizens, Association for Support and Treatment of Drug Addicted and Recovered Persons (UG PROI in local language) maintains a private facility to help drug addicts near Kakanj. During the year UG PROI presented anti-drug messages to students through a drama program in elementary schools throughout Bosnia-Herzegovina. In June UG PROI organized a race against drugs involving both a fund-raising event and a large anti-drug abuse demonstration in downtown Sarajevo.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG policy objectives in Bosnia include reforming the criminal justice system, strengthening state-level law enforcement and judicial institutions, improving the rule of law, de-politicizing the police, improving local governance, and introducing free-market economic initiatives. The USG will continue to work closely with Bosnian authorities and the international community to combat narcotics trafficking and money laundering.

Bilateral Cooperation. The USG's bilateral law enforcement assistance program continues to emphasize task force training, 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) program, funded by the State Department, provided specific counternarcotics training to entity Interior Ministries, SIPA and BP. The USG Export Control and Border Security (EXBS) program provides equipment and training to law enforcement agencies including the BP and the Indirect Taxation Administration (ITA) to stop the import of weapons of mass destruction and dual use items. EXBS Assistance increased BP 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 Agency (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 state-level law enforcement and judicial institutions, promoting 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 continue to provide political support to state-level institutions in the face of significant attacks on them by national forces intent on destroying the state. We will encourage Bosnia to proceed with the full implementation of the planned national counternarcotics strategy. The international community is also working to increase local capacity and to encourage interagency cooperation by mentoring and advising the local law enforcement community.

Brazil

I. Summary

Brazil is a major transit country for illicit drugs destined for Europe and, to a much lesser extent, the United States. One effect of the quantity of drugs transiting the country is that Brazil has become the second largest consumer of cocaine in the world after the United States. Brazil has increased its cooperation with the United States and its neighbors, though efforts to control trafficking from Bolivia, the main source of cocaine for Brazil, have been limited. Given the size of the country, Brazil relies increasingly on intelligence-driven joint operations to control smuggling of drugs and other contraband. With U.S. assistance, the Brazilian Federal Police (DPF) has focused greater attention on consolidation and shipping points such as the country's air and sea ports.

In 2008, law enforcement officials made several key arrests, including that of a high level Colombian drug cartel leader who directed cartel operations in Brazil. Police also seized substantial quantities of drugs, including increased seizures of low-purity, crack cocaine-type products destined for local consumption. Authorities have noted increasing involvement by urban gangs—Sao Paulo's First Command of the Capital (PCC) and Rio de Janeiro's Red Command (CV)—in cocaine and marijuana trafficking. Brazil is a party to the 1988 UN Drug Convention.

II. Status of Country

Brazil is a major transit country for cocaine hydrochloride (HCl) and a significant destination for cocaine base and other cocaine products, e.g., 'crack cocaine'-type drugs consumed locally. Though authorities have uncovered small, 'kitchen labs' which process cocaine base, there is no evidence yet of the large-scale cocaine HCl processing activity common to the Andean producer countries. Cocaine HCl that enters Brazil is often transshipped to Europe via Africa. Though Brazil grows small amounts of low quality marijuana, most of the higher quality marijuana consumed in Brazil comes from Paraguay. Brazilian authorities have noted increased involvement in narcotics and weapons smuggling by Sao Paulo's PCC and Rio de Janeiro's CV. These organized criminal gangs have an increasing international presence in places such as Bolivia, Paraguay, and possibly Portugal, as well as growing international links with Colombian and Mexican traffickers. Quantities of MDMA (Ecstasy), some produced locally, but mostly imported from Europe, have also been seized at ports of entry and in urban centers.

III. Country Actions against Drugs in 2008

Policy Initiatives. Brazil's 2006 anti-drug law prohibits and penalizes the cultivation and trafficking of illicit drugs, but it also provides significant judicial discretion which virtually decriminalizes simple possession and consumption of small quantities. In 2008, a subsequent law established zero tolerance for persons caught driving under the influence of alcohol or drugs. Brazil has established systems for identifying, tracing, seizing, and forfeiting narcotics-related assets. The Brazilian Government's interagency Financial Crimes Investigations Unit (COAF) and the Ministry of Justice manage these systems jointly. Police authorities and the customs and revenue services have adequate police powers and resources to trace and seize assets. The judicial system has the authority to take title to seized assets and Brazilian law permits the sharing of forfeited assets with other countries.

Accomplishments. United States-Brazilian cooperation led to the 2007 capture of Juan Carlos Ramirez-Abadia, aka 'la Chupeta,' one of the leaders of Colombia's Norte del Valle cartel. Following his conviction and sentencing in Brazil, Ramirez-Abadia was extradited to the United States in 2008 and faces federal murder, drug trafficking, and money laundering charges in the Eastern District of New York. DEA agents in Brazil and Colombia, working with the DPF and Colombian National Police, have subsequently seized more than \$700 million in cash and other assets from his organization. In late 2007 and 2008, the DPF and DEA completed their investigation of a major Brazilian

trafficker, Luis Fernando da Costa, whose network had controlled drug activity in some of the most dangerous areas of Rio de Janeiro. As a consequence, the DPF has been able to arrest and indict ten other people, including da Costa's wife, on charges of money laundering and narcotics and weapons trafficking.

Law Enforcement Efforts. While anti-drug activities in Brazil are carried out at all levels of government, the most reliable data collection systems and seizure statistics are maintained by the Federal Police. For 2008, the DPF made available the following data on amounts of drugs seized: 18 metric tons (MT) of cocaine, 514 kilograms (kg) of cocaine base, 430 kg of crack, 182 MT of marijuana, 12 kg of heroin, 125,706 dosage units of Ecstasy, and 95,653 dosage units of LSD.

The DPF instituted a training program at its national training academy for police investigators and customs officials from Portuguese speaking African countries.

Corruption. As a matter of government policy, neither the GOB nor any of its senior officials condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or laundering of drug money, but corruption remains an issue of concern. Despite a series of domestic political scandals in 2008 that undermined GOB credibility in this area, the current government has introduced some potentially significant anti-corruption initiatives. DPF anti-corruption/fraud operations increased from 3 in 2003 to 28 in 2008. Many other DPF investigations regarding financial crimes, money laundering, and drug trafficking have an anti-corruption aspect to them. Brazil's anti-money laundering mechanisms and relatively independent prosecutorial and oversight institutions have played useful roles in the investigation of such cases. In May 2008, a former governor of Rio de Janeiro and a state legislator were arrested by the DPF on charges of corruption, extortion, money laundering, and facilitation of contraband. In June, eleven soldiers providing public security to Rio's slums were arrested for handing three young men over to rival drug traffickers and gang members to be tortured and killed.

Agreements and Treaties. Brazil became a party to the 1988 UN Drug Convention in 1991. Brazil is also a party to 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 counter narcotics cooperation between the United States and Brazil, and a new Letter of Agreement (LOA) was signed in August 2008. The United States and Brazil are parties to a 2001 bilateral mutual legal assistance treaty (MLAT) and a 2002 mutual assistance agreement on customs matters. Essentially, both agreements provide for an exchange of information to help prevent, investigate, and redress any offense against applicable laws of the United States or Brazil. Brazil also has a number of narcotics control agreements or similar arrangements with its South American neighbors, several European countries (primarily, Spain, Portugal and the UK), and South Africa. Even in the absence of treaties or similar arrangements, Brazil routinely cooperates with other countries as regards narcotics-related crime 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 allows for the extradition of naturalized Brazilian citizens for any crime committed prior to naturalization. Brazil does cooperate with other countries to extradite non-Brazilian nationals accused of narcotics-related crimes, though the GOB has recently begun to impose conditions not contained in the 1964 bilateral treaty and protocol. For example, in the Ramirez-Abadia case and others, the Brazilian Supreme Court agreed to the extradition only if the Ministry of Justice received assurances that extradited individuals would not be subject to the death penalty, a life sentence, or a sentence of longer than 30 years imprisonment.

Illicit Cultivation/Production. The DPF confirms that cannabis is grown in the northeast region and production of MDMA (Ecstasy) is on the rise. Drugs for domestic consumption or transshipment originate mainly in Bolivia, Colombia, Peru, and Paraguay. Limited cocaine base and crack cocaine-type products processed in Brazil are

primarily for domestic consumption. Brazil is the largest chemical producer in South America and has over 25,000 registered chemical handlers, therefore, the diversion of chemical precursors and/or narcotics processing is a possibility. The DPF carried out several chemical enforcement operations in 2008, including the September initiative in the state of Pernambuco that resulted in the seizure of 20 tons of precursor chemicals from various companies due to registration or administrative irregularities. The DPF also targeted and dismantled a criminal organization in the state of Minas Gerais responsible for diverting tons of chemicals; eight suspects were arrested pursuant to serving thirteen search warrants. Additionally, the DPF seized and dismantled the first ever Ecstasy laboratory in Brazil. In November, the DPF launched the National Computerized System of Chemical Control (SIPROQUIM) designed to prevent the diversion of chemicals, focusing on those substances used in the production of synthetic and plant-derived drugs such as cocaine. This program is a joint venture with the United Nations Office on Drugs and Crime (UNODC).

Drug Flow/Transit. Cocaine arriving from Bolivia and marijuana from Paraguay are primarily imported for domestic consumption, while higher quality cocaine from Colombia and Peru is generally intended for export to Europe via Africa. Some drugs transiting Brazil depart via ships from Soape (near Recife), Salvador, and other northeastern ports, though greater amounts depart from the port of Santos (near Sao Paulo) in the south. Significant quantities are smuggled by couriers (mules) on international flights originating primarily in Sao Paulo and Rio de Janeiro and other international airports. Because of Brazil's Air Bridge Denial program (a lethal-force air interdiction program which has not resulted in any aircraft shot down since its inception in 2004); there is less reliance by traffickers on long-distance clandestine flights over Brazilian territory. Proceeds from the sale of narcotics in Brazil and income derived from cooperating in international smuggling operations are used to purchase weapons and otherwise increase the ability of the PCC, CV and other criminal organizations to maintain control of the favelas (slums) in Sao Paulo, Rio de Janeiro, and other urban centers.

Despite greater Brazilian cooperation with neighboring countries and the increased number of bilateral Joint Intelligence Centers (JICs) operating at strategic points along Brazil's borders, narcotics traffickers continue to exploit the vast, difficult-to-control border regions, particularly in the states of Mato Grosso and Mato Grosso do Sul which border Bolivia and the state of Parana across the Parana River from Paraguay. Drugs flow in increasing quantities from Bolivia into Mato Grosso and Mato Grosso do Sul, and the Parana city of Guaira has become one of the main weapons, ammunition, and drug gateways into Brazil. The PCC and CV organized gangs operate openly in this small city and an investigating committee established by the Brazilian Congress reports the PCC is openly conducting weapons sales in the area. The DPF lacks the resources to control the extensive border regions of Brazil effectively, and other police agencies have not adequately addressed the problem. The GOB's Special Investigations Units (SIUs) and similar intelligence-driven operations have ameliorated the situation in the northwest region somewhat and vastly improved interdiction efforts nationwide. SIUs are now routinely staffed by DPF agents and counter narcotics (CN) police from cooperating regional allies, giving the units the capacity to anticipate and interdict significant shipments, but the number of SIUs and their operational capacity have been insufficient to keep pace with increased drug flows. The DPF plans to establish additional SIUs at key border areas.

Domestic Programs/Demand Reduction. The National Anti-Drug Secretariat (SENAD) was established in 1998 and is charged with oversight of national drug policy on demand reduction and treatment programs. SENAD also manages the National Anti-Drug Fund (FUNAD) and the Brazilian Observatory of Drug Information (OBID). In June 2008, with U.S. assistance, the new OBID web-site was improved and upgraded. OBID is responsible for publicizing information about the dangers of drug use. The system has been integrated with systems such as those of the Federal Police, Health Ministry, and other entities.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics policy seeks to help the GOB identify and dismantle international narcotics trafficking organizations, particularly those with a U.S. nexus. The U.S. is also deeply concerned with the rapid increase in coca production in Bolivia and the threat this poses for Brazil. The USG assists the GOB in combating

money laundering and other financial crimes, increasing awareness of the dangers of drug abuse, drug trafficking, and on related issues such as organized crime and arms trafficking. Two other key goals of the U.S. Government are to help Brazil develop a strong legal structure for narcotics and money laundering control and to enhance cooperation at the policy and working levels. Bilateral agreements provide for cooperation between U.S. agencies, SENAD, and the Ministry of Justice.

Bilateral Cooperation. USG-GOB bilateral programs in 2008 included providing basic and advanced counternarcotics training to the DPF and other Brazilian police; supporting expanded narcotics detection and interdiction programs at Brazil's air and sea ports; increasing the number and expanding the capabilities of the DPF's Special Investigations Units and ensuring a growing role in their operations for police from cooperating countries in the region; assisting state and local officials to combat the criminal gangs that control narcotics and weapons trafficking in their jurisdictions; helping Brazilian officials combat money laundering and other financial crimes; and increasing USG support for GOB and NGO drug prevention and treatment programs.

In 2008, USG agencies provided training in basic and advanced drug detection and interdiction methodologies; air and sea port drug detection; cyber crime detection; exploitation of computer, cell phone and other electronics for evidence; and other topics. With the signing of a new Letter of Agreement, the United States began to work directly with state and local officials to help address problems created by narcotics-funded criminal organizations in favelas and in state prisons. The United States continues to provide funding for airport interdiction, Special Investigation Units, canine, urban crime control, and money laundering initiatives. The U.S. Coast Guard provided resident, mobile and on the job training in maritime law enforcement, port state control, incident command system, search and rescue, and port security and vulnerability. Customs and Border Protection carried out marine enforcement training designed to enhance customs officers' counternarcotics capabilities.

The Road Ahead. The increased rate of narcotics-related arrests and seizures by the DPF and other police forces during 2008 validates the decision to concentrate U.S.-supported interdiction efforts on intelligence driven operations and consolidation points such as air and sea ports. Also, Brazil's efforts to deal with increased narco-trafficking from Bolivia are critical to prevent a rise in domestic consumption. However, this is essentially a defensive strategy aimed at achieving maximum effect from limited resources. In order to identify and dismantle major international narcotics trafficking organizations operating in Brazil—or even the local affiliates who manage the transportation, consolidation and onward shipment of drugs from bordering source countries – the GOB needs to devote additional resources to augment the SIUs. Brazil is working cooperatively with its neighbors, seeking working relationships with affected African countries, and is cooperating with U.S. and international organizations such as the United Nations Office on Drugs and Crime (UNODC). We encourage the GOB to attack narcotics trafficking organizations through arrests of key personnel, seizures of drugs and property, and debilitation of organizational structures.

Bulgaria

I. Summary

Bulgaria is a transit country for heroin and cocaine, as well as a producer of illicit narcotics. Astride 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 Balkan route, while chemicals used for making heroin move through Bulgaria to Turkey and the Middle East. Marijuana and cocaine are also transported through Bulgaria. During the year, the Government of Bulgaria (GOB) initiated significant reform of its law enforcement authorities while maintaining drug seizures. 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. The new Interior Minister and the drug police have committed to make progress, but their task is formidable. Corruption and effective implementation of legal and structural reforms remain major challenges. Bulgarian law enforcement agencies, investigators, prosecutors and judges suffer from public mistrust, and require widespread reforms, much more reliable political and public support, and strong leadership 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 for heroin and cocaine. To a lesser extent, it is a producer of synthetic narcotics, which remains a serious problem. Cannabis was the most used drug in Bulgaria followed by synthetics. According to NGOs and international observers, Bulgaria continues to be a source of synthetic drug production, and there were allegations that some illegal drugs were produced by pharmaceutical companies. From 2000 to 2006, heroin use declined steadily, largely due to increased societal understanding of risks associated with its intravenous use (e.g., HIV/AIDS). In 2007, heroin use increased and remained constant in 2008. Consumption of cocaine, which is expensive in Bulgaria, increased. Amphetamines are produced in Bulgaria for the domestic market as well as for export to Turkey and the Middle East. The GOB has emphasized its commitment to fight drug trafficking, but continues to face many challenges in its enforcement efforts. A notorious underworld boss and eleven members of his importing and drug trafficking organization operating in the southeast Black sea coastal area plea bargained and received sentences well below the minimum for this type of crime. The Bulgarian government participated in efforts with international drug enforcement authorities and continued to reach out to neighboring states to cooperate in interdicting the illegal flow of drugs and persons. The disarray in the Ministry of Interior following the April forced resignation of the Interior Minister amidst speculations of contacts with alleged drug lords had a particularly negative effect on Bulgaria's efforts against crime. In addition, lack of financing and inadequate equipment to facilitate narcotics searches; widespread corruption, including especially in the Customs offices, and among the judiciary; and excessively formalistic judicial procedures continue to hamper counternarcotics efforts.

II. Country Actions Against Drugs in 2008

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. The Criminal Code established punishments for drug possession, depending on the risk level of the substances. National programs for drug treatment and prevention have been consistently under-funded.

Law Enforcement Efforts. The Customs Agency under the Ministry of Finance, the State Agency for National Security (DANS) and several specialized police services under the Ministry of Interior, including the Directorate for Combating Organized and Serious Crime (which has been re-organized as part of the Ministry of Interior reform) and

Border Police are engaged in counternarcotics efforts. The authorities maintained seizure rates for most substances, but dramatically increased seizures for cannabis. From January to September 2008, police seized 198 kg of heroin, 1 kg of cocaine, 330 kg of amphetamines, 2 liters of fluid precursor chemicals, 9,753 kg of dry and 13,306 kg of green cannabis and 51,236 tablets of psychotropic substances. During the year, the Customs Agency seized 1,085 kg of heroin, 8 kg of cocaine, 101 kg of amphetamines, 55 kg of ecstasy, 9 kg of opium and 1,260 tablets of psychotropic substances. Bulgarian authorities shared information and developed joint operations with international law enforcement agencies. DANS closed one illegal amphetamine producing facility. Police 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. Bulgaria's Commission for asset forfeiture (an independent agency) filed charges under Bulgarian law against a U.S. cocaine trafficker convicted in federal court in Miami, using that U.S. conviction to proceed against his properties in Bulgaria.

Corruption. Corruption in various forms in the government remains a serious problem. During the year, MOI's reputation suffered after a series of high-profile scandals culminating with the forced resignation of the Interior Minister. In the wake of the scandal, the government initiated major legal and structural reforms of the Interior Ministry. However, the turbulence in the ministry damaged the morale of the ministry's officials. Some officials, including some from the drug unit, resigned to accept better paid positions with DANS. Despite some reforms in the Prosecution Service, the judiciary as a whole (which includes prosecutors, investigators, and judges) consistently receives poor scores in the area of public confidence in opinion polls. The Customs Agency has a decidedly mixed record, with some senior officials having ties to notorious public figures with known criminal connections.

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 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. Bulgaria is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its three Protocols. The 1924 U.S.-Bulgarian Extradition Treaty and a 1934 supplementary treaty are in force.

Cultivation and Production. The only illicit drug crop known to be cultivated in Bulgaria is cannabis, primarily for domestic consumption. The full extent of this illicit drug cultivation is not precisely determined, but is a major source of supplementary income for retirees in some areas in the southwestern part of the country. Experts ascribe opportunistic cultivation of cannabis to the ready availability of uncultivated land and Bulgaria's amenable climate, particularly along the Greek border. Cannabis is not trafficked significantly beyond Bulgaria's own borders. Recent evidence suggests that there has been a decrease in the indigenous manufacture of synthetic stimulant products. Some 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 on to Afghanistan. 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. The Government includes methadone maintenance as a heroin treatment option in the national healthcare system. There are three state-run methadone programs, which provide treatment free of charge, and four private methadone clinics. There are 35 outpatient units and thirteen inpatient drug treatment

facilities nationwide. None of these facilities has a separate unit for juvenile patients. The Bulgarian National Center for Addictions (NCA), which serves as a focal point and is co-funded by the EU Monitoring Center for Drug Addictions, conducts prevention campaigns and 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 adversely affects staff retention. According to the NCA for 2007, 33.2 percent of students in grades 9-12 reported using drugs at least once. In 2007, 52 people overdosed using heroin and died, the highest number ever reported.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA operations for Bulgaria are managed from the U.S. Consulate General in Istanbul. DEA's current emphasis in Bulgaria is on conducting and coordinating joint international investigations with MOI counterparts, providing DEA technical and legal expertise and assistance. DEA also strives to arrange for counter-narcotics training for Bulgarian law enforcement personnel. The United States also supports various programs through the State Department. Programs implemented by the Department of Justice (DOJ) support 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, funded by State Department INL assistance works with the Bulgarian government on law enforcement issues, including trafficking in drugs and persons, intellectual property, cyber-crime and other issues and a DOJ prosecutor advises the Bulgarian government on organized crime cases. DOJ has also provided technical advisors to assist the Interior Ministry in their reform efforts. The FBI has offered public corruption training for Bulgarian law enforcement officials.

The Road Ahead. As the U.S. and Bulgaria continue to cooperate to improve Bulgaria's capacity, the U.S. encourages the Bulgarian government to sustain and, if possible, increase rates of narcotics seizures, and reduce domestic drug production. The U.S. also encourages Bulgaria to demonstrate the political will necessary to break major organized crime rings by going after the profits derived from drug trafficking and prosecuting cases of high-level corruption and organized crime. It also encourages the Bulgarian government to strengthen interagency cooperation and increase its investment in law enforcement entities. Increased international assistance and engagement on law enforcement matters would boost Bulgaria's internal capacity and reinforce internal reforms.

Burma

I. Summary

Both UNODC and U.S. surveys of opium poppy cultivation indicated a significant increase in cultivation and potential production in 2007, and production and export of synthetic drugs (amphetamine-type stimulants, crystal methamphetamine and Ketamine) from Burma continued unabated. (Note: 2008 UNODC Cultivation Report statistics were not available by our printing deadline.) The significant downward trend in poppy cultivation observed in Burma since 1998 was reversed in 2007, with increased cultivation reported in Eastern, Northern and Southern Shan State and Kachin State. Whether this represents a sustained change 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, which is now by far the world's largest opium poppy cultivating region. 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, partially offset the effects of decreased cultivation in 2006. 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".

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. In May 2008, Burmese General Ye Myint was forced to retire from his senior position as Chief of Bureau of Special Operations 1, which some observers attribute to his son's involvement with narcotics. In November 2008, former regime crony Maung Weik and four other defendants were convicted and sentenced to 15 years in prison. During the 2008 drug certification process, the U.S. determined that Burma was one of only three 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 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 the 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 access. 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 2008. 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 land under cultivation had increased 29 percent in Burma from 2006 levels, with a 46 percent increase in potential opium 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 2008 (January-October), the GOB seized approximately 760,000 methamphetamine tablets, compared to 1.5 million seized in 2007. 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 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 2008. UWSA also undertook limited reprisals 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 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. According to UNODC, 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 2008

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 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 Efforts. 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 26 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 funding, equipment, and training to support its law-enforcement mission. The Burmese Army and Customs Department support the police in the police's drug enforcement role.

Burma is actively engaged in drug-abuse control with its neighbors China, India, and Thailand. Since 1997, Burma and Thailand have had more than 12 cross-border law enforcement cooperation meetings. This cooperation resulted in the repatriation by Burmese police of drug suspects wanted by Thai authorities: two in 2004, one in 2005 one in 2006, and one in 2008. 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; this officer remains in country. 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 and 2008 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 agreed to hold cross border Law Enforcement meetings on a bi-annual basis, though the last meeting was 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. district 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. During 2008, the GOB arrested suspects connected with the UWSA who were involved in a local Ecstasy and methamphetamine distribution.

The GOB reports significant arrests in 2008, totaling more than 2,000 suspected drug traffickers, but several of these were low-level traffickers. The arrests had no noticeable effect on continuing large-scale methamphetamine pill trafficking from Burmese territory.

In May, the GOB investigated 158 suspected drug cases, arresting 245 suspects, of which 201 were men and 44 women. In July and August, the police arrested more than 800 individuals involved with drug trafficking. In September, the GOB arrested 398 suspects, of which 300 were men and 98 were women, and investigated 253 drug-related cases.

On November 18, regime crony Maung Weik and four other defendants were convicted and sentenced to 15 years in prison for methamphetamine distribution. Maung Weik, a top Burmese businessman, was engaged in cyclone relief efforts in the Irrawaddy Delta at the behest of the Government when he was arrested in May.

On November 18, Thet Naing Win, who had been arrested by Thai ONCB and deported to Rangoon pursuant to a Burmese arrest warrant, was acquitted. Thet Naing Win was re-arrested on November 20, 2008 by the CCDAC for narcotics charges related to his association with USWA fugitive Ho Chun-t'ing and Wei Hsueh-kang.

Summary statistics provided by Burmese drug officials indicate that from January 2008 through October 2008, Burmese police, army, and the Customs Service together seized 1340 kilograms of raw opium, 2447 kilograms of low quality opium, 79 kilograms of opium oil, 78 kilograms of heroin, 206 kilograms of morphine base (#3 heroin), 760,213 methamphetamine tablets, 7.7 kilograms of methamphetamine ICE, 472 kilograms of ephedrine, 9179 liters of other precursor chemicals, and 1922 kilograms of precursor chemical powder

Corruption. Burma does not have a legislature or effective constitution, and has no laws on record specifically related to corruption. While little evidence emerges from the secretive Burmese regime to indicate 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 they tightly control.

A few officials have been prosecuted for drug abuse and/or narcotics-related corruption. In May 2008, Burmese General Ye Myint was forced to retire from his senior position as Chief of Bureau of Special Operations 1, which some observers attribute to his son's involvement with narcotics. However, Burma has failed to indict any military official above the rank of colonel for drug-related corruption. Given the extent of drug manufacture and trafficking in Burma, it is likely that other individuals with high-level positions in the Burmese regime, and their relatives, are involved in narcotics trafficking or misuse of their positions to protect narcotics traffickers.

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 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. The UNODC claims there is evidence that Burmese methamphetamine tablets are also shipped to Bangladesh, India, and Nepal. The UNODC also reports that heroin seizures in 2005, 2006 and 2007 and subsequent investigations revealed the increased use by international syndicates of the Rangoon International Airport and Rangoon port for trafficking of drugs to the global narcotics market. However, U.S. DEA information indicates that heroin transits the Thai/Chinese borders over land rather than by sea. According to UNODC, the GOB seized eight methamphetamine labs in 2006 and five labs in 2007.

Domestic Programs/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, often 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. 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 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 likely more now, although official figures are unavailable.

The growing HIV/AIDS epidemic in Burma 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. 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. 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..

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 2008, UNODC operated 12 drop-in centers. UNODC plans to open an additional five drop-in centers by 2009. Since 2004, more than 2,000 addicts received treatment at UNODC centers. In 2007 and 2008, an additional 6,000 addicts have sought medical treatment and support from UNODC-sponsored drop-in centers and from 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), focused on addressing injected drug use as a key factor in halting the spread of HIV/AIDS.

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, a number of 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 government health officials at the township level. In 2008, 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, 2007, and again in 2008, 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, based on increased yields, mirroring UNODC survey results. Bilateral counternarcotics projects are limited to one small U.S.-supported crop substitution project in Shan State, which will receive its final grant of U.S. funds during FY 2009. No U.S. counternarcotics funding directly benefits or passes through the GOB.

In September 2008, the USG identified Burma as one of three countries in the world that had “failed demonstrably” to meet its international counternarcotics obligations.

The Road Ahead. The Burmese government must reverse the increase in 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. 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 production and trafficking from Burmese territory 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

Cambodia has a significant and growing illegal drug problem consisting of increased levels of consumption, trafficking, and production of dangerous drugs. Crackdowns on drug trafficking in Thailand and China in recent years have reportedly pushed traffickers to use other routes, including through Cambodia by land, river, sea, and air. Drug use, particularly of amphetamine-type stimulants (ATS) such as crystal methamphetamine (commonly referred to as “Ice”), is escalating and cuts across socio-economic lines. Recent improvements in Cambodia’s counter-narcotics performance include effective law enforcement destruction of seized drug supplies, 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, limited resources, and lack of capacity and coordination hamper government efforts. The NACD and the Cambodia Anti-Drug Department (CADD) 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 member party to the 1988 UN Drug Convention.

II. Status of Country

Cambodia continues to play a role in the regional transit of drugs from the Golden Triangle. A spill-over effect has seen the country’s narcotics problem expand with higher domestic consumption and, as evidenced by the 2007 discovery of a large first stage chloroephedrine-reduction laboratory in Kampong Speu Province, an increased production capability for synthetic drugs like methamphetamine. Many experts believe additional clandestine labs, both re-tableting as well as production, are operating in the country. Cambodia continues to be a producer and exporter of natural sassafras oil, which can be used as a precursor for Ecstasy (MDMA) as well as many licit products such as perfumes, insecticides, and soaps. The harvest, sale, and export of sassafras oil are illegal in Cambodia.

ATS and heroin enter Cambodia through overland transport in the areas bordering Laos, Thailand, and Vietnam in the northern provinces of Stung Treng, Preah Vihear, and Ratanakiri. Drugs are also brought into Cambodia by small vessel from Laos along the Mekong River. Small shipments of heroin and ATS exit Cambodia destined for Thailand and Vietnam. Larger shipments of heroin and possibly marijuana are thought to exit Cambodia concealed in shipping containers, speedboats, and ocean-going vessels. The Royal Cambodian Customs lacks necessary equipment such as x-ray machines, scanners, and other basic devices to perform adequate cargo searches. Drugs, such as heroin and crystal methamphetamine, are also smuggled by couriers on commercial flights concealed in small briefcases, shoes, and on/in the bodies of individual travelers.

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 addiction, currently associated with a relatively small number of users mainly in Phnom Penh, is acknowledged as a growing problem in Cambodia. Cocaine, ketamine, and opium are also available. Street children are often seen sniffing glue, which is also becoming more prevalent in the adult population. According to a recent Japanese-funded, community-based survey conducted by the UNODC, drug users in Cambodia can be characterized into types, such as sex workers, fishermen, sawmill workers, or laborers who use yama for increased stamina or energy or to be able to stay awake and work longer hours to increase their earnings; homeless or truant youth who become associated with gangs; or youth from more wealthy families who use drugs for recreation. NACD statistics reveal 80 percent of all drug users are below the age of 26.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Cambodian government is legitimately concerned about the rise of drug trafficking and abuse, and remains dedicated to stemming the flow of illicit drugs through the country. However, Cambodia's primary counter-drug agency, the NACD, has been handicapped in its efforts by limited resources, lack of training, and poor institutional law enforcement capacity. An ongoing UNODC project to build capacity at the NACD through structural and functional reform, managerial and technical capacity building, and a stronger national drug control network will conclude in March 2009.

The NACD continues to implement Cambodia's first 5-year national plan on narcotics control (2006-2010), which includes 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. The current drug law provides for a maximum penalty of a \$25,000 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. An amended drug law, which has been drafted with the help of CADD officials and UNODC to ensure it meets international standards, is currently undergoing government review. The proposed draft law aims to address the light penalties and procedural loopholes in several articles of the current law, and is expected to be enacted in 2009. A 2007 directive issued by the Ministry of Health increased penalties for safrole oil production and distribution to two to five years in jail, plus fines. There were no safrole oil-related arrests in 2008.

Law Enforcement Efforts. The NACD in conjunction with the CADD has made strides in becoming a more effective organization and is emerging as a leader in the region as reflected by the recent appointment of the head of the CADD to Chairman of the International Drug Enforcement Conference Far East Regional Working Group (IDEC-FERWG). Further illustrating the importance the government places on drug control, the budget for the NACD more than doubled in 2008 to 1.25 million U.S. dollars. A significant amount of the total has been directed to anti-drug units at the provincial and municipal levels to augment personnel and infrastructure.

Drug-related seizures declined in 2008, but the number of arrests increased in comparison with that of 2007. According to NACD reports, 317 people were arrested for various drug-related offenses in the first nine months of 2008, a 38 percent increase over the same period in 2007. Drug seizures included 115,555 amphetamine tablets, 1.406 kg of crystal methamphetamine powder, 10,161 codeine tablets, 72 Ecstasy tablets, 2.936 kg of heroin, 150 grams of cocaine, and 3.883 kg of dry cannabis. In 2007 there were almost four times as many amphetamine tablets seized, and five times the amount of heroin seized compared to 2008. According to government officials, the decrease in seizures for a second straight year can be attributed to the use by drug smugglers of more sophisticated techniques to evade detection as well as scarce anti-narcotics equipment and resources.

Increased law enforcement activity was observed in the months prior to the national election on July 27, 2008. As a result, there were more arrests, higher intake numbers, and overcrowding at drug rehabilitation centers. Korsang, a local harm-reduction NGO, expanded its scope and hours in order to accommodate the influx of displaced drug users.

Methamphetamine abuse accounts for approximately 80 percent of drug use in Cambodia. Therefore, the majority of the arrests were for ATS abuse, often involving foreigners. On June 27, three foreign nationals were arrested on charges of possessing, consuming, and intending to sell large quantities of methamphetamines and cocaine. The drugs were purchased in Cambodia with the intent to sell in-country. One Cambodian national was also arrested in connection with the case. On September 30, two Thai women were arrested carrying 145 methamphetamine pills on the Cambodian side of the Thai border. The pills were brought to Cambodia from Thailand with the intent to sell to local casino customers.

Pharmaceutical drugs, which are not presently regulated in an effective manner and are readily available over the counter, provide further temptations for abuse by foreigners. On April 9, Interior Ministry police arrested a Danish

woman in Phnom Penh on suspicion of attempting to mail more than 10,161 codeine tablets to the United States and Canada. While codeine is legal to buy and sell in Cambodia, the drug is considered a controlled substance by the UNODC, and is effectively controlled in most developed countries.

On May 13, a drug dealer who was involved in a high-profile 2007 case where 870 amphetamine pills, 47 Ecstasy pills, 3 bags of ketamine, and nearly 250 grams of crystal methamphetamine were seized by Cambodian law enforcement, as well as machinery capable of producing 10,000 amphetamine pills per hour, was finally located and arrested by military police.

On June 20, 2008, Cambodian authorities in cooperation with Australian Federal Police (AFP) burned 33 tons of sassafras oil worth nearly 7.3 billion U.S. dollars. In addition to it being the first large-scale Cambodian destruction of the Ecstasy precursor, the burn is significant in that the government made a very public anti-drug statement by destroying the oil rather than selling it for legitimate use. Cambodian authorities have been working since 2002 to stem the distillation of saffron-rich oil. Since then, they have succeeded in detecting and dismantling more than 50 clandestine laboratories capable of producing up to 60 liters a day.

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 the laundering of proceeds from illegal transactions involving drugs, nor are senior government officials known to engage in or encourage such actions. 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 illicit drug production; however, corruption, low salaries for civil servants, and an acute shortage of trained personnel severely limit sustained advances in effective law enforcement. On April 22, a municipal anti-drug police officer was shot dead and four fellow officers were seriously injured during a raid on an alleged methamphetamine dealer. The drug dealer himself was an Interior Ministry policeman.

Cambodia acceded to the UN Convention against Corruption in September 2007; however, there is no anticorruption law, and only a few provisions of other laws provide criminal penalties for official corruption. The World Bank's Worldwide Governance Indicators reflected that corruption was a severe problem in Cambodia in 2008. Public officials are not subject to financial disclosure laws. Meager salaries contributed to "survival corruption" among low-level public servants, while a culture of impunity enabled corruption to continue among senior officials. Public perception that corruption in Cambodia is rampant was widespread.

In 2008, a petition calling for the passage of an international standard anti-corruption law, containing the signatures and thumbprints of over 1.1 million voting age Cambodians, was presented to the National Assembly. The draft Law on Anti-Corruption, which was originally drafted in 1993, was raised at the first meeting of the Council of Ministers of the new government in September, but has yet to be presented to the National Assembly for approval.

Agreements and Treaties. Cambodia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention, as amended by the 1972 Protocol. Cambodia is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and illegal manufacturing and trafficking in firearms. Cambodia is a party to the UN Convention against Corruption.

Cultivation/Production. Cannabis-related arrests, eradication and seizures have declined dramatically over the past several years. In the first nine months of 2008, 3.883 kg of cannabis was seized and two men were arrested for cannabis trafficking. The Cambodian government announced recently that cannabis plantations have been completely eliminated on Cambodian territory. Although difficult to verify complete elimination given Cambodia's lush landscape, UNODC and others agree that cannabis production and cultivation have ceased to be a major concern with no reports of cross border seizures in 2008. However, anecdotal information of cannabis cultivation indicates the problem persists at a reduced level.

Drug Flow/Transit. Crackdowns on drug trafficking in Thailand and China in recent years have pushed traffickers to use other routes, including routes through Cambodia. ATS is typically trafficked to Thailand or Malaysia, while heroin is smuggled out to Vietnam, China and Taiwan. 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, improvements to National Road 7 to Laos and other roads is increasing the ease with which traffickers can use Cambodia's rapidly developing transportation 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 of Thailand—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 lenient customs and immigration controls. According to the NACD, drug traffickers are increasingly using Cambodian airports to smuggle narcotics into and out of the country. On April 8, a Taiwanese national was arrested while allegedly trying to smuggle 2,150 grams of heroin in two bags onto a plane at Phnom Penh International Airport. In October, authorities seized three kilograms of cocaine at the Phnom Penh International Airport.

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 through the use of pamphlets, posters, and public service announcements. A UNODC treatment and rehabilitation project funded by Japan is working to increase the capacity of health and human service agencies to deal effectively with drug treatment issues. A number of NGOs such as Mith Samlanh, Family Health International, Korsang, and the Khmer HIV/AIDS NGO Alliance (KHANA) provide a range of services for high-risk and vulnerable populations, including health services related to illicit drug use, outreach/peer education, HIV prevention interventions, and drug treatment, rehabilitation, and reintegration. Most of these NGOs do not specifically target illicit drug users, but have identified illicit drug use as a significant risk factor for the populations they serve, such as street children, youth, and sex workers.

The popularity of crystal methamphetamine, or “Ice”, has resulted in an increase in users in the injecting drug use (IDU) scene. As heroin and Ice become more widely available, which has been the trend over the past few years, there may be a rapid escalation in IDU and concomitant spread of HIV. Approximately 35 percent of injecting drug users is HIV positive. Via an annually renewable license from NACD, two NGOs, Mith Samlanh and Korsang, have harm-reduction programs in Phnom Penh. In addition to needle exchange, they provide counseling services, basic and emergency medical care, training on overdose management, and education sessions on harm reduction, HIV/AIDS, and reproductive health. They also provide referrals to drug detoxification and rehabilitation services, medical clinics and hospitals, sexual health clinics, monitoring, and other health and non-health services such as vocational training. Family Health International provides technical, programmatic and financial support to Government, NGOs and community partners in strategic information and HIV prevention, care, support, and treatment. KHANA is implementing a program to reduce drug-related HIV risk by raising awareness among the community about illicit drug use, educating drug users to understand and prevent HIV and health risks associated with drug use, and promoting correct and consistent condom use and responsible sexual choices. NACD and the World Health Organization are working to develop a pilot methadone maintenance program, which will be implemented at the Khmer-Soviet Friendship Hospital in partnership with Korsang, Mith Samlanh and other NGOs working on drug treatment and rehabilitation issues, starting in early 2009. Drug addicts have historically been treated as criminals by Cambodian authorities and society. However local NGOs claim that the NACD is making an effort to change perceptions and is willing to work with local demand and harm-reduction NGOs to enhance cooperation and skill sharing.

As of September 2008, there were ten government-run treatment centers for men. There are no government-run treatment centers for women. Many of the shortcomings detailed in a 2007 joint NACD/Ministry of Health assessment of these centers still exist. While there has been some improvement in the past year, such as the incorporation of rehabilitation best practices learned from training funded by the State Department's Anti-Drug Program and provided

by the U.S.-based NGO Daytop in 2007, much remains to be done. The centers do not have the capacity to conduct proper physical and psychological intake assessments, lack trained medical staff, do not obtain consent from patients over the age of 18, and do not have the resources to provide follow-up services nor do they refer patients to organizations that can provide those services. The centers have incorporated some group counseling methods in 2008, but continue to rely on confinement, military-style drills, exercise, and religious discipline as the mainstay of the rehabilitation program. The government-run centers are further hampered by lack of funding and rely solely on donations from local markets, parents of patients, and the Cambodian Red Cross. Medical treatment for acute distress from withdrawals consists of aspirin and a Chinese herbal spirit-calming supplement when funding permits.

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 2008, 1,005 drug users and addicts were admitted to the government-run centers and 122, including four females, had received such drug detoxification and rehabilitation services through Mith Samlanh.

The official 2008 NACD estimate of drug users in Cambodia was close to six thousand. However, this figure is only indicative of the number of drug users in contact with local authorities, and does not accurately reflect the extent of illicit drug use in Cambodia. Several NGOs indicate the UNAIDS projected estimate of over 48,000 is more realistic. Regardless of the number, it is clear that the need for drug treatment services far outstrips the available supply.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. While Cambodia has moved beyond its 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 by death of many of Cambodia's best trained professionals in the Khmer Rouge period (1975-1979); many of those who survived fled 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 lifting of U.S. congressional restrictions on direct assistance to the Cambodian government in late 2006 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 three counter-narcotics training missions in 2008, one in Preah Vihear and two at the newly renovated training facility in Sisophon. During FY 2008, PACFLT conducted a Partner Nation Assessment to determine the current level of Cambodian Maritime Security and Maritime Law Enforcement capabilities. 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. Over the past two years, DEA has provided training and equipment to the CADD.

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; men who have sex with 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. Recent government actions such as the NACD implementation of yearly action plans in addition to the five year plan; the imminent establishment of a government methadone maintenance program; the National Center for HIV/AIDS/Dermatology/STI's recent plan to refer prisoners to voluntary counseling and testing, drug treatment and rehabilitation centers nationwide; and increased law enforcement cooperation with the DEA, FBI, the Australian Federal Police and others, indicate a strong determination to combat drugs. Cambodia is making progress toward more effective law enforcement against narcotics trafficking; however, its capacity to implement a satisfactory, systematic approach to counter-narcotics 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.

In FY09, 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 Department Anti-Drug Assistance (INL) funding for FY08 will be used to support UNODC's TREATNET II program, which aims to improve the quality of drug dependence treatment. USAID HIV/AIDS programs will continue to work with high-risk populations. Further INL funding projected for FY10 is expected to support a senior law enforcement advisor to provide technical assistance to Cambodian law enforcement institutions, specifically in the areas of customs, immigration and border control. The U.S. is encouraged that Cambodia has signed the UN Convention against Corruption and will continue to press the government to adopt effective anti-corruption legislation.

Canada

I. Summary

In 2008 Canada continued to implement its National Anti-Drug Strategy, involving three action plans to reduce the supply of and demand for illicit drugs as well as associated crime. Canada remains a country of concern due to the amount of MDMA (3, 4-methylenedioxymethamphetamine, commonly known as Ecstasy) and marijuana crossing into the U.S. from Canada. While Canada's passage of several additional regulations in recent years has reduced the large scale diversion of bulk precursor chemicals across the border, trafficking of marijuana and Ecstasy continues at high levels. Canada's demand reduction efforts include a national awareness campaign targeted at youth and their parents, with a strong message discouraging drug use. However local and provincial authorities have embarked on a number of so-called "harm-reduction" programs, including drug injection sites. The government delivered a sharp message against these harm reduction programs in August, which is in line with the International Narcotics Control Board's recommendation for the Government of Canada to eliminate drug injection sites and drug paraphernalia distribution programs, stating that they violated international drug control treaties. Canada and the U.S. cooperate in counternarcotics efforts through increased information sharing and joint operations. Canada is a member of the UN Commission on Narcotic Drugs and party to the 1988 UN Drug Convention.

II. Status of Country

Like most developed countries, Canada's major narcotics problem is primarily drug consumption, but it is also a significant producer of methamphetamine and high potency marijuana; it is also a major source country for Ecstasy to US markets as well as a transit or diversion point for precursor chemicals used to produce illicit synthetic drugs (notably Ecstasy). The marijuana industry's production and distribution are sophisticated and diverse, while Ecstasy production continues to grow.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Canadian government committed about \$84 million in funding over five years to support its National Anti-Drug Strategy's Enforcement Action plan, which provides for the hiring of additional 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. Legislation on mandatory minimum penalties for serious drug offenders did not emerge from Parliament in 2008, but was part of the ruling Conservative Party's 2008 election campaign platform; the government said it expects to re-introduce the law in 2009.

Introduced in 2007, the National Anti-Drug Strategy enhanced the "proceeds of crime" program, enabling the government to seize funds and assets acquired through the sale of illicit drugs. In addition, the government has committed new funding of about \$24 million over five years to support a Prevention Action Plan, as well as approximately \$82 million in new funding over five years to support a Treatment Action Plan.

Law Enforcement Efforts. In 2008, Canadian and U.S. law enforcement agencies' bi-lateral efforts resulted in significant interdictions of narcotics arriving in Canada and the U.S. by air, passenger vehicle, truck, small aircraft, and ship, as well as seizures from Canadian drug production operations. Seized drugs included marijuana, cocaine, heroin, methamphetamine, hashish, and Ecstasy. In a February 2008 operation, CBSA seized 518 pounds of cocaine from a tractor trailer truck at the Blue Water Bridge near Sarnia, Ontario, with an estimated street value of about \$28.7 million, the largest land border seizure of cocaine in Canadian history. In March, RCMP and Quebec First Nations

Police in cooperation with DEA seized 253 pounds of marijuana and about \$2.6 million, and made 29 arrests in the Quebec/Ontario/St. Lawrence Seaway area.

In June, CBSA provided information to U.S. law enforcement authorities, which resulted in the seizure of a shipping container containing 100 pounds of cocaine, 60 pounds of methamphetamine, and 204 pounds of Ecstasy bound for Australia.

In July, a Royal Canadian Mounted Police/Canadian Border Services Agency (RCMP/CBSA) Greater Toronto Area investigation, in cooperation with U.S. law enforcement agencies, resulted in the seizure of approximately 524 pounds of marijuana and approximately \$1 million in cash.

Canadian authorities have also targeted precursor chemical trafficking. In April, Canadian law enforcement agents seized over 8,818 lbs of methamphetamine/Ecstasy at a laboratory production facility in Toronto. The same month, CBSA intercepted a container from China bound for Vancouver containing 3.7 metric tons of liquid MDP2P (3,4-methylenedioxy-phenyl-2-propanone, a chemical precursor of Ecstasy), enough to produce an estimated 6,000 pounds of Ecstasy.

In December, a British Columbia man pleaded guilty in Seattle to drug and money-laundering charges for his role in selling drugs on behalf of the Hells Angels motorcycle club. Another British Columbia man had previously pleaded guilty in November to drug and money laundering charges relating to the case. The undercover investigation resulted in the seizure of 770 kilos of cocaine, 3,175 kilos of marijuana, and over \$2.5 million in cash.

The overall trend for 2008 law enforcement efforts continued previous trends of joint drug enforcement efforts against steady but diverse distribution patterns of traffickers. However, lack of information sharing among law enforcement agencies has hampered counternarcotics enforcement efforts somewhat. For example, federal laws prevent agencies from sharing information about criminal activities of airport employees, including those involved in narcotics smuggling.

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 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 Convention against Corruption 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 operate under a mutual legal assistance treaty (MLAT), an extradition treaty, and related protocols, including the long-standing Memorandum of Understanding designating DEA and RCMP as points of contact for U.S.-Canada drug-related matters.

Cultivation/Production. Criminal groups composed of Canadians of East Asian origin (primarily Vietnamese and Chinese), outlaw motorcycle gangs, and Indo-Canadian criminal groups, are the most significant illicit drug producers and traffickers in Canada. Overall, Canada supplies a small proportion of the marijuana consumed in the U.S., however, large-scale marijuana cultivation does thrive in Canada. Legal sanctions for growers are less severe than in the United States, and it remains a significant domestic concern in Canada. Organized crime organizations use technologically-advanced organic growing methods. Large-scale marijuana grow operations are primarily located in British Columbia, Ontario, and Quebec provinces. The Ontario Association of Chiefs of Police continues to say that 85 percent of marijuana growing operations in Ontario are linked to organized crime. Marijuana traffickers rely on profits from marijuana distribution to expand their involvement into other profitable illicit drug activities, such as expanding Ecstasy and methamphetamine production.

Organized crime dominates the methamphetamine trade. Criminal groups composed of Canadians of East Asian origin operate methamphetamine “superlabs” (which are capable of producing at least 10 pounds of methamphetamine per cycle) throughout the country. According to the 2008 Annual Report on Organized Crime prepared by Criminal Intelligence Service Canada (CISC), seizures of Canadian-produced methamphetamine took place throughout the world, including in Australia, Japan, New Zealand, and, to a lesser extent, the People’s Republic of China, Taiwan, India, and Iran. Canada is now the primary source country for Ecstasy available in the U.S. British Columbia and Ontario continue to have the highest concentration of Ecstasy laboratories. Most of the Ecstasy laboratories dismantled in Canada in 2008 were capable of producing multi-kilogram quantities. Increased smuggling from Canada to the United States included both Ecstasy and combination tablets containing methamphetamine and other synthetic drugs. In 2007-2008, Canadian authorities increased seizures of clandestine labs capable of producing large amounts of combination tablets.

Drug Flow/Transit. The CISC’s 2008 Annual Report on Organized Crime in Canada estimated approximately 900 organized crime groups in the country, of which most are involved in the illegal drug trade in some capacity. Rising methamphetamine production in Canada could lead to increased distribution in the U.S., particularly by polydrug traffickers, such as many Asian criminal groups and outlaw motorcycle gangs, using established Ecstasy or marijuana distribution networks.

Domestic Programs/Demand Reduction. Local and provincial authorities have embarked on a number of so-called “harm-reduction” programs. In 2003, the federal Department of Health (Health Canada) granted Vancouver “Coastal Health” a three-year exemption from the Canadian Controlled Drugs and Substances Act to establish North America’s first supervised injection site research pilot project (“Insite”). Health Canada renewed the extensions of the exemption in September 2006 and October 2007, allowing Insite to continue to operating legally until June 2008. British Columbia’s provincial Ministry of Health funds Insite through Vancouver Coastal Health. British Columbia provincial judicial authorities are resisting federal government efforts to close Insite. In May 2008 the British Columbia provincial Supreme Court ruled that the federal government does not have the constitutional authority to close Insite, which the Court considered a health facility and within provincial jurisdiction, and gave the federal government until June 2009 to amend the Controlled Drugs and Substances Act. The federal government has appealed, and the British Columbia provincial Court of Appeal plans to hear the case in April 2009. Several cities, including Toronto and Ottawa, have also approved programs to distribute drug paraphernalia, including crack pipes, to chronic users.

The government delivered a sharp message against harm reduction and the Insite program in an August 18, 2008 speech to the Canadian Medical Association by then Minister of Health Tony Clement. Clement strongly criticized information on the Canadian Harm Reduction Network website which he described as promoting the idea that there are safe ways to use heroin and methamphetamine. Clement also stated that an expert advisory committee had determined that the Insite experiment had not reduced the transmission of HIV/AIDS to a meaningful degree. The committee also estimated that the Insite program lowered the annual overdose rate in Vancouver’s eastside by only one person each year, leaving 50 overdose deaths per year.

The UN International Narcotics Control Board's (INCB) 2007 Report noted that the Vancouver Island Health Authority's approval of "safer crack kits," including the mouthpiece and screen components of pipes for smoking "crack," contravened Article 13 of the 1988 UN Drug Convention, to which Canada is a party. The INCB called upon the Government of Canada to eliminate drug injection sites and drug paraphernalia distribution programs, stating that they violated international drug control treaties. While Health Canada provides funding for drug treatment services, other programs such as delivery of demand reduction, education, treatment, and rehabilitation are primarily the responsibility of the provincial and territorial governments.

Canada's Anti-Drug Strategy includes a national awareness campaign targeted at youth and their parents, with a strong message discouraging drug use. Additional funding provides for modernized and new treatment services as well as improving their availability and effectiveness, more money for the provinces and territories to expand treatment programs for addicted youth, and 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Canada have continued information sharing and binational cooperation through the Cross-Border Crime Forum (CBCF) and other fora. At the CBCF's Spring Ministerial in March 2008, U.S. and Canadian officials jointly released the 2007 U.S.-Canada Border Drug Threat Assessment as a snapshot of cross-border narcotics issues and trends. The inter-agency forum also addressed counterterrorism, mass marketing fraud, human trafficking, organized crime, border enforcement, drug trafficking, and firearms smuggling – a particular concern for Canada. Provincial, state, and local governments also participate in the CBCF, as do police at the federal, state/provincial, and local/municipal levels. CBCF working groups met throughout the year to develop joint strategies and initiatives and collaborative law enforcement operations that were highlighted during the Ministerial meeting. Canada also regularly attends the annual National Methamphetamine Chemical Initiative (NMCI) meeting in the U.S.

In spring 2008, two RCMP officers participated in DEA's International Drug Enforcement Conference (IDEC) in Turkey to share best practices and lessons learned. In October, DEA organized a clandestine laboratory school for Quebec Provincial Police in Montreal. DHS/ICE and DEA continue to meet regularly with RCMP officials to advance U.S. and Canadian efforts to disrupt and prosecute money-laundering operations, particularly in the area of bulk currency smuggling. Canada has also participated in supporting naval interdiction efforts as part of Joint Interagency Task Force South. DEA, CBP, ICE, CBSA, RCMP, and local and provincial officers consult regularly and maintain channels of communication in the field and at management level to ensure a high level of cooperation and effectiveness.

The United States and Canada opened negotiations concerning a bi-lateral shiprider agreement in the spring of 2008. The agreement will allow the exchange of shipriders and seamless maritime law enforcement operations across the U.S.-Canadian maritime border.

The Road Ahead. The U.S. and Canada will continue to cooperate in joint operations combating U.S.-Canada drug trafficking. The CBCF will continue to serve as a forum for senior law enforcement, justice, and homeland security officials to enhance and encourage intelligence sharing, investigative collaboration, and joint training opportunities. CBCF working groups will meet throughout the year to develop joint strategies and initiatives including threat assessments and collaborative operations.

Canada's continued role as a source country for Ecstasy to U.S. markets highlights the need for greater cooperation in tracking precursor chemical activity. The U.S. urges Canada to take stronger action to curb the rise of methamphetamine production. The upsurge in Canadian methamphetamine production has raised the prospect of increased smuggling from Canada to international markets. Both Canada and the U.S. will seek improvements in their enforcement capacity and regulatory frameworks to promote industry compliance and avoid diversion of precursor

chemicals and lab equipment for criminal use. A more effective and expansive inspection regime, in conjunction with expedited investigations and prosecutions, would also strengthen enforcement efforts. According to government officials, the government of Prime Minister Stephen Harper is committed to increased penalties for illicit drug production and trafficking, but will not consider them for drug use.

Canada should implement the INCB's recommendations to eliminate drug injection sites and drug paraphernalia distribution programs because they violate international drug control treaties. The U.S. and Canada will continue to seek agreement on an Integrated Marine Security Operations (IMSO) program that would facilitate more effective maritime counter-smuggling efforts by designating officers from each country to operate from one another's vessels or aircraft. The U.S. will continue to seek reciprocal agreement for U.S. federal maritime law enforcement officers to carry their weapons while transiting through Canadian waters.

The U.S. and Canada share common objectives of reducing the supply and consumption of illicit drugs and the serious consequences that they pose to our communities, particularly vulnerable youth. The U.S. and Canada plan to renew the joint U.S.-Canada border drug threat assessment, which the two governments update every three years, and to continue to strengthen bilateral cooperation in a wide range of working groups and forums.

Cape Verde

I. Summary

Because of its geographic location, Cape Verde is an important transit country for narcotics entering Europe. Narcotics shipments come mainly from South America and Africa and are destined mainly to Europe. Narcotics enter Cape Verde by commercial aircraft and maritime vessels and yachts. Cape Verde works with international donors like UNODC and the Governments of Portugal, Spain, France, Germany, Brazil, and the United States to achieve counter narcotics objectives and on law enforcement capacity building development projects designed to enhance the capability of the Government of Cape Verde to suppress criminal activity and promote local demand reduction. Cape Verde is a party to the 1988 UN Drug Convention.

II. Status of Country

Cape Verde's strategic location on the maritime and aerial routes between Africa mainland, Europe and South America makes it an attractive location for drug transshipment of cocaine, heroin, marijuana and other illegal drugs from the Caribbean, Venezuela, Colombia, Brazil, and Europe. Drug smugglers use Cape Verde as a transit point to Europe. Numerous beaches and extensive territorial waters and an economic zone lacking adequate surveillance allow the drugs to transit. Cocaine is the most trafficked. In 2008, South American cocaine arrived in Cape Verde, largely from Brazil, Colombia and Venezuela. Other primary source countries for trafficked drugs transiting Cape Verde were Nigeria and Senegal. Cocaine enters Cape Verde by commercial aircraft and maritime vessels and yachts. Other drugs trafficked include crack cocaine and cocktail (a mixture of cannabis and crack, locally called "cochada") produced locally, cannabis, cultivated locally and Ecstasy imported from Europe. Drug abuse within the prison system and criminality linked to drug trafficking are a concern for authorities.

III. Country Actions against Drugs in 2008

Policy Initiatives. Cape Verde law makes the "consumption, drug trafficking, and revenues resulting from drug trafficking" a criminal offense, punishable with one to twenty years imprisonment. In June, a mission by the UNODC (United Nations Office on Drugs and Crime) took place in Cape Verde to analyze the local training needs. A joint UNODC/EUROPOL mission also surveyed conditions in Cape Verde in June to address the issue of illegal migration. The Judiciary Police acquired ten vehicles to reinforce its capacity to fight drug trafficking. The Judiciary Police have also received equipment for a scientific laboratory and personnel have been trained to operate it. The government is carrying out the second phase of a Criminality and Corruption Study initiated in November 2007.

Law Enforcement Efforts. Cape Verde has two separate law enforcement agencies that deal with narcotics: the Judiciary Police (PJ) and the National Police (PN). The PJ is a unit of the Ministry of Justice with overall responsibility for coordination of criminal investigations. The PN reports to the Ministry of Interior. The PJ detained 71 persons for drug trafficking, and seized 189.5 kilograms of cocaine in the capital city, 576 kilograms of cannabis, and 9.6 grams of Ecstasy. The traffickers are reported to be mostly Cape Verdean and Portuguese citizens. Due to Cape Verde's law enforcement efforts, traffickers have been shifting increasingly to Guinea-Bissau. A few indicative seizures are described below:

- On April 1st, PJ officers in Praia arrested one suspected narco-trafficker for transporting 104 kilograms of cocaine in the city of Praia.
- On June 10, PJ officers in Praia arrested one suspected narco-trafficker for transporting 9.6 grams of Ecstasy in the city of Praia.
- On June 25, PJ officers in Praia arrested one suspected narco-trafficker for transporting 9 kilograms of cocaine in the city of Praia.

- On September 28, PJ officers in Praia arrested two suspected narco-traffickers for transporting 5 kilograms of cocaine on a flight from Fortaleza, Brazil.
- In October, PJ officers at the Port of Praia seized 171.5 kilograms of cocaine, which were hidden on a scrap metal cargo vessel, to be shipped to Portugal.
- In October, PJ officers arrested two suspected narco-traffickers on the island of Sal.

Corruption. Cape Verde's government does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions. In June, three PJ officials were arrested for diverting over 135 kilograms of cocaine seized in a drug investigation to the illicit market; the PJ conducted a full investigation and charged suspects with the crime.

Agreements and Treaties. Cape Verde 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. Cape Verde is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. On April 23, 2008, Cape Verde ratified, the UN Convention against Corruption.

Cultivation/Production. Cape Verde is not a significant producer of narcotics. In 2008 the PJ seized 576 kilograms of cannabis cultivated on Santiago Island.

Drug Flow/Transit. Cape Verde's strategic location on the maritime and aerial routes between Africa mainland, Europe and South America makes it an attractive location for drug transshipments of cocaine, cannabis and other illegal drugs from the Caribbean, Colombia, Brazil, and Europe. Numerous beaches and extensive territorial waters and economic zone lacking surveillance allow the drugs to transit. The U.S. has not been identified as a significant destination for drugs transiting through Cape Verde.

Domestic Programs/Demand Reduction. Cape Verde has a National Commission for Combating Drugs (CNLCD), under the Ministry of Justice, that holds responsibility for coordinating Cape Verde's drug programs. The CCCD gathers statistics, disseminates information on narcotics issues and manages government treatment programs for narcotic addictions. CNLCD also runs a hotline and manages several public awareness campaigns. Cape Verde has a rehabilitation shelter located on Santiago Island.

Cape Verde has a group called CAVE INTERCRIN (CAPE VERDE INTEGRATED CRIME AND NARCOTICS PROGRAMME) which is an administrative governmental body aimed at supporting a self-sustainable and healthy development of Cape Verde through preventing the spread of illicit drugs, crime, and other anti-social behaviors. CAVE INTERCRIN's immediate objectives are: to improve control of borders through increased mobility, communication and intelligence capabilities; to improve preventive/reaction capabilities in maintaining law and order through upgraded patrolling and communication capabilities; and to improve the detection and interdiction capabilities of national law enforcement agencies through updated training curricula delivered by computer based training.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA-Madrid and FBI-Dakar cooperate with the Cape Verdean PJ and PN. In September 2008, the FBI funded two training courses for the PJ: one on finger prints and another on investigation. Right after these trainings, the PJ seized 5 kilograms of cocaine on a flight from Fortaleza, Brazil, and 171.518 kilograms of cocaine at Praia port. The U.S. supported Cape Verde with USD 35 000 to help organize an ECOWAS (Economic Community of Western African States) Inter-ministerial conference on drugs trafficking and Organized Crime Conference, and also is planning to implement several narcotics-related capacity building projects funded by State Department (INL) counternarcotics assistance. The USCG conducted an assessment to determine the feasibility of implementing long term sustainable fisheries and law enforcement training programs in 2008.

In June 2008, a U.S. Coast Guard cutter deployed to work with Cape Verdean authorities, in support of Africa Partnership Station (APS) initiative to enhance maritime safety and security in the region. This operation served as a proof of concept for employing a foreign Law Enforcement Detachment (LEDET) aboard a U.S. vessel. The cutter's deployment was a major breakthrough in the nature of U.S. maritime engagements in Africa. The participation of the Cape Verdean Coast Guard, French Navy, and U.S. Coast Guard marked the first multilateral combined maritime law enforcement operation ever conducted in Africa. It was also the first time a non-U.S. Law Enforcement Detachment (LEDET) operated with a USCG LEDET to conduct law enforcement operations from a U.S. military vessel. The combined LEDET boarded six vessels enforcing Cape Verde law. In addition to the capacity building dimension, major upgrades were made to the Cape Verde Operations Center that allowed the Cape Verdean leadership to communicate in real time, using translation software, simultaneously with the cutter and with US officers coordinating the operation from Naples, Italy. This allowed for closer coordination of the boarding team, and provided the ability to immediately consult with leadership when key legal and jurisdictional issues arose.

The Road Ahead. On October 27, 2008, Cape Verde hosted an ECOWAS (Economic Community of Western African States) Inter-ministerial Conference on Drug Trafficking and Organized Crime. As a result of the conference, an action plan will be submitted to the Security Council for ratification. The Plan will also be sent for review by a Summit of Heads of State and Governments of ECOWAS. Cape Verde's Minister of Justice said at the Conference that the situation of drug trafficking in the region was a threat to West African countries, and called for concrete steps to be taken to develop more effective ways to combat this scourge. The Justice Minister also announced during the conference that Cape Verde is planning to strengthen its laws relating to drug trafficking.

Chile

I. Summary

Chile is a transit country for Andean cocaine shipments destined for Europe, with perhaps small amounts coming to the United States. Chile has a domestic cocaine and marijuana consumption problem, and an increasing problem with use of the amphetamine-type drug MDMA (Ecstasy). Chile is also a potential 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's long, difficult-to-monitor borders with Peru, Bolivia, and Argentina and international ports make it an appealing transit country for cocaine from the Andean region en route to Europe. Authorities report increased domestic consumption of cocaine hydrochloride (HCl), though abuse of "cocaine base" (a crude coca-derived product known locally as "pasta base") is more prevalent. Chile ranks fourth in cocaine consumption and first in marijuana consumption among South American countries, according to the United Nation's 2008 World Drug Report. Some marijuana is cultivated in Chile, but most is imported from Paraguay for use by Chilean teenagers and young adults. Chile's National Drug Control Commission (CONACE), which is responsible for formulating and implementing drug policies, released a study in 2008 that revealed increased availability of marijuana among students between 2005 and 2007.

III. Country Actions against Drugs in 2008

Policy Initiatives. Chile recognizes the threat posed by illicit narcotics and has adopted policies and enforcement efforts that contribute to worldwide drug control efforts. In 2008, Chile changed its criminal statutes to align penalties for trafficking marijuana with penalties for trafficking cocaine, heroin, and other drugs. Previously, convictions for marijuana trafficking did not have the same severity under the law as convictions for trafficking in other drugs such as cocaine or heroin. The change is a response to the increase in importation of marijuana from Paraguay.

In 2008, CONACE expanded its drug court pilot program to the cities of Iquique and Antofagasta. There are now 18 drug courts in Chile which are similar to U.S. drug courts in offering rehabilitation to drug offenders under judicial supervision. CONACE also signed an agreement with the Public Ministry's office to evaluate the drug court initiative.

Chile completed its transition from an inquisitorial to an adversarial judicial system in 2005. The process is still maturing, and feedback in 2008 suggests that there is greater public acceptance of the new system and faster resolution of cases. There are still challenges in 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.

Law Enforcement Efforts. Through September 2008, Chile reported seizures of approximately 1,421 kilograms (kg) of cocaine; 3,200 kg of cocaine paste; 7,087 kg of processed marijuana; and 23 units of illegal pharmaceutical drugs. Statistics were not available for heroin, Ecstasy, or LSD. Noteworthy operations included the April 2008 seizure of 29 kg of cocaine and other drug ingredients from the "Los Gaete" Drug Cartel that resulted in ten arrests.

The Carabineros de Chile (uniformed national police) and the Policia de Investigaciones (investigative police—PICH) have primary responsibility for counternarcotics law enforcement. Both the Carabineros and the PICH have dedicated anti-drug units that are considered highly professional and competent. Chile's long coast-line and international ports contribute to a heightened threat of maritime drug trafficking. In 2008, the PICH created a Maritime Container Investigations Unit designed to target drug trafficking organizations using ports in Chile for the transit of narcotics and

chemical precursors. The Carabineros de Chile also launched “Plan Vigia” (Plan Lookout), an effort to focus on drug traffickers in northern Chile. “Plan Vigia” provided more resources to the northern region, specifically near Calama, in response to an increase in the trafficking of Bolivian cocaine. Chile also formed the Border Intelligence and Analysis Group in 2008, which is designed to increase intelligence collection and dissemination among various law enforcement agencies. The group is composed of members of the Carabineros, PICH, Customs Service, and the Bureau of Prisons. This inter-agency effort builds on the success of the Arica Narcotics Investigations Task Force, launched in 2007.

Corruption. As a matter of policy, no senior Government of Chile (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. Chile is traditionally considered one of the least corrupt countries in the Western Hemisphere and ranked as the fifth least corrupt country in the Americas in the 2008 Corruption Perception Index Survey released by Transparency International.

Agreements and Treaties. Chile 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. 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.) The United States and Chile continue to negotiate a new extradition treaty. 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.

Drug Flow/Transit. In addition to maritime routes, narcotics enter Chile via land borders with Peru, Bolivia, and Argentina. Within Chile, narcotics move along Route 5, the main north-south corridor and part of the Pan American Highway. Narcotics transit out of Chile to Europe via maritime routes. Efforts to intercept illegal narcotics in the northern ports are inhibited by inspection restrictions established by the treaty signed after the War of the Pacific which require Chilean authorities to seek permission from the governments of Bolivia and Peru to inspect cargo originating in those countries. This allows some cargo to pass through ports in Arica, Iquique, and Antofagasta without Chilean inspection.

Domestic Programs/Demand Reduction. CONACE offers a full range of programs designed to reduce domestic drug consumption. The programs focus on drug prevention in schools, the workplace, and the community. There is a national movement aimed at increasing family involvement in preventing drug abuse, and CONACE has several programs designed to help parents talk to their children about the danger of drugs. The GOC also provides rehabilitation treatment for drug addicts through CONACE and the Ministry of Health. Chile does not promote or sanction harm reduction programs, such as needle exchanges for addicts.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG-sponsored anti-narcotics programs in 2008 focused on increased police intelligence capabilities, enhanced interagency cooperation among Chilean law enforcement agencies, and support for anti-money laundering efforts. The overall objective was to increase the ability of Chilean law enforcement agencies to combat some of the most challenging aspects of the drug trade in Chile.

Bilateral Cooperation. The USG and GOC have a strong record of bilateral anti-narcotics cooperation. In 2008, the USG and GOC worked together to address police intelligence gathering capabilities, interagency cooperation, and maritime security through training and exchanges. In June, Drug Enforcement Administration (DEA) officers in Santiago conducted a three-day Law Enforcement Tactical Training Course for members of the PICH anti-narcotics unit. In November, DEA conducted an undercover operations course for 15 Carabineros and 15 PICH detectives. DEA offices in Santiago, La Paz, Lima, Buenos Aires, and Asuncion continued to support an Officer Exchange Program among their respective host nations in 2008. PICH officials traveled to the DEA Training Academy in Quantico, VA, and the Department of Homeland Security's Customs and Border Control (DHS/CBP) Canine Training Academy in Front Royal, VA. CBP also carried out seaport interdiction training designed to enhance customs officers' counternarcotics capabilities. Chilean officials traveled to Houston/Galveston and U.S. Coast Guard (USCG) facilities in California to learn about port security and maritime security. The USCG provided resident, mobile and on-the-job training in maritime law enforcement, professional development and command and control to the Chilean Navy.

The Road Ahead. Future USG support for Chile's counternarcotics efforts will focus on enhancing interagency cooperation and its ability to conduct complex investigations. The USG encourages Chile to address its status as a transit country and intensify its efforts to disrupt major trafficking organizations. As the President of the Inter-American Drug Abuse Control (CICAD) in 2009, Chile will be in a position to provide leadership in the Western Hemisphere on the issue of drug control.

China

I. Summary

The People's Republic of China serves as a major drug transit country for international drug markets (though not the United States). Drugs, particularly heroin, come mostly from the Golden Triangle, but Afghanistan is also an important drug source area. 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 and cooperation with U.S. counternarcotics officials improved over the past year. 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 poses 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 heroin and opium from Afghanistan can find its way into China through other countries in South and Central Asia. Methamphetamine produced in North Korea continues to appear in China's northeastern provinces. Beijing claims that there are no heroin refineries in China.

China is a major producer of the dual-use precursor chemicals for methamphetamines, ephedrine and pseudoephedrine. There is a widespread belief among law enforcement agencies throughout the world that large-scale methamphetamine producers in other countries are using Chinese-produced ephedrine and pseudoephedrine, and there are numerous examples from criminal investigations to confirm this suspicion. Diverted Chinese precursor chemicals that are often transhipped through other countries 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, it has not matched the size of its large 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. 2007 NNCC statistics claim there are 955,000 registered drug users in China, but some officials acknowledge the actual number of addicts is much higher and there have been published reports that China might have as many as 15 million drug abusers. According to Chinese Government reports, 78 percent of all registered drug addicts are heroin users. Youth below the age of 35 comprise the largest percentage of registered addicts (62.08 percent), fueled largely by an increase in the disposable income of urban youth. The government reported that 38.5 percent of China’s HIV positive and AIDS patients were infected through intravenous drug use.

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 an increase in drug abuse in young people 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 night clubs and karaoke bars along China's wealthy east coast, particularly in Beijing, Shanghai, Nanjing, Guangzhou and Shenzhen.

With a large and developed chemical industry, China is one of the world's largest producers of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone, 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 United States and other concerned countries in implementing a system of pre-export notification of dual-use precursor chemicals. China strictly regulates the import and export of precursor chemicals, but motivated criminals have regularly found a way around this control regime.

III. Country Actions against Drugs in 2008

Policy Initiatives. China takes active measures to combat the use and trafficking of narcotics and dangerous drugs and is a party to the 1988 United Nations (UN) Drug Convention and the UN Convention Against Transnational Organized Crime. China's Ministry of Public Security (MPS) is in the fourth 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 November 2005, China passed the Administrative Law on Precursor Chemicals as well as the 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. Twenty three of these precursor chemicals were classified as more stringently controlled.

In March 2007, Chinese agencies involved in drug control completed the construction of an online database of drug users. China's new Narcotics Control Law was passed in late 2007 and went into effect on June 1, 2008. The law lays out drug control principles including education, administration, treatment and international cooperation. 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, especially amphetamine type stimulants. The People's Procurator's Office and the Supreme Court have improved legal standards for cases involving new types of drugs. Current MPS Minister Meng Jianzhu has also emphasized the importance of anti-drug work in speeches since his appointment in 2007.

In October 2008, the State Food and Drug Administration (SFDA) introduced new regulations enhancing the control on the sale and production of ephedrine and pseudoephedrine pharmaceutical preparations. Launched jointly with the National Narcotics Control Commission (NNCC), the regulations are expected to prevent extraction of ephedrine and pseudoephedrine active ingredients from Ephedrine Hydrochloride and Diphenhydramine Hydrochloride (EHDH) tablets, as well as curb the diversion and illicit trade in these products.

China has actively participated in an international cooperative effort with its neighbors in the Golden Triangle to reduce poppy cultivation in Laos and Burma. China continues to participate in United Nations Office of Drug Control (UNODC) demand reduction and crop substitution efforts in areas along China's southern border and has worked closely with Burma to implement an alternative crops program. In May 2006, the State Council authorized a 250 million Renminbi (RMB) fund (approx. USD 32.5 million) for crop substitution projects in Northern Burma and Laos. The NNCC reported that Chinese authorities launched 27 joint drug law enforcement operations with Laos and Burma in 2007, seizing 6,443 kilograms of illicit drugs and 4,795 kilograms of precursor chemicals. Nevertheless, Burma remains the major source of opium entering China, and it is probable that much of Burma's drug refining uses diverted precursor chemicals from China.

Law Enforcement Efforts. According to the 2008 Annual Report on Drug Control in China, Chinese authorities were involved in 56,000 drug-related cases and apprehended 67,000 suspects in 2007. China seized 4.6 tons of heroin (a 20.6 percent decrease from 2006), 1.2 tons of opium (a 30 percent decrease from 2006), 2.21 million Ecstasy tablets (a nearly five fold increase from 2006), 6 tons of ketamine (3.35 times as many tons as 2006), and 5.8 tons of methamphetamine (a 2.59 percent increase from 2006.) According to NNCC, Chinese authorities investigated 1,553 cases involving precursor chemicals in 2007 and seized 592 tons of precursor chemicals.

In the first seven months of 2008, Chinese authorities seized 6.6 tons of drugs and arrested 15,707 people for drug related crimes. During this time period, authorities seized 2.74 tons of methamphetamine and 3.59 tons of ketamine, according to MPS.

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 formulates drug policy in China, similar to the Office of National Drug Control Policy (ONDCP) in the United States.

Golden Crescent drug smuggling has “increased” according to the 2008 report of the NNCC. In 2007, Chinese authorities conducted joint counternarcotics operations with Afghanistan, which resulted in the seizure of five kilograms of heroin and the arrests of four suspects; with Pakistan, which resulted in the capture of six suspects and 7 kilograms of heroin and with Tajikistan, which resulted in the capture of 590 grams of heroin and three suspects. To curb the growing Golden Crescent heroin threat, Chinese authorities have stepped up border and airport checks in Guangdong, Beijing, Shanghai and Xinjiang.

NNCC expects drug use to continue to move from traditional to synthetic drugs. However, because almost 80 percent of China's drug addicts use heroin, the Golden Triangle and Golden Crescent will continue to remain areas of serious concern for China.

In 2007, in cooperation with Laos, Burma, Thailand and the Philippines, Chinese authorities continued to carry out operation “Nail Eradication,” capturing 30 Chinese nationals living outside of China who were wanted as suspected leaders of drug trafficking rings, according to the NNCC.

In 2007, China continued to strengthen its cooperation with United States law enforcement agencies. This included successes in joint operations with DEA. 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 has received several drug samples from MPS and Customs for analysis and, in 2008, China agreed to provide samples to participate in the DEA heroin signature program. In the same year, MPS, with the investigative assistance of DEA, seized 142 kilograms of cocaine in Southern China. On June 4, 2008, MPS, in a joint investigation with DEA-Beijing, seized 530 kilograms of cocaine in Guangzhou.

According to the NNCC, China and Pakistan have strengthened counter-drug 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. As described above, China also carried out joint counternarcotics operations with other neighboring countries including Laos, Burma, Afghanistan, Pakistan and Tajikistan.

Corruption. Chinese leaders acknowledge that China has a very serious corruption problem. Anticorruption campaigns have led to arrests of many lower-level government personnel and some more senior officials. Most corruption in China involves 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 Chinese press does, however, report instances of other types of official corruption, including embezzlement and bribery. In September 2008, for example, two former Bank of China managers and their wives were convicted of money laundering and racketeering in the United States.

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 drug-related corruption. Nevertheless, the quantity of drugs trafficked within China raises suspicions that official corruption is a factor in trafficking in certain provinces bordering drug producing regions, such as Yunnan, and in Guangdong and Fujian, where narcotics trafficking and other forms of transnational crime 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 central-level authorities. China continues to be engaged in an anticorruption dialogue with the United States 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 United States agencies have been involved.

As part of its efforts to stem the flow of corrupt Chinese officials who embezzle public funds and flee abroad to evade punishment, China ratified the United Nations Convention Against Corruption in January 2006, shortly after the Convention entered into force in December 2005.

Agreements and Treaties. China actively cooperates with other countries to fight drug trafficking and has signed over 30 mutual legal assistance agreements with 24 countries. China has also signed 58 bilateral treaties on legal assistance and extradition with 40 countries. China is a party to the 1988 UN Drug Convention, as well as to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol and the 1971 Convention on Psychotropic Substances. The United States and China cooperate in law enforcement efforts under a mutual legal assistance agreement signed in 2000. There is no extradition treaty between the United States and China. In January 2003, the United States and China reached agreement on the Customs Mutual Assistance Agreement (CMAA). 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 eliminated large-scale drug crop cultivation in China years ago. At present, China's mountainous and forested regions where illegal cultivation can occur are subject to aerial surveillance, field surveys, and drug eradication to eliminate any significant return to the cultivation of drug crops. 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.

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 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, for example in Indonesia, 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 Fujian and Guangdong Provinces, although recently there have been laboratories seized in northeast China, specifically Shenyang and Liaoning Provinces. On August 7, 2008, a special operations unit of MPS seized a methamphetamine manufacturing factory in Hui Zhou, China. Six suspects were arrested and nearly 1,700 kilograms of mixed liquid substance containing methamphetamine were seized.

Drug Flow/Transit. China continues to be used as a transshipment route for drugs produced in the Golden Triangle, despite counternarcotics cooperation with neighbors such as Vietnam, Thailand and Burma. In their 2008 report, the NNCC noted that the Golden Triangle is the single greatest source of foreign produced drugs in China. 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. Transit 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. Chinese anti-drug police also strengthened their efforts in Yunnan in 2007 by enhancing interdiction capabilities at border posts, airports, railway stations and post offices. Yunnan investigated 9,838 drug trafficking cases and seized 7.09 tons of drugs in 2007, according to statistics published by the NNCC.

Chinese authorities acknowledge that western China is experiencing significant drug trafficking problems as well. They report that drugs such as opium and heroin are being smuggled into Xinjiang Province for distribution throughout China. They are concerned about opium from the Golden Crescent and have seen a steady increase in the flow of heroin from that region, specifically from Afghanistan. There has been an increase in the number of Afghan heroin seizures in western China to confirm that trafficking is indeed taking place. MPS and DEA report that Pakistan serves as a key trafficking route for heroin from Afghanistan into China.

Domestic Programs/Demand Reduction. The most recent MPS statistics indicate there are over 955,000 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. The Chinese Government reports that 78 percent of all registered drug addicts are heroin users. Youth under the age of 35 comprise the largest percentage of addicts. The government reported that 38.5 percent of China's HIV positive and AIDS patients were infected through intravenous drug use.

In addition to the standard reform through labor camps, the government is using media campaigns, the establishment of drug-free communities, compulsory drug rehabilitation treatment, and voluntary rehabilitation centers to reduce drug demand. The NNCC reports that China has recruited more than 1 million drug control volunteers nationwide whose job it is to publicize drug control efforts and help patrol recreational venues. NNCC and MPS set up an online drug abusers database to improve monitoring and information sharing across agencies. In 2007, the Chinese Government allocated funding for 23 pilot drug rehabilitation centers across the country. As of November 2007, China had treated 249,629 drug users in compulsory treatment centers and 62,163 in labor camps.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Counternarcotics cooperation between China and the United States is focused 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 United States. The October 2008 U.S.-China Joint Liaison Group (JLG) Meeting on Law Enforcement included a discussion of narcotics cooperation issues during which specific objectives for continuing cooperation were agreed to, with implementation to follow.

Road Ahead. A continuing 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 an 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. Another important issue for both sides is access to witnesses and other evidence in a timely fashion so that it can be used in investigations and trials. Despite these issues, bilateral enforcement cooperation remains on track and is expected to continue to improve over the coming year.

Colombia

I. Summary

The Government of the Republic of Colombia (GOC) remains committed to fighting the production and trafficking of illicit drugs and has made great progress, including aerial and manual eradication removing hundreds of tons of coca from production each year; a decrease in estimated coca yields by 24 percent from a high point of 700 metric tons of cocaine in 2001 to 535 metric tons of cocaine in 2007; and Colombia's transition to a new accusatorial system of justice and the extension of a police and other government agencies' presence throughout the country. However, Colombia remains a major drug producing country. In 2008, the GOC continued its aggressive interdiction and eradication programs, seizing over 223 metric tons (MT) of cocaine and cocaine base, which is an all-time record for the GOC. The GOC also extradited a record number of persons charged with crimes in the U.S. About 230,000 hectares of illicit crops were eradicated, over 133,000 hectares through aerial eradication by the Colombian National Police (CNP) Anti-Narcotics Directorate (DIRAN), and over 96,000 hectares by manual eradication efforts. Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia remains the principal supplier of cocaine to the world. While the majority goes to the U.S., an increasing percentage is now destined for Europe and Brazil. Nearly 90 percent of the cocaine entering the U.S. is processed in Colombia, and the country remains the primary source for heroin used east of the Mississippi River. Colombia is a leading market for precursor chemicals, and significant money laundering activity continues to occur. Narcotraffickers exploit Colombia's infrastructure and geography, including multiple international airports, an expanding highway system, ports on the Atlantic and Pacific coasts, and extensive rivers for their operations. Illegal drugs are still primarily exported; however domestic consumption is rising in Colombia. The GOC is making a concerted effort to consolidate its demand prevention efforts into a unified policy.

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 degree, 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. While the United Self-Defense Forces of Colombia (AUC) completed demobilization in 2006, a significant number of former mid-level AUC commanders continue their involvement in the drug trade, with the Organization of American States (OAS) and several NGOs warning in late 2008 that new criminal groups were gaining strength in areas of former AUC influence.

III. Country Actions against Drugs in 2008

Policy Initiatives. The GOC continues to improve its criminal justice proceedings in order to increase its capability to prosecute criminals, including drug traffickers. On January 1, 2008, Colombia completed a nationwide transition to an accusatorial system of criminal justice. While many cases previously initiated must still 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 grew in 2008, resulting in the eradication of more than 96,000 hectares of illicit crops. The Colombian National Police (CNP), Colombian Army (COLAR) and Colombian Marines (COLMAR) manually eradicated illicit crops and their role in providing security and aviation support increased as operations expanded. Drug traffickers and terrorist organizations continued to act violently against manual eradicators, causing the deaths of 24 civilian eradicators and security personnel in 2008, up from 16 in 2007.

The Colombian Anti-Narcotics Police (DIRAN) maintains support for a special judicial police unit established in 2006 which gathers evidence for asset forfeiture proceedings against property owners who use their land for the cultivation or processing of illegal crops. In 2008, this unit continued to develop and investigate cases for the Prosecutor General's Office. This asset seizure initiative is an important step towards better deterrence of cultivation and replanting after eradication. According to some estimates, the value of illicitly obtained assets seized in 2008 may exceed \$1 billion. While the management of these seizures has grown in complexity, legislative and regulatory changes are needed to improve the GOC's ability to properly handle criminal assets and to benefit from their forfeiture.

Law Enforcement Efforts. In 2008, according to the GOC, Colombian security forces seized 223.8 MT of cocaine and coca base, 198.3 MT of marijuana, 640 kg of heroin, over 3 million gallons and 4 million kg of precursor chemicals, while destroying 301 cocaine hydrochloride (HCL) labs and 3,238 coca base labs. The CNP's Mobile Rural Police Squadrons (Carabineros), the unit which expands and maintains police presence in areas of conflict throughout Colombia, captured over 9 MT of cocaine, more than 1,100 weapons, and over 300,000 rounds of ammunition. These Carbinero units are also the police's primary security force for manual eradication security and currently have over half of their 68 squadrons dedicated to this task. Additionally, Carbineros have captured several high-value targets (HVTs), the most notable being Luis Arnulfo Tuberquia, aka "Memin," a key leader of the notorious "Black Eagles" gang, in September 2008.

The CNP's main interdiction force, the DIRAN's Jungle Commandos (Junglas), or airmobile units, are largely responsible for the significant number of HCL and coca base labs destroyed in 2008. DIRAN maintained its strong commitment to working with international partners in 2008 by sending a mobile training team to train Mexican police at Jalisco, Mexico, for two months, hosting a twelve-week International Antinarcotics Canine Course, which included 11 Peruvian students, and hosting approximately 20 representatives from ten countries at the 18-week International Junglas Commando Course conducted at the CNP Rural Training Center in Tolima.

The CNP DIRAN Heroin Task Force completed many bilateral priority target heroin investigations resulting in 113 arrests (31 for extradition to the U.S.), seizures of 294.5 kg of heroin, 915.35 kg of cocaine HCl, 72.09 kg of cocaine base, 28,697.50 gallons of liquid chemicals, 18,426 kg of solid chemicals, and assets valued at \$2,634,155.

Port Security. Significant drug seizures in Colombia's ports were the result of improvements in port security by the GOC and private seaport operators, aided in part by USG support. In 2008, more than 27 MT of cocaine, 11 kg of heroin, and 69 kg of marijuana were seized by DIRAN in the ports. At Colombia's international airports, DIRAN units confiscated 41 kg of heroin, 958 kg of cocaine, more than 400 kg of marijuana, and made over 72 drug-related arrests.

High-Value Targets (HVTs). In 2008, the GOC achieved crucial successes against the FARC leadership, including, most notably, the July rescue of fifteen hostages, including three American contractors and a former Colombian presidential candidate, Ingrid Betancourt. The three U.S. hostages, Thomas Howes, Marc Gonsalves, and Keith Stansell, held by the FARC's 1st Front since 2003, were rescued in a complex GOC operation. FARC 1st Front Commander Gerardo Aguilar-Ramirez, AKA "Cesar," was arrested and is pending extradition to the United States under an indictment obtained during a FARC leadership investigation.

In March 2008, FARC commander Luis Edgar Devia-Silva aka "Raul Reyes" was killed during a Colombian Government operation; FARC Commander Manuel Munoz-Ortiz, aka "Ivan Rios" was killed at the hands of his own chief of security; and FARC founding member Manuel Marulanda-Velez, aka "Pedro Antonio Marin," died from an alleged heart attack.

In June 2008, the Colombian government also conducted an operation that resulted in the surrender of 47 FARC members near the port city of Buenaventura and captured 13 FARC guerrillas from the 30th Front. One of the captured

FARC guerillas had a provisional arrest warrant issued from the state of Alabama for drug trafficking. In July 2008, the Colombian government conducted an operation targeting the FARC 10th Front, during which the 10th Front Deputy Commander Fernelli Rizo-Carrascal, aka “Jurga Jurga,” was killed.

In September 2008, the Colombian government conducted an operation against FARC 43rd Front Commander Gener Garcia-Molina, aka “Jhon 40,” resulting in the deaths of nine FARC guerillas, the capture of two guerillas, and the seizure of \$1 million, various weapons, explosives, laptop computers, and other media devices. Garcia-Molina, a key player in the FARC’s drug trafficking operations, escaped from the camp, but reportedly suffered serious wounds as a result of the GOC operation.

The GOC also had unprecedented success against other high value targets—arresting, killing, or extraditing 12 individuals as a direct result of Colombian security forces investigative and/or operational efforts. As a result of CNP and U.S. Drug Enforcement Administration (DEA) assistance to the Spanish authorities, on September 9, 2008, Edgar Vallejo Guarin was arrested in Spain and awaits extradition to the U.S. On August 22, 2008, Norte Valle Cartel leader Juan Carlos Ramirez-Abadia, aka “Chupeta,” was extradited from Brazil to the U.S., and the CNP Judicial Police Headquarters (DIJIN) seized nearly \$1 billion in cash and assets from Ramirez-Abadia. On June 9, 2008, Eugenio Montoya Sanchez, the brother of Diego Montoya Sanchez, was extradited to the U.S. Diego Montoya Sanchez was also extradited on December 12, 2008.

On May 2, 2008, CNP operations led to the capture of AUC commander Miguel Mejia Munera and the death of his brother, AUC commander Victor Mejia Munera on April 29, 2008. Also in May 2008, the CNP reported the death of AUC commander Jose Vicente Castaño Gil by unknown assailants, although this has not been confirmed. On January 31, 2008, Norte Valle Cartel member Wilber Alirio Varela was killed by unknown assailants in Merida, Venezuela.

Demobilization. Colombia developed two programs for demobilization, collective and individual, in order to facilitate the dismantlement of FTOs and to help reintegrate former guerillas and paramilitaries into civilian life. Under the Colombian legal framework for disarmament, demobilization, and reintegration of illegally armed groups, the High Commission for Peace oversees peace negotiations with illegal armed groups and the subsequent collective demobilization program. While available to all FTOs, the program had only been applied to the AUC.

The individual demobilization or deserter program is managed by the Ministry of Defense, and accounts for FTOs and any other illegal armed group in Colombia. Since 2006, the Office of the Presidential Advisor for Reintegration has directed the GOC Reintegration Program for demobilized combatants from illegal armed groups. Between 2002 and 2008, the GOC estimates that more than 49,000 persons have demobilized—17,600 under the individual desertion program and over 31,000 under the collective program. In 2008, another 3,193 guerrilla fighters deserted from the FARC

However, since October 2007, the GOC has not accepted additional AUC members into either demobilization program. Any AUC members who now turn themselves in will be investigated and prosecuted under normal Colombian law and can no longer benefit from the Justice and Peace law.

Corruption. The GOC 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. While criminal organizations are greatly weakened, concerns remain over their corrupting influences. In September 2008, two CNP generals, Antonio Gomez Mendez and Marco Pedreros, were fired as a result of alleged ties to narco-paramilitary leader, Daniel “El Loco” Barrera. Separately, several members of the GOC were found to have supported right-wing paramilitary groups. Seventy members of the 2006-2010 Congress and 15 current and former governors have been investigated in the “para-political” scandal, with 34 congressmen and eight governors jailed as a result of the aggressive investigations. Both the Supreme Court and a special unit within the Prosecutor General’s office are continuing their investigations of alleged paramilitary ties to politicians and other sectors of society. On November 4, Colombian Army Commanding General Mario Montoya Uribe resigned his post. Montoya

stepped down less than a week after President Uribe dismissed 27 military officers, including two division and three brigade commanders, for their roles in the disappearance and subsequent murders of young men from Soacha and Antioquia. Montoya had been the subject of multiple human rights complaints during his tenure. 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 against illicit traffic in narcotic drugs and psychotropic substances, the OAS Convention on Mutual Legal Assistance, the UN Convention against Transnational Organized Crime, and the Protocol on Trafficking in Persons. Colombia signed a multilateral counternarcotics agreement in 2008 as part of the Regional Summit on the World Drug Problem, Security, and Cooperation held in Cartagena. This agreement primarily focuses on information sharing, but could include training and technical assistance. In addition, Colombia and Mexico formed a tri-party group with the U.S. that consists of the DEA Administrator, the Colombian Minister of Defense, and the Mexican Attorney General. This group meets at least twice a year to discuss counternarcotics and other issues of mutual interest. 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.

A Maritime Ship Boarding Agreement signed in 1997 continued to be successfully used by the GOC and USG. This agreement facilitates 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). Since 2006, semiannual meetings have been held to iron out problems and strengthen operating procedures. In 2007, the meeting was expanded to include Ecuador, and in 2008 both Panama and Mexico participated.

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.

Extradition and Mutual Legal Assistance. There is no bilateral Mutual Legal Assistance Treaty (MLAT) in force between the U.S. and Colombia, but 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 208 defendants in 2008, including 15 former senior leaders of the demobilized AUC—Diego Fernando Murillo Bejarano (alias “Don Berna”), Salvatore Mancuso Gomez, Carlos Mario Jiménez (alias “Macaco”), Rodrigo Tovar Pupo (alias “Jorge 40”), Ramiro Vanoy Murillo (alias “Cuco Vanoy”), Francisco Zuluaga Lindo (alias “Gordo Lindo”), Guillermo Perez Alzate, Diego Alberto Ruiz Arroyave, Nodier Giraldo Giraldo, Hernan Giraldo Serna, Edwin Mauricio Gomez Luna, Martin Peneranda Osorio, Juan Carlos Sierra Ramirez, Eduardo Enrique Vengoechea Mola, and Manuel Enrique Torregrosa Castro. In addition, two key FARC members, Jose Maria Corredor-Ibague (alias “Boyaco”) and Carolina Yanave-Rojas (alias “La Negra”), were extradited.

On December 12, 2008, Diego Montoya Sanchez, alias “Don Diego,” a former FBI top-ten most wanted fugitive and principal leader of the Norte Valle Cartel, was extradited from Colombia to the U.S. to face federal charges. Montoya-Sanchez faces drug-trafficking-related charges in the Southern District of Florida and the District of Columbia.

Since December 1997, when Colombia revised its domestic law to permit the extradition of Colombian nationals, 855 individuals have been extradited to the United States, including 789 since President Uribe assumed office in 2002.

The Colombian Office of the Prosecutor General, along with other GOC agencies, continued to assist the USG with high-profile prosecutions and trials. Most notable among these is Hernando Gomez Bustamante (alias “Rasgano”), who admitted that he was a leader of the Norte Valle drug cartel, which engaged in murder, bribery, money laundering, and drug trafficking in moving billions of dollars worth of cocaine to the U.S.

Cultivation/Production. The 2007 USG estimate of 167,000 hectares of coca under cultivation in Colombia was a slight increase from the 2006 estimate of 157,200 hectares (the 2008 estimates will not be available until mid 2009). However, because of the success of aerial eradication, the coca yields from these fields decreased by 24 percent from its high point of 700 metric tons of cocaine in 2001 to 535 metric tons of cocaine in 2007. While the estimated area under cultivation has remained relatively static, cocaine productivity from Colombian fields is dropping. 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 utilized. The GOC does not conduct aerial spraying within 10 kilometers of international borders due to objections from neighboring countries. Manual eradication does occur in some of these areas, yet it is a lengthy and dangerous process, due to the often rugged and isolated terrain, as well as the strategic importance of the border and certain parklands to the FARC.

Poppy cultivation in Colombia has decreased dramatically since 2001. A full estimate of poppy cultivation and heroin production was not completed in 2007, but a partial survey showed a 25 percent drop in poppy cultivation in directly comparable areas and a subsequent 27 percent decrease in production potential of export-quality heroin. In 2008, Colombia manually eradicated 381 hectares of poppy, compared to 375 hectares in 2006, and 1,929 eradicated in 2007. The decline in poppy eradication figures and seized heroin purities over the last several years corresponds to the substantial decrease in poppy cultivation since 2001. The average wholesale purity of Colombian heroin seized at U.S. ports of entry has also decreased significantly, corroborating the decreasing trend seen in USG cultivation estimates.

Although Colombian drug trafficking organizations do 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 decreased significantly in 2008, with only about 20,603 tablets seized. There have been minor seizures of Ecstasy in Colombia, but no indication of significant production or export. The GOC has held a number of seminars and training sessions on this emerging threat.

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, with results to be released in early 2009 regarding spray drift and other relevant issues.

As of December 31, 2008, the GOC had received 8,570 complaints alleging damage to legal crops by spray planes since the tracking of complaints began in 2001. The GOC has finished the investigation of 7,750 complaints, and 1,452 were processed in 2008. One hundred seventeen complaints have been found to be valid between 2001 and December 2008, and the USG paid approximately \$472,481 in compensation to farmers. The GOC investigates all claims of harm to human health 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. Shipments of cocaine and heroin are transported by road, river, and small civilian aircraft from the Colombian source zone in the mainly southern regions of the country, to the transit zone north and west of the Andes Mountains. Lax antinarcotics enforcement as well as a permissive and corrupt environment in Venezuela, has prompted traffickers to increasingly use that country to stage shipments of illicit drugs originating in Colombia for onward shipment to Mexico, the Caribbean, the U.S., Europe, and Africa. The Pacific coast of Colombia is also increasingly utilized by traffickers seeking to evade interdiction forces.

It is estimated 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. Commercial fishing vessels, formerly a popular conveyance, have fallen out of favor since the GOC began requiring such vessels to be equipped with vessel monitoring systems. Traffickers have increasingly turned to semi-submersible crafts to move multi-ton loads of cocaine. These vessels constructed of fiberglass or steel, anywhere from 45 to 82 feet in length, have a range of 2000 miles and can carry three to four crew members and an average of around 5 MT of cocaine. In 2007 and 2008, eight semi-submersibles were interdicted or scuttled with more than 40 MT of cocaine estimated to be on board.

Small aircraft from clandestine airstrips in eastern and southeastern Colombia are also used to transit drugs to neighboring countries, where it is either consumed or transferred to airplanes and maritime vessels for onward shipment. As of October 1, 2008, there have been less than 50 illegal flights in Colombia. The reduced number of illegal flights in Colombia has allowed Air Bridge Denial assets to perform maritime patrols, resulting in eleven vessels impounded and one self-propelled submersible scuttled in 2008.

The majority of Colombian heroin originates from the rural areas of Pasto and Ipiales in the Department of Nariño, where it is transported to the southwestern coast, mainly around the Pacific port of Buenaventura, and then shipped in containerized cargo concealed in furniture, machine parts, and other items. Multi-kilogram heroin shipments are also combined with cocaine on go-fast boats shipped from the Atlantic coast. In addition, smaller amounts of heroin are often transported by human carriers in clothing, in luggage, or swallowed.

Domestic Programs/Demand Reduction. The GOC, under the leadership of the Ministry of Social Protection, made substantial gains in consolidating its drug demand prevention efforts and launched a national drug demand prevention strategy in November 2008. In coordination with the USG, the United Nations Office on Drugs and Crime (UNODC), and OAS support, the Colombian Ministry of Social Protection and the National Directorate of Dangerous Drugs (DNE) initiated a national drug use survey in late 2008, making it the first nation-wide drug use survey to take place in more than 12 years. In 2008, the USG sponsored various capacity-building training events for students, police officers, journalists, and community leaders. The USG worked with UNODC, DIRAN, the Colombian Vice President, and the Ministry of Social Protection to organize a two-day Youth Drug Prevention Forum and to develop four drug consumption prevention commercials. The USG also supported the Drug Abuse Resistance Education (DARE) program's National Drawing Contest organized by the CNP.

On November 7, 2008, the U.S. Ambassador launched the "No Apagues Tu Luz" ("Do Not Turn Off Your Light") drug demand reduction initiative which aims to foster community development and social mobility opportunities for children at risk of getting involved in drug use. High-level participants such as the UNODC Representative, Mayor of Cartagena, representatives from the Ministry of Social Protection, the DNE, and various NGOs sought to raise awareness of the problem of drug consumption in Colombia.

IV. U.S. Policy Initiatives and Programs

Strategies to maximize the use of eradication resources remain a priority for collaboration between the GOC and USG. 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 taking advantage of the strengths of both methods. COLAR's Counter-Drug (CD) Brigade continues to be actively involved in supporting operations to protect spray aircraft. By sharing targeting information and coordinating movements, aerial and manual eradication 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 an area.

Nationalization, or the effort to transfer funding and operational responsibilities for counternarcotics programs from the USG to the GOC, continued at a rapid pace in 2008. The USG removed 18 UH-1N helicopters from the COLAR Aviation contract and extended the loan/lease program until December 2009. The USG is training technicians, building spare parts inventory and logistics systems, and upgrading aircraft sensors as part of the effort to transfer the

Air Bridge Denial program to the GOC, with completion planned by December 2009. As of October 1, 2008 the GOC took over responsibility for paying for aviation fuel used by the police and military for eradication and interdiction operations. 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 were 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) is training more pilots and mechanics within Colombia, which will eventually eliminate the need and expense of contracting pilots and mechanics to service the unit's 18 fixed-wing and 58 rotary-wing aircraft. Further, the USG's social assistance programs, ranging from alternative development to vulnerable populations to governance, have made strides in turning programming over to the GOC, and plans call for a substantial and strategic shift in the GOC's management and funding of the initiatives in the coming years.

U.S. Customs and Border Protection (USCBP) continued to provide training, coordination, and technical assistance to CNP units stationed in the ports and airports. This included training in areas such as firearms handling, passenger documentation analysis, and the inspection of containerized cargo. USCBP also provided three sets of inspection equipment for use by Colombian law enforcement.

USCBP, in coordination with Immigration and Customs Enforcement (ICE), provided two bulk currency smuggling training courses to GOC Customs officers to increase their basic skills and counternarcotics capabilities. In December 2008, USCBP provided passenger processing training at the Port of Cartagena. USCBP also provided international rail interdiction training in December. The USCBP-led Container Security Initiative (CSI), implemented in 2007, is just beginning to produce results.

In addition, the USCBP provided small boat interdiction training to the Colombian Navy, including high-speed pursuit tactics, risk mitigation, arrest techniques, and routine boat maintenance procedures. As an extension of the Air Bridge Denial program, USCBP conducted maritime patrol aircraft training to Colombian C-560 and C-26 Air Force pilots and crew. The training included vessel identification, profiles and rigging, search techniques, communications and reporting, photography, and computer formatting.

The USCBP also supported the private sector-led Business Alliance for Secure Commerce (BASC) program, which drew participation from hundreds of Colombian companies.

The USCG continues to improve interdiction operations with the Colombian Navy through training. Training activities in 2008 focused on leadership, crisis management, port security, counterterrorism, and contingency planning. In addition, the USCG participated in the first Annual Maritime Counter Drug Symposium of the Americas, held in Colombia, which provided executive-level discussion for the Navy and Coast Guard Commanders of South America, the Caribbean, and Central America.

Alternative Development. The USG and GOC increased joint efforts to encourage farmers to abandon the production of illicit crops in an area of roughly one-half of the country, covering about 80 percent of Colombia's population. By mid-2008, USG alternative development (AD) initiatives were supporting the cultivation of over 238,000 hectares of legal crops and completed 1,212 social and productive infrastructure projects in the last seven years. More than 291,000 families in 18 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 273,000 full-time equivalent jobs and to leverage over \$700 million in private capital to fund AD initiatives. Further, the USG is working with the GOC in three regions of the country to pilot integrated counternarcotics initiatives that include security, eradication, and development under one implementation umbrella. These pilot initiatives will increase the impact of counternarcotics initiatives in future years.

Support for Democracy and Judicial Reform. The USG is helping reform and strengthen the criminal justice system in Colombia through the Justice Sector Reform Program (JSRP) and rule of law assistance. The transition to an

oral accusatory criminal justice system began in 2005, and was fully implemented throughout the country on January 1, 2008. The JSRP has provided training and technical assistance to support the new roles of judges, prosecutors, public defenders, private criminal defense lawyers, police investigators, and law students 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 65 thousand prosecutors, judges, public defenders, criminal investigators, and forensic experts. Additionally, the USG has helped to refurbish or build 45 physical court rooms in urban areas and six virtual court rooms in rural zones, and have either refurbished or equipped 15 public defender offices. Finally, the USG has assisted the GOC to construct 49 justice houses throughout Colombia that have provided formal and informal justice sector services to over 7.2 million Colombians.

Military Justice. With USG support, the GOC has begun 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. Between 2007 and 2008, ten conferences were held at strategic “centers of gravity” locations throughout Colombia, and over 500 Colombian military participants were trained. 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. In early 2008, the Ministry of Defense issued a Comprehensive Human Rights and International Humanitarian Law Policy signed by the Minister of Defense, the Commander in Chief of the Armed Forces, and Director of the National Police.

The Road Ahead. In 2009 the GOC will continue to dismantle the FTOs and illegal armed groups that control the drug trade in Colombia, hoping to build on the success of the many HVTs captured and extradited to the U.S. As these groups are defeated, a challenge remains in finding and derailing smaller and less-organized successor criminal groups. Nationalizing counternarcotics funding and operations currently supported by the USG, while maintaining successful operational results, will remain a top priority, especially in the area of aviation and social assistance programming, which are critical to all counternarcotics efforts in Colombia.

Other challenges for 2009 include consolidating the gains made under Plan Colombia and preventing a backslide by successfully coordinating aerial and manual eradication efforts and alternative development programs to inhibit the rapid replanting of coca and increased illicit cultivation in no-spray zones. To consolidate the progress from 2008 and prior years, the GOC will need to continue to strengthen government presence in conflict areas while improving institutional capacity to provide services and economic opportunities. One program in Macarena, the Coordination Center for Integrated Action, may serve as a template for this effort. This program coordinates all elements of the government to quickly facilitate the strategy of “clear, hold, and develop” in conflict areas, and is beginning to pay dividends. However, much remains to be done in Macarena and in other parts of the country to replicate the process. The GOC still must make efforts to gain control of the vast Pacific coastal zones and border areas, demobilize and reintegrate ex-combatants, and advance the reconciliation and victim reparations processes.

V. Statistical Tables

COLOMBIA STATISTICS (1998-2008)											
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Coca											
Net Cultivation ¹ (ha)		167,000	157,200	144,000	114,000	113,850	144,450	169,800	136,200	122,500	101,800
Aerial Eradication (ha)	133,496	153,133	171,613	138,775	136,555	132,817	122,695	84,251	47,371	43,246	66,366
Manual Eradication (ha)	95,732	66,396	42,111	31,285	10,991						
HCl (Cocaine): Potential ^{1,2} (mt)		535	550	525	415	445	585	700	530	530	435
Opium Poppy											
Net Cultivation ¹ (ha)		1,000 ³	2,300	N/A ⁴	2,100	4,400	4,900	6,540	5,010	5,000	4,050
Aerial Eradication (ha) ⁵			232	1,624	3,060	2,994	3,371	2,583	9,254		
Manual Eradication (ha)	381	375	1929	497	1,497						
Heroin: Potential ¹ (mt)		1.9	4.6		3.8	7.8	8.5	11.4	8.7	11.6	9.4
Seizures											
Coca Base/Paste (mt)	41	60.6	48.1	43.8	28.3	31.1	30.0	26.7	0.0	9.0	29.3
Cocaine HCl (mt)	182.8	130.7	130.2	179.0	138.6	114.0	94.0	57.3	69.0	22.7	54.7
Combined HCl & Base (mt)	223.8	191.3	178.3	222.8	166.9	145.1	124.0	84.0	69.0	31.7	84.0
Heroin	0.64	0.6	0.5	0.7	0.7	0.5	0.8	0.8	0.6	0.5	0.3
Arrests/Detentions											
Arrests/Detentions	54,041	59,652	64,123	82,236	63,791		15,868	15,367	8,600		1,961
Labs Destroyed											
Cocaine HCl	301	240	205	137	150	83	129				
Base	3,238	2,875	1,952								
Heroin	4	1	9	6	8	3	3	6	13	10	10

1 A 2008 USG estimate for net cultivation, and consequently production, was not available in time for this report.

2 Estimates of Colombian potential pure-cocaine production for 1999-2006 were revised based on the results of coca-leaf yield studies completed in 2007 and early 2008.

3 Only a partial survey was completed in 2007.

4 Cloud cover in key opium poppy growing areas of Colombia precluded an opium estimate in 2005.

5 Aerial eradication of poppy was discontinued in April 2006 in order to put all aerial assets against coca cultivation.

Comoros

I. Summary

The Union of the Comoros is composed of three islands in the Indian Ocean (Grande Comore, Anjouan, and Moheli) and claims a fourth, Mayotte, (which France currently governs). Until March 25, 2008, renegade Colonel Mohamed Bacar was the illegitimate leader of Anjouan, having declared himself island president (governor) in June, 2007.

II. Status of Country

The Comoros is a transit country for illegal drugs and possibly a source; particularly in Anjouan during the Bacar regime.

III. Country Actions against Drugs in 2008

On October 26, 2008, Comoran authorities seized 200 kilograms of marijuana at the port of Moroni and arrested a customs official suspected of being implicated in the transshipment of these illicit drugs.

Drug Flow/Transit. There is evidence that drugs transit Comoros, but the quantities are unlikely to be large.

Agreements and Treaties. The 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.

IV. U.S. Policy Initiatives and Programs

Comoran police participate in the International Law Enforcement Academy (ILEA) training program and Comoran army and gendarmes in International Military Education and Training (IMET). Comoran security forces are inadequate to provide border security and prevent drug trafficking. The U.S. will continue to offer Comoran law enforcement training opportunities at ILEA to improve enforcement capacity.

Costa Rica

I. Summary

Costa Rica continues to be an increasingly important transit point for narcotics destined for the United States and Europe. Local consumption of illicit narcotics, particularly crack, continues to grow, mostly in prisons and with children in the streets. The Instituto Costarricense sobre Drogas (ICD) estimates that two thirds of the crack cocaine is consumed by inmates, the remaining one third is consumed by street children. Though these are just estimates and there are no raw numbers on how many people are current crack cocaine users, this is a key concern, along with the continued rise in drug-related violent crimes. In 2008 the Costa Rican Coast Guard (SNGC), with a small INL investment in their communication and navigation capabilities, capitalized on these increased coordination capabilities to make several key interdictions with USG assistance Costa Rica is a party to the 1988 UN Drug Convention.

II. Status of Country

Costa Rica is a vulnerable drug transshipment point for South American cocaine and heroin destined primarily for the United States due to its location on the isthmus linking Colombia with the United States via Mexico, its long Atlantic and Pacific coastlines, and its jurisdiction over the Cocos Islands. 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 2008

Policy Initiatives. The Arias Administration named a new Minister of Public Security (MPS) in 2008. Under the new leadership, the MPS continued its effective cooperation with the USG to interdict narcotics and initiated a National Plan to combat crack cocaine consumption in Costa Rica, a particular problem growing at an alarming rate. In July and August alone, during the first stage to implement this plan, the MPS seized 22,765 doses of crack, 11,871 marijuana plants, and 218 kilograms (kg) of cocaine, and made 12,104 arrests. The Ministry, with USG assistance, has also begun a container inspection program at the Caribbean port of Limon. Additionally, the Executive branch has sent organized crime legislation to the GOCR's National Assembly for consideration. The government of Costa Rica is committed to the development of the SNGC. They have doubled their service budget within the last year, provided land to expand current construction of their Headquarters, Academy, and maintenance facilities in Punta Arenas. The SNGC, with USG assistance, made some progress in addressing communications and navigations gaps.

Accomplishments. In 2008, including the July and August seizures noted above, Costa Rican authorities assisted in the seizure of 21.7 metric tons (MT) of cocaine, of which 6 MT were seized on land or air and 15.7 MT were seized in joint maritime interdiction operations with U.S. law enforcement. The Costa Rican Coast Guard (SNGC), with a small INL investment in their communication and navigation capabilities, capitalized on these increased coordination capabilities to make several key interdictions with USG assistance, such as the 4 MT cocaine seizure in July. The GOCR also seized over 157,234 doses of crack cocaine, 21.26 kg of heroin, 4.8 tons of processed marijuana, and eradicated over 1.4 million marijuana plants. Additionally, Costa Rican authorities confiscated more than \$4.4 million in U.S. and local currency. The more than 35,000 drug-related arrests made in 2008, represent a raw increase of 12,293 arrests (or 54 percent higher) over 2007.

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). Although the Arias Administration's plan to add 4,000 new police officers to its force generated temporary increases in the numbers of police on the street in 2007, the total number of police in the force at the end of 2008 remains at just above 10,000.

This is due to retention problems that continue to plague the over-stretched force, and recruiting efforts that just keep pace with retirement and attrition. The national legislature is expected to pass anti-terrorist financing and reformed money laundering legislation by the first quarter of 2009.

Corruption. As a matter of policy, the GOCR 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. A strict law against illicit enrichment was enacted in 2006 in response to unprecedented corruption scandals involving three former Presidents. Although only one of the ex-presidents' cases (which date from 2004) has now reached trial, Costa Rican authorities appear committed to combating public corruption because the GOCR conscientiously 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 against Terrorism, and the Inter-American Convention against Trafficking in Illegal Firearms. The 1999 bilateral Maritime Counter Drug Cooperation Agreement and its Ship-Rider program resulted in large seizures at sea during 2008. The 1991 United States-Costa Rican extradition treaty was actively used in 2008. In 2008, Costa Rica extradited six fugitives to the United States and six fugitives were returned to Costa Rica from the United States. 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 March 2009 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 steps necessary to bring the agreement into force. In 2008, Costa Rica also played an active role in developing and implementing the regional security strategy developed by the Central American Security Commission.

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

Drug Flow/Transit. In 2008, shipments ranging from 50-1,500 kg of cocaine continued to flow through Costa Rica. Trafficking of narcotics by maritime routes remained steady with 15.7 MT (slightly higher than last year's amount) of cocaine seized at sea during joint GOCR-USG operations. Costa Rican-flagged fishing boats are still used by traffickers to smuggle multi-ton shipments of drugs and to provide fuel for go-fast boats that favor Pacific routes. The increasing utilization of go-fast boats transiting the littorals is a primary method of transporting cocaine through Costa Rica's territorial waters. Traffickers have also continued the smuggling of drugs through the postal system, international courier services and via individual passengers ("mules") on international flights in/out of the country.

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 GOCR estimates there are 400,000 marijuana users in the country. In 2008, the ICD and the Ministry of Education distributed updated demand-reduction materials to all school children, and publicized its special phone-in number (176) to encourage citizens to report drug-related activity in their neighborhoods while remaining safely anonymous. 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. The U.S. supported the SNGC's efforts to improve interdiction by providing technical assistance and equipment. While land-based interdiction, especially effective use of border checkpoints, remains important to U.S. strategy, U.S. assistance has focused resources on interdicting maritime-based narcotics shipments to

include containerized cargo. SNCG personnel received outboard motor maintenance training from U.S. Coast Guard enhancing their capability to conduct preventive maintenance and troubleshooting techniques. The U.S. is also supporting reforms in police training.

The Road Ahead. Costa Rica will address maritime trafficking both through its own direct efforts and through continued collaboration with the USG. The U.S. encourages the GOCR to pass the Terrorist Financing bill in order to remain in the Egmont Group. The projected increase in the number, and improved training, of police should enable the GOCR to more successfully fight crime, including trafficking. Also the GOCR should improve their interdiction capabilities on their coastal littoral areas, continue working to reduce of crime rates, and establish a professional training for their police. The construction of SNCG Academy and maintenance facilities in Punta Arenas will enable GOCR to effectively maintain a force that is ready and able to respond at all times.

For its part, the USG will provide significant support in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Cote d'Ivoire

I. Summary

The government of Cote d'Ivoire has focused on internal threats since a failed coup attempt in 2002 that left the northern half of the country under the control of rebel forces. Political instability has increased the risk that criminal and other elements might use Cote d'Ivoire as a transit point or operating base. Traditionally, Cote d'Ivoire is not a major producer or supplier of narcotics or precursor chemicals. Locally cultivated cannabis is consumed domestically, while other illegal narcotics, according to authorities, transit the country. In 2008, the reported rate of illegal drug seizures in Cote d'Ivoire was low by regional and international standards. Corruption is rampant and porous borders further make the nation attractive to international traffickers. Until free and fair elections are held, Cote d'Ivoire will remain under Section 508 sanctions, limiting USG assistance and cooperation. Cote d'Ivoire is a party to the 1988 UN Drug Convention.

II. Status of Country

The Department of Drug and Narcotics Police (DPSD) is Cote d'Ivoire's principle counternarcotics law enforcement organization. Since the 2002 civil war, however, it only operates in the southern half of the country. According to local authorities, although Cote d'Ivoire does not play a significant role in the cultivation, consumption or trafficking of illicit narcotics or precursor chemicals, porous borders and a lack of effective law enforcement agencies make the country vulnerable as a transit point for international traffickers. Abidjan's major ports, both air and sea and financial institutions are among the largest and most developed in West Africa. While the DPSD is unaware of major traffickers operating in Cote d'Ivoire, minor seizures of cocaine, heroin and ephedrine in 2008 indicate that Cote d'Ivoire is a transit point for narcotics whose primary destination is Europe. According to the Director of the DPSD, drugs are shipped into, and out of, Cote d'Ivoire primarily by Latin American traffickers via plane. However, the DPSD Director was unable to cite any specific examples of when this occurred.

III. Country Actions against Drugs in 2008

Policy Initiatives: According to the Director of the DPSD, in 2008 there were no new government counternarcotics initiatives. Cote d'Ivoire does not have a country-wide counternarcotics plan.

Law Enforcement Efforts. Cote d'Ivoire's anti-drug law enforcement lacks the resources and training necessary to interdict the flow of drugs into, and out of, the country. Foreign anti-drug assistance to the Inter-Ministerial Committee (CILAD) has had minimal effect on law enforcement efforts. In addition to the 15 officers dedicated to the anti-drug trafficking unit in Abidjan, the National Police has ten regional offices throughout southern Cote d'Ivoire each comprised of 10–15 officers. (Note: There are no National Police units operating in northern Cote d'Ivoire, which is controlled by the Forces Nouvelles (FAFN)). The ten existing regional offices in the south are severely under resourced, e.g., no computers, vehicles and funds, to conduct investigations. USG law enforcement authorities could not identify reliable law enforcement counterparts due to the high levels of corruption. To date, the total reported drug seizures in Cote d'Ivoire during 2008 were: heroin (510gr), cocaine (133gr), cannabis (790kg), ephedrine (3,357 pills), diazepam (55,614 pills) and Rivotril/clonazepam (627 pills). There were 1,136 persons arrested, of which 1,067 were jailed. It is unknown what percentage of these arrests was for intent to sell or just for possession of drugs. The number of convictions is also unknown. Material resources alone would not improve officer productivity, because many officers are under-trained. Officers appointed to the counternarcotics law enforcement unit receive two weeks of training before hitting the streets, which according the Director of the DPSD is insufficient preparation to combat drug trafficking in Cote d'Ivoire. The figures provided by the Director do not reflect an increase in seizures from 2007 to 2008. According to the Director of the DPSD, counternarcotics enforcement is not a top priority for Cote d'Ivoire law

enforcement. The majority of National Police assets are dedicated to combating violent crime and robbery in a country whose crime threat level is rated “critical” by the U.S. Department of State. Additionally, the majority of Ministry of Interior investigative personnel and assets have been redirected to internal security since the 2002 civil war.

Corruption: There is no direct evidence of government corruption related to illicit drugs. Cote d'Ivoire does not, as a matter of 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. While no senior official is known to engage in, encourage, or facilitate narcotics production or trafficking, or the laundering of proceeds from illegal drug transactions, reports of widespread public corruption from the lowest policeman up to the ministerial level are common.

Agreements and Treaties: Cote d'Ivoire is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol. Cote d'Ivoire has signed but not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Drug Flow/Transit: Abidjan's Houphouet-Boigny International Airport is used as the primary transit point in the country for the flow of narcotics. Also, Cote d'Ivoire's major seaports in Abidjan and San Pedro reportedly serve as transit points for narcotics. Further compounding the problem is the government's limited ability to interdict drugs at sea due to the poor condition of its boats. Drugs and other goods cross borders by boat and vehicle, unnoticed or abetted by border officials. It is difficult to gauge the amount of drugs transiting the country, since the government of Cote d'Ivoire's ability to collect and analyze data is limited.

Domestic Programs/Demand Reduction. Cote d'Ivoire's modest demand reduction program is limited to the publication of news articles on drug abuse and on the penalties associated with illicit narcotics use and trafficking.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation: There are no U.S.-Ivorian joint projects to control drug production, consumption or trafficking through Cote d'Ivoire. In compliance with sanctions imposed on Cote d'Ivoire in 1999 under Section 508 of the U.S. Foreign Operations Appropriations Act, the USG has suspended most levels of law enforcement assistance and technical training. USG and Ivorian law enforcement officials cooperate with one another via information exchanges.

Road Ahead: For the present, Cote d'Ivoire is vulnerable to the destabilizing effects of transnational drug trafficking. Direct USG assistance and cooperation will be limited until Section 508 sanctions are lifted. In the interim, the USG will encourage Ivorian participation in regional and international counternarcotics initiatives (e.g., ECOWAS, UNODC, INTERPOL, and Gulf of Guinea).

Croatia

I. Summary

The Republic of Croatia is a transit point through which narcotics are smuggled on the way from the production countries to consumer countries. While smuggling occurs both overland and by sea, the most significant seizures, particularly for cocaine, are connected with sea transport. Croatian law enforcement bodies cooperate actively with their U.S., EU and regional counterparts to combat narcotics smuggling. Croatian authorities estimate that smuggling of narcotic drugs via container traffic will increase, especially smuggling of cocaine. Illicit production and/or distribution of narcotics as well as laundering of crime proceeds are punishable under Croatian law. Croatia is a party to the 1988 UN Drug Convention.

II. Status of Country

Geographically, Croatia is located in South-East Europe at the crossroads of the Mediterranean, Central Europe, and the Balkans. The long land border with Slovenia, Serbia, Montenegro, Hungary, and Bosnia and Herzegovina and a 1777 km coastline (plus an additional 1185 islands) are attractive targets for contraband smugglers seeking to move narcotics into the large European market. The “Balkan route” is recognized as the shortest way from the East to Western Europe and lately it has become a two-way route with heroin and cocaine moving through Croatia to Western Europe and synthetic drugs moving from Western European producers to the Middle East and Asia. According to Croatian authorities, there is no significant or organized production of narcotics in Croatia, and domestic production is limited to individuals growing marijuana for the domestic narcotic market.

III. Country Actions against Drugs in 2008

Policy Initiatives. The ‘National strategy on combating narcotic drugs abuse (2006–2012)’ and the ‘Action plan on combating narcotic drugs abuse in the Republic of Croatia (2006–2009)’, delineate the tasks of relevant ministries and government administration bodies in Croatia’s fight against the use and trade in illegal drugs. Croatia’s new National Strategy replaced a former program which was implemented in 1996 and ended in 2005. The new strategy is comprehensive and covers the same five pillars as in the EU strategy: coordination, supply reduction, demand reduction, international cooperation, and information/research/evaluation. Its two main goals are: (i) a measurable reduction in drug use, drug addiction and related health and social risks and (ii) the measurable promotion of a successful, efficient, scientifically-based application of the law regarding the production and trafficking of drugs and precursors. The strategy is complemented by the Action Plan and its annual initiatives which describe in detail the specific aims and methods for achieving anti-narcotics goals, as well as specific tasks for each budget period.

By the end of 2005, the GOC completed establishment of the network of addiction prevention centers, which are now available in all of Croatia’s 21 counties and city of Zagreb. 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 legislation permit the police to use such tactics as controlled deliveries. Croatian legislation allows use of undercover investigators and confidants, simulated purchase of objects, simulated bribery, secret surveillance, technical recording of persons and objects and wiretapping. Croatian criminal legislation eases

measures to confiscate assets of organized crime groups by placing the burden of providing evidence about the origins of assets on the defendant rather than the prosecutors, and allowing confiscation of assets acquired during the period of incriminating activity. Croatia continues to cooperate well with other European states to improve border management. Authorities describe cooperation on narcotics enforcement issues with neighboring states as good.

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 counter narcotics units in police departments throughout the country. The Ministry of Interior reported successful and effective cooperation in 2007 with DEA officers, FBI, SOCA, General Inspectorate of Interpol, UNODC (the UN's Office for Drug-Control and Crime Prevention) and other agencies responsible for drug control.

On the judicial side, drug abuse in the Republic of Croatia is regulated by the following laws: Croatian Penal Code, Criminal Procedure Code, and the Act on Combating Narcotic Drugs Abuse. Issues covered by the Criminal Law are the illicit use (possession), production, and trade of narcotics. The law also criminalizes acts committed under the influence of drugs. Criminal sanctions vary from a fine to long term imprisonment, depending on the nature of the crime

During 2007, a total of 7952 criminal offences and 5254 misdemeanors were reported in Croatia related to abuse of narcotics, and a total of 6546 seizures of various types of narcotics occurred. In the first nine months of 2008, 6091 criminal acts involving narcotics abuse were reported, and a total of 4573 seizures were carried out.

The breakdown in types of crimes related to narcotics is: drug possession, 73.6 percent of cases; drug trafficking or drug sales, 16.8 percent; drug sale and drug trafficking by organized crime groups 2.4 percent; making drugs available to other persons for consumption, 4.5 percent; and making drugs available to juveniles and mentally retarded persons, 1.9 percent. The crime rate related to abuse of narcotics by minors decreased 40 percent in 2007. For the year, 280 minors were reported for this type of crime, while 467 minors were reported in 2006.

In 2007, police seized 105 kg of cocaine, 74 kg of heroin, 4 kg of hashish, 8 kg of amphetamines, 12,609 tablets of Ecstasy, 6,529 tablets of heptanone, 215 doses of LSD, 239 kg of cannabis leaves (marijuana), and 2,886 cannabis plants. In the first nine months of 2008, police seized 28 kg of cocaine, 111 kg of heroin, 3 kg of hashish, 7 kg of amphetamines, 6,792 tablets of Ecstasy, and 169 kg of marijuana.

Corruption. Illicit production and/or distribution of narcotics as well as laundering of criminal proceeds are punishable under Croatian law. As a matter of government policy, neither Croatian officials nor the Croatian government facilitate the production, processing, or shipment of drugs, or the laundering of the proceeds of illegal drug transactions. The USG is not aware of any allegations of senior government officials participating in 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 Against Psychotropic Substances. Croatia is also a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons, migrant smuggling, and illegal manufacturing and trafficking in firearms. Extradition between Croatia and the United States is governed by the 1902 Extradition Treaty between the U.S. and the Kingdom of Serbia, which applies to Croatia as a successor state.

Cultivation/Production. Small-scale cannabis production for domestic use is the only known 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.

Drug Flow/Transit. Croatia lies along part of the "Balkan Route" for heroin smuggling. Officials report that the Balkan Route is now "two-way", with heroin and other drugs from Asia moving through Croatia to Western Europe and synthetic drugs produced in Western Europe smuggled through to the East. Drugs are smuggled through Croatia

both overland and via the sea. Croatian authorities believe that smuggling through shipping containers will increase in the coming years. Although Croatia is not considered a primary gateway, police seizure data indicate smugglers continue to attempt to use Croatia as a transit point for non-opiate drugs, including cocaine and cannabis-based drugs. A general increase in narcotics abuse and smuggling has been attributed to liberalization of border traffic and increased tourism and maritime activities. The Ministry of Interior reports that most large-scale shipments of marijuana and hashish arrive from Africa and are being smuggled via ship. Some smaller quantities of marijuana are brought into Croatia by foreign tourists during the summer season, mostly for their own consumption. Some marijuana is also produced through domestic illegal cultivation. Synthetic drugs like amphetamine and derivatives of amphetamine, mostly Ecstasy tablets, are smuggled from Western European producer countries and also from narcotic markets in Asia and from Croatia's neighboring countries.

Domestic Programs/Demand Reduction. The Office for Combating Drug Abuse develops the National Strategy for Narcotics Abuse Prevention and is the focal point for agency coordination activities to reduce demand for narcotics. According to the most recent indicators, drug availability increased on the Croatian market in the past several years, which resulted in an increased number of drug addicts, especially, among youth. The number of drug-related deaths increased in 2007 by 38.8 percent. The state budget for suppression and prevention of narcotic abuse increased 4.0 percent in comparison with 2006. In 2007 the Republic of Croatia spent 66.5 million kuna (approximately \$12 million) for the implementation of the National Strategy. Additionally, 7.5 million kuna (\$1.4 million) was spent at the county level for the implementation of the counties' action plans. According to the Government Office for Combating Drug Abuse, Zadar County has the highest rate of treated addicts, followed by Istria County and the City of Zagreb. In 2007, 7464 persons underwent drug addiction treatment, 82.7 percent of whom were men. The average age of treated addicts is 29 years old. The total number of treated addicts in the Republic of Croatia increased by only 0.5 percent from 2007 to 2008.

The Ministry of Education requires drug education in primary and secondary schools. Other ministries and government organizations also run outreach programs to reach specific populations, including pregnant women. The state-run medical system offers treatment for addicts, but slots are insufficient to accommodate all those needing treatment. In 2007 methadone was used in the treatment of 852 patients, which was down in comparison with the previous year by 28 percent. However, replacement therapy with buprenorphine increased in 2007 by 10.7 percent.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counternarcotics policy in Croatia is focused on assisting Croatian Ministry of the Interior/Drug Division investigators and their international and multi-lateral investigations into South America-based drug trafficking organizations. DEA is the lead agency in this endeavor and measurable progress in 2008 has been achieved in coordinating Croatia's law enforcement investigations beyond its own borders. As an example of Croatia's willingness to cooperate with foreign police agencies, the Ministry of Interior hosted in Zadar, Croatia a successful international drug enforcement conference titled Drug Policing the Balkans. Croatia is also a regular participant at international drug conferences covering strategic as well as operational matters. Croatia currently is in the application process of becoming a permanent member of the International Drug Enforcement Conference (IDEC). U.S. assistance for police reform efforts under the State Department-supported ICITAP (DoJ) program is now focused on combating organized crime and corruption. . In support of this goal, the USCG trained officers at the International Maritime Officers Course, and sent a mobile training team to Croatia to focus on waterside port security.

Road Ahead. For 2009, ICITAP and EXBIS programs will continue to train and advise Croatian law enforcement personnel on anti-narcotics activities. Resident advisors will continue to assist the Ministry of Interior in improving police and prosecutor cooperation in complex narcotics and organized crime cases. EXBS (Export Control and Related Border Security Assistance) programs will also assist Ministry of Interior and Customs Directorate to enhance their capabilities in fighting narcotics and organized crime cases.

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 2008, the GOC continued “Operation Hatchet,” 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 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. Cuban anti-narcotic officials claim that these stiff penalties are the driving force behind a low drug abuse rate in the country.

Lack of discretionary income and an overwhelming state police presence limit access to drugs by the Cuban population and contribute to the low incidence of drug consumption. Cuba is active in regional drug control advocacy. The Cuban Government has established an auxiliary force that involves training and educating Cuban citizens regarding counter narcotics policy. All Cuban citizens are required to report to the appropriate authorities regarding the discovery of actual or suspected narcotics that wash-up on their shores. The GOC claims to have trained employees at sea-side resorts and associated businesses, including fishermen, in narcotics recognition and how to communicate the presence of illicit narcotics to the appropriate Cuban Border Guard (CBG) personnel or post. This approach helps address the fact that Cuba’s interdiction capability is limited by a lack of resources.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Cuban government reported that in 2008 it had strengthened its cooperation with INTERPOL, with which they maintain a working relationship on drug cases in Cuba and investigations into suspected international drug trafficking rings. In 2008, Cuba turned over one fugitive to INTERPOL who was involved in illicit narcotic activity. Personnel from the Cuban Ministry of Interior’s National Anti-Drug Directorate (DNA) attended four interdiction and inspection counternarcotics training courses offered by international partners.

Accomplishments. In all, between January and September 2008, the GOC seized 1.7 metric tons (MT) of narcotics (1,675.7 kilograms of marijuana and 46.8 kilograms of cocaine), and trace amounts of crack, hashish, and other forms of psychotropic substances. In comparison, in 2007, 2.6 MT were seized by the GOC as a result of its various interdiction efforts.

In April, Cuban authorities assisted Jamaican anti-drug personnel with the disruption of a marijuana trafficking network by providing real-time information, resulting in the detention of the traffickers, and the confiscation of a trafficking aircraft that contained a load of marijuana. In July, information provided by the CBG operations center in Havana led USCG assets to a drug-laden go-fast in the Windward Pass. Upon realizing the USCG had discovered their vessel; the traffickers discarded their contraband into the sea, which led to the wash-up of 172 packets of marijuana along the coasts of four Cuban provinces, totaling 916.49 kilograms.

From January through September 2008, 250 packets of narcotics washed-up along the Cuban coast, resulting in the collection of 1,682 kilograms (1,651 kilograms of marijuana and 31 kilograms of cocaine). During 2008, the principal source of drugs for the Cuban internal drug market continued to be drug wash-ups. Washed-up narcotics are aggressively collected and stored for eventual incineration to avoid proliferation and sale on the internal market.

In 2008, according to the GOC, Cuba's airports were used only sporadically to transfer drugs towards third countries or to supply the Cuban domestic market. In all, 163 travelers were detained for possession of small quantities of narcotics, believed to be for personal use. Reflecting past actions, the GOC fines those tourists and the narcotics are seized. Individuals are warned about Cuba's regulations that prohibit the trafficking and possession of narcotics, and allowed to continue with their trips. GOC reports that international drug traffickers have recently shown interest in trafficking various narcotics to Cuba for sale by domestic criminals operating within Cuba. The GOC believes this is due to the high market price for narcotics in Cuba compared to the relatively low prices found in other countries in the region.

Cuba's "Operation Popular Shield," in place since 2003, is intended to minimize the availability of drugs on the domestic market. Cuba detains, tries, and punishes individuals who are in possession of and who intend to distribute narcotics, as well as seizing the assets of such individuals. The GOC asserts that they have in place the necessary legal instruments to properly carry out this operation, both penal and administrative. Per the GOC, their actions are in line with international commitments as a state party to control and fight against illicit drug trafficking.

Law Enforcement Efforts. The GOC's lead investigative agency on drugs is the DNA. The DNA is comprised of criminal law enforcement, intelligence, and justice officials. Cuban Customs Authorities maintain an active counternarcotics inspection program in each of Cuba's international maritime shipping ports and airports.

Cuba's "Operation Hatchet," in its eighth 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 by the Ministry of Interior's Border Guard and Ministry of Revolutionary Armed Forces (Navy and Air Force). The GOC utilizes military helicopters and Cuban Border Guard go-fasts (seized in the course of previous migrant and drug smuggling interdictions) as well as patrol boats for at sea patrols. Operation Hatchet relies on shore-based patrols, visual and radar observation posts and the civilian fishing auxiliary force to report suspected contacts and contraband. Between January and September 2008, Cuban law enforcement authorities reported "real time" sighting of 35 go-fast vessels and 3 suspect aircraft transiting their airspace or territorial waters.

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. No mention of GOC complicity in narcotics trafficking or narcotics-related corruption was made in the media in 2008. 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. Cuba is also party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its three Protocols. 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. Cuba has also subscribed to 56 bilateral judicial assistance conventions. A 1905 extradition treaty between the US and Cuba and an extradition agreement entered into in 1926 remain in force but no fugitives were extradited pursuant to these agreements in 2008. Finally, the Cuban Ministry of Interior maintains operational exchanges with anti-drug authorities from approximately 57 countries.

Cuba was represented at the 51st session of the Commission on Narcotics at the United Nations in Vienna; the second regional summit regarding the global problem of drugs in Colombia; the eighteenth meeting of the Heads of National Law Enforcement Agencies (HONLEA) in Honduras; and in two meetings of the working group for the exchange of narcotics intelligence among the European Union, Latin America, and the Caribbean. Havana will be the site of the next meeting in May 2009. The Cuban government continues to pass real-time information to agencies with similar concerns regarding the involvement or suspicion of the movement of narcotics via air or sea, including incidents of suspect merchant ships, crews, or cargo.

Cultivation/Production. As in past years, GOC reports that the availability of marijuana is decreasing due to joint-DNA and Ministry of Public Health initiatives and because the production and harvest of marijuana is also down. Incidents of marijuana harvests are considered “isolated” by the GOC. Cuba is not a source of precursor chemicals.

Drug Flow/Transit. Cuba’s 4,000 small keys and its 3,500 nautical miles of shoreline provide drug traffickers with the locale 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 via 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 traffic small quantities of narcotics to and from Europe through Cuba’s international airport in Havana. As Cuba continues to develop its tourism industry, there is increased likelihood for an increased flow of narcotics into the country.

Domestic Programs/Demand Reduction. 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 longer-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 with prevention programs that 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 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 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; tours of CBG facilities; and access to meet with the Chiefs of Havana’s INTERPOL and Customs offices.

Road Ahead. 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 had raised the idea of greater counternarcotics cooperation with the USG and Commander-in-Chief Raul Castro had called for a bilateral agreement on narcotics, migration, and terrorism. 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.

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 United States Government (USG) 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 USG 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 \$1,500,000 worth of illegal narcotics proceeds frozen in several bank accounts in Cyprus.

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' small population of soft-core drug users continues to grow. Cannabis is the most commonly used drug, followed by heroin, cocaine, and MDMA (Ecstasy), which are available in major towns. There were eleven confirmed reports of drug-related overdose deaths in Cyprus in 2008. Of the eleven deaths, ten were the direct result of an

overdose and one was indirectly related to drugs. The number of overdose/drug-related deaths decreased by five as compared to 2007. 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 US 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 2008

Policy Initiatives. There were no new policy initiatives in 2008. Cyprus continued to implement its no-tolerance dangerous drugs policies, and to enforce its laws against drug abuse vigorously.

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. U.S.-Cyprus cooperation is excellent and has yielded important results in several narcotics-related cases. Through the first eleven months of 2008, the Cyprus Police Drug Law Enforcement Unit opened 611 cases and made 761 arrests, an increase of 136 cases and 33 arrests, respectively, from last year. Of those arrested 527 were Cypriots the remainder were foreign nationals. DLEU seized approximately 305 kg of cannabis, 628 cannabis plants, 26 kg of cannabis resin (hashish), 15 kg of cocaine, 5,466 tablets of MDMA (Ecstasy), 1.2 grams of amphetamines, 106.52 grams of opium, and 2.5 kg of heroin, and 25 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 2008, the Turkish Cypriot authorities arrested 207 individuals for narcotics offenses and seized 1 kg of hashish, 5 kg of heroin, 111 grams of cocaine, 634 kg of opium, 353 cannabis plants, 6873 tablets of Ecstasy. Overall, with the exception of heroin, 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. There is some evidence, however, that Turkish Cypriot Customs has facilitated the import of illegal goods, but not drugs, and regularly accepts bribes allowing importers to avoid paying import duties.

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. In addition, Cyprus and the U.S. have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force.

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 628 cannabis plants in the first 11 months of 2008.

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 353 cannabis plants during the first eleven months of 2008. The seized plants did not come from 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 2008. Tourists sometimes bring drugs with them to Cyprus, principally Ecstasy and cannabis. This year, arrests of Cypriots for possession of narcotics with intent to distribute were higher than the number of arrests of non-Cypriots on similar charges, suggesting that Cypriots might be importing narcotics to sell to tourists or trying to develop a domestic market for drugs.

There is no production of precursor chemicals in Cyprus, nor is there any indication of illicit diversion of imported precursor chemicals. 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 seized 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 or through containers in Cargo Ships, which have begun their voyage in South Africa.

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. US 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. Relying on its

liaison offices in other regional countries, 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 2009, 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 methamphetamine 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, relatively short sentences for drug-related crimes, and the low risk of asset seizure as part of any punishment. 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 28.2 percent of young adults having used the drug within the previous twelve months. Together with Danes, 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 2007. The report estimates there were 20,900 pervitine and approximately 10,000 opiate users—among the highest percentages of use in the EU. The report stated that both the use of Subutex (an opiate used in the treatment of addiction) and heroin declined, with the numbers of users listed as 4,250 and 5,750, respectively.

A 2007 “Health Behavior in School-aged Children” (HBSC) study confirmed the trend observed in the 2006 HBSC survey carried out among 15-year-old students: the dramatic increase in some experience with drug use observed since the mid-1990s has stopped. It 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.

III. Country Actions against Drugs in 2008

Policy Initiatives. Drug policy remains a contentious issue in Czech domestic politics. In March 2008 Minister of Justice Jiri Pospisil submitted a new penal code to the Parliament. The bill is currently due for the second reading in the House of Deputies of the Czech Parliament, and parliamentary sources say it could be passed soon. Under the new

bill, imprisonment up to one year may be imposed for possession of so-called “soft drugs,” such as marijuana and Ecstasy, while a two-year limit has been set for the remaining list of illicit drugs. The Greens, one of three parties in the current government, promote legalization of marijuana. The Criminal Code passed in 2005 for the first time made a sharp distinction between the use of “soft” drugs, and “hard” drugs, such as heroin and pervitine. 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 includes representatives of local governments, medical specialists and Non-Governmental Organizations.

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 the Customs Service’s 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 law enforcement teams 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. The Customs Service 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 is 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 Service 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 excellent 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 refers cases requiring extensive financial investigations to the Unit Combating Corruption and Financial Crimes.

Law Enforcement. In the first six months of 2008, the NDH, together with the Customs Service, seized 39.6 kg of heroin, compared to 20, 33 kg in the whole of 2007; 15,936 Ecstasy pills, compared to 63,226 pills in 2007; 1.84 kg of methamphetamine, compared to 5.9 kg of methamphetamine in 2007; 135,425 kg of marijuana, compared to 122,124 kg of marijuana in 2007; 7.9 .5 kg of cocaine, and 11,910 cannabis plants. They also uncovered 197 methamphetamine laboratories, compared to 388 methamphetamine laboratories in 2007; and 61 marijuana cultivation sites, compared to 34 sites in 2007. Of the 61 marijuana cultivation sites, 53 were operated by Vietnamese gangs. The police also seized 245 LSD doses in the first half of 2008.

In March 2008, after two months of intensive work, the police arrested five persons, three Czechs and two Brits, and closed what is believed to have been one of the largest pervitine laboratories, which was producing half of one kilogram of the drug per week. The manufacturing site was funded from Britain, and most of the drugs were smuggled via an air courier to Britain. A smaller part of the production was sold in the Czech Republic. The five detainees are facing up to 15 years in prison. In April 2008, the police broke up an organized gang producing drugs in the Central Bohemian region. Five men and one woman were arrested. The group distributed pervitine and heroin worth more

than CZK 4 million (\$245,000) mainly among Roma communities. In April the Customs Service detained 31 persons suspected of manufacture and distribution of drugs. The operation, in which Czech officials in cooperation with their counterparts in West European countries and South America seized more than 30 kilograms of various drugs, lasted two years. The gang was operated by Nigerians living in the Czech Republic and using Czechs as couriers for shipments of drugs from Belgium, the Netherlands, Argentina, and Bolivia to the Czech Republic. In August 2008, the police detained an organized group suspected of illicit manufacture and distribution of anabolic steroids. The gang of two Czechs and one Turk were arrested after more than a year of investigation in an operation called “Operation Sword” that involved cooperation with the police in Sweden, Spain, the United Kingdom and Germany, where four shipments of anabolic steroids worth tens of millions of Czech crowns were seized. On Czech territory the police seized anabolic steroid precursor-chemicals and equipment worth millions of Czech crowns. The gang faces up to five years in prison.

The number of drug offences in the Czech Republic has remained relatively stable in recent years. According to the Czech National Monitoring Center, the number of people prosecuted for drug offences in 2007 was the lowest in the past four years and was about 2,282. Two thousand and forty two people were charged with drug offences, which represents a decrease of 12% compared to 2006, and the lowest total number of people charged with such offences since 2000. The annual 2007 Czech National Monitoring Center Report notes that courts passed final sentences for 1,382 persons convicted of drug offences. In 2007, there was an increase in the proportion of individuals prosecuted for drug offences under Section 187a (possession of drugs for personal use). The most frequent drug offences were associated with pervitine (50-70%), followed by cannabis (20-30%). The proportion of offenses associated with cocaine has been increasing in recent years, although it still accounts for fewer than 3% of drug offences. Statistics for the first six months of 2008 show that of 858 convicted criminals 370 received conditional sentences for drug-related crimes, and 228f received prison sentences. Only 38 of this latter group received sentences of 5 to 15 years. The majority of those sentenced to serve time in prison (157t) received sentences ranging from one to five years. According to 2007 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 encouragement of 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 2007, 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. The Czech Republic signed but has not yet ratified the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. All 27 EU member states, including the Czech Republic, have signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. The U.S. has ratified all and all EU countries except Belgium, Greece, Ireland and Italy have also ratified these agreements. None have entered into force. 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 800 – 2000 Czech crowns a

gram (\$44 – \$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 and Czech couriers, including “swallowers,” are the most common methods of importation. In 2007, the Czech Customs Service detected 38 kg of cocaine, which is almost four times more than in 2006. The drug was smuggled especially from the Netherlands. 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 1200 – 3500 crowns a gram (\$67 – \$200).

Pervitine is a synthetic methamphetamine-type stimulant that is popular in the Czech Republic. Statistics for pervitine abuse in the Czech Republic represent the highest rates in Europe. It can be easily produced in home laboratories from locally available flu pills containing up to 30 mg of pseudoephedrine. According to the Czech Pharmaceutical Association, more than 80% of cold medications sold in the Czech Republic are being misused for the clandestine manufacture of pervitine. According to the State Institute for Controlled Substances (SUKL), just 12 pharmacies were responsible for selling one quarter of the 4 million medication packets sold in 2007. The Czech government has been preparing a new law regulating access to those flu pills. Czech police also appears to have stepped up enforcement. On June 5, Czech police announced charges against a pharmacist in connection with allegedly supplying up to 25,000 boxes of cold medications to a suspected meth cook in Chomutov, a city in northern Czech Republic near the German border.

It is believed that pervitine is also produced in larger 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 – 4000 Czech crowns a gram (\$23 – \$222). 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 Czech citizens. Import is less risky due to the EU’s open borders under the Schengen System. Ecstasy tablets can be bought for a street price of 80 – 500 Czech crowns per pill (\$4.4– \$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 2007, the police detected 34 laboratories. The number of detected hydroponic laboratories increased dramatically in the first five months of 2008. A total of 61 laboratories were detected of which 53 were run by Vietnamese operators. According to the NDC thousands of cannabis plants, dozens of kilograms of the final dry product, and extensive amount of technical equipment were seized. Most of the final product was intended for illegal distribution on the Czech market, and the rest was intended for export, mainly to Germany and the Netherlands. Marijuana can be bought for a street price of 50 – 300 Czech crowns per gram (\$2.90 – \$17.10).

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. According to the Czech National Monitoring center 2008 report, a total of 22 facilities were certified in 2007 (two treatment facilities and 20 harm reduction facilities) In the first six months of 2008 additional four facilities were certified for services in the field of harm reduction, treatment, and after-care..

To assure drug users seeking treatment can find providers, 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 2007, there were 109 contact centers and street programs in the Czech Republic. About 27,200 drug users used these services, and 4.5 million injection kits were exchanged, which is 700,000 more than in 2006. 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. There were 15 hard drug treatment replacement centers in the Czech Republic in 2007 treating addicts with methadone and two medicines Subutex and, since 2008 Subuxone, which has the active ingredient buprenorphine and can be prescribed by any physician, regardless of their specialization.

In 2007 the state spent 367 million crowns (\$20.2 million) on its drug policy. Of this amount, 128 million crowns (\$5.1 million) were provided from regional budgets and 62 million (\$ 3.35 million) was contributed from local budgets. Compared to 2006, total expenses increased on all three levels.

The National Focal Point statistics have noted a positive trend: the increasing average age of long-term drug users: 26.1 years in 2007, compared to 25.3 years in 2006, 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 Vienna, Austria and cooperation with the DEA Vienna Country Office is very good. Investigative leads are routinely exchanged between DEA agents and investigators assigned to the National Drug Headquarters. The DEA Attaché in Vienna maintains close contact with National Drug Headquarters representatives and this relationship is one example of the cooperation between American and Czech officials. This cooperation on law enforcement and border security issues has increased as a result of the Czech Republic's entry into the U.S. visa waiver program.

The Road Ahead. The Czech Republic continues to implement police and legal reforms to ensure a stable, effective and independent police force. The Czech Parliament is expected to approve the new Penal Code and Criminal Proceedings Code by the end of 2008, which would come into effect on January 1, 2009. The new codes will ensure that criminal prosecutions are conducted in a timely manner and sentencing is appropriate and predictable. The new Penal Code will differentiate between marijuana and other drugs. The Ministry of Health is expected to complete a draft regulation limiting the sale of medications containing methamphetamine precursors, such as Nurofen Stopgrip, Modafen, Paralen Plus, and Panadol Plus Grip, to one or two packets per person. The National Drugs Headquarters and the Czech Pharmaceutical Chamber favor a stricter limitation to one packet of these medications. Debate about the exact amount of these medications sold over the counter should be concluded by December 2008 and the new regulation should be effective as of January 1, 2009.

Denmark

I. Summary

Denmark's strategic geographic location and status as one of Northern Europe's primary transportation hubs 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 result in some drug shipments transiting 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 negligible. 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 2008

Policy Initiatives. EU legislation passed in 2008 requires persons carrying cash or instruments exceeding 10,000 Euros (approximately \$12,800) 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, and has a favorable impact for drug-related investigations, where the proceeds of illicit sales are frequently retained in cash.

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 counter-narcotics police efforts in Denmark. According to the Danish National Police commissioner, 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, Montenegrin and Moroccan nationals, with supplies originating in South America. 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... The 2007 year end 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 from 22,712 pills in 2006 to 67,680 pills in 2007, despite a decline in the number of Ecstasy cases from 540 in 2006 to 397 in 2007. The quantity of heroin seized has also increased significantly, from 28.87 kg in 2006 to 47.75 kg in 2007. The amount of cocaine seized increased from 76.22 kg in 2006 to 137.44 kg in 2007. The amount of amphetamines seized in 2007 (69.07 kg) decreased slightly from 2006 figures (79.44 kg). Similarly, the amount of cannabis seized has decreased from 1035 kg in 2006 to 774.56 kg in 2007. These fluctuations are most likely attributable to market trends, rather than the intensity of counter-narcotics efforts. Initial figures for 2008 (first six months) indicate seizures of 38.22 kg amphetamines, 5,932 Ecstasy pills, 801.50 kg cannabis, 20.65 kg heroin and 38.28 kg cocaine.

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. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements; they have been ratified in both countries, but have not yet entered into force. 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 significant narcotics cultivation or production in Denmark. There are no MDMA (Ecstasy) labs currently known to be operating.

Drug Flow/Transit. Denmark is a transit country for drugs on their way to neighboring European nations. The ability of the Danish authorities to interdict this flow is slightly constrained by EU open border policies. The Danish Police report that the regular 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. Amphetamines from Poland and Lithuania are also transshipped through Germany and Denmark.

Domestic Programs/Demand Reduction. Denmark's Ministry of Health estimates that there are 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 counter narcotics cooperation. In 2005, the Danish government dedicated additional resources to drug treatment programs. The Ministry of Health enrolled 4,461 new patients in drug treatment programs in 2007. There is no waiting list for drug treatment programs. The number of people in drug treatment programs has increased from 9,438 in 2000 to approximately 11,487 in 2007. Drug treatment for heroin addiction is highest in demand. Approximately 44% of new patients were enrolled for heroin addiction or other opiates. Of those receiving treatment, an estimated 5,700 people received methadone maintenance treatment in 2007. In 2005, seventy-five percent of treatment recipients were male and the average age of treatment recipients was 36 years old. More current figures are unavailable.

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 counter-narcotics 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 bilateral cooperation with its Danish counterparts. The USCG trained one Danish officer in maritime law enforcement in 2008, at a basic boarding officer course.

The Road Ahead. Danish enforcement efforts will be strengthened by legislation that authorizes police to use informants during undercover operations. The introduction of visa-free travel from the new EU member states has increased the opportunity for smuggling. The Danes will continue 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.

Dominican Republic

I. Summary

The Dominican Republic (DR) remains a major transit country for cocaine and heroin from South America destined for U.S. and European markets, however, MDMA (Ecstasy) was the drug most often interdicted in the DR en-route from Europe to the United States. During 2008, there was an increase in the frequency of air smuggling of cocaine from Venezuela, while maritime deliveries via go-fast boats and commercial shipping also continued. The increase in trafficking activity was accompanied by an increase in domestic consumption as local traffickers are being paid in narcotics. There was also an increase in corruption, violence, and drug-related homicides in 2008. The Government of the DR's (GODR) efforts are constrained by insufficient equipment and a limited number of coastal patrol boats available to cover its extensive coastline. Another limiting factor is the lack of helicopters capable of conducting operations over open water and at night. The GODR continues to cooperate in extraditing fugitives and deporting criminals to the United States. Seizures of heroin, cocaine, and Ecstasy in 2008 were comparable to those recorded 2007. The DR made advances in its domestic law enforcement capacity, institution building, and interagency coordination, but only modest progress in prosecuting major bank fraud and government corruption cases. Despite some positive developments, corruption and weak governmental institutions remain 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

Colombian and Dominican criminal organizations are involved in international drug trafficking operations and use the DR as a command/control center and a transshipment hub with much of the narcotics destined for the United States. The number of illicit aircraft flights originating in Venezuela and delivering drugs to the DR continues at a high level. There was also an increase in corruption, violence, and drug-related homicides in 2008. In one notable case that is currently under investigation, seven reported Colombian narcotics traffickers were murdered in the Bain area. Ecstasy was the drug 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 2008

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 2008, 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 2007, the GODR signed an agreement with Haiti to combat drug trafficking and promote law enforcement cooperation.

Accomplishments. In 2008, Dominican law enforcement authorities seized approximately 2,415 kilograms (kg) of cocaine hydrochloride (HCl), 96 kg of heroin, 15,949 units of Ecstasy, and 219 kg of marijuana. The National Directorate of Drug Control (DNCD) made 14,674 drug-related arrests in 2008, a 15 percent increase over 2007. Through joint operations targeting drug trafficking organizations transporting narcotic proceeds through the various ports of entry in the DR, the DNCD and Dominican Customs (DGA) seized over \$2 million in U.S. currency. In 2008, the DNCD and members of the Dominican Armed Forces targeted South American narcotics trafficking organizations that were transporting large amounts of narcotics to the DR via aircraft. When feasible, Customs and Border Control (CBP) Blackhawk helicopters based in Puerto Rico were dispatched to the Dominican Republic to pick-up a Dominican Tactical Response Team and then transported to interdict in-bound drug carrying aircraft as the drops were

being made. As a result of these joint operations the DNCD seized over 1,463 kg of cocaine and several aircraft. This dependence on CBP assets from Puerto Rico is driven by the outdated Dominican helicopters and equipment which prevents robust interdiction efforts over open water. On November 13, 2008, DNCD seized over 1,400 kg of liquid cocaine that was contained inside shampoo bottles at the Port of Haina, Santo Domingo.

Law Enforcement Efforts.

Maritime seizures remain a challenge for the DR, especially for drugs arriving from South America via maritime airdrop and subsequent offshore recovery by small boats. The limited number of patrol boats available thwarts the GODR's ability to patrol the extensive coast line and off-shore areas used for drops. In 2008, to complement the boats donated by the U.S. Southern Command's Operation Enduring Freedom (EF) in 2007, the DR Navy received three "Justice"-type Boston Whaler vessels to enhance intercept and board and seizure capabilities. To date, there have been no successful seizures of large quantities of drugs; however, there is reason to believe there have been disruptions to the traffickers operations.

Corruption. As a matter of policy, the GODR does not encourage or facilitate the illicit production, processing, or distribution of narcotics, psychotropic drugs, or other controlled substances, nor does it contribute to drug-related money laundering. Nevertheless, corruption is a major problem in the Dominican Republic that renders the economy vulnerable to transfers of illicit funds.

The GODR did not score well on internationally recognized measures of transparency, such as Transparency International's Corruption perception Index (CPI) and the World Bank's Governance Matters Control of corruption indicator. Both of these international indices reflect widespread public perception of corruption. However, the government has passed a number of key laws that, when fully implemented, should provide better control of corruption. These include a Public Finance Law, a Public Procurement Law and a law reorganizing the Treasury. A financial disclosure law for senior appointed, civil service, and elected officials has been enacted. Though insufficient auditing controls and sanctions weaken the potential effectiveness of this measure, the GODR has begun taking action against government officials who have not complied by withholding their pay pending compliance. 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, nor has the Act been fully implemented in all government institutions.

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 Corruption; the UN Convention against Transnational Organized Crime and its Protocols on Trafficking in Persons and Migrant Smuggling; 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. All three agreements include permanent over flight provisions for 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 (CNIES) agreement in 2006.

Extradition. The U.S.-Dominican Extradition Treaty dates from 1909. Extradition of nationals is not mandated under the treaty, though 1998 legislation does permit extradition to the United States. In 2005, judicial review was added to the procedure for extradition, making extraditions more transparent. During 2008 the U.S. Marshals Service received excellent cooperation from the DNCD Fugitive Surveillance/Apprehension Unit and other Dominican authorities in arresting fugitives and returning them to the United States. The DR extradited 20 Dominicans in 2008 and deported

another 16 U.S. and third-country national fugitives to the United States to face prosecution. Of these 36 cases, 21 were narcotics-related.

Cultivation/Production. Cannabis is grown in the DR on a small scale for local consumption.

Drug Flow/Transit. In 2008, the DNCD and its partners in the Armed Forces continued to focus 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. The Joint Interagency Task Force South estimates that small aircraft from Venezuela conducted 91 drug airdrop flights to the DR during the year.

Domestic Programs/Demand Reduction. In 2008, the DNCD conducted hundreds of 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. Though no official surveys have been undertaken to document domestic drug use, we believe that demand for narcotics is increasing, in part as a result of the practice of using drugs as in-kind payment for transit services. A community-policing project initiated in 100 communities with support from the U.S. Mission continues to target high-risk neighborhoods in Santo Domingo and other cities, 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 and Multilateral Cooperation. In 2008, the Dominican Republic sent 10 students to counterdrug, intelligence, and other related courses through International Military Exchange and Training (IMET) funding. In addition, the U.S. Coast Guard (USCG) participated in joint counternarcotics and illegal migrant operations to identify individuals transiting between the Dominican Republic and Puerto Rico. The USCG held three 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 on improving and coordinating collaborative efforts between Rescue Coordination Centers (RCC) and their respective search and rescue resources; and the International Ships and Port Security Conference geared toward enhancing port security in the DR. The USCG also provided maritime law enforcement, leadership, port security expertise, and command and control training to the Dominican Navy.

The Law Enforcement Development Program, implemented by the Embassy's Narcotics Affairs Section (NAS), continued assisting the Dominican National Police (DNP) to transform it into a professional, civilian-oriented organization. Since the program was initiated in 2006, 9,500 police investigators and prosecutors have undergone training in basic crime scene investigation. The DNP's Internal Affairs (IA) was also restructured and is operating efficiently. Since 2006, approximately 900 police officers have been terminated for testing positive for drug use or involvement in corrupt activities. IA investigators are conducting approximately 80-90 internal investigations monthly against police personnel allegedly engaged in improper conduct. A community-based policing project established in 13 high risk barrios in Santo Domingo has demonstrated positive trends in crime reduction in these neighborhoods. In 2008 this project was expanded to 100 neighborhoods throughout the Dominican Republic. During 2008 an additional 125 prosecutors were trained in Basic Principles of Criminal Investigation, and Interviewing & Interrogation Techniques. In addition, 125 prosecutors and police investigators were trained in Basic Money Laundering Investigation Techniques.

The U.S. Agency for International Development (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. In addition, assistance was provided to strengthen systems of control of corruption, malfeasance, financial accountability and

discipline in institutions of justice. USAID also assisted the National Institute for Forensic Sciences with improving procedures to secure and preserve evidence.

The Road Ahead. The GODR cooperates closely with the United States in combating narcotics trafficking. To improve its effectiveness, the DR needs to address inadequacies in implementing judicial reforms and existing laws, particularly as they are applied to the prosecution of major drug cases. The GODR should continue to address ways to promote good governance within the public sector, including full implementation of recently-passed laws in public finance and procurement and the reorganization of the Treasury. The DR is working to build robust counternarcotics programs that can resist the pressures of corruption and can address new challenges presented by innovative narcotics trafficking organizations, but more remains to be done. The DR also needs to upgrade their helicopter assets to enable them to be used for night operations. Money laundering will continue to be a challenge and the DR needs to develop its capability to conduct complex financial investigations.

For its part, the USG will provide significant support in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

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 parts of the Kingdom and assists the Government of Aruba (GOA) and the Government of the Netherlands Antilles (GONA) in their efforts to combat narcotics trafficking. The Kingdom of the Netherlands is a party to the 1988 UN Drug Convention, and all three parts are subject to the Convention. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF).

II. Status

Netherlands Antilles. The islands of the Netherlands Antilles (NA) (Curacao and Bonaire off Venezuela and Saba, Sint Eustatius, and Sint Maarten east of the U.S. Virgin Islands) continue to serve as northbound transshipment points for cocaine and increasing amounts of heroin coming from South America; chiefly Colombia, Venezuela, and to a much lesser extent, Suriname. These shipments typically are transported to U.S. territory in the Caribbean by "go-fast" boats although use of fishing boats, freighters, and cruise ships are becoming more common. Direct transport to Europe, and at times to the U.S., is by "mules" (drug couriers) using commercial flights. The DEA and local law enforcement saw typical go-fast boat traffic this year with some load sizes reduced because of a potential exposure to law enforcement. 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 containers.

Sint Maarten within the structure of the Netherlands Antilles separates itself distinctly, although it falls under the authority the Netherlands Antilles government. In December of 2008, legislation has been approved by the GNOA that will make Sint Maarten and Curacao sovereign countries within the Kingdom of the Netherlands. Sint Maarten's geographical location and its multi-national population make it an attractive transshipment point between South America and the United States, for the drug and human smuggling. Statistics on significant seizures in 2008 indicate that Dutch Sint Maarten continues to pose a serious threat as a staging ground for moving cocaine and heroin into the U.S. market. Officials in Sint Maarten have taken this threat seriously by initiating joint U.S. cooperative investigations as well as adopting new law enforcement strategies to combat the problems. 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 stringent checks into monetary flows means that money laundering and proceeds from illegal activities are relatively easy to conceal.

In Curacao, all elements of the law enforcement and judicial community recognize that the NA, chiefly due to geography, faces a serious threat from drug trafficking. The police, who are understaffed and need additional training, have received some additional resources, including various support and training by the Netherlands and the United States including recent training regarding money laundering investigations. The rigorous legal standards that must be met to prosecute cases constrain the effectiveness of the police; nevertheless, local police made progress in 2008 in initiating complex, sensitive cases targeting upper-echelon traffickers. These efforts demonstrated the effectiveness of cooperation with other law enforcement entities in the region.

During 2008, the 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 Korps Politie Curacao. These improvements were formed through money grants from the Netherlands and partnerships with the U.S. law

enforcement; specifically the Drug Enforcement Administration. This specialized Intel Unit has made an instant impact on the Police Department and has improved investigative effectiveness. In 2008, the KPC Operational Intelligence Unit improved their place in the regional scheme of enforcement as a viable international partner for law enforcement matters.

Consistent with the continued smuggling ventures, arrests were frequent in 2008. Curacao's prison remains at capacity. Aware of this problem, the GONA, with the assistance of their Dutch partners, has undertaken efforts to reduce the prison population by pre-trial diversion of non-violent offenders and by constructing new jail space with Dutch financial assistance.

The specialized Dutch police units named "Recherche Samenwerkingsteam" (RST) that support law enforcement in the NA and Aruba continued to be effective in 2008 and continued to include local officers in the development of investigative strategies to ensure exchange of expertise and information. The RST shared intelligence with international law enforcement contributing to several successful operations to thwart organized crime groups.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) scored a number of successes in 2008. The CGNAA has developed a very effective counter narcotics intelligence service and is considered by DEA to be an invaluable international law enforcement partner. The CGNAA was responsible for several seizures of cocaine and heroin. As an example of their continued success and ability to be forward leaning with law enforcement initiatives, during 2008, the CGNAA, in coordination with the new KPC Operational Intel Unit and several notable seizures off go-fast vessels. Seizures like this by the CGNAA have become commonplace and highlight the CGNAA's desire to be a regional player in law enforcement endeavors. The most impressive CGNAA effort was the tracking of a go-fast vessel as it passed Bonaire N.A, which ultimately culminated with the seizure of approximately 900 kilograms of cocaine.

Authorities in both the NA and Aruba are intent on ensuring that there is a proper balance between the CGNAA's international obligation to stop narcotics trafficking through the islands, and its local responsibility to stop narcotics distribution on the islands. Under the continued leadership of both the Minister of Justice and Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2008. This cooperation extended to Sint Maarten, where the United States and the GONA continued joint efforts against international organized crime and drug trafficking.

The regular Dutch Navy also operates in the Netherlands Antilles under the auspices of Component Task Group 4.4 (CTG 4.4) which operates in international waters under the oversight of the Joint Inter Agency Task Force (JIATF) South. Over the past two years, particularly during 2007 and 2008, the CTG 4.4 has become a close and essential ally of the Drug Enforcement Administration (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 2008. The most impressive effort was the tracking of a maritime vessel from Colombia past the ABC Islands to Puerto Rico which ultimately culminated with the seizure of approximately 4000 kilograms of cocaine. This was the largest single seizure of cocaine ever made by the Dutch Navy.

In addition to these improvements in law enforcement, the GONA demonstrated its commitment to the counter narcotics 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 counter narcotics detection and monitoring flights over both the source and transit zones from commercial ramp space.

Aruba. Aruba is a transshipment point for increasing quantities of heroin, and to a lesser extent cocaine, moving north, mainly from Colombia, to the U.S. and Europe. Drugs move north via cruise ships and the multiple daily flights to the U.S. and Europe. The island attracts drug traffickers with its good infrastructure, excellent flight connections, and relatively light sentences for drug-related crimes served in prisons with relatively good living conditions.

While Aruba enjoys a low crime rate, crime reporting during 2008 indicates that prominent drug traffickers are established on the island. Drug abuse in Aruba remains a cause for concern. In 2008, Aruba law enforcement officials continued to investigate and prosecute mid-level drug traffickers who supply drugs to "mules." There were several instances where Aruba authorities cooperated with U.S. authorities to realize U.S. prosecutions of American citizens arrested in Aruba while attempting to return to the United States with drugs in multi-kilogram quantities. Aruba also devotes substantial time and effort to the identification of the person's responsible for the importation of drugs to Aruba.

The GOA hosts the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection pre-inspection and pre-clearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. DHS reported several seizures of cocaine and heroin in 2008. Drug smugglers arrested are either prosecuted in Aruba or returned to the U.S. for prosecution, if appropriate. Aruba jails remain critically overcrowded. The GOA established special cells in which to detain those suspected of ingesting drugs. 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.

Aruba also continued to participate in the Coast Guard of the Netherlands Antilles and Aruba.

III. Country Actions against Drugs in 2008

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, 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.

Seizures. Available drug seizure statistics for calendar year 2008 as of October 31, 2008 are as follows: Aruba seized 144 kilograms of cocaine, 27 grams of heroin, 13 kilograms marijuana. The Netherlands Antilles seized 1,965 kilograms of cocaine and 7.2 kilograms of heroin.

Corruption. The effect of official corruption on the production, transportation, and processing of illegal drugs is not an issue for Aruba and Curacao. During 2008, Sint. Maarten continued an aggressive and notably successful program to identify certain links from prominent traffickers in the region to law enforcement officials, which prompted additional investigation in the region. The NA has been quick to address these issues through criminal investigations, internal investigations, new hiring practices, and continued monitoring of law enforcement officials that hold sensitive positions. To prevent such public corruption, there is a judiciary that enjoys a well-deserved reputation for integrity.

Domestic Programs/Demand Reduction. Both the NA and Aruba have ongoing demand reduction programs. In 2007, the Korps Politie of Curacao in conjunction with Drug Abuse Resistance Education (D.A.R.E.) program opened a new D.A.R.E. facility in Willemstad, Curacao to aid in Demand Reduction activities for the youth of Curacao.

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. Because U.S.-provided intelligence must meet the strict requirements of local law, sharing of intelligence and law enforcement information requires ongoing, extensive liaison work to bridge the difference between U.S. and Dutch-based law.

The Road Ahead. The Netherlands Antilles and Aruba should continue to strengthen its cooperation with international law enforcement agencies.

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. Each of the Eastern Caribbean countries has a bilateral maritime counternarcotics agreement with the U.S.

The USG provided leadership, marine engineering and maintenance, small arms, maritime law enforcement, and seamanship training courses to the Eastern Caribbean nations in 2008. The U.S. Coast Guard (USCG) maintains a three-person Technical Assistance Field Team (TAFT) that provides technical/logistic support and coordinated depot-level maintenance for over 40 maritime security vessels in the Eastern Caribbean. In July 2008, the United Kingdom Security Advisory Team (UKSAT) was dissolved in Antigua. The Regional Security System (RSS) operates the only air assets in the region dedicated to counternarcotics operations, with two C-26 aircraft to cover the seven islands. All seven Eastern Caribbean states are parties to the 1988 UN Drug Convention.

II. Status of Countries and Actions Against Drugs in 2008

Antigua and Barbuda. The islands of Antigua and Barbuda are transit points for cocaine moving from South America to U.S. and European markets. Narcotics entering Antigua and Barbuda are transferred from go-fast boats, fishing vessels, and yachts to other go-fasts, powerboats or local fishing vessels for further movement. Secluded beaches and uncontrolled marinas provide opportunities to conduct drug transfer operations. Marijuana cultivation in Antigua and Barbuda is not significant and is imported for domestic consumption from St. Vincent.

The Government of Antigua and Barbuda (GOAB) believes that approximately 60 percent of the cocaine that transits Antigua and Barbuda is destined for the United Kingdom, while the United States market accounts for 25 percent. 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. It has a six-part maritime counterdrug agreement with the USG. 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. The Misuse of Drugs Act was recently tabled in Parliament. This amendment seeks to increase the penalties for drug offenses.

Through October 2008, GOAB forces seized 14 kilograms (kg) of cocaine, which was more than double the total seized in 2007, and 96 kg of marijuana, down from 464 kg in 2007. There were 125 drug-related arrests, and ten traffickers were prosecuted. Four cannabis fields were discovered in 2008, and the GOAB eradicated 6,828 plants. Antigua and Barbuda has both conviction-based and civil forfeiture legislation. An extradition treaty and a Mutual Legal Assistance Treaty (MLAT) are in force between the U.S. and Antigua and Barbuda.

The police operate a Drug Abuse Resistance Education (D.A.R.E.) program, targeting youth between ages 10 and 12. The police also speak to 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 rehabilitation center, the Cross Roads Centre, which offers treatment from two separate locations.

Barbados. Barbados has developed a robust coast guard presence with the recent purchase of three new Damen patrol boats. Barbados is a transit country for cocaine and marijuana, and the strengthened coast guard is designed to stem the flow of narcotics transiting Barbados. Notable trends in 2008 included an increase in the number of drug couriers swallowing cannabis, the continued use of go-fast boats from neighboring islands of St. Vincent and St. Lucia, and the use of in-transit passengers to transport drugs. The trend of employees working in key commercial transportation positions, e.g. baggage handlers, FedEx, DHL assisting with drug trafficking also continued.

Approximately 99% 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. Barbados has legislation in force that imposes recordkeeping on precursor chemicals. There were no reports of production, transit or consumption of methamphetamines in Barbados. Seventy percent of the cocaine transiting the island is destined for the U.K., fifteen percent for Canada, ten percent within the region, and five percent for local consumption.

From January 1 to September 30, 2008, Government of Barbados (GOB) agencies reported seizing 46 kg of cocaine—an 80% reduction from 2007. Local intelligence suggests that the reason for the reduction is due to strategic measures put in place by the police force that have caused traffickers to experience great losses in product and persons at sea which makes them reluctant to use Barbados as a transit point. The GOB also seized 4,662 kg of marijuana in 2008. There have not been any seizures of Ecstasy (MDMA) since 2005, when Barbados, for the first time, confiscated 2,445 Ecstasy tablets. The GOB brought drug charges against 213 persons during 2008, 29 fewer than in 2007. Seven major drug traffickers were arrested during this period. In 2008, the GOB destroyed 5,240 cannabis plants, down from 7,194 in 2007.

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. It has a six-part maritime counterdrug agreement with the USG. 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. An extradition treaty and a mutual legal assistance treaty (MLAT) are in force between the United States and Barbados.

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 active and effective. NCSA works closely with NGOs on prevention and education efforts and supports skills-training centers. The 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 are four (4) drug rehabilitation clinics in operation.

Commonwealth of Dominica. Dominica and the island serve as a transshipment point for drugs destined for the U.S. and Europe and marijuana is cultivated there. The coast guard's limited capability to patrol Dominica's extensive shoreline offers drug traffickers the ability to conduct drug transfer operations with relative impunity. The Dominica Police Force conducted 20 eradication missions in rugged, mountainous areas. During the year, Dominican law enforcement agencies reported seizing 11 kg of cocaine. This represents a downward trend from 2007 and 2006 – largely due to a diminishment in Dominica's Drug Unit manpower and equipment, such as vehicles to conduct effective counternarcotics operations. In 2008 the Drug Unit was reduced from 15 members to 10, and the 10 remaining officers were sometimes given additional duties outside of the Drug Unit. In 2008 Dominica also seized

139,769 marijuana plants and 842 kg of marijuana – up from 181 kg in 2007. Dominica’s Police arrested 243 persons on drug-related charges and prosecuted one major drug trafficker. 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. It has a maritime Counterdrug agreement with the USG, which does not include over-flight provisions. 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. An extradition treaty and a mutual legal assistance treaty (MLAT) are in force between the United States and Dominica. Notwithstanding the existence of the treaties, however, the United States has experienced difficulty in receiving assistance from Dominica, purportedly because U.S. requests did not comply with local Dominican legislation. The United States has requested consultations with Dominica in order to discuss treaty obligations in both mutual legal assistance and extradition matters, but to date has not received a response.

Grenada. Grenada’s coastal waters serves as a transit stop by South American and Caribbean drug traffickers shipping cocaine and marijuana to the U.S. and other markets. It is estimated that 70 percent of the cocaine is intended for the United Kingdom (UK), 20 percent for the U.S. and 10 percent for local consumption. Marijuana remains the most widely used drug among Grenadian users. Marijuana is smuggled through Grenada from both St. Vincent and Jamaica. Local officials estimate that about 75 percent of the volume 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, the second ever seizure of Ecstasy tablets was recorded in 2008. This involved a Grenadian male who was convicted of possession and trafficking of 3,302 Ecstasy tablets. The increase in violence and gang activity associated with the drug trade, including armed robbery and kidnapping continues to cause concern. Petty crimes, including theft and break-ins for cash to pay for drugs, are another byproduct of the drug trade.

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 September 2008, the police arrested 244 people on drug-related charges, down from 382 in 2007. Three drug traffickers were arrested and successfully prosecuted during this period, but all received fines and no jail time.

Grenadian authorities reported seizing approximately 48 kg of cocaine, 247 cocaine balls, 14,360 marijuana plants, 355 kg of marijuana, and 741 marijuana cigarettes in 2008. 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. Approximately five acres of marijuana were eradicated in 23 separate eradication exercises during the period.

Legislation 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 has not passed. 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 new anticorruption laws, Integrity in Public Service Act number 14 of 2007 and Prevention of Corruption Act number 15 of 2007, which require all public servants to report their income and assets, have been passed and the Prevention of Corruption Act has been implemented and is in full force. The oversight commission for the Integrity in

Public Service Act has not yet been formed, nor has the mechanism for reporting been established so the act is in force but not fully implemented. 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. It has a six-part maritime Counterdrug agreement with the USG. 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. Grenada's sole drug-rehabilitation clinic Carton House whose building was destroyed by Hurricane Ivan in 2004 and by fire in 2006 has reopened at a new location. Presently, the Rathdune Psychiatric Wing of the Mental Hospital provides limited rehabilitation services for "extreme cases." The need for rehabilitation services continues to outstrip 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. The GOSKN has a six-part maritime Counterdrug agreement with the USG. 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. An extradition treaty and a mutual legal assistance treaty (MLAT) are in force between the United States and St. Kitts and Nevis.

The GOSKN Defence Force augments police counternarcotics efforts, particularly in marijuana eradication operations. GOSKN officials reported seizing 78 kg of cocaine, 155 kg of marijuana and 9 kg of cannabis seeds from January through October 21, 2008. There were no reports of production, transit or consumption of methamphetamines in St. Kitts or Nevis.

From January to October 21, 2008, 1,222 drug related arrests were made—more than double that of 2007. Marijuana eradications in 2008 resulted in 83,309 plants being eradicated – half that of 2007. This was largely due to an upsurge in violent crimes and gang activity that forced the police to channel limited resources to the urban areas rather than to conducting weekly eradications as planned.

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 transshipment point 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 for local consumption 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 GOSL has received an increase in reports of drugs transiting the island, but they are seizing less of it. The drugs are usually shipped to Canada (12 percent) U.S.A. (12 percent), UK (25 percent) France (40 percent) with local consumption making up 5 percent. For the period January 1 to August 31, 2008, the Government of St. Lucia (GOSL) Police reported seizing 21 kg of cocaine in 2008, down from 792.5 kg in 2007. The GOSL also seized 534 kg of marijuana in 2008, down from 793 kg in 2007. The GOSL estimates that 90 percent of crimes committed and arrests made are drug related. There were 318 arrests made for actual drug offences, such as possession or trafficking of cannabis, cocaine and other drugs, down from 376 in 2007. The GOSL eradicated approximately 19,729 marijuana plants and 3,489 seedlings were also seized, down from 44,588 marijuana plants and 11,751 seedlings in 2007. Twenty-three drug eradications were conducted and 41 plantations destroyed.

During the year, the St. Lucia Customs and Police participated in a number of joint operations with French Customs which resulted in 1,282 kg of cocaine and 150 kg of marijuana being seized. The vessels and occupants were taken to the neighboring island of Martinique for prosecution.

Two locations which were considered to be processing labs were located and eliminated. Literature, equipment, suitcases with false bottoms and specially reconstructed shoes were seized. In both cases Jamaican nationals were involved. Jamaicans are said to be responsible for the majority of cases involving sophisticated methods of concealment and trafficking.

The USG and the GOSL cooperate extensively on law enforcement matters. St. Lucian law permits asset forfeiture after conviction. The law directs that forfeited proceeds 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 has a six-part maritime Counterdrug agreement with the USG. 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 high volume 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 period January 1 to October 17, 2008, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing only 5 kg of cocaine which is down from 524.4 kg in 2007. Information from the GOSVG indicates that SVG drug traffickers are meeting the traffickers from South America at sea and transporting the drugs directly to Dominica, without the drugs landing in St. Vincent. They also seized 316 cocaine rocks and 17,911 kg of marijuana. For the first time, a small quantity of heroin (5 grams) was seized. GOSVG authorities arrested 454 persons on drug-related charges and convicted 330. There are 84 cases still pending and 5 cases under investigation. No major drug traffickers were arrested in 2008; however GOSVG seized over one million U.S. dollars on a yacht and arrested two non-nationals who were charged under the Money Laundering Act. The funds are believed to belong to a major cocaine dealer in St. Vincent. During the year, 160 acres consisting of 2,935,611 marijuana plants were eradicated. 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 via Trinidad and Tobago, and a prevalence of crack cocaine use in some communities. The Caribbean market makes up approximately 50 percent of marijuana consumption from SVG, with the U.S. accounting for 15 percent, and the UK and Europe together at 23 percent, Canada 10 percent, and 2 percent for local consumption. 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 has a maritime Counterdrug agreement with the USG, which does not include over-flight provisions. 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 2008. In the past, St. Vincent Police has been cooperative in executing search warrants pursuant to U.S. MLATs.

In 2008, the Drug Prevention of Misuse Act Chapter 219 of the Revised Edition of the Laws of St. Vincent & the Grenadines 1990 was amended to increase the punishment from 3 years and \$100,000 fine to 7 years and a \$500,000 fine on a summary charge for supplying. The new Act will increase indictment from 14 years and \$200,000, to 25 years and \$5,000,000 on a supplying charge.

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.

The Road Ahead. Eastern Caribbean law enforcement authorities should strengthen efforts to counter drug trafficking and related crimes such as money laundering, arms trafficking and corruption.

Ecuador

I. Summary

Ecuador is a major transit country for illicit drugs trafficked to the United States and chemical precursors for drug production. 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 2008, the Government of Ecuador (GOE) continued to identify and destroy 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. The GOE significantly increased military operations in this region during the year to counter persistent narcotics activity by Colombian armed insurgent groups that have rendered Ecuador's northern border region particularly vulnerable and dangerous.

Tensions between the governments of Ecuador and Colombia escalated when, in March 2008, Colombia attacked a Revolutionary Armed Forces of Colombia (FARC) camp in Ecuador, killing a FARC Secretariat member. In response to the attack on its soil, Ecuador severed diplomatic relations with Colombia and continued to criticize the GOC for the attack throughout the year. The GOE also continued to allege that Colombian aerial eradication near the border harms humans, animals, and licit crops on the Ecuadorian side, however, Colombia ceased spraying near the Ecuadorian border in early 2007.

In 2008, while cocaine seizures on land continued at record levels, traffickers continued to diversify shipment methods such as, the use of go-fast and small fishing boats, capable of carrying smaller loads and hugging the coastline, or Self-Propelled Semi-Submersibles (SPSS) capable of maintaining a low profile to avoid interdiction. Traffickers also appeared to be using containerized shipping to a greater extent than in the past. There was an increase in drug flows from Ecuador to Europe and Africa; a trend first noticed in 2007, and, in 2008, the first major seizure of cocaine departing Ecuador destined for Asia was made.

In July, the GOE gave notice that it will not renew the bilateral agreement with the U.S. to allow U.S. aircraft to use the Forward Operating Facility (FOL) at the Ecuadorian Air Base in Manta. This agreement, which has been in place since 1999, permitted important aerial surveillance of drug trafficking which will be difficult to duplicate. Ecuador is a party to the 1988 UN Drug Convention.

II. Status of Country

Ecuador's large, sparsely populated border regions and difficult to monitor maritime routes are exploited by cartels in Colombia and Peru to transit through Ecuador an estimated 200 to 220 metric tons of cocaine per year, with an estimated 60 percent destined for the U.S. and the rest mainly to Europe. Ecuador is also a major transit country for chemical precursors for drug production and for heroin destined for the U.S. Ecuador remains vulnerable to organized crime due to historically weak public institutions and a judicial sector that is susceptible to corruption. The GOE continued to make efforts to speed up and strengthen criminal prosecutions but with limited success. Border controls of persons and goods are gradually improving but remain weak and are frequently evaded. The Ecuadorian National Police (ENP), military forces, and the judiciary do not have sufficient personnel, equipment, or funding to meet all of the international criminal challenges they face.

In 2008, GOE authorities found and eradicated a small amount of coca cultivation and destroyed cocaine laboratories near the borders of Colombia and Peru. Authorities also destroyed a small plantation of poppy plants near the Colombian border, the first such plantation discovered since 2005.

III. Country Actions against Drugs in 2008

Policy Initiatives. President Rafael Correa and his administration continued to place a high priority on combating counternarcotics production and trafficking. The Correa Administration also continued to strengthen controls over money laundering through the Financial Intelligence Unit (FIU), which was established under a 2005 Money Laundering Law. The FIU is cooperating closely with the Anti-Narcotics Police Directorate (DNA), the Superintendent of Banks, the courts, and the private banker association to identify suspicious transactions and develop information for the prosecution of cases. A new emphasis of the FIU this year, with USG assistance, is to monitor casinos for money laundering activities.

Accomplishments. Total seizures by the GOE in 2008 were 22 metric tons (MT) of cocaine, 144 kilograms (kg) of heroin and 1,980 kg of cannabis. By comparison, total seizures in 2007 were 22.45 MT of cocaine, 180 kg of heroin and 740 kg of cannabis. An additional 8.4 MT of cocaine was seized in international waters based on Ecuadorian intelligence, but was returned to the U.S.

Strong enforcement efforts by the DNA produced record land-based seizures in 2008, with a total of 14.51 MT. The largest single land seizure was 4.8 metric tons in September in the Esmeraldas province near Colombia. Also in September, the DNA discovered and destroyed a laboratory in the Southern Province of El Oro capable of producing one ton of cocaine per month. The DNA also played a critical role in the maritime seizures of six metric tons in January from the fishing vessel Mercedes V, 3.2 metric tons in September from the fishing vessel Tam Fuk Yuk, and 5.2 metric tons in December from the fishing vessel Emperatriz.

Total maritime seizures in 2008, including those returned to Ecuador for prosecution (7.48 MT) and those sent to the U.S. for prosecution (8.4 MT), were higher than in 2007. One of the four maritime seizures during the year—from the Chinese freighter Tam Fuk Yuk, was the first large seizure of cocaine from Ecuador destined to Asia.

Heroin seizures at the airports and post office were slightly lower in 2008 than 2007, with most shipments still destined for the United States. Anti-narcotics police also identified and destroyed a field of almost 50,000 poppy plants in the northern province of Tulcan.

Law Enforcement Efforts. In 2008, the Ecuadorian Armed Forces continued operations near the Colombian border. The operational tempo, which in early 2008 was already higher than in previous years, was increased even further after a March 1 Colombian attack in Ecuadorian territory on a FARC camp which killed the number two leader of the FARC, Raul Reyes. During the year, Ecuadorian Armed Forces conducted a total of 14 battalion-level operations, which led to the discovery and destruction of nine cocaine producing laboratories, 182 FARC facilities (bases, houses, camps), the eradication of 10 hectares of coca, and the confiscation of weapons, communications equipment, and other support equipment. As a result of these Ecuadorian operations 20 FARC members were detained and one was killed during the year.

The Ecuadorian Coast Guard continued to develop a main operations center and satellite offices in the Galapagos and other strategic locations. The operation centers are intended to coordinate monitoring and control over vessels in Ecuadorian waters. A significant development this year was the implementation of a satellite vessel monitoring system for vessels 20 tons or larger. The system is functioning but not yet fully implemented; the GOE plans to expand use to monitor smaller vessels as well. Ecuador continues to improve biometrics capabilities in order to more quickly identify individuals aboard vessels in Ecuadorian waters.

The Navy also procured eight high-speed boats to improve its ability to control illicit activities. With support from the U.S., the Navy acquired boarding and drug detection equipment, along with necessary training required for the equipment's use. The Navy still plans to procure unmanned surveillance drones to strengthen controls over Ecuadorian waters.

The Director of the National Postal System continued to improve anti-narcotics controls by working in conjunction with the DNA to ensure increased drug detection canine screening and using USG purchased screening equipment at

international airport and other postal facilities. Seizures quadrupled in 2007 over 2006, and 2008 seizures increased over the 2007 figures.

The DNA continued its “1-800-Drogas” nationwide hotline, which allows citizens to anonymously report illicit drug activity. Tips from the hotline resulted in numerous seizures of cocaine and supported development of cases against other illegal activities such as weapons smuggling. New DNA facilities, built with USG assistance, were opened in 2008 in Quito and Guayaquil.

Corruption. As a matter of policy, the GOE 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 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 in 2007 and support of the FIU are helping to strengthen the government’s ability to respond to corruption by gathering information on suspicious financial transactions to build cases against the individuals involved.

Overcrowding and corruption in prisons continues as a serious problem, with many drug traffickers able to conduct trafficking and other criminal operations from prison while awaiting trial. President Correa’s 2007 emergency decree to address prison overcrowding and to improve management of the institutions has not yet had any impact. Early in the year the Ministry of Justice reportedly released about 300 prisoners, comprised predominantly of women and their children, whose time in prison would have exceeded potential sentences if their cases had been actually processed.

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’s Constitution prohibits the extradition of Ecuadorian citizens; however the GOE does cooperate in the extradition or deportation of third country nationals. 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 three protocols. 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 agreed in 1999 to permit the USG to operate for ten years a forward operating location (FOL) at the Ecuadorian Air Force base in the coastal city of Manta for counternarcotics detection and monitoring operations. The FOL will cease operations and close completely by November 2009 as the GOE is not renewing the agreement. 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. The USCG and Ecuadorian Navy have Operational Procedures to facilitate maritime Counterdrug cooperation, which has resulted in fewer Ecuadorian-flagged vessels engaging in drug smuggling.

Cultivation/Production. Ecuadorian military forces located and destroyed approximately 10 hectares of cultivated coca plants in scattered sites near the Colombian border compared with 36 hectares last year. It is not clear whether the reduction in hectares identified and destroyed indicates a reduction in planting. The discovery of three hectares of coca under cultivation in southern Ecuador near the Peruvian border was considered surprising as a first such finding. In 2008, the Government signed an agreement with the United Nations Office of Drugs and Crime (UNODC) for a two-year survey of coca cultivation in the country. The survey, which is partially USG-funded, will complement similar surveys in neighboring Colombia and Peru to provide a more complete understanding of cultivation in the area.

Drug Flow/Transit. Cocaine and 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. Although seizures in postal facilities have increased significantly in the past two years, traffickers continue to ship drugs via international mail and messenger services, with cocaine generally destined for European markets and heroin for the

U.S. Traffickers continued to ship white gas and other precursor chemicals in large quantities from Ecuador to Colombia and Peru for cocaine processing.

Demand Reduction. Coordination of abuse prevention programs is the responsibility of The National Council on Drugs and Illegal Substances (CONSEP), which continued its multi-agency national prevention campaign in the schools, and expanded programs in 2008 to certain municipalities. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace. In March, the GOE signed an agreement with UNODC to strengthen the methodology and collection of drug consumption data in Ecuador.

Regional Coordination. Tensions between the governments of Ecuador and Colombia escalated when Colombia attacked a FARC camp in Ecuador on March 1, killing FARC Secretariat member, Raul Reyes. In response to the attack on its soil, Ecuador severed diplomatic relations with Colombia and continued to criticize the GOC for the attack throughout the year.

Senior GOE officials also continued to allege that Colombian aerial eradication near the border harms humans, animals, and licit crops on the Ecuadorian side. Colombia ceased spraying near the Ecuadorian border in early 2007. On March 31, the GOE filed suit at the International Court of Justice at The Hague alleging that Colombia's aerial eradication actions near Ecuador's border violates Ecuadorian sovereignty and requests that the government of Colombia be required to pay reparations and cease spraying.

Alternative Development. In 2008, the U.S. Agency for International Development (USAID) continued to work to support GOE efforts to provide social and productive infrastructure, strengthen local government, and open opportunities to expand licit economic activity as part of its northern border development master plan. Despite a wealth of natural resources, Ecuador's border region is mired in poverty. A paucity of licit employment opportunity, isolation, and proximity to rebel-held Colombian territory combine to make the region unstable.

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 combat more effectively 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 proximate to Colombia, and police presence in other strategically important locations throughout the country. USG programs also support increased awareness of the dangers of drug abuse.

Bilateral Cooperation. In 2008, the U.S. continued to provide support to the military to facilitate their mobility and communications during operations near the Northern Border, and to Ecuadorian Navy elements to better mobilize, equip, and train for narcotics interdiction activities.

The DNA remains the primary recipient of U.S.-provided counternarcotics assistance, including vehicles, equipment, and training. The DNA includes special nation-wide units such as Mobile Anti-Narcotics Teams (GEMA), and a drug detection canine program, which contributed to a second consecutive year of high levels of land seizures.

Cooperation in the judicial sector remained strong in 2008 although changes to the structure of judicial institutions as required under the new Constitution (passed in September), created some uncertainty regarding the process of criminal cases. A major U.S.-funded American Bar Association training program continued to provide prosecutors, judges, and judicial police throughout the country with training to strengthen their ability to effectively investigate and prosecute criminal cases. The USG, in cooperation with the National Judicial Council, continued nationwide implementation of an automated database of all criminal cases (a process begun in 2003). This database is in the process of being installed nationwide in all 24 provinces, it will enhance management and transparency of the adjudication of criminal

cases to help address perennial problems of delay and corruption. Some preliminary reports have been produced from courthouses where the system is already in place.

The U.S. also provided technical assistance and equipment to support continued implementation of the Financial Intelligence Unit, as well as police investigative units. Training assistance programs encompassed anti-money laundering, financial crimes, and maritime law enforcement.

The Road Ahead. The USG supports Ecuador's efforts and encourages the GOE to continue to place a high priority on the interdiction of illicit drugs and chemicals, eradication of coca cultivation near the Colombian border, and destruction of cocaine-producing labs. Increased GOE patrols near the Colombian border, which the USG will continue to support, will enable Ecuador to better control Colombian based drug cartels and destroy production sites. As traffickers shift tactics and make greater use of fast boats for smaller shipments along the coast, containers, and SPSS's, enhanced controls along Ecuador's maritime border, including improved port security, patrolling, and inspections, will be essential tools for controlling maritime trafficking. Strengthening coordination between military and police forces will also facilitate GOE evidence gathering and prosecution of cases related to these activities. Additionally, we encourage the GOE to give high priority to prosecution of money laundering and official corruption, which are key to attacking the leadership of narcotics cartels.

El Salvador

I. Summary

El Salvador is a transit country for cocaine and heroin from South America to the United States via land and sea. In 2008, the National Civilian Police (PNC) seized 1.35 metric tons (MT) of cocaine, 430 kilograms (kg) of marijuana, and 8.4 kg of heroin. The government also seized \$716,905 in suspicious bank accounts and cash transactions, as well as \$859,621 in undeclared bulk cash taken from narcotics-linked smugglers. El Salvador is party to the 1988 UN Drug Convention.

II. Status of Country

El Salvador remains a transit country for cocaine and heroin from the Andean region of South America, enroute to the United States. We do not have reliable estimates of quantities flowing through El Salvador land routes or territorial waters, but estimates indicate that approximately 400 MT of cocaine flows through the Eastern Pacific. In 2008 the Government of El Salvador (GOES) continued to target maritime and land trafficking of cocaine and heroin along its coastline and overland routes, as well as narcotics-related money laundering operations. El Salvador hosted a Cooperative Security Location (formerly known as the Forward Operating Location) at Comalapa airport. The base is crucial to regional detection and interception efforts. Transnational street gangs are involved in street level drug sales but not major trafficking. While authorities have not yet detected serious problems with production/transit of precursor chemicals or illicit trading in bulk ephedrine and pseudoephedrine, investigations suggest it could become a more serious problem. For example, a recent audit of one of El Salvador's principal pharmaceutical laboratories showed two million ephedrine pills missing from the inventory.

III. Country Actions against Drugs in 2008

Policy Initiatives. The GOES continued its special organized crime unit featuring embedded prosecutors and police investigators, and undertook efforts to increase cooperation between prosecutors and the police.

The Transnational Anti-Gang Unit (TAG) celebrated its first year. It is primarily focused on investigating transnational gang activity and orchestrating bilateral law enforcement actions, but impacted counternarcotics efforts, as gangs are linked to street-level narcotics distribution and drug-related violence.

In December 2008 the Automated Finger Print Analysis system was inaugurated, enabling El Salvador to identify criminals and share information with the United States and the region under the Central American Fingerprint Exchange (CAFÉ) program.

Law Enforcement Efforts. In 2008, the Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) focused on interdiction operations in the sectors of overland transportation, commercial air, package delivery services, and maritime transportation in the Gulf of Fonseca. GOES police investigators and prosecutors shared law enforcement intelligence and coordinated operations with USG counterparts resulting in successful interdictions. Overall in 2008, the PNC seized a total of 1.35 MT of powdered cocaine 8.4 kg of heroin, 5.8 kg of crack cocaine, and 430 kg of bulk marijuana. The majority cocaine seizures for 2008 were the result maritime operations. Land seizures primarily resulted from searches of stopped vehicles and inspections of passengers and luggage transiting on long haul bus routes. DAN continues to be hampered by insufficient resources and legal impediments to telephone intercepts.

The PNC/DAN chemical unit also seized 3.4 kg of ephedrine that had been diverted from legitimate pharmaceutical use. In 2008, the DAN confiscated \$859,621 in undeclared bulk cash from travelers transiting Comalapa International

Airport and other international land border crossings adjacent to Honduras and Guatemala. The Financial Investigative Unit (FIU) of the Attorney General's office seized \$716,095 in funds from drug-related financial crime.

The Government of El Salvador did not make any significant advances in 2008 in terms of improving its ability to detect, investigate, and prosecute money laundering and financial crime. The FIU appears to be underutilized, as well as lacking in institutional direction and investigative capacity.

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. However the DAN removed some working-level agents in 2008 due to isolated instances of personal corruption. 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 is limited in scope, and the constitutional prohibition on life imprisonment is amongst the most significant obstacles to negotiating a new bilateral extradition treaty. In late 2008, the Salvadoran Supreme court took up the first case for the extradition of a Salvadoran national to the United States. While the Court initially voted to extradite the fugitive, the Court's term (and the terms of several of the judges) expired before it issued a written order for extradition. Narcotics offenses, however, 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 for domestic consumption.

Drug Flow/Transit. Traffickers using go-fast boats and commercial vessels to smuggle cocaine and heroin through the Eastern Pacific transit routes along El Salvador's coastline. Land transit of cocaine and heroin from Colombia is typically along the Pan-American Highway. Most land transit consists of drugs carried in the luggage of commercial bus passengers or in hidden compartments of commercial tractor-trailers traveling to Guatemala.

Domestic Programs/Demand Reduction. The Ministry of Education provides lifestyle and drug prevention courses in public schools, and also sponsors after-school activities. The Ministries of Governance and Transportation have units that advocate drug-free lifestyles. The PNC operates a Drug Abuse Resistance Education (D.A.R.E.) program. 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. The USG-supports a Salvadoran non-governmental organization (NGO) that provides substance abuse awareness, counseling, rehabilitation and reinsertion services including programs directed towards gang members. In 2008 this NGO provided demand reduction outreach to 3,515 individuals, as well as addiction treatment to 388 patients. There are also local faith-based demand reduction programs and counseling programs administered by recovering addicts.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. assistance focuses on increasing the operational capacity of Salvadoran law enforcement agencies to interdict narcotics shipments and combat money laundering, financial crime, and public corruption. There is also a strong emphasis on transparency, efficiency, and institutional respect for human and civil rights within Salvadoran law enforcement organizations and the criminal justice system. The USG provides support for Salvadoran measures to fight organized crime, including a test case for the new extradition law, as well as anti-money laundering efforts of the PNC financial crime unit and federal prosecutor's Financial Investigative Unit. USG support also aids Salvadoran efforts to fight transnational gangs. These measures are intended to improve public security and counter street-level drug sales, narcotics consumption, and related violence.

Bilateral Cooperation. In 2008, the U.S. provided operational support to the joint DEA and DAN high profile crimes unit (GEAN), as well as training and logistical assistance to various DAN entities. The USG has increasingly focused on training and equipping the Salvadorans to deal with emerging narcotics threats, such as diversion of ephedrine and pseudoephedrine, and possible establishment of methamphetamine labs in El Salvador. The International Law Enforcement Academy (ILEA) provided police management and specialized training to the region, with strong Salvadoran participation (148 as of October 2008).

An INL Regional Gangs Advisor began coordinating anti-gang policy and initiatives for El Salvador, Honduras and Guatemala in January 2008. Although gang involvement in narcotics trafficking appears to be confined to retail distribution, the Regional Gang Advisor is nonetheless routinely consulted on narcotics issues that may factor into his area of responsibility, including programs that combat gangs, such as prison reform and CAFÉ (fingerprint exchange). The U.S. Coast Guard provided training and technical assistance on marine law enforcement and other maritime control and management measures.

In the coming year, the DEA and INL San Salvador will work with the PNC and DAN to establish two mobile inspection teams capable of deploying to highway choke points adjacent to El Salvador's land borders with Guatemala and Honduras, as well as stand up a specialized container cargo inspection unit at the port of Acajutla. Automated fingerprint analysis equipment is installed and training completed; 2009 will be the first full year of applying this important crime fighting tool.

The Road Ahead. El Salvador is not yet implementing procedures for civil forfeiture of assets linked to drug crimes. Dedicating these resources to counternarcotics efforts would strengthen the nation's capacity to fight trafficking. The GOES should ensure the passage of civil asset forfeiture legislation that is currently under consideration by the legislature. Establishment of a wiretap statute would also strengthen GOES ability to investigate and prosecute criminal activity.

El Salvador should also strengthen its ability to investigate and prosecute financial crime. As remittances remain an important sector of the Salvadoran economy, we encourage the GOES to carefully monitor this activity to ensure that remittances are not a cover for money laundering. 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.

For its part, the USG will provide significant support in the coming year under the Merida Initiative--a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Estonia

I. Summary

The seizures of record amounts of narcotic substances, destruction of cannabis plantations and detection of drug trafficking conspiracies, as well as arrests of Estonian drug traffickers abroad indicate drug production and transit activity are on-going in Estonia. They are also indications 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 main international drug control conventions, including the 1988 UN Drug Convention.

II. Status of Country

Trimethylpentanyl, an opiate-synthetic drug mixture “White Persian,” and black heroin, very poor quality heroin which is produced in Azerbaijan and used in the ethnic Russian community in Estonia, continue to be Estonia's most popular illegal narcotics in 2008. Ecstasy, cocaine, amphetamines, gammahydroxybutyrate (GHB), cannabis and poppy are also available in Estonia. The frequent arrests of drug traffickers at the border and seizure of precursors indicate Estonia's involvement inhibits Estonia from being a major drug cultivator, in five months Estonian police detected and destroyed five cannabis plantations demonstrating drug dealers' intentions to start supplying the domestic market locally. Also, in recent years a number of Estonian drug traffickers have been arrested in foreign countries, suggesting that Estonian drug traffickers are involved 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 but also that Estonian Police and Customs and Border Guard are making special efforts to reign in the illegal drug trade.

According to Government of Estonia (GOE) and NGO estimates, there are about 14,000 intravenous drug users (IDUs) in Estonia—about one percent of the population. Due to the large number of IDUs, Estonia has the highest growth rate per capita of HIV infections in Europe. As of October 2008, a total of 6,808 cases of HIV have been registered nationwide, 444 of which were registered in 2008. To date, AIDS has been diagnosed in a total of 247 people, 56 of whom were diagnosed in 2008. Male IDUs still account for the largest share of newly registered HIV cases. However, in 2008, young women made up 32 percent of new HIV cases, indicating that the HIV epidemic is starting to spread to the general population. The women making up these new cases come largely from among IDUs and their sexual partners.

III. Country Actions against Drugs in 2008

Policy Initiatives. Estonia's domestic anti-narcotics legal framework is in compliance with international drug conventions and European Union (EU) narcotics regulations. As of January 1, 2008, the final provisions of the Law Amending the Narcotic Drugs and Psychotropic Substances Act (LANDPSA) adopted in 2007 came into force. The last amendments regulating identification (i.e., creating a list of controlled substances) of narcotic psychotropic substances and precursors brought the domestic law into compliance with the 1988 UN Convention.

Following Estonia's accession to the European Union Schengen visa convention in 2008, the number of Finnish 'drug-tourists' traveling to Estonia legally to buy psychotropic medicines has decreased significantly. Under the Schengen regime, a traveler who is taking narcotic or psychotropic medication in his home country needs a permit from the State Agency of Medicine (SAM) to be supplied that medication in Estonia. Further in 2008, in order to eliminate illegal medical drug exportation to neighboring countries (primarily Finland), the Minister of Social Affairs issued a decree to terminate the sales of the narcotic preparation Subutex, a medication approved for the treatment of opiate dependence, in drug stores. After January 1, 2009, Subutex will be available only for in-patients.

In 2008, the GOE continued implementation of its 2007-09 Action Plan based on the National Strategy on Prevention of Drug Dependency for 2004-2012, adopted in 2003. Activities continued in all 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.

Also in 2008, 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 subgroup within the HIV positive population. 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.

After the United Nations Global Fund (GF) to Fight HIV/AIDS, TB, and Malaria finished its four-year program in Estonia in 2007, the GOE 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 (MOER)—HIV prevention in schools and colleges). In 2008, all involved ministries except for the MOER carried out their responsibilities under the anti-HIV strategy. MOER has not prioritized HIV education and has not implemented mandated programs. As the HIV-epidemic in Estonia is predominantly drug-driven, narcotics prevention has formed a considerable part of the extensive HIV/AIDS prevention programs in the schools implemented by NGOs under the GF program. As these programs were put on hold in 2008, there may also be a negative impact on drug prevention efforts in schools.

Under the anti-HIV strategy, the GOE established a governmental committee to coordinate HIV and drug abuse prevention activities in 2006. The committee comprises representatives from the Ministries of Social Affairs, Education and Research, Defense, Internal Affairs, Justice, and Finance. The committee also includes representatives of 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. It 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 counter-narcotics activities. Currently, about 90 police officers work solely on drug issues. Their primary mission is to destroy international drug rings, rather than to catch individual street pushers. In addition to these full time counter-narcotics officers, all local constables also process drug-related misdemeanor acts. From January-August 2007, the Estonian police registered 1,034 drug-related criminal cases and 4,333 misdemeanor acts. The year-by-year increase in the number of drug related crimes investigated by police is evidence that the Estonian Police are increasing their efforts to cut back on the illegal drug trade. As Estonia's major weekly newspaper recently reported, the disappearance of cannabis from the domestic market was a direct result of several counter-narcotics operations carried out by police. From December 2007 to May 2008, police detected five major cannabis plantations and destroyed over 1,200 plants. In May, a criminal case was started against two men from Tallinn growing cannabis in central Estonia. During the operation the police seized 760 cannabis plants plus 'ready-made products', the largest number of cannabis plants ever seized in Estonia.

In June, officers of the North Police Prefecture drug squad seized 36.5 kilograms of methamphetamine, a record amount of this substance confiscated from criminals in Estonia. The seizure amounted to an estimated 70,000 doses with a total street value of \$1.6 million. According to the prosecutor, such a large amount was clearly not intended just for the Estonian market. During the same operation 5.2 kilograms of hashish were also confiscated. In September, together with the Estonian Tax and Customs Board (ETCB), the drug squad of the Northern Prefecture arrested an Estonian who had swallowed capsules containing 700 grams of pure cocaine with a street value of \$250,000. He had

been tasked to take the capsules from the West African coast to London, but flew to Tallinn instead, where he was arrested. The Estonia Central Criminal Police (ECCP) considers cocaine a top priority in their investigative efforts.

According to the Ministry of Foreign Affairs, from January 2006 to June 2008, 89 Estonian drug traffickers have been arrested abroad. Fifteen of these came in the first six months of 2008 (10 in Europe, three in South America, two in the U.S.)

Combating the illicit narcotics trade is also a top priority for the 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 (the European Union's easternmost border). About 150 Customs officers work in mobile units all over Estonia. Six customs officers deal with information analysis and 14 officers from the Investigation Department specialize solely on narcotic-related crimes. All four Customs regions have a designated narcotics control liaison officer, and are supported by narcotics analysts in the Tallinn headquarters. There are 18 Customs teams with 21 drug-sniffing dogs. (Estonian drug sniffing dogs are among the best in Europe. They recently won prizes at an international contest for customs drug dogs.) In March, a drug sniffing dog detected 36 bottles (about 22 liters) of a precursor for amphetamine in the car of a Lithuanian citizen. The seizure prevented up to 20 kilograms of amphetamine from reaching the streets. During several operations from December 2007 through April 2008, customs investigators seized about three kilos of marijuana with a street value of \$90,000 that involved the same criminal group acting in different locations around Estonia.

Corruption. Estonia is a relatively corruption-free country. 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 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime (1990). A 1924 extradition treaty, supplemented in 1934, is in force between the U.S. and Estonia, and a mutual legal assistance treaty in criminal matters was entered into by the countries in 2000. In 2006, the Estonian Parliament ratified a new Estonian-U.S. extradition agreement and a revised agreement on mutual legal assistance in criminal matters. The new agreements relate to the U.S.-EU Extradition and Mutual Legal Assistance Agreements, and have not yet entered into force. 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 combating illicit drugs.

Cultivation/Production. Estonia's cold climate means Estonia will never be a major drug cultivator. However, the recent destruction of cannabis plantations shows Estonians' involvement in small scale marijuana production for the domestic market. Also, in northeastern Estonia small amounts of poppies are grown for domestic consumption. Nevertheless, seized precursors at the border indicate that synthetic narcotics production is ongoing in Estonia. According to drug-prevention NGOs, most of the labs are very small and mobile, making it difficult to detect and close them. In addition to production for domestic consumption, synthetic drugs produced in Estonia are exported to neighboring countries, including the Nordic countries and northwestern Russia. According to press reports, 90 percent of amphetamine available on the Finnish market comes from or via Estonia.

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 2008, Estonia continued to implement its 2004-2012 National Strategy on the Prevention of Drug Dependency. Combating the drug trade and reigning 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. Currently, there are six voluntary HIV testing and counseling agencies providing services at ten sites. The GOE and local governments fund these agencies. A needle exchange program is operational in 43 sites, including 13 field work areas and a number of mobile needle exchange stations are in operation in Tallinn and northeast Estonia. Six organizations provide methadone treatment at eight sites in Tallinn and northeast Estonia. A toll-free helpline for drug addicts is operational 24 hours a day. 18 organizations provide drug rehabilitation services. There are 11 major rehabilitation centers nationwide, four of which are church-sponsored.

IV. U.S. Policy Initiatives and Programs

In 2008, the U.S. Department of Defense (DOD) negotiated with the Estonian Defense Forces (EDF) the second phase of a 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. In the second phase the EDF will procure rapid tests to map the HIV situation among conscripts. In June 2008, the U.S. Embassy's Office of Defense Cooperation issued a \$200,000 grant under its humanitarian assistance program, to complete construction of the first ever rehabilitation center for drug-addicted women.

Post utilized the Department's International Visitors Program on HIV in 2008 to familiarize Estonian experts with U.S. practices in the fight against HIV/AIDS. In October, under the Department's Voluntary Visitors Program, six Estonian HIV case management experts visited the best HIV case management program sites in the United States.

The Road Ahead. The U.S. will continue to work with Estonia to reduce one of the most significant side-effects of drug abuse: the spread of HIV/AIDS. Estonia and the U.S. will also continue to cooperate in law enforcement efforts to keep drugs out of Estonia, and from transiting Estonia on their way into other countries in Europe and 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. During 2008, there were no significant increases in any of the classes of narcotics seized in 2007. Finnish officials describe the situation as generally stable. 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 and Russian 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 5.8 million annual travelers and 900,000 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 cooperates with other countries and international law enforcement organizations regarding extradition and precursor chemical control.

The overall incidence of drug use in Finland remains low (relative to many other western countries); however, drug use has increased over the past decade. Cocaine is rare, but marijuana, khat, amphetamines, methamphetamine, synthetic club drugs, Ecstasy, LSD and heroin and heroin-substitutes can be found, although heroin is very rare and extremely difficult to find in Helsinki. 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-Ecstasy-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. The quantity of seized heroin has remained small for several years. With the exception of a 51.7 kg seizure of heroin in 2005, seizures have never been larger than (and consistently much smaller than) 1.6 kg since 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-used in treating addiction) and other heroin-substitutes seems to have replaced heroin abuse to a significant extent. Finnish officials note that Finland is one of few countries reporting that people become addicted from Subutex use. 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. A major change occurred at the end of 2007 when the Baltic countries joined the Schengen area. This means that a person who resides principally in Finland is no longer allowed to import Subutex prescribed elsewhere. Finnish officials have not seen a significant move to heroin now that Subutex is not as readily available from the Baltic countries. The volume of Subutex seizures by Finnish customs has remained consistent over the last five years.

According to Finnish law enforcement the number of organized crime groups has grown slightly in the past few years, as has the number of their members; most Finnish syndicates have international contacts, particularly with crime groups operating in Russia or the Baltic countries. 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. 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.

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, Beijing and New Delhi. In 2000, Finland had 4 non-stop flights per week between Finland and Asia. In 2008, Finnair has 11 non-stop flights per day to Asia. 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.

III. Country Actions against Drugs in 2008

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. Finnish officials state new forms of international cooperation, such as joint investigation teams and the rapid exchange of information, available now that Finland is a signatory of the Pruem Convention, will support the fight against the crime at national level.

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, such as wiretapping, under the Finnish Coercive Measures Act 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.

The use of wiretapping as a method of criminal investigation may expand in spring 2009. The present legislation provides for use of wiretapping only in those cases which would result in a prison sentence (such as homicide, espionage, aggravated sexual abuse and aggravated narcotic crime). The new proposal would also allow wiretapping in specific criminal cases, where the prescribed penalty is only a fine. The Government is supposed to propose legislation to the Parliament by the end of 2008. The new mandate will be adopted in May 1, 2009, if the proposal is approved by the Parliament as scheduled.

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 (the Border Guards, who

primarily interdict narcotics during immigration checks, can also conduct investigations, and since 2005 their authority was expanded to cover all of Finland). 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, fall under the Finnish Ministry of the Interior. Customs falls under the Finnish Ministry of Finance, and maintains responsibility for coordination of Finnish customs narcotics interdiction efforts with other nations' customs services. Finnish judicial authorities are empowered to seize assets, real and financial, of criminals.

Finnish law enforcement has 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 2007 several joint operations were launched, aimed at uncovering connections between organized crime groups. In 2007, the Finnish law enforcement community received additional government funding to pursue a number of interagency, target-oriented narcotics investigations, which included the unusual step of assigning prosecutors to an investigation from its inception.

In 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. In 2007, Customs employed two such scanning devices and had one permanent scanning facility placed at Vaalimaa, which is the primary border-crossing between Finland and Russia. More than 25,000 cargo units were scanned by the Finnish Customs during 2007. Additionally, Customs has enhanced its use of narcotics detection canine units at key ports of entry into Finland.

The 2007 Police report on narcotics offenses and seizures is the latest available. In 2007, Finland experienced a 13 percent increase to 16,300 in the number of drug offenses. While that represents a significant increase, the overall number had declined from 15,990 in 2003 to 14,300 in 2006, so the rise brings the number to roughly the 2003 level. Of the 16,300 offenses reported for 2007, 10,400 were related to narcotics use; the number of aggravated narcotics offences was 962.

Evidence of the limited cannabis market comes from the Customs figures for 2007, showing seizure of 2.9 kg of marijuana and 22.5 kg of hashish, the smallest quantity of hashish in 12 years. In 2007, 17 percent of the suspects of aggravated narcotics offenses were foreigners; of those, 28 percent were Estonian and 12 percent were Russian. While overall amounts of cocaine entering Finland remain low, authorities estimate that the use of cocaine has increased. Finnish authorities have asserted that cocaine predominantly enters Finland from Spain. In 2007, the number of cocaine seizures increased to 92 (compared to 82 in 2006). The volume for 2006 (6.5 kg) is somewhat unusual and reflects a single end-of-year seizure. Though the volumes for 2005 (1.2kg) and 2007 (4.0 kg) were significantly less, authorities believe importation will continue to increase.

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, from 111,000 and 116,000 tablets/ampoules seized in 2004 and 2005, respectively, to 200,000 and 192,000 seized in 2006 and 2007. 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 dependent 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 legally prescribed drugs. Suspected courier travel has increased annually for the past few years. Since December 2007 changes in EU regulations prevent Latvian and Estonian pharmacies from filling Subutex prescriptions for Finnish citizens. However, Finnish couriers are likely attempting to identify other EU sources for Subutex, including France.

In 2007, altogether 1.3 million Euros of cash was seized by the authorities in connection with investigations of narcotics offences. In addition, an increased number of handguns, submachine guns and gas sprays were seized in connection with drug related crimes. Finland continued its impressive record on multilateral law enforcement, working through, among other organizations, EUROPOL, INTERPOL and the Baltic Sea Region Task Force on organized crime. Finland maintains thirteen liaison officers in ten cities, (Finland's reach extends to 36 countries if one includes Finland's participation in the Nordic liaison network). Along with great cooperation with Estonian authorities, Finnish authorities report very good cooperation with Russian authorities. Finnish law enforcement personnel continue to conduct criminal narcotics investigations involving Finland or Finnish citizens abroad, including the investigation of suspects beyond Finland's borders.

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 and there are no known reports of such activity by Finnish officials. Official corruption would seem to be 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 bilateral extradition and mutual legal assistance instruments related to the EU-U.S. Extradition Treaty in 2004, and completed parliamentary approval procedures in 2007; these agreements have not yet entered into force. 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. The Treaty of Pruem, which addresses cross-border cooperation (including information exchange) in combating crime and terrorism, took effect in Finland in June 2007.

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 2007. Finland's climate makes cultivation of cannabis and opium poppy almost impossible. Local cannabis cultivation, while described by authorities as increasing is nevertheless believed to be limited to small-scale, indoor hydroponic culture for individual use, not sale. Seizures by weight of cannabis plants have fluctuated over the past several years, although in 2007 there was a significant increase of the amount of seizures up to 87 kg (36 kg in 2006). In 2007, Finnish law enforcement agencies seized a total of 7,600 cannabis plants. The majority of cultivation cases were very small, with an average of 1 to 20 plants per seizure. The distribution in Finland of 22 dual-use 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 of illegal drugs in Finland during 2007. 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 20,000 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 drug replacement therapy 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. and Finland will continue their cooperation on drugs issues impacting both countries.

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 cannabis users is attractive to traffickers as well. Specifically, in descending order, cannabis originating in Spain and Morocco, cocaine from South America, heroin originating in Afghanistan or transiting through Turkey, Belgium, and the Netherlands, and Ecstasy (MDMA) originating in the Netherlands and Germany, all find their way to France.

The total number of seizures reported in 2007 (latest published figures) increased by 20.62 percent from 2005 levels (to 94,431), including seizures of some cannabis products, morphine, amphetamines, LSD and mushrooms. The gross total of the quantity of seizures of cocaine (HCL), Heroin, Khat, and MDMA, which increased in 2006, decreased in 2007. Drug trafficking and possession arrests increased in 2007 by 21.57 percent to 134,320. This represents the largest increase in seizures in the last thirty years. 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 5.7 percent and 3.58 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 are increasingly involved in other poly-criminal activities such as money laundering and clandestine gambling.

III. Country Actions against Drugs in 2008

Policy Initiatives. In late 2004, France launched a five year action plan called "Programme de 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, as it approaches 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 increased options in France's medical

treatment for cannabis and heroin users/addicts. The program also provided funding (up to €1.2 million (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). €10 million—approximately \$13 million—went to training Afghan counternarcotics police and to fund a crop substitution program that will boost cotton cultivation in the Afghan provinces of Condos 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 (approximately \$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 (\$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 (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 is estimated to be worth around € 1.2 million (approx. \$1.65 million).

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 (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. In addition, France and the United States have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force.”

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. There is no evidence that significant amounts of heroin or cocaine enter the United States from France. France is a transshipment point for illicit drugs to other European countries. Traffickers move heroin from both Afghanistan 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. Law enforcement officials believe these West African and South American traffickers are stockpiling heroin and cocaine in Africa before shipping it to final destinations. 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 (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 (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 French counternarcotics law enforcement cooperation remains good. During 2008, 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. Since its inception seven years ago, this program has resulted in the seizure of 33 MDMA labs worldwide (including 22 in the U.S.), and the arrest of 65 individuals involved in the supply chain.

Additionally, during 2008, the DEA's Paris office passed intelligence to French OCRTIS regarding two possible drug couriers intending to transit France while traveling from Turkey to the United States. As a result of that information, in February, French authorities arrested two Orthodox Rabbis transporting approximately 12 kilograms of morphine base in concealed compartments built into their suitcases.

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.

SOUTHCOM and the French Navy signed an agreement in June 2008 to establish COMSUP Antilles as a regional counterdrug coordination center within the JIATF-South organization. The French Navy participates in JIATF-S operations as CTG 4.6.

France provided vital Maritime Patrol Aircraft (MPA) coverage throughout the deployment of a U.S. Coast Guard cutter with a LEDET from Cape Verde deployed aboard it in June 2008. France's steadfast support of the operation helped mark the first multilateral combined maritime law enforcement operation ever conducted in Africa with countries from three continents.

France has become a more active partner in the Caribbean transit zone, particularly with regard to cooperating with JIATF-S. On 3 October, 2008, the USCG facilitated a boarding request from France regarding a U.S.-flagged sailing vessel involved in illicit traffic. The subsequent boarding resulted in the discovery and seizure of 48 kg of cocaine and 2 kg of heroin. France requested the U.S. waive jurisdiction in a timely manner over the two non-U.S. crewmembers aboard the vessel in order to meet the judicial requirements of France. This occurred well within the time frame requested and enabled France to prosecute the two smugglers.

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.

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, including all international conventions signed by France. The French Judiciary Police, Gendarmerie, and Customs Service play a major role in narcotics law enforcement in France's overseas departments, just as they do in the rest of France. Cocaine moves through the French Caribbean and from French Guiana to Europe and to a lesser extent, to the United States.

II. Status

The Martinique Task Force, created in 2006, in response to an increase in the trafficking of cocaine coming directly to France from the French Caribbean, 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. 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 2008

During 2008 important drug seizures included the August 4 seizure by the French Coast Guard of more than 1,072 kilograms (kg) of cocaine aboard a French-registered sailboat in the French Antilles. The contraband had a street value of more than 45 million euros (approximately \$62 million). On October 4, the French Coast Guard intercepted a sailboat near Saint Lucie containing 50 kg of cocaine and 2.3 kg of heroine. On March 21, the French Coast Guard seized near French Guiana 454 kg of cocaine on board a sailboat near the southwest of Martinique. On February 9, the French Coast Guard intercepted a "go fast" speed boat in the northern French Antilles transporting 400 kg of marijuana. The ten individuals arrested during this seizure had been responsible for conducting 35 similar "go fast" missions in the French Caribbean before being captured. On January 15, French Customs agents in Guadeloupe captured two principle suspects wanted for their role in a drug ring in French Antilles. During the arrest, French Customs agents discovered 300 kg of cannabis in the suspect's vehicle with a street value believed to be around 264,000 euros (approximately \$362,000).

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).

The Road Ahead. The French Caribbean should expand its cooperative efforts with international law enforcement in the region.

Georgia

I. Summary

Georgia has the potential to be a transit country for narcotics flowing from Afghanistan to Western Europe. For some years, there have been no western-bound, significant seizures of narcotics in Georgia. However, in December 2008 375 kilograms of heroin were seized in the Bulgarian port city of Burgas, after arriving from the Georgian port of PotI. Subutex, a Methadone-like pharmaceutical produced throughout Europe, and used in replacement therapies for heroin addiction, continues to flow from Western Europe into Georgia, although cooperation with international law enforcement is hindering its entry into the country. Separatist territories beyond the control of Georgian law enforcement authorities and occupied by Russia since August 2008,--South Ossetia and Abkhazia--provide additional routes for drug flow and other contraband. There is little or no exchange of information on drug trafficking between the Russian authorities or the de facto governments of these territories and the Government of Georgia (GOG). These de facto separatist regimes are widely assumed to protect individuals and organizations involved in drug trafficking, but tensions between Georgia and these areas are high, and this view might simply be a local prejudice.

Anecdotal evidence indicates a sizable domestic drug-use problem in Georgia. In 2007 the GOG adopted a national Anti-Drug Strategy, increased penalties for drug offenses and passed new anti-drug legislation. The GOG also is continuing efforts to increase border security with the assistance of the United States, European Union (EU) and other donors. Statistics on the number of drug abusers in the country vary widely, though the National Forensics Bureau maintains a database of identified drug users. State-supported treatment centers were inadequate in number, but received increased funding in 2008. Georgia is a party to the 1988 UN Drug Convention.

II. Status of Country

Georgia's geography and geographic position between Europe and Asia make it a potential narcotics trafficking route. Afghan opiates destined for Europe may enter Georgia from Azerbaijan via the Caspian and exit through the northern separatist Abkhaz region or southern 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. Based on Ministry of Internal Affairs (MOIA) statistics, there were no significant seizures of drugs moving west in 2008. The December seizure of 375 kg's of heroin in Burgas, Bulgaria indicates however that Georgia is being used as a transit country. The heroin was secreted in three separate TIR trucks, which arrived at Burgas on a Black Sea ferry from the port city of Poti, Georgia. The "cover load" for the trucks, in other words their legitimate cargo, was fertilizer and fruit. The drivers of the trucks were Bulgarian and all three were arrested.

Licit pharmaceutical drugs from Europe, namely Subutex, are trafficked in small quantities via "used-car trade routes," where vehicles purchased in Western Europe are driven through Greece and Turkey destined for Georgia. Subutex, misused 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. Seizure statistics and anecdotal evidence suggests that Subutex use is beginning to decrease; law enforcement officials credit increased law enforcement cooperation with Western Europe. Given the clamp-down on Subutex, three possible new trends emerged in late 2008—increased incidence of Subutex imported from Armenia (where it is a legal pharmaceutical), increased Methadone seizures, and higher prices. The street price for Subutex has spiked. One pill of Subutex now sells for approximately \$300, compared to \$90 last year. Methadone appears to be entering Georgia from Russian sources via Ukraine and the separatist region of Abkhazia.

III. Country Actions against Drugs in 2008

Policy Initiatives. There were no new narcotics policy initiatives in 2008 in Georgia.

Law Enforcement Efforts. The Special Operatives Department of the MOIA is the lead agency for fighting drug trafficking. The Georgian Border Police also play a role, though far smaller. The Border Police reported four seizures of narcotics at border points in 2008. Most arrests for cultivation are believed to be small plots intended for personal use. In the first nine months of 2008, all drug seizure statistics—except for Methadone—are lower than the previous year, in some cases dramatically. While the August conflict with Russia may account for lower seizure numbers for the third quarter of 2008, law enforcement officials describe the current drug market as “chaotic,” with recent dramatic price spikes, reflecting an unstable market with many shifting suppliers, as opposed to more well-developed markets where steady supplies and prices are ensured by organized criminal syndicates to keep a well-satisfied and profitable customer base. The estimated price of heroin in Georgia, for example has soared to nearly \$800/gram, up from \$350-\$400/gram last year.

According to MOIA statistics:

	2007(Jan-Sep)	2007	2008 (Jan-Sep)
Drug-related cases	6,156	8,493	5,790
Felonies	1,531	1,970	1,407
Contraband	58	71	64
Street Sale	137	151	46
Cultivation	77	79	66
Heroin seizure	6.79 kg	9.78 kg	5.24 kg
Marijuana seizure	1.35 kg	1.36 kg	150.57 g
Opium seizure	123 g	127.19g	39.85 g
Cocaine	.558 g	.558 g	0
Subutex	7,913 pills	77.25 g	55.36 g*
Methadone	83.4 g	96.15 g	146.17 g

*Note the MOIA has changed the measuring unit for Subutex seizure statistics. The drug is now measured by weight rather than pill count.

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 committed to this effort. In 2008, three Customs officers were jailed for corruption and another was arrested for the purchase and possession of Subutex. 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. Georgia is a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling and in November 2008 acceded to the UN Convention against Corruption. In addition, the GOG has signed anti-narcotics agreements with the Black Sea basin countries, the GUAM Group (Georgia-Ukraine-Azerbaijan-Moldova), Iran, and Austria. Georgia had also signed a counternarcotics agreement with the Commonwealth of Independent States, but withdrew from that body following the Russian invasion in August.

Cultivation and Production. 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 illustrate however that Georgia has not had significant seizures of illegal narcotics in recent years. Even those who argue that drugs transit Georgia to Western markets believe that Georgia is at best a secondary route. Inadequate policing may also limit opportunities for significant seizures. 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.

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. Past figures that have been reported are disputed as highly inflated. Using UN methodology which estimates that about 3 percent of the population may be using drugs at a given point in time, the figure would total approximately 135,000, although local drug treatment experts cite figures of approximately 200,000. The Ministry of Justice's National Forensic Bureau maintains annual statistics on persons tested for drug use, but this figure includes employees who are subject to routine drug tests as a condition of employment, and as such is not an accurate indicator of illegal drug use. The National Forensic Bureau also maintains a database of identified drug users, which currently totals 41,223.

The Government of Georgia, for the second year in a row, increased state budget allocation for drug addiction treatment programs, including substitution therapy. The 2007 budget for addiction treatment was a total of 750,000 GEL (\$500,000). In 2008, the budget allocation was 900,000 GEL (\$600,000). Even with these funding increases however, demand for detoxification and substitution therapy far outstrips availability. With government and NGO support, three treatment centers currently offer Methadone substitution therapy, with an additional center scheduled to open by the end of the year. These centers serve up to 300 patients. A pilot substitution therapy program is also scheduled to begin in the penitentiary system. The GOG also plans to co-finance operation of 5 additional centers to serve an additional 300 patients. Since private clinics are prohibited by law from procuring Methadone for substitution therapy, the government purchases and imports the drug for use by those clinics.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2008, the USG continued direct assistance on: procuracy reform, prosecution of narcotics crimes, money laundering, writing a new criminal procedure code, provision of training and equipment for Georgia's forensics laboratories, creating regional evidence collection centers, building new facilities and providing training at the police academy, providing training in fighting human trafficking, and equipping the patrol police with modern communications equipment and a criminal database. Border security train and equip programs for Georgian Border Police and Customs officers continued and focused on the identification and detention of violators and criminals at the border; the detection of stolen vehicles; the targeting and inspection of high risk conveyances, cargo, and travelers; contraband detection; and revenue collection. A USCG mobile training team provided a course on Maritime Operations Planning and Management.

The Road Ahead. The effect of the August conflict with Russia on the drug situation in Georgia is not yet known. Law enforcement has observed increased incidence of stolen vehicles bound for sale in the conflict zones and north to Russia. Conceivably, drug flow could be similarly affected, but a reportable trend has not yet been observed. Adopting tougher counternarcotics legislation last year and increasing funding for demand reduction and treatment activities two years in a row demonstrate the Government's commitment to carrying out its anti-drug strategy. Increased international cooperation with European law enforcement is also an encouraging trend.

Germany

I. Summary

Germany is a consumer and transit country for narcotics. The German government actively combats drug-related crimes and focuses on prevention programs and assistance to drug addicts. Germany continues to implement its Action Plan on Drugs and Addiction, which it launched in 2003 with a specific focus on prevention. Cannabis remains the most commonly consumed illicit drug in Germany. Seizures of amphetamines and methamphetamines increased substantially in 2007, the latest year for which statistics are available, compared to 2006, with a 12 percent increase in confiscations and a 13 percent increase in amounts seized. The vast majority of seized amphetamines and methamphetamines originated from the Netherlands. Organized crime continues 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. 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 as well as to Scandinavia. Heroin is trafficked to Germany from Turkey via the Balkan states as well as from Austria and Italy. Cocaine moves through Germany from South America and the Netherlands. In 2007, organized criminal groups expanded their involvement in narcotics trafficking compared to 2006. 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 2008

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 implements the EU Drugs Action Plan. The National Inter-agency Drug and Addiction Council, composed of Federal and State government officials as well as civil society organizations, was established in 2004 to advise 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. Germany is actively involved in a large variety of bilateral cooperative arrangements, European, and international counter-narcotics fora. For example, Germany is an active participant in the European "Horizontal Group on Drugs," the European Monitoring Center for Drugs Addiction, and narcotics-related units within the Council of Europe and the United Nations. Germany also sponsors counter-narcotics development programs in numerous countries.

Germany amended its Narcotics Act and added Salvia Divinorum, Benzylpiperazine (BZP) and Oripavin to the schedules of the Act. Narcotics and psychotropics as defined by the German Narcotics Act are listed as substances and preparations in Schedules I to III of this Act. Schedule I lists so-called "not marketable" substances meaning trade, production, and research, as well as prescription are illegal (as an exception, special approvals may be given e.g. for research purposes). The substances listed in schedule II are "marketable" under certain requirements (an authorization is required), but prescription is excluded. Schedule III lists substances that are "marketable" and that may be

prescribed. *Salvia Divinorum* was added to schedule I, making it an illegal substance; BZP and Oripavin were added to schedule II as they are used for research purposes and in the pharmaceutical industry.

Law Enforcement Efforts. Counter-narcotics 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.

In July 2008, German police participated in a joint operation with Austrian and Swiss officials that resulted in the search of more than 600 residences and commercial premises in the three countries. Investigators searched for raw materials needed for synthetic drugs such as amphetamines and liquid XTC. In Germany, more than 1290 police officers were involved, conducting 340 searches.

In 2007, the latest year for which statistics are available, the number of heroin seizures remained approximately the same compared to 2006, but the amount increased by 22 percent (to 1,074 kilograms (kg)) due to two especially large seizures of 300 and 150 kg. Cocaine seizures increased in 2007 by 6 percent compared to 2006. With regard to amphetamines and methamphetamines, increases in seizures and amounts were registered in 2007. The amounts of Ecstasy seized continued to decrease in 2007. A notable Ecstasy seizure occurred in June 2008 with the arrest of a Dutch national in the German state of Thuringia and confiscation of 80,000 Ecstasy tablets. The amount of seized cannabis decreased by 13 percent in 2007 compared to 2006. Overall in 2007, 13.5 tons of the chew-drug Khat were seized. The majority of narcotics traffickers are German nationals, followed by Turkish nationals.

Illicit seizures at sea comprise a small proportion of overall narcotic drug seizures. The most noteworthy cases during the year were the seizure of 20 kg of cocaine that were discovered on a freighter coming from Ecuador via Antwerp in April 2008 and the dismantling of an international trafficking ring that, *inter alia*, had trafficked 48 kg of cocaine on a freighter to Hamburg from Colombia in May 2008—six of the men involved are at present standing trial in Hamburg. The German ports of Hamburg and Bremerhaven hold strategic significance in the development of smuggling routes between South American source countries and the Baltic Sea region, as maritime traffic routes converge at these transshipment ports.

Corruption. As a matter of government policy, Germany 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. No cases of official corruption by senior officials have come to the USG's attention.

Agreements and Treaties. A 1978 extradition treaty and a 1986 supplemental extradition treaty are in force between the U.S. and Germany. The U.S. and Germany signed a Mutual Legal Assistance Treaty in Criminal Matters (MLAT) on October 14, 2003, which was ratified by the U.S. Senate on July 27, 2006. Additionally, the U.S. and Germany signed bilateral instruments to implement the U.S.-EU Extradition and Mutual Legal Assistance Agreements on April 18, 2006. The U.S. approval process for the U.S.-EU Agreements and the corresponding bilateral instruments has been completed. Germany passed implementing legislation for the MLAT, the U.S.-EU agreements and the bilateral instruments and published the law in the Federal Gazette on November 2, 2007. None of these agreements have yet entered into force. 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 against migrant smuggling and trafficking in women and children. 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. However, officials assess that the cultivation of cannabis in so-called indoor plantations increased in 2007. The BKA statistics reported seizure of ten synthetic drug labs in Germany in 2007.

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 Germany for domestic use as well as through Germany to other European countries. Heroin transits Germany from the Balkans to the rest of Western Europe,

especially to the Netherlands. Cannabis is trafficked to Germany mainly from the Netherlands, however smaller amounts are also trafficked through Spain and other Western European countries. Amphetamines and methamphetamines are trafficked mainly from the Netherlands but also in lesser amounts from Poland and Belgium. Authorities noted a sharp increase in the transit of Khat through northern Germany from the Netherlands to Scandinavia.

Domestic Programs/Demand Reduction. The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's drug treatment/prevention 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. In 2008, the Federal Ministry of Health and the National Drug Commissioner began a new demand reduction effort by providing advice on a drug story line to a popular TV series aimed at young audiences as well as free advertising for the national drug and addiction hotline. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy. Germany sees substitution therapy as an important pillar in the treatment of opiate addicts. Approximately 70,000 patients undergo substitution therapy in Germany, the most widely used medication being methadone with an increase in recent years of buprenorphine and levomethadone. The Health Ministry provided funding for a new nationwide clinical epidemiological study that began in November 2007 on the long term effects of substitution therapy. A previous heroin-based (diamorphine) treatment research study, largely completed in 2005, found this treatment to be an effective program for seriously ill, long-term addicts. A number of cities are continuing the treatment for the remaining 275 project participants with special approval of the federal government. This project triggered a debate about whether to create a legal basis to allow such treatments in general. In 2007 the Bundesrat, the upper house of parliament, made use of its right to initiate legislative proposals and introduced corresponding draft legislation to the Bundestag, which however has not been debated to date. The Federal government issued a statement in November 2007 regarding the Bundesrat proposal, stressing inter alia, that diamorphine-based substitution therapy should only be used as a last resort. In 2007, there were approximately 25 medically controlled "drug consumption rooms" in Germany. German federal law requires that personnel at these sites provide medical counseling and other professional help. Evaluations of these programs are conducted regularly.

Although drug-related deaths have been decreasing for several years, in 2007 they increased to 1,394 deaths—a 7.6 percent increase compared to 2006. 18,620 first-time users of illicit drugs were registered in 2007, a decrease by 3.6 percent compared to 2006. First-time use of Ecstasy, heroin and cocaine decreased in 2007, while the first-time use of methamphetamine and amphetamine as well as crack cocaine increased. Regarding use of cannabis products by youth, there are signs that a trend from recent years is being reversed: 2007 data reveal that 13 percent of 14-17 year olds have used Cannabis products at least once in their life compared to 22 percent in 2004.

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., Operation 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. German-U.S. cooperation has been particularly successful in Operation Raw Deal, an international investigation that targeted underground steroid laboratories and internet steroid sales worldwide. During the operation, the BKA served 30 search warrants, dismantled six underground laboratories and opened 14 investigations related to the sale and

trafficking of steroids. The USCG provided training in maritime law enforcement boarding in the U.S. for German officers.

Road Ahead. The U.S. will continue its close cooperation with Germany on all bilateral and international counter-narcotics fronts, including the Dublin Group, a group of countries that coordinates the provision of counter-narcotics assistance and the United Nations Office on Drugs and Crime (UNODC).

Ghana

I. Summary

Ghana has taken some limited steps to combat illicit trafficking of narcotic drugs and psychotropic substances. It has an active enforcement, treatment and rehabilitation program. However, corruption, a lack of resources, and some would argue, a lack of political will, continue to seriously impede interdiction efforts. While law enforcement authorities continue to arrest low level narcotics traffickers, there has been less interest in pursuing the so-called “drug barons.” Ghana-U.S. law enforcement cooperation was strong in 2008, and the Drug Enforcement Administration is expected to open an office in Accra late in the year. Interagency coordination among Ghana’s law enforcement entities remains 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 Afghanistan. Europe is the major destination, but drugs also flow to South Africa and to North America. Accra’s Kotoka International Airport (KIA) is 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. Gangs trafficking South American cocaine have 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.

Ghanaians will elect a new president in December 2008. Ghana’s role in international narcotics trafficking has become a campaign issue, with the opposition parties accusing the ruling party of an insufficient response, and on occasion a level of complicity. All the major political party platforms call for increased efforts to address drug trafficking.

The 2006 case of the MV Benjamin, a merchant ship allegedly carrying two tons of cocaine into Ghana, continued to make news. The case became a scandal when a secret recording surfaced of an Assistant Police Commissioner and known narcotics traffickers discussing why they had not been alerted to the cocaine shipment (of which only 30 kilos were recovered). Five persons involved in the case were sentenced to twenty-five year prison terms. In December 2007, three policemen involved in the disappearance of 76 parcels of cocaine from the shipment were sentenced to long prison terms. The Government of Ghana (GOG) created a special commission to investigate the case, and several recommendations were made. By the end of 2008, however, only a handful of the recommendations had been acted on.

The Narcotics Control Board received an interim director in 2007. By mid-2008 the director was petitioning to be allowed to return to his former job, but a replacement had not been announced.

Trafficking has also fueled increasing domestic drug consumption. Cannabis use continues to increase as does the local cultivation of cannabis. Law enforcement officials have repeatedly raised concerns that narcotics rings are growing in size, strength, organization and capacity for violence. The government has initiated public education programs and has implemented (with limited success) a cannabis crop substitution effort. Diversion of precursor chemicals is not a major problem.

III. Country Action Against Drugs in 2008

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 MV Benjamin 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. The program has continued in 2008.

In 2007, the NCB initiated a three-year plan, which focuses on strengthening operational capacity, promoting awareness and decentralizing NCB's operations. Through the decentralization plan, the NCB has begun to station officers in major cities and border posts. NCB officers have been assigned to Kumasi, Takoradi and Tamale and the border posts at Aflao (Togo) and Elubo (Cote d'Ivoire). As part of its rebuilding, by the end of 2008 the NCB plans to have a total staffing level of 140 employees.

Each year since 1999, the NCB has proposed amending the 1990 narcotics law to fund NCB operations using a portion of seized proceeds. The Attorney General's office has not acted on this proposal. In 2006, the Attorney General succeeded in amending the narcotics law to allow stricter application of the bail bond system (i.e., no general granting of bail when flight is a real possibility; higher sureties to assure that defendants appear for trial). The change came 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 2008, this amendment has worked well, as defendants are not released on bail as readily 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 of crime. The government began drafting a Proceeds of Crime bill but the draft legislation has not yet been sent to Parliament. A new Money Laundering Act was approved in 2007 but has not yet been fully implemented; a Financial Crimes Intelligence Center, authorized in the Act, has yet to be formed, for example.

Law Enforcement Efforts. In 2008, Ghanaian law enforcement agencies continued to conduct joint police-NCB operations against narcotics cultivators, traffickers and abusers. NCB officers, who are not armed, depend on the Organized Crime Unit of the Criminal Investigative Division (CID) narcotics unit in situations where armed assistance is required. The Ghana Police Service has assigned several investigators to narcotics cases; it detains suspects and prepares cases for presentation at trial. The Customs Excise and Prevention Service (CEPS, in the Finance Ministry) also has a role in interdiction, as do (in varying degrees) the Immigration Service, the Bureau of National Investigations (BNI) and the Ghana Navy. Representatives of the various agencies meet regularly, but the overall level of coordination and intelligence sharing between them remains limited.

The NCB continues its efforts to decentralize operations, and has opened regional offices in Tamale, Kumasi and Takoradi. At the end of the third quarter of 2008 the NCB had approximately 140 employees. In 2008 the NCB was authorized to recruit 74 new personnel.

The NCB works with DHL, UPS, Ghana Post and Federal Express to intercept parcels containing narcotics. The NCB also works with a team from the United Kingdom's Revenue and Customs Service, which is based in Accra. The team assists NCB with interdiction work at Kotoka International Airport and has had some success in arresting smugglers and frustrating—but not significantly slowing—narcotics shipments through the airport. A program in cooperation with the United Nations now searches cargo containers at the Port of Tema. The NCB also has officials at the “cargo village” at Kotoka International Airport for profiling import and export shipments. This operation has uncovered much of the cannabis the NCB has seized. Ghana's Customs, Excise and Prevention Service (CEPS) also inspects cargo transiting the airport.

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 “Operation Westbridge,” a program deploying experienced U.K. customs officers and state of the art ion scan detection equipment to Kotoka International Airport. The program educated Ghanaian customs officers on the

use of the equipment, profiling, targeting, intelligence-gathering and other security techniques. Since 2006 Operation Westbridge has been successful in interdicting 462 kg. of cocaine, 1.3 kg. of heroin, and 3,442 kg. of cannabis.

In October, CEPS intercepted 664 kg. of cannabis and heroin (hashish) in packages heading to the U.K. via the cargo area of the airport. The clearing agent is in custody.

In June, Ghana Traffic Police discovered twenty brick slabs (380 kg.) of cocaine in a vehicle. Four Ghanaians were arrested. Police suspect a Latin American connection.

Interdiction remains a focus of law enforcement efforts, with less attention going toward arresting senior members of the narcotics rings or to the building of cases against local drug barons. In June a truck was stopped by police outside of Accra, carrying 399 kg. of cocaine. The vehicle originated in Conakry, Guinea. The Togolese and Ghanaian drivers were arrested, but the police operation did not follow the shipment in such a way as to identify the organizer of the illicit drug trafficking operation. Newspaper reports carry stories about unnamed “drug barons.” Journalists and members of civil society speculate about connections between narcotics trafficking and politicians. A Ghanaian MP, from the ruling party, is currently serving time in the U.S. following a 2005 arrest for heroin smuggling.

The Ghana Police Service’s Statistics Unit reported that from January to August 2008 505 narcotics related arrests were made, up from 421 in the same period in 2007, although many of these were for relatively small amounts.

The NCB reports that from January to June, 2008, 48 arrests were made. Courts sent down 32 convictions as of the end of October, 2008 from arrests made in 2006 and 2007.

As of June 28, 2008, 23.4 kg. of cocaine had been seized by the NCB. In 2006, the NCB reports 1,972 kg. of cocaine were seized, while in 2007 the figure was 779 kg.

The apparent lack of a centralized system for collecting statistics makes it difficult to ensure accurate numbers or to prevent double counting.

Police and NCB state that a one kilogram slab of cocaine had an estimated value in Ghana of \$22,000. One bread loaf size parcel of cannabis sold for about \$15. A wrap, or joint of cannabis, sold for about \$.50.

According to CID officials, cocaine in crack form is beginning to appear in Ghana. Crack cocaine is relatively inexpensive, selling for Ghana cedis 1.5 (about \$1.25 US) per hit.

The Ghana Police Service, NCB, Navy and other Government of Ghana law enforcement organizations remain seriously under resourced, both in terms of staff and equipment. Officials in all of the agencies state a need for additional staff training. NCB officials have said that their status as a sub-agency within the Ministry of Interior creates constraints on their ability to operate with other GOG agencies. Limited intelligence sharing between agencies is also an issue.

The NCB and other law enforcement agencies continued to cooperate with U.S. and other national law enforcement agencies. Several diplomatic missions in Ghana have law enforcement or related staff, including the Netherlands, Germany, France and the United Kingdom. The U.K. plans to open in Accra an office of its Serious Organized Crimes agency.

Corruption. Ghana does not, as a matter of official 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. Regardless, corruption is pervasive in Ghana’s law enforcement community, including sections of the police and the Narcotics Board. Despite the regular arrests of suspected narcotics traffickers, Ghana has a low rate of conviction, which law enforcement officials indicate is likely due to corruption within the judicial system. The lack of apparent success in targeting drug barons or even middle level traffickers may result from a combination of a lack of political will, resources and competency.

Corruption in the police force is widespread. A study by the Commonwealth Human Rights Initiative found that over 90% of Ghanaians reported being asked to pay a bribe to a police officer, sometimes to receive police services, such as to submit an accident report.

In January, an audit of CID evidence storage revealed that approximately twelve kg. of narcotics had been replaced with cornstarch. The officer in charge of the Narcotics Exhibits Store was arrested. The Minister of Interior formed a five-member panel to investigate the breach of security. The panel found evidence that additional exhibits were missing. In May, the President of Ghana appointed a second committee to review the panel's report. The presidential committee has yet to make its report.

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 in Ghana) 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 2008. A pilot scheme begun in 2003 to provide cannabis farmers with alternative cash crops was discontinued in 2008. The NCB realized that the scheme was not sustainable, and that some farmers were continuing to grow cannabis despite receiving the incentives not to.

Drug Flow/Transit. Cocaine and heroin are the main drugs that transit Ghana. Cocaine is sourced mainly from South America and is destined for Europe, while Afghan heroin comes mainly by way of 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. Some narcotics enter Ghana from other locations in West Africa, particularly nations closer, in terms of air miles, to South America. 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 2008 revealed a variety of creative concealment methods, including cocaine hidden inside women's specially designed underwear, cans of palm oil and containers of yoghurt, in wheelchairs, and bricks of marijuana hidden in false-bottom crates which contained handicrafts bound for Europe.

There is no direct 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 beginning in 2006.

Ghana Police Service officials report that crime groups move into drug trafficking from other crimes, such as internet crime or financial fraud. The GPS believes that Nigerians living in Ghana are behind some of these groups.

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. This 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. However, there are no more recent indications of similar visa fraud. 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, and arrests have been made of drug mules fitting this profile.

There are currently five U.S. citizens incarcerated in Ghana on drug charges. Two are on remand, and three are serving their sentences. In 2008, there was only one extradition action, involving a Ghanaian citizen in Ghana wanted by the State of Virginia.

Despite concerns with increased use of air travel for drug transshipment, however, the primary problem remains Ghana's long, generally unpatrolled coastline where the drugs in transit enter Ghana. The Ghana Navy has responsibility for maritime security—the NCB and police, for example, do not have any maritime capacity. According to the Ghana Armed Forces Intelligence Section, the Navy does carry law enforcement detachments on patrols.

Domestic Programs/Demand Reduction. 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. 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. The NCB also held a drug awareness concert in 2008. The "Angel of the Night" program has NCB officers, in collaboration with a private rehab center, visit with drug users to counsel them on alternatives.

The Government of Ghana, with UK assistance, launched Operation Hibiscus in October to spread awareness about the dangers of transporting narcotics. This program, which features a cartoon character, is used in print and on television. The program describes the unfortunate consequences for the Ghanaian family of a woman arrested trying to enter the UK carrying drugs

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG's counter-narcotics and anticrime goals in Ghana are to strengthen Ghanaian law enforcement capacity generally, to improve interdiction capacities, to enhance the NCB's capacity, and to reduce Ghana's role as a transit point for narcotics. In 2008 the USG continued efforts to support Ghana's counter-narcotics efforts and made plans for additional support in future years. In September, a joint State Department-INL/DEA/Department of Justice/Department of Defense assessment team visited Ghana to better understand Ghana's counter-narcotics capacity and issues, with the intention of improving efficiency of U.S. assistance efforts to Ghana's anti-drug programs.

In 2008 the Department of Defense (through AFRICOM) funded acquisition of four 27-foot “Defender” class patrol boats for the Ghana Navy. The boats will increase the Ghana Navy’s capacity for maritime interdiction. Training, spare parts, and other support was also provided. AFRICOM is also funding the construction of a \$75,000 climate-controlled space at Kotoka International Airport to provide an appropriate environment for sensitive drug detection equipment, such as the two “itemizers” donated in 2003. AFRICOM is also providing approximately \$500,000 toward construction of an evidence storage and training facility at the Ghana CID headquarters in Accra. The USCG, in conjunction with Africa Partnership Station operations, provided boarding officer training as well as training in the area maritime operations planning and management.

The Road Ahead. In December, 2008 it is anticipated that the Drug Enforcement Administration will open an office in Accra. A DEA presence in Accra will allow for regular liaison with Ghanaian law enforcement officials. The office will also provide support for counter-narcotics efforts in the larger region.

State Department narcotics assistance and other funds have been used in Ghana to support training and equipment for law enforcement agencies. Plans for future funding include the purchase of a body scanner/detector for Kotoka International Airport. Funding will also be used to support a U.S. Department of Justice prosecutor who will provide long-term training to Ghanaian prosecutors on complex prosecutions (money laundering, narcotics, corruption).

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.

During 2008, the DEA and Hellenic authorities conducted numerous counternarcotics investigations, which resulted in significant arrests, narcotics seizures, and the dismantling of drug trafficking organizations. The Greek court system and the Ministry of Justice continued to lack databases for the case management and tracking of convictions and sentences for traffickers. Greece is a party to the 1988 UN Drug Convention.

II. Status of Country

With an extensive coastline, numerous islands, and land borders with other drug transit, Greece’s geography makes it a favored drug transshipment country on the route to Western Europe. Greece is also home to the world’s largest merchant marine fleet. While many of these vessels fly flags of countries such as Panama and Liberia, 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 drug producing country. However in recent years, Hellenic Authorities have noted a rise in marijuana production. Some of the Greece-based organizations involved in marijuana production have exported large quantities of the drug to countries in western Europe, such as Holland. Hellenic Authorities estimate that annual production of the drug appears to be well over 80 tons, most of which is exported. Crete, Arcadia, Messinia, Ileia and Laconia are the top production regions, while only Arta and Grevena appear to have completely clean records. Only 10-20 percent of the domestically grown marijuana is believed to be consumed locally. Marijuana for local consumption is also imported from Albania.

III. Country Actions against Drugs in 2008

Policy Initiatives. Greece participates in the Southeast European Cooperative Initiative’s (SECI) anticrime initiative and in a specialized counternarcotics task force at the regional Anti-Crime Center in Bucharest. 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 2008 with significant arrests and seizures. Drug trafficking organizations in the Balkan region, including Greece, usually transport Afghan heroin from the Middle East and Turkey to Western Europe. Recent investigations and trends indicate more frequent cocaine seizures by Hellenic authorities.

During February 2008, with intelligence provided to the DEA by Hellenic Authorities, the French Coast Guard seized 3,210 kilograms of cocaine. Nine (9) individuals were arrested, two of whom were Hellenic Nationals. In addition, the Greek owner of the vessel was also arrested for his knowledge of, and participation in, the smuggling operation. This shipment originated in South America and was destined for Western Europe.

In April 2008, the Hellenic Coast Guard seized 22.5 kilograms of heroin from an individual in the port city of Igoumenitsa. This individual was going to board a ferry destined for Italy when the heroin, hidden in his vehicle, was discovered.

During the same month, the Hellenic Special Control Service (YPEE) seized 4 kilograms of cocaine, which had been mailed from Costa Rica and was concealed inside cereal boxes. Subsequent to the initial seizure, YPEE identified two additional packages destined for members of the same drug trafficking organization. YPEE seized the newly identified packages, which were found to contain an additional seven kilograms of cocaine. Two individuals were arrested in connection with this case.

In July 2008, the YPEE inspected a motorized RV/camper on the island of Hios; the vehicle had just arrived from Turkey. After a careful search of the vehicle, 140 kilograms of heroin were seized; three (3) Hungarian nationals were arrested.

During August 2008, the Hellenic National Police seized 6.6 kilograms of heroin and arrested two (2) individuals, one Greek and one Albanian. Also seized were a handgun and loaded magazines, an electronic scale, and 11,000 euro in cash.

In September 2008, the Hellenic Coast Guard seized 26 kilograms of marijuana hidden inside a vehicle. The Albanian national associated with the marijuana escaped.

While Greek law enforcement authorities achieved successes in making seizures and arrests, the Greek court system and the Ministry of Justice continued to lack databases to track convictions and sentences for traffickers. This lack of information management capacity also hinders the ability of law enforcement authorities to manage and complete complex, long-term investigations in narcotics trafficking.

Drug Seizure Statistics, 2005-2007

Source: Coordinating Body for Drug Enforcement, National Information Unit

Statistics are provided in this format: 2005 / 2006 / 2007

Drug Seizures (Cases): 10,461 / 9,873 / 9,540
Accused Persons (Persons): 14,922 / 13,963 / 13,253

Cannabis:

Processed Hashish (kg): 10,209.28 / 74.964 / 4.833
Unprocessed Cannabis (kg): 8,004.04 / 12,314.205 / 6,909.688
Hashish "Honey Oil" (kg): 3.011 / 0.523 / 1.484
Cannabis Plants (units): 4,993 / 32,495 / 17,611

Opiates:

Heroin and Morphine (kg): 331.329 / 312.243 / 259.33
Raw Opium (kg): 1.680 / 0.314 / 24.891
Methadone (kg): 8.719 / 9.456 / 24.783
Codeine (tablets): 0 / 50.5 / 0
Other Opiates (kg): 0.023 / 0.419 / 0.005
Poppy Plants (units): 0 / 0 / 62

Stimulants:

Cocaine (kg): 42.819 / 60.658 / 225.247
Coca Leaves (kg): 0.005 / 0.898 / 0.115

Amphetamines (kg): 1.11 / 0.05 / 0.112
 Methamphetamines (kg): 0.09 / 0.006 / 0.066
 Crystal Methamphetamines (kg): 0 / 0 / 0.079
 Ecstasy (kg): 0.023 / 0.051 / 0.281
 Qat (kg): 34.398 / 25.08 / 10.697
 New Synthetic Drugs (kg): 0 / 0.288 / 0.047

Narcotic Pharmaceuticals:

Hallucinogens (kg): 0 / 0.83 / 0
 LSD (drops): 120 / 146 / 2,880
 LSD (tablets): 6 / 120 / 4
 Psilocybin (kg): 0 / 0.041 / 0
 Tranquilizers (kg): 0.1 / 0.058 / 0.261
 Barbiturates (kg): 0.003 / 0 / 0

Precursor Substances:

Ephedrine Hydrochloride (tablets): 1088 / 14 / 0
 Sassafras Oil (liters): 0 / 0 / 3

Burgled Drugstores: 43 / 33 / 19

Corruption. Officers and representatives of Greece's law enforcement agencies are generally under-trained and underpaid. Thus, corruption in law enforcement is a problem. In November 2007, corrupt law enforcement officers and politicians were involved with a large-scale, international drug trafficking organization that was producing multi-ton quantities of marijuana on the island of Crete. Subsequent investigation revealed that this organization had exported large quantities of marijuana to Holland for many years. In September 2008, a former Minister and personal aide of the Prime Minister was convicted and given a 12-month suspended prison sentence for intervening on behalf of a constituent who was growing cannabis.

As a matter of government policy, Greece neither encourages nor facilitates the illicit production or distribution of narcotics, psychotropic drugs, or other controlled 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 bilateral mutual legal assistance treaty and an extradition treaty between the U.S. and Greece are in force. In addition, the two countries have concluded protocols to the mutual legal assistance and extradition treaties pursuant to the 2003 U.S.-EU mutual legal assistance and extradition agreements. The U.S. Senate has approved the protocols, but they are still pending Greek government/parliamentary and EU approval. However, in practice the Greek government refuses to extradite Greek nationals and Greek-Americans to the United States, because to do so would violate domestic Greek law. 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 ratified the UN Convention Against Corruption in September 2008; Greece has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. Marijuana is the only illicit drug produced in Greece. In November 2007, Hellenic Authorities dismantled a large-scale, international drug trafficking organization that was producing marijuana on the island of Crete. Documents found by Hellenic Authorities indicate that the organization had been supplying ton quantities of marijuana to countries in Western Europe for many years.

Drug Flow/Transit. Greece is part of the “Balkan Route” and as such is a transshipment country for Afghan heroin, and marijuana coming predominantly from the Middle East and Africa. 2007 statistics, released in 2008, indicate that one ton of heroin transited the city of Thessalonica--only 10% of which was confiscated by police. In addition, metric-ton quantities of marijuana and smaller quantities of other drugs (principally synthetic drugs) are trafficked into Greece from Albania, Bulgaria, and the Republic of Macedonia. Hashish is offloaded 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 Transport International Routier (“TIR”) trucks, in automobiles, on trains, and in buses. Some Afghan heroin is smuggled into the United States by way of Greece, but there is no evidence that significant amounts of narcotics are entering the United States from Greece. There have also been unconfirmed reports that Turkish-refined heroin is traded for Latin American cocaine.

Domestic Programs/Demand Reduction. Drug addiction problems continued to increase in Greece. According to new statistics from the National Documentation Center for Narcotics and Addiction, run by the Mental Health Research Institute of the Medical School of the University of Athens, 19.4 percent of the Greek population between 12 and 64 years of age reported that they experimented or used an illegal substance at least once. The most commonly used substances were chemical solvents, marijuana, and heroin. There was a surge in the illegal use of tranquilizers and, to a lesser extent, Ecstasy pills, reflecting growth in the European synthetic drug market. The government of Greece estimated that there were between 20,000 and 30,000 addicts in Greece and that the addict population was growing; approximately 20,000 individuals were addicted to heroin, and 9,500 of this population used injected heroin. Recent enforcement trends indicated 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.

Demand reduction programs in Greece are typically government-supported; few drug prevention and treatment programs with independent or private funding exist. The DEA regularly conducts Demand Reduction Seminars for parents and students attending local and international elementary and high schools throughout Greece.

The Organization Against Narcotics (OKANA) is a government-supported agency that coordinates the prevention, treatment and rehabilitation of drug addiction in Greece. Besides OKANA, other officially supported drug treatment organizations include the Therapy Center for Dependent Individuals (KETHEA), the “18 Ano” Detoxification Unit of the Psychiatric Hospital of Attika, the Psychiatric Hospital of Thessaloniki, the Psychiatric Clinic of the University of Athens, and other public hospitals in Greece which run joint programs with OKANA. OKANA operates 70 prevention centers, 57 therapeutic rehabilitation centers (33 of which offer “drug free” programs), and 20 drug addiction substitution centers, offering methadone and buprenorphine. In 2006, 4,847 drug addicts were treated (a 14% increase over 2005), and while 3,250 individuals were treated in drug substitution programs, as of May 2007 the waiting list was 4,000 persons. OKANA extended its programs to new regions in 2007 and 2008 despite strong local reactions against the establishment of treatment centers.

KETHEA operates four narcotics prevention centers in Athens, offering prevention, support, and drug awareness programs--as well as referrals to other rehabilitation/detoxification centers. Demand for these prevention and treatment programs continues to outstrip supply. In June 2008, a Thessaloniki newspaper reported that a lack of funding for drug addiction treatment and prevention centers in the city contributed to long waiting lists for these rehabilitation programs. The report indicated that 950 persons were in treatment but that the waiting list was approximately 1,500 persons long.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officers work with the Hellenic police to support coordination of regional counternarcotics efforts through joint operations as well as training seminars. The DEA Athens Country Office conducted multiple workshops with counterparts from the Hellenic National Police and Hellenic Coast Guard during

this year. The workshops provided an opportunity for DEA personnel and Greek counterparts to receive and exchange ideas on various issues, including regional drug trends, the nexus between drug trafficking and terrorism, officer safety and survival, undercover operations, and confidential source management. The workshops were well received by Greek law enforcement authorities and the Hellenic Police has expressed interest in further events. In 2008, a USCG mobile training team provided a basic boarding officer course in Greece. A DEA international training team may travel to Athens to conduct a more formal training seminar with Greek and regional counterparts in early 2009.

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.

Guatemala

I. Summary

Guatemala is a major transit country for the estimated 400 metric tons (MT) of South American cocaine headed towards the United States and other global markets. It is also small producer of opium poppy that is processed into heroin in Mexico and exported to the United States. In the first year of the administration of President Alvaro Colom, the Government of Guatemala (GOG) confronted enormous challenges posed by narcotics trafficking in Guatemala, and limited success. The GOG has replaced both high-level leadership and lower-level police, but corruption remains a significant problem in justice sector institutions. The Colom administration increased funding for law enforcement efforts, including counternarcotics. However, as Mexico has greatly expanded anti-drug efforts, Mexican drug cartels have expanded into Guatemala. As part of its response, the GOG established a special joint task force to focus on anti-drug, law enforcement and counterterrorism operations. The GOG, through this unit, also provides pilots, mechanics, fuel, and logistical support for four helicopters that the USG delivered to Guatemala this year. Guatemalan authorities eradicated record amounts of opium poppy in western Guatemala in 2008; however, cocaine seizures were minimal. Guatemala is a party to the 1988 UN Drug Convention.

II. Status of Country

An increase in violence, much of it narcotics related, led the government to make a mid-course correction after six months in office. Gun battles between narcotics traffickers in Guatemala in 2008 as well as a narcotics-related massacre of passengers on a bus drew attention to the increasing presence of Mexican drug cartels in Guatemala and their struggle with the Guatemalan cartels over territory. The weak criminal justice system in Guatemala, coupled with pervasive corruption, has made it difficult for the government to address the rise in narcotics activity in Guatemala. President Colom removed his senior security advisor, replaced the Attorney General, the police chief and two senior military leaders. The new police chief replaced most of the senior police leadership and removed record numbers of lower-level police officers accused of corruption.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Colom administration achieved some success in reforming the legal framework for attacking drug trafficking and use and violent crime, including establishing a drug incineration protocol. The Supreme Court of Justice (CSJ), INACIF (the national, independent forensics laboratory), Ministry of Government (MOG), and the Attorney General's Office (Public Ministry –MP) signed an agreement on procedures for the proper incineration of seized drugs with close technical support of the U.S. Embassy's Narcotics Affairs Section's (NAS) Prosecutors program. The new protocol established uniform procedures, resulting in drastically decreased processing time, avoiding legal maneuvering, and facilitating prompt trials and stronger cases. In 2008, the Guatemalan Congress also passed an improved extradition law, which includes extradition of Guatemalan nationals. Previously extradition requests took at least 2-3 years to process. The first few cases under the new law are currently being processed. To improve coordination between the police and prosecutors, the GOG also standardized procedures between police and state's attorneys in the 24-hour courts, and the Narcotics Prosecutor has been assigned vetted investigators.

In conjunction with a USG-provided air support program that delivered four helicopters to Guatemala this past year, the GOG established Joint Task Force Fuentes, known as the FIAAT (*Fuerza de Intervención Aérea Antidrogas y Terrorista*, the Aerial Anti-drug and Terrorist Intervention Force), a fully vetted, independent unit that can improve capacity in anti-drug, law enforcement, and counter-terrorism operations. Consisting of a total of 75 police, military, and legal officers, the new force will give the GOG central government a new, strategic ability to reach out and impose rule of law in areas where corruption or lack of resources has called into question the local government's ability to

effectively enforce rule of law. The FIAAT has been integrated into the international and interagency Central Skies operation.

Law Enforcement Efforts. Widespread corruption and inadequate law enforcement efforts contributed to dismal interdiction numbers over the past several years. According to GOG statistics, the narcotics police (SAIA and the Guatemalan military seized only 2.2 MT of cocaine; although more than 400 MT is estimated to flow through the region. They also seized 9 kilos of heroin and almost a million pseudoephedrine tablets. The ports police (DIPA) had more success in confiscating drug profits transiting through the airports and seized over US \$4.5 million in suspected narcotics money, for a total of over \$6 million in cash seizures. DIPA seized 1.2 MT of cocaine as well, for a total of 3.3 MT. DIPA agents also seized at least seven shipments of pseudoephedrine at La Aurora International Airport in Guatemala City. The GOG Customs Service was also instrumental in stopping the entry of methamphetamine through careful checking the registry of importing companies, many of which were not licit importers.

The Guatemalan military also played an important role in counternarcotics operations in 2008. With U.S. assistance, the Navy is in the process of standing up a vetted unit that will focus on combating drugs transiting through Guatemala's Pacific coast. The Guatemalan Air Force tracked drug flights coming into Guatemalan air space, and the Guatemalan Army provided perimeter security for Guatemalan counternarcotics law enforcement operations. However, neither the Colom Government nor the Guatemalan Congress significantly increased the military's 2009 budget to give it needed resources for counternarcotics efforts.

During 2008, there was only one arrest of a major trafficker, Waldemar Lorenzana, who was quickly released on a technicality, and few significant drug seizures. The GOG has not fully implemented an organized crime law that was passed by Congress in 2006. The seized assets law adopted in 2003 has not been adequately implemented; the Supreme Court, however, turned over six seized aircraft to the Air Force in December 2008.

In 2008, the UN-affiliated International Commission Against Impunity in Guatemala (CICIG) continued to work with the Guatemalan Public Ministry to investigate and prosecute organized crime. It has opened active investigations into a number of crimes that can be traced back to narcotics trafficking.

Corruption. The GOG 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 Guatemalan 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. However money from the drug trade has woven itself into the fiber of Guatemalan law enforcement and justice institutions. It has been necessary to work with units composed of vetted police officers and prosecutors to provide a core of reliable law enforcement professionals who can take on narcotics cases. The recently named Attorney General has made fighting organized crime and corruption one of his highest priorities.

Agreements and Treaties. Guatemala is a party to the 1961 UN Single Convention on Narcotic Drugs 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 and the UN Convention against Corruption. A maritime counternarcotics agreement with the U.S. has been in effect since 2003. 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. As mentioned above, during 2008, the

Guatemalan Congress passed a major reform to the extradition law, and extradited three drug traffickers to the United States.

Cultivation and Production. Guatemala continues as a minor producer of opium poppy, primarily in the Northern provinces bordering Mexico, as well as of low-quality marijuana for domestic consumption. USG and GOG information points to evidence that Mexican cartels manage Guatemalan poppy production, provide seed, and guarantee the purchase of opium gum from Guatemalan smallholders.

During calendar year 2008, three poppy eradication operations were carried out by the SAIA, the military, and the public ministry. Drug control authorities eradicated 536 hectares of opium poppy and 33 hectares of marijuana.

Drug Flow/Transit. USG analyses indicate that Guatemala is a major transit country for an estimated 400 metric tons per year of South American cocaine that flows through the region and is a producer of opium poppy that is processed into heroin in Mexico and exported to the United States and Europe. Trafficking is focused in the Northern provinces bordering Mexico, the jungle department of Peten, the Pacific coastal area, as well as the Lake Izabal area on the Caribbean coast.

There are currently seven cases being processed for pseudoephedrine seizures, compared to only one last year, suggesting that Guatemala, like other countries in the region, is receiving more precursor shipments.

Domestic Programs/Demand Reduction. One of the brightest spots on the Guatemalan counternarcotics landscape has been the renewal of commitment to the Demand Reduction Agency (SECCATID) during 2008. Vice President Rafael Espada is personally committed to a forward-leaning anti-addiction strategy, and he hired an energetic technocrat to spearhead the effort as the new head of SECCATID. This year has seen the creation of a new National Drug Policy for the GOG as well as the establishment of the Guatemalan National Drug Observatory, part of the OAS/CICAD network of national observatories. The GOG is providing more resources than any previous administration. 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. The Directorate of Physical Education of the Ministry of Health (DIGEF) is considering funding sports infrastructure development at schools that sponsor the League.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG provides support to the GOG Public Ministry, the Civilian National Police and the specialized Drug Police for GOG initiatives to improve its capability to interdict drugs and arrest and prosecute major traffickers. This includes: the drafting of the Organized Crime bill, which is still pending regulations for implementation; support for the new extradition law; and support for the Aerial Joint Task Force.

Bilateral Cooperation. In 2008, the USG provided technical assistance in drafting the new extradition law and also supported the Attorney General's efforts to combat corruption in the Public Ministry with a week-long ethics seminar and training that was attended by 87 senior officials of the Ministry of Government (MOG) and other government entities. Training for Public Ministry (MP) attorneys focused on case development, case management, development of a statistical reporting capability, and strengthening the MP's capacity to fight internal corruption. The USG-funded drug detection canine program (K-9) currently has 47 trained handlers and, in 2008, trained and certified 19 K-9 instructors from four different countries throughout the region and trained ten K-9 handlers from El Salvador and Guatemala. The USG-supported Model Precinct program has had an impact on drug use and retail drug sales in 2008; although its primary focus is improved policing, public security and implementing anti-gang measures. The U.S. Coast Guard provided leadership and maritime law enforcement training to Guatemalan Navy personnel.

The NAS Aviation Support Program (ASP) consists of four loaned helicopters and a training program. It has provided flexibility in support of eradication operations especially in the area of intelligence gathering. The Ministry of Government has provided substantial funding for fuel for the program and is making preparations to take over all fuel expenses for the ASP beginning in January 2009. In 2008 the USG also provided technical assistance in drafting a manual for the National Civilian Police (PNC) which will provide explicit instructions for the investigators on how to implement the Organized Crime Law that was passed in 2006.

The Road Ahead. As the Mexican cartels make greater inroads, the Colom administration will be faced with even greater security challenges in Guatemala. While U.S. assistance will play an important role in interdiction efforts and the prosecution of major traffickers, success of the GOG's counternarcotics activities will depend to a large extent on the political will of the Colom administration to confront corruption and to make available the resources needed to improve law enforcement. This includes: allocation of sufficient resources to counternarcotics efforts; strategic realignment of DIPA resources toward better coverage of seaports and border crossings that could replicate the success seen in airport operations; enactment and application of effective asset seizure laws to channel resources to counternarcotics efforts; and completion of regulations governing the Organized Crime bill and full application of the law.

For its part, the USG will provide significant support in the coming year under the Merida Initiative--a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Guinea

I. Summary

Guinea is a major transit point for illicit cocaine trafficking to Europe. Although drugs have been transiting Guinea for several years, both international and domestic observers agree that the volume increased exponentially in 2008. Large quantities of cocaine are routinely transshipped through Guinea via air (both commercial and private), land, and sea. The country's endemic corruption, weak governance, porous borders, and ineffective law enforcement have proven increasingly attractive to international narcotics traffickers from South America, Europe, and elsewhere in Africa.

Guinea is a party to the 1988 UN Drug Convention. However, the Guinean Government was generally ineffective in addressing drug trafficking issues over the year. Narco-corruption permeated the government, including the military and police forces. Frequent cabinet changes, lack of technical capacity, and the country's underlying political instability posed significant challenges to both policymakers and law enforcement officials interested in combating narco-trafficking. The Guinean Government is only beginning to recognize Guinea's emergence as a major drug transit point, and as such, has not developed a comprehensive counter-narcotics strategy. The U.S. Government continues to engage with the Guinean Government at the highest levels in order to focus attention and attention on the issue.

II. Status of Country

Guinea is a major narco-trafficking hub in the West African region. Continued political instability puts the country at risk of developing into a narco-state. Although some government officials have demonstrated their commitment to addressing the problem, the high level of narco-corruption in an environment of almost complete impunity raises questions about the GoG's overall political will to develop an effective counter-narcotics strategy. Due to significant technical, logistical, and political constraints, the GoG's enforcement efforts in 2008 lacked focus and follow-through.

III. Country Action Against Drugs In 2008

The Government of Guinea was generally ineffective in addressing drug trafficking issues in 2008. Narco-corruption appeared to be gaining a foothold throughout the government, and especially within the military and police forces. Over the course of the year, the president appointed three different ministers of security, with the last appointment taking effect in early October. The Police Anti-Drug Unit (OCAD) lacked adequate staffing, training, equipment, and funds.

Policy Initiatives. Due in part to frequent turnover at the ministerial level, the Government of Guinea did not implement any specific counternarcotics policy initiatives in 2008, nor had it discussed developing a counternarcotics master plan.

Law Enforcement Efforts. Guinea's law enforcement mechanisms were largely ineffective in countering narcotics trafficking. The national police lacked the capacity to reliably plan for and carry out seizures and arrests. Reports of arrested traffickers being released from prison after having bribed police officials were common, as were reports of confiscated narcotics disappearing while in police custody. The police referred several trafficking cases to the courts, but no convictions were reported. Lack of training among law enforcement officers made it impossible to conduct difficult investigations targeted on major trafficking kingpins, instead enforcement focused on small-scale traffickers. The GoG's overall lack of training, equipment, sufficient staff, and, of course, corruption contributed to inconsistent interdiction efforts.

Narcotics transit Guinea via air, land, and sea. The GoG did not effectively eliminate suspected clandestine airstrips used by drug traffickers, flying directly from South America, nor did the GoG develop any strategies for addressing sea shipments.

The GoG orchestrated two public drug incineration ceremonies during the year, under two different ministers. During the first ceremony in May, the GoG claimed to have incinerated 160 kg of marijuana and 390 kg of cocaine, although the GoG refused international requests for random testing, and media reports suggested that no drugs were destroyed, but instead inert substances were substituted. At the second burning, in August, international observers were allowed to test and confirm a random sample of cocaine. GoG officials announced that 690 kg of marijuana and 34 kg of cocaine were destroyed.

Corruption. Corruption permeates the drug trafficking business in Guinea. The GoG took neither legal nor law enforcement measures to prevent and punish public corruption at any level. Guinea does not have any laws that specifically address narcotics-related corruption. General corruption and narcotics issues are covered under the Guinean Penal Code, but are rarely prosecuted. The GoG did not address any corruption cases during the year. While the GoG does not overtly encourage or facilitate narcotics trafficking as a matter of policy, numerous senior officials are believed to be engaging in, encouraging, and/or facilitating drug trafficking in Guinea.

Agreements and Treaties. Guinea 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 Corruption, and the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. Guinea does not have any extradition treaties or other counternarcotics agreements with the U.S. Government.

Cultivation/Production. Illegally grown marijuana is believed to be cultivated and distributed locally, but more precise information was unavailable. There were no reports of other narcotics being cultivated or produced in Guinea.

Drug Flow/Transit. Guinea is a major transit point for cocaine shipments to Europe, most of which departs from Venezuela by both non-commercial maritime and air. Reliable statistics are unavailable, but international observers and Guinean Government officials agree that the trend is rapidly increasing. Available information suggests that the quantity of drugs transiting Guinea may now exceed the quantity of narcotics transiting neighboring Guinea-Bissau, possibly making Guinea the largest narco-transit point in West Africa. During the year, the GoG made minimal efforts to interdict and seize narcotics that were transiting the country.

Domestic Programs/Demand Reduction. The GoG ran a limited anti-drug campaign in public secondary schools. However, local consumption appears limited to marijuana as extreme poverty puts higher-priced narcotics out of reach for most Guineans.

IV. U.S. Policy Initiatives and Programs

Bilateral Relations. Guinea's narcotics trafficking problem has exploded over the past year in a highly unstable political environment. In response, the U.S. Government is developing an appropriate strategy to address the problem on a bilateral level. Endemic corruption, weak governance, and frequent cabinet changes pose significant ongoing challenges.

The Road Ahead. In the short-term, the U.S. Government is focused on highlighting narcotics as a growing problem, encouraging high-level engagement, and developing local law enforcement capacity. The U.S. Government in consultation with concerned Guinean officials is considering ways to help develop local law enforcement capacity. In addition, the U.S. Government will continue to engage with the Guinean Government at the highest levels in order to focus attention on the issue.

Guinea-Bissau

I. Summary

Guinea-Bissau, a tiny impoverished country in West Africa, has become a major transit hub for narcotics trafficking from South America to Europe. The country, a party to the 1988 United Nations (UN) Drug Convention, provides an opportune environment for traffickers because of its lack of enforcement capabilities, its susceptibility to corruption, its porous borders, its location in relation to Europe, South America and neighboring West African transit points, and its linguistic connections to Brazil, Portugal and Cape Verde. The un-policed islands off the coast of Bissau are hubs for the major drug trafficking from Latin America, and the associated problems of arms trafficking and illegal immigration. Corruption, specifically the complicity of government officials at all levels in this criminal activity, inhibits both a complete assessment and resolution of the problem. Degeneration of Guinea-Bissau into a narco-state is a real possibility, although the international community is making significant efforts to avoid such a troubling development.

II. Status of Country

Only three times the size of Connecticut, Guinea-Bissau has a population of fewer than 1.8 million persons. The country is also one of the poorest in the world, placing 175th out of 177 countries on the United Nation's Human Development Index. Security forces lack the most basic resources. The country possesses no adequate detention facilities, and civil servants are often not paid for months at a time. Guinea-Bissau's history since independence from Portugal in 1974 has been plagued by political instability and civil unrest. The U.S. embassy in Bissau closed in June 1998 due to civil unrest; however, U.S. engagement with the Government of Guinea-Bissau (GOGB) has increased since parliamentary elections in 2004 and 2008 and presidential elections in 2005 were deemed free and fair by the international community. Guinea-Bissau's fragility was underscored, however, by two apparent coup attempts, the first in August and the second in November, 2008.

In January, 2008, the United Nations Office for Drugs and Crime in West Africa stated that Guinea-Bissau was on the brink of becoming Africa's first narco- state. In his September 29 report to the Security Council, United Nations Secretary General Ban Ki Moon warned that the country was evolving from a narcotics transit hub into a "major marketplace in the drug trade." The Secretary General proposed the formation of a panel of experts to investigate narcotics trafficking in Guinea-Bissau and held out the possibility of targeted UN sanctions, should the investigation support such a decision.

In July, 2008, GOGB authorities attempted to seize a grounded Gulfstream 2 jet, originating from Venezuela and believed to have been transporting a significant quantity of cocaine. The plane's cargo, however, was unloaded by Guinea-Bissau military personnel before they allowed judicial police officers to investigate the scene. Authorities successfully interdicted four smaller quantities of cocaine throughout the year, but the apparent major drug cargo aboard the jet plane was never heard of again. The traffickers in the smaller cases were arrested; no one associated with the plane incident was ever tried. In general, GOGB drug enforcement efforts remain under-funded and undermanned, allowing international trafficking and the illegal cannabis trade to continue unabated. UNODC views Guinea Bissau and Cape Verde—a former Portuguese colony off the coast of Senegal—as part of a Lusophone Atlantic network with criminal links to Brazil and Portugal. Due to cultural links and existing air and sea connections, Guinea-Bissau and Cape Verde serve as a transshipment point for drugs originating in Brazil that are destined for the European market. UNODC's October 2008 report suggests that traffickers continue to use Guinea-Bissau as a hub for narcotics smuggling from South America. Investigators posit that once large shipments of cocaine are off-loaded from planes and boats in Guinea-Bissau, the drugs are disbursed in smaller quantities throughout the region before being shipped out on commercial air flights and other means to Europe.

III. Country Actions against Drugs in 2008

Policy Initiatives. The GOGB further has welcomed the European Union's Security Sector Reform Mission, launched in March, 2008. In collaboration with GB officials, the EU mission seeks to restructure and reform the armed forces, the police and the judiciary. The objective is to make the security forces more efficient and accountable. In 2008, representatives from Guinea-Bissau participated in the Economic Community of West African States, (ECOWAS) counter-narcotics conference in Praia, Cape Verde, and GB was a signatory to the political declaration that came out of the conference.

Law Enforcement Efforts. During 2008, a number of drug seizures were made. On August 13, three Nigerian nationals were arrested in the Military neighborhood of Bissau in possession of 160 capsules of cocaine sealed in latex. Capsules of this sort are frequently ingested by paid drug couriers and trafficked to Europe from the region's airports. On September 23, at Osvaldo Vieira International Airport in Bissau, officials seized two belts containing two kilograms of cocaine and arrested a Bissau-Guinean national. On September 25, again at Bissau's airport, officials seized 180 capsules of cocaine, sealed in latex, and arrested a Bissau-Guinean national. In October, autopsy officials removed 58 capsules of cocaine, sealed in latex, from the stomach of a Bissau-Guinean national. The courier died when one or more of the capsules burst open inside of him. A regular flow of courier "mules" with upwards of a kilo of pure cocaine in their stomachs are apprehended in Nigeria's two major airports of Lagos and Abuja, most heading for Europe, with Spain an especially preferred destination.

With support from UNODC, a new headquarters is nearly complete for the judicial police. UNODC, with support from Portugal, also arranged the training of 50 new judicial police officers specialized in counter-narcotics. The officers were being trained in Brazil at the turn of 2008 to 2009.

In August, authorities in GB reported that they had uncovered an attempted coup d'etat, allegedly organized by the Navy Chief of Staff, Rear Admiral Jose Americo Bubo Na Tchuto. Na Tchuto, long suspected of being a major facilitator of narcotics trafficking in Guinea-Bissau, eventually fled to the Gambia where officials arrested him then later released him. He remained in exile in the Gambia at year's end.

On July 12, a Gulfstream-2 jet from Venezuela landed at the Bissau airport without the requisite permission. Upon landing, it immediately was cordoned off by Bissau-Guinean military officials and its cargo unloaded. Due to mechanical difficulties, the plane could not again take off. On July 17, the Minister of Justice reportedly learned of the unauthorized plane and ordered the arrest of the crew, who were taken into custody on July 19. Military officials refused to allow the judicial police and international investigators to remove the black box and Global Positioning System apparatus from the plane. On August 19, a judge set bail and released the crew of the plane from custody, despite the issuance of an international arrest warrant against one member and protests by the Minister of Justice and the Prosecutor General. The pilot subsequently disappeared, and the judge was later suspended pending an investigation into possible corruption. Given limitations on funding, training, and policy, there is only limited ability to guard against the transit of drugs through Guinea-Bissau. Due to weak enforcement efforts and inadequate record keeping, it is difficult to assess accurately the scope of the drug problem. Police lack the training and equipment to detect drug smuggling. Once arrests are made, there are no adequate detention facilities to hold suspects. There are furthermore no secured vehicles with which to transport suspects.

Corruption. Corruption is a problem for narcotics law enforcement all over Africa, and Guinea-Bissau is particularly susceptible. The Government does not, as a matter of policy, 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. However, anecdotal stories of corruption at the highest levels are common. Observers noted the apparent complicity of military personnel in the July plane incident, and the judge's release of the suspects, despite the existence of an international warrant. As of December 31, 2008, the government was four months in arrears in paying civil servant salaries, making law enforcement and security officials further susceptible to bribery.

Agreements and Treaties. Guinea-Bissau is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime and its protocol on Trafficking in Persons, and has signed, but not yet ratified, the protocol on Migrant Smuggling. The status of the 1999 UN International Convention for the Suppression of the Financing of Terrorism and the African Union Convention on Terrorism Finance is not known.

Cultivation/Production. The extent of cannabis cultivation in the country is unknown. Cannabis cultivation is quite common in the Senegal's southern Casamance region and linked to a more than 20-year-old separatist movement, the Movement of Democratic Forces in the Casamance (MFDC). As elements of the MFDC frequently find sanctuary on the Guinea-Bissau side of the border with Senegal, it can be assumed that cannabis is cultivated to some degree. There are no/no known efforts to determine the scope of the cultivation or eradicate it.

Drug Flow/Transit. The drug flow that transits through Guinea-Bissau is mostly in the form of cocaine which flows from South America on either air or maritime traffic and continues on to Europe by means of other maritime traffic, traffickers on commercial air flights, or even traditional caravan routes through Northern Africa and across the Mediterranean to Southern Europe. The U.S. is not believed to be a predominant destination point for drugs transiting Guinea-Bissau.

Domestic Programs/Demand Reduction. According to the UN, local drug abuse is a growing problem in Guinea-Bissau, as traffickers occasionally pay their local accomplices in kind with drugs. There are no GOGB efforts targeted specifically to reduce local drug consumption. There are also no GOGB drug treatment programs, although private organizations have established drug rehabilitation centers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. Embassy in Bissau closed in June 1998. The U.S. Ambassador to Senegal is accredited there and one U.S. officer assigned to the Embassy in Dakar monitors events there. The U.S. Embassy liaison office opened in Bissau in 2008 and is staffed by two Foreign Service nationals. During 2008, DEA and FBI representatives visited Bissau to assist in the investigation surrounding the July seizure of the plane from Venezuela. Representatives from AFRICOM and the FBI made frequent visits to Bissau in 2008 to provide technical assistance and to conduct needs assessments.

The Road Ahead. The USG will continue to work closely with the GOGB to improve the capacity of its narcotics law enforcement officers to investigate and prosecute narcotics crimes. The USG also will seek to identify credible partners within the Bissau-Guinean security forces and will seek to build their capacity to respond to the threat of narcotics trafficking. In recognition of the importance of strengthening broader institutional capacity, the USG will support the EU's efforts to reform the judiciary, and will seek to strengthen the legislative and oversight capacity of the National Assembly. Furthermore, in recognition of the broad role that socio-economic factors play in narcotics trafficking, the USG will seek to promote economic development and political stability.

Guyana

I. Summary

Guyana is a transit point for cocaine destined for North America, Europe, West Africa, and the Caribbean, but not, in quantities sufficient to impact the U.S. market. In 2008, domestic seizures of cocaine fell more than 50 percent from 2007. In the penultimate year of its National Drug Strategy Master Plan (NDSMP) for 2005-2009, the Government of Guyana (GOG) has achieved few of the plan's original goals. Minimal cooperation among law enforcement bodies, weak border controls, and limited resources for law enforcement have allowed drug traffickers to move shipments via river, air, and land without meaningful resistance.

However, a major personnel transition within the Customs Anti-Narcotics Unit (CANU) offers some promise of improved coordination and interdiction efforts. In December, the government passed laws that allow for plea bargaining, wiretapping, and the collection of cell phone ownership data in order to modernize Guyana's legal system and augment the tools available to law enforcement authorities. In April, Guyana acceded to the UN Convention Against Corruption, and in June, it acceded to the Inter-American Convention on Mutual Assistance in Criminal Matters. 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 offers ample cover for drug traffickers and smugglers with its vast expanse of unpopulated forest and savannahs. Government counternarcotics efforts remain hampered by inadequate resources for, and poor coordination among, law enforcement agencies; an overburdened and inefficient judiciary; and the lack of a coherent and prioritized national security strategy. 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 mostly for domestic consumption.

III. Country Actions against Drugs

Policy Initiatives. The GOG undertook a major overhaul of its chief counternarcotics body (CANU). Nine of its officers were fired in May, including the Acting Head, after failing polygraph examinations. In October, a new Director of CANU was hired, and the replacement of recently dismissed officers was ongoing at year's end. CANU's new Director has promised regularization of its operations, improved efficiency, and enhanced collaboration among law enforcement bodies.

The GOG continued implementation of a \$5 million, multi-year Security Sector Reform plan funded by the United Kingdom that commenced in 2007. However, the GOG has made little progress on some of the plan's key provisions. A Parliamentary committee to oversee national security has not been established, and a comprehensive national security policy has not yet been developed. Additionally, legislation tabled in 2007 that would augment the tools currently available to law enforcement in fighting money laundering, including regulations to allow for the seizure of assets, is stalled in Parliament. The chances for its passage remain unclear.

Law Enforcement Efforts. In 2008, Guyanese law enforcement agencies seized 48 kilograms (kg) of cocaine, compared to 167 kg in 2007. This decrease was largely due to the lack of any seizures of more than a few kilograms, as well as to the effects of the recent personnel shifts within CANU. However, eradication of domestically grown marijuana increased sharply, with 34,000 kg identified and destroyed, compared to 15,280 kg in 2007. Criminal charges were filed against 473 individuals for activities related to the trafficking or distribution of illicit drugs.

As noted last year, Guyana's counternarcotics activities have long been encumbered by a British colonial-era legal system that does not reflect the needs of modern-day law enforcement. But in December, the government took a significant step forward by passing laws that permit plea bargaining, wiretapping, and the recording and storage of cell phone ownership data. The new laws collectively enhance both the investigative capability of law enforcement authorities, as well as the tools available to prosecutors in drug-related and other criminal matters. In addition, at year's end the government was in the process of procuring new surveillance cameras for Guyana's international airport, after signing an inter-agency agreement that facilitates the sharing of airport surveillance footage among all relevant law enforcement bodies.

The GOG has not identified or confronted major drug traffickers and their organizations. Efforts by the Guyana Police Force (GPF) Narcotics Branch and CANU have been limited to arresting low level drug couriers at Guyana's international airport, who carry only small amounts of marijuana, crack cocaine or powder cocaine. Law enforcement agencies are hamstrung by insufficient personnel budgets, and there are no routine patrols of the numerous land entry points on the 1,800 miles of border with Venezuela, Brazil, and Suriname.

Corruption. As a matter of policy, the GOG 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, news media routinely report on instances of corruption reaching to high levels of government that are not investigated and thus go unpunished. USG analysts believe drug trafficking organizations in Guyana continue to elude law enforcement agencies through bribes and coercion. 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. In April, Guyana acceded to the UN Convention against Corruption.

Agreements and Treaties. In June, Guyana acceded to the Inter-American Convention on Mutual Assistance in Criminal Matters. Guyana is 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 against illicit traffic in narcotic drugs and psychotropic substances. 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. Recent case law in the Barry Dataram extradition matter, however, has eviscerated the Treaty. Dataram is being sought by the Eastern District of New York for cocaine-smuggling offenses. First, a Guyanese court has made it difficult, if not impossible to request a fugitive's provisional arrest. Second, in December 2008, another Guyanese court ordered Dataram's release, holding that the Treaty was invalid because, in essence, it lacked a re-extradition clause (although such a provision was not relevant to the Dataram case); such a provision is required under Guyana's domestic extradition law. Guyanese Legal Affairs Minister Doodnauth Singh has confirmed that Guyana will not extradite fugitives to the United States unless the extradition treaty is changed. 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. In April 2008, Guyana ratified the Inter-American Convention on Mutual Assistance in Criminal Matters, to which the United States is also a party, though, to date, neither party has submitted an official request to the other under the Convention. 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 for domestic consumption, but some is also exported to other Caribbean countries.

Drug Flow/Transit. While there are no reliable estimates regarding the amount of cocaine or cannabis that transits Guyana, USG law enforcement authorities say that 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. Guyana's uncontrolled borders and coastline allow unfettered drug transit. 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. The Guyana Defense Force Coast Guard does not have any seaworthy vessels, as its lone patrol boat is currently in dry dock awaiting repairs.

Once 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. Suitcases not checked by any boarding passenger have also been intercepted by counternarcotics officials just prior to loading.

Domestic Programs/Demand Reduction. Marijuana is sold and consumed openly in Guyana, despite frequent arrests for possessing small amounts of cannabis. Anecdotal evidence, sources within the GOG and a local NGO note that consumption of all psychotropic substances in Guyana is increasing, with a particularly notable rise in the incidence of crossover addiction, i.e., addicts of one illicit substance becoming hooked on at least one other. In addition, the potency of locally grown marijuana has reportedly increased, which has fueled local consumption. Media reports have indicated the possible widespread use of sniffing agents such as gasoline and glue among students. 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. The Phoenix Recovery Center conducts weekly substance abuse counseling sessions in five of Guyana's prisons; this activity is funded by the government.

IV. U.S. Policy Initiatives and Programs

U.S. policy focuses on cooperating with Guyana's law enforcement agencies, promoting good governance, and facilitating demand reduction programs. In 2008, the USG continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives, and commenced a substance abuse treatment program for women, as well as gender-specific training for drug counselors. The U.S. Agency for International Development (USAID) is funding projects to improve governance in Guyana, which includes parliamentary and judicial reform.

Bilateral Cooperation. In 2008, the Drug Enforcement Administration's (DEA) Trinidad office continued to collaborate with Guyana's law enforcement agencies in counternarcotics-related activities, and reported a generally favorable working relationship. The USCG provided resident and on-the-job training in engineering and maintenance procedures.

The Road Ahead. The U.S. continues 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 should pass and implement the proposed anti-money laundering legislation. We also encourage the GOG to draft implementing regulations for its new plea bargaining and telecommunications intercept laws. The U.S. will work with GOG to try and resolve the extradition difficulties.

Haiti

I. Summary

Haiti remains a major transit country for cocaine and marijuana from South America and the Caribbean, respectively. The Preva Administration continued the struggle to overcome pervasive corruption, weak governance, and mismanagement, but this effort was complicated by food riots in April, the lack of a functioning government for five months following the dismissal of the Prime Minister (and his cabinet) by the Legislature, and the devastating effects of four hurricanes that hit Haiti in quick succession in August-September.

Haiti's law enforcement institutions remain weak and its judicial system dysfunctional. In 2008, with the support of the United Nations Stabilization Mission in Haiti (MINUSTAH), the Haitian National Police (HNP) continued 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 eliminate the gangs' criminal activity and a resurgence of kidnapping and robberies has occurred.

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 second 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. Despite operations conducted by the HNP's counternarcotics unit during the year, there were limited seizures of drugs. Haiti is a party to the 1988 UN Drug Convention.

II. Status of Country

Haiti's 1,125 miles of shoreline, poorly controlled seaports, numerous clandestine airstrips, combined with a struggling police force, dysfunctional judiciary system, corruption, and weak democracy make it an attractive transshipment hub for drug traffickers to move cocaine, and to a lesser extent, marijuana, through Haiti to the United States. Smaller quantities of the drugs are also moved 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 United States and Europe. Haiti experienced an increase in drug smuggling flights from 20 in 2007 to 23 through October 2008, according to the U.S. Joint Interagency Task Force–South (JIATF-S).

III. Country Actions against Drugs in 2008

During 2008, MINUSTAH civilian police advisers assisted the HNP in training over 500 veteran officers. Though no recruits graduated from the HNP Academy in 2008—a setback in achieving the minimum number of 14,000 police by 2011 as agreed with MINUSTAH as part of the HNP reform plan adopted in 2006—the 20th class of 708 police cadets entered the Academy in July 2008. An expansion of the Academy will enable the training of simultaneous classes, thereby increasing the number of trainees graduated. Morale is high among HNP officers, as recent polls indicate that 58% of the population sees improvement in the HNP and 66% list the HNP as the most trusted Haitian government institution, major changes from surveys in past years. MINUSTAH military troops, United Nations Police (UNPOL), MINUSTAH Formed Police Units, and HNP officers have made progress in dismantling gangs that conduct kidnapping.

In 2008 a USG-funded project to enhance the effectiveness of GOH anti-money laundering and anti-corruption efforts became fully operational. The project provides mentoring on the investigation and prosecution of financial crimes by

U.S. Treasury advisers and has helped restructure the GOH Central Financial Intelligence Unit by separating its investigative and intelligence gathering functions. The HNP Financial Crimes Unit (French acronym BAFE) has been revitalized, moved into new offices shared with prosecutors and judges, and has referred several cases for prosecution for the first time in many years.

Law Enforcement Efforts. Though President Préval continued to urge strong action against drug trafficking and did not back away from his support for bilateral operations to arrest DEA-wanted fugitives for removal to the United States, the Government of Haiti overall made only modest advances in the fight against drug trafficking this year.

The HNP counternarcotics unit (French acronym BLTS), with support from the USG, worked to improve their response to air smuggling of cocaine. This response included establishing roadblocks to contain traffickers near the scenes of reported clandestine landings and conducting follow-up investigations upon learning of successful cocaine offloads. Resultant interdiction operations resulted in limited drug seizures and arrests.

The HNP Financial Crimes Unit, BAFE, has made great strides this year. In September 2008, the BAFE obtained forfeiture orders and seized two houses, one of which belonged to Jean Nesly Lucien, a former Director General of the HNP, and the other owned by Jean-Mary Celestin—both convicted in the U.S. on drug related charges. By year's end, \$21 million in property and assets had been seized by the GOH. The BAFE is aggressively implementing a plan to use convictions in U.S. courts as the legal basis for asset forfeiture in Haiti. This would help overcome a significant deficiency of Haiti's current asset forfeiture regime which requires conviction of the trafficker in Haiti prior to forfeiture of assets.

Selected HNP officers who have graduated from a five-week course at the Drug Enforcement Academy in Quantico, Virginia, form the nucleus of the vetted Special Investigative Unit (SIU), a partnership between DEA and the GOH, 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.

The Haitian Coast Guard (HCG) conducted drug interdiction operations from its bases in Port-au-Prince and Cap-Haïtien during the year. U.S.-sponsored training programs also helped Haiti achieve compliance with International Ships and Port Security (ISPS) standards in three international ports. Though several other ports have not yet met those standards, this certification bodes well for increased port screening and control of contraband.

Corruption. As a matter of policy, the GOH does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs, 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 Préval has publicly identified the fight against corruption and drug trafficking as major priorities for his administration. Vetting has taken place among selected units in Port-au-Prince and will be further expanded in the capital area where the majority of police officers are assigned. The HNP Director of Administration and Director of Logistics were both removed from their positions in 2008 for suspected corruption and their replacements have taken positive steps to increase accountability and transparency through the use of centralized databases, more controlled authorization of expenditures, and standard operating procedures. BAFE investigations continue to target government officials suspected of corruption and money laundering activities and to cooperate with U.S. officials on investigations into allegations of corruption under the previous administration.

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. Work, assisted by U.S. legal experts, is on-going on a bilateral mutual legal assistance treaty between the United States and Haiti. Requests for assistance historically have

been made through letters rogatory and the first such request in years was made in 2008, to which the GOH is responding.

Extradition. Haiti and the United States are parties to an extradition treaty that entered into force in 1905. Though the Haitian Constitution prohibits the extradition of its nationals, Haitians under indictment in the U.S. have been returned to the United States by non-extradition means. During 2008, the GOH arrested six defendants wanted in the United States on federal drug trafficking charges and transferred custody to the DEA for removal to the United States. All of these defendants were transported to the United States and several have already been convicted at trial or have entered guilty pleas.

Cultivation/Production. Haiti produces small amounts of marijuana for local consumption.

Drug flow/Transit. In 2008, 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 have been identified. Suspect drug flights from Venezuela increased at least 15 percent in 2008 following on the 38 percent increase officially recorded in 2007. However, the actual rate of increase may be much higher. Several new trends emerged, including more daylight air drops, flights following the Haitian-Dominican Republic border further north into Haiti before making drops, and some planes being abandoned and burned once the drugs are offloaded. In addition, some of the increase in Haiti-bound flights appears to be linked to a corresponding drop in flights tracked to the Dominican Republic, a potentially worrisome trend that is expected to continue and demonstrates the need for coordinated action against drug traffickers throughout Hispaniola. Go-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 2008. Pharmacies in Haiti are essentially unregulated and some controlled medications are sold in quantities through those businesses.

Domestic Programs/Demand Reduction. Drug abuse is a growing but largely unacknowledged problem in Haiti. Increased use of marijuana among school-aged children has been reported. There are almost no formal demand reduction programs in place at this time.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The cornerstone of USG efforts to combat drug trafficking in Haiti is reform of the HNP. In cooperation with MINUSTAH, the USG provided substantial equipment and technical assistance in 2008. The Narcotics Affairs Section (NAS) of the U.S. Embassy coordinated the procurement of vehicles, radios, forensic lab and other technical equipment for the HNP, funded police academy and in-service training, and provided support for specialized HNP units. The USG contributed 50 officers to MINUSTAH's UNPOL contingent, many of whom are involved in training recruits at the HNP academy. A USG-funded communication project continues installation of solar-powered radio base stations for the HNP throughout the country and assisted in repairs to such installations following the four hurricanes that impacted Haiti in 2008. The USG also is contributing three corrections experts to form the nucleus of a UN team to improve the infrastructure and management of Haiti's prison system.

In addition, the USG provided two advisers to help the HNP Director General implement anti-corruption and strategic planning measures. As part of a multi-year anti-money laundering and anti-corruption project, advisers from the U.S. Treasury's Office of Technical Assistance (OTA) visited Haiti monthly to review cases of financial crimes with prosecutors and judges, mentor the HNP officers assigned to financial investigations and staff of the Financial Intelligence Unit. OTA advisers also provide training for financial investigators, judges, and prosecutors involved in money laundering and corruption cases. USCG Mobile Training Teams supported HCG operations with maritime law

enforcement, port security, engineering, logistics and maintenance training in 2008, tripling the number of HCG trained and increasing Haitian capacity to carry out border protection activities. The USCG, retrofit four vessels and brought the boats to Haiti in April 2008. NAS also purchased two rigid-hull inflatable boats for the HCG. The addition of these assets will allow the HCG to respond better to future drug and migrant operations, particularly on the northern coast of Haiti.

The Road Ahead. Haiti must continue the reform and expansion of the HNP and step up the reform of its judicial system as prerequisites for effective counternarcotics operations throughout the country. The GOH must follow through by demonstrating 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 receive greater support and be prioritized to prevent erosion of the gains of the HNP and to provide the security and stability Haiti needs to meet the economic, social and political development needs of the Haitian people.

For its part, the USG will provide significant support in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Honduras

I. Summary

Honduras is a transit country for Andean cocaine and small amounts of heroin destined for the United States and Europe, and increasingly for precursor chemicals for the production of methamphetamine. In 2008 the Government of Honduras (GOH) continued its cooperation with the United States on investigations of narco trafficking, maritime interdictions and joint operations that resulted in increased seizures on land and at sea. Honduras is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Honduras faces new trafficking challenges with resources limited by the effects of the global financial crisis. The most noteworthy change in 2008 was the increase in the flow of pseudoephedrine and other precursor chemicals through Honduras, after imposition of tighter restrictions on the chemicals in surrounding countries. The GOH fought to stem the flow of cocaine and heroin through Honduras, especially the sparsely populated and isolated jungle region along its Atlantic coast, but interdiction is hampered by insufficient resources and poor road infrastructure. Police reports indicate that some drug trafficking and other organized crime activities are directed from Honduran prisons. The GOH began working with the USG to remedy management and resource allocation problems that allow these activities to occur in the prisons system, but much more progress is needed.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Honduran Congress passed the Organic Police Law in 2008 to strengthen the police units and Internal Affairs. The law includes provisions to reorganize management of the police to strengthen direct oversight of operations and make information-sharing between the various police directorates more efficient. It also establishes an Internal Affairs unit which answers directly to the Minister of Security. As a result of the law's passage, the Security Ministry will change its policies to authorize the use of polygraph exams and drug tests on all police officers.

In 2008, the GOH worked with the USG to develop more effective laws governing the importation of pseudoephedrine and other precursor chemicals. A presidential decree limiting precursor chemical imports is currently being drafted and will serve as the first step toward more permanent controls over precursors.

Accomplishments. In calendar year 2008 the GOH seized 6.5 metric tons (MT) of cocaine. This total includes seizures made from Honduran vessels in international waters by the U.S. Coast Guard. The GOH also seized 2 kilograms (kg) of crack cocaine, 19.6 kg of heroin, over 3 MT of processed marijuana and 3.5 million pseudoephedrine pills, plus over five tons of precursors (sodium sulphate and soda ash). An additional 13 MT of pseudoephedrine were seized in the United States en route to Honduras to be diverted to Mexican drug cartels. In conjunction with these seizures 721 people were arrested. This represents an increase in seizures and arrests over 2007. In 2008, authorities also seized \$4,324,446 in cash and \$6.7 million in total assets as a result of joint operations with the USG.

Law Enforcement Efforts. Honduras continues to participate in the USG interagency counternarcotics "Operation All Inclusive," directed at major drug trafficking organizations exploiting Central America and Mexico. In June 2008, members of the United States Coast Guard boarded a Honduran flagged fishing vessel, and discovered 4.5 MT of suspected cocaine concealed in two false compartments on the vessel. The crew of seven Honduran nationals was arrested. With USG assistance, Honduras continues to improve in combating the trafficking of pseudoephedrine and other illegal precursor chemicals. The GOH Organized Crime Prosecutor continued to collaborate with the U.S. Attorney's Office on U.S. investigations that resulted in criminal indictments of Honduran nationals engaged in

narcotics trafficking. However, prosecution efforts in Honduras are still affected by judicial corruption, inefficiency, overwhelming caseloads and funding constraints. Furthermore, Honduras has the legal framework to allow the seizure of traffickers' assets and use to them to fund interdiction and prosecution. However the process for making use of those assets is inefficient and overly cumbersome. As a result, the process of utilizing seized assets is currently done at a net cost to the GOH.

In 2008, as part of an internal policy change, the GOH reorganized the police command, appointed regional commanders, and gave them more autonomy to fight crime. In addition, the Organic Law placed all police under a centralized Director General, freeing the Minister to work on general policy. The police force increased to 13,500 from 7,000 in 2005, on track to meet the Zelaya administration's goal of doubling the police force by 2009.

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, nor is it involved in laundering the proceeds of the sale of illicit drugs. Official corruption continues to be an impediment to effective law enforcement and there are press reports of drug trafficking and associated criminal activity among current and former government and military officials. The GOH has legal measures in place to prevent and punish public officials although enforcement is sporadic and convictions are rare. Many cases languish unresolved on the books for years. Honduras is a party to the Inter-American Convention against Corruption.

Agreements and Treaties. Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain. Honduras is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. 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 UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime and its protocol on Trafficking in Persons. 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, but the Honduran Constitution prohibits the extradition of its nationals. Honduras signed the Caribbean Regional Maritime Counter Drug Agreement, 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 the only known drug cultivated in Honduras. It is planted in small isolated plots throughout the country and sold locally.

Drug Flow and Transit. In 2008, there was an increase in the diversion of precursor chemicals used to manufacture methamphetamines through Honduras, attributed to stricter import controls in neighboring countries. Honduras' laws allow for easy licensing of supposedly legitimate pharmaceutical labs, which provides cover for precursor imports. In 2007 police seized 3.2 MT of pseudoephedrine but no other precursors. In 2008 they seized 2 MT of bulk pseudoephedrine, over 3 million pseudoephedrine pills, plus over 5 MT of other precursors.

South American cocaine destined for the United States and Europe transits Honduras by land, sea, and air. On the north coast, areas accessible only by sea or air allow traffickers to refuel maritime assets and effect boat-to-boat transfers. Private aircraft are also used to smuggle cocaine. Heroin is believed to be transported through Honduras to the United States in small quantities.

Domestic Programs/Demand Reduction. The Honduran Institute for the Prevention of Alcoholism and Drug Addiction (IHADFA) is the GOH entity that works in the areas of research, prevention, treatment and rehabilitation. The USG funded a Community Anti-Drug Coalitions of America (CADCA) NGO support program for community organizations that fight drug abuse. Numerous church groups and NGOs have drug prevention and rehabilitation

projects. Honduras also is affected by transnational gangs, which promote increased drug use through street level trafficking.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG's focus in Honduras is to support improved GOH intelligence gathering efforts on drug trafficking, improved information exchange capability, and police interdiction activities.

Bilateral Cooperation. In 2008, Honduras cooperated closely with the USG in investigations and operations against drug trafficking. The USG supported the Frontier Police in its interdiction efforts, crime information management, and also supported anti-corruption programs within the Ministry of Security by providing funding and logistical support to the National Police Internal Affairs Office. The USG provided assistance to the GOH to reform its police training program, as well as Coast Guard support in maritime operations planning, engineering and maintenance, and a Border Enforcement Seaport course.

The Road Ahead. The USG encourages the GOH to use existing money laundering laws more effectively to seize and use drug trafficking-related assets. While seized asset laws are in place, the process of using them needs to be made more efficient so there is a net gain in support to counternarcotics interdiction and prosecution. The GOH needs to continue work on new laws to close legal loopholes on precursor chemical controls, which are not as strict as those of neighboring countries. The USG supports GOH plans to improve police operations that will focus on police training reforms, including basic ethics, and its efforts to make needed improvements to police communications and investigative techniques, as well as establish human rights training. Improvements are also needed in the prison system, to include measures to dismantle criminal organizations working from within the penitentiaries. The USG is prepared to provide assistance to help the GOH achieve these goals.

For its part, the USG will provide significant support in the coming year under the Merida Initiative--a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Hong Kong

I. Summary

The Hong Kong Special Administrative Region (HKSAR) is not a major transshipment point for illicit drugs destined for the international market. Some narcotics shipments do transit Hong Kong's high volume port, but its efficient law enforcement efforts, the availability of alternate routes, and the development of port facilities elsewhere in southern China prevent the HKSAR from becoming a major transshipment point. Some traffickers continue to operate out of Hong Kong, arranging shipments from nearby drug-producing countries via Hong Kong to other international markets, including to the United States. The HKSAR Government 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

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. Despite the diminished role, some drugs continue to transit Hong Kong to other international markets. 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. The 56th edition of the Hong Kong Central Registry of Drug Abuse (HKCRDA) for 2006 reported that the total number of reported drug abusers in recent years declined from 18,513 persons in 2001 to 13,258 in 2006. While at this writing, the 57th edition of the HKCRDA was not yet available, the Hong Kong Narcotics Bureau reported that the number of reported drug abusers in 2007 increased slightly to 13,491, with most of the increase attributed to new users under the age of 21. Through September 2008, the number was up yet again over the same period in 2007.

Though heroin is traditionally the most commonly abused drug in Hong Kong, the number of heroin abusers has been declining for years. In 2007, there were 7,390 (or 55.2 percent of drug abusers) reported as heroin abusers, with the number of reported heroin abusers falling further in the first three quarters of 2008. The rising trend in the abuse of psychotropic substances in evidence over the last 10 years continued. The number of psychotropic substance abusers increased to 7,810, up six percent from the previous record high in 2006. In the first three quarters of 2008, psychotropic drug abusers increased four percent from the same period in 2007. Among psychotropic substances, the most commonly abused drug is Ketamine (34.2 percent of drug abusers). Triazolam/midazolam/zopiclone (9.4 percent), Methamphetamine/Ice (8.9 percent) MDMA/Ecstasy (5.4 percent), cannabis (4.9 percent), cocaine (4.7 percent) and cough medicine (4.3 percent) are also regularly abused.

In 2008, the Hong Kong Government continued to make tackling psychotropic substance abuse a high priority. The Hong Kong Government has identified the continuing prevalence of psychotropic substance abuse and the growing trend of young people experimenting with drugs as their major area of concern in the battle against drug abuse and trafficking.

III. Actions Against Drugs in 2008

Policy Initiatives. Although there were no major policy changes in 2007 and 2008, 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. The Hong Kong Government publicly discussed the idea of mandating drug testing in public schools, but public opposition to the proposal appears to have stalled it.

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 2008, 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 April 2008, a significant seizure of 5.6 million tablets of pseudoephedrine was made by law enforcement authorities in Guatemala. The seizure of this consignment exemplifies the close and successful cooperation between the DEA Hong Kong Office and Hong Kong Customs and Excise authorities against the illicit diversion of chemical precursors for manufacture of dangerous drugs.

Corruption. As a matter of policy and by all accounts in practice, the Government of Hong Kong SAR 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 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 1971 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 (MLAA)" 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. Hong Kong law enforcement agencies enjoy a close and cooperative working relationship with their mainland counterparts and counterparts in many countries. In October 2008, a Colombian money launderer was successfully extradited from Hong Kong back to the United States to face federal money laundering charges. The subject was arrested on a provisional arrest warrant filed under the surrender agreement. In this same case and pursuant to a U.S. MLAA request, the Hong Kong authorities froze over \$1.1 million dollars in several Hong Bank accounts belonging to this subject. The funds in those banks are pending U.S. forfeiture proceedings.

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 Administration 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.

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.

There continues to be an increase of cocaine and ATS (amphetamine-type stimulants) such as methamphetamine and MDMA. Ketamine, a hallucinogen, is also being smuggled into Hong Kong. Cocaine consumed in Hong Kong is primarily sourced out of Southern China (Guangzhou Province). The cocaine and other ATS drugs destined for Hong Kong are usually transported via courier (by train), in ounce and gram quantities. Couriers also still continue to smuggle drugs by way of concealment methods through the airport. In July 2008, Hong Kong Police authorities seized over 13 kilograms of powdered cocaine concealed in plastic containers of protein powder and arrested the two couriers at Hong Kong International Airport.

The heavy volume of vehicle and passenger traffic at the land boundary between the Chinese Mainland 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/Demand Reduction. 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 2007, 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. As previously noted, the Hong Kong Government publicly discussed the idea of mandating drug testing in schools, but public opposition to the proposal appears to have stalled it.

In 2007 and 2008, the Hong Kong Police Narcotics Division continued 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, short internet films, and wide dissemination of posters and printed materials. 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-drug 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 Hong Kong

Government 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 an updated drug education kit to disseminate counternarcotics messages in schools and regularly 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 uniformed 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 2008. 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. In early 2008, the Hong Kong Government launched a pilot cooperation scheme to refer abusers to designated medical practitioners who provide comprehensive health check-ups and motivational interviews, to alert abusers to 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 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 for 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.

Hungary

I. Summary

Hungary continues to be primarily a narcotics transit country between Southwest Asia and Western Europe. This results from its 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 1990s 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 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 abuse problem, particularly among teens and those in their twenties.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Drug Prevention Coordination Committee, created in 1998, facilitates the implementation of the country's national counter-narcotics strategy and coordinates among different ministries and national authorities to combat drug abuse. A National Drug Strategy was adopted by the government in 2000 and contains key action plans to address the strategy's goals. The next update of the strategy will be prepared in 2009 and will cover the period starting from 2010. In 2008, the Department for the National Coordination of Drug Affairs of the Ministry of Social Affairs and Labor became the Directorate for the National Coordination of Drug Affairs, within the same ministry. The change helped to increase the profile of drug policy makers within the government and improve their effectiveness.

Hungary continued to maintain strong regional expert relations with neighboring countries, including Croatia and Romania. This group of countries collaborated on initiatives including regular study visits and expert conferences to facilitate information exchange in the drug policy field. As a member of the EU, Hungary also maintained regular contact with other member states. Hungary will be co-chair of the Balcan Regional Group within the framework of the Central Dublin Group starting in 2009.

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 (HNP) and greater cooperation, information sharing, and efficiency in border interdiction was reported. 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 trans-shipment 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.

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 HNP and the U.S. Drug Enforcement Administration (DEA) Office in Vienna, Austria, has decreased from previous years, with the DEA reporting the relationship as "almost non-existent."

Seizure data provided by the National Bureau of Investigation covering the first six months of 2008 indicate that police seized 10 kilograms of heroin, 13.3 kilograms of cocaine, 22 kilograms of amphetamine, 65,000 Ecstasy tablets, and 20 kilograms of dried cannabis plants. The most recent complete year seizure data as reported by the Institute for Forensic Sciences in 2006 appears below:

Illicit Drug	# of 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 drug-related 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 treaty and an extradition treaty between the U.S. and Hungarian Governments have been in force since 1997. 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. Hungary is a party to the UN Corruption Convention.

Cultivation/Production. Marijuana is cultivated in western Hungary with seeds being transported in from Slovakia; Ecstasy and LSD may also be manufactured in Hungary, however, to date no production laboratories have been discovered. All other illegal narcotics are smuggled into Hungary, not produced in Hungary.

The number of cannabis plant seizures continuously increased during the past years, indicating an increasing problem with domestic cannabis production. A significant proportion of the seized plants was grown in nutrient cubes in artificial (“indoor”) environments. The cannabis seeds reportedly came from the Netherlands, while the technical equipment was available in domestic points of sale disguised as “agricultural” stores. An increasing number of foreigners are reportedly entering Hungary to establish and operate clandestine cannabis farms. Law enforcement officials cite this foreign influence as the primary source of financial and technological support in the industry.

Drug Flow/Transit. Hungary is primarily a narcotics importer country, with different types of narcotics arriving to the country via routes frequently controlled by criminal groups. Heroin is trafficked into Hungary from the south along the Balkan route by organizations that have ethnic, family, and blood ties to the country. Cocaine is most commonly smuggled in by a Nigerian courier operation which recruits Hungarian women to act as couriers and to conscript others into the organization. The HNP reported that the Nigerian operation is looking to establish new routes into Hungary through southern Europe where the drugs arrive by ships from South America and North Africa.

The HNP reported that synthetics are transported into Hungary from newly established labs in Serbia. Synthetic drugs are becoming more popular, with the highly addictive drug nicknamed “Gina” the preferred choice among most users. The HNP also reported that the source of synthetics and cocaine is the Netherlands, while Afghan heroin generally arrives from 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. Cannabis arriving from abroad has recently changed to a more concentrated form.

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. In 2008, the GOH provided drug prevention education grants to 230 schools totaling HUF 157,098,200 (\$785,491). From these grants, 35,557 schoolchildren studying in grades 5-8 (aged 10-14) and 81,237 secondary school pupils (aged 14-18) participated in prevention activities, representing 8% and 17.2% of the student population, respectively.

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 counter-narcotics programs and was developed in the early nineties with State-INL assistance. Through 2005, the fifteen year program has trained nearly 12,000 teachers and educators. Community-based prevention efforts are primarily focused on the teen/twenties age group and provide information about the dangers of substance abuse while emphasizing active and productive lifestyles as a way of limiting exposure to drugs.

There are approximately 230 healthcare institutions that care for drug patients in Hungary. The total number of drug users receiving both inpatient and outpatient treatment during 2007 was 13,457.

Institution Type	All Patients: Number/% Share	New Patients: Number/% Share
Addiction treatment centers	2,807/20.9	728/18.0
Specialized outpatient treatment centers	5,641/41.9	2,115/52.4
Child and youth psychiatric care centers	9/0.1	8/0.2
Psychiatric care centers	288/2.1	146/3.6
Psychiatric & addiction-treatment inpatient departments	1,161/8.6	278/6.9
Other (toxicology)	3,551/26.4	761/18.9
Total	13,457/100.0	4,036/100.0

Fourteen organizations operated needle exchange programs in 2007 and distributed a total of 213,774 sterile needles in exchange for 105,313 used needles. The joint programs reached 2,019 clients in 2007, an increase of 14% over the previous year. Together the organizations distributed 213,774 sterile needles via mobile units, street outreach, and needle vending machines. The total number of needles distributed in 2007 was 30% higher than the 2006 total.

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 counter-narcotics 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. According to Ministry of Health data, 2,930 drug users participated in diversion programs in 2007.

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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The primary USG focus in support of the GOH counter-narcotics efforts is through training and cooperative education at the International Law Enforcement Academy (ILEA). In addition, the DEA maintains a regional office in Vienna, Austria, that is accredited to Hungary to work with local and national Hungarian authorities. However, because of recent restructuring within the HNP drug units, direct contact between the DEA and HNP diminished in 2007.

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.

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 2008, though authorities made record-setting seizures of hashish (190 kg). 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. In addition, methamphetamine and MDMA are imported to Iceland often from Lithuania via Norway. According to authorities there were 89 cases of importation of drugs and precursors in 2008 (latest available National Commissioner of Police figures through November 30). 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. The Icelandic Center for Social Research and Analysis, a nonprofit research center that specializes in youth research, published a report in September showing that controlled substance use among 15-16 year olds decreased considerably from 2004 to 2007.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Public Health Institute of Iceland, established in 2003, is responsible for managing 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 \$344,000 to a total of 40 groups and administered 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 but the tentative number for 2008 shows a decrease in such violations (from 2098 in 2006, to 1847 in 2007, and 1491 as of November 30, 2008). While one explanation for the increase in previous years 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.

A program called “Youth in Europe” emphasizes the importance of organized leisure activities, as well as time spent with parents, as Icelandic studies of drug abuse 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. As of November 30, 2008, KEF authorities had made 43 seizures compared to a total of 48 in 2007. Nationwide drug seizure highlights include:

In January, Keflavik Airport (KEF) Police arrested a Dutch national with roughly 350 grams of cocaine hidden internally.

In January, Reykjavik Metropolitan Police arrested a man in Hafnarfjordur and seized about 600 grams of cocaine.

In February, KEF Police arrested a Dutch man for smuggling 1.2 kg of cocaine in his luggage.

In March, KEF Police arrested a man with approximately 200 grams of amphetamines and some cannabis seeds on his person.

In March, KEF Police arrested two Polish men and a Polish woman with one kg of amphetamines hidden in a bra and in underwear that they were wearing.

In April, KEF Police arrested a man coming from Paris and seized approximately 3 kg of amphetamines that he had concealed in a hidden compartment of his suitcase.

In June, customs officials confiscated 190 kg of hashish, 1.5 kg of cocaine, and 1 kg of marijuana aboard the Norrona car ferry while it was making a stop in Seydisfjordur. The drugs were taken from a Dutch man who had hidden the substance in his RV. This is the largest quantity of narcotics ever seized in Iceland.

In August, customs officials stopped a Lithuanian man arriving at KEF, who had hidden between 500 and 600 grams of amphetamines internally.

In September, customs officials seized 20 kg of hashish and roughly 1.7 kg of amphetamines from a German man aboard the Norrona ferry.

In September, Reykjavik Metropolitan Police arrested a woman and confiscated 2000 doses of steroids.

In October, a major police operation led to the discovery of a highly sophisticated amphetamines production facility in the town of Hafnarfjordur. In addition, police seized approximately 20 kg of hashish. The operation was a cooperative effort between the Icelandic police and customs and Europol. The production capacity of the facility was estimated to be up to one metric ton of amphetamines per month, and as a result, Police thought it must be intended for export. Three men were arrested in connection with the case.

In October, Reykjavik customs found 500 g of amphetamines and 1.1 kg of marijuana in a mail delivery from Poland. Police arrested two Polish men and one Lithuanian in connection with the case.

During the year, police seized roughly 233 kg of hashish, 11 kg of amphetamines, 6 kg of cocaine, 407 units of LSD, 1,443 Ecstasy pills, and confiscated approximately 654 cannabis plants (National Commissioner of Police figures as of November 30, 2008). 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 Central and Eastern European gangs and criminals, including 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. Customs and police deployed drug-sniffing dogs to popular outdoor festivals on a holiday weekend in early August to deal with drug distribution among youths attending the event. Drug-related violence against police has increased. For example, in January, five Lithuanian individuals viciously attacked four non-uniformed narcotics police officers.

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.

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 and its three protocols. 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 2008 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 maintained an educational website, 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. In 2008, the USCG and the Icelandic Coast Guard signed a memorandum of understanding for general cooperation, including in the areas of maritime law enforcement and maritime security.

The Road Ahead. The DEA office in Copenhagen and the Regional Security Office at the U.S. Embassy 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 continued support between U.S. and Icelandic authorities by sharing law enforcement practices and techniques to continue strengthening the abilities of the Icelandic police. 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.

India

I. Summary

India is one of only a few countries authorized by the international community to produce opium licitly for pharmaceutical use and the only country utilizing the opium gum method. The other licit producers use the concentrate of poppy straw (CPS) method to produce opium alkaloids. 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. In addition to its controlled licit opium production, criminal groups produce heroin illicitly for both the domestic addict market and for the international market. Injecting drug use (IDU) of heroin, morphine base ("brown sugar" heroin) and opiate pharmaceuticals, particularly in the Northeast states bordering Burma, continues to be a concern, resulting in an extremely high incidence of HIV/AIDS in these populations. Major metropolitan areas increasingly report the use of cocaine, Ecstasy and other synthetic drugs among the wealthy elite.

The Government of India (GOI) continually tightens licit opium diversion controls, but some licit opium is nevertheless diverted into illicit markets. India takes many steps to control illegal diversion of licitly grown opium to the illicit market. In past years the U.S. and India conducted joint research projects into some of the key policy issues to hold down diversion. India's highly refined methodology to control diversion benefited from this research. India is a party to the 1988 UN Drug Convention.

The United States and India are parties to an extradition and a mutual legal assistance treaty (MLAT). Implementation by India under the extradition treaty has resulted in extensive delays and lack of communication regarding status of cases. Implementation of the MLAT has been hampered by lack of direct communication by the Indian Central Authority to its US counterpart.

II. Status of Country

Under the terms of international agreements, supervised by the International Narcotics Control Board (INCB), 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. Opium stocks now exceed minimum requirements set each crop year by the INCB. From a stock of 509 metric tons in 1999/2000, stocks rose to 1,776 metric tons in 2004/05, but were down to 1,401 metric tons at the end of the 2006/07 crop year. Figures for 2007/08 are not yet available.

Farmers licensed to grow opium for licit production of pharmaceuticals are allowed to cultivate a maximum of 10 "ares" (one one-hundredth 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, since, if the MQY is too low, farmers could clandestinely divert excess opium they produce into illicit channels, where traffickers often pay up to ten times what the GOI can offer

During the 2002/03-crop year, CBN began to estimate the actual acreage under licit opium poppy cultivation by using satellite imagery and then comparing it with exact field measurements. The satellite results are then confirmed by on-ground CBN visits that measure each farmer's plot size. Interpretation of survey data is a complex undertaking as licit poppy cultivation is not confined to an enclosed area, many of the farmers integrate fields with other agricultural crops like soybean, wheat, garlic and sugarcane.

Any cultivation in excess of five percent of the allotted cultivation area is not only uprooted, but the cultivator is also subject to prosecution. During the lancing period, the CBN appoints a village headman for each village to record the daily yield of opium from the cultivators under his charge. CBN regularly checks the register and physically verifies the yield tendered at harvest.

In 2008, the CBN continued issuing microprocessor chip-based cards (Smart Identity Cards) to opium poppy cultivators. The cards are delivered to cultivators at the time of licensing. The card carries the personal details of the cultivator, the licensed area, the test measured field area and the opium tendered by him to the CBN in past crop years. The information stored on the card is read with handheld terminal/read-write machines that are provided to field division controllers

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. The estimated yield for the 2006/07-crop year is 346 metric tons of opium. Estimated yield for 2007/2008 is not yet available.

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 seized 2,226 kg of licit opium, which had been diverted, or was cultivated in contravention of Indian law. As of September 30, 2008, GOI had seized 643 kg of diverted/diversion threatened licit opium.

Poppies harvested using concentrate of poppy straw (CPS) are not lanced, and since the dried poppy heads cannot be readily converted into a usable narcotics substance, diversion opportunities are minimal. However, it is inherently difficult to control diversion of opium gum collection because opium gum is collected by hand-scraping the poppy capsule, and the gum is later consolidated before collection. The sheer numbers of Indian farmers, farm workers and others who come into contact with poppy plants and their lucrative gum make diversion appealing and hard to monitor. Policing these farmers on privately held land scattered throughout three of India's largest states is a considerable challenge for the CBN. All other legal producers of opium alkaloids, including Turkey, France, and Australia, produce narcotics raw materials using the CPS process. The GOI believes the labor intensive gum process used in India is appropriate to the large numbers of relatively small-scale farmers who grow poppy in India.

Processing opium gum into narcotic alkaloids is difficult because a residue remains after the narcotic alkaloids have been extracted. This residue must be disposed of with appropriate environmental safeguards. Because of this, pharmaceutical opiate processing companies prefer using CPS for ease of extracting the opiate alkaloids, with the exception of certain companies, which have adapted their equipment and methods to be able to use gum opium.

To meet this challenge, the GOI has explored the possibility of converting some of its opium crop to the CPS method. The GOI is also examining ways to expand India's domestic opiate pharmaceutical processing industry and the availability of opiate pharmaceutical drugs to Indian consumers through ventures with the private sector. However, regardless of the GOI's interest in CPS, the financial and social costs of the transfer and the difficulty of purchasing an appropriate technology are daunting. Since alkaloid extraction requires highly specialized equipment, some of the

most obvious places where such equipment and technologies would be available, along with advice on how to use them, are in the other countries licensed to produce legal opiate alkaloids and thus in countries in direct competition with India for licit opium sales.

Morphine base (“brown sugar” heroin) is India's most popularly abused heroin derivative, either through smoking, “chasing” (i.e., inhaling the airborne fumes of burning opium) 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.

III. Country Actions against Drugs in 2008

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 under the NDPSA declined in 2007. However, the overall conviction rate continues to increase, reaching 50 percent. In 2006 there were 9,921 convictions and in 2007, 15,390 persons were convicted. 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.

India has been actively involved in international operations dealing with precursor control such as Project Cohesion and Project Prism, and in October 2008 hosted the combined meeting of the Task Forces of Project Prism and Project Cohesion. India issues pre-export notifications (PEN) for export of precursors using the online system developed by the INCB. Law enforcement agencies in India continued to exchange information on a regular basis with Drug Law Officers (DLOs) based in India. The NCB and other drug law enforcement agencies continued their extensive cooperation with the U.S. Drug Enforcement Agency through its Country Attaché.

Law Enforcement Efforts. While heroin and opium seizures increased from 2005 to 2006, both declined 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 107,881 kg in 2007), and hashish seizures have stabilized at between 3,000 and 4,000 kg per year.

India already has a system to try to prevent diversion of ephedrine and pseudoephedrine. The NDPS (Regulation of Controlled Substances) Order, 1993, requires every manufacturer, importer, exporter, seller and user of controlled substances (both ephedrine and pseudoephedrine have been notified as controlled substances) to maintain records and file returns with the NCB. Every loss or disappearance of a controlled substance is also required to be reported to the Director General, NCB. Exports of ephedrine and pseudoephedrine require a No Objection Certificate from the Narcotics Commissioner, who issues Pre-Export Notification to the Competent Authority in the importing country as well as to the International Narcotic Control Board (INCB). India has also been actively involved in operations like Project Prism which target precursors to manufacture ATS. India's efforts in identifying and stopping suspicious transactions have been appreciated by the INCB in INCB's Precursors Report, 2006. Despite its vigorous efforts to control precursor chemicals, India has been identified in a number of cases as the source of diverted precursor chemicals for a range of narcotic drugs, including methamphetamine and heroin.

Joint investigation by the DEA and NCB 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. 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. Despite these precautions and vigorous enforcement efforts, it is likely that corruption is a factor in narcotics trafficking in India.

Agreements and Treaties. India is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The United States and India signed a Mutual Legal Assistance Treaty (MLAT) in 2001 that came into force in October 2005. An extradition treaty is in effect between the U.S. and India. India has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The USG and the GOI signed a Customs Mutual Assistance Agreement on December 15, 2004. India entered into bilateral agreements with several countries including the United States on cooperation in drug related matters.

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 eradication campaigns. 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 are responsible for the bulk of illicit cultivation in the state. Illicit poppy eradication figures if any for 2008 are not yet available.

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 2007, 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. All together, the Government of India reported that it destroyed 19,877 acres of illicit opium poppy plants in 2006/07, greatly exceeding the amount reported destroyed 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 for laboratories in Uttar Pradesh that previously depended on diversion from the licit crop in that state. Arrests in Andhra Pradesh indicated 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 appeared 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, was seized in South India, and was apparently destined for Sri Lanka. Trafficking groups operating in India fall into four categories. Most seizures in Mumbai and New Delhi involve West African traffickers. Traffickers who maintain familial and/or tribal ties to Pakistan and Afghanistan are responsible for most of the smuggling of Pakistani or Afghan heroin into India. Ethnic Tamil traffickers, centered primarily in Southern India, are alleged to be involved in trafficking between India and Sri Lanka. Indigenous tribal groups in the northeastern states adjacent to Burma maintain ties to Burmese trafficking organizations and facilitate the entry into Burma of precursor chemicals and into India of refined “white sugar” heroin through the porous Indo/Burmese border. In addition, insurgent groups in these states have utilized drug trafficking as a means to finance their operations against the Indian Government.

Indian-produced methaqualone (Mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methaqualone production, India is still believed to be among the world's largest known clandestine methaqualone producers. Seizures of methaqualone, which is trafficked in both pill and bulk forms, have varied widely, from 472 kg in 2005 and 4,521 kg in 2006, 1 kg in 2007 and as of September 2008, 2,361 kg has been seized. 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 intercept 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. However, as a whole, these small shipments are indicative of a negative trend which signifies that India is increasingly becoming a source country for illicit pharmaceuticals.

Domestic Programs/Demand Reduction. Press reports 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 (morphine base) and cannabis remain India's principal recreational drugs, 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% of Indian drug abuse. Although drug medicinal cuts across a wide spectrum of Indian society, more than a quarter of drug abusers are homeless, nearly half are unmarried, and 40 percent had less than a primary school education. Itinerant populations (e.g., truck drivers) are extremely susceptible to drug use. Widespread needle sharing has led to high rates of HIV/AIDS and overdoses 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. The U.S. and India have had a long-standing extradition relationship but, India's efforts to bring about prompt conclusion of extradition proceedings and to keep the USG informed have been poor. The USG has repeatedly asked the GOI to take steps to bring extradition proceedings to completion more promptly and to be timelier in reporting on status of cases. 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. The USG hopes to consult with India soon on efforts to improve cooperation. In 2008, the USCG provided training in maritime law enforcement and vessel boarding for officers in the U.S.

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 gave 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 (Letter of Agreement (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. We also use LOA funds to build the capacity of Indian law enforcement agencies to fight international narcotics trafficking by providing them with badly needed commodities and equipment. The United States will continue to explore opportunities to work with the GOI in addressing drug trafficking and production and other transnational crimes of common concern.

V. Statistical Tables Through September 2008

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 kilograms

2006/07	2005/06	2004/05
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Hectares Licensed	6,269	7,252	7,901
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Farmers Licensed	62,658	72,478	79,016
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Hectares Harvested	5,913	6,976	7,833
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Gum Yield (in MTs)	346	N/A	N/A
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Opium Yield (kg/ha)	58.5	59.9	N/A
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	2007/08	2008/09	
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Hectares Licensed	4,680	the process for licensing began in mid- October	
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Farmers Licensed	46,775		
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Hectares Harvested	2,653		
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Gum yield (in MTs)	282		
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Opium Yield (kgs/ha)	60.3		
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In 2007/08, a large number of farmers uprooted their damaged crops due to extreme cold weather conditions and frost. The total opium poppy crop uprooted in all the three states where licit cultivation is permitted was 1,932.6 hectares out of a total licensed area of 4,680 hectares. The final harvested area was 2,653 hectares.

OPIUM PRICES PAID TO FARMERS IN RUPEES (RS. 48 EQUAL ONE USD). THE PRICE OF OPIUM FOR THE 2008/09 CROP YEAR HAS YET TO BE DECLARED BY THE GOI.

	2006/7	2005/6	2004/5
44-54 kgs/ha	800-1075	750-1075	756-1076
55-70 kgs/ha	1100-1600	1100-1600	1102-1601
71-100+ kgs/ha	1625-2200	1625-2200	1627-2205

DRUG SEIZURES 2005-2008

(2008 statistics through September, 2007 figures revised)

	UNIT	2008*	2007	2006	2005
Opium	kg	643	2,226	2,826	2,009
Morphine	kg	51	43	36	47
Heroin	kg	624	1,186	1,162	981
Cannabis	kg	55,778	107,881	157,710	153,660
Hashish	kg	2,486	5,181	3,852	3,965
Cocaine	kg	10	8	206	4
Methaqualone	kg	2,361	1	4,521	472
Ephedrine	kg	397	395	1,276	8
Acetic Anhydride	kg	1,668	236	133	300
Amphetamine	kg	2	0	0	0

PERSONS	2008*	2007	2006	2005
arrested	12,478	22,267	20,688	19,746
Prosecuted	15,068	23,764	19,582	20,138
Convicted	9,328	15,390	9,921	9,074

*Through September 2008

Indonesia

I. Summary

Indonesia is the fourth most populous country in the world and historically, has 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. Specifically, since 2002, Indonesia has seen a significant increase in the number of large-scale clandestine methamphetamine laboratories seized by Indonesian authorities. Methamphetamine production syndicates exploit Indonesia's lax precursor chemical controls, as well as, corruption and ineffective government bureaucracy, policies and capabilities. These large-scale clandestine laboratories are capable of producing multi hundred kilogram quantities of amphetamine-type stimulants (ATS). In 2007, Indonesian National Police seized a methamphetamine laboratory containing over six hundred kilograms of crystal meth and over 1,400 kilograms of pseudo-ephedrine. Methamphetamine production syndicates utilized familial connections in China (PRC) for precursor chemicals and laboratory equipment. Furthermore, production syndicates rely upon chemists trained in the Netherlands for the production of Methylenedioxyamphetamine (MDMA), as well as Taiwanese chemists for the production of crystal meth. In addition, regional drug trafficking syndicates are exploiting Indonesia's very long coastline and remote and porous borders. Indonesia lacks the resources for effective maritime security and border management, making border control for the transshipment of heroin, as well as ATS very difficult. Increases in narcotics production and trafficking have been mirrored in drug abuse rates throughout Indonesia. Increasing drug abuse rates, specifically intravenous drug use, combined with limited health care options, rehabilitation and demand reduction programs has resulted in near epidemic rates of HIV/AIDS infection in Indonesia.

The Indonesian counter narcotics code is sufficiently inclusive to enable police, prosecutors and the judiciary to arrest, prosecute and adjudicate narcotics cases. Nevertheless corruption in Indonesia remains pervasive, despite increased Government of Indonesia (GOI) efforts. The high level of corruption in Indonesia limits the effectiveness of all law enforcement, including units targeted specifically on narcotics crime, and poses the most significant threat to the country's counter drug strategy.

The Indonesian National Police (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, officer safety and tactical equipment to support its efforts against crime and drugs. INP efforts are firmly based on counter narcotics legislation and international agreements. The INP relies heavily on assistance from major international donors, including the United States. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2007 and 2008, Indonesian police continued to disrupt and dismantle clandestine laboratories, including some in the prison system. This reaffirms Indonesia's position as a major clandestine manufacturing location. Much of this is due to Indonesia's lax regulations on importation of precursor chemicals and porous borders that allow for easy movement of precursor chemicals and finished product.

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. Indonesian National Police (INP) data shows a steady increase of drug arrests over the past two years. In 2006, 17,355 drug arrests took place, in 2007 there were 22,630 and through September 2008 there have been 21,244. With only a 1,386 arrest difference between the total of 2007 and the first three quarters of 2008, it is reasonable to assume that 2008 numbers will surpass 2007.

In 2007 and 2006, narcotics dominated the drug arrests; however, in 2008, the most common drugs seized during arrests were dangerous drugs. INP defines narcotics as marijuana, marijuana plants, heroin, cocaine, opium and morphine. Dangerous drugs are classified as alcohol, traditional medicines, ATS and counterfeit pharmaceuticals.

While methamphetamine and MDMA are the common drugs seized during clandestine lab searches, the arrests associated with such drugs dropped in 2008. In 2006, psychotropic drugs (such as methamphetamine and MDMA) accounted for 5,658 of the total arrests, and in 2007 they accounted for 9,289 of the total arrests. However, in 2008 through September they only accounted for 1,101 arrests.

Afghan heroin continues to be the heroin of choice in the Indonesian market. Since 2002 the amount of heroin seized declined, with 2007 being the only recent year with an increase in seizures. In 2006, 11,902 (11.9 Kg) grams seized; in 2007, 14,691 (14.7 Kg) grams seized and through September 2008, 9,993 (10 Kg) grams have been seized.

While MDMA is produced domestically, it is also smuggled into and transshipped through Indonesia from sources in the Netherlands and Belgium. Ethnic Chinese/Indonesian trafficking syndicates utilizing commercial air carriers and express mail services transship MDMA through Bali and Jakarta to consumers in Australia, Japan, New Zealand and China. In November 2007, Indonesian National Police made the largest seizure of MDMA in their history. Police seized over 1,000,000 tablets of MDMA, which were part of a shipment of 10,000,000 tablets from the Netherlands.

III. Country Actions against Drugs in 2008

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 72 drug traffickers to death. Through September 2008, Indonesia executed 2 defendants for drug trafficking crimes. These defendants were convicted in 2004 for drug trafficking. The continued lack of modern detection, enforcement and investigative methodologies and technology, as well as the presence of pervasive corruption, are the greatest obstacles to advancing Indonesia's anti-drug efforts.

During 2006, the Government of Indonesia (GOI), via the Indonesian National Narcotics Board (BNN), the government agency responsible for the coordination to Indonesia counter narcotics efforts, signed an Association of Southeast Asian Nations (ASEAN) declaration stating Indonesia's commitment for a "drug-free ASEAN 2015". "Drug-Free ASEAN 2015" is a political commitment of the ASEAN member countries, of which Indonesia is a member, in achieving a drug free condition by the year 2015. In 2007 and 2008 Indonesia has continued to work toward these goals.

According to Indonesia's BNN, the GOI has established new policies and strategies, in a "goal oriented rolling Plan of Action", consisting of stages with each stage covering 3 years. These three year policy horizons will continue until Indonesia reaches a drug-free condition, hopefully by 2015. Specifically, Indonesia has established a national drug control plan that addresses the illicit drug supply and demand reduction challenges. The goals and targets for the GOI's drug control plan were developed from the 1998 UNGASS and ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD) plan of action.

Per Indonesia's BNN, the objectives of Indonesia's National Drug Plan are to:

- Reduce illicit drug supply, trafficking and production.
- Reduce drug use among the Indonesian youth.
- Reduce the harmful effects of drugs and drug use in Indonesian society.

The primary demand reduction policy goals of Indonesia's National Drug Plan are to:

- Reduce the level of illness, disease, injury and premature death associated with the use of illicit drugs.
- Reduce the level and impact of drug-related crime and violence within the community.
- Reduce 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 National Narcotics Agency (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 enforcement program. The aim of the proposed regulation is to deny drug trafficking networks of their assets. 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 the \$53 million the agency requests for its yearly budget.

Law Enforcement Efforts. According to INP arrest data, prosecutions for drug possession, trafficking and manufacturing have increased from 14,105 cases in 2006 to 22,630 in 2007.

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
 2007: 22,630
 2008: 21,244 (through September 2008)

Drugs Seized:

	Heroin (kg)	Cocaine (kg)	Cannabis (metric ton)	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
2005	Marijuana Plants: 160,211 plants				
2006	11.9	1.12	111.17	466,907	1,241.2
2006	Marijuana Plants: 1,019,307 plants				

2007	14.69	241.8 (grams)	31.8	1,195,305	624.3
2007	Marijuana Plants: 1,828,803				
2008	9.993	523.9 (grams)	30.2	914,059	654.14
2008	Marijuana Plants: 123,675				

The BNN continues to strive to improve interagency cooperation in drug enforcement, interdiction, and precursor control. In 2005, under the auspices of BNN, the USG Joint Interagency Task Force (JIATF) West sponsored 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 Indonesian law enforcement agencies and supporting ongoing narcotics investigations. Throughout 2007 and 2008 BNN has continued to utilize the JIACDOC facility to assist in counter narcotics efforts. Additionally, in 2008 a DEA agent has been sponsored by JIATF-West to be stationed in Jakarta and will be posted at the JIACDOC.

The INP Narcotics and Organized Crime Directorate continued to improve in its ability to investigate and dismantle international drug trafficking syndicates. The Directorate also cooperates with other international law enforcement agencies. In addition, the Narcotics Directorate has become increasingly active in the regional targeting conferences designed to coordinate efforts against transnational drug and crime organizations. In 2007, INP attended the Drug Enforcement Conference (IDEC) held in Madrid, Spain.

Corruption. Pervasive corruption in Indonesia is an impediment to the effectiveness of all law enforcement, including narcotics enforcement. As a matter of government policy and practice, the GOI does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal transactions. The executive branch of the Indonesian government has made anti-corruption efforts a major policy initiative along with counter-terrorism and counter-drug efforts. Indonesia continues to make significant strides in addressing corruption with the highly successful and aggressive Anti-Corruption Commission (KPK) that has investigated and successfully prosecuted high level government officials in 2007 and 2008. During U.S. AG Mukasey's June 2008 visit to Indonesia, the GOI announced the creation of the Attorney General's Office (AGO) Anti-Corruption Task Force. In the past seven months since its creation, the Task Force has already prosecuted 16 cases.

Indonesian prosecutor's low wages encourage official corruption, and are an important factor in a low level of motivation. For instance, the average Indonesian prosecutor with 30 years of seniority makes no more than about \$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 subjects. Corruption within the police force has led to corrupt officers in narcotics cases asking for bribes in payment for a reduction in charges, with the defense attorneys serving as intermediaries.

INP internal efforts to control corruption and discipline have been made and are being addressed. In 2007 the INP investigated 19,459 officers for ethics and misconduct violations (4,700 in 2006) with eighty-three (83%) of the officers investigated having been found to have sustainable allegations. Disciplinary measures ranged from letters of reprimand to incarceration. With the appointment of the strict disciplinarian Bambang Hendarso Danuri as the National Police Chief, internal anti-corruption efforts will get a fillip.

A further impediment to Indonesia's attempts to investigate official corruption within its judicial system is the requirement that the Attorney General's Office secure an authorization letter from the President of Indonesia before it can proceed in any high level corruption investigation. Additionally, the time it takes to file and develop a case within the AG's Office can be eight months, allowing suspected defendants to cover their complicity or involvement.

Agreements and Treaties. Indonesia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, the 1972 UN Convention on Psychotropic Substances and the UN Convention Against Corruption (UNCAC). Indonesia hosted the UNCAC Conference of States Parties in 2008. Indonesia has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and its protocols on Trafficking in Persons and Migrant Smuggling. The United States and Indonesia are currently negotiating a mutual legal assistance treaty, or MLAT.

Cultivation/Production. The large-scale production of MDMA and methamphetamine is one of the most significant dangerous drug threats to Indonesia. Ethnic Indonesian/Chinese trafficking syndicates exploit Indonesia's lax precursor chemical controls to establish large-scale clandestine MDMA and methamphetamine laboratories capable of producing multi-hundred kilogram quantities. These syndicates utilize sources of precursor chemical supply from the People's Republic of China (PRC) and also secure laboratory equipment from the PRC. These organized criminal syndicates rely upon chemists trained in the Netherlands for the production of MDMA, as well as chemists from Taiwan and Hong Kong for the production of crystal methamphetamine.

The current trend in methamphetamine production is for the methamphetamine mega labs to be divided among several different lab sites. The production is broken down into several separate stages, with different chemists at each location. The aim of this is to avoid detection by law enforcement and to limit the loss to the syndicate if one lab is discovered. Additionally, this allows for a division of labor within the drug trafficking organization. A prime example of this is the Batam lab that was seized in October 2007. The lab was organized into six different lab sites with one being located in Jakarta, several hundred miles away from the primary location in Batam.

Marijuana is cultivated throughout Indonesia. However, due to the equatorial climate of Sumatra, and year round growing conditions, the area of most intense marijuana cultivation is in northern Sumatra. Sumatra cultivation is large-scale (greater than 20 hectares). It occurs in remote and sparsely populated regions of the province, often in mountainous topography with the objective of exploiting INP's inability to discover or to reach cultivation sites in remote and high elevation areas. There is no known cultivation of opium poppy or cocaine in Indonesia.

Drug Flow and Transit. The Indonesian National Police (INP) report that the majority of heroin seized in Indonesia originates from sources of supply in Southwest Asia. The heroin trade in Indonesia is predominantly controlled and directed by West Africans, Nigerians in particular. Heroin is smuggled by West African and Nepalese trafficking organizations utilizing sources of supply in Karachi, Pakistan and Kabul, Afghanistan. West African and Nepalese couriers travel on commercial air carriers transiting Bangkok, Thailand, and India, en route to Jakarta. 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 Indonesia is experiencing an increase in large-scale domestic production of MDMA and methamphetamine. MDMA and methamphetamine produced in Indonesia are trafficked both domestically and internationally. Recently ethnic Indonesian/Chinese MDMA and methamphetamine production syndicates have established numerous large-scale clandestine MDMA and methamphetamine laboratories capable of producing multi hundred kilogram quantities of both illicit drugs, utilizing precursor chemicals from the People's Republic of China (PRC). In addition, MDMA and methamphetamine produced in the PRC are smuggled into Indonesia by Chinese organized crime syndicates based in Hong Kong. The drugs move in multi hundred kilogram quantities via maritime cargo and fishing vessels. In November 2007, Indonesian National Police made the largest seizure of MDMA in their history. Police seized over 1,000,000 tablets of MDMA, which were part of a shipment of 10,000,000 tablets hidden in a cargo shipment from the Netherlands via Hong Kong to Jakarta.

Marijuana is cultivated and trafficked throughout Indonesia. Many of these large-scale marijuana cultivation sites are located in the remote and sparsely populated mountainous regions of Northern Sumatra. 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 on 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 currently but it is increasing, specifically in Bali and Jakarta where one kilogram of cocaine sells for around \$100,000.

Domestic Programs/Demand Reduction. The Government of Indonesia views drug abuse and narcotics trafficking as a major long term threat to social, religious and political stability. Government agencies continue to promote anti-drug abuse and HIV/AIDS awareness campaigns through various media campaigns. The Indonesian National Narcotics Board (BNN) is responsible for the development of Indonesia's demand reduction programs. No statistics exist regarding the success of these anti-drug abuse programs. Treatment options in Indonesia are very basic, except in the major cities where adequate treatment can be found in private sector facilities for the wealthy.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the United States maintain excellent law enforcement cooperation in narcotics cases. During 2007 and 2008, the United States provided technical assistance and training for hundreds of INP officers in a variety of transnational crime topics including forensics, cyber-crime, maritime law enforcement, and counter-terrorism. In 2007 and 2008, DEA provided training in the areas of drug intelligence analysis, precursor chemical control, basic drug investigations and clandestine laboratory and instructor development. INP and BNN maintain excellent relationships with the DEA regional office in Singapore and continue to work closely with DEA on narcotics investigations. During 2008, the USCG provided boarding officer training using both the Maritime Law Enforcement Boarding Officer Course, and Mobile Training Teams deployed to Indonesia. In July 2008 Police Commissioner KomJen Gories Mere was appointed as the Director of BNN. He previously served as Chief of the Criminal Investigations Division and was a major player in the INP's counter-terrorism efforts. He has already demonstrated he will carry the same zeal into his new position as chief drug law enforcer in Indonesia.

The Road Ahead. In 2008 and 2009 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 addition of a DEA agent in Indonesia will assist with coordinating joint counter-drug operations and further develop law enforcement relationships between Indonesia and the U.S. The U.S. will further work with INP and BNN to standardize and computerize the reporting methods related to narcotics investigations and seizures; to develop a drug intelligence database; and to build an information network designed to connect 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. The U.S. will also continue to work with the INP to develop maritime police capacity and to support criminal justice sector reform and anti-corruption efforts.

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.

Drug seizure data indicate that more cannabis might be being cultivated in Iran than previously thought, and that synthetic drugs from Europe and Asia are being exported to Iran in growing quantities.

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. Record levels of opium production in nearby Afghanistan, and continuing large volumes of opiate seizures in Iran indicate Iran is experiencing an epidemic of drug abuse, especially among its youth.

Iran tries to keep drugs leaving Afghanistan from reaching its citizens. 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. There is a long simmering Baluch ethnic insurgency and general lawlessness in the same geographical region where drugs enter Iran.

Iran spends a significant amount on counter drug-related activities, including interdiction efforts and treatment/prevention education. Estimates range from \$250 million to \$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.

Syringe exchanges, distribution of condoms, and programs which use buprenorphine to maintain addicts during treatment are all being used in Iran.

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. Iran is 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).

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. A continuing high share of unrefined opium in total opiate seizures made by Iranian enforcement (ca. 62 percent) in 2007 suggests that drug traffickers in Afghanistan have consciously decided to serve a growing opium market in Iran. But 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.

III. Country Actions against Drugs in 2008

Policy Initiatives. Iran seems to be exploring treatment as opposed to punishment and incarceration as a response to drug abuse. Abuse of controlled drugs remains a crime in Iran. Iran's Drug Control Headquarters has been trying to make drug abuse treatment both more available and more effective, and has turned to foreign models for ideas. In the face of growing intravenous drug abuse among Iranian youth, and a concomitant danger from HIV/AIDS, Iran has begun needle exchange programs, and the free distribution of condoms, even using dispensing machines in some locations. Iran is also spending more of its drug abuse budget on treatment, and is experimenting with techniques like maintaining addicts, using synthetic opiates like methadone and buprenorphine, while they undergo treatment. Iran's Drug Control Headquarters also supports post treatment efforts to reintegrate addicts into Iranian society.

Law Enforcement Efforts. Iran blames a failure of "foreign forces' efforts" in Afghanistan for many of Iran's problems with growing drug abuse. Iran also clearly believes that its efforts to keep drugs out of Iran have the side effect of mitigating the impact of drugs on the West, and as a result, Iranian authorities regularly call for the West to recognize this fact by more vigorous assistance to Iran, especially through grants of more modern inspection and interdiction technologies for use at Iranian border control points.

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 Government of Iran (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.

Iran began investing 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 in Iran 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 USG Executive Order 13382 for its role in supporting the proliferation of weapons of mass destruction. Executive Order 13224, designated the IRGC's Qods Force (IRGC-QF) but not the entire IRGC for its role in supporting terrorist groups.

Security forces also periodically clash with Baluch tribesmen who are seeking more autonomy from the central governments in Iran and Pakistan in long simmering conflicts. 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 683 metric tons (MT) of opiates (opium equivalent) during 2007. Opiate seizures in 2007 set a new record for Iran's seizures of opiates, increasing by more than 30 percent over 2006. 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 2007 demonstrated the following interesting trends:

Unrefined (raw) opium seizures continued to increase sharply during 2007, reaching more than 427 MT, a new record for Iranian raw opium seizures, more than 37 percent higher than 2006. Seizures of refined opiates (morphine base and heroin) for 2007 also set a new record for Iran at almost 256 MT of opium equivalent, but the increase over 2006 was a more modest 20.3 percent;

The share of raw opium in total opiate seizures was 62.5 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 (approximately 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;

For the first time, Iran reported seizures of varieties of more addictive opiates that it names "crystal" and "crack". Together seizures in these two categories were 2.25 MT, suggesting a sharply increased addiction potential from these purer and more intense refined products;

Heroin seizures were 23.3 percent of all opiates seized (opium equivalent), up from 2006's roughly 20.3 percent share; not since 1992 has the share of heroin seized been this high;

Morphine base seizures in 2007 declined by 8.7 percent to 9.7 MT and the share of seized morphine base in total opiates seized fell to just 14.2 percent of the total. Refineries in Afghanistan seem to be turning out more heroin, as opposed to morphine base.

Hashish seizures in Iran in 2007 were 89.7 MT. This represents a sharp increase (37 percent) over 2006, when 59.2 MT of hashish were seized. 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.

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. This is a convention, and is only an approximation of actual opium heroin conversion factors.

Iran also reports destruction of 13.2 metric tons of marijuana and growing seizures of methamphetamines: 38 kg. The large volumes of marijuana seized and destroyed in Iran suggest more marijuana may be being cultivated illegally in Iran itself. While methamphetamine seizures remain small, the emergence of relatively cheap synthetic drugs in Iran's very young population represents just one more threat to Iranian society from illicit drugs. 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. Twice as many drug abusers were detained as drug traffickers. Iran has executed more than 10,000 narcotics traffickers in the last two decades.

Corruption. Corruption plays an important role in narcotics trafficking in Iran. Some corruption cases reached the courts in Iran, and were also featured in media reports, though few involving narcotics-related corruption. There are 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. 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 a Paris Pact review of Iran's counter-narcotics 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 against Corruption and the UN Convention on Transnational Organized Crime (UNTOC); however, it has not signed any of the UNTOC protocols. Iran has shown an increasing desire to cooperate with the international community on counter-narcotics 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. Iran also actively cooperates with its nearest neighbors, Pakistan and Afghanistan, in an effort to counter drug smuggling and hosted a trilateral meeting, also attended by the UNODC, in 2008.

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. Most refining of the opiates moving through Iran is done elsewhere, either in Afghanistan or in Turkey.

Cultivation of marijuana in Iran, on the other hand, seems more extensive than originally thought. Iran reported seizing more than 13 MT of marijuana in 2007, and hashish seizures reached a new high of in excess of 89 MT. It is unlikely that marijuana is moving very long distances as bulky, hard-to-transport leaves, so some share of the reported 13 MT of marijuana seizures is likely to be of marijuana cultivated in Iran itself.

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. 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. 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 stationing a drug enforcement unit headquarters in Zahedan. 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 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.

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 ethnically Kurdish areas of Turkey, and in other parts of Eastern Turkey. Almost all of the morphine base, which represented almost 14.2 percent of all opiates seized in 2007, in Iran, is moving west for additional refining. Important quantities of the approximately 23 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.

The southern route also passes through sparsely settled desert terrain, and 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. For example, in February/March of 2008, Iranian enforcement found 5 MT (5000 liters) of acetic anhydride hid in a shipment of second-hand cars and parts loaded in Pusan South Korea. 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.

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. Iran reported to UNODC in October 2008, for example, a seizure of 610 kilograms of opium and 150 kilograms of hashish from a vessel passing along Iran's coastline towards the UAE. In December 2008, Iran reported to UNODC a seizure of 250 kilograms of hashish in Bushehr province, bound for Qatar. Oman and Dubai appear to be important destinations, but some Iranian hashish even finds its way to Iraq.

Increasingly, synthetic drugs from Europe (Netherlands) and Southeast Asia (Thailand) are shipped to Iran for sale in Iran's larger cities and towns to young people. Based on seizure statistics, the scale of this traffic is still small, but Iranian drug control officials are concerned since Iran has a young population, and synthetic drugs could become popular quickly as their price is low.

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 23 percent (opium equivalent) in 2007. Afghan traffickers are also apparently shipping proportionally less morphine base. Some heroin is smoked or sniffed, but a growing share is injected. Growing seizures of synthetic drugs are also regularly reported, and this year there were again reports that synthetics were being produced in Iran itself. Since synthetic drugs are favored by young people, this suggests that young people are driving drug abuse in Iran to even higher levels. There have also been regular reports of a concentrated or "crack" heroin, which is reportedly more pure than other heroin available in Iran. Because of its intensity, crack heroin is associated with increased emergency room visits, and overdose deaths. In 2007, Iran's Drug Control Headquarters reported seizures of "crack" and "crystal" heroin rose precipitously to more than 2 MT. At this level, this new form of heroin would represent 17 percent of total heroin seizures during 2007 in Iran.

Ninety-three percent of Iranian opiate addicts are male, with a mean age of 33.6 years, and 1.4 percent (about 21,000) is HIV positive. 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 says that it treated 438,341 drug addicts in 2007, and reports that more than 4 million syringes were distributed in the first nine months of 2007. The ability to deliver treatment on this scale represented a significant success, as addicts admitted for treatment in 2007 were up 40 times from just five years earlier in 2002, according to official treatment statistics. Narcotics Anonymous and other self-help programs can be

found in almost all districts, and several other NGOs, including NGOs supported by the Soros Foundation, which focus on drug demand reduction are active in Iran. 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. 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" counter-narcotics initiative. The U.S. has approved licenses which allow U.S. NGOs to work on drug issues in Iran.

The Road Ahead. The GOI has taken strong measures against illicit narcotics, particularly interdiction of drugs moving into and through its territory. 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.

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 more often related to bomb-making activities, not drug manufacture or abuse. However, within the last few years, there has been a marked increase in the seizure of large quantities of methamphetamine precursors, ephedrine and pseudoephedrine, as well as large seizures of amphetamine tablets. 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 continue to 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 in 2008

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. Drug Enforcement Administration (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. The U.S.

Department of Homeland Security (DHS) and the U.S. Customs and Border Protection (CBP) provide advisory and training assistance to Iraqi Department of Border Enforcement officials at high threat locations along Iraq's borders. DHS and CBP also provide assistance to Iraqi Customs, Immigration, and Border Guards to help ensure their policies, procedures, and capabilities enhance Iraqi border control efforts.

The USG provides some assistance to help the GOI develop counter-narcotics capacity. For example, State Department-INL-contracted experts assigned to MNC-I (Multi-National Corps-Iraq) conduct training for Iraqi Border Security Agents. DEA also provides assistance. DEA operates in a concerted region-wide manner through the Ankara Regional Office in Turkey. DEA efforts include:

establishing relations in the KRG (Kurdish Regional Government) between MNSTC-I (Multi-National Security Transition Corps-Iraq) and Kurdish authorities to develop operational cooperation, intelligence sharing, and investigative training; sharing intelligence and supporting Coalition initiatives such as MNF-W's (Multi-National Force-West) Joint Prosecution Exploitation Cell (JPEC); increasing efforts to develop intelligence in southeast Turkey, along the borders with Iran and Syria; assigning DEA agents to the Major Crimes Task Force (MCTF), an interagency effort headed by the FBI that works with the Iraqi Ministry of Interior.

Corruption. While corruption is a serious problem in Iraq, Iraqi officials do not seem to engage in 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, and an additional \$6.2 million from the 2008 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 1971 UN Convention on Psychotropic Substances. In March 2008, Iraq acceded to the UN Convention against Corruption and to the UN Convention against Transnational Organized Crime (UNTOC) but has not signed any of the UNTOC protocols. The extradition treaty between Iraq and the United States is in force.

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/Demand Reduction. 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. Village markets often have prescription drugs, pilfered from medical facilities, for sale in an uncontrolled atmosphere. In February 2008, the GOI, in a report provided by the National Intelligence Information Agency, within the Ministry of the Interior (MOI), summarized the drug problem in Iraq. The GOI reported that after 2003, there was a noticeable increase in the sale and consumption of illegal drugs. The GOI estimated approximately 10,000 Iraqi's are addicted to illegal narcotics, with recent growth among the addicted population between the ages of 16-24. It identified Iran as the main source of illegal drugs, and Maysan provinces as a primary passageway for illegal drugs. 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.

Drug Trafficking, the Insurgency, and Security Forces. There is some evidence that insurgents use drug trafficking as a means of financing. Additionally, Coalition forces have reported that insurgent groups use drugs to increase the risk-taking willingness of their fighters.

Amphetamine. Since 2006, there have been several seizures of significant amounts of amphetamine tablets in Iraq.

In December 2006, coalition forces seized 50,000 tablets of amphetamine.

In June 2008, coalition forces seized 595,000 tablets of amphetamine.

In July 2008 the Iraqi National Intelligence and Information Agency (INIIA) seized approximately 425,000 tablets of amphetamine.

In October 2008, coalition forces seized 125,000 tablets of amphetamine.

Regionally, Jordanian law enforcement reported seizing approximately ten million tablets a year since 2004, while Saudi Arabian authorities reported seizing approximately twenty-two million tablets from May to November 2007.

Hashish. Kuwait law enforcement has reported large quantities of hashish are being smuggled from Iran through Basra Province into Kuwait. This is corroborated by limited Iraqi intelligence reporting. Syrian law enforcement officials reported seizing approximately 125 kgs of hashish smuggled through Iraq.

Equipment/Precursors. In the last three years there have been multiple attempts to import tablet processing equipment and large quantities of methamphetamine precursors into Iraq, notably:

In 2005 international law enforcement officials tracked the delivery of a tablet manufacturing press capable of producing 50,000 tablets per hour from Germany to Iraq.

In 2006, international law enforcement officials stopped six shipments of ephedrine to Iraq totaling 18,000 kgs, and in 2007, stopped an additional three shipments of pseudoephedrine totaling 250,900 kgs. The International Narcotics Control Board (INCB) has set Iraq's legitimate annual ephedrine/ pseudoephedrine requirement at 1,400 kgs.

In March 2008, international law enforcement officials halted the shipment of 10,000 kgs of pseudoephedrine to a company in Iraq

While there has not been any indication of large scale methamphetamine production in Iraq, incidents of this nature and the large number of amphetamine tablets seized cause concern for the possibility of future production of methamphetamine or, more likely, illicit diversion of precursors to third countries.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The National Drug Intelligence Center conducted a thorough assessment of the situation in Iraq during 2008 and is scheduled to release a report on their findings in the early part of 2009. . To assist Iraqi maritime forces in readiness to patrol, the USCG sent two engineering teams to provide training in the areas of logistics and administration. They also sent teams to provided advanced outboard motor maintenance and small boat operations training

The 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.

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. The ability to travel between Ireland and the U.K. document-free does pose a unique challenge for Irish law enforcement officials. 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. 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 officials have found a large quantity of precursors intended to manufacture around Euro 500 million worth of Ecstasy and amphetamines in past seizure operations.

III. Country Actions against Drugs in 2008

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. A new National Drugs Strategy for the period 2009-2016 is currently being developed. A comprehensive consultation process took place during 2008. It is expected that the Strategy will be finalized and launched early in 2009.

A national Awareness Campaign focusing on the dangers of cocaine misuse was launched in early 2008 by the Health Service Executive. The Department of Community, Rural and Gaeltacht Affairs allocated Euro 500,000 across Local and Regional Drugs Task Forces to develop locally based campaigns to dovetail with the national campaign. Increased funding of Euro 14.3 million under the Drugs Strategy was provided in 2008. Under the Young People's Facilities and Services Fund (YPFSF), further facilities and services were provided for young people at risk of becoming involved with drugs. The increased funding provided staffing and running costs for projects in existing areas and facilitated the expansion of the YPFSF into four new towns: Arklow, Athlone, Dundalk and Wexford. In October, the Taoiseach (Prime Minister) announced the transfer of the YPFSF into the Office of the Minister for Children and Youth Affairs to facilitate a more coordinated approach to policies for young people at risk.

Further progress was made towards full implementation of the agreed work programs of the ten RDTFs. The additional funding allowed for the full year cost of projects already in progress, as well as the start of additional projects this year. Euro 750,000 was allocated to support a range of rehabilitation measures across Task Force areas. The increased funding also provided for the continued implementation of the recommendations of the National Advisory Committee on Drugs report “An Overview of Cocaine Use in Ireland”. Euro 1.2 million was allocated across Task Force areas to develop new responses to tackle cocaine abuse and to strengthen and deepen existing

cocaine projects. Euro 2.3 million was allocated to 16 projects in RDTF areas not covered by the YPFSF. Applications were invited from the ten RDTFs for suitable community based, youth focused proposals.

The Dial-to-Stop Drug Dealing Campaign was launched in 2008. This initiative, including a confidential telephone line, involves a number of local/regional campaigns run through the mechanism of the Local/Regional Drugs Task Forces.

The 2006/2007 Drug Prevalence Survey: “Drug Use in Ireland and Northern Ireland” was published in October. Figures show that heroin use has stabilized in Dublin while increasing in other areas. Cocaine use has increased.

The Department of Community, Rural and Gaeltacht Affairs coordinated the Irish input into the preparation of the EU Action Plan on Drugs 2009-2012. A British-Irish Council summit on “Families & Drugs” was held in Dublin in February. A Ministerial sectoral group meeting on the “Misuse of Drugs” was held in London in November.

Accomplishments. Prosecutions increased in 2007, the majority of which were for drug possession, which has risen steadily since 2003, and accounted for 73.5 percent of the total drug offences prosecuted in 2007. The number of simple possession offences increased from 10,471 in 2006 to 14,033 in 2007.

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 (Figures for 2007 are not yet available). Recorded headline drug offences in 2007 rose by 791 (21.8%). The largest offence type, *Possession of drugs for sale or supply*, increased by 595 (19.7%) while recorded *Cultivation, manufacture or importation of drugs* offences increased by 79 (58.5 %) over the year. The Irish Police continued to cooperate closely with other national police forces. In November, Irish Police arrested three British nationals for their part in an international cocaine smuggling network following information from the British Serious Organized Crime Agency (SOCA) and the Lisbon-based European anti drugs agency Maritime Analysis and Operations Center—Narcotics (MAOC-N), of which Ireland is a participating member.

Law Enforcement Efforts. Although official statistics are not yet available for 2008, 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 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, Irish Navy and the Irish Customs Service seized 1,875 kilograms of cocaine (valued at Euro 500 million; the largest ever seizure in the State) off the coast of Cork on November 5. The cocaine was discovered on, *Dances with Waves*, a ship not registered in any country or territory, and had been tracked from the Caribbean across the Atlantic until it was intercepted by Irish authorities. Three arrests, all British nationals, were made in relation to this ill-fated smuggling operation. The three are to be tried in 2009. Irish Police believe the drugs were not intended for the Irish market and were more likely destined for the UK.

Police sources said, contrary to widely-held perceptions, the value of cocaine seizures decreased in 2007, with a value of Euro 17.4 million, while the value of heroin seized increased to Euro 23.4 million. Sources said the rise in the quantity of heroin being offered for sale was directly related to the large opium crops in Afghanistan.

Police sources say the increase in quantities seized and arrests made are a function of enhanced efforts rather than an increase in narcotic use.

A breakdown of the type and quantity of drugs seized by police in 2007 follows:

Particulars of drugs seized during 2007

Source: Central Statistics Office

Drug	Quantity	Cases
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Alprazolam	217 tablets	16
Amphetamine	58,217 grams, 10,471 tablets	235
BZP**	203 tablets, 1.4 grams	43
Cannabis	763.1 kg	1,910
Cannabis resin	1,235.4 kg	3,166
Cannabis plants*	1,272 plants	100
2 C-B	2 tablets	1
Cocaine	1,751.8 kg *Approximately 1,500 kilograms of cocaine were the result of one seizure made in July 2007.	1,749
CPP**	57,420 tablets	12
Diamorphine (Heroin)	146.6 kg	1,698
Diazepam	71,483 tablets, 1,988 gram	166
Dihydrocodeine	358 tablets, 0.2 grams	16
DOB	5 tablets	1
Ecstasy MDMA	204,799 tablets, 13.3 kg	1,171
Ecstasy MDEA	7 tablets	2
Ephedrine	695 tablets, 47 capsules, 3.2 grams	11
Flunitrazepam (Rohypnol)	76 tablets	4
Flurazepam	3,608 capsules	24
Ketamine**	52.1 grams 2,082 tablets	28
Khat	Plant samples	2
LSD	140 units	13
Methadone	6,022 milliliters, 900 tablets	21
Methandienone**	4,094 tablets	18

Methylamphetamine	40.9 grams	9
Oxycodone	283 capsules, 263 tablets	2
Temazepam	4 tablets	3
Zopiclone**	2,218 tablets	23

*The number of cannabis plants does not reflect the total number detected as only a sample of the plants are sent for analysis for practical reasons.

**These drugs are not controlled under the Misuse of Drugs Acts, 1977 & 1984

In February, in a planned operation led by the Garda National Drugs Unit with drugs units in Naas and Newbridge, one and half tons of cannabis, with an estimated street value of Euro eleven million, was seized. In April, eight kilograms of cocaine was seized by officers from the Garda National Drug Unit and the National Criminal Intelligence Unit in Dublin city centre. Officers from the Garda Organized Crime Unit and the Clondalkin Drugs Unit discovered 20 kilograms of heroin in an industrial estate in Clondalkin, West Dublin in June. In July, in a joint operation with Customs officers, detectives from the Garda National Drugs Unit intercepted two cars on a transporter in Birr, County Offaly and seized six kilograms of methamphetamine (crystal meth). The interception was part of Operation Chestnut, an investigation set up to target Eastern European drug trafficking gangs and Nigerians who are focusing on the Irish market. (Note: In 2006 a total of only 10.2 grams of the drug was found in five separate seizures.) In August, as part of an operation by the Organized Crime Unit, the Garda National Drug Unit and Garda National Bureau of Criminal Investigation seized six kilograms of heroin in Dublin. An investigation headed by the Garda's Organized Crime Unit (OCU) seized 13 kilograms of heroin, with an estimated street value of Euro 2.6 million, in September. In October, cannabis valued at Euro 10 million, was seized entering Ireland by car ferry in Rosslare, County Wexford. In November, Garda seized heroin and cocaine with an estimated street value of Euro 2 million in a planned raid in Blessington, County Wicklow.

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. There are also no known reports of senior officials of the government engaging in, encouraging, or facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. 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 U.S. has ratified these agreements. As of November 2008, the GOI had enacted legislation to bring the U.S.-EU MLAT and the U.S.-Ireland MLAT into force. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into 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 2008, published in June, placed Ireland in joint fifth place (out of 32 European countries) for cocaine use and in joint sixth 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 71 methadone treatment locations. The treatment centers treat 9,000 of Ireland's approximately 15,000 heroin addicts, 13,000 of whom live in Dublin. A total of 1,579 individual prisoners received methadone in Irish prisons, accounting for about 10 percent of the total population sent to prison in 2007.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 2008, 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.

Israel

I. Summary

Israel is not a significant producer or trafficking point for drugs, but its domestic market for illicit narcotics is characterized by high demand. Compared with 2007, the Israeli National Police (INP) reported a 40% rise in new illicit narcotics-related cases in 2008. This increase is likely the result of increased resources and improved efforts by the INP in interdicting illicit drugs and not from a substantial increase in the domestic drug market. Israel's porous border with Egypt in the south and lucrative smuggling routes through Lebanon in the north make the drug trade an attractive and profitable venture for Israelis and others. The Israeli National Police (INP) report high availability of marijuana, hashish, Ecstasy/MDMA, cocaine, heroin and LSD in the Israeli domestic market. The intense security presence and surveillance along Israel's borders generally make it difficult for smugglers to bring drugs into the country, but demand in the market guarantees a profitable return for those determined to take the risk. Israel is not a significant transit country for drugs, although authorities intercept heroin transiting Israel from Jordan to Egypt. 2008 witnessed several large seizures of cocaine and other narcotics and an increase in resources to combat pharmaceutical crime. 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. In a 2008 study, the INP estimated annual domestic proceeds from the sale of illicit drugs to be approximately U.S. \$1.5 billion. 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 such as inhalants, and the availability of chemical analogs of banned substances not explicitly prohibited under the law.

III. Country Actions against Drugs in 2008

Policy Initiatives. The INP continued its general policy of interdiction at Israel's borders and ports of entry. The police concentrate specifically on the Jordanian and Egyptian borders, where the majority of heroin, cocaine and marijuana enter Israel. Israel's Pharmaceutical Crime Unit (PCU) in the Ministry of Health added an additional pharmacist in 2008 who rotates through ports-of-entry to lend expertise to the Israeli customs service in interdicting illicit pharmaceuticals or precursor drugs. Due to the success of this program, the PCU has requested additional money from the 2009 budget for a third pharmacist. In an initiative similar to the "DAWN" program in the US, the GOI is working to establish a network to increase monitoring of drug abuse by compiling data gathered from hospitals.

The Knesset, Israel's parliament, approved legislation allowing expanded testing measures of drivers who police suspect of driving under the influence of drugs and alcohol. New legislation allowing random saliva drug testing of professional commercial vehicle drivers is in its final stages of approval. The Knesset is also considering legislation prohibiting the manufacture, import, display, possession, or sale of any drug-related paraphernalia. Additionally, 15 new synthetic drugs (ATS) were added to Israel's Dangerous Drugs Ordinance.

Law Enforcement Efforts. In 2008, the INP established a new drug interdiction unit called "Magen" to patrol the Israeli-Jordanian border in the Dead Sea region. Increased drug enforcement and interdiction efforts led to increased amounts seized. The INP report that the main source of hashish has shifted from Jordan and Lebanon to Morocco and Afghanistan. Also, since the majority of Israel's Ecstasy or MDMA enters via sea, the police and customs units are paying greater attention to smuggling efforts at sea ports. The INP report about a 40% increase in the number of drug trafficking and smuggling cases for 2008 over 2007. Heroin and cocaine seizures increased dramatically in 2008, mostly due to large seizures that a few successful operations yielded. Building on changes in law that occurred in the

last couple of years, in 2009 the INP and PCU plan to take aggressive measures against drug dealers that operate in Israel's "kiosks", or small, 24-hour stands that sell tobacco and other convenience products throughout Israeli cities.

Drug Seizures*

Cocaine (kg)	
2008	132
2007	35
2006	42
2005	169
Heroin (kg)	
2008	307
2007	94
2006	70.3
2005	140
Marijuana (kg)	
2008	850
2007	1,465
2006	5,032
2005	10,000
Hashish (kg)	
2008	1,120
2007	734
2006	898
2005	1,022
LSD (blotters)	
2008	948
2007	1,932
2006	11,476
2005	2,880
MDMA (Ecstasy tablets)	
2008	103,790 2 kg powder
2007**	891,300
2006	112,985
2005	266,996
Opium (kg)	
2008	0.0
2007	0.0

2006	0.1
2005	8.4
Amphetamines	
2008***	88,885 tablets
2007****	0.0(kg)
2006****	8.7(kg)
2005****	7.2(kg)

*2008 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.

***80,000 of this number were tablets of Captagon seized in the Dead Sea region.

****Seizures of Cathinone only. Availability of Cathinone diminished after it was banned under Israeli law, but authorities continue to pursue analogs of the drugs.

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. Corruption is treated as a serious matter by the government. In 2008, a number of public officials, including the prime minister, 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. 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.

In 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 permits 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 for service of a U.S. sentence in Israel for fugitives determined to be Israeli citizenship and residents at the time of the commission of the offenses and allows limited inclusion of hearsay evidence in U.S. extradition documents. Israeli domestic statute of limitations in certain circumstances, however, may prohibit extradition of fugitives whose cases are more than ten years old. The application of Israel's statute of limitations now is being litigated before the Israel Supreme Court in an U.S. extradition request involving an alleged pedophile. In the 1980s, Israel refused to turn over the fugitive because, at that time, the 1962 convention and Israeli domestic law did not permit the extradition for the offenses charged. Once the treaty was amended by the Protocol, the case was re-filed in 2007. The Supreme Court is not expected to make a final ruling in the matter until sometime in 2009.

The U.S. also has a mutual legal assistance treaty with Israel. Although this relationship is very active, in many cases Israel has been slow in executing U.S. requests.

Cultivation/Production. The vast majority of drugs consumed in Israel are produced in other countries, though domestic cultivation of marijuana and hashish remains a small problem. From time to time, the police arrest clandestine farmers growing cannabis using hydroponic techniques. Though domestically produced analogs of Ecstasy/MDMA, dimethyl cathinone, and amphetamines were manufactured and available in many urban kiosks under a wide variety of ever-changing names, the PCU has plans to establish a program in the near future to counter this activity. Cathinone is extracted from the “khat” plant, which is legal in Israel and widely cultivated within Israel’s Yemenite and Ethiopian immigrant communities. Together with the INP, the PCU recently broke up a large Ritalin counterfeiting ring. The government expects indictments in this case sometime in 2009.

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, though domestic demand ensures that Israeli citizens continue to take part in international drug trafficking networks in source, transit and distribution countries. Israel is not a significant transit country for drugs. While smugglers prefer the more porous borders with Egypt and Jordan where security is not as strong, Israeli military officials still report a sizeable incidence of smuggling in many of the Arab villages that straddle the Israeli-Lebanese border in the north.

2008 drug interdiction data for Israel indicate that Egypt is the country’s main source of marijuana, South America is the main source of cocaine, and MDMA enters primarily via sea. 2008 data strongly support the trend that began in previous years in which Morocco and Afghanistan have replaced Lebanon and Jordan as the Israeli market’s main source of hashish; the Egyptian border provides the primary point of entrance for the drugs. Israeli officials continue to see a trend in the use of Israel as a transit point for the flow of heroin from Jordan to Egypt. The Negev Bedouin tribes, using their knowledge of the desert terrain and their familial connections with Jordanian and Egyptian Bedouin, facilitate most of the heroin trafficking across Israel. The INP report that in 2008, 37 kg of heroin was seized on the Egyptian border, 115 kg on the Jordanian border, and 124 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.

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. The IADA administers treatment programs targeted to special populations such as women, youth, new immigrants, homeless, co-morbidity patients 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 drug use is curtailed and where patients have access to professional training and family therapy. Israel employs the use of commonly known drugs such as Subutex-buprenorphine, and Methadone in its treatment facilities and hospitals.

The IADA worked with other agencies such as the Israel Institute for Occupational Safety and Hygiene on the needs of special populations. Needle exchange programs were implemented in several cities to reduce harm to homeless populations and other programs were developed specifically targeting prostitutes. Israel established therapeutic communities focusing on rehabilitation of patients, and in particular, vocational rehabilitation. The IADA began developing culturally sensitive prevention programs for the Ethiopian and former Soviet Union immigrant communities. The IADA participated in and/or helped to facilitate regional law enforcement workshops organized by the UN, attended joint meetings with Israeli and Palestinian law enforcement officers, and began building bridges with neighboring Jordan by means of research trips.

In 2008, several training courses were developed and implemented with the key goal of enhancing and promoting human resource development in the field of alcohol and drugs. Two main groups targeted over the year, which have significant interaction and impact over youth, included medical personnel such as nurses, doctors and pediatricians, and new teachers and students of education. The IADA has outlined several objectives for 2009. They intend to expand awareness of drug abuse through development of comprehensive, multi-disciplinary alcohol prevention

programs. The IADA also plans to focus its attention on the illicit sale of designer drugs and sale of alcohol to minors. The IADA continues to advocate for a new, updated anti-drug law that would permit more immediate inclusion of dangerous substances into the Dangerous Substances Ordinance. Officials would like to explore programs on rehabilitation of clean addicts, in particular vocational rehabilitation. Enhancing international activities with the European Community and UN organizations and intensifying professional relations with the Palestinian Authority remain goals within the Israeli anti-drug community.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between Israeli and U.S. institutions dealing with illicit drugs is excellent. The DEA Country Office In Nicosia, Cyprus and Israeli officials characterize their cooperation 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 also works directly with the DEA and sent representatives to a DEA-sponsored course on dual-use drug precursor diversion in June 2008. The PCU continues to provide intelligence in a precursor drug case of Israeli pseudoephedrine destined for an alleged methamphetamine lab in Africa.

Road Ahead. Officials from both the Israeli and U.S. government wish to continue strengthening an already excellent partnership in the area of illicit drug enforcement, eradication, and rehabilitation efforts. The DEA Country Office in Nicosia, Cyprus will continue its cooperation and coordination with counterparts in the Israeli law enforcement community. The INP continues 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. The IADA has begun to establish relationships with the National Institute on Drug Abuse and the Office of National Drug Control Policy in the U.S.

Italy

I. Summary

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. The Government of Italy (GOI) is firmly committed to the fight against drug trafficking domestically and internationally. The Berlusconi government continues Italy's strong counternarcotics stand with capable Italian law enforcement agencies. 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 2008

Policy Initiatives. Italy continues to combat narcotics aggressively and effectively. In 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.

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 of countries coordinating narcotics sector assistance projects for Central Asia.

Law Enforcement Efforts. From January 1 to September 30, 2008, Italian authorities seized 1,377.9 kilograms of heroin; 4,201.2 kilograms of cocaine; 31,476.3 kilograms of hashish; 3,638.7 kilograms of marijuana; 153,766 marijuana plants; 127,423 doses and 14.773 kilograms of amphetamines; and 7,768 doses of LSD.

In June 2008, a lengthy DEA and Italian Carabinieri investigation into an Ecstasy and cocaine trafficking organization operating in Italy and the U.S. led to the seizure of \$2.6 million in trafficker-owned assets by Italian law enforcement authorities. The investigation revealed this group was directing a complex scheme to launder millions of narco-dollars through money remitters, businesses and shell companies based in Italy, the U.S. and other locations.

In July—August 2008, a year-long joint investigation by DEA and the Italian Guardia di Finanza (GdF) dismantled a cocaine trafficking organization operating in the U.S. and Europe. The GdF seizure of 10 kilograms of cocaine in Milan revealed the cocaine transited through Los Angeles, California and led the identification of an organization responsible for polydrug trafficking activities in the U.S., Italy and Albania. The U.S. investigation led to the arrest of nine U.S.-based group members and the seizure of six kilograms of cocaine, one pound of methamphetamine, various weapons and the seizure of \$1.6 million in assets.

In August 2008, a multilateral investigation involving DEA offices in Italy, Colombia and Ecuador, the Italian Carabinieri, as well as Colombian and Ecuadorian authorities, resulted in the seizure of 100 kilograms of cocaine from a residence in Naples, Italy. This operation targeted a Naples-based Camorra clan responsible for smuggling large amounts of cocaine from South America into Italy via maritime cargo containers. The Carabinieri arrested the leader of the group, as well as other members of the organization, significantly disrupting the group's drug trafficking activities.

In September 2008, the DEA Rome office, in conjunction with Italian law enforcement officials and numerous other DEA domestic and foreign offices, participated in a multinational and multi-jurisdictional enforcement action—dubbed Operation Reckoning—which targeted a significant element of the Mexican based “Gulf Cartel” responsible for importing multi-ton quantities of cocaine, heroin, methamphetamine and marijuana from Mexico for distribution in the U.S. and elsewhere, including Italy. The joint DEA and Italian Carabinieri investigation targeted 'Ndrangheta organized crime cells operating between Calabria, Italy and New York City as part of the overall operation. During the initial phase of this investigation, 16 individuals were indicted on Italian drug trafficking and conspiracy charges. In mid-September 2008, ten other subjects were arrested in Italy and six were arrested in New York. Operation Reckoning received extensive media coverage in Italy and Europe, and highlighted DEA's efforts to assist Italian counterparts in targeting and dismantling 'Ndrangheta's international operations.

On October 16, Italian police arrested 70 people across the country suspected of drug trafficking and money laundering. Police made the arrests in the northern cities of Milan and Varese, as well as in several cities in the southern Sicily, Calabria, Puglia and Campania regions. 'Operation Tsunami', which began in 2004, uncovered two drug trafficking organizations, each with its own supply channels and extensive networks of drug pushers who reportedly operated in city squares and streets as well as nightclubs and other youth hangouts. The gangs reportedly had a monopoly over the trafficking and pushing of hashish and cocaine in several Sicilian provinces.

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 22 drug liaison officers in 20 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 'Ndrangheta, the Naples-based Camorra, and the Puglia-based Sacra Corona Unita). During a two-year investigation leading to a major drug bust in early 2005, Italian officials confirmed 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 Latin 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. The USG has 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 is a party to the UN Convention against Transnational Organized Crime and its three protocols and has signed but not ratified the UN Convention against Corruption. Italy has bilateral extradition and mutual legal assistance treaties with the U.S. In 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; Italy has yet to ratify these instruments. In fact, Italy is one of only three EU countries that have failed to ratify the new network of bilateral extradition and mutual legal assistance treaties with the U.S. The other two countries are Greece and Belgium.

Cultivation Production. There is no known large-scale cultivation of narcotic plants in Italy, although small-scale marijuana production in remote areas does exist 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 and Campanian-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. 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 identified 720 residential, 200 semi-residential facilities, and 179 ambulatories. Of about 500,000 estimated drug addicts and 318,000 estimated eligible for treatment in Italy, 171,000 receive services at public agencies. About 62 percent of the total used cannabis or cocaine. Others either are not receiving treatment or arrange for treatment privately. The government continues to promote more responsible use of methadone at the public treatment facilities. For 2006, the national, regional and local governments spent about 1.8 billion Euro for drug treatment programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Italy continue to enjoy exemplary counternarcotics cooperation. In January 2007, the Italian Central Directorate for Anti-Drug Services (DCSA) hosted a working group conference of law enforcement counterparts from Europe and Africa as part of the DEA's annual International Drug Enforcement Conference (IDEC). At the July 2008 IDEC, the Director of DCSA met with DEA's Acting Administrator in furtherance of bilateral cooperation and operations. 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 dual-use drug precursor chemicals. (Note: Italy has not been identified as a significant international producer or distributor of methamphetamine precursor chemicals.)

In June 2008, the Italian 'Ndrangheta Organized Crime group was added to the U.S. Treasury Department Office of Foreign Asset Control (OFAC) Foreign Drug Kingpin list after close coordination between American and Italian counterparts. The designation by President Bush is aimed at reducing the ability of 'Ndrangheta members to use the U.S. and international banking systems in furtherance of their drug trafficking operations. The GOI's stated intention to enforce the provision is an indication of the Italian government's commitment to target and dismantle 'Ndrangheta's financial infrastructure. During 2008, DEA continued the Drug Sample Program with the GOI, which consists of the analysis of seized narcotics to determine purity, cutting agents, and source countries. From October 2007 to September 2008, DEA received approximately 74 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.

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' ability 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.

Jamaica

I. Summary

Jamaica remains the Caribbean's largest source of marijuana for the United States. While the volume of cocaine transit traffic remains lower than its sub-regional neighbors, it is worth noting that the cocaine seizure data from 2008 reflects a significant increase over both 2006 and 2007. In 2008, 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 the extradition of a drug kingpin and his co-conspirators. The GOJ's ambitious legislative anti-corruption and anti-crime agendas announced in 2007 and mid-2008 respectively remain stuck in parliament. In 2008 enforcement of the Proceeds of Crime Act and the Anti-trafficking law enacted in 2007 was less than hoped for. Jamaica is a party to the 1988 United Nations Drug Convention.

II. Status of Country

The majority of the direct export of marijuana to the U.S. is through Jamaica's busy commercial and cruise ports, and convenient air connections. Consumption of cocaine, heroin, and marijuana is illegal in Jamaica, with marijuana most frequently abused. 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 2008, an increase in murder and other violent crime by gangs was fueled in part by the "ganja for guns" trade between Jamaica and its neighbors.

III. Country Actions against Drugs in 2008

Policy Initiatives/Accomplishments. In 2008 the GOJ failed to pass and effectively implement key anti-crime, anti-corruption, anti-money laundering legislation. This included not establishing a new anti-corruption special prosecutor, not modifying the bail act, and not vigorously implementing the more expeditious seizure and forfeiture process that was enacted in 2007.

The manufacture, sale, transport, and possession of MDMA (Ecstasy), methamphetamine, or the precursor chemicals used to produce them, remains regulated by civil and administrative rather than criminal authorities. 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.

In 2008, the Ministry of National Security expanded its policy directorate in an effort to increase efficiency. In 2008, the GOJ expanded the vetting of senior police officers. This effort combined with other reforms as mandated by the GOJ-approved Police Strategic Review, should begin to turn around a police force that is plagued by corruption and inefficiencies.

The USG Container Security and MegaPorts (CSI) initiative began in late 2006. In 2008, construction began on a permanent facility for U.S. officers and their Jamaican counterparts. Pervasive corruption at Kingston's container and bulk terminals continue to undermine the CSI team's activities.

Law Enforcement Efforts. 2008 marked the first year of the new Police Commissioner's tenure and the beginning by the GOJ to implement reforms recommended in its strategic review of the force. The new Commissioner continues to face internal obstacles in his efforts to reform the police. The Commissioner and the GOJ are grappling with holistic reform at a time when murder and other violent crimes threaten to overwhelm the country. These criminal

organizations use proceeds to purchase weapons and further destabilize Jamaica. The U.S. is working cooperatively with the Organized Crime Division to shut down these organizations.

Despite death threats against several of its ministers, in 2008, the GOJ extradited drug trafficker Norris Nembhard and five indicted co-conspirators to the U.S. for prosecution. The very successful Operation Kingfish, a multinational task force (GOJ, U.S., United Kingdom and Canada) to target high profile organized crime gangs, celebrated its fourth anniversary in 2008. The new Police Commissioner combined his National Intelligence Bureau with Kingfish and Special Branch in an effort to gain efficiency. In years' past, Kingfish was becoming a catch-all investigative entity and worked on cases outside its original mandate. In 2009, Kingfish should return to its core mandate and prioritize the targeting of high-level criminals who command and control gangs in Jamaica. In 2008, the GOJ appointed a known reformer as the new Commissioner of Customs. Since his arrival a "no tolerance" policy against corruption has resulted in the removal or reassignment of a significant number of staff members and an increase in Custom's revenue by 25 percent. The new Commissioner intends to reinvigorate the Jamaican Custom's Contraband Enforcement Team (CET) which suffered for years under the previous Customs' leadership. Given that container traffic through the seaports is believed the primary method of transshipment of cocaine and cannabis it is critical to have a strong CET. In 2008, CET seized 168 kilograms (kg) of cocaine and 5,642 kg of cannabis at Jamaican air and seaports.

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. For the first time in 2008, corruption ranked second to crime and violence as the area of greatest concern for Jamaicans. Corruption remains a major barrier to improving counternarcotics efforts. The Jamaica Defense Force investigates any reports of corruption, and takes disciplinary action when warranted in furtherance of its zero tolerance policy. A bill creating an Anti-Corruption Special Prosecutor remains stuck in Parliament despite the Government's legislative majority. There has not been legislative action to create a National Anti-corruption Agency (NIIA), which could satisfy the Inter-American Convention against Corruption's requirements. In mid-2007, the JCF established a new Anti-Corruption Branch headed by an internationally recruited police officer. Since 2007, the Branch has arrested seventy-one officers on corruption charges. The Branch's number one task is to target high-level officers for corruption. The GOJ now requires senior police officers to sign employment contracts to improve accountability and facilitate the speedy dismissal of corrupt 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 1971 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 Corruption, the UN Convention against Transnational Organized Crime and its three Protocols, and the Inter-American Convention against Corruption.

Cultivation/Production. Exact cultivation levels for marijuana 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 was down in 2008, with 423 hectares eliminated, compared with 723 hectares eliminated in 2007. Jamaica uses manual eradication without the use of herbicides.

Drug Flow/Transit. GOJ security forces seized a total of 266 kg of cocaine in 2008. This is triple the amount seized in 2007 (80 kg) and double 2006's figure (109 kg). Some of the increase can be attributed to a reinvigorated effort to police the air and seaports by GOJ Narcotics police and DEA. In 2008, cocaine smugglers continued to use container

cargo transshipments, couriers, checked luggage, and bulk commercial shipments to move cocaine through Jamaica to the United States. There was a noticeable increase by law enforcement in detection of liquid cocaine secreted into consumer goods and luggage. Seizures of compressed marijuana remain as levels commiserate with 2006 & 2007. Marijuana traffickers continue to barter for cocaine and illegal weapons. 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. U.S. funding supported the provision of books and teaching staff to an inner-city after school program. The GOJ operates five treatment centers through the Ministry of Health. The GOJ/Organization of American States Inter-American Drug Abuse Control Commission (CICAD) university-level certificate program in drug addiction and drug prevention (funded by INL) enrolled 31 students and graduated 8 students in the 2007-2008 academic year. 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 2008, the U.S. provided training and material support to elements of the JCF and JDF to strengthen their counternarcotics, and anti-corruption capabilities and improve the investigation, arrest and prosecution of organized crime. The U.S. assisted the GOJ with vetting of specialized units within the JCF. The Jamaica Fugitive Apprehension Team (JFAT) received specialized training, equipment, guidance and operational support from the U.S. Marshals permanently stationed in Kingston. In 2008, the U.S. Marshals opened 80 new cases and closed 132 cases involving U.S. fugitives. Jamaican authorities made 14 arrests, 15 extraditions and 8 deportations during the year. In mid-2008, the USG-funded, Kingston-based Airport Interdiction Task Force continued operations and was instrumental in the increase in cocaine seizures.

The GOJ participated in joint deployments with the USG in Jamaican waters during 2008 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 2008 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 2008.

Multilateral Cooperation. In 2008 multi-nationals (GOJ, U.S., United Kingdom and Canada) shifted focus to assist the GOJ as it begins implementation of the 124 recommendations of the Police Strategic Review. An additional multi-lateral priority is to assist the Anti-Corruption Branch tackle corruption among senior police officers. 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. Gang-led violent crime and corruption will continue to pose a significant threat to social stability in Jamaica. The GOJ is exploring legislation to criminalize participation in organized crime gangs. If the difficulty that the GOJ has experienced in 2008 to pass more modest anti-crime legislation is a prelude, passage of RICO-type legislation could be difficult. Passage of RICO or Anti-Corruption Special Prosecutor legislation is not enough, however. So that the GOJ can successfully investigate, prosecute and convict corrupt officials at all levels of government service, we encourage the GOJ to ensure that the Anti-Corruption Special Prosecutor, the JCF Anti-Corruption Branch and the FID are independent, fully resourced and backed by political will. We also encourage the GOJ to support the Commissioner of Police 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 is encouraged to support the Commissioner of Customs efforts to take action against endemic corruption throughout its customs and revenue service.

The GOJ has requested assistance from its multilateral partners with the creation of a regional forensics training program to increase its own ability to train forensic pathologists, lab technicians and improve throughput at its laboratory. Greater speed and accuracy of forensic testing would greatly assist the GOJ in investigating violent crime. To better track, and intercept narcotics and weapons being smuggled into and through Jamaica, the GOJ should work to improve its port, border, and passport security to allow for real-time data collection and profiling of offenders and vessels. The GOJ should also look to foster greater sub-regional cooperation with Hispaniola, and the Bahamas in an effort to collect better intelligence on the gangs that move contraband between their borders.

Japan

I. Summary

Methamphetamine abuse remains the biggest challenge to Japanese antinarcotics efforts, marijuana use is widespread and MDMA (Ecstasy) trafficking continues to increase significantly. Cocaine use is much less prevalent but still significant. According to Japanese authorities, 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 have conducted several complex drug investigations during 2008, both independently and in cooperation with the U.S. Drug Enforcement Administration (DEA) Tokyo. Japan's efforts to fight drug trafficking comply with international standards; Japan is a party to the 1988 UN Drug Convention.

II. Status of Country

Japan is one of the largest markets for methamphetamine in Asia. A significant source of income for Japanese organized crime syndicates, over 80 percent of all drug arrests in Japan involve methamphetamine. MDMA Ecstasy is also a significant problem in Japan and MDMA abuse is increasing. Marijuana is the second most commonly used drug in Japan and is readily available. There is little evidence of domestic commercial cultivation, though there are some indications of small scale processing of imported herbal cannabis. Japan is not a significant producer of narcotics. The Ministry of Health, Labor and Welfare strictly controls some licit cultivation of opium poppies, coca plants, and cannabis for research. According to DEA and the National Police Agency, there is no conclusive evidence that methamphetamine or any other synthetic drug is manufactured domestically. There is, however, some anecdotal evidence that small quantities of MDMA may be being produced in Japan.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Headquarters for the Promotion of Measures to Prevent Drug Abuse, which is part of the Prime Minister's Office (Kantei), supervises the implementation of Japan's Five-Year Drug Abuse Prevention Strategy, first announced 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. In practice, information sharing with foreign law enforcement officials has been almost entirely one way, with much information provided to Japanese authorities and little shared by them. The Ministry of Health, Labor and Welfare added 30 more drugs to its list of controlled substances in 2006 with plans to add three more in 2008, but they have not yet (November 2008) been added.

Law Enforcement Efforts. Japanese police are effective at gathering intelligence. Investigations, however, are largely reactive in nature, and normally only disrupt drug operations at lower levels, that of couriers and street dealers. 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. Proactive policing rarely occurs, and only when very strict legal and bureaucratic hurdles can be overcome. 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 maintain detailed records of Japan-based drug trafficking, organized crime, and international drug trafficking organizations. Japanese authorities do attempt to engage in international drug trafficking investigations. Legal constraints, however, restrict them from passing useful and timely information of real assistance in international drug-trafficking

investigations. These same legal restrictions make it very difficult for police authorities to pro-actively investigate members of international drug cartels who operate in Japan.

The reduction in methamphetamine supply that began mid-2006 appears to have reversed. Law enforcement officials believe that Chinese traffickers using supplies from China and Canada have stepped in to fill the gap presumably created by the 2006 closure of several methamphetamine mega-labs in Indonesia, Malaysia, and the Philippines, as well as tightened security measures in the Sea of Japan. Methamphetamine prices have returned to their May 2006 levels, indicating a significant rebound in supply.

After a year of unremarkable interdiction results in 2006, increased efforts by customs officials produced dramatic results in 2007, and these continued to improve in 2008, particularly at Narita and Kansai International Airports. Given restrictive Japanese laws, these seizures result in little more than the arrest of the courier, and do nothing to attack the larger drug-trafficking organization. In the January through June 2008 period, Police and Customs Officials seized 58,966 MDMA tablets, 42.1 kg of methamphetamine, and 94.7 kg of marijuana (a 2.5 times increase over the same period of the previous year). There were no major methamphetamine seizures-the meth which was seized was seized in small lots- in the first quarter of this year, although there was an 8.8 percent increase in methamphetamine arrests between January and June 2008. Cannabis resin seizures for January through June were 8.8 kg, approximately 20 percent lower than the same period of the previous year. During the January through June period, a total of .9 kg of cocaine, and 6.2 kg of opium were seized. There were no heroin seizures in this period.

Corruption. There were no reported cases of Japanese officials being involved in drug-related corruption in Japan in 2008. 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 fifth consecutive year. As a result, Japan still cannot ratify the UN Convention against Transnational Organized Crime (UNTOC), although it has signed the UNTOC and its three protocols. Japan 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 and has signed but not yet 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. The MLAT is being used with some regularity between Japanese and U.S. law enforcement. Despite verbal commitments, Japan has still not joined IDEC-a DEA sponsored group of professional drug law enforcement officers.

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 primarily originates in the People's Republic of China (PRC). This is substantiated by a five-fold increase in methamphetamine prices around the time of the Beijing Olympics. Other nations in Asia certainly contribute to the flow of methamphetamine into Japan, and should not be discounted. Most of the precursor chemicals for production though appear to originate in China, and most transshipment takes place through China. Malaysia and Indonesia have documented production of meth targeted on Japan, while evidence for the Philippines and Taiwan is largely anecdotal. The case for Burma and the DPRK is less clear. Drugs other than methamphetamine often come from these same source countries. Airport customs officials regularly make seizures of cocaine transiting from the United States. Authorities confirm that methamphetamine, MDMA, and marijuana are being imported in large quantities from Canada. Most of the MDMA in Japan originates in either Europe or China.

Domestic Programs/Demand Reduction. Most drug treatment programs are small and are run by private organizations, but the government also supports the rehabilitation of addicts at prefectural (regional) centers. There are a number of government-funded drug awareness campaigns designed to inform the public about the dangers of stimulant use, especially among junior and senior high school students. The Ministry of Health, Labor, and Welfare, along with prefectural governments and private organizations, continues to administer national publicity campaigns and to promote drug education programs at the community level.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. goals and objectives include strengthening law enforcement cooperation related to controlled deliveries and drug-related money-laundering investigations; supporting increased use of existing anti-crime legislation and advanced investigative tools against drug traffickers; and promoting substantive involvement from government agencies responsible for financial transaction oversight and control of money-laundering operations. During 2008, the USCG conducted Visit, Board, Search, and Seizure (VBSS) training for the JSDF.

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 crimes. Law enforcement efforts alone however, without political backing to change restrictive Japanese laws, will not succeed in making Japan, a first world country with the world's second largest economy and a capable and modern police force, an equal partner in international counter-narcotics efforts.

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. The Public Security Directorate (PSD) believes that the volume of drugs transiting through Jordan continues to grow. Historically, Jordanians do not consume significant quantities of illegal drugs, and the PSD knows of no production operations in the country. Statistics for the first 11 months of 2008 show an increase in total number of cases, arrests and drug abusers when compared to 2007. 2008 has also proven to be a record year for seizures of Captagon, a synthetic stimulant also known as phenethylamine, with over 14 million tablets seized. PSD attributes increases to Jordan's enhanced rehabilitation programs, increased border interdiction operations, better intelligence gathering, and continued strong cooperation between Jordan and neighboring countries, but it is also possible that the large increase in Captagon seizures is because there is more demand for the drug in Jordan than heretofore known or acknowledged. The drugs of choice among users arrested for drug possession in Jordan are cannabis and heroin. The majority of people arrested for drug related crimes ranges between 18 and 35 years old. 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

According to statistics from the PSD-AND (Anti-Narcotics Department), there are currently no indications that Jordan will transition from a predominantly drug transit country to a drug producer. Jordan's vast desert borders make it vulnerable to illicit drug smuggling operations. Jordanian authorities do not believe that internal drug distribution is a substantial profit-making venture.

III. Country Actions against Drugs in 2008

Policy Initiatives. Jordan is continuing its drug awareness campaign focused at 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. Jordan is in its fourth year of producing cartoons aimed at younger children designed to dissuade youngsters from trying drugs. Jordan will take this program to the next level in the near future with anti-drug abuse movies directed at Jordanian youths. 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 to provide drug prevention training.

Law Enforcement Efforts. Jordan's PSD maintains an active anti-narcotics department and has established excellent working relations with the U.S. Drug Enforcement Administration (DEA), Nicosia Country Office based. PSD-AND has seen an increase in cocaine and other drug trafficking through Jordan's International Airport and has increased interdiction efforts there. GOJ authorities continue to use X-ray equipment on larger vehicles at its major border crossings between Syria and Iraq, which netted numerous drug seizures in past years and continued to do so in 2008. This equipment has proven to be very effective. Seizures of Captagon tablets have increased since last year. As one result, recent Jordanian media coverage has highlighted Captagon seizures giving the perception of increased trafficking of this drug. PSD claims not to have observed any wide-spread use of the drug in Jordan and there are

some reports that insurgents in Iraq are widely using Captagon as a stimulant. The PSD reports that 85% of all seized illicit drugs coming into Jordan are bound for export to other countries in the region. Jordan's general drug traffic trends continue to include cannabis entering from Lebanon and more now from Iraq, heroin from Turkey entering through Syria on its way to Israel, and Captagon tablets from Bulgaria and Turkey entering through Syria on the way to the Gulf. But if a pattern in drug transit countries generally holds true in Jordan, there will be an increase in domestic abuse of drugs like Capatagon which seem to transit Jordan in such large quantities.

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 past few 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. Jordanian authorities regularly cooperate with the relevant anti-narcotics authorities in the region. In 2007-08, Jordanian officials reported that they conducted 22 specific operations during which they coordinated efforts with Syrian and Saudi Arabian authorities.

Drug Seizure Statistics

Calendar Year	2004	2005
Cannabis	1931.017	1485.477
Heroin	186.12	117.842
cocaine	32.97	.485
Hashish Oil	-	35.5
Captagon	9,774,002	11,158,083
Opium	21.9	3.5
Total Cases	1691	2041
Arrests	2514	4792
Abusers	2158	4027

Calendar Year 2006 2007

Cannabis	793.715	410.3
Heroin	131.3	43.119
Cocaine	5.26	7.474
Hashish Oil	14.5	-
Captagon	10,944,870	10,929,138
Opium	19.928	-
Total Cases	1973	2197
Arrests	3158	3707
Abusers	2577	2874

Calendar Year 2008 (as of 17 November 2008)

Cannabis	793.561
Heroin	22.577

Cocaine	5.339
Hashish Oil	127
Captagon	14,005,005
Opium	-
Total Cases	2481
Arrests	4339
Abusers	3479

NB. Seizures are reported in kilograms (Captagon seizures are measured in number of tablets; weight measurements are not available for tablets). 2008 statistics include January through November only. 2004 through 2007 statistics cover the full year.

Corruption. Jordanian officials report no narcotics-related corruption investigations for 2008. 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.

In 2008 Jordan held the Transparency and Anti-Corruption Conference at a Dead Sea Conference Center. Columnist Jamil Nimri in Arabic daily Al-Ghad commented, "I conclusively say that we in the region have not advanced much on transparency and anti-corruption standards." He further stated "Let's now see how much the Anti-Corruption Commission will do to obstruct corruption and to investigate any actions or deals or projects that smell of foul play." Jordan also took part in the 3rd Conference of Anti-Corruption Organizations Union held in Kiev in October of 2008. Council member of the Jordan Anti-Corruption Commission Ali Dmour headed the Kingdom's delegation to Kiev. While the anti-corruption commission forwarded its first corruption cases for prosecution (non-drug related), most observers still believe that the anti-corruption commission is not effective enough.

Agreements and Treaties. Jordan is party to the 1988 UN Drug Convention. Jordan continues to remain committed to existing bilateral agreements providing for counter-narcotics cooperation with Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt, Pakistan, Israel, Iran, and Hungary. Jordan also cooperates with the UNODC and the European Commission through a number of projects funded by the EU.

Cultivation and Production. Jordan neither grows nor produces illicit drugs and there are no statistics regarding domestic cultivation or eradication. Existing laws prohibit the cultivation and production of narcotics in Jordan. These laws have been effectively enforced.

Drug Flow/Transit. Jordan remains primarily a narcotics transit country, though with a danger of increased consumption of drugs like Captagon transiting Jordan in significant volume. 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 Jordan's International Airport is also on the rise. While law enforcement contacts confirm continued cooperation with Jordan's neighbors, the desolate border regions and the various tribes with centuries-old traditions of smuggling as a principle source of income, make interdiction outside of the ports of entry difficult. None of the narcotics transiting Jordan are believed to be destined for the United States. Jordan is bordered by Israel and the West Bank on the west, Syria (an outlet for producing countries) 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 training to effectively patrol and monitor Jordan's borders.

Domestic Programs/Demand Reduction. Jordan increased the scope of its programs on drug abuse awareness, education, and rehabilitation in 2008. Education programs target high schools, colleges, inmates, and religious institutions. Authorities continue to provide educational presentations in schools and universities throughout the country. As previously noted, Jordan created the "Friends of the AND" Program. 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 2008, AND conducted 872 awareness lectures in various institutions, organized 67 visits to AND, put on an anti-narcotics awareness play 5 times and actively participated in various fairs and media programs.

In conjunction with the UNODC, Jordan has strengthened its treatment and rehabilitation services for drug abusers in the country. The Jordanian Drug Information Network (JorDIN) was officially established in 2005 with help from the UNODC. The national treatment and rehabilitation strategy and coordination mechanism has proven effective, and Jordan looks to continued success 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 203 patients at its drug rehabilitation center in 2007 and thus far 172 in 2008. 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 an indicator of the strong levels of cooperation between the Governments of Lebanon and Jordan in their anti-narcotics efforts. In December 2008, Jordanian Prime Minister Nader Dahabi remarked during a session at the Lower House of Parliament that PSD-AND has “intensive contacts, mainly with neighboring countries and is supported both on the official and popular levels.

IV. USG 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 recently provided Jordan with additional equipment including 10 thermal eye imagers to help Jordan's Border security operations. The U.S. Coast Guard (USCG) provided residential training in shipboard damage control. The USCG has also provided Maritime Crisis Management training through its Mobile Training Teams (MITTS). There are several miles of Jordan's borders that are patrolled only by the PSD's Anti-Narcotics Department. In October 2007, EXBS provided PSD with a portable x-ray van for use in screening containers and vehicles at the Port of Aqaba. Jordanian Customs also uses a previously USG-donated X-ray van. 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.

The Road Ahead. The USG expects continued strong cooperation with the Jordanian government in counter-narcotics efforts and related issues. According to Jordanian authorities the drug situation is still “under control” but they are mindful that they could face a more serious problem in the future. New smuggling trends and new types of drugs are offering new challenges. Cocaine comes to Jordan from South America via European airports bound for Israel and other countries in the region. In 2008, Jordanian authorities seized more than three kilograms in three different cases in which two Peruvian and two Argentinean couriers were arrested. Department of Defense-Military Assistance Program (DoD-MAP) in Jordan has initiated the first phase of a comprehensive border security initiative. The multi-million dollar project will strengthen Jordan's ability to secure its borders with enhanced technologies.

Kazakhstan

I. Summary

Kazakhstan is still affected by the expansion of international drug trafficking and continues to fight drug trafficking, focusing on improvements to legislation, prevention, and supply reduction. Law-enforcement agencies in Kazakhstan have focused their efforts on disruption of the trafficking route from Afghanistan, which is the main source of narcotics in Kazakhstan. Afghan heroin transported along the northern route supplies Kazakhstan's domestic market and transits Kazakhstan to Russia and onward to Europe. Kazakhstan continues implementation of two, large-scale programs to combat corruption and drug trafficking mandated by President Nazarbayev. Strengthening the borders, especially in the south, is a priority for the government. Kazakhstan has acceded to the 1988 UN Drug.

II. Status of Country

Its geographic location, relatively developed transportation infrastructure, the openness of its borders with neighboring countries, and its social and economic stability have made Kazakhstan a major transit zone for narcotics and psychotropic substances. In 2008, the drug situation in Kazakhstan has been characterized by a decrease in the total number of registered drug-related crimes and a significant increase in the volume of seized drugs, including heroin.

The main factors influencing illegal drug use and sales in Kazakhstan are the expansion of Afghan production, the importation of synthetic drugs from Russia and Europe, and the presence of naturally-growing marijuana in Southern Kazakhstan. The main types of drugs illegally crossing into and through the country are Afghan opiates, synthetic drugs, and cannabis. During the first nine months of 2008, there was a significant increase in the volume of seized heroin (from 379 kilos to 1.5 metric tons, a 300% increase compared to the same period last year).

III. Country Actions against Drugs in 2008

Policy Initiatives. A law signed on June 26, 2008 by President Nazarbayev that amends the Criminal, Criminal Procedural, and Administrative Codes introduced tougher punishments for drug-related crimes, which is consistent with article 24 of the Narcotics Convention stipulating application of stricter measures than those required by the Convention. The new law increases the most serious penalty for drug-related crimes to life imprisonment. Because of the threat to Kazakhstani national security posed by narco-trafficking, the new law defines certain drug-related crimes as “especially grave” and, thus, life imprisonment is now available to sentencing judges in cases of trafficking in large quantities; participation in drug-related crimes as part of a criminal organization; drug sales in an educational institution and/or to minors; and sale or distribution of drugs resulting in death.

Article 319-1 of the Administrative Code penalizes entrepreneurs of entertainment facilities who do not take measures to stop the sale and/or consumption of drugs, psychotropic substances, and precursors on their business premises.

The amended counter-narcotics legislation is believed to have been a factor in the recent increase in apprehensions of narcotics abusers, including among heroin and opium abusers. The average price of heroin nearly doubled in the northern regions of the country and increased an average of 130% in the southern regions perhaps as a result of increased enforcement success.

The serious problem of seized drugs being resold by corrupt police was dealt with by introducing amendments to the Criminal Procedure Code allowing for the destruction of seized drugs more than the minimum amount necessary for evidence as soon as forensic testing is completed.

Law Enforcement Efforts. Kazakhstan actively fights narco-trafficking to and throughout the country. For example, special services share information with their colleagues from neighboring countries. The Border Guard Service has jurisdiction over trafficking across the border, while counter-narcotics operations in country are conducted by Ministry of Internal Affairs (MVD) units and the Committee for National Security (KNB), with the goal of ultimately arresting the leaders of trafficking rings.

All law-enforcement agencies combined reported 7,883 drug-related crimes, including 295 cases of trafficking during the first nine months of the year. A total of 23 tons of various drugs, including 200 kilos of synthetic drugs and psychotropic substances, were seized during that period, which is a 6.5% increase over the same period last year (21 tons, 787 kilos were seized during the same period in 2007). The total includes 1,514 kilos of heroin (nearly a 300% increase over last year's seizures of 378 kilos), 14 kilos of opium (a decrease of 92.9% from last year's 197 kilos), 327 kilos of hashish (a 74.7% increase), and 21,196 kilos of marijuana (a 3.6% increase over last year's 20,467 kilos).

Kazakhstani law-enforcement agencies have focused on conducting quality operations against entire cartels and not just the arrest of small couriers to increase seizure statistics. Over nine months, the MVD broke-up eight organized criminal groups, whose members committed 51 drug-related crimes. As a result of these operations, the police seized 48.763 kilos of drugs, including 37 kilos of marijuana, over 10 kilos of heroin, and one kilo of cannabis resin.

Two record seizures occurred during 2008. In March, the Customs Service seized 537 kilos of heroin at the Kairak border checkpoint on the Kazakhstani-Russian border utilizing a stationary X-ray machine. Two Russian citizens were sentenced to 13 years in prison as a result. The cargo was en route from Uzbekistan to Saint Petersburg. The drug couriers reportedly were paid \$8,000 to transport the heroin to Russia. The year's second large seizure was of 120 kilos of heroin by the MVD's Committee on Combating Drugs, in cooperation with the U.S. Drug Enforcement Administration and Turkish law enforcement.

The law enforcement agencies of Kazakhstan, Russia, Tajikistan and Uzbekistan, with the assistance of Afghanistan, broke up one of the largest Central Asian trafficking organizations, which transported heroin and opium through Central Asia to Russia. As a result of the multi-stage, three-year Operation "Typhoon," law-enforcement agencies opened 24 criminal cases and arrested 42 members of an international drug ring, including 14 Kazakhstan citizens. A total of 800 kilos of heroin and 100 kilos of opium were seized in four countries during the operation. As a result of the operation, all branches of the trafficking group were disrupted in participating countries. Traffickers working for the cartel transported drugs via two routes: from Shymkent (on the Kazakhstani-Uzbek border) through Taraz, Karaganda, Astana, and Petropavlovsk and from Shymkent through Taraz, Almaty, Taldy Korgan, and Ust-Kamenogorsk.

Law-enforcement agencies target nightclubs and other areas where drugs are sold. As a result of this strategy, law enforcement agencies in Astana reported 198 drug-related crimes during the first nine months of 2008. One hundred thirty-six of these crimes involved sales. The volume of seizures in Astana increased by 62.7% and the total amount of heroin seized in Astana has increased by more than 600%.

In accordance with Article 11 of the Narcotics Convention, Kazakhstan participates in controlled deliveries. During the first nine months of 2008, Kazakhstani law-enforcement bodies conducted 27 controlled deliveries, including 12 cross-border operations. Kazakhstan conducted five controlled deliveries jointly with colleagues from the Kyrgyz Republic and the Russian Federation and two operations with Tajikistan. These operations resulted in the seizures of 600 kilos of illicit drugs, including over 88 kilos of heroin.

As a result of the successful operations, drug prices have increased throughout the country. In Astana, prices have doubled to \$600 for a kilo of marijuana, \$5,000 for hashish, and \$10,000 for heroin. In Almaty, a kilo of marijuana is up to \$400 from last year's \$250. In Pavlodar, a kilo of heroin ranges from \$10,000 to \$15,000, an increase over last year's \$8,000.

In 2008, 5,756 people were detained for drug-related crimes (A decrease of 6.6% from last year). The number of women, minors, and repeat offenders committing drug-related crimes has decreased by 4.2% for women (from 684 to 655), 36.5% for minors (from 52 to 33), and 4.9% for repeat offenders (from 288 to 274). Convictions for drug-related crimes have also decreased from 5,850 to 5,326. Of those convicted, 575 were women and 31 were minors.

The Kanal-2008 (Channel) interstate operation was on September 15-23. The purpose of the operation was the detection and disruption of trafficking from Central Asia and Afghanistan and the dismantling of transnational organized criminal groups involved in trafficking. In Kazakhstan, the operation resulted in the discovery of 274 drug-related crimes, including 97 cases of sales and nine cases of trafficking, with the seizure of 1.4 metric tons of drugs, including 133 kilos of heroin.

Corruption. As a matter of government policy, Kazakhstan 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 trafficking. There were no cases of senior government officials engaged in the illicit production or distribution of drugs. However, there were several reported cases of corrupt police officers.

Two officers of the Criminal Police Unit and two officers of the Counter-Narcotics Unit in Southern Kazakhstan were sentenced to 10 to 12 years after having been convicted of the storage and sale of drugs and the abuse of their official position. As a result of an undercover KNB operation in January, the four officers were arrested for attempting to force a recently-released convict to sell drugs that had been previously seized for their benefit. The 2003 UN Convention on Corruption was ratified in May 2008.

In November, President Nazerbayev proposed that the fight against government corruption should be concentrated in one body. Currently, all state agencies are mandated to take measures to combat corruption internally.

Agreements and Treaties. Kazakhstan is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Kazakhstan is also a party to the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime, and its three protocols. The United States and Kazakhstan signed the seventh Supplementary Protocol to the Memorandum of Understanding on Narcotics Control and Law Enforcement on August 29, 2008 to support demand reduction programs and the sixth Supplementary Protocol on September 29 to support border security, counter-narcotics and anti-trafficking in persons programs.

The law-enforcement bodies of Kazakhstan closely cooperate with the Agency of the Kyrgyz Republic on Drug Control, the Agency on Drug Control of the Republic of Tajikistan, the Federal Service of the Russian Federation on Drug Control, and the National Center on Drug Control of the Cabinet of Ministers of the Republic of Uzbekistan. The intergovernmental interagency agreements on cooperation in the area of combating drugs are the legal basis for this cooperation. These countries conduct joint operations and investigations, demand reduction events, special operations, exchange of operative information and methodological literature, working meetings, and other activities.

The pilot phase of the Central Asian Regional Information Coordination Center (CARICC) was launched on November 1, 2007, in Almaty. UNODC recruited the core staff for the pilot phase. CARICC has already arranged controlled delivery operations. Kazakhstan believes that CARICC will become an effective organization which will collect operational information and analyze it. Kazakhstan ratified the CARICC agreement on November 6, 2007 and, with the ratification of Tajikistan six days later, CARICC has the required ratifications for the agreement to enter into force. Turkmenistan and Kyrgyzstan had previously ratified the agreement. According to the terms of the CARICC agreement, signed by all of the countries of Central Asia, Russia, and Azerbaijan, the agreement officially enters into force 30 days after Kazakhstan receives the fourth ratification instrument.

CARICC has established professional relationships with Europol, Interpol, the World Customs Organization, and other professional agencies. DEA is opening an office in Almaty to allow for closer contact with both Kazakhstan and CARICC.

Cultivation/Production. A favorable climate in Kazakhstan contributes to the growth of wild marijuana, equisetum ephedra, and opium poppies. Such plants grow on over 1.2 million hectares in Almaty, Zhambyl, South Kazakhstan, Kyzylorda, and East Kazakhstan regions. The largest source of marijuana in Kazakhstan is the Chu Valley in the Zhambyl region. Marijuana with a high THC content grows naturally on an estimated 138,000 hectares in the Chu Valley. The approximate annual harvest is estimated to be as high as 145 thousand tons of marijuana, with an estimated 6,000 ton yield of hashish.

The government has considered various proposals to fight marijuana cultivation in the Chu Valley, including introduction of a quarantine zone in the region or establishing legally controlled industrial processing of wild marijuana.

Operation “Mak” (Poppy) is an annual operation conducted from May 25 to October 25 to combat the harvesting of illicit crops and disrupt drug cartels in the Chu Valley. During the operation, the Committee on Combating Drugs closely cooperates with the Border Guard Service of the Committee for National Security (BGS) and creates a security zone around the valley to prevent the movement of the crop out of the valley. Inter-agency mobile units also conduct patrols throughout the valley. As a result of the operation, law-enforcement agencies found 230 separate illicit crop cultivations, including 24 areas growing poppies and 206 areas growing marijuana over a total area of 11,079 square meters. Over 20 tons of drugs, including those being trafficked through the area, were seized during this year’s operation, including 50 kilos of heroin, 20 tons of marijuana, over two kilos of opium, and 74 kilos of hashish. The MVD registered 3,754 drug-related crimes, including 1,476 cases of sales and 107 cases of trafficking. The operation also resulted in the detention of 3,170 offenders. Despite the discovery of poppy cultivation, law-enforcement agencies have not yet discovered heroin labs in Kazakhstan. It is believed that the majority of the raw opium from the Kazakhstani poppies is smoked, chewed, or eaten in Kazakhstan. An average user chews or eats 5-10 grams of raw opium, per day.

On July 28, police closed a lab producing pervitine (methamphetamine hydrochloride) in Pavlodar (Northern Kazakhstan). Methamphetamine is included in the list of drugs, psychotropic substances, and precursors that are subject to control under Kazakhstani legislation. The lab was operated by a Russian citizen who learned to build and operate the lab from a fellow prisoner in Tolyatti, Russia while serving a two-year term for a drug-related crime.

Drug Flow/Transit. Despite the large amount of domestic production, Kazakhstan faces a much more serious threat from the transit of narcotics. As a result of the transit, the country faces an increasing problem with addiction. International experts estimate that 10%-15% of drugs trafficked through Kazakhstan remain in the domestic market.

The main types of drugs trafficked through Kazakhstan are Afghan opiates (heroin and opium), synthetic drugs (LSD and Ecstasy), marijuana, and hashish. Police discovered no labs producing heroin, LSD, or Ecstasy during 2008. The delivery and sale of synthetic drugs was disrupted by the KNB in the North Kazakhstan region, where 500 doses of Ecstasy from the Netherlands were seized. The price of one pill was estimated at approximately 15 Euro. In the Jamaika night club in Astana, the MVD detained a distributor of 50 Ecstasy pills, who was later convicted and sentenced to ten years in prison. Though the majority of Ecstasy seized in Kazakhstan came from Europe in past years, this year the MVD seized some Ecstasy that had been imported from Istanbul.

According to officers working at internal narcotics checkpoints, trucks traveling under the International Road Transport Convention (TIR) are being used to traffic narcotics through the country. Recent seizures in TIR vehicles have confirmed these suspicions. The TIR Convention was drafted to facilitate the international shipment of goods and was meant to simplify and harmonize administrative formalities. Article 5 of the TIR Convention stipulates that goods carried in previously inspected and customs sealed vehicles or containers shall not be subjected to examination

by customs officials en route. However, to prevent abuses, customs authorities may, in exceptional cases and particularly when trafficking is suspected, examine the goods.

Though there are definite economic advantages for countries from the Convention, such as avoiding long delays at the borders and physical inspection of goods in transit, it is clear that traffickers are exploiting the TIR Convention. Law-enforcement agencies on the border and inside the country have said that more truck scanners are needed to detect contraband in sealed trucks. However many enforcement officials are also clamoring for reconsideration of the rules of the TIR Convention, to allow for inspection of vehicles.

Domestic Programs/Demand Reduction. In order to address the serious issue of drug addiction in Kazakhstan, the MVD is working closely with the Ministry of Culture and Information, the Ministry of Health, and the Ministry of Education and Science to conduct demand reduction and prevention campaigns. The Ministries implemented a pilot project in September to detect drug consumption among university students. Law enforcement and medical personnel conduct drug tests at a university in Astana and forward the results to parents. They also conduct statistical analysis on the test results. The aim of the project is to raise awareness among the public, parents, teachers, and members of Parliament about the necessity for obligatory drug tests in educational institutions, including universities and secondary schools.

In the demand reduction area, interested agencies conducted over 4,500 events, including large-scale demonstrations, seminars, round tables, conferences, lectures, and sport competitions. A total of 270,000 people participated in these events. With the help of state agencies and the local administration, 2,600 clubs were established to encourage youth to lead a healthy life-style. An estimated 688,000 people have visited these clubs. Approximately 6,400 anti-narcotics pamphlets, TV commercials, and other events were sponsored during 2008 up until November.

Secondary schools in Kazakshtan include discussions of the dangers of drug use with students in their curricula, encourage students to seek help from social and psychological services, and work directly with parents when necessary. The Ministry of Education and Science also introduced special demand-reduction courses in the academic curricula at schools. As part of this program, experts in drugs, psychologists, and police deliver lectures to students.

Kazakhstan also conducts harm-reduction programs and needle exchanges. In accordance with the 2006-2010 program, those with AIDS from vulnerable populations receive contraceptives, educational materials, needle exchanges, and treatment of infections on a free confidential basis. Clinics and government and NGO hotlines deliver these services.

IV. USG Policy Initiatives and Programs

Bilateral Cooperation. The International Narcotics and Law Enforcement Section (INL) of the U.S. Embassy worked with the United Nations Office on Drugs and Crime (UNODC) to strength the Rubezh-Narkotiki (internal narcotics) checkpoints. UNODC provides communications equipment to six posts throughout the country. Based on the results of an assessment of the Rubezh checkpoints, INL arranged a series of training events for personnel working at the checkpoints. To support the future sustainability of counter-narcotics training capacity, INL equipped a computer lab and provided conference and interpretation equipment to the Interagency Scientific and Analytical Counter-Narcotics Training Center in Almaty.

The International Organization for Migration (IOM) is the implementing partner in the project to strengthen the Kazakhstani side of the Kazakhstani-Russian border. IOM recently established a second Border Guard Training Center in Uralsk, Western Kazakhstan.

One of the major programs initiated in 2008 was a drug detection dog program with all law-enforcement agencies. INL funded the purchase of three dogs and sponsored the attendance of three Kazakhstani officers at a two-month

course at the Canine Center in Bad Kreuzen, Austria. The training of the first three dogs was meant to acquaint Kazakhstanis with the Austrian method of training dogs for the search of drugs and allow Kazakhstani and Austrian officials to exchange experience in this area. The Austrian method uses training approaches that minimize stress and conflict and maximize training work with the dogs. The training of instructors on site in Austria was followed by a series of interagency training programs in Kazakhstan. Through its grant to IOM, INL is renovating sections of the canine facility at the Military Institute of the Committee for National Security.

To increase border security capacity, INL continues its close cooperation with the Border Guard Service and the Military Institute of the Committee for National Security. The U.S. Embassy also provided drug detection equipment and training in its use to border posts. Two instructors of the Military Institute attended basic training at the U.S. Border Patrol Academy in Artesia, New Mexico. The USCG sent two teams to assist in the area of container inspection.

The Road Ahead. The United States will continue its cooperation with the Government of Kazakhstan to increase counter-narcotics capacity. INL will continue providing training in drug courier profiling, the use of newly provided equipment, and new operations techniques. In 2009, the focus will be on information exchange in the area of intelligence gathering.

The United States will also continue its cooperation with the Border Guard Service and provide technical assistance to checkpoints on the Kazakhstani-Russian border and will open an additional training center on the northern part of the Kazakhstani-Russian border.

In cooperation with the Military Institute, INL plans to send one instructor from the Institute to the U.S. Customs and Border Protection Academy and one canine instructor to a canine academy in the United States. The same program will work with the Military Institute to strengthen its canine capacity by providing equipment and technical assistance. INL plans to continue to support for the relationship between the Austrian Ministry of Interior's Canine Center and Kazakhstani canine centers.

Currently, law enforcement officers lack requisite English-language skills and are unable to communicate directly with specialized units in other countries. To solve this problem, INL will provide English-language training to cadets of the Military Institute and staff of specialized counter-narcotics units.

Kenya

I. Summary

Kenya remains a significant transit country for cocaine, heroin, and khat. Quantities of heroin and hashish transiting Kenya, mostly from Southwest Asia bound for Europe and the U.S. have markedly increased in recent years. There is a growing domestic heroin and cocaine market and use of cannabis or marijuana is widespread, particularly on the coast and in Nairobi. There is also an emerging pattern of opiates trafficked from Kenya to the Indian Ocean islands of Seychelles, Mauritius, Madagascar and Comoros. Although government officials profess strong support for antinarcotics efforts, the overall program suffers from a lack of resources and corruption at various levels. Kenya is a party to the 1988 UN Drug Convention.

II. Status of Country

Kenya is a significant transit country for cocaine and heroin and a minor producer of cannabis for the domestic market. The production of khat, legal in Kenya, is an important source of foreign revenue for Kenya. Though there is some local demand for the product, the majority of khat grown is for export to Somalia, Ethiopia and Yemen, and increasingly, but illegally, to the U.K. and The Netherlands. Multiple ton quantities of khat have reportedly been exported into the U.S. market as well. Kenya also serves as a transit country for large shipments of cocaine from South America destined for Europe; however, cocaine seizures were modest in 2007 at 18.8 kg compared to 23.5 kg seized in 2006. Kenya's sea and air transportation infrastructure, and the network of commercial and family ties that link some Kenyans to Southwest Asia, make Kenya a significant transit country for Southwest Asian heroin and hashish. Cannabis is produced in commercial quantities primarily for the domestic market (including use by some elements among the large number of tourists vacationing in Kenya), with additional quantities arriving from Uganda and Tanzania. Kenya does not produce significant quantities of precursor chemicals, and the Pharmacy and Poisons Board closely monitors imports and exports of precursor and licit drugs.

III. Country Actions against Drugs in 2008

Policy Initiatives. Counter narcotics agencies, notably the Anti-Narcotics Unit (ANU) within the Kenyan Police Service, depend on the 1994 Narcotic Drugs and Psychotropic Substances Act for enforcement authorities and interdiction guidelines. Revisions to the Narcotics Act on the seizure, analysis, and disposal of narcotic drugs and psychotropic substances drafted by the government of Kenya and the United Nations Office for Drugs and Crime (UNODC) in 2005 were implemented in March 2006. The National Agency for the Campaign against Drug Abuse Authority (NACADAA), the governmental organization charged with combating drug abuse in Kenya, was formally designated an Authority in June 2007 giving it greater legal standing and autonomy. In addition, its annual budget has been doubled. These changes are widely viewed as improvements that will lead to enhanced efficacy in the pursuit of its mandate. In May 2008, NACADAA published the National Strategy on Prevention, Control and Mitigation of Drug and Substance Abuse, 2008-2012 and the National Alcohol Policy.

In September 2008, the Nairobi-based UN Office on Drugs and Crime hosted a meeting for regional members of the Paris Pact Initiative. The Initiative facilitates counter narcotics cooperation and coordination among countries affected by the illicit traffic of opiates from Afghanistan. The meeting drew counter narcotics experts and policy makers from across Africa along with representatives of international drug law enforcement agencies and UNODC experts. Kenya called on all African countries to enact tougher legislation to combat drugs and substance abuse.

As a result of UNODC and bilateral training programs, the ANU and the Kenyan Customs Service now have a cadre of officers proficient in profiling and searching suspected drug couriers and containers at airports and seaports. Airport profiling has yielded good results in arrests for couriers but not major traffickers. Seaport profiling has proven

difficult. Despite the official estimate that a significant portion of the narcotics trafficked through Kenya originates on international sea vessels, ANU maritime interdiction capabilities remain virtually nonexistent. Personnel turnover at the ports is high contributing to Kenya's limited capability for maritime interdiction. The ANU remains the focus of Kenyan antinarcotics efforts. Corruption continues to thwart the success of long-term port security training. Lack of resources, a problem throughout the Kenyan police force, significantly reduces the ANU's operational effectiveness. The number of ANU police officers has decreased to 90 from highs in the 130s. Malindi, an important coastal tourism destination and major narcotics transit site, has but one ANU officer.

Law Enforcement Efforts. In 2007, seizures of heroin declined from 136 cases involving 20.7 kg in 2006 to 94 cases involving 12.5 kg. (All statistics on drug seizures in this section reflect the period from January to December 2007 as provided by the ANU. The ANU compiles statistics regarding seizures annually; statistics for 2008 are not yet available. ANU arrested 98 people in heroin-related charges in 2007, down from 149 the previous year. Seizures of Cannabis and derivatives increased substantially from 10,280.5 kg in 2006 to 43,590.5 kg in 2007, although the number of persons arrested dropped from 5067 to 4618. The ANU conducts joint operations with the Kenya Wildlife Service, including aerial surveys in the area of Mount Kenya. However, there is no systematic program for detection and eradication of marijuana crops, and farmers are increasingly aware of techniques used by the ANU and often intercrop, effectively preventing detection. Kenyans account for the majority of the 4,743 persons arrested in 2007 for narcotics-related offenses, mostly for abuse or retail sale of cannabis. Tanzanians are the mules of choice for heroin and cocaine. Cocaine seizures remained constant at 7 cases, but 2007 netted only 18.8 kg versus 23.5 kg in 2006. Seizures of psychotropic substances increased, with Mandrax at the top of the list at 25 kg. Other substances seized include 52 tablets of Diazepam and 1334 tablets of abused pharmaceuticals.

In 2008, ANU forces discovered and dismantled a laboratory manufacturing illicit drugs and arrested three South Africans and two Kenyans. The case is pending in the courts. In 2008, five tons of Chinese pseudoephedrine destined for Tanzania and onward to super-labs in Mexico was seized during transshipment from Kenya to Tanzania. The shipment of pseudoephedrine transited Ethiopia before arriving in Kenya. The shipment was seized by Kenya customs authorities, with the assistance of the U.S. Drug Enforcement Agency, when an attempt was made to illegally move the transiting product from the port to an unsecured outside warehouse. There is close cooperation between the ANU and the Kenya Pharmacy and Poisons Board in coordination of seizures and implementing measures to ensure drugs and chemicals are not diverted.

Corruption. Corruption remains a significant barrier to effective narcotics enforcement at both the prosecutorial and law enforcement level. Despite Kenya's strict narcotics laws that encompass most forms of narcotics-related corruption, reports continue to link public officials with narcotics trafficking. As a matter of policy, the Government of Kenya 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. Kenya is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes. Kenya is a party to the UN Corruption Convention and to the UN Convention against Transnational Organized Crime and its three protocols.

Cultivation and Production. A significant number of Kenyan farmers illegally grow cannabis on a commercial basis for the domestic market. Fairly large-scale cannabis cultivation occurs in the Lake Victoria basin, in the central highlands around Mt. Kenya, and along the coast. ANU officials conduct aerial surveys to identify significant cannabis-producing areas in cooperation with the Kenya Wildlife Service. However, according to ANU officials, farmers are increasingly savvy about how to shield their crops from aerial detection and difficult terrain hampers eradication efforts. The ANU was unable to provide statistics on the success of their crop eradication efforts. Routinely, when fields are found, the crops are uprooted and fields burned.

Khat, categorized as a Schedule 1 narcotic in the U.S. but legal in Kenya, is a major generator of foreign exchange revenues. Khat's active ingredient is cathinone, a naturally occurring chemical similar to amphetamines which is best chewed within 48 hours of being picked, when the leaves are still fresh. Grown primarily near the town of Meru on the slopes of Mt. Kenya, khat is primarily exported through Somali networks to countries in the Horn of Africa, particularly Somalia, Ethiopia and Yemen. Tanzania has banned the sale of khat, and Uganda has drafted legislation to ban sales as well, but bans in these countries have had little impact on the massive khat trade to Somalia. Exports to U.K. and Netherlands, where the drug is legal, have increased in recent years to satisfy the demands of immigrants from the Horn of Africa residing in those countries. The U.S. market is not immune to khat trafficking, as khat cultivated in East Africa is shipped through European nations to the U.S. In 2006, a major Drug Enforcement Administration (DEA) operation dismantled an organization responsible for importing over 25 metric tons of khat into the U.S.

Drug Flow/Transit. Kenya is strategically located along a major transit route between Southwest Asian producers of heroin and markets in Europe and North America. Heroin normally transits Kenya by air, carried by individual couriers. A string of cocaine and heroin seizures at Jomo Kenyatta International Airport (JKIA) in spring 2006 (most from flights originating in West Africa) highlights the continuing drug trafficking problem in Kenya. While the arrests of drug "mules" may alert trafficking syndicates that enhanced profiling measures and counter narcotics efforts make JKIA an increasingly inconvenient entry/exit point for drugs, the arrests have achieved little in the way of assisting authorities to identify the individuals behind the drug trafficking networks.

ANU officials also continued to intercept couriers transiting land routes from Uganda and Tanzania, where it is believed the drugs arrive via air routes. The increased use of land routes demonstrates, in the minds of ANU officials, that traffickers have noted the increase in security and narcotics checks at JKIA. Postal and commercial courier services are also used for narcotics shipments through Kenya, particularly shipments of khat to the U.K. and U.S. Reports indicate that poor policing along the East African coast makes this region attractive to maritime smugglers. An emerging pattern is that of opiates shipped from Kenya to the islands of the Indian Ocean: Seychelles, Mauritius, Madagascar and Comoros. In June 2008, a Kenyan woman was arrested in Mauritius in a \$1.8 million drug bust. She appeared to be the contact in Mauritius for two Tanzanian boxers and four officials who had arrived for the African boxing championships with the heroin.

Domestic Programs/Demand Reduction. Kenya continues to make progress in efforts to institute programs for demand reduction. Illegal cannabis and legal khat remain the domestic drugs of choice. Heroin abuse is generally limited to members of the economic elite with a broader range of users on the coast. Cocaine is generally limited to urban centers. Solvent abuse is widespread among street children in Nairobi and other urban centers. NACADAA actively combats drug abuse, although the organization's budget remains inadequate to the challenge. In May 2008, NACADAA published a National Strategy on Prevention, Control and Mitigation of Drug and Substance Abuse, as well as a National Alcohol Policy. In an effort to offset the dearth of reliable statistics on drug abuse in Kenya, NACADAA developed a comprehensive survey of the problem in 2007. It has also done an assessment of drug counseling and treatment centers in Kenya. NACADAA and a number of communities sponsored programs to commemorate International Day against Drug Abuse and Illicit Trafficking on June 26, 2008 with public fora and speeches. NACADAA is presently engaged in developing certification standards for drug treatment centers and implementing a licensing service to formalize the process. NACADAA continues to be actively engaged at the community level, distributing public information brochures and leaflets through schools and community centers. Community associations and local activists promote peer counseling and provide training to volunteers. Of particular note is that all Kenyan civil servants now have clauses in their performance contracts relating to what they will do to counter drug abuse.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal U.S. antinarcotics objective in Kenya is to interdict the flow of narcotics to the United States. A related objective is to limit the corrosive effects of narcotics-related corruption in law enforcement, the judiciary, and political institutions, which has created an environment of impunity for well-connected traffickers. The U.S. seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction, and strengthening Kenyan antinarcotics and overall judicial capabilities.

Bilateral Cooperation and Accomplishments. USG bilateral cooperation with Kenya on antinarcotics matters is ongoing. The donation by the Department of State's Anti-Terrorism Assistance (ATA) program to the government of Kenya (GOK) of seven boats (coupled with training) will enable GOK multi-agency shallow water patrols along Kenya's coastline, which should significantly improve the capacity of the GOK to patrol and secure Kenya's coastal waters and assist drug interdiction efforts on the coast. ATA is also assisting with building Kenya's capacity to patrol points of entry to and in the Port of Mombasa by providing training and refurbishing existing patrol boats. The Department of Homeland Security's Customs and Border Control (CBP) office is assisting the Kenya Revenue Board (KRA) Customs Bureau in meeting the World Customs Organization (WCO) Framework of Standards to Secure Global Trade and addressing Export Border Control Issues. CBP has provided multi-agency training through workshops, seminars, and courses covering airport, seaport, land border, and export control issues and provided \$443,000 worth of inspection equipment to customs and other agencies in Kenya engaged in port/border security issues. CBP is also assisting the KRA in improving and expanding its Canine Enforcement Program. KRA is scheduled to procure four additional canines for its program from the U.S. in January 2009. In May 2008, a GOK delegation traveled to the US to witness CBP best practices pertaining to airport, seaport, land border, headquarters operations programs, and training facilities which they are now adapting to enhance programs, operations and training in Kenya. The DEA continues to partner with Kenyan law enforcement on bilateral narcotics investigations.

USAID/Kenya provides support to projects offering addiction treatment services to substance abuse addicts in Nairobi and on the Kenyan coast. The Department of State's Bureau for International Narcotics and Law Enforcement Affairs will provide training to Kenyan drug addiction counselors in the therapeutic communities model beginning in January 2009 as well as assist the GOK in establishing a three-year training program to train drug addiction counselors throughout the country in Level 1 certification and prepare them for an independently-administered examination by the U.S.-based The Association for Addiction Professionals (NAADAC). Certification training will be scheduled in January 2009. The U. S. Coast Guard sent four Mobile Training Teams (MTTs) to Kenya in 2008 covering training in small boat operations, coastal search and rescue operations, and leadership and management.

The Road Ahead. The USG will continue to take advantage of its good relations with Kenyan law enforcement on enhancing its operational capacity, and information sharing. USG will actively seek ways to maximize antinarcotics efforts both in Kenya and throughout East Africa. Perhaps most significantly, the USG will work with local, regional, and international partners to better understand and combat the flow of international narcotics through Kenya. The USG will also continue to expand our public awareness outreach to assist demand reduction efforts in Kenya.

Kosovo

I. Summary

Kosovo is primarily a transit point for heroin originating in Turkey and Afghanistan destined for Western European countries. Kosovo also has a small and reportedly growing domestic narcotics market. Kosovo faces challenges in its battle against narcotics trafficking: its borders are porous and there is almost certainly corruption among the Border Police and Customs officers. The Kosovo Police Service (KPS) continues its efforts to combat the drug trade, but it suffers from limited resources and the low priority of its counternarcotics branch. The Kosovo Government, led by the Ministry of Internal Affairs (MOIA) is in the process of drafting its national counternarcotics strategy.

Kosovo has not yet become a party to the 1988 UN Drug Convention. Its unique history under UNSCR 1244 as a United Nations-administered territory previously prevented it from entering into most bilateral, multilateral and international agreements, including the Convention. Kosovo declared independence on February 17, 2008 and the United Nations Mission in Kosovo (UNMIK) began to transfer competencies to the Kosovo Government starting on June 15, when Kosovo's constitution came into force. Kosovo now possesses the authority to sign treaties and agreements and is currently reviewing and prioritizing the most important treaties for future ratification. The United States and the European Union continue to provide rule of law technical assistance, training, and equipment that will help Kosovo to combat narcotics trafficking more effectively over time.

II. Status of Country

Kosovo is not a significant narcotics producer. The KPS has found cases of small-scale marijuana cultivation in rural areas, mostly in the form of marijuana plants mixed in with corn crops or cultivated in back yards. There is no evidence of large-scale illicit drug cultivation.

Kosovo is a transit point for Afghan heroin moving to Western Europe through Turkey and down the Balkan Route. The Kosovo Border Police is a young service lacking basic equipment, and narcotics traffickers capitalize on weak border controls in Kosovo. The Border Police patrol all border crossing points except two entry points in northern Kosovo, which are staffed by UNMIK and the NATO-led Kosovo Force (KFOR). The Border Police and KFOR jointly patrol the "Green Border," the area where there are no official manned borders or administrative boundary line gates. This patrolling along the "Green Border" extends up to the actual border, but traffickers nevertheless take advantage of numerous roads leading into Kosovo that lack border controls. Narcotics interdiction is not part of KFOR's mandate. KFOR soldiers seize narcotics they happen to encounter while performing their duties, but they do not actively investigate narcotics trafficking.

Neither the KPS nor UNMIK have found any direct evidence of narcotics refining laboratories or synthetic drug production in Kosovo. There have been reports of seizures of small quantities of precursor chemicals in Kosovo.

Information on domestic narcotics consumption is not systematically gathered, but the KPS and UNMIK officials agree that there is a growing local market and that illegal drug use is on the rise. The Ministry of Health (MOH) believes levels of narcotics consumption among teenagers and university-aged young adults, the primary users, are close to those in most Western European countries. Drugs of all types, including heroin, are reportedly available in Kosovo. The vast majority of addicts referred for treatment are heroin users.

III. Country Actions against Drugs in 2008

Policy Initiatives. Kosovo has made limited progress in counternarcotics policy initiatives in 2008. The country's national counternarcotics strategy is still in draft form. Previously, the MOH was in charge of drafting the strategy, but due to a policy shift in 2008, the MOIA took responsibility. An inter-ministerial conference with representatives from the Office of the Prime Minister, the MOH, and the MOIA was held on October 24 to begin the process of drafting the national counternarcotics strategy. Regional cooperation initiatives were limited to a Memorandum of Understanding (MOU) between the Kosovo Government and Albania that pledged to increase cooperation in combating organized crime. There were no attempts to restructure counternarcotics agencies, initiate new legislation, or encourage regional cooperation beyond the MOU between the Kosovo and Albanian Governments.

Individual ministries continued with their own efforts. The MOH, in its strategic plan and budget for 2008-2013, included the 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. The MOH is currently expecting the final results from a UNICEF/WHO funded report on drug use by Kosovo youth. Additionally, in December 2007, the MOH compiled the National Strategy on Mental Health, which includes treatment and services for drug addicts, and it expects to implement the strategy in 2009.

The MOIA reported that it is working to increase Kosovo's narcotics investigative capacity and plans to meet European Partnership Agreement Program goals by training counternarcotics officials, procuring technical equipment, and strengthening interagency cooperation.

Law Enforcement Efforts. KPS counternarcotics officers face many challenges. Their resources are limited and counternarcotics is not a top priority for the Kosovo Government

From January to September 2008, the KPS confiscated 42.1 kg of heroin, 2.6 kg of cocaine, 12,642 individual marijuana plants, 40 grams of Ecstasy, and 12.4 kg of other narcotic substances. The KPS have found no evidence of synthetic drug production in Kosovo.

In 2008, the KPS arrested 257 people on narcotics charges and filed 144 narcotics-related cases, 122 of which were sent to the Prosecutor's Office. The remaining cases are still under investigation. According to KPS statistics, 96 percent of offenders were male. The KPS focused on major traffickers down to street pushers.

The KPS uses a wide range of investigative techniques, from information collection to interception and surveillance. In 2008 the KPS started conducting "buy-bust operations, which led to the arrest of street pushers. The KPS has also created an e-mail account for use throughout Kosovo to collect anonymous tips.

UNMIK focused its anti-drug efforts on intercepting drugs smuggled into Kosovo and preventing them from departing to third countries. UNMIK reported significant improvement in the exchange of information regarding organized crime with neighboring countries, Western European countries, Canada, and the United States.

Corruption. It is difficult to estimate the extent to which corruption in Kosovo influences drug trafficking. Kosovo has taken legal and law enforcement measures to prevent and punish public corruption that facilitates the production, processing, or shipment of narcotic and psychotropic drugs and other controlled substances, or that discourages the investigation or prosecution of such offenses, especially by senior government officials.

The "Suppression of Corruption" law, passed in April 2005, is the prevailing legislation that directs anti-corruption activities. There are no laws that specifically address narcotics-related public corruption. The Suppression of Corruption law created the Kosovo Anti-Corruption Agency, an independent agency that began operations in July 2006. In 2008, the Anti-Corruption Agency investigated 103 cases, 35 of which were sent to the Prosecutor's Office. Twenty-five cases were dismissed as unfounded, and the rest remain under investigation. While the Agency has never

found any cases of narcotics related corruption, its representatives believe it is only a matter of time before these cases begin to appear.

In September, seven officials in the Customs Service were arrested and charged in connection with smuggling Viagra into Kosovo. There have never been any arrests for high-level illegal narcotics related corruption. While there is no evidence of systemic corruption in the KPS, Border Police, or Customs, there are reports of individual corruption, which officials are attempting to address. UNMIK alleges that widespread corruption exists within the KPS due to traffickers' greater resources and willingness to use threats. Cases reportedly involve officers turning a blind eye to narcotics trafficking or accepting bribes to allow narcotics to pass through borders. 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.

In 2006 the Kosovo Government, the MOIA, and the Organization for Security and Cooperation in Europe (OSCE) inaugurated the Police Inspectorate of Kosovo (PIK), an independent body under the MOIA designed to promote police efficiency and effectiveness, hold police accountable for their actions, and investigate and punish serious misconduct. From January 1 to August 31, the PIK investigated 1,353 active cases; only two percent of the cases involved allegations of corruption, and only one case specifically pertained to drug related corruption. In that one case, the KPS conducted an undercover operation based on an informant's tip. In September this operation led to the arrest of a KPS officer in the act of allegedly selling 100 grams of cocaine. The matter is still under investigation.

There is no information indicating that the Kosovo Government or its senior officials encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or launder the proceeds from illegal drug transactions.

Agreements and Treaties. The 1902 extradition treaty with the Kingdom of Serbia is now recognized as being in force by both the United States and the Government of Kosovo. However, Kosovo will not extradite its nationals. Furthermore, UNMIK reportedly asserts that it still has full law enforcement authority over Kosovo and insists that it's the proper entity to make any extradition request. The United States, however, does not have a treaty with UNMIK and can not extradite to UNMIK. Thus, the matter of extradition remains unclear based on UNMIK's reported assertions.

Due to its unique history as a UN-administered entity, Kosovo was not previously party to the 1988 UN Drug Convention or any other international convention or protocol. Since declaring independence in February 2008 and adopting a new state constitution in June 2008, Kosovo has gained the authority to sign international treaties as well as bilateral and multilateral agreements; however, this authority is for practical purposes limited to agreements with the 52 countries (as of November 1) which have recognized Kosovo. Kosovo is not yet a UN member-state.

The Kosovo Government is currently prioritizing the most important international agreements for ratification but has not yet become a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, or the UN Convention Against Corruption. The Kosovo Government has reaffirmed its commitment to existing treaties signed on its behalf by UNMIK and the former Yugoslavia, including the extradition treaty originally signed between the United States and Yugoslavia.

Kosovo cooperates and exchanges information with countries in the region through informal bilateral and multilateral meetings. For example, the Director of Organized Crime in the KPS regularly meets with his Albanian counterpart. Additionally, Customs has memoranda of understanding with both Albania and Macedonia, and Kosovo law enforcement authorities report that they have strong working relationship with their Albanian and Macedonian counterparts.

Cultivation/Production. Kosovo is not a significant narcotics producer. The KPS has found some evidence of small-scale marijuana cultivation in rural areas, mostly in the form of plants mixed in with corn crops or cultivated in back

yards. The police have also found some uncultivated marijuana plants growing in rural areas. The KPS determine crop yield by counting individual plants, and the number of plants grown by any one producer is small enough to make this feasible. There have been a few reports of seizures of small quantities of precursor chemicals in Kosovo, but KPS and UNMIK officials have found no direct evidence of narcotics refining labs.

Drug Flow/Transit. Kosovo remains 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. The KPS reports that the major transit points are Ferizaj/Urosevac, Mitrovice/Mitrovica, and Peje/Pec. There is conflicting information on who manages the drug trade. UNMIK reports that the drug trade is managed informally through regular travel by Kosovo citizens to Western and Northern Europe while visiting relatives. However, the KPS believes that the drug trade is now professionally managed by gangs and other criminals.

Most drugs illegally enter Kosovo overland from neighboring countries. Officials believe one major route is from Turkey, through Bulgaria and Macedonia. Another route from Turkey runs through Bulgaria and Serbia. There are reports of collaborative arrangements between Kosovo-Serb and Kosovo-Albanian criminal groups for drug trafficking. Both KPS and UNMIK Police believe 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 many 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 Kosovo Government continues its efforts to interdict and seize drugs transiting Kosovo. However, there have been no significant changes in the methodology or tactics used by the Kosovo Police, Border Police, or Customs agencies. The Border Police are attempting to acquire drug detection dog teams but have not yet secured funding. The MOIA is beginning the process of drafting a national counternarcotics strategy, and it intends to focus its efforts on combating organized crime.

Domestic Programs/Demand Reduction. The Kosovo Government is increasingly aware of the dangers of narcotics. Both the Ministry of Health and the Ministry of Education run 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 both education and treatment.

There are no reliable estimates for the number of drug addicts in Kosovo. "Labyrinth," an NGO that conducts drug awareness campaigns and runs treatment programs, is currently treating 600 clients in various stages of recovery from addiction. The Pristina University Hospital Psychiatry Department, which also provides drug treatment, reports that on average two to four people are receiving in-patient treatment at any given time. The overwhelming majority of the patients are heroin addicts. There are approximately 120-140 addicts receiving out-patient treatment per year. The staff at Pristina University Hospital is limited, with only one doctor and one nurse devoted to treating drug addicts. Other regional medical centers' psychiatry wards reportedly do what they can to assist drug addicts, but they do not devote staff exclusively to their treatment.

Pristina University Hospital offers detoxification programs for motivated patients, but they report a high recidivism rate since many of the addicts are poor and unemployed. At the Hospital, some addicts receive anti-anxiety medication or anti-depressants to relieve withdrawal symptoms. The most severe, agitated patients receive anti-psychotic medication.

The Hospital notes that the number of patients is increasing and sees an urgent need for a better drug treatment program that includes more and better trained staff, individual and group therapy, and separation from the psychiatric ward.

Methadone is illegal at all public hospitals in Kosovo and is not prescribed at Pristina University Hospital. Methadone is, however, legal for private clinics and the NGO, Labyrinth, uses it as part of its rehabilitation program. Labyrinth reports a success rate of 12 percent using methadone to treat heroin addiction, and it attributes this low rate of success to the absence of a long-term maintenance program.

In October 2007, Pristina University Hospital presented a strategic plan addressing drug treatment for 2008 to 2013 to the Ministry of Health; it is still pending approval. Hospital officials consider the construction of a separate drug treatment facility a priority. They believe that the current arrangement that places drug addicts alongside psychiatric patients in the same ward creates a social stigma that prevents all but the most severe cases of drug addiction from seeking treatment.

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 history of UN administration has hampered full bilateral cooperation in the past.

In 2008, the U.S. Department of Justice conducted training for prosecutors in the new Kosovo Special Prosecutors Office, which handles narcotics trafficking and other sensitive crimes. Projects included instruction on how to handle Trafficking in Persons cases and the Confiscation of Documents, as well as a course in Terrorism, Organized Crime, Interagency Decision Making, Consequence Management, and Border Management. In past years, the United States Government has provided technical assistance and equipment donations that directly or indirectly support counternarcotics work in Kosovo. In 2008, through the Export Control and Related Border Security (EXBS) program, the United States also donated a large amount of border security equipment, including x-ray machines, density meter kits, and other equipment. During the year, the United States Government funded and contributed the largest contingent of police officers (214) to UNMIK's international civilian police mission, which monitored and mentored KPS officers working on counternarcotics efforts.

The Road Ahead. Kosovo declared independence on February 17, 2008 and it has been assuming more and more of UNMIK's previous competencies since the country's new constitution came into force on June 15. The United States will continue to provide rule of law assistance to Kosovo for the foreseeable future. The EU is deploying a rule of law mission (EULEX) under the auspices of its European Security and Defense Policy (ESDP). USG-funded police, prosecutors, and judges will continue working in Kosovo as part of the EULEX deployment. The U.S. Government is coordinating its rule of law assistance goals and priorities for Kosovo with the EU, and it will continue to provide training, technical assistance and equipment to the KPS and Kosovo's criminal justice sector that directly and/or indirectly support counternarcotics work. Among the USG's contribution of police officers to the EULEX police mission in Kosovo, some officers will possess special organized crime and counternarcotics skills.

Kyrgyz Republic

I. Summary

The Kyrgyz Republic continues to have minimal internal production of illicit narcotics or precursor chemicals, but it is a major transit country for drugs originating in Afghanistan and destined for markets in Russia, Western Europe, and America. Experts estimate that 20 metric tons (20,000kg) of narcotics transit through Kyrgyzstan each year. The Government of the Kyrgyz Republic (GOKG) attempts to combat drug trafficking and prosecute offenders, but is constrained by limited resources. The GOKG has been supportive of international and regional efforts to limit drug trafficking and has supported major initiatives to address its own domestic drug use problems. The GOKG recognizes that the drug trade is a serious threat to its own stability and is continuing efforts to focus on secondary and tertiary drug-related issues such as money laundering, drug-related street crime and corruption within its own government.

While the GOKG has been a supporter of counter-narcotics programs, it is still struggling to deliver a clear and consistent counter-narcotics strategy to either the Kyrgyz people or the international community.

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 unstaffed 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 counter-narcotics 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 important trafficking routes used for drug shipments from Afghanistan. The city of Osh, in particular, is the main crossroads for road and air traffic and a primary transfer point for narcotics into Uzbekistan and Kazakhstan and on to markets in Russia, Western Europe and the United States. The Kyrgyz Republic is not a major producer of narcotics; however, cannabis, ephedra and poppy grow wild in many areas.

III. Country Actions against Drugs in 2008

Policy Initiatives. There were no new policy initiatives in 2008.

Law Enforcement Efforts. The Drug Control Agency (DCA) was established in 2003 with the Assistance and funding 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 drug crime, the DCA continues to work with its counter-parts in Russia, Kazakhstan, Tajikistan, and Uzbekistan. In August 2007, 32 Kyrgyz law enforcement officers from the DCA, Ministry of the Interior, Customs Service and Border Guards were trained and completely outfitted with equipment to form the first four Mobile Interdiction Teams (MOBITS). The teams were deployed in September 2007 after the completion of five weeks of training. Their mission is to identify drug trafficking targets and seize any and all illicit narcotics. Their mobility allows these teams to travel into remote southern areas between fixed border posts along the Kyrgyz border with Tajikistan and Uzbekistan. As with the DCA, the MOBITS have suffered from a lack of effectiveness. Even after providing two in-country advisors residing in Osh with the teams, the teams have been unable to move forward. The next step for enhancing the MOBITS capability will be the introduction of in-country DEA agents working closely with the DCA and MOBITS.

In calendar year 2007, the DCA registered 87 seizures, but the quantity of drugs seized during each seizure diminished. As of September 30, 2007 the DCA had seized only 117kg of heroin, 26kg of opium, 673kg of marijuana, 5kg of Psycho-tropics and .33kg of hashish a negligible percentage for the volume of narcotics estimated to be trafficked through this country. For January to September 2008, drug seizures fell to extremely low levels: 55kg heroin, 27kg opium, 184kg hashish, 754kg marijuana and 295 pills defined as psychotropic substances. These statistics indicate almost a 50% reduction in heroin seized which is of grave concern and allows the most profit to the traffickers. Other substances such as marijuana, though illegal narcotics, do not pose the immense threat that heroin and opium do. In September 2008, a change in the DCA Director as well as the MOBITS commander became effective. This change resulted in several significant investigations that have resulted in the seizures of an additional 34kg of heroin and over 100kg of opium through November 2008.

Corruption. In 2008, four Kyrgyz law enforcement (MVD) officials were identified as participants in narcotics trafficking in Kyrgyzstan. In addition, the chief of the MVD Narcotics Investigation Branch was shot and killed. Corruption remains a serious problem and a deterrent to effective law enforcement efforts. The Kyrgyz DCA possesses a relatively good reputation, and its staff goes through a very thorough vetting procedure and receives substantial salary supplements from the UN/US counter narcotics project. The MOBITS Units are also vetted and receive a polygraph test, as do all DCA agents. As a matter of policy, the Government of the Kyrgyz Republic 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 Kyrgyz Republic is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. The Kyrgyz Republic is also a party to the UN Convention against Corruption and the UN Convention against Transnational Crime and its Protocols on Trafficking in Persons and Smuggling of Migrants.

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 used to be a major producer of licit opium, and was the Soviet Union's main source of ephedra plant for decades. However, with the skyrocketing of opium production in Afghanistan, it has become less risky and easier to import drugs from Afghanistan via Tajikistan than to produce them locally. The Kyrgyz government carries out yearly eradication campaigns against illicit crops.

Drug Flow/Transit. Due to a very limited and rudimentary transportation system, traffickers mostly utilize lengthy overland routes leading through Afghanistan's neighboring countries. A large part of the drugs smuggled through Central Asia in 2008 entered the region through Tajikistan. Together with Uzbekistan, Kyrgyzstan represents the main conduit for onward smuggling of opiates. 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 do not allow the Government of the Kyrgyz Republic to effectively address the quickly aggravating drug abuse and HIV/AIDS problem. Insufficient allocation of budget funds is hampering the prevention and treatment programs and 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 Kyrgyz have devoted insufficient attention to the conceptual and strategic development of a modern drug treatment service capable of stemming drug abuse and/or a the 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 treatment assistance programs.

IV. U.S. Policy Initiatives and Programs.

Bilateral Programs. During this last year, the DCA has lost some momentum in their quest to become a solid and respected law enforcement organization in the field of drug enforcement for the Kyrgyz Republic. Fortunately with the new leadership, DEA providing in-country assistance and an opportunity for getting this agency back on track, many achievements can be met in this coming year.

Road Ahead. The assistance of the Nebraska National Guard (NG) in providing assessment, training and guidance to the DCA has been invaluable. In August 2008, the Montana National Guard assumed this responsibility. Presence on the ground is of great value in forming working relationships with the DCA. Another initiative during 2008 was the assignment of two liaison officers (retired DEA Agents) to work with the MOBITS headquarters in Osh and to provide guidance, mentoring and technical assistance for the MOBITS teams. The most significant ongoing program in terms of funding is the MOBITS. This \$1 million project, funded by CENTCOM, will give Kyrgyz law enforcement entities the capability to strike against narco-trafficking anywhere in their country. The US will also urge DCA's adoption of a recommended policy to dismiss immediately any DCA employee who fails their polygraph. The US also urges a review of all narcotics trafficking investigations and tracking of all seizures and court cases as a result of those seizures.

Laos

I. Summary

The Lao People's Democratic Republic (Lao PDR) made tremendous progress in reducing opium cultivation between 2000 and 2008. Estimates by the USG (1,100 ha.) and UNODC (1,500 ha) of poppy cultivation in 2008 (no change from 2007) were at the lowest levels since 1975. However, the momentum of this effort is stalling, and gains remain precarious. Remaining opium poppy planting is generally in areas near borders with China, Vietnam, and Burma. This continued planting reflects higher opium prices, convenient trafficking routes, and the extreme poverty and food shortages in these areas. Most poppy is grown in areas that have received little or no development assistance. Both awareness programs and treatment capacity targeting abuse of methamphetamines expanded during 2008, but remain insufficient and ineffective in responding to the rapidly rising level of methamphetamine abuse which now affects virtually every socio-economic group in Lao society. Law enforcement capacity is inadequate to establish an effective deterrent to regional and international trafficking organizations. This, in addition to its central geographic location, makes Laos an important transit route for Southeast Asian heroin, amphetamine-type stimulants (ATS), and precursor chemicals en route to other nations in the region. This transit drug trade includes criminal gangs with links in Africa, Latin America, Europe, and the United States, as well as in other parts of Asia. Information exchanges between Lao enforcement and the U.S. Drug Enforcement Administration (DEA) led to some notable seizures and arrests in 2008, and indicate the potential for greater law enforcement effectiveness. Laos is a party to the 1988 UN Drug Convention.

II. Status of Country

A new Lao PDR policy and program initiative ("National Drug Control Master Plan") was unveiled in November 2008. The crop control program was tentatively budgeted at \$44 million over five years, with the Lao PDR looking to the international community for most of the funding. Most donors, however, continue to focus primarily on rural poverty alleviation, food security, or sectoral-focused programming such as primary health care, agriculture, or institutional capacity building. Very few donors show significant interest in reducing illegal poppy cultivation or drug addiction. Higher prices for unprocessed opium (up from \$900 to \$1,400–\$2,000/kg), are driven by a reduction in supply, regional demand, and an increasing number of opium addicts. The opium addict population in Laos is now estimated at nearly 14,000, including some 5,000 relapsed addicts. Inhabitants of many villages in former opium growing regions face increasingly desperate circumstances. Many former poppy growers, finding themselves without the assistance they expected, continue to face severe staple food shortages (rice), a prime cause of a return to opium planting. Rice prices have also increased 30% over 2007, which means poor villagers are hard pressed to purchase rice to make up for food deficits, now that opium income has sharply declined. 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, focusing on alternative development and addict rehabilitation, will enable the Laotian authorities to sustainably eliminate opium cultivation.

Methamphetamine and similar stimulants constitute the greatest current drug abuse problem in Laos. There are currently an estimated 60,000 ATS addicts, with about 200,000 occasional users; although the last survey was completed in 2004 by UNODC. ATS abuse, once confined primarily to urban youth, is becoming more common among rural peoples. The scope of this problem has overwhelmed the country's limited capacity to enforce laws against sale and abuse of illegal drugs, and to provide effective treatment to addicts. Petty crime, some involving violence, has increased significantly in recent years, in Lao cities, with much of the increase attributed by the Lao PDR to ATS-methamphetamine abuse. Methamphetamine in Laos is largely consumed in tablet form, but drug abuse treatment centers report admission of a growing number of users of injected ATS. Continued emphasis on drug abuse prevention, comprehensive drug awareness programs, increased capacity to provide treatment to addicts, and post-detox follow-up are all essential to control the growth in domestic demand for ATS. Unfortunately, none of these services have been very effective to date and major institutional capacity building and staff training are required.

Government health services are relatively good at opium addict treatment after 20 years of experience, but treatment of ATS addicts is just beginning and is sorely inadequate.

Heroin abuse in Laos, once limited to foreign workers and tourists, has emerged as a growing problem in highland areas bordering Vietnam. Injected heroin is in some areas competing with smoked opium as the favored method for drug abuse in some ethnic minority communities, bringing with it an attendant potential for increased transmission of HIV/AIDS, hepatitis and other blood-borne diseases. The threat of HIV/AIDS and the associated risks of injectable drugs motivated the Lao National Commission for Drug Control and Supervision (LCDC) and the Ministry of Health to sign a Memorandum of Understanding for Cooperation in 2008. The Lao 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 even a marginal capability to address heroin abuse.

III. Country Actions against Drugs in 2008

Policy Initiatives. Laos introduced two significant new drug control policy initiatives in 2008. The first was the passage, translation and dissemination of the new “Law on Drugs and Article 146 of the Penal Code”. The new Law is a far ranging document which addresses policy issues, social attitudes and family responsibilities, drug treatment, as well as traditional legal prohibitions and sentencing guidelines for a number of drug offenses. It is posted in English translation on the UNODC Laos website.

The second 2008 policy initiative was the issuance of the “National Drug Control Master Plan: A Five Year Strategy to Address the Illicit Drug Control Problem in the Lao PDR”. This draft document was developed by the LCDC, in consultation with UNODC, and presented to the international donor community for comment in mid November 2008. The Strategy summary is a comprehensive document which looks over the next five years and summarizes approaches and budget proposals for addressing the serious problems of drug crop control, demand reduction and law enforcement. The assistance requested from the international donor community totals some \$72 million over five years, with \$44 million requested for crop control, \$16 million for demand reduction (including the threat of HIV/AIDS) and \$9 million for improvements to the criminal justice system and law enforcement. The Lao government is hopeful that sufficient support from international donors will be forthcoming in order to implement its new drug control strategy. Without strong international donor support, Laos could revert to being a major opium producer, and risks becoming a center of regional and international drug trafficking with still weak law enforcement capacity.

Law Enforcement Efforts. The economic value of drug trafficking in Laos, both domestic-oriented and international or regional, was estimated in the National Drug Control Plan of 2008 to be between \$350–\$700 million or about 10% of the country’s estimated GDP of \$4 billion. In contrast, the relative contribution to GDP of the hydropower/electricity production was about \$147 million, mining was about \$252 million, and tourism was estimated at \$234 million. Increasing property crime, the growth of youth gangs, the presence of West African drug gangs and dealers, 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 or groups 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 expansion of injected heroin use in northern Laos, and in the cultivation of marijuana for export from central and southern provinces to neighboring countries.

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 the means to accurately assess the extent of production, transport or distribution of ATS or its precursors. There was a significant increase in seizures of ATS transiting through Laos to

neighboring countries in 2008. The number of reported drug arrest cases rose in 2008 by 63 percent. Methamphetamine addiction and use is widespread and growing, while treatment regimens and services are ineffective.

Laos' principal narcotics law enforcement office is the Department of Drug Control (DCD) within the Ministry of Public Security. At the provincial level, DCD's counterparts are the Counter Narcotics Units (CNUs), the first of which was created in 1994 and which now exist as elements of provincial police in most provinces. The CNUs, however, remain generally under-staffed, poorly equipped, under-resourced, and with personnel inadequately trained and experienced to deal with the drug law enforcement environment in Laos. CNUs in most provinces are generally staffed less than 15 officers. The average annual budget of a typical provincial CNU (excluding salaries) is only about \$3,000. Shortages of office supplies and operational (non-lethal) equipment are endemic.

This limited law enforcement presence in rural areas creates an obvious vulnerability to establishment of clandestine drug production or processing activities. There are persistent rumors of some methamphetamine laboratories operating in the northwest, but no confirmation. Assistance provided by the U.S., UNODC, Luxembourg, South Korea, Australia, and China has mitigated equipment, training, and skills deficiencies of the CNUs to some extent. As in many developing countries, Lao drug enforcement and criminal justice institutions have demonstrated a serious inability to investigate and develop prosecutable cases against significant drug traffickers without external assistance. Prosecutions that do occur almost exclusively involve street-level drug pushers or couriers. There were, however, several arrests of West Africans and other foreigners by Lao police (DCD) in late 2008 with significant quantities of cocaine and heroin in their possession. Successful collaboration between DCD and DEA on West African drug cases indicates potential for increased drug law enforcement effectiveness.

In December 2007, the Lao National Assembly passed a narcotics law, signed by the Prime Minister in early 2008, 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 clearly involved in 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. However, it will take some time and considerable effort to disseminate the law to the provinces and implement it in the criminal justice system.

Corruption. In 2008 the Government's "Anti Corruption Committee" was moved from the party organization to the Prime Minister's Office, and designated the "State Inspection Authority". UNODC, UNDP and the French government have assistance programs for "good governance" which are intended to build the capacity and legal basis for this new Authority. However, corruption in Laos, long present in many forms, is at risk of 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 Lao PDR has made fighting corruption one of its declared policy priorities.

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 Lao PDR 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 2008, 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.

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 Lao PDR has assisted in the arrest and delivery of individuals to some of those nations, but does not use formal extradition procedures in all cases.

Cultivation/Production. In 2008, opium poppy production in Laos remained relatively stable at between the USG estimates of 1,100 hectares (ha) and the 1,500 ha estimated by UNODC. Most of the remaining poppy cultivation observed in these surveys was encountered in remote areas of three Northern provinces: Phongsaly, Luang Namtha and Houaphan. Opium production, as estimated by UNODC, was roughly the same in 2007 and 2008. UNODC reported that its survey found a reported average price for opium in Laos of \$1,400/kg, nearly triple the \$550/kg reported in 2006. Some border areas reported prices as high as \$2,000 per kg. 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 nearly 14,000 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 that is refined into heroin is thought to be very small. UNODC surveys show that about 3 percent of opium smokers are now converting to heroin, with the numbers rising especially among younger persons.

The USG crop control projects implemented in Laos from 1990 to 2006 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) by Lao authorities. Only when individual farmers are found attempting to repeatedly cultivate poppy are their crops eradicated. Within some areas of the Lao-American Projects for opium poppy reduction in Houaphan, Phongsaly and Luang Prabang provinces from 1999-2006, growers themselves, or officials of their villages, carried out eradication of poppy as a condition of written agreements between villages and Lao PDR authorities that villages would cease production of opium. Since declaring Laos to be formally opium-free in 2006 (a policy assertion it justifies by arguing that eradication reduces harvestable cultivation to insignificant levels), the Lao PDR 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.

Although the 2008 UNODC opium survey results have yet to be announced officially in late 2008, the UNODC Resident Representative in Laos notes 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 and depleting local NTFPs (non-timber forest products).

In 2008, the World Food Program published its "Comprehensive Food Security and Vulnerability Analysis Report (CFSVA)" for Laos. The report notes that on average 13 percent of the rural population is chronically short of staple food (3-6 months per year), 20 percent of all children are seriously malnourished, and 60 percent of the population are vulnerable to slipping back into serious food shortages if natural calamities destroy or reduce food crop production. Recognizing the particular vulnerability of remote mountain areas, WFP in 2008 began a two-year "protracted food emergency program" in three northern provinces. The program targets areas where opium was once grown that have developed no income alternatives as yet. WFP provides an emergency food (rice) ration of three months to over 200

such villages. Continued diminution of support for developing alternative livelihoods among populations previously dependent on poppy cultivation creates a significant risk that some cultivation will resume.

Seizures indicate continuing “contract” cannabis cultivation in central Laos. Use of cannabis as a traditional food seasoning in some Lao localities complicates attempts to eradicate this crop.

Drug Flow/Transit. The Mekong River and remote mountainous regions dominate Laos’ highly porous borders, over 5,000 kilometers in length. 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 a rapidly increasing transit problem. Illegal drug flows include methamphetamine, heroin, marijuana, precursor chemicals, and even cocaine (originating from Latin America) destined for other countries in the region, some of which is diverted for consumption in Laos. Opium from Laos is shipped regularly 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. Border checkpoints are few and far between.

The opening of two new transit arteries in Southeast Asia that pass through Laos, one a continuous east–west paved highway running from Danang in central Vietnam to ports in Burma or near Bangkok, and another, north to south all weather road, from Kunming (Yunnan, China) 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. 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. In addition to increased trade volume, new bilateral and regional trade agreements will also likely 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.

Domestic Programs/Demand Reduction. Laos made some limited advances during 2008 in reducing the demand for and consumption of illicit drugs. Four new provincial drug addiction treatment facilities were constructed in 2007, but only one of these began offering any services in 2008. The operational costs and staffing of such provincial treatment centers are provided (or more often the case, not provided) by limited provincial budgets, so their capacity and effectiveness has been very limited.

In general, the capacity of existing facilities remains well short of the reported numbers of drug addicts in Laos. 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, counseling and effective occupational therapy or training. The U.S. is providing assistance to several treatment facilities in Laos to enhance their capabilities to offer some worthwhile occupational therapy and skills training prior to release for pre-release preparation. A new U.S.-supported modern media campaign for national drug awareness will be implemented in early 2009 using hip hop music and youth oriented materials.

Estimates by the Lao PDR in 2007 indicate that the number of remaining opium addicts has stabilized at approximately 14,000, after years of steady decline. Many opium addicts may remain unreported. Recidivism after attempted treatment is estimated at approximately 45 percent, and information about follow-on rehabilitation is scanty. In 2008, the USG provided funding for the treatment and rehabilitation of these remaining opium addicts, working with the LCDC and UNODC.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. Most U.S. counternarcotics assistance to Laos over the past two decades has supported the successful effort to reduce poppy cultivation in Laos to a historically low level. U.S. crop control assistance continued at a diminished level in 2008, focusing on a large number of former opium growing communities that had not yet received assistance in identifying alternative income sources. The Law Enforcement and Narcotics Affairs Section (LENS) in Vientiane began a pilot project with the LCDC administering village-based alternative livelihood programs (mainly crops and livestock) in three northern provinces. LENS also provided funding support for UNODC rural development programs in northern upland areas where poppy cultivation remains.

As poppy cultivation has declined, more U.S. counternarcotics cooperation has been devoted to demand reduction and law enforcement activities. During 2008, the LENS in Vientiane worked closely with the LCDC and the Ministry of Health on enhancements to methamphetamine abuse treatment centers in Laos' two largest cities, as well as on a variety of national drug awareness and prevention programs. U.S. law enforcement assistance funds supported operational costs, training and equipment for DCD, provincial CNU's and the Lao Customs Department. Training was also provided to the Lao Prosecutors Office under the U.S. Department of Justice and INL Overseas Prosecutorial Development, Assistance and Training (OPDAT) program, and an anti-money laundering seminar delivered to Ministry of Finance and MOPS personnel by the U.S. Treasury Department. This was complemented by continuing regular Lao participation (over 100 persons in 2008) in INL-funded regional training opportunities offered by the U.S. and Thailand at the International Law Enforcement Academy in Bangkok as well as the ILEA International program based in New Mexico. Bilateral cooperation in drug law enforcement improved significantly in late 2008, with DEA working with the Lao PDR on several joint investigations of international narcotics traffickers.

The Road Ahead. Laos' two-decade effort to sustainably eliminate opium poppy cultivation has made a good deal of progress, but the task is by no means complete. Further economic development is necessary in the northern highlands to achieve food security, integration with the licit national economy, and higher human development indicators generally. Most of this will come from broader rural development planning and assistance, but assistance targeted at former poppy growers and opium addicts remains necessary to ensure that poppy is completely abandoned. This is the key role for continuing U.S. crop control assistance. The Lao PDR needs to develop greater capacity for dealing with growing addiction to methamphetamines, as well as to other illegal drugs. Existing programs to educate youth and other vulnerable groups on the dangers of methamphetamine addiction must be enlarged and reinforced, and drug abuse treatment availability must be greatly enhanced.

Increased law enforcement cooperation with neighbors and other partners, building on some recent successes, is the most promising means for Laos to respond effectively to domestic and international drug trafficking activity. INL law enforcement funds will be used to increase capacity for effective cooperation, while DEA will provide operational expertise and help tie Lao law enforcement into broader channels of counter narcotics information. Lao authorities, however, remain cautious about engaging with other countries on law enforcement, and prefer to focus on crop control and demand reduction. The new Lao National Drug Control Master Plan (2009-2013) aims to address many of the problems noted here, but implementation will require both greater exertion of Lao political will and substantial and sustained support from development partners. Laos has made considerable progress in its counter narcotics efforts, but great challenges remain.

Latvia

I. Summary

Drug use in Latvia is characterized by continued prevalence of synthetics, though cannabis is also popular. Cocaine use has recently seen a significant upsurge even though the price is generally high. Recreational drug use continues its shift to synthetic stimulants due to their low cost. The Latvian government backs 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, Estonia and Scandinavian countries and transit Latvia en route to other countries. Control of some cocaine smuggling through the Baltic region is directed by Latvian organized crime groups in coordination with Russian organized crime groups, though Russia (specifically Moscow) is the most likely ultimate market. Cocaine use in Latvia is an increasing problem and its high price is no barrier to users. An exponential rise in the number of administrative cases for possession of small amounts of cocaine is the result of the combination of more effective police activity and an increase in use of the drug. 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. Overall, recreational drug use has increased.

III. Country Actions against Drugs in 2008

Policy Initiatives. Latvia is in the final year of its State Program for the Restriction and Control of Addiction and the Spread of Narcotic and Psychotropic Substances, 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. The Action Plan for the Restriction and Control of Addiction and the Spread of Narcotic and Psychotropic Substances for 2009, which has the same priorities as the State Program, has not yet been adopted but is before the Cabinet of Ministers for approval. One objective of the Action Plan is to ensure a transition period while the final evaluation of the State Program can be made. An outcome of this evaluation is the development of a new long-term policy planning document covering drugs and drug addiction in Latvia.

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 during 2008 rose 60 percent, from 1470 cases in 2007 to 2446 cases in 2008. In 2008 the total amount of narcotic and psychotropic drugs seized rose significantly more for some drugs, and markedly less for others. The amounts of ephedrine, heroine, and amphetamines, seized did not change significantly

from last year. LSD, poppy straw, cocaine and ecstasy amounts were much lower. Seized amounts of methamphetamines (in grams) rose by 300%. Substances controlled as prescription drugs were confiscated in significantly higher amounts over last year's numbers. Hashish experienced a spike, with seizure amounts twenty-eight times higher than last year. Cocaine use in Latvia is increasing at an alarming rate. Although the amount confiscated in 2008 is a decrease of over 50% from 2007, the number of administrative cases (arrests for possession of a small quantity for personal use) launched near the end of 2008 was 900 cases more than for the same time period in 2007. Peperzine, a newer drug from Western Europe, is on the EU controlled substance list and is expected to be added to the Latvian list in 2009. It is currently 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. However, because of low police salaries, law enforcement agencies are losing experienced staff to higher paying jobs and find it difficult to attract new recruits.

Money laundering continues to be a serious problem in Latvia, although authorities have passed numerous laws in an attempt to confront the issue. Most investigations into money laundering, however, are not connected to regional drug smuggling. The Latvian Police have a Financial Investigations Unit (FIT) that oversees money laundering cases within the country.

Corruption. Latvia's Corruption Prevention and Combating Bureau (KNAB) was established in 2002 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 bilateral treaty on mutual legal assistance agreement which entered into force on September 17, 1999. The Republic of Latvia and the United States have ratified the new Extradition Treaty signed in Riga on December 7, 2005. The Protocol to the MLAT, also done pursuant to the U.S.-EU Agreement on this subject and signed on December 7, 2005 as well, has been ratified by both governments. The exchange of instruments to bring the treaties into force has not yet occurred. 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 in coordination with Russian organized crime groups, and 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) 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, Russia 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.

Latvia became a Schengen country on December 21, 2007, thus opening its borders to other Schengen states. The Latvian State Police reported that the greatest rise in narcotics trafficking in Latvia occurred when it became an EU country in 2004. Police do not believe the change after Schengen has been significant.

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); 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 2008 a short-term Drug Strategy was developed for 2009. It includes an evaluation of the 2005-2008 Drug Strategy. A plan for 2010-2013 will be established pursuant to that evaluation. Concerning interventions, in December 2006 a four-year UNODC project “HIV/AIDS prevention and care among injection drug and in-prison settings in Latvia, Estonia and Lithuania” began. Program focus includes substitution treatment, and increased coverage of harm reduction 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. 2007 data on drug treatment clients show a significant increase in the number of patients treated at in-or out-patient treatment programs. The number of those treated for the first time at out-patient treatment centers in 2007 has increased by 40% compared to 2006 (627 in 2007 and 443 in 2006). Data show that approximately every fifth problem drug or injection drug user sought treatment in 2007. Preliminary analysis indicates that the number of those treated at in-patient programs has increased by the same percentage as out-patient programs. One explanation of this increase is that methadone treatment coverage has increased as well as availability of a broader range of services to drug users, such as psychological or social counseling.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States offers assistance on investigating and prosecuting drug offenses, corruption, and organized crime. The Drug Enforcement Administration (DEA) and Latvia Central Criminal Police continue to conduct joint investigations in an effort to disrupt and dismantle Latvian-based organized crime groups that operate both regionally and internationally. A USCG Mobile Training Team visited Latvia in 2008 and provided a course on Maritime Operations and Planning.

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.

Lebanon

I. Summary

Lebanon is not a major illicit drug producing or drug-transit country. The Lebanese government reported increased but still not significant marijuana cultivation in 2008, and expanded drug use particularly among the young, due to greater availability and reduced price of most drugs sold in Lebanon. Lebanon has been unable to prevent illicit drug cultivation or to eradicate illicit crops before harvest in the fertile Beqaa Valley due to internal political conflicts that prevented security officials from mounting an eradication campaign. Since 2005 the Drug Enforcement Bureau (DEB) of the Internal Security Forces (ISF) of Lebanon has undertaken almost no crop destruction operations due to ongoing political crises and overstretched security commitments of the Lebanese Armed Forces (LAF), which provide the security for the drug enforcement police involved in crop destruction. 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 continued in 2008, in large part due to the absence of effective border security along the long eastern border with Syria. Also, the UN peacekeeping force on the Lebanese-Israeli border, UNIFIL (the UN Interim Force in Lebanon), reports increased drug smuggling across the Lebanese-Israeli border in 2008. Lebanon is a transit country for cocaine and heroin, with Lebanese nationals operating in concert with drug traffickers from Colombia and South America. 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 continues to rise. Since there has been almost no eradication of marijuana used to make hashish since 2005, hashish is easy to obtain and readily available to the growing numbers of young users. Over the last few years, only small quantities of cocaine and heroin arrived in Lebanon to meet local demand. This fiscal year, however, Lebanese officials intercepted 61 kilograms of cocaine and 14.5 kilograms of heroin, a significant increase over the previous year's overall seizures of 3.5 kilograms of cocaine and 2.7 kilograms of heroin. Heroin use is small, but increasing, according to local officials. The government also reported increased abuse of synthetic drugs. Lebanon is not a major transit country for illicit drugs. Although most trafficking is done by small-time dealers rather than major drug networks, Lebanese citizens are a major presence among international drug trafficking and money laundering organizations in South America, and are tied into the highest levels of Colombian traffickers moving cocaine throughout the world. 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, primarily from Colombia, Peru, and Bolivia, is smuggled into Lebanon 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 visible in the market, and Lebanese officials report that they are smuggled into Lebanon primarily from Eastern Europe for sale to high-income recreational users both within Lebanon and for transit to the Gulf States.

The stagnating economic situation in rural Lebanon, the lack of eradication campaigns and no effective investment in alternative crops continue to make illicit crop cultivation appealing to local farmers in the Beqaa Valley in eastern Lebanon. There is no significant illicit drug refining in Lebanon. However, small amounts of precursor chemicals, being shipped from Lebanon to Turkey via Syria, were thought to be diverted for illicit use in Lebanon. Lebanese officials reported an increase in misuse/overuse of prescribed medications. The ISF is working with the Ministry of Health to tighten regulations on the sale of drugs without prescription to lessen the increased consumption and overuse of pain killers such as Tramadol and codeine-based cough medicine referred to as "Simo". Legislation passed in 1998 authorized seizure of assets if a drug trafficking nexus is established in court proceedings.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Ministry of Interior considers counter-narcotics a priority. The government has continued a vigorous campaign to discourage drug use by expanding public awareness on high school and university campuses, through media campaigns and advertisements.

Law Enforcement Efforts. No hashish eradication has taken place since 2005. In both 2006 and 2007, the Lebanese Armed Forces (LAF) was unable to provide the requisite security owing to their commitments in internal conflicts (the Israel/Lebanon war in 2006 and battle against Islamic militants in a northern Palestinian camp in summer 2007). In 2008 internal confessional conflicts and political tensions created a political vacuum, and no decision was made to approve the eradication. After political tensions eased, the ISF mounted a large policing operation in October 2008, supported by the LAF, in the fertile hashish growing region of the Beqaa. In a one-week period in October, the ISF arrested over 350 drug dealers and traffickers, apprehended 83 tons of hashish plants, 7.5 kilograms of processed hashish, and 1,700 kilograms of hashish seeds. The ISF continues to face armed and violent resistance by the local farmers when attempting to eradicate crops or when attempting to undertake drug enforcement operations. Lebanese officials report increased trafficking of Captagon into the domestic market with 2.1 million tablets seized in November 2007, with the Gulf and Saudi Arabia believed to be the primary intended end-use market. Lebanese Customs officials intercepted a recreational vehicle carrying 1512 bottles of codeine-based cough medicine in the Beqaa Valley in October 2008. Also in October in Colombia, DEA and Colombian authorities arrested three Lebanese nationals suspected of being part of a large-scale international drug trafficking and money-laundering ring that operates globally, from Colombia to the U.S., Canada, Europe and the Middle East.

Lebanese law enforcement officers cooperated with foreign officials bilaterally and through Interpol in 2008. Several European and Arabian Gulf countries have drug enforcement liaison offices in Beirut with which local law enforcement authorities cooperate. The Internal Security Forces stated that from January to October 2008 they arrested 1,108 people for drug use and 699 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. On October 8, 2008, Parliament ratified 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 marijuana cultivation for hashish production 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 estimate that some 8,750 acres (3,500 hectares) of marijuana were planted this year in the Beqaa valley. Cultivation of poppies is negligible, according to Lebanese officials, and is estimated at less than 20 acres or 76,500 square meters.

Drug Flow/Transit. Coordinated through Interpol, joint Syrian-Lebanese anti-trafficking operations have continued since the Syrian withdrawal from Lebanese territory in 2005. The eastern border between Lebanon and Syria remains porous, and border policing efforts remain ineffective due to political constraints and lack of resources and manpower.

UNIFIL and press reports indicate increased drug smuggling incidents on the Blue Line (Lebanese/Israeli border) since the passage of resolution 1701 (2006) and particularly within the last year. The primary route for smuggling hashish from Lebanon during 2008 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. The Lebanese government and NGOs are actively involved in programs and campaigns to address the problems of illicit drug use in Lebanon. The current, but unenforced, 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. 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 ISF undertakes demand reduction programs in the schools and community; Drug Enforcement Bureau officers personally speak to youth at high schools and universities on a regular basis.

There are several detoxification and rehabilitation programs, the most comprehensive of which is run by 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 addition to its wide range of prevention programs, parents' and family guidance programs, outpatient follow-up programs, media campaigns, and training and conferences. ON reports that its activities directly benefited 18,000 people in 2008.

There are several other organizations that provide prevention and treatment services. A drug rehabilitation center in Zahleh run by the Saint Charles Hospital and the Ministry of Health has 23 patients as of October 2008, whose ages vary between 15 and 47. The Center holds drug prevention conferences, assemblies and talks throughout the Municipality every two weeks, and runs weekly anti-drug use campaigns in the schools. Skoun, an outpatient facility has broadened its drug treatment, prevention, awareness, and counseling to drug users and their families throughout Lebanon, including Sidon, Tripoli and the southern suburbs of Beirut. From January through October 2008, Skoun enrolled 120 patients for treatment, with almost 50 percent between the ages of 22 and 30. Skoun is the first treatment center in the Middle East to prescribe buprenorphine maintenance for opiate addicts and continues to lobby for buprenorphine's legalization with the Ministry of Health. With the aim of better implementing the 1998 law decriminalizing addiction and educating the criminal justice system in the benefits of treatment centers over drug addicts' imprisonment, Skoun has been working since August 2007 to ensure the legal rights of drug addicts through a series of roundtable discussions and workshops designed to sensitize 100 judges, 100 police investigators, 80 heads of police, 1500 police recruits, and other public officials on the condition of drug addicts and the laws that govern them. This project is sponsored by the European Union and administered by the Office of the Minister of State for Administrative Reform. Jeunesse Anti-Drogue (JAD) offers rehabilitation centers, educational programs, medical treatment, and outpatient counseling. JAD has 390 patients through October 2008, the average age of whom was 17. Jeunesse Contre la Drogue raises awareness of substance abuse and AIDS. Association Justice et Misericorde was established to assist incarcerated drug abusers.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In meetings with Lebanese officials, U.S. officials continued to stress the U.S. commitment to support law enforcement sector development by strengthening the capacity of the Lebanese Internal Security Forces to enforce the rule of law in Lebanon, to punish violators by increasing the capacity of the ISF to combat criminal activities in all forms, including drug trafficking, production and use. The USG also stressed the importance of anticorruption efforts.

Bilateral Cooperation. Bilateral cooperation has increased substantially with the FY 2008 opening of the State Department-INL Office at the U.S. Embassy in Beirut. The INL director manages the new U.S. Lebanon Police Program aimed at strengthening the capacity of the ISF to enforce the rule of law in Lebanon through provision of

training and equipment. The excellent working relations between the DEA Country Office in Nicosia, Cyprus, and ISF's Drug Enforcement Bureau were strengthened with three INL funded visits by DEA Nicosia officers in the course of the year. The first in-country DEA training will take place in December 2008, when 35 members of the DEB participate in DEA's Basic Counter-Narcotics course, funded by INL. A second training course in investigative techniques and Pen-Link training will occur early in 2009. INL is also funding donations of computers and investigative equipment to the DEB. USAID continued its program to empower Lebanese government, media, and civil society to fight corruption and assisted U.S. and local NGOs to promote transparency. USCG provided diesel engine maintenance training enabling maritime patrolling.

The Road Ahead. The U.S. Embassy in Beirut and DEA Country Office in Nicosia look forward to enhanced cooperation and coordination with the Lebanese government and the ISF. Benefiting from the increased USG funding to support the security forces of Lebanon, the Embassy and DEA intend to increase in-country training and investigative cooperation and provide necessary equipment for the under-funded ISF counter-narcotics unit. To ensure that all Lebanese security agencies with a counter-narcotics role are capable of carrying out their mandate, the Embassy and DEA will explore extending U.S. training in counter-narcotics strategies to Lebanese customs officers.

Lithuania

I. Summary

Synthetic drugs and cannabis are the most popular illicit narcotics in Lithuania. Lithuania remains a source country for synthetic drugs, as well as a transit route for heroin and other illicit drugs. The Government of Lithuania continued to strengthen efforts to deal with drug abuse, drug trafficking and organized crime. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

According to the Narcotics Control Department (NCD), about 7.5 percent of Lithuanian people of 15-64 years of age said they had tried cannabis at least once in their lifetime. Although cannabis is the most popular drug, GOL and NGO experts consider the increasing use of synthetic drugs—amphetamines and Ecstasy—as the biggest problem. The relatively low price of these synthetic drugs is one of the main reasons for their popularity. Most drug abuse takes place in nightclubs and discos. Lithuanian enforcement officers also consider prescription tranquilizers a problem—the NCD estimates that about 20 percent of the adult population is misusing or abusing them.

According to the Lithuanian Statistics Department, 72 people died of narcotic or psychotropic substances in 2007, up by 10 persons from 2006. Two thirds of the casualties were accidental overdoses. The majority of drug victims (86 percent) were male.

In 2007, 318 persons applied to medical institutions for treatment of drug addictions. The number of patients overall was 5,700 at the end of 2007 (compared to 5,600 in 2006), 81 percent of these patients were men. 81 percent of those getting treatment had been abusing opiates. This percentage is unchanged from 2006.

III. Country Actions against Drugs in 2008

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 continued to implement the National Program on Drug Control and Prevention of Drug Addiction for 2004-2008. The 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 coordination at the local and national levels. Lithuania increased funding to the National Drug Prevention and Control Program from 14.6 million LTL (\$5.40 million) in 2006 to 16.2 million LTL (\$6 million) in 2007 and to 19.1 million LTL (\$7 million) in 2008. The Government will continue its commitment to fight drug use and has already drafted a new national program for 2009-2016.

Law Enforcement Efforts. In 2008, Lithuanian law enforcement officials recorded 1,391 drug related crimes, compared to 1,198 in 2007 and 1,393 in 2006. In 2007, Lithuanian Police seized 160 kilograms of marijuana, 86 liters of poppies and 6.4 kilograms of heroin. As of October 2008, police and customs in cooperation with other countries' law enforcement agencies had seized 83 kg of cannabis seeds, 6.5 kg of heroin, 5.2 kg of Ecstasy, and 20.153 kg of methamphetamines. Lithuanian authorities also seized small quantities (less than five kg. each) of, LSD, hashish, cocaine, hallucinogenic mushrooms, various psychotropic drugs, and other precursors.

Lithuania worked effectively with international partners to break up drug smuggling operations in 2008, making important seizures in cooperation with Belarusian, French, Norwegian, Swedish, Estonian, Latvian, Russian, and Polish law enforcement partners. For example:

In June, police seized over three kilograms of amphetamines in Lithuania, resulting in the arrest of two Latvian citizens, who had been trafficking drugs into Lithuania. The record drug haul had an approximate street value of 120,000 LTL (\$44,000).

In August, police found one kilogram of heroin on a train from Russia. The heroin, it was believed by the authorities, was intended for the Roma settlement on the outskirts of Vilnius, which is known as the country's largest area of drug abuse. This amount of heroin has a street-level value of 420,000 to 700,000 LTL (\$155,000 to \$259,000). A police source stated that the heroin shipment was the largest amount of this type of drug intended for distribution in Lithuania seized this year. The suspects (arrested on the train) face 10 to 13 years in prison for unlawful possession and smuggling of a large amount of a narcotic substance.

In 2008, police shut down one laboratory producing high-quality amphetamines, confiscating 50 kg of the drug in the process.

As of November 1, 2008, the Lithuanian court system adjudicated 657 drug-related cases and convicted 847 persons. Sentences for trafficking or distribution of drugs range from fines to thirteen years of imprisonment.

Corruption. The Special Investigation Service (STT) established in 1997, has coordinated the Government of Lithuania's National Anti-corruption program since 2002. The task of the STT is to collect and use intelligence about criminal associations and corrupt public officials as well as carry out anti-corruption prevention activities. There were no reports of drug-related corruption involving Lithuanian government officials. The Government of Lithuania does not, as a matter of policy, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official is known to engage in, encourage, or facilitate narcotics production or trafficking, or the laundering of proceeds from illegal drug transactions.

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 Corruption, and the UN Convention against Transnational Organized Crime and its protocols against trafficking-in-persons, migrant smuggling, and illegal manufacturing and trafficking in firearms. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force. An extradition treaty and mutual legal assistance treaty are in force between the United States and Lithuania.

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 2008, police, in cooperation with customs agents, eradicated Almost 24 square meters of poppies and 83.5 square meters of cannabis.

Drug Flow/Transit. According to Lithuanian law enforcement agencies, Lithuanian-produced synthetic drugs have been intercepted in Germany, Poland, and Denmark and also en route to Sweden and Norway. Customs agents have seized drugs entering Lithuania from all frontiers – cocaine and ecstasy enter the country via Western Europe; amphetamines and other synthetic drugs are produced in country, in the neighboring Baltic States, or in Poland; and heroin typically arrives from Central Asia via Russia and Belarus. Domestically grown poppy straw satisfies local demand and is also exported to Russia's Kaliningrad region and to Latvia.

Domestic Programs/Demand Reduction. Lithuania operates five national drug dependence centers and ten regional public health centers. Under the National Drug Prevention and Control Program, the Government financed a number of prevention and supply-and-demand reduction projects targeted toward "at risk" youth and their parents. The Government has also developed a drug prevention teaching program for parents and created the first prevention project "Entertainment Without Narcotics" targeted at public discos and nightclubs. The Government continued implementing

demand reduction programs and developed a classified information data base about persons who received these services. In 2007, authorities financed seven “harm reduction” projects including training for staff in these centers.

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 during 2008, although illicit drug seizures in Macedonia significantly decreased during the first nine months of 2008, compared to the same period of the previous year. Domestic use of illicit drugs continued to grow. Macedonian law enforcement authorities cooperated 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 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, to be exchanged for heroin that is then moved to Western European markets. Synthetic drugs on the Macedonian market are smuggled in from neighboring Bulgaria and Serbia. Small amounts of marijuana are cultivated, mainly for personal use in southern Macedonia where the climate is favorable. According to government sources, there was no production of precursor chemicals or synthetic drugs, nor illicit drug production facilities of significance in Macedonia. According to MOI sources, trafficking in synthetic drugs appeared to increase in 2008. Seizures, however, were lower than in 2008. Macedonia produced licit poppy straw and poppy straw concentrate on approximately 500 hectares of its territory, 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 2008

Policy Initiatives. Macedonia's National Anti-drug Strategy, approved in 2006, was followed in May 2007 by a National Action Plan for implementing that strategy, which in turn was succeeded by a 2008–2012 Action plan for implementation. A new Law on Control of Narcotic drugs and psychotropic substances, effective September 2008, is expected to further improve drug enforcement.

Law Enforcement Efforts. According to MOI statistics, in the first nine months of 2008, criminal charges were brought against 268 persons (326 for Jan-Sept 2007), including eight (13 for Jan-Sept 2007) juveniles and one police officer. Those charges involved 221 actual cases of illicit drug trafficking, including 13 in the largest prison in the country, or a total of 61 cases less than in the same period of 2007. In 2008, police seizures of illicit drugs were significantly lower than in the previous year. Some MOI sources believe lower seizures are a result of Bulgaria and Romania's 2007 EU accession, which now allows traffickers who have crossed into Bulgaria from Turkey to move goods straight to western European markets, thus avoiding crossing two more borders. MOI sources claim that Macedonian territory, especially the northwestern areas, are more often used as a wholesale drug depot.

The MOI reported the following quantities of drugs and psychotropic substances seized in the first nine months of 2008 (2007 figures are also Jan-Sept):

Cocaine: 176 grams (compared to 486 kg in 2007)

Heroin: 26.1 kilograms (60 kg in 2007);

Marijuana: 10.6 kg (208 kg in 2007);

Cannabis: 268 plants (4413 plants the previous year);
Hashish: 30 grams (851 grams in 2007);
Raw opium: 12.2 grams (one kg opium seized in 2007); and
Ecstasy: 290 pills (1,862 pills seized in 2007)
Morphine; 12.1 kg

Customs Administration continued to strengthen its intelligence units and mobile teams. Police officials claimed cooperation with their Customs colleagues improved compared to past years.

Corruption. Corruption is widespread in Macedonia, with low salaries fostering graft among law enforcement officials and the judiciary, which remains weak. 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, migrant smuggling, and trafficking in illicit firearms. 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 2008, is monitored by the Ministry of Health, which shares production data regularly with the Vienna-based International Narcotics Control Board. Illicit 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 2008 appeared to increase, largely due to their higher street price in Macedonia. Most synthetic drugs aimed at the Macedonian market originated in Bulgaria and Serbia, and arrived in small amounts by vehicle.

Domestic Programs/Demand Reduction. Official Macedonian statistics regarding drug abuse and addiction are unreliable, but they are improving with the opening of the National Center, triggered by efforts to reach European standards in narcotics control policies. Ministry of Health officials estimated there were some 9,000 drug users in the country. The most frequently used drug was marijuana, followed by heroin. There were an estimated 600 or fewer cocaine users in the country in 2008, according to official sources. Treatment and rehabilitation activities are carried out in eleven state-run outpatient medical clinics for drug users. These clinics supervise methadone maintenance therapy for registered heroin addicts. One of the eleven centers is located in the largest prison in the country (with over 60 percent of the country's total prisoner population). Of the 1,500 prisoners in the country's main prison, an estimated 380 were identified as drug addicts, mainly addicted to heroin. Macedonian health officials acknowledged that rehabilitation centers were overcrowded. 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. There were only three centers for social reintegration and rehabilitation.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2008, DEA agents worked with the Macedonian police to support coordination of regional counternarcotics efforts. Financial police, Customs officers, prosecutors, and judges continued to receive USG-funded training in anti-organized crime operations and techniques; one Macedonian officer graduated from the USCG's International Maritime Officers' Course. 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. Macedonia might also serve organized criminals as a "warehousing" base. 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 encourage the preparation of new laws 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.

Madagascar

I. Summary

Madagascar is a party to the 1988 UN Drug Convention. In accordance with this convention, the GOM adopted a law in 1997 to govern the cultivation, production, processing, and commercialization of narcotics, psychotropic substances and precursors. The Inter-ministerial Committee for the Coordination of the Fight Against Drugs (CICLD) developed a National Master Plan in 2003 for the fight against drugs and related criminal activities which focuses on both the supply and the demand sides. During the first half of 2008, the police and gendarmerie together seized 390,307 cannabis plants, and 7,634 kg of cannabis. The Malagasy government cooperates with the USG on anti-drug efforts.

II. Status of Country

Madagascar is not a major drug trafficking country; however, it is an attractive transshipment point due to its location, poor port security due to limited resources, and lack of ability to effectively control its borders. Official sources report no manufacturing and distribution of synthetic drugs in Madagascar; however cannabis is grown widely in isolated parts of the island. Drugs transiting the country from East Africa and Central Asia are mainly shipped to the neighboring islands. There is no evidence of drug related corruption; however such corruption is widely believed to exist. Currently, there are no specific laws covering narcotics-related public corruption. The GOM has signed multilateral, bilateral, and regional anti-drug agreements.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2003, the GOM with the support of the United Nations developed the National Master Plan for the fight against drugs and related criminal activities. The CICLD has the lead in the implementation of this Master Plan. Actions being taken within the framework of this master plan concern the reduction of drug supply and demand. On the supply side, the efforts are focused on: the destruction of crops and the transformation of marijuana cultivation into alternative, legal cash crops; the dismantling of drug trafficker networks; and the strengthening of the capacity of the relevant authorities (customs, police, and gendarmerie) to enforce anti-drug laws. On the demand side, the efforts are focused on the prevention of drug abuse through presentation of training programs in primary and secondary schools, as well as at work and through the media. The improvement of drug addiction treatment is another goal of the plan.

Law Enforcement Efforts. In October 1997, Madagascar adopted the law 97-039 on the control of narcotics, psychotropic substances and precursors. This law criminalizes the cultivation of cannabis and mandates the destruction of all cannabis plants. This law also prohibits the production, processing, commercialization and transportation of psychotropic substances and precursors. Criminal sanctions including jail time and fines can be imposed in case of infringement. The Central Office against Narcotics (OCS), in collaboration with the National Police, Gendarmerie, Customs, Ministry of Health, Ministry of Trade and international partners, is in charge of law enforcement. In 2007, the National Police destroyed 8,601 cannabis plants, seized 2,277 kg of cannabis and 93.5 liters of cannabis oil, and arrested 315 persons. During the same period, the Gendarmerie destroyed 1,087,192 cannabis plants, seized 20,095 kg of cannabis and 7.5 liters of cannabis oil, and arrested 319 persons. During the first half of 2008, the police and gendarmerie together seized 390,307 cannabis plants, 7,634 kg of cannabis, 18.5 liters of cannabis oil, 150 g of heroin, and 200 g of hashish. Most drug trafficking moves by sea. In response, the GOM has strengthened controls at the main ports. The share of drug seizures made at sea is not available.

Corruption. It is difficult to directly relate corruption to drug trafficking. However, given the extent of marijuana cultivation, and observing circumstances in other countries where drug crops are cultivated and trafficking occurs,

many observers believe that government officials working at Malagasy ports or airports must facilitate shipment of drugs for bribes. Some confirmation of this thesis comes from seizures made by authorities in Mauritius and Mayotte on vessels coming from Madagascar.

There are no specific laws covering narcotics-related public corruption. 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. Law 97-039 criminalized money laundering related to narcotics-trafficking. There are no senior officials of the GOM engaging in, encouraging, or facilitating the illicit production or distribution of narcotic drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Madagascar is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, the 1972 UN Convention on Psychotropic Substances, the UN Convention against Corruption, and the United Nations Convention against Transnational Organized Crime, and its three protocols and the United Nations International Convention for the Suppression of the Financing of Terrorism. Under these treaties, the U.S. is able to submit requests for assistance. Although there is no bilateral extradition (or mutual legal assistance) treaty between the U.S. and the GOM, in 2004, the GOM extradited a fugitive to the U.S. pursuant to its domestic law. As a member of SADC since 2005, Madagascar should sign the SADC Protocol on the Fight against Drugs in the near future.

Cultivation/Production. Cannabis is the main drug produced in the country. It is found nationwide but it is difficult to estimate production due to the lack of appropriate data collection. The GOM does not use herbicide to destroy cannabis plants, but rather burns them.

Drug Flow/Transit. Drugs transiting Madagascar come from South Africa and Kenya, as well as Central Asia, and go mainly to Mauritius and La Reunion. Data on quantity flow is unavailable. Official sources report no manufacturing and distribution of synthetic drugs in Madagascar.

Domestic Programs/Demand Reduction. The Ministry of Health has put in place a sectoral policy regarding the fight against drugs which aims to prevent alcohol and drug addiction, particularly among youth. In collaboration with the Ministry of Education, the Ministry of Communication, and civil society, the government has organized conferences, training sessions, TV shows, and radio broadcasts to inform the population of the impact of drugs on health. The government has also tried to improve the treatment and rehabilitation of addicts at the three public hospitals and one private hospital in Madagascar. Several NGOs and associations also play an important role in the process. The medicines EQUANIL and ALDOL are frequently used for treating addicts undergoing withdrawal.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. mission in Madagascar has worked with the police and gendarmerie to provide drug interdiction and eradication training as permitted by limited resources. In 2008, five Malagasy law enforcement officers were sent to USG-sponsored training sessions in Botswana to improve Madagascar's ability to control precursor chemicals. In addition, 42 gendarmes, police, and civilian officials attended customs and immigration training sponsored by DHS and AFRICOM in Madagascar.

Road Ahead. Malagasy officials, including the police, gendarmerie, the guard, and customs would benefit from additional anti-drug training.

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. Like other ASEAN states, 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 for arrested drug traffickers, and the country relies heavily on preventive detention under the Dangerous Drugs Act (Special Preventive Measures 1985) rather than active prosecution. The extensive use of preventive detention in narcotics cases in lieu of prosecution is due in large part to an extremely high burden of proof required for narcotics trafficking cases which would result in a death sentence in the case of a guilty verdict. As there are no alternative sentences, authorities rely on preventive detention without trial. Malaysia is a party to the 1988 UN 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 Golden Triangle area (Thailand, Burma, Laos), and other drugs such as amphetamine type stimulants (ATS). Small quantities of cocaine are smuggled into and through Malaysia from South America. Local demand and consumption of drugs is very limited in Malaysia; however, crystal methamphetamine, Ecstasy, and ketamine, mostly from India, are smuggled through Malaysia en route to consumers in Thailand, Singapore, China, and Australia. Ketamine from India is an increasingly popular drug in Malaysia. Since 2006, Malaysia has also been a location where significant quantities of crystal methamphetamine are produced. This trend continued in 2008, with a large methamphetamine laboratory seized in Southern Malaysia, and frequent police reports of ethnic Chinese traffickers setting up labs in Malaysia. Between January and July 2008, police encountered and identified 7,992 addicts, of whom 3,584 were new cases. Since 1988 the Malaysian Government cumulatively has identified 308,233 drug addicts, and the government-linked Malaysia Crime Prevention Foundation and other NGO's estimate 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 2008

Policy Initiatives. Malaysia continues a long-term effort launched in 2003 to reduce domestic drug use to negligible levels by 2015. Senior officials including the Prime Minister speak out strongly and frequently against drug abuse. The Prime Minister chairs the Cabinet Committee on Eradication of Drugs, composed of 20 government ministers. The National Anti-Drugs Agency (NADA) is the policy arm of Malaysia's counter-narcotics strategy, coordinating demand reduction efforts with various cabinet ministries. Malaysian law stipulates a mandatory death penalty for major drug traffickers, with harsh mandatory sentences also applied for possession and use of smaller quantities. In practice however, many minor offenders are placed into treatment programs instead of prison. Convictions for trafficking are extremely rare, as they would require the defendant to receive a death sentence. Consequently, most major traffickers are placed in preventive detention.

Accomplishments. Malaysian authorities seized an operational methamphetamine laboratory in 2008, and had numerous other successful investigations, confiscating large quantities of methamphetamine, ketamine, and Ecstasy (MDMA). They have also initiated investigations of police corruption, in one case transferring an entire unit, and have

transferred numerous officers suspected of corruption. Some of these officers have been detained under the SPMA, while several others remain under investigation.

Law Enforcement Efforts. Police and Customs Officers arrested 41,146 people for drug-related offenses between January and July 2008, an increase of 26%. Enforcement officials continued to show successes in ATS-related seizures and have also recorded a higher level of heroin seizures than over the same period last year. The Royal Malaysian Police recorded a forty-six percent increase in confiscated property derived from drug related cases in 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. Prosecutorial successes and limitations are generally similar to those of police investigations. Accordingly, Malaysian prosecutors have shown only limited success in prosecuting and convicting drug traffickers. Prosecutors are limited in their ability to charge and prosecute regular drug trafficking cases as Malaysia does not have an effective drug conspiracy law, thus limiting charging decisions against major traffickers. In addition, there are limited sentencing alternatives if a subject is charged and convicted of drug trafficking. Consequently, Malaysia police almost always use the Special Preventive Measures Act (SPMA) to arrest and detain drug traffickers. The SPMA allows for the detention without trial of suspects who pose a threat to public order or national security. The systemic use of the SPMA to arrest drug traffickers also stems from the extremely high burden of proof required for a drug trafficking conviction, which would then require a mandatory death sentence. Police and prosecutors are limited in their ability to prosecute such cases and preventive detention is therefore common. There is very limited judicial oversight for subjects arrested under preventive detention.

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 corruption both specifically and in general, no senior officials were arrested for drug-related corruption in 2007-2008. Malaysia's Anti-Corruption Agency (ACA) investigated 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 preventive detention. The ACA's shortened 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 its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. It is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime (UNTOC) but has not signed any of the protocols to the UNTOC. Malaysia signed an MLAT with the U.S. in July 2006. The U.S.—Malaysian MLAT has not yet entered into force (as of November 2008). Malaysia also has a multilateral MLAT with the seven Southeast Asian nations of ASEAN, and also has an MLAT with Australia. The U.S.-Malaysia Extradition Treaty has been in effect since 1997.

Cultivation/Production. While there is no notable cultivation of crops used to produce U.S. controlled substances 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 since 2006 and Malaysian authorities admit that international drug syndicates are using Malaysia as a base of operations. All methamphetamine labs seized in Malaysia since 2006 were financed by ethnic Chinese traffickers from Singapore, Taiwan, Thailand, or other countries. In 2008, a lab was seized in Malaysia in which the chemists were from Mexico.

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 (Thailand, Burma, Laos) 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, India and is exported to several countries in the region. There is evidence of increased transit of cocaine from South America. In 2008, several Peruvian couriers and one Bolivian courier were arrested with cocaine upon arrival in Malaysia. In nearly every case the cocaine was destined for Thailand. Large scale production of ATS in Malaysia remains a significant problem. There were three large labs seized in 2007, one large lab seized in 2008, and there are other cases in which traffickers sought chemicals to set up methamphetamine labs in Malaysia.

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 6,968 persons were undergoing treatment at Malaysia's 28 public rehabilitation facilities as of July 2008, indicating over a 30% percent increase from last year. Another 32,696 persons were undergoing "in community" treatment and rehabilitation and are used as role models for relapse cases.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counter-narcotics training continued in 2008 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 2008, U.S. officials from the Department of Justice, DEA, and FBI presented a training workshop for Malaysian counter-narcotics investigators on intelligence analysis and other drug investigative techniques. The USCG trained boarding officers in Maritime Law Enforcement. In addition, senior Malaysian counter-narcotics officials traveled to the United States and visited DEA Headquarters and DEA's New York Field Division in an effort to expand their international cooperative efforts.

The Road Ahead. United States goals and objectives for the year 2009 are to improve coordination and communication between Malaysian and U.S. law enforcement authorities in counter-narcotics efforts. United States law enforcement agencies will utilize better coordination with Malaysian authorities to interdict drugs transiting Malaysia, and to follow regional and global leads. U.S.-funded counter-narcotics training for Malaysian law enforcement officers will continue and U.S. agencies will continue working with Malaysian authorities to improve Malaysia's investigative and prosecutorial skills. U.S. agencies are also seeking additional operational engagement of Malaysian counter-narcotics officials who have expressed an interest in greater regional cooperation.

Malta

I. SUMMARY

The Republic of Malta does not play a significant role in the transit, processing or production of narcotics and psychotropic drugs and other controlled substances. Surveys indicate that illicit drug use is confined to a small segment of the population. The Maltese Government dedicated significant time and effort over the past several years updating Malta's laws and criminal codes in preparation for joining the European Union in 2004. As a result, Malta's criminal code is in alignment with the goals and objectives of the 1988 United Nations Drug convention, which Malta ratified in 1999. The Malta Police Drug Unit and the National Drug Intelligence Unit (NDIU) continue to improve their capabilities. Their success is perhaps best illustrated by the upward trend in seizures of heroin, cocaine, Ecstasy, and cannabis resin over the last five years. This trend is the result of improved coordination and communications among all agencies involved in controlling drugs.

II. Status of Country

Malta, an island nation of some 402,000 population between Sicily and North Africa, is a minor player in global production, processing, and transshipment of narcotics and other controlled substances. There is no evidence to indicate that Malta's role in the worldwide drug trade will change significantly in the near future. There is some evidence to suggest that on a small scale Malta serves as a transshipment point for drugs from Africa to Europe. Malta is not isolated, with daily flights, numerous ship calls, a large commercial port, numerous illegal immigrants, and frequent international travel by a large percentage of Maltese, the island has myriad connections with Europe and Africa. The drug problem is generally limited to the sale and use of consumer quantities of illegal drugs. Consumption is generally not high, although there has been a recent increase in the proliferation of recreational drugs such as Ecstasy and also an increased use and trafficking of illicit drugs by persons under eighteen. Cultivation activity in-country is limited to the growing of less than a few hundred cannabis plants per year for local consumption. Malta is not a precursor or essential chemical source country. There are a number of generic pharmaceutical firms operating in Malta but no evidence of diversion from the production side. There are stringent legislative controls of the pharmaceutical sector and the Maltese Health Department conducts inspections and review of company records.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2004, the Government of Malta and the United States successfully negotiated a Maritime Counter-Narcotics Cooperation Agreement. This agreement concerns "cooperation to suppress illicit traffic in narcotic drugs and psychotropic substances by sea" and is intended to assist the interdiction of the flow of drugs via Maltese flagged shipping. In 2006, Malta and the U.S. finalized agreement on the Proliferation Security Initiative (PSI) Ship Boarding Agreement. Parliament passed the legislation necessary to implement the Ship Boarding Agreement and the Counter Narcotics Cooperation Agreement in November 2007. The agreement entered into force after the exchange of notes in December 2007.

Law Enforcement Efforts. Since the drug problem in Malta is not widespread, enforcement agencies are able to focus a large percentage of their resources on preventing the smuggling of drugs into Malta. Police and Customs personnel have had significant success through the profiling and targeting of suspected passengers transiting the airport. The Police and the Armed Forces work together to monitor intercept and interrupt sea borne smuggling of illegal drugs. Maltese Custom officials have worked to become more adept at detecting and preventing the movement of drugs through the Malta Freeport. Port authorities have shown the ability to respond quickly when notified by foreign law enforcement of intelligence-related to transshipment attempts. Maltese law provides the necessary

provisions for asset forfeiture of those accused of drug related crimes. In 2008, the Courts ordered the freezing and/or seizure of cash and movable or immovable property of several persons found guilty of drug trafficking.

2008 Drug Statistics:

Drug Seizures (January 1–October 18, 2008):

A) Coca leaf	n/a
B) Cocaine	Kg 932.4g
C) Opium poppy straw	n/a
D) Opium gum	n/a
E) Heroin	8 Kg 132.8g
F) Cannabis:	
- Resin	22 Kg 460.31g
- Grass	11.1g
- Seeds	n/a
- Plants	11 plants
G) Other	

Police statistics also reveal the seizure of:

- 3,663 tabs of Ecstasy
- 5 micro-dots of LSD
- 230ml of methadone
- 0.5 of Amphetamine
- 20 Kg of Khat
- 2 tablets of Valium
- 3 tablets of Tryptizol

2008 Arrests (January 1—October 17, 2008):

Total—	487
Nationals	n/a
Foreign	n/a

Corruption. The Government of Malta does not, as a matter of policy, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official is known to engage in, encourage, or facilitate narcotics production or trafficking, or the laundering of proceeds from illegal drug transactions.

Maltese law contains the necessary provisions to deal effectively with official corruption. In 2002 the country's Chief Justice and a fellow judge both of whom have since voluntarily resigned their positions, were arraigned on corruption charges for taking bribes from inmates convicted on drug charges. Investigative agencies used wiretapping authority to identify the judges involved and gather evidence that they were planning to accept bribes in exchange for reducing the sentences of several individuals appealing the terms of their drug convictions. In 2007, one of the accused pleaded guilty to the charges and was sentenced to two years imprisonment. The case against the former chief justice is still pending. In connection with the case, in 2008 an inmate and two accomplices were handed prison sentences of four and three years, respectively.

Agreements and Treaties. Malta is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Extraditions between the United States and Malta are currently covered by the Extradition Treaty between the United States and United Kingdom, signed on December 22, 1931, and made applicable to Malta on June 24, 1935. In May

2006, Malta and the United States signed a new extradition treaty pursuant to the 2003 U.S.-EU extradition agreement. In addition, the U.S. and Malta concluded a partial bilateral mutual legal assistance instrument governing only those issues regulated by the U.S.-EU Mutual Legal Assistance Agreement. The new extradition treaty and partial mutual legal assistance instrument are pending entry into force.

Drug Flow Transit. There is no indication that Malta is a major trafficking location. The Malta Freeport container port is a continuing source of concern due to the high volume of containers passing through its vast container terminal. The USG has provided equipment and training as part of non-proliferation and border security initiatives that also have enhanced Malta's ability to monitor illicit trafficking through the Freeport. This should improve detection and act as a deterrent to narco-traffickers seeking to use container-shipping activity at the Freeport as a platform for drug movements internationally. Malta serves as a transfer point for travelers between North Africa and Europe. There are cases of heroin being smuggled into Malta hand-carried by visitors from North African countries (Libya and Turkey, in particular). Traditionally, Malta's drug problems involved the importation and distribution of small quantities of illegal drugs for individual use. In 2008, a Nigerian national was apprehended at the Malta International Airport (MIA) and later charged with importing drugs in cocaine-filled capsules in his stomach. A Libyan national was charged with importing 100g of heroin in capsules, while a Somali resident in London was charged with importing a considerable amount of Khat. A Libyan National was charged with conspiring to import three kilograms of heroin. A Nigerian residing in The Netherlands, together with four other persons was charged with conspiring to import six kilograms of cocaine. Malta has the world's eighth largest ship registry, which makes it a possible player in future ship interdiction scenarios.

Domestic Programs/Demand Reduction. A National Drug Policy was adopted in January 2008 to "streamline the practices to be adopted by the various bodies, governmental and non-governmental involved in the provision of services related to drug use."

There are five main drug-treatment providers. Three are managed and funded by the government: Sedqa, Agency Against Drug and Alcohol Abuse, which falls under the Ministry of Social Policy; the prison-based unit SATU (Substance Abuse Therapeutic Unit), which falls under the Ministry for Justice and Home Affairs; and the DDU (Dual Diagnosis Unit) within Mount Carmel Psychiatric Hospital, which falls under the Ministry for Social Policy. Caritas and OASI are voluntary treatment agencies, which receive partial support from the government.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. law enforcement and security agencies and their Maltese counterparts continue to cooperate closely on drug-related crime. U.S. Customs has provided several training courses in Malta over the last two years. Under the Export Control and Border Security assistance program (EXBS) at Embassy Valletta, the U.S. continues to work closely with port officials to improve their ability to monitor and detect illegal shipments. In 2005, a Coast Guard Attaché was assigned to Embassy Valletta to improve coordination and training with the Maltese Maritime Enforcement Squadron. Training focuses on maritime search and seizure techniques as well as on the proper utilization and operation of two state-of-the-art patrol boats. A successful multi-national Search and Rescue Training Exercise was held on board the USCGC Dallas in August 2008. The Embassy's Regional Security Officer (RSO) works closely with the DEA Country Attaché and the FBI Legal Attaché based in Rome to foster cooperative efforts to strengthen law enforcement.

The Road Ahead. The joint effort to provide training, support and assistance to GOM law enforcement agencies has clearly improved the Maltese enforcement ability to profile individuals possibly involved with trafficking and/or in possession of dangerous drugs. The number of arrests and seizures for drug related offenses has steadily increased, indicating that Maltese authorities want to battle the drug problem within their own country and benefit from close USG cooperation.

Mexico

I. Summary

Throughout 2008, the Calderon Administration continued the unprecedented efforts begun in December 2006 to stop the flow of drugs and curtail the power of drug cartels. The restructuring of security forces, coupled with the military's strong engagement in the fight to dismantle major drug trafficking organizations (DTOs), has proven to be effective. These efforts led to numerous arrests of key narco-traffickers, the discovery of clandestine drug laboratories, and a dramatic decline in the importation of methamphetamine and precursors into the United States. The Calderon Administration is courageously dealing with increased violence as DTOs resist and fight among each other.

Also unprecedented is the degree of cooperation between the Government of Mexico (GOM) and the United States on counternarcotics and law enforcement, as we jointly press to dismantle major DTOs and pursue money laundering cases. This cooperation entered a new phase with the passage of the Merida Initiative by the U.S. Congress, which, with the signing of a bilateral agreement on December 3, 2008, will provide Mexico with substantial assistance and bring U.S. and Mexican officials closer in a joint counternarcotics effort.

All of this progress, however, comes against a backdrop of continuing high levels of corruption and turmoil within Mexico's security and judicial bodies. Corruption throughout Mexico's public institutions remains a key impediment to successfully curtailing the power of the drug cartels. 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. It is estimated that as much as 90 percent of all cocaine consumed in the United States transits Mexico. It is a major source of heroin, methamphetamine and marijuana, as well as a primary placement point for the laundering of narcotics-derived criminal proceeds. Drug related violence continues to rise in Mexico, from approximately 2,700 deaths in 2007 to over 5,000 in 2008. Cross border linkages developed by drug cartels are used to move drugs into the U.S. and to bring guns into Mexico. U.S.-purchased or stolen firearms account for an estimated 95 percent of the country's drug-related killings. Mexican drug cartels are increasingly carrying out contract killings in the U.S. and have recently been involved in several high-profile kidnappings in major southwestern U.S. cities.

The increase in violence may be due to the success of President Calderon's aggressive anti-crime campaign which has broadly deployed the military in searches and regional security plans, while more effectively using tools such as extraditions. This has led to the arrest of important cartel leaders and narrowed the operating space of criminal gangs, who are now fighting among themselves for now diminishing profits. As a result, criminal gangs are now often in the control of more erratic and violent subordinates, leading to more killings and less predictable behavior. Trafficking organizations have also been effective at utilizing violence as a psychological weapon, intimidating political leaders, rival groups, and the general public.

III. Country Actions against Drugs in 2008

Policy Initiatives. In the midst of rising violence, President Calderon has remained steadfast, pushing for long-term reforms in the judiciary and security forces, while aggressively confronting the cartels in the short term. There were a number of noteworthy initiatives in 2008 as summarized below.

Professionalization of the Federal Police: The Secretary for Public Security (SSP) is leading efforts to restructure and improve the operational capacity of the federal police. He is striving to develop the means to vet his entire force, as

well as many units drawn from state and municipal police, to stem corruption. Other SSP measures include training of mid-level management personnel throughout SSP, as well as attempts to bring on-board an additional 8,000 investigative personnel by 2010.

Information Management: The SSP and the PGR are expanding nationwide investigative and prosecutorial case management data systems. The cornerstone of this effort is “Plataforma Mexico,” which was initiated in 2007 and eventually will establish real-time interconnectivity among all levels of police to support a national crime database. Thus far, data sharing agreements have been executed with all 31 states and the Federal District to support 154 operational nodes which will tie together state and local police units working with the Federal Police.

75-Point Plan: Public marches and rallies against violence led to a 75-point plan to aggressively reform public security institutions in order to retain grassroots support for a more secure and peaceful Mexico. The plan was developed in coordination with civic organizations and local politicians, with the full participation and support of President Calderon and his government, as well as the governors of all states and the mayor of Mexico City. Progress will be reviewed every several months.

Mega-Bases: The SSP has plans to develop ten “mega-bases” throughout the country to provide the federal police the mobility and operational capacity to respond quickly to events anywhere in Mexico. The first three bases, each equipped with a Blackhawk helicopter and an array of special units, are operational.

Security Sector and Judicial Reform: In June, the Mexican Congress passed constitutional reforms and legislation to overhaul Mexico’s judiciary and public security apparatus; implementing legislation is currently being considered in the Congress. Included in the reforms are provisions to introduce oral trials, plea bargaining and alternative case resolution methods, broaden asset forfeiture laws, and clarify the roles and organization of the police. President Calderon also appointed the highly respected Jorge Tello Peon as National Security Advisor, with the mandate to increase coordination between Mexico’s security forces and prosecutors.

Separating Addicts from Dealers: On October 2 the Calderon administration submitted a law to the Senate that would distinguish between addicts found with small amounts of illicit narcotics from dealers. The legislation requires that a person found in possession of less than 2 grams of marijuana, 50 mg of heroin, 500 mg of cocaine, or 40 mg of MDMA (Ecstasy) powder, will, after arrest, be given the option of voluntarily entering a drug treatment program in lieu of jail time. The offer does not apply if it is the person’s third offense, the arrest is made within 300 yards of a school or public park, or the arrest takes place during the commission of another crime. Failure to complete the program will put the offender back on the prison track.

Accomplishments. In 2008, the GOM substantially increased support for security forces and the justice sector, which enhanced Mexican counternarcotics enforcement actions, including the arrest of important drug traffickers. Major arrests include Alfredo Beltran Leyva and Jesus “El Rey” Zambada Garcia of the Sinaloa cartel, Reynosa plaza boss Antonio “El Amarillo” Gallarza Coronado and enforcer Jaime “El Hummer” Gonzalez Duran of the Gulf cartel, Eduardo Arellano Felix and Luis Romero, principals of the Arellano Felix organization, and Colombian trafficker Pedro Antonio Ramirez. The GOM supported an initiative of the Federal Commission for Protection Against Health Risks (COFREPRIS) to restrict the licit entry of methamphetamine precursor chemicals into the country, resulting in a significant decrease in the import of precursors from 2007-2008.

Law Enforcement Efforts. In 2008 Mexican law enforcement seized over 19 metric tons (MT) of cocaine, 1,650 MT of marijuana, 168 kilograms (kg) of opium gum, 192 kg of heroin, and 341 kg of methamphetamine. In most categories, this was a reduction by half from last year. U.S. law enforcement agencies attribute this reduction to better enforcement which has forced traffickers to seek alternate routes or alternative enterprises.

On July 16, the Mexican Navy intercepted a self-propelled semi-submersible (SPSS) in the Gulf of Tehuantepec in the eastern Pacific Ocean, which resulted in the seizure of 5.6 MT of cocaine.

As of November 12, 2008, GOM security forces had seized 39,437 illegal firearms, including the record-breaking seizure of weapons believed to belong to the Zetas of the Gulf cartel, and arrested 26,947 persons on drug-related charges – 26,571 Mexicans and 376 foreigners. According to the Attorney General's Office (PGR), 19 drug-processing laboratories were also dismantled in Mexico during 2008. DEA reports that five of these methamphetamine labs were classified as "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 or facilitate the illicit production or distribution of narcotic or psychotropic drugs or any other controlled substances, or the laundering of money derived from illicit drug transactions. Corruption remains a considerable hurdle for Mexico in reforming institutions and confronting criminal gangs whose assets run in the billions of dollars. On October 27, Attorney General Medina Mora announced that five senior officials from the PGR's anti-organized crime unit (SIEDO) had been arrested for passing information to a major drug cartel. On October 31, Acting Federal Police (PFP) Commissioner Gerardo Garay Cardena resigned over allegations of his connections to the Sinaloa drug cartel; subsequently, he was arrested on corruption charges. Dozens more junior federal security officials have also been suspended or fired over corruption charges.

Agreements and Treaties. Mexico is party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Mexico also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere 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, Colombia and Mexico formed a tri-party group with the U.S. that consists of the DEA Administrator, the Colombian Minister of Defense, and the Mexican Attorney General. This group meets at least twice a year to discuss counternarcotics and other issues of mutual interest. Also, Mexico is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters.

Extradition and Mutual Legal Assistance. During 2008, Mexico extradited a total of 95 persons, 24 of whom were wanted in the United States for narcotics trafficking or related money laundering offenses. Sixty-four were Mexican citizens. While extraditions are continuing at a significant pace, the process remains, at times, lengthy and complex. In addition to extraditions, Mexico regularly deports numerous US citizen fugitives to the United States. Mexican authorities, in cooperation with the U.S. Marshals Service and the Federal Bureau of Investigation, deported 172 non-Mexican fugitives to the United States to stand trial or serve sentences in 2008. Many of these fugitives were wanted on U.S. drug charges.

Cultivation and Production. In 2008, the Mexican military eradicated 15,756 hectares of cannabis, as compared to 22,348 hectares eradicated in calendar year 2007. The GOM reported eradicating 12,035 hectares of opium poppy as compared to 11,102 hectares eradicated in 2007. Eradication of cannabis has been on a steady decline since 2005 due to the realignment of responsibilities for aerial eradication within the GOM from the PGR to the SSP, the shifting of overall counternarcotics priorities to interdiction and the targeting of DTO leadership, and improved growing conditions.

Drug Flow and Transit. Drugs continue to transit Mexico via land, sea and air, although, based on seizures in Mexico and the Caribbean, in diminishing amounts. During 2008, a total of five "super" methamphetamine laboratories were located and destroyed – a reduction from 14 labs in 2007. A decrease in lab seizures may reflect a reduced availability of precursor / essential chemicals due to the regulatory controls put in place by the GOM that

make it more difficult to introduce such chemicals into Mexico and recent U.S. and Mexican law enforcement activities.

During 2008, Mexico had several significant seizures of pseudoephedrine tablets. The most significant occurred on September 17, when approximately 5.6 million 60 milligram (mg) pseudoephedrine tablets originating in West Bengal, India were seized at the Benito Juarez International Airport in Mexico City, Mexico.

Domestic Programs/Demand Reduction. Drug consumption in Mexico continues to have a negative impact on society, and drug use among youth is rising. In order to counter these impacts, the GOM continues to support several drug demand reduction programs. These programs include the National Council Against Addictions (CONADIC) and the National Network for Technological Transfer and Addictions (RENADIC), which have been designed to facilitate training and technical assistance for drug prevention and treatment. The GOM has designated \$70 million dollars of the \$205 million seizure from alleged drug trafficker Zhenli Ye Gon to establish 300 local offices that will be linked to RENADIC. Mexico's First Lady hosted a conference on addictions—"New Paradigms, New Solutions"—in October which drew over 3,000 participants from 40 countries.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral counternarcotics cooperation continues to grow in scope and quality and will receive a major boost when the Merida Initiative is fully implemented. U.S. Government (USG) law enforcement personnel share sensitive tactical information with their vetted Mexican counterparts in real time, resulting in greater numbers of successful interdiction operations, and thousands of GOM law enforcement officers receive training through U.S. programs.

In May 2008, a Letter of Intent was signed by the commanders of SEMAR, U.S. Northern Command (NORTHCOM) and the USCG establishing a permanent bi-national working group on maritime safety and security laying the foundation for sustained and consistent cooperation and coordination in a variety of maritime mission areas. The working group advanced the process of integrating the diplomatic and operational channels for boarding requests with Mexico, which has already resulted in significantly more efficient operations. For example, the time required to obtain GOM approval for USG requests to board Mexican-flagged commercial vessels in international waters continues to be typically less than two hours, with approvals routinely received within an hour, compared to a response time of six to eight hours in the past. Coordinated efforts with the Mexican Navy have led in 2008 to Mexican seizures of over 20 MT of cocaine from maritime vessels. Occasionally, USG assets on the high seas have chased suspected smugglers into Mexican waters, where Mexican Navy assets continued the pursuit.

In 2008, the Bureau for International Narcotics and Law Enforcement Affairs' (INL) Narcotics Assistance Section (NAS) Professionalization and Training Program drew on interagency support from Department of Justice (DOJ) and Department of Homeland Security (DHS) agencies to provide 294 specialized training courses to 8,112 Mexican law enforcement and prosecutors at the federal and state level, with courses on criminal investigations, crime scene search and preservation of evidence, cyber-crimes, explosives and incendiary devices, highway and airport interdiction, and counterterrorism. The NAS Information Technology Program also provided over 130 specialized and advanced computer software application training courses to over 700 GOM programmers and engineers within the Mexican law enforcement community. Additionally, in partnership with the Attorney General's office, the USG through the U.S. Agency for International Development (USAID) provided training to Mexican state and federal investigators and prosecutors throughout Mexico to improve the justice sector.

The DHS Immigration and Customs Enforcement (ICE) Border Enforcement Support Team (BEST) program, implemented in 2006 to combat cross-border violence along the Southwest Border, continued to improve bilateral cooperation with Mexican law enforcement personnel. In 2008, US Customs and Border Protection implemented several bilateral programs with Mexico to enhance border and national security of both nations. For example, the

GOM provides airline passenger information to CBP through the Advance Passenger Information System (APIS). CBP also works closely with GOM counterparts concerning an overall bi-lateral strategic plan, as well as specific issues such as confronting border violence, terrorism, trafficking in persons, and providing expedited border crossings for pre-approved low-risk travelers.

Border security was further enhanced through the delivery of INL-funded equipment, including an x-ray minivan, 15 ion scanners (vapor tracers), 10 x-ray backscatter vans, and 68 non-intrusive inspection (NII) kits to Mexican Customs (SAT), as well as another five ion scanners to SSP for counternarcotics and counterterrorism operations. This equipment will greatly aid Mexican law enforcement agencies to detect and confiscate drugs, chemicals, explosives, weapons, laundered money, and other forms of contraband. The USG also provided equipment for anti-money laundering units, and computer servers for the “Plataforma Mexico” program.

The USCG also provided a variety of training to Mexican personnel during 2008, including Search and Rescue, leadership and management, marine engineering and maintenance, port security, small arms, and maritime law enforcement courses.

The Road Ahead. The U.S. will continue to support President Calderon’s efforts and jointly seek ways to more effectively utilize counternarcotics programs, intelligence, and judicial tools to confront drug trafficking organizations. The U.S. encourages Mexico to press forward with the legal and institutional reforms to its judicial system and security forces, and to continue its anti-corruption efforts. A comprehensive security and judicial system that ensures integrity at all levels will help ensure that advances in other areas are successful. The United States also encourages closer cooperation between our counternarcotics and border security forces in order to enhance intelligence and evidence sharing and effectively close smuggling routes.

For its part, the USG will offer significant cooperation in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Mexico signed a bilateral agreement with the U.S. for Mérida Initiative assistance on December 3, 2008.

V. Statistical Tables

Mexico Statistics (2002-2008)

	2008	2007	2006	2005	2004	2003	2002
Opium							
Harvestable / Net Cultivation (ha)	6,900	-	5,100	3,300	3,500	4,800	2,700
Eradication (ha)	12,035	11,102	16,889	21,609	15,925	20,034	19,157
Potential Opium Gum (MT)	149	-	110	71	73	101	58
Potential Heroin (MT)	18	-	13	8	9	12	5
Cannabis							
Harvestable / Net Cultivation (ha)	8,900	-	8,600	5,600	5,800	7,500	7,900
Eradication (ha)	15,756	22,348	30,162	30,842	30,851	36,585	30,775
Net Cannabis Production (MT)	15,800	-	15,500	10,100	10,440	13,500	7,900
Seizures							
Cocaine HCl (MT)	19	48	21	30	27	21	12
Cannabis (MT)	1,650	2,194	1,902	1,786	2,208	2,248	1,633
Opium Gum (kg)	168	292	75	275	464	198	310
Heroin (kg)	192	298	351	459	302	306	282
Methamphetamine (kg)	341	932	753	979	951	751	457
Arrests/Detentions Total	26,947	19,384	11,579	19,222	18,943	8,985	7,055
Nationals	26,571	25,539	18,694	19,076	18,763	8,822	6,930
Foreigners	376	295	207	146	180	163	125
Labs Destroyed	19	32	31	39	23	22	13

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

Moldova

I. Summary

Drug transit and drug-related crime rates in Moldova continue to increase. In 2008, Moldovan law enforcement seized unprecedented quantities of heroin and cocaine. Moldova does not produce a significant amount of narcotics or precursor chemicals itself. Despite the fact that widespread poverty makes Moldova a relatively unattractive market for narcotics sales, drug use within the country remains a concern. There was an increased use of heroin and Ecstasy (MDMA) in 2008. Moldova is party to the 1988 UN Drug Convention.

II. Status of Country

Moldova is an agriculturally fertile nation with a climate favorable for cultivating marijuana and poppy, although annual domestic production of marijuana, after seizures and crop destruction, is estimated at just several hundred kilograms. Authorities regularly seize and destroy illicitly cultivated hemp and poppy plants. The market for domestically produced narcotics remains small, and is largely confined to the areas where drug crops like marijuana are cultivated. Moldova's proximity to the European Union, corruption, and the limited capacity of law enforcement resulted in the increased import of synthetic drugs and the increased smuggling of narcotic and psychotropic substances into Moldova in 2008. Investigations conducted in 2008 revealed a decreased number of 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 such as Turkey, Israel, Ukraine, Romania and Russia. Moldovan authorities also reported an increase in drugs produced in small-scale operations in homes. Control over the movement of licit narcotic and psychotropic substances, as well as precursors, is maintained by the permanent Drug Control Committee of the Ministry of Health.

III. Country Actions against Drugs in 2008

Policy Initiatives: The Ministry of Interior is responsible for counternarcotics law enforcement. Its Anti-Drug Unit has 78 officers nationwide. The unit continues to strengthen its efforts to counter narcotics activity. Pursuant to its mission of curbing the threat of transnational crime, the Ministry of Interior established the Department of Operative Service in April 2006. This department was created to ensure effective cooperation among existing GOM law enforcement authorities in combating cross-border crime. Additionally, the Drug Enforcement Unit and other law enforcement agencies drafted a Common Action Plan to combat the trafficking of drugs (and precursors) by means of railway transport. This plan involved the Ministry of Interior, Information and Security Service, Customs Service, Border Guards Service and Ministry of Transportation and Roads. Moldova is also a party to the EU-funded Belarus, Ukraine and Moldova against Drugs (BUMAD) agreement, which aims to reduce the intensity of drug trafficking into and out of the countries on the periphery of the EU.

Law Enforcement Efforts. Moldovan authorities registered 1,747 drug-related cases in the first nine months of 2008, compared with 1,985 cases during the same period in 2007. In 96.7 percent of drug-related cases, a criminal investigation was initiated, with 70.9 percent of these cases going to trial. In 2008, 20.8 kg of poppy straw and 1,611 liters of liquid opium were seized through September, compared to 95 kg of poppy straw and 10 liters of opium seized for the same period in 2007. Marijuana seizures in 2008 constituted 151.4 kg, compared to 230 kg seized during 2007. Synthetic drug seizures also decreased significantly in 2008. In 2008, 170 Ecstasy pills were seized, compared to 31,265 pills in 2007. One ml of methamphetamine and 480 grams of amphetamine were seized in 2008, compared to 189 ml and 881 grams in 2007. Likewise, 200 pills of codeine were seized in 2008 versus 950 pills in 2007. LSD seizure, however, increased from 2 LSD saturated papers (2 doses) through September 2007, to 231 LSD saturated

papers (231 doses) during the same period in 2008. Through September 2008, the Drug Enforcement Unit's identification of drug distribution cases increased by 44.4%. In 2008, 104 crimes were detected, versus 72 for the same period in 2007. Of the 104 crimes of drug distribution this year, 21 were committed by the same criminal group. In 189 cases, extremely large quantities of drugs were seized (51 more than during the same period in 2007). Through September 2008, police detected 61 cases of illegal storage of psychotropic substances and 16 cases of smuggling of narcotic substances.

As a result of police action directed towards the identification and seizure of narcotic substances, over 300 kg of drugs were seized, an unprecedented amount. Seizures of heroin increased considerably in 2008 to 207 kg from only 1.676 grams last year through September 2007. This was primarily the result of one very large drug bust which took place only one block from the U.S. Embassy, where a single load of 200 kg of blocked heroin from Afghanistan was discovered. In 2008, 69 cases of illicit distribution of heroin were registered, compared to only 11 cases in 2007. In 2008, police identified and apprehended an international criminal organization which dealt in the smuggling, production and distribution of cocaine. As a result, 250 liters of coconut oil mixed with cocaine from Colombia and 5.5 kg of stand-alone cocaine were seized. Three clandestine laboratories were discovered with the equipment to extract, press, and pack cocaine. Weapons were also seized as a result of this operation. The exact quantity of cocaine that could be extracted from the coconut oil has not been determined, but about 25 kg is the best estimate. Moldova does not have the laboratory facilities to adequately process and analyze this haul. Moldova will need to invest significant resources in education, border control, and further law enforcement initiatives if it hopes to stem the growth of domestic drug use. Because of its entrenched poverty and the scarcity of government resources, significant additional government investment is unlikely. Moldova remains the poorest country in Europe.

Corruption. Corruption at all levels is systemic within Moldova. 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 in regard to narcotics cases. The 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 U.S. Millennium Challenge Corporation's Threshold Country Program officially launched its implementation phase in Moldova. With \$24.7 million in MCC assistance over two years, Moldova seeks to reduce corruption in the public sector through judicial reform. Moldova also plans health care reform, tax reform, customs reform, and reform of the police agencies and CCECC. The U.S. Department of Justice (DOJ) Office of Overseas Prosecutorial Development, Assistance, and Training has provided technical assistance and training for the CCECC, funded by the U.S. State Department. DOJ's International Criminal Investigative Training Assistance Program has also provided technical assistance and training to the MOI and Customs Department.

Agreements and Treaties. Moldova 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. Moldova is also party to the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons, migrant smuggling, and trafficking in illicit firearms.

Cultivation/Production. Each year, between June and August, the Ministry of Interior launches a special law enforcement operation called "Operation Poppy". This operation targets illicit poppy, hemp, and marijuana fields for eradication and reinvigorates other counter-drug efforts. As a result of Operation Poppy in 2008, 579 criminal cases involving the illegal cultivation of poppy and cannabis were initiated. The cases included the following: 445 cases of the cultivation of poppy plants (resulting in the eradication of 15,768 kg of marijuana in the field).

Drug Flow/Transit. Seizures of illicit narcotics in 2008 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 into Western Europe and from Turkey through Romania/Moldova into Russia and near-by states. The major cocaine route is from Colombia through Panama to Ukraine to Moldova then into Western Europe.

Domestic Programs/Demand Reduction. In 2008, the Ministry of Interior reinvigorated its efforts regarding the provision of social services and on strengthening the relationship between the police and society. The MOI and local NGO "New Life" organized a training program in "Creation and Development of Assistance Groups," covering the northern and southern regions of the country. MOI also organized a series of lectures at educational institutions in the country aimed at emphasizing the dangers of drug abuse to young people. Posters and brochures containing information about the consequences of drug use and ways to protect oneself from drug pushers' solicitations were distributed. The MOI publicized information about cases involving the apprehension and arrest of drug traffickers, by means of press conferences, television shows, high-profile media releases, and announcements on its internet site. In August 2008 and September 2008, the MOI augmented its collaboration with local public administrations by holding two working meetings which took place in different parts of the country. These meetings involved representatives of public administrations, education departments, health departments, NGOs, UN agencies, along with narcotics drug specialists, local council representatives, prosecutors, and local police. They discussed drug abuse prevention and counternarcotics activities. Private drug treatment is an option only for the wealthiest of drug abusers. The GOM and NGOs continue to provide information about narcotics and conduct some educational and media campaigns. Neither NGOs nor the government offer adequate drug treatment for those already addicted.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Ongoing U.S. Government (USG) training and the provision of equipment are designed to improve the ability of Moldovan police to investigate and infiltrate organized crime and narcotics enterprises. The DEA's office in Vienna is responsible for drug enforcement assistance to members of Moldova's drug unit within the MOI. Direct communication between the DEA and MOI officers is common and mostly in the form of investigative or operational assistance. While incidents of corruption within the GOM are reported, the DEA has not encountered any instances of corruption in bilateral enforcement efforts. The USG also offers assistance in customs and border control, with programs specifically aimed at strengthening Moldovan border control. Although not specifically related to narcotics, these programs have a spin-off effect of reducing the flow of illegal goods through Moldova, including narcotics. During 2008, the USG financed basic and specialized law enforcement training programs via the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL), which included narcotics enforcement modules. INL also supported the GOM through the donation of equipment. The USG supported visits to the U.S. for police, anti-corruption, and customs officers for various capacity- building and developmental programs. These programs focused on enhancing techniques related to combating corruption, money laundering, illicit drug trafficking, and organized crime. One officer from Moldova attended the USCG's Officer Indoctrination School in the U.S.

The Road Ahead. The U.S. and Moldova continue to work together through U.S. assistance programs to help improve the ability of Moldovan law enforcement to target the movement of illicit goods and persons through Moldovan territory.

Mongolia

I. Summary

Drug trafficking and drug abuse among Mongolians are not widespread but continue to increase and to draw the attention of the government. Mongolia's increasingly urbanized 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. Rather than implement a rigid, inflexible national program, Mongolian leaders and lawmakers are maintaining a flexible approach that focuses on particular aspects of the drug problem. Mongolia is a party to the 1988 UN Drug Convention; there are no US-GOM law enforcement treaties in force.

II. Status of Country

Mongolia's long, unprotected borders with Russia and China are vulnerable to penetration by drug traffickers. Police believe that most smuggled drugs come from China and are usually carried by Mongolian citizens. Illegal migrants, mostly traveling from China through Mongolia to Russia and Europe, also sometimes transport and traffic in drugs. The organized crime division of the Criminal Police reported in 2008 that drug-related crime is growing. Although organized crime does not yet have a significant presence in Mongolia, police and NGOs express particular concern that this could change if drug use in Mongolia continues to rise. 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 done in connection with these projects. 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 2008

Policy Initiatives/Law Enforcement. The Mongolian government and law-enforcement officials have increased their participation in international fora focused on crime and drug issues. This is an encouraging development. Greater government participation in regional and international seminars on drug issues will be required if Mongolia is to stay current on drug trafficking trends. In September 2007, 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. In May 2008, the National Children's Center (NCC) and the Anti-Drug Center (ADC) NGO, with the participation of relevant government agencies and other NGOs, held a round table on the illegal drug situation in Mongolia. The primary concerns raised were the increase in drug use among young people, increased drug imports coming from China and from Russia, the wind-borne spread of wild cannabis from northern to central Mongolia, and the increasing incidence of wild cannabis simply taking root in unused mines, which could lead to intentional cultivation at such sites. The meeting delineated priorities for the future, including the training of psychologists who specialize in drug-related problems, the establishment of a national drug rehabilitation center (there is no such facility at present), and enhanced coordination between the government and NGOs, including additional funding for NGOs with experience organizing information campaigns to discourage narcotics use. Nationwide there are only 60 police officers who work on drug cases related to minors, or one officer for every 15,000 children. In June 2008, on the occasion of the International Day Against Drug Abuse and Illicit Trafficking, the government and NGOs arranged seminars across the country to raise public awareness of the drug problem.

From 1995 through June 2008, 208 people had been investigated in connection with the drug trade, 30 of whom were foreigners (primarily Russian and Chinese). Fifteen have been convicted and jailed. In the first six months of 2008, the investigations of three cases involving nine people commenced. In June 2008, five Mongolians were charged and convicted in a Chinese court of exporting drugs to China; they are now serving sentences of 12 to 15 years. 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.

Corruption. Mongolian internal corruption and related criminal activity are generally unrelated to narcotics trafficking. On September 7, 2007, the Anti-Corruption Agency (ACA), an independent governmental body with 90 employees, acquired investigative power previously held by police and prosecutors. The ACA compelled 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 potential exploitation by drug traffickers and international criminal organizations, particularly those operating in China and Russia. In October 2007, a court in Ulaanbaatar imposed a ten-year sentence on 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. The government does not encourage or facilitate illicit production of drugs or the laundering of the proceeds thereof. No senior government official is known to facilitate or encourage the production or distribution of illegal drugs or the laundering of the proceeds thereof.

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 conventions and treaties 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 harvesting and smoking the wild naturally-occurring 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.

Domestic Programs/Demand Reduction. Domestic, nongovernmental organizations work to fight drug addiction, including the use of commercial inhalants such as glue and aerosols by street children. International donors are working with the government to help Mongolia develop the capacity to address narcotics addiction among its population, 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 training by several U.S. law-enforcement agencies.

The Road Ahead. The United States will continue to cooperate closely with Mongolia to assist with the implementation of its counternarcotics policies, including border protection, the Anti-Corruption Agency, and training and assistance for the Mongolian police.

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 (heroin) and Latin America (cocaine), destined for the western Balkans and Western Europe. A small proportion of the smuggled narcotics is sold in the small but growing domestic market. 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. By using improved methods and additional technical capabilities in investigating drug trafficking, in cooperation with other countries, Montenegrin police disrupted several international smuggling operations. Montenegro became an independent state in June 2006, and is in the process of becoming a party 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

There were no reports of significant production of narcotics, precursor chemicals or synthetic drugs in Montenegro. 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. Information on illegal drug use is not systematically recorded, but authorities estimate that Montenegro has between 2,000 and 3,000 addicts. Heroin is the most prevalent drug on the local market, but the use of Ecstasy and amphetamines is on the rise. Crimes connected with narcotics also have increased, and currently 40 percent of all Montenegrin prison inmates have been convicted for narcotics-related offenses. Protection of its borders is a national priority for Montenegro. The United States and other international donors have supported efforts to tighten border controls. Recent U.S. donations of ocean and lake patrol craft have improved Montenegro's ability to curb water-borne smuggling.

III. Country Actions against Drugs in 2008

Policy Initiatives. To position itself better for future EU accession, Montenegro is training more counter-narcotics investigators, procuring new equipment, and strengthening its inter-agency cooperation. In May 2008, the Montenegrin government issued the country's first National Strategy for Suppression of Drugs, along with a National Plan to implement that strategy. The government also plans to create a National Office, within the Ministry of Health, to coordinate the country's anti-drug efforts.

Law Enforcement Efforts. The Drug Smuggling Suppression Department within the Police's crime division is responsible for coordinating cooperation and exchange of information between nine counter-drug police units located through Montenegro, the Customs Administration, the Ministry of Justice, and Interpol. The Ministry of Interior (MUP) compiles data on narcotics seizures. The Customs Administration likewise continued to strengthen its capacities. Police officials assert that their cooperation with Customs has been effective. A new 6.5 million Euro Forensic Center at the Police Academy in Danilovgrad was opened on December 16. The Center should improve the capabilities of Montenegro's law enforcement agencies and help fight organized and the other forms of crime, including narcotics-related crimes. The U.S. donated approximately 540,000 dollars to help establish and equip the Center.

During the first nine months of 2008, police filed 338 criminal charges against 278 individuals for narcotics-related violations and made 280 seizures. Police estimated that the street value of confiscated drugs was about 2,305,000 Euros (equivalent to \$2,958,921).

Police seized:

- * 201.8 kg of marijuana
- * 21.6 kg of heroin
- * 7.8 kg of cocaine
- * 0.9 kg MDMA Ecstasy
- * 0.1 kg amphetamine "speed"

Montenegrin police disrupted several international smuggling operations. Police cooperated actively with their counterparts in Australia, Germany, Serbia, Croatia, Bosnia and Herzegovina, Sweden, Norway, and Denmark. The investigations mostly focused on the organizers of criminal groups, users, street dealers, and border seizures; major narcotics dealers are rarely arrested. According to the Chief State Prosecutor's Office, during 2007 out of 453 cases reported by police, the prosecutor's office indicted 391 persons plus 420 continued cases from previous years, making a total of 811 indictments. During the same period, 320 persons were convicted for violations of Article 300 of the Criminal Code (related to production, storage, and sale of narcotics) and Article 301 (related to drug consumption). The duration of sentences for drug law violations in 2007 increased 32.84 percent in comparison to the previous five years.

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 also address narcotics-related corruption. There were no fact based-reports of cases linking senior Government officials to the illicit narcotics trade, though one senior opposition leader claimed that the Government had links to a local "narco-cartel." The USG has no information to corroborate such allegations. Public confidence in the Government's ability to combat corruption remained weak. 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. As the successor state of Serbia and Montenegro, Montenegro has become a party to a number of narcotics-related international treaties, 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 a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling, trafficking in persons, and trafficking in illicit firearms. The 1902 extradition treaty between the United States and the Kingdom of Serbia remains in force between the U.S. and Montenegro. Montenegro acceded to the UN Convention against Corruption in June 2006. Montenegro was admitted into Interpol in June 2006 and into the Southeast European Cooperative Initiative (SECI) in June 2008. In September 2008 Montenegro signed a strategic partnership with EUROPOL as a step towards full membership.

Drug Flow/Transit. Organized crime groups use Montenegro as a transit point for drug smuggling, due to the country's central location and its topography-both coastal and mountainous. Marijuana is believed to transit Montenegro by several well established overland routes in private vehicles, by foot, on mules, etc., smuggled from producers in Albania and Kosovo, en route to the Western Balkans and Western Europe (primarily Italy, Switzerland, Germany, and Scandinavia). Heroin from Afghanistan transits Albania and Kosovo and is smuggled to Montenegro in private vehicles before being transported further into Western Europe. Cocaine is smuggled by air and sea from South America (primarily Venezuela). The Montenegrin police report that the summer influx of tourists along Montenegro's coast has led to seasonal increases in use of illegal drugs.

Domestic Programs/Demand Reduction. The Institute for Public Health believes that drug use is on the rise, including among minors, but has no database to track the number of drug addicts. The number of drug-related crimes is reportedly increasing. In Montenegro there is only one psychiatric clinic for treating drug addicts, and the facility's

capacities are limited. Limited treatment and rehabilitation activities also are carried out in the hospitals in Podgorica and Niksic. Many patients also go for treatment to Belgrade at their own expense. On March 31, 2008 the Center for Re-socialization and Rehabilitation of Drug Addicts was opened in Podgorica. Government run prevention programs for primary and secondary schools and NGOs assist with some of these efforts. Community police officers visit the schools to educate students about the risks associated with drugs use. There were only a few NGOs in Montenegro during 2008 dealing with drug related issues.

IV. US Policy Initiatives and Programs

Bilateral Cooperation. MUP police and Customs officers continued to receive U.S. funded training in anti-organized crime operations and suppression techniques. The U.S. continued to provide training, technical advice, equipment and other assistance to the Customs and MUP border police units. Specifically, the USCG provided maritime boarding officer training through a mobile training team visit, and trained an officer at the International Maritime Officer Course in the U.S.

The Road Ahead. Accession to the EU and NATO remain Montenegro's primary foreign policy goals, providing a strong incentive to build up its criminal justice system to European standards. The U.S. coordinates its assistance programs and priorities with the EU and other international donors, particularly in strengthening the rule of law, combating corruption and developing an independent judiciary. The U.S. plans to continue its bilateral assistance for promoting rule of law in Montenegro, including suppression of narcotics trafficking.

Morocco

I. Summary

The Government of Morocco (GOM) has achieved significant reductions in its cannabis and cannabis resin production in recent years. Advances in Morocco's counternarcotics efforts are a result of the GOM's comprehensive counternarcotics strategy, which emphasizes combining conventional law enforcement, crop eradication, international cooperation, 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 is a party to the 1988 UN Drug Convention.

II. Status of Country

Morocco is one of the world's largest cannabis resin (hashish) producers and has consistently ranked among the world's largest producers of cannabis, but its importance as a main source country for cannabis resin is declining. The 2008 United Nations Office on Drugs and Crime (UNODC) World Drug Report states that fewer countries around the world are citing Morocco as the "source" country or "origin" of the cannabis resin found in their markets. The percentage of countries citing Morocco as the origin of hashish found in their markets has dropped from 31 percent in 2003 to 18 percent in 2006. This statistic appears to indicate some success of the GOM's counter drug efforts as well as increased cannabis resin production in Afghanistan.

Cannabis remains primarily a European export for Moroccan growers, with the vast majority of the product typically processed into cannabis resin or oil and exported predominately to Europe. Only very small amounts of cannabis and narcotics being produced in or transiting through Morocco reach the United States.

Cannabis cultivation is centered in the northern tip of the country, between the Rif Mountains and the Mediterranean Sea, and large segments of the population of that area participate in the cultivation. Approximately 760,000 Moroccans living in roughly 60 percent of villages in that area are involved in cannabis cultivation, according to the GOM.

The center of cannabis production in Morocco appears to have shifted from Chefchaouen to al-Hoceima due to GOM eradication efforts. Nearly 50 percent of cannabis cultivation occurs in al-Hoceima, with the surrounding provinces of Taounate, Tetouan and Chefchaouen largely making up the rest of production. According to the GOM, the province of Larache has become a less important area for cannabis cultivation.

Morocco is also combating the growth in trafficking and consumption of "harder drugs," particularly cocaine. According to the GOM, South American drug smugglers are transporting increased amounts of cocaine through Morocco and onward to Europe.

Heroin and psychotropic drugs (methamphetamine, Ecstasy, etc.) are also making inroads into the country but to a lesser extent than cocaine. Morocco has only a relatively modest licit requirement for dual-use meth or Ecstasy precursor chemicals (1025 kg of pseudoephedrine), and the country neither serves as a known source nor transit point for diverted meth precursors.

III. Country Actions against Drugs in 2008

Policy Initiatives. Morocco’s national strategy to combat drugs rests on the four pillars of: (1) interdiction, (2) eradication, (3) international cooperation, and (4) demand reduction. Morocco’s strongest actions have been in the areas of interdiction and eradication. GOM officials seek to build upon their already strong existing relationships with international organizations such as the UNODC, the U.S. Drug Enforcement Administration (DEA), the International Narcotics Control Board (INCB), and INTERPOL. Demand reduction efforts; however, have been weak, as GOM officials still consider this to be mainly a European issue.

Morocco’s national drug strategy is augmented by an emphasis on a broader economic development approach and crop substitution. Moroccan officials, however, readily admit that alternatives are often a “hard sell” to farmers who can earn 18 times the earnings of a substitute crop such as barley by continuing to grow cannabis.

Moroccan authorities reported that they hope to complete another detailed drug study in cooperation with UNODC as well as update their national drug strategy in 2009. Moroccan Ministry of Interior (MOI) has the goal to reduce cannabis cultivation to 12,000 ha by the year 2012. If this goal is accomplished, it will mean that Morocco will have reduced cannabis cultivation by 91% since it first started serious eradication efforts in 2003.

Law Enforcement Efforts. The following table is a summary of Morocco’s drug seizure efforts since 2004. The decrease in cannabis and hashish seizures between 2007 and 2008 may partly be the result of successful GOM eradication efforts and droughts reducing the supply cannabis and hashish on the local market.

	Cannabis	Hashish	Cocaine	Heroin	Psychotropic Drugs
2004	318 MT	86 MT	4 kg	1001 grams	168,257 units
2005	116 MT	96 MT	8 kg	5,335 grams	94,900 units
2006	60 MT	89MT	57 kg	714 grams	55,881 units
2007	209 MT	118 MT	248 kg	1,906 grams	55,243 units
2008 (January-September)	222 MT	114 MT	34 kg	6,325 grams	48,293 units

The GOM has deployed 11,000 personnel into the Rif mountains and throughout the northern coastal areas to interdict drug shipments, maintain counternarcotics checkpoints, and staff observation posts along the coast. The Moroccan Navy carries out routine sea patrols. GOM forces are now using helicopters, planes, speed boats, mobile x-ray scanners, ultrasound equipment, and satellites in their drug fight. The mobile x-ray scanner has proven to be particularly effective, allowing GOM officials to seize a record quantity of 11 metric tons (MT) of cannabis resin in Tangier in December 2006. The Moroccan Navy used a similar scanner to seize 3 MT of cannabis resin in April 2008 alone. The GOM recently acquired another mobile x-ray scanner for use in the port city of Nador.

In 2008, Moroccan law enforcement arrested 28,896 individuals in connection with drug related offenses. Approximately 1,200 of these individuals were arrested for international drug trafficking of which 600 were foreigners, including 148 Spanish, 122 French, 21 Italians, 20 Dutch, and 12 Belgians. Arrests of traffickers at the seaports, and of arriving cocaine “mules” from Sub-Saharan Africa at the Casablanca airport are frequently in the news. In 2007, 93 kg of the total 248 kg of cocaine seized by the GOM was seized at the Mohammed V International Airport in Casablanca; the majority of the 84 smugglers were West Africans in transit to Europe. Detection training and the use of ultrasound equipment were critical to the success of these seizures. As authorities become more vigilant, GOM officials opine that cocaine smugglers are likely to seek access to Europe through much harder to detect land routes and other methods.

Moroccan 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 15 years imprisonment remains the typical sentence for major drug traffickers convicted in Morocco.

Of special note, an American citizen was arrested on May 7, 2008 by Moroccan officials for an alleged drug shipment. On June 15, 2008, he was sentenced to seven years in prison, fined \$1,200, and had his aircraft confiscated. The court also sentenced two Moroccan accomplices to prison terms of six and four years respectively, and acquitted two others.

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. Despite GOM actions to combat the illicit drug trafficking industry, narcotics-related corruption among governmental, judicial, military and law enforcement officials appears to continue.

In August 2006, authorities arrested senior government official Abdelaziz Izzou (the head of security at Morocco's royal palaces) for his cooperation with a major drug baron when he was head of the Tangier judicial police from 1996 to 2003. After a lengthy trial, Izzou received an 18 month prison sentence and had 700,000 MAD (approximately \$100,000) seized by the state in March 2008.

In December 2007, notorious drug baron Mohamed Taieb Ahmed (AKA "El Nene") escaped from prison in Kenitra with the assistance of local prison guards. Authorities re-captured "El Nene" in Spain in April 2008. For the role they played in the escape, Moroccan courts sentenced six Kenitra prison guards to prison terms ranging between two suspended months and four years on charges of forgery, corruption, and assisting a prisoner in escaping from custody. The GOM changed the management of its prison system and is also in the process of reinforcing prison security in response to this and other prison escapes in early 2008.

In January 2008, Moroccan authorities prosecuted three members of the gendarmerie (rural police) on corruption charges following a complaint made by an airline passenger traveling through the Agadir-Al Massira Airport. Moroccan police arrested the son of former Mauritanian president Khouna Ould Haidalla in July 2008 for attempting to smuggle 18 kg of cocaine. In October 2008, he was convicted and sentenced to seven years in prison.

During a speech in August 2008, King Mohammed VI called on the government to work actively to launch the Central Authority for the Prevention of Corruption. By the end of the year, the chairman and 40 members of the Authority had been named, and it was included in the annual budget. While the body will have only policy rather than enforcement responsibilities, the new chairman said he would forward to judicial authorities reports of corruption the Authority uncovered.

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 also a party to the UN Convention against Transnational Organized Crime, but has not signed any of its protocols. Morocco and the United States cooperate in law enforcement matters under a Mutual Legal Assistance Treaty (MLAT). Morocco is a party to the UN Convention against Corruption. Morocco has several cooperative agreements to fight against drugs with European countries such as Spain, France, Portugal, and Italy, and it seeks to work closely with other Arab and African countries.

Cultivation/Production/Eradication. Morocco succeeded in decreasing the land dedicated to cannabis cultivation by 55% from 134,000 hectares in 2003 to 60,000 hectares in 2008, due in part to an aggressive eradication campaign, carried out mainly by Gendarme and local authorities, according to GOM officials. Plans call for cannabis cultivation areas to decrease below 50,000 hectares in 2009. Cannabis resin production dropped 71% from 3,070 MT to 877 MT between 2003 and 2005. Morocco used the following methods to eradicate illicit crops: (1) crop-dusting via airplane, (2) mechanical and manual destruction of crops and (3) burning.

GOM officials report that during the first phase of the 2008 eradication campaign, they were able to eradicate a total of 4,376 ha of cannabis in the northern provinces. This includes 2,695 ha in Taounate, 985 ha in Chefchaouen, 130 ha in Tetouan and 565 ha in Larache.

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 in 2006 as the site for the construction of the National Institute of Medicinal and Aromatic Plants to study the viability of various crop substitutions. Saffron cultivation and rose petal extraction are two examples of possible future economic substitutes for cannabis cultivation in the region. GOM officials report that since the 2004 awareness campaign started, there has been a 50% decrease in cannabis production in the Province of Taounate.

Drug Flow/Transit. Given its proximity to Morocco, Spain is a key transfer point for Europe-bound Moroccan cannabis resin where it can normally be transshipped to most other Western European destinations. France, Belgium, the Netherlands and Italy are also major European destinations for cannabis trafficked from Morocco. Notwithstanding the changes reported above in cultivation and production, there is no confirmation of a significant diminution of cannabis products reaching these major European markets.

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. 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 Tangier, crossing the Strait of Gibraltar by ferry. Spain's deployment of a network of fixed and modular radar, infrared, and video sensors around the Strait 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 cocaine and perhaps also heroin into Europe. Although the main African redistribution centers for cocaine from Latin America remain Sub-Saharan, including Ghana, Guinea, Guinea-Bissau and Nigeria, Morocco is increasingly being used as a transit country in a trend that can be expected to continue. In October 2008, the Colombian National Police seized a shipping container destined for Morocco with a declared cargo of aluminum roofing sheets but also containing 324 grams of cocaine.

Trans-national drug trafficking networks are a growing problem for Morocco. Although French and Spanish networks are more prevalent, Romanian drug networks appeared in Morocco for the first time in 2007 when 34 Romanian traffickers were arrested. There are initial indications of a Russian organized crime presence in Morocco, but no evidence thus far that it is engaged in narco-trafficking.

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 media estimates suggest that as many as ten percent of adults regularly use cannabis, but the GOM does not currently have an effective system in place to measure and evaluate the situation. 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.

The U.S. Drug Enforcement Administration (DEA), which covers Morocco from its Paris office, continued its bilateral exchange of information with the Moroccans in support of several ongoing drug investigations in 2008. The DEA invited the Director of Morocco's Investigative Police Agency to participate as an observer in the July 2008 International Drug Enforcement Conference (IDEC) in Istanbul, Turkey. On October 15, 2008, the IDEC granted Morocco full voting member status. The USG is presently working to provide the GOM a DEA internet-based communication tool that will enable Morocco to communicate directly with other countries in the region as well as South American counterparts. This new communication system will allow real time exchange of intelligence information. In 2008, the U.S. DEA office in Paris was able to facilitate meetings and exchanges between the GOM and Colombian officials to discuss South American trafficking networks and the threat they pose to Africa.

USG training remains an important factor in Morocco's efforts to combat illegal narcotics. During FY 2008, the U.S. Government provided training to Moroccan police, gendarmes, and customs officials in the areas of (1) narcotics identification and testing (2) advanced U.S. Coast Guard boarding procedures, (3) fraudulent document detection and (4) customs and border issues. The GOM requested 2009 narcotics-related training assistance from the U.S. in the areas of airport interdiction, basic investigator techniques and money laundering

The Road Ahead. The endemic nature of the cannabis culture in Morocco will only be ameliorated through incremental application of Morocco's comprehensive counternarcotics strategy. 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.

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 hamper 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 continues to grow, and it is a favored point of disembarkation in Africa for trafficking to Europe because of its proximity to South Africa (the major market for illicit drugs) and 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 may also reach the United States and Canada. Heroin and other opiate derivatives shipped through Mozambique usually originate in Southeast Asia and typically transit India, Pakistan, the United Arab Emirates, and later Tanzania, before arriving by small ship or, occasionally, overland to Mozambique. Many traffickers are of Tanzanian or Pakistani origin. In 2008, there continued to be few 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 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 enter South Africa from India and China, sometimes after transiting Mozambique. South Africa dropped visa requirements for citizens of all six neighboring countries, further complicating interdiction and enforcement efforts.

III. Country Actions against Drugs in 2008

Policy Initiatives. Mozambique’s accomplishments in meeting its goals under the 1988 UN Drug Convention remain limited. Government resources devoted to the counter narcotics 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 counter narcotics 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 convicted drug traffickers of drugs between their two countries. Through November 2008, cannabis seizures were 4,793kg, up from 4,638.26 kg in 2007, and 5.55kg of cocaine seized, up from 1.5kg in 2007. Due to alterations in trafficking procedures, and as interdiction efforts continue to improve at the Maputo airport, traffickers now use alternate airports, including those of Beira, Nampula, Quelimane, and Vilankulos. It is widely assumed that some illegal drugs enter the country by sea; the government relies on sporadic port inspections and under-trained border guards to police this source. Police reported that in 2008, 562 people were indicted for illegal drug trafficking and 107 were detained, 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. There were no reports in 2008 that any senior government official engaged in such practices. While corruption is pervasive in Mozambique, the government continues its 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 and its three protocols. On April 9, 2008, Mozambique ratified the UN Convention Against Corruption.

Cultivation/Production. Cannabis is cultivated primarily in Maputo City, Tete, Manica, Cabo Delgado, Zambézia and Sofala. Cannabis production registered an increase in 2008. Intercropping is the most common method of production. The Mozambican government has no reliable estimates of crop size. Authorities have made efforts since 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 sparsely 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; 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. Nigerian and Tanzanian cocaine traffickers are reported to have targeted Mozambique as a gateway to the South African and European markets.

In 2007, 562 people were indicted for use or drug trafficking, against 669 in the previous year. This reduction is seen as a positive trend in the effort to implement control measures in the ports, airports and land borders, though the authorities recognize that they still lack financial resources and equipment means to that effect.

This is of particular relevance in light of the upcoming 2010 Soccer World Cup which will be hosted by South Africa. The Soccer World Cup will undoubtedly have major implications for Mozambique in view of its proximity to South Africa as well as the fact that it is hosting some national teams prior to the event. This enhances the importance of strengthening the capacity of Mozambique to address the security challenges, including the influx of drugs and other illicit commodities.

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. The GCPCD 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 2008 and relies heavily on the prestige and influence of community leaders for implementation of their drug education programs. Despite an increase in the number of drug users, government funding and resources remain scarce (the GCPCD operated on a budget of approximately \$45,000 in 2007), which limits abuse and treatment options. The number of drug abusers seeking treatment has decreased from 1,436 in 2006 to 624 in 2007. This is also seen as the result of the prevention campaigns (6.8% increase in the number of activists since 2006) and improved inter-ministerial coordination. Programs assisting drug abusers are church and family based initiatives that reintroduce abusers into family and community settings. The Ministry of Health does not have any treatment programs to assist drug abusers; those seeking assistance are referred to a 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, 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. Also 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. Additionally, in 2007-2008, the USG provided training to 300 guards and senior officers of the Mozambican Border Guards in techniques of securing borders and managing border crossing (document checking, inspections). Inspection materials, vehicles and alternate transportation options, equipment for distant posts, and computer equipment were supplied to border guards to assist them in implementing the techniques taught in the training courses.

The Road Ahead. U.S. assistance in support of the GCCC will continue in 2008. Additionally, efforts to improve Mozambique’s border security capabilities continue. To build on the success of the initial training, the USG will sponsor additional basic and advanced border security courses for Mozambican border guards. 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. DOD will train the Mozambican Navy on search and seizure techniques using those vessels.

The Government expects to finalize a \$17.4 million Strategic Plan on Illegal Drugs for 2009-2014 by the end of 2008. Without the regional cooperation needed to finance anti-drug efforts in Mozambique, implementation of the Strategic Plan is impossible. The GRM would benefit from the following: strengthened interdiction capabilities of border control officials stationed at airports, land-borders, seaports and coastal areas; provision of equipment and training to enhance expertise and capacity for drug law enforcement; and, training of officers from the GCPCD and anti-drug activists in the private sector, particularly NGOs, to support the rapid destruction of seized drugs and s creation of a reliable Criminal Data Base. The GRM should continue its focus on reducing corruption to ensure that progress with its narcotics control efforts continues.

Nepal

I. Summary

Although Nepal is neither a significant producer of, nor a major transit route for narcotic drugs, some hashish, heroin and domestically produced cannabis are trafficked to and through Nepal every year. 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 in 2006 has slightly improved interdiction and monitoring efforts in previously inaccessible parts of the country, and the new Maoist-led government elected in 2008 has committed to improve overall law enforcement efforts. The Government of Nepal (GON) 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 are 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, medicinal drugs 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 Maoist-led government elected in 2008 has committed to enhance overall law enforcement efforts.

III. Country Actions against Drugs in 2008

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 2008, this Bureau has yet to be made functional. In addition, the National Policy restructured 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 oversee all narcotics control programs, law enforcement activities, and legal reforms.

Nepal enacted legislation on asset seizures in January 2008 and continues to implement 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. 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 have traveled on false passports to Nepal, via South Africa and India, to widen their organized crime network.

Law Enforcement Efforts. The NDCLEU has developed an intelligence wing, but its effectiveness remains constrained by an insufficient budget, limited human resources and inadequate technological equipment. The NDCLEU and Nepal's customs and immigration services have improved coordination and cooperation. Narcotics officials admit that the destruction of areas of illicit drugs cultivation is not as effective as it could be; statistical data indicate a drop in 2007 and 2008 after an improvement in 2006 over 2005. As of August 2008, 105 hectares of cannabis cultivation were destroyed, compared to 211 hectares in 2007, 328 hectares in 2006, and 121 hectares in 2005. The NDCLEU reports that as of August 2008, 21 hectares of opium were destroyed. Data were unavailable for 2007; in 2006, 0.5 hectare (19 plants) of opium was destroyed.

Data available as of August 2008 indicate that by year-end, police may equal or exceed the number of arrests and drug seizures they made in 2007. From January-August 2008, police arrested 442 individuals (387 Nepalese citizens and 55 foreigners) on the basis of drug trafficking charges. In all of 2007, police arrested 617 individuals (550 Nepalese citizens and 67 foreigners). Local police made approximately 90 percent of the arrests in 2008, while the NDCLEU accounted for the remaining 10 percent. In the same time period, the NDCLEU and local units reportedly seized 7,478 kg of cannabis—approaching the amount seized in all of 2007 (8,093 kg) and more than twice as much as the amount of cannabis seized in all of 2006 (3,624 kg). The NDCLEU also seized 5 kg of heroin from January-August 2008, about a third of the amount seized in each of the two previous years. 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 1,739 kg in Nepal from January-August 2008. Most seizures of heroin and hashish in 2008 occurred along the Nepal-Indian border, within Kathmandu, or at Kathmandu's Tribhuvan International Airport (TIA) as passengers departed Nepal. The NDCLEU reported the seizure of 12 kg of opium through August 2008. The NDCLEU did not report the seizure of any opium in 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. There are no US extradition or mutual legal assistance treaties between the U.S. and Nepal.

Cultivation/Production. Cannabis is an indigenous plant in Nepal, and cultivation of certain selected varieties is rising, particularly in the lowland region of the TeraI. There is some small-scale cultivation of opium poppy, but

detection is difficult since it is intercropped 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. After the ratification of the SAARC Convention on Narcotics Drugs and Psychotropic Substances, which holds countries liable for policing precursor chemicals, the Home Ministry asserted control over precursor chemicals. The NDCLEU worked with the Home Ministry to develop a voluntary code of conduct for importers, cargo shippers, couriers, manufacturers, and the pharmaceutical industry. Official implementation of the code is pending as of November 2008. Additionally, a proposed amendment to the Narcotics Drugs Control Act regarding the control and regulation of precursor chemicals remains under review.

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 China, Europe, the U.S. and Canada. 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 2008 maintained improvements from 2007 in stemming drug flow and transit through Nepal and better border security. 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 GON, along with other governments, is working to increase the level of security at the international airport. 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 Thailand, China and Indonesia.

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, budgetary 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.

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) despite the government's long-term strategy against the production, trade and consumption of synthetic drugs. According to the 2007 National Crime Squad (NR) report, the Expertise Center for Synthetic Drugs and Precursors (ESDP) received no reports of Ecstasy tablet seizures in the U.S. linked to the Netherlands in 2007, though this may be due to incomplete data. In July 2008, the Justice and Interior Ministers established the National Taskforce on Organized Hemp Cultivation to combat the criminal organizations behind cannabis plantations. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. 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 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 2008

Policy Initiatives: Major Dutch Government policy initiatives in 2008 included:

During a Parliamentary drug debate in March 2008, Justice Minister Hirsch Ballin and Health Minister Klink promised to draft a new drug policy paper, which would include the government's view on Dutch drug policy over the next few years. The new drug report, which should be ready in 2009, will include the results of an assessment of Dutch soft drug policy over the past 30 years, and a comparison between Dutch and foreign drug policies. The Ministers also informed Parliament that they requested the State Institute for Health and Environment (RIVM) to study the risks of various kinds of drugs. The study, expected to be similar to a British study published in *The Lancet* of March 2007, should resolve whether or not the current classification system requires a revision. The study is expected to be completed in the spring of 2009.

Cannabis

National Taskforce on Organized Hemp Cultivation. The taskforce, which is chaired by the public prosecutor's office, includes representatives of national and local governments, law enforcement services, energy companies, housing corporations, insurance companies, and tax services. The special focus will be on fighting criminal organizations behind the cannabis plantations. The taskforce is to draw up a program that will achieve a measurable

and visible reduction of large-scale hemp cultivation by the end of 2011. The establishment of the taskforce was announced in the government's policy plan to step up the fight against organized crime, which was submitted to Parliament in December 2007.

In October 2008, the Mayors of Bergen op Zoom and Roosendaal announced that they would close down all eight marijuana coffeeshops in their cities as of February 2009. The two cities, situated close to the Belgian border, attract a total of 1.3 million mostly Belgian and French drug tourists per year. The Mayors stated they want to end the policy of "tolerating" soft drug sales in coffeeshops as this causes an unacceptable level of public nuisance to local residents. Justice Minister Hirsch Ballin supported the closures noting that the decision fits in with the policy of cracking down on nuisances caused by drug tourists. Immediately following the announcement, Maastricht Mayor Leers called for a national summit on soft drug policy. He fears that if local governments continue to formulate their own policies, the drug problem will simply shift to other cities and worsen. According to Leers, drug tourism is not a local problem and cannot be solved locally. Leers noted that "the political impasse" between government coalition parties of Christian-Democrats (CDA) and Labor (PvdA) makes it impossible to implement necessary changes in the policy of tolerating soft drug sales and fighting problems associated with drug tourism. Although the Justice Minister's CDA party in fact opposes coffeeshops, the coalition parties agreed in the government accord of February 2007 that drug policy would not change over the next four years. According to Leers and other mayors, the inconsistent policy of allowing soft drug sales in coffeeshops, while banning cannabis cultivation (the so-called front-door/back-door controversy) makes law enforcement difficult.

In April 2008, the Maastricht administrative court ruled that the city government was not allowed to ban foreigners from buying cannabis in coffeeshops. In 2006, Maastricht began a trial project to offer local residents special access passes to coffeeshops. The objective of the Maastricht trial was to cut down on drug tourism from neighboring countries. The city attracts some 1.5 million drug tourists annually. A coffeeshop owner started a legal procedure against the Maastricht city council as a test case to assess whether the trial project was in line with EU law. The court ruled that making a distinction on the basis of place of residence indirectly means making a distinction based on nationality, which is prohibited under the Constitution. The city has appealed the verdict. In March, the administrative court also rejected Maastricht's plans to move eight of the 15 coffeeshops out of the city center to the outskirts, close to the Belgian border.

In June 2008, Interior Minister Ter Horst made available 900,000 Euros to intensify efforts against drug runners in the Maastricht area. The region has serious problems with primarily Dutch-Moroccan drug runners, who try to intercept tourists on the highway to take them to illegal drug premises. The money will be used to purchase mobile cameras for automatic license plate recognition.

According to the Justice Ministry, 77 percent of local governments currently apply the so-called "distance criteria," meaning that coffeeshops located within 250 meters of a secondary school or college of higher professional education must be closed. By 2011, all local governments should have enforced the "distance criteria."

In April 2008, Health Minister Klink sent Parliament an administrative measure banning sales and cultivation of fresh "magic mushrooms." 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. (Sales of dried hallucinogenic mushrooms were banned some time ago.) The administrative measure went into effect December 1, 2008. 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 149 in 2007.

A bill to ban so-called "grow" shops that sell, deliver, transport and manufacture equipment for cannabis cultivation will be submitted in the first half of 2009.

According to the annual THC Content study by the Trimbos Institute for Mental Health and Addiction, the THC content in Dutch-grown cannabis ("Nederwiet") stabilized at 16.4 percent in 2008 and 16 percent in 2007. The THC

content in imported cannabis rose from 13.3 percent in 2007 to 16.2 percent in 2008. The average price for one gram of "Nederwiet" rose from 7.30 Euros in 2007 to 7.70 Euros in 2008, which was roughly the same as the price of imported cannabis.

In September 2008, the Supreme Court granted a multiple sclerosis (MS) patient permission to grow his own cannabis for medicinal use. Home cultivation of cannabis is banned under the Dutch Opium Act, but doctors have been allowed to prescribe medicinal cannabis for chronically ill patients since 2003. The Health Ministry's Bureau for Medicinal Cannabis (BMC) buys the cannabis from two official growers. In the case of the MS patient, the prescribed type of cannabis did not improve his condition.

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 plate numbers of drug tourists are being exchanged.

Cocaine Trafficking

The 100 percent controls on inbound flights from the Netherlands Antilles and Suriname continued in 2008, despite the dramatic decline in the number of cocaine couriers arrested at Schiphol airport. In August 2008, Justice Minister Hirsch Ballin promised Suriname support in combating drug trafficking. However, he emphasized that the 100 percent controls on inbound flights from Suriname would remain in place as long as Surinamese smugglers continue to be arrested (currently, an average of 50 per month). Netherlands-bound drug couriers increasingly appear to divert to the Dominican Republic, Peru and Mexico as a transit point for Colombian cocaine. According to a national police report, West African, particularly Nigerian, criminal networks are active in the Dutch cocaine market.

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 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's database without a sunset provision would be contrary to Dutch law. To date, this issue has not been resolved and the suspension continues. The DEA office in the Netherlands continues to supply the KMar at Schiphol with international trend information on routes being utilized by drug couriers.

In June 2008, the National Crime Squad arrested three men suspected of having been involved in preparing the transport of 2,600 kilos of cocaine from Brazil to the Netherlands. The cocaine was found in spring 2008 in a warehouse near Sao Paulo.

In August 2008, under the Law Enforcement Detachment (LEDET) arrangement with the Royal Dutch Navy, a U.S. Coast Guard LEDET deployed aboard a Royal Dutch Navy vessel boarded a Panamanian freighter and seized 4,200 kilos of cocaine. The freighter was sailing from Venezuela to Europe.

In May 2008, the Utrecht court imposed prison sentences of up to 10 years on three main suspects and 10 co-defendants for organizing drug transport from Suriname. In March 2007, a Portuguese navy frigate spotted the crew of a yacht dump several hundred kilos of cocaine into the Atlantic Ocean. The yacht was tracked as it sailed on to Rotterdam, where the police found traces of drugs. Nine people were arrested, including three crew members.

Ecstasy

The 2007 Crime Pattern Analysis on Synthetic Drugs and Precursors published by the National Crime Squad (NR) in April 2008 concluded that "the Netherlands continues to play an essential role in the synthetic drug market, despite the emergence of new producing countries such as Canada and Australia." (For more details on seizures, see section on cultivation/production.) A Dutch police liaison officer has been stationed in Canberra since early 2008 to help the Australian police fight Ecstasy trafficking.

In May 2008, an international investigation by the NR and the Australian federal police force into a large drug trafficking organization led to the arrest of several suspects in the Netherlands, Germany, Thailand and Australia. In the Netherlands, 12 people were arrested, including the main suspect. The syndicate is suspected of having smuggled ephedrine, the basic ingredient for methamphetamine production, from Pakistan to Australia and from Congo to Belgium.

Heroin

According to the 2007 Crime Pattern Analysis on Heroin published by the NR in April 2008, the Netherlands appears to have developed into a distribution country for heroin markets in the UK, France, Spain and Portugal.

In June 2008, the National Crime Squad (NR) intercepted a truck in the city of Tilburg concealing 460.5 kilos of heroin in large batteries. The drugs, which had been shipped from Turkey, had an estimated street value of 11.5 million Euros. The investigation was carried out in close cooperation with German and Romanian police.

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.

In May 2007, the Netherlands became a full member of DEA's International Drug Enforcement Conference (IDEC) and they are expected to participate in all IDEC conferences. Most recently they participated in the 2008 IDEC conference in Istanbul, Turkey.

In 2008, DEA and the KLPD conducted 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. This training took place at Europol headquarters in The Hague. 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 at the DEA Training Academy in Quantico, Virginia.

All foreign law enforcement assistance requests continue to be sent to the IPOL (International Network Service), a division of the KLPD. The IPOL has assigned two liaison officers to assist DEA and other U.S. law enforcement agencies. Since the reorganization of the NR, the IPOL has allowed DEA and other liaison officers to contact the Regional Police and NR offices directly for requests and intelligence sharing. 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 even 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. Additionally, DEA has been working with Dutch counterparts at the KLPD and the National Prosecutor's Office to shorten the amount of time it takes to obtain approval for some investigative actions via MLAT

(Mutual Legal Assistance Treaty) requests. A number of MLAT requests have been made to the Dutch government; however, due to the amount of time taken by the authorities to approve these requests, certain operations have been adversely affected. Recently, Dutch officials indicated that their Justice Ministry may be able to "streamline" certain aspects of the approval process.

Drug Seizures	2006	2007
Heroin (kg)	984	519
Cocaine (kg)	10,581	10,478
Ecstasy (tablets)	4,118,252	8,430,043
Ecstasy (powder and paste)(kg)	664	1,319
Synthetic drug labs	23	15
Amphetamine (kg)	632	2,805
Amphetamine (tablets)	38,077	1,391
Methamphetamine (kg)	0	9.8
LSD (doses)	22,599	20,033
LSD (tablets)	2,482	217
Methadone (tablets)	11,559	4,753
Cannabis resin (kg)	4,622	9,948
Marijuana/"Nederwiet" (kg)	6,641	5,473
Hemp plants	1,570,006	851,510
Dismantled hemp plantations	5,201	5,242

(Source: KLPD National Police Force)

Corruption. The Dutch Government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official of the Dutch Government engages in, encourages or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread or systemic. In June 2008, five employees of a state prison were suspended by the Justice Ministry on suspicion of drug trafficking to Germany.

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 against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. The U.S. and the Netherlands have fully operational extradition and mutual legal assistance agreements (MLAT). All 27 EU member states, including the Netherlands, have signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. The U.S. has ratified all and all EU countries except Belgium, Greece, Ireland and Italy have also ratified these agreements. None have entered into force.

Cultivation and Production. In July 2008, the Justice and Interior Ministers established the National Taskforce on Organized Hemp Cultivation. The taskforce is to focus on fighting criminal organizations behind cannabis plantations. According to taskforce member police commissioner Max Daniel, Dutch cannabis growers earn more than two billion Euros annually on illegal exports. He estimated annual exports of Dutch-grown cannabis ("Nederwiet") at more than 500,000 kilos. In comparison, exports of plants and cut flowers yield a total of 5.5 billion Euros. According to Daniel,

more than 80 percent of illegally cultivated "Nederwiet" is exported. According to a report by the National Police Force, 5,247 cannabis plantations were dismantled in 2007, about the same as in 2006.

According to the 2007 National Crime Squad (NR) report, the Expertise Center for Synthetic Drugs and Precursors (ESDP) received no reports of Ecstasy tablet seizures in the U.S. linked to the Netherlands in 2007, though this may be due to incomplete data. The number of Ecstasy tablets seized in the Netherlands totaled almost 8.5 million in 2007 compared to 4.1 million in 2006. The increase was attributed partly to two major seizures of 1.1 million tablets and 2.5 million tablets in Haarlem and Veldhoven, respectively. According to the 2007 NR report, 2007 MDMA seizures around the world that could be associated with the Netherlands totaled more than 18.3 million tablets and 35 kg of MDMA powder, as compared to 5.7 million tablets and 72 kilos of MDMA powder in 2006. MDMA (powder and paste) seizures in the Netherlands rose from 664 kilos in 2006 to 1,319 kilos in 2007, the equivalent to over 13 million Ecstasy tablets. The NR also reported seizing 20,033 LSD paper trips, 493,800 MCPP tablets, and 9.8 kilos of methamphetamine in 2007. The number of dismantled production sites in the Netherlands for synthetic drugs dropped to 15 in 2007 from 23 in 2006. Of the 15 production sites dismantled, 5 were for amphetamine and 2 were for Ecstasy production, and 6 were meant for tableting.

According to the NR report, only 1,391 amphetamine tablets were seized in 2007 compared to 38,000 tablets in 2006. In 2007, there were no seizures of amphetamine tablets abroad that could be linked to the Netherlands, whereas in 2006 there was a record haul of 92,277 tablets. One of the more notable seizures of 2007 was the record discovery in the Netherlands of 2,805 kilos of amphetamine powder. According to the NR report, the figures demonstrate how greatly the picture changes from year to year. The NR seized almost no BMK and PMK chemical precursors in 2007. However, signals from criminal circles indicate that PMK and BMK are readily available for synthetic drug production. The NR concluded that investigation agencies are still unaware of the smuggling methods and routes.

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. The Netherlands is a member of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon, which should bolster EU capacity to protect its southwestern flank. Cocaine seizures in the Netherlands in 2007 amounted to 10,478 kilos compared to 10,581 kilos in 2006. Of the 2007 seizures, more than 4,000 kilos were seized in the port of Rotterdam. Some 4,443 kilos were seized at Schiphol, of which 3,112 kilos from passengers and 1,332 kilos 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% 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 and 50 per year. Needle supply and exchange programs have kept the incidence of HIV infection among intravenous drug users relatively low. Of the addicts known to the addiction care organizations, 75 percent regularly use methadone.

According to the 2007 National Drug Monitor, out-patient treatment centers registered some 6,544 cannabis users seeking treatment for addiction in 2006, compared to 6,100 in 2005. The number of opiate addicts seeking treatment dropped significantly from almost 18,000 in 2005 to 13,000 in 2006, and the number of cocaine users seeking help dropped slightly from 9,800 in 2005 to 9,600. About 54 percent of addicts seeking help for cocaine problems are crack cocaine users. According to a study by the Trimbos Institute published in June 2008, drug use among high school students again dropped in 2007. About 17 percent of students queried admitted having used cannabis and eight percent admitted having used cannabis during the previous month. Past-month use of hard drugs was less than one percent in 2007.

Below are the latest available statistics on drug use among the general population ages 15-64, 2001 and 2005 of percent reporting life-time (ever) use and last-month/current use.

	Life-time 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

(Source: National Drug Monitor 2007, Trimbos Institute)

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 Trimbos Institute continues to run in about 55 percent of Dutch elementary and 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 September 2008, the public prosecutor's office published a newsletter warning young people about the effects of drug use.

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 informants in investigations of drug traffickers. In addition, the Dutch do not use their asset forfeiture laws in conjunction with drug related investigations as often as the U.S. does. Law enforcement officials and political leaders are now expressing concern about indications that organized crime is involved in the local drug trade. Bilateral law enforcement cooperation continues to expand under the U.S.-Dutch bilateral "Next Steps" commitments to jointly fight drug trafficking. DEA The Hague has also noted improved and expedited handling of drug-related extradition requests. The Netherlands provides warships under the tactical control of Joint Interagency Task Force South to support efforts to stop the flow of narcotics in the Caribbean. A Dutch Liaison Officer, seconded to the JIATF South staff, also assists in coordinating Dutch support to JIATF South counternarcotics operations. The U.S. is also working with the Netherlands to assist Aruba and the Netherlands Antilles in countering narcotics trafficking. The 10-year Forward Operating Location (FOL) agreement between the U.S. and the Kingdom of the Netherlands for the establishment of a FOL (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 the U.S. National Institute on Drug Abuse (NIDA) on joint addiction research projects.

The Road Ahead. U.S.-Dutch bilateral law enforcement cooperation is expected to intensify in 2009, particularly through DEA's access to the NR units. During the bilateral "Next 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.

Nicaragua

I. Summary

Nicaragua is a maritime and land transshipment route for South American cocaine and heroin smuggled to the United States. Despite an ineffectual, corrupt, and politicized judicial system, the Government of Nicaragua (GON) continues to make a determined effort to combat domestic drug abuse and the international narcotics trade plaguing its country. Despite a lack of resources and technical capabilities, collaboration between law enforcement and military components resulted in an increase in drug seizures and trafficker disruptions from 2007. During 2008 the GON seized approximately 19.5 metric tons (MT) of cocaine, and also recorded the first seizure of pseudoephedrine in Nicaragua. Nicaragua is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug trafficking organizations (DTOs) continue to transport drugs and currency through Nicaragua via land, air and maritime conveyances. For DTOs, Nicaragua's strategic geographic location features the Atlantic and Pacific Oceans hugging its eastern and western coasts and the north-south Pan American highway, running the length of the country.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2008, the GON began implementation of the Penal Code passed in 2007 by the National Assembly to address some of the legal weaknesses in Nicaragua's efforts against money laundering and terrorism financing. The new Code contains language establishing money laundering as a crime independent of drug trafficking, imposing stiffer penalties, and establishing terrorism financing as a crime. In 2008 the legislation to create an independent Financial Investigative Unit (FIU) was stalled for a fourth year due to Nicaraguan National Assembly concerns about accountability and possible political interference in the operations of the proposed new unit. The Nicaraguan National Assembly plans to continue discussions on the FIU legislation in 2009.

A delegation of Nicaraguan legislators, NNP legal experts, and representatives from the office of the Nicaraguan Superintendent of Banks were sponsored by the USG to attend a regional anti-money laundering conference in Panama. The conference also offered the participants a chance to meet with FIU directors from around the region to discuss the current anti-money laundering regime in Nicaragua and consult on the possibility of creating a Nicaraguan FIU.

The Drug Enforcement Administration (DEA) and the Bureau for International Narcotics and Law Enforcement Affairs (INL) worked jointly with the NNP to expand the size and operations of a GON Vetted Unit within the Nicaraguan National Police (NNP). The unit, comprised of NNP agents of diverse law enforcement background, training and experience, is charged with conducting investigations of international drug trafficking and money laundering organizations operating in Nicaragua. This unit has worked closely with newly formed anti-corruption units in the Attorney General's office as well as with other vetted units in the region in coordinating cross-border counternarcotics operations.

Law Enforcement Efforts. During 2008, Nicaraguan law enforcement officials seized approximately 19.5 MT of cocaine and 52.84 kilograms of heroin, and arrested 136 drug traffickers. The National Police also seized over \$4.7 million in U.S. currency and denied 109 traffickers assets worth over \$9 million. For the first time ever, Nicaraguan authorities also seized pseudoephedrine (18,000 dosage units) as it was being smuggled out of the country.

In 2008, Nicaraguan law enforcement and military entities made a concerted effort to facilitate greater exchange of information and closer coordination of operational ventures. Despite these efforts, however, inter-agency rivalries between civilian and military narcotics interdiction personnel hampered cooperation.

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 and political interference is a pervasive and continuing problem in law enforcement and the judiciary. The continued politicization of the Nicaraguan judiciary, especially in the Nicaraguan Supreme Court, is a worrisome impediment to serious law enforcement undertaking in Nicaragua. As a result of these conditions, 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 occasionally will domestically prosecute its 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 has sent a team 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 three protocols 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. In 2001, Nicaragua 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 cultivation continues to take place mostly in the mountainous areas of Nicaragua (Metacarpi, Esteli, Jinotega, Boaco, and Nueva Segovia). Local cultivation is directed towards domestic consumption. During 2008, the National Police seized 81.77 kilograms of marijuana, a comparatively insignificant amount for the size of the country and documented growing regions. Exact cultivation and eradication figures are unknown because cultivation is not large enough in scale to merit the devotion of scarce law enforcement resources to the issue.

Drug Flow/Transit. Cocaine continues to be the drug trafficked in the largest quantities through Nicaragua. Cocaine is trafficked from the southern part of the country in large quantities via land, air, and maritime routes. Once the shipments reach and/or enter national territory, they are often stored in warehouses (bodegas) and farms in the coastal and interior areas of Nicaragua before being moved out of the country towards final destinations. The preferred method to smuggle cocaine out of the country is in hidden compartments in tractor-trailer trucks and private vehicles.

On the maritime front, the aggressiveness of Nicaraguan authorities has forced drug trafficking organizations to alter their smuggling routes. While in 2007, the vast majority of the maritime interdictions and seizures conducted by the Nicaraguan Navy and National Police occurred on the Pacific coast, in 2008 drug trafficking organizations strengthened and redirected their efforts towards Nicaragua's Atlantic region, which is plagued by high unemployment, lack of infrastructure, and inadequate law and maritime enforcement resources. This makes it an ideal haven for Mexican and Colombian narcotics trafficking organizations seeking vulnerable territory to exploit. With this pendulum shift in illicit activity, the Nicaraguan Navy proactively patrolled their territorial waters and aggressively deployed their limited assets to respond to tactical information provided by US law enforcement agencies. This assertive maritime posture and coordination with US law enforcement agencies resulted in the seizure of over 9 MT of cocaine; approximately half of 2008 cocaine seizures. Of the nine documented maritime events, eight occurred on the Atlantic coast. In response to the continued high flow of narcotics through the Atlantic Coast region, the USG

supported the construction of a new pier and barracks for the maritime interdiction forces on Corn Island. The GON also plans to refurbish police buildings and expand NNP presence on both Big Corn Island and Little Corn Island.

While drugs continue to transit northbound out of Nicaragua, currency continuously moves southbound through the country. The majority of the seizure of \$4.7 million in U.S. currency occurred at border crossing checkpoints. All the currency seized was in U.S. dollars with one exception, a seizure of \$24,000 EUROS (equivalent to \$48,000). GON and USG intelligence also indicates that the Managua International Airport continues to be utilized as a transshipment point for heroin and cocaine being smuggled to the continental United States and Europe as well as currency being smuggled into the country.

Domestic Programs/Demand Reduction. The Drug Abuse Resistance Education (D.A.R.E.) Program, established in Nicaragua in 2001, continued to be implemented on the Atlantic coast in 2008. The USG also worked with the NNP's Department of Juvenile Affairs to evaluate and expand 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 the Family (FONIF) have all undertaken limited demand reduction campaigns to schools.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. continues to support Nicaragua's efforts in interdiction, as well as encouraging it to undertake more fundamental challenges to corruption and money laundering. During 2008, the United States provided counternarcotics assistance to the NNP and continued funding to expand the NNP Vetted Unit, a unit that investigates international drug trafficking, corruption (with ties to drug trafficking and money laundering crimes only) and money laundering. The USG continued support to the Nicaraguan Navy by finishing the refurbishment of three large naval boats and providing engines, spare parts, and maintenance for several smaller patrol boats for maritime interdiction on both the Atlantic and Pacific coasts. The USG also provided training in maritime law enforcement, small boat operations, maintenance and logistics, engineering and leadership to the Nicaraguan Navy in 2008.

The Road Ahead. The USG hopes to continue its fruitful working relationship with the Nicaraguan military and law enforcement institutions and would encourage the GON to address issues that hamper its counternarcotics efforts. The continued politicization of the Nicaraguan judiciary at the highest levels is a worrisome impediment to serious law enforcement undertaking in Nicaragua. The GON should professionalize and de-politicize the judiciary and the Prosecutor General's office. The GON should also pass and implement stronger statutes to combat corruption, strengthen anti-money laundering controls, create an independent and effective FIU, and create an effective methamphetamine precursor control regime.

For its part, the USG will provide significant support in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Nigeria

I. Summary

Nigeria is a major trafficking hub in West Africa. Afghan heroin and South American cocaine transit Nigeria on their way to markets in Europe, and the U.S. Heroin transiting Nigeria has a significant impact on the United States. More recently, there is clear evidence from seizures at Abuja and Lagos' main international airports that Nigerian criminal organizations are sending numerous low level drug carriers or "mules" to Europe, especially to Spain. Typically these mules ingest about a kilo of cocaine and try to smuggle it to their destination. Many have been apprehended as a result of the use of modern scanning equipment donated to Nigeria by the U.S. State Department anti-drug assistance program.

Nigerian Organized criminal networks are a major factor in moving cocaine and heroin worldwide. Many of these organizations are not based in Nigeria, but there is good evidence that large quantities of both cocaine and heroin transit Nigeria on their way to markets in the West. In addition to drug trafficking, some of these organizations are also engaged in advance-fee fraud, and other forms of fraud against U.S. citizens and businesses. 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.

Poor economic conditions for the vast majority of Nigerians, including widespread under/unemployment, contribute significantly to the continuation and expansion of drug trafficking. Widespread corruption in Nigeria makes the traffickers' task easier. 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, and for Nigeria to emerge as a major drug trafficking hub.

In Nigeria, the only drug that is being cultivated in significant amounts domestically is Cannabis Sativa (marijuana). Nigerian-grown marijuana is Nigeria's most common drug of abuse and is exported to neighboring West African countries and to Europe, but not in significant quantities to the United States. Nigeria is a party to the 1988 UN Drug Convention.

II. Status of Country

The National Drug Law Enforcement Agency (NDLEA) is responsible for enforcement of laws against illicit drug. It also plays the lead role in demand reduction, drug control policy formulation and implementation in the country. Cooperation among Nigeria's law enforcement agencies is weak. For instance, although all law enforcement elements are represented at Nigeria's international ports of entry, 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 2008

Policy Initiatives. Nigeria's counter narcotics 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. Unfortunately many of these goals remain unfulfilled. In the past, the Nigerian Government has been open to criticism for not adequately budgeting for necessary drug law enforcement by NDLEA. This year, in part because of the involvement of the NDLEA itself in advocating for a more generous budget, NDLEA is supposed to receive upwards of the NAIRA (Nigeria's currency) equivalent of \$55 million for the budget year, of which more than 410 million will be for capital expenditures.

Law Enforcement Efforts. The NDLEA's most successful interdictions have taken place at Nigeria's four international airports, with the majority of hard drug seizures (e.g., cocaine and heroin) at Lagos Murtala Mohammed International Airport. In addition, increasing numbers of drug couriers are being apprehended at Abuja International Airport. The agency continues to successfully apprehend individual drug couriers transiting these airports, but there are all-but no arrests of major drug traffickers. An essential factor in the increased arrests of couriers has been the installation of Digital Body scanners donated by the US State Department's anti-drug assistance project. These "body scanners" have been in operation at Lagos, Kano, Port Harcourt and Abuja International Airports since approximately March of 2008. Many observers believe that if Nigeria introduced a vigorous anti-drug enforcement regime at its five major seaports, they, too, would yield significant results in drug seizures.

As noted above, Nigeria's own number one drug of abuse is marijuana. In June 2008, the NDLEA seized 80 metric tons of cannabis in Ibadan. In the past year, NDLEA continued to emphasize a high-profile campaign to destroy the annual Cannabis Sativa crop before it can reach domestic drug abusers. In addition to a significant number of acres of cannabis publicly destroyed on site where it is grown, a total of one hundred and sixty seven metric tons (167) of hard drugs of which cannabis constituted the largest proportion (over 95%) has been burnt during the on-going campaign. Between October 2007 and September 2008, the various NDLEA commands apprehended approximately 4,240 narcotics suspects and seized 293.8 MT of cannabis, 279 kg of cocaine, 10.3 kg of heroin, and 259 Kg of synthetic drugs.

Although Nigeria's main drug problem locally remains cannabis, cocaine has now emerged as one of Nigeria's most challenging drug abuse problems. At least some share of the cocaine being seized in Nigeria seems to have been refined in West Africa, not trafficked as cocaine from Latin America. Drug traffickers take advantage of lax enforcement in Nigeria and some of the other countries of West Africa to "warehouse" bulk quantities of drugs, until they can be trafficked to developed country markets by myriad, low level drug mules, employed by traffickers. Moreover, trafficking drugs is made easier because it is so difficult to effectively police Nigeria's extensive borders due to their porosity and the cultural links between border communities living in different countries along both sides of land borders.

In the past year, the NDLEA prosecuted 1,239 drug suspects, which resulted in 1,231 convictions and 8 acquittals. In addition, a significant number of vehicles used to commit crimes have been seized by NDLEA.

Unfortunately, attempts by the NDLEA to apprehend and prosecute major traffickers and their associates often fail. Sometimes the failures are traceable to the lack of capacity of NDLEA itself to successfully assemble a case against the higher echelons of sophisticated organized criminal gangs. Other times the problem is with Nigeria's courts, which are subject to intimidation and corruption.

NDLEA is attempting to improve its capacity to investigate and prosecute complex crime through training. NDLEA has requested that the National Assembly amend Nigeria's basic narcotics law to provide a more strict and effective punishment for major traffickers by requiring a minimum sentence of 5-years in jail with no option for a simple fine. NDLEA wants a new provision for the seizure of a foreign offender's passport, during any pre-trial period. NDLEA is also trying to keep track of the foreign travel of certain individuals suspected of involvement in narcotics trafficking. About 826 people were monitored between January and June 2008 for various reasons during traveling to drug source countries. Nigerian enforcement also can petition the court to withdraw a suspected foreign drug trafficker's residence permit for Nigeria, and expel him or her from Nigerian territory.

Asset seizures from narcotics traffickers and money launderers, while permitted under Nigerian law, have never been systematically utilized as an enforcement tool, although some convicted traffickers have had their assets forfeited over the years. In 2008, approximately \$85,470 in domestic currency equivalent has been seized and investigations are ongoing on 14 other cases. NDLEA also points to seizure of foreign currencies totaling \$1,937,478 some of which represents stolen money, counterfeit US dollars, money orders and Travelers' Cheques.

Corruption. Corruption plays a major role in drug trafficking around the world, and this is almost certainly true in Nigeria, as well. The large illicit proceeds from drug trafficking empower traffickers to use widely prevalent small and large scale corruption to protect their operations. There are laws against corruption in Nigeria and the Nigerian authorities can point to several indictments, including one lodged against a former Chief of the Nigerian Drug Law Enforcement Agency itself, as evidence of their attempts to enforce the law. The Government of Nigeria does not, as a matter of government policy, encourage or facilitate illicit drug production, nor is it involved in laundering the proceeds of the sale of illicit drugs. Still, the frequent reports in domestic and foreign media that high-level corruption in Nigeria, especially among government officials at the state and national levels, goes on unpunished contributes to Nigeria's reputation as a center of many forms of crime, including narcotics crime.

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 is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime, and its three protocols. 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, but currently has failed. The only U.S. drug extradition request pending has been pending since June 2004. 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 to conclusion first before the main case can proceed.

Cultivation/Production. Cannabis is the only illicit drug produced in any significant quantity in Nigeria; it is cultivated in all Nigeria's 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 exports from Nigeria to the United States. The NDLEA has continued to pursue an aggressive and successful 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, preferring to focus on travelers who fit a profile as a possible drug courier. The efforts of NDLEA have been bolstered by the donation of Digital Body Scanners by the USG. The scanners have ensured that drug couriers face a significant likelihood of detection at the international airports. The scanners enabled Nigerian law enforcement to perform a quick, non-invasive search of suspected drug traffickers and to locate illegal drugs. The U.S. also purchased three additional scanners and four new drug/explosives-detecting "Itemizers" for use at Nigeria's international airports in Abuja, Kano, Lagos and Port Harcourt. The procured equipment allows Nigerian law enforcement personnel to improve identification and detection capabilities, especially as it regards drug couriers transiting Nigeria's airports. Nigeria's sea ports and land borders remain extremely porous and efforts should be made to increase interdiction efforts at these locations.

Domestic Programs/Demand Reduction. Local production and use of cannabis has 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. The Directorate Demand Reduction carried out public awareness campaigns in various commands of the Agency nationwide. Workshops and seminars have been conducted to address the effects of drug abuse and trafficking in Nigerian society. The NDLEA counseled and rehabilitated 1,586 drug abuse clients during 2008. NDLEA has also made 35 referrals to private counseling centers which have approximately 106 existing clients undergoing counseling and treatment. The NDLEA has conducted a public survey to collect and analyze drug abuse data. The basic conclusion of the analysis indicates that younger unmarried males, not surprisingly, topped the list of drug abusers. In addition, the survey found that cannabis remains the most frequently abused drug in the country. The Nigerian Government is financing a planned \$42,735 Drug Abuse Public Awareness program in 2009. This program will cover the whole country. This commitment is a sign of the Nigerian Government's efforts to increase the level of dangerous drug awareness among Nigerians in order to reduce involvement of Nigerians in drug abuse and narcotics trafficking.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S.-Nigerian counter-narcotics cooperation focuses on interdiction efforts at major international entry points and on enhancing the professionalism of the NDLEA and other law enforcement agencies. The State Department Bureau for International Narcotics and Law Enforcement Affairs (INL) Assistance Program country office in Nigeria along with the Drug Enforcement Agency (DEA) works closely with the NDLEA and other narcotics-related agencies to help train Nigerian law enforcement so that they can better coordinate, plan and implement internal and regional interdiction operations. The U.S. Coast Guard provided residential training to 10 students focused in the following areas: professional military education, search and rescue, gunners mate, machinery technician and electricians mate. At all levels, USG representatives enjoy excellent access to their counterparts and there is an evident desire on both sides to strengthen these relationships.

The Road Ahead. Nigeria's own federal funding for Nigerian law enforcement agencies remains insufficient and erratic in its disbursement. This inadequate budget execution and lack of consistency affects the planning of actions on the part of these agencies, and creates an impression that there is little commitment on the part of government authorities to effective law enforcement. Unless the Nigerian Government remedies this situation, very little progress will be made quickly, and none sustained over the long term. 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.

U.S. government counternarcotics assistance to Nigeria since February 2001 now totals over \$3 million. Despite some successes the Nigerian National police remain grossly mistrusted by the Nigerian population and organized crime groups continue to exploit that mistrust by preying on citizens throughout the country.

NDLEA officers are also frequently poorly trained. Consequently, NDLEA has mandated that all its officers 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.

North Korea

I. Summary

Drug trafficking with a connection to the Democratic People's Republic of Korea (DPRK, or North Korea) appears to be down sharply. There have been no instances of drug trafficking suggestive of state-directed trafficking for six years, but there still is insufficient evidence to say for certain that state-sponsored trafficking has stopped at this time. Small-scale trafficking along the DPRK-China border continues. In March 2007 the DPRK acceded to the three drug conventions.

II. Status of Country

There were no confirmed instances of large-scale drug trafficking involving the DPRK or its nationals during 2008. 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.

III. Country Actions against Drugs in 2008

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. This past trafficking activity frequently occurred in Japan during the mid- to late nineties and continued until a 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 have tried to discourage such trafficking through law enforcement efforts and information campaigns on both sides of the border. For example, the DPRK increased the penalty for possession of narcotics in excess of 300 grams (10.6 oz.) to execution in March of 2008, and a DPRK Health Ministry official has been quoted extolling the effectiveness of the DPRK's drug control regime in press reports. 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." At the same time, other DPRK goods, such as copper wire and scrap iron, continue to be smuggled into China for profit.

Reports 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. 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) continue. 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. In addition, counterfeit \$100 U.S. notes called "Supernotes" (because they are so difficult to detect) continue to turn up in various countries, including in the United States. There are reports, for example, of recent Supernote seizures in San Francisco, and a very large Supernote seizure in Pusan, South Korea. Supernotes are uniquely associated with the DPRK, but it is not clear if recent seizures are notes which have been circulating for some time, or if they are recently issued new notes.

Agreements and Treaties. In March 2007, the DPRK became a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Cultivation/Production. It has been alleged that illicitly grown poppies are cultivated in the DPRK, with the opium converted into heroin and then trafficked by state organs for profit. However, it has never been possible to confirm such illicit cultivation, and there has not been a heroin trafficking incident with a DPRK connection for many years. At least some poppy is grown licitly under supervision in the DPRK for medicinal use. There are several factories in the DPRK that could produce methamphetamine drugs, and there have been cases of large-scale smuggling of pure methamphetamine drugs from the DPRK to Japan and Taiwan as recently as 2002.

Nevertheless, since almost six years have passed since the last seizure of drugs anywhere in the world with a clear link to a DPRK state entity, it appears possible that the DPRK has abandoned its involvement in drug trafficking. The Department has no evidence to support a clear finding that state trafficking has either stopped or is continuing. The absence of any seizures linked to DPRK state institutions, especially after a period in which such seizures involving very large quantities of drugs occurred regularly, does suggest 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 that enforcement against notorious organized criminality is lax. It is also possible 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. Policy Initiatives and Programs

It is likely, but not certain, that the North Korean government has sponsored criminal activities in the past, including narcotics production and trafficking. There has been no evidence for almost six years that North Korea continues to traffic in narcotics; however, giving rise to a reasonable presumption that state-sponsored drug trafficking from the DPRK might well have been halted.

Norway

I. Summary

Norway's illicit drug production remained insignificant in 2008. Norway tightly controlled domestic sales, exports and imports of precursor chemicals, limiting the potential for synthetic drug production ever to emerge in Norway. In the first half of 2008, the number of drug seizures increased by around 5 percent. Cannabis accounted for 45 percent of the total number of seizures, followed by amphetamines and methamphetamine (some 21 percent) and benzodiazepines (15 percent). Other drugs made up about 20 percent of the seizures. Norway had seen a drop in number of seizures and volume of heroin seized in the last few years, but so far in 2008, there has been an increase. According to drug enforcement authorities, cocaine has a wider distribution than ever in Norway. The total volume of cocaine seizures doubled in 2007 and has remained stable in 2008. 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 2008 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. 2008 saw a police crackdown on small-scale illicit production of cannabis. However, Norway remained a significant market and transit country for drugs produced in Central/Eastern Europe, North Africa and elsewhere.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Norwegian Ministry of Health and Care Services continued its narcotics and alcohol abuse treatment and prevention reform program in 2008, 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 to serve as a guideline for local governments. In 2008, the Ministry continued to encourage the use of drug injection rooms for drug addicts. It is up to each municipality to decide if it wants to have such facilities. So far Oslo is the only city in Norway to have them. 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. At a World Forum Against Drugs conference in September 2008, Norway received criticism for not adhering to the UN's Convention on Narcotics. The International Narcotics Control Board's Annual Report concludes that Norway fails to fully respect important international treaties on the fight against drugs. Furthermore, the Norwegian government has received criticism for using methadone in the treatment of heroin addicts.

A 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 2008, 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 2003-2008 action plan carried forward plans and initiatives to meet the objectives of the 1988 UN Drug Convention. A new counternarcotics action plan is currently being drafted, and scheduled to be announced in 2009. The PD has at its disposal modern equipment (e.g., one helicopter; drug scanner machinery at borders). The PD thus focuses on reducing domestic drug abuse, identifying and curbing illicit drug distribution, and curbing drug abuse among drivers of motor vehicles.

Several counternarcotics police operations have been launched during the last years. The 2006 operation "Broken Lorry" helped destroy a drug cartel, and the police credit this bust with a subsequent decrease in heroin trafficking and heroin seizures, which were only 8 kilos in 2007. The first half of 2008 saw an increase in heroin seizures, but the seizures are still lower than in many previous years, possibly indicating a long-term downward trend in heroin abuse in Norway. In 2007 "Operation White Snow" infiltrated the cocaine market in the capital, Oslo, increasing seizures by 25 percent in 2007 and keeping them at this higher level in 2008. 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.

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 the first half of 2008 increased by 5.5 percent to an estimated 12,470 cases from 11,816 in the first half of 2007. The police and customs agents said they continue to focus attention on drug "wholesalers" rather than individual abusers. Of the seizures made in 2008, cannabis accounted for 45 percent, amphetamines and methamphetamine 21 percent, benzodiazepines 15 percent, and other drugs accounted for 20 percent of total seizures. The number of khat seizures is moderately up, while the number of Ecstasy seizures has gone down steadily the past years. The numbers and volume of Gamma-Hydroxybutyric acid (GHB), a drug associated with date rape, remains low, but is considered a problem in some rural districts.

In 2007 (the most recent year for which figures were available), the number of persons charged with narcotics offenses was 29,000—somewhat lower than in 2006. In order to discourage the use of narcotic substances, Norwegian law enforcement authorities, in cooperation with CED, have continued to make coordinated raids at border crossings against smuggling rings and to impose heavy fines 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 suspected narcotics offenders.

In 2008, there was a significant seizure of the benzodiazepine drug, *phenazepam*, in North Trondelag county. 28,500 *phenazepam* tablets and 1.7 kilo *phenazepam* with a purity rate of 87-90 percent (equivalent to 1.5 million tablets) were seized in this one seizure. This seizure alone accounted for more than all the *phenazepam* seizures in the previous record year 2002.

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.

Cultivation/Production. The number of cannabis plants seizures increased significantly in 2008. Norwegian police cracked down on organized cultivation and production of cannabis in and around Oslo. The police seized approximately 300 kg of potted and cultivated plants on private premises. This is 13 times the 2007 number. While there is concern that narcotics dealers may establish mobile synthetic drug laboratories, few significant seizures of such labs occurred in 2008.

Drug Flow/Transit. According to KRIPOS, the 2008 inflow of illicit drugs remained significant in volume terms with amphetamines, cannabis, heroin, and benzodiazepines. Most illicit drugs enter Norway by road or ferry from other European countries, the Baltic states (e.g., amphetamines), Russia (e.g., methamphetamine), Poland, the Netherlands, Belgium, Germany, Morocco via Spain, Central Asia, Afghanistan, the Balkans and other countries in Eastern Europe. In the past, some drugs have been seized in commercial vessels arriving from Europe and Central/South America. The influence of outlaw motorcycle gangs, such as Hells Angels and Bandidos, remains significant in Norway. Such groups are regularly involved in the distribution of methamphetamine, heroin, and cocaine, which they acquire from Albanian, Serbian and Montenegrin traffickers.

Domestic Programs/Demand Reduction. Government ministries and local authorities continue to initiate and strengthen counternarcotics abuse programs. According to the Ministry of Health and Care Services, 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 in Denmark regularly consult with their Norwegian counterparts and continue to cooperate on drug related issues. Since 2000, Norway has been a member country of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), monitoring the state of the drug problem and emerging trends, as well as solutions applied to drug-related problems. One Norwegian Coast Guard officer attended the USCG's International Maritime Officers' Course.

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.

Pakistan

I. Summary

Pakistan remains a major transit country for opiates and hashish moving to markets around the world and precursor chemicals moving into neighboring Afghanistan, the world's largest producer of opium poppy. Pakistan is also a major narcotics producing country with cultivation of poppy still over 1000 hectares. In 2008, Pakistani forces have engaged the militants along the border with Afghanistan, particularly in the Bajaur Agency of the Federally Administered Tribal Areas (FATA). Militant groups have challenged the forces throughout FATA and are encroaching into the settled areas of the North-West Frontier Province (NWFP), such as the Swat valley and the settled district of Peshawar, the provincial capital. Fighting in these areas adversely effected Pakistan's efforts against poppy cultivated in Pakistan, and reduced seizures of opiates moving through Pakistan sharply. The joint Narcotics Affairs Section and GOP Narcotics Control Cell poppy survey of 2008 indicated that 1,909 hectares (ha) of poppy were cultivated in 2008 (about one percent of the cultivation in Afghanistan). Poppy cultivation levels in 2007 were 2,315 ha and in 2006 1,908 ha. In 2007, 614 ha were eradicated, bringing harvested poppy down to 1,701 ha. In 2008, poppy eradication was not conducted because both the Frontier Corps and Tribal Levies in FATA were engaged in operations against militants.

National counternarcotics efforts are led by the Anti-Narcotics Force (ANF) under the Ministry of Narcotics Control. In general, counternarcotics cooperation between the GOP and the United States has solid foundations and a record of accomplishment, but there remains a systemic lack of willingness/capacity to exploit investigative leads. In addition, Pakistan's five-year Master Drug Control Plan, promised since 2006, has languished, and once again failed to emerge in 2008. There were some significant drug and precursor seizures on the Makran coast during 2008. 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. Heroin seizures in 2007 at 11 MT of heroin were down sharply from 2006 (-70%) and at 15 MT, opium seizures increased sharply and were up by almost 92 percent. During 2008, Pakistani law enforcement agencies seized a combined total of 5.3 MT of heroin (including morphine base), 8.7 MT of morphine, 125 MT of hashish, and 18 MT of opium were seized. There is an extradition treaty between the United States and Pakistan, however, Pakistan's performance with respect to U.S. requests, currently 12, has been unsatisfactory

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. In the tribal belt, where militant activity is a continuous threat, 1,847 ha were cultivated this year, down from 2,315 ha in 2007. Under these circumstances, and given the lack of eradication and enforcement capacity resulting from deployments of thousands of Frontier Corps forces to North and South Waziristan, the net harvest of only 1,907 ha (one percent of Afghanistan's 2007 crop) for the entire country, demonstrates that the long-standing GOP campaign against increased poppy cultivation is being sustained even when the threat of eradication does not materialize. On the other hand, with cultivation of poppy still near all-time highs in neighboring Afghanistan, modest cultivation in Pakistan might simply represent reflect the over-supply of opium in the region.

Opium production in neighboring Afghanistan continues at record levels in excess of world demand but is down from 2007's all-time high. Given the huge supply within Afghanistan, Pakistan remains a significant transit country for heroin, morphine base, 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 Program, which began in 2002, is building GOP interdiction capabilities along the 1600-kilometer Afghan border, as demonstrated by drug seizures in 2008 by border security

forces such as the Frontier Corps Baluchistan. However, successfully interdicting drug shipments is difficult given the difficult terrain, the sheer number of smuggling routes, the lack of resources, scant law enforcement training in reconnaissance and combined ground/air operation experience, and the fact that smugglers keep adapting their tactics.

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 Pakistan has up to four million drug abusers in the total population of 170 million (2.4 percent). Accurate figures for drug abuse do not exist, but better estimates are now available thanks to UNODC's 2006 National Assessment on Problem Drug Use in Pakistan. The study estimated that there were 628,000 (up from 500,000 in 2000) chronic opiate abusers and identified a new trend of injecting narcotics, which raised concerns about HIV/AIDS. 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 implications for hepatitis and HIV infection rates.

Pakistan has established a chemical control program that strives to closely monitor the importation of controlled chemicals used to manufacture narcotics. Significant quantities of diverted precursor chemicals nevertheless transit Pakistan, but there is no indication that Pakistan is a source country for these precursor chemicals. The impressive seizure of 14 MT of acetic anhydride at the port of Karachi in March 2008 was not followed up by the investigative agency, which failed to develop promising leads. Some progress has been made in determining the routes and methods used 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 Pakistani law enforcement with information regarding chemical seizures that may have links with Pakistani smuggling groups and/or chemical companies, to facilitate further investigation within Pakistan.

III. Country Actions against Drugs in 2008

Policy Initiatives: As of the end of 2008, the Drug Control Master Plan is still waiting for approval by the Cabinet. Publication of the national plan was anticipated in early 2007, and delay in its release is a concern. The plan should identify interdiction strategies, agency responsibilities, and inter-agency coordination as well as training and equipping requirements for attacking drug supply and demand. The Ministry of Narcotics Control, in coordination with UNODC, continues to work on the plan. 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 2007-2008. Of course, as long as Afghanistan is producing some 90 percent of world opium and Pakistan just one percent of Afghan production, even success in totally eliminating the small amount of poppy cultivation presently occurring in Pakistan would not appreciably impact the world, or even the regional picture.

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 ANF now has over 2000 personnel. The Pakistan Coast Guard has started using anti-drug cells (or units) to better coordinate and execute counternarcotics operations.

Law Enforcement Efforts: In 2007, GOP law enforcement and security forces reported seizing 10.9 MT of heroin/morphine and 15.3 MT of opium. Also, 93.8 MT of hashish was seized in this time period. During 2008, Pakistani law enforcement agencies seized a combined total of 5.3 MT of heroin (including morphine base), 8.7 MT of morphine, 125 MT of hashish, and 18 MT of opium were seized.

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. (Figures for 2008 are not yet available). 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 with the ANF to target major traffickers. Through September 30, 2007, drug traffickers' assets totaling Rs 110.8 million rupees (about \$1.8 million) remained frozen.

In 2005, former 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; it has not responded to formal U.S. requests for assistance. The U.S. and Pakistan have an extradition agreement that 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. Both the Extradition Treaty and 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; one has been pending since 1995; the last extradition was in 2006. Obstacles to extradition include judicial disinterest caused in part by the continuing lawyers strike, inexperience of GOP public prosecutors, an interminable appeals process that tolerates defense-delaying tactics, and corruption.

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 decreased by roughly 400 ha in 2008. In 2008, Pakistan cultivated 1,907 ha, compared to cultivation of approximately 2,315 ha in 2007. The actual number of hectares harvested increased 206 ha to 1,907 due

to the inability to mount any 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 47.6 MT in 2008.

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 poppy in the FATA agencies where both the Pakistani Army and the FCN are combating an aggressive militancy, including elements of al-Qaida. FC force concentrations in North and South Waziristan mean that there are no troops available to combat poppy cultivation in Khyber, Bajaur, and Mohmand, where 1,729 ha of poppy were cultivated. 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, the ANF 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 2008 notes that 157,000 ha of poppy were cultivated in 2007. The total combined cultivation of 350,000 ha in 2007 and 2008 in Afghanistan almost certainly means more opiates transiting Pakistan and probably escalating domestic drug abuse 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. To some degree, Pakistan and Afghanistan form an opium/heroin production system where Pakistan provides significant financing; while Afghanistan provides cultivation/refining sanctuaries.

Much of the poppy produced in Afghanistan 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 North America 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)).

Pakistani law enforcement notes that precursor chemicals such as acetic anhydride are most likely smuggled through UAE, Central Asia, China, South Korea, and India to Pakistan, then on to Afghanistan in mislabeled containers that form part of 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. Small amounts of cocaine smuggled into the country by West African DTOs have also been seized.

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 Pakistan's international airports. Customs and ANF report that drugs are being smuggled in the cargo holds of dhows to Yemen, Oman, Saudi Arabia, and United Arab Emirates via the Arabian Sea. Some 40 MT of hashish were seized in the spring of 2008 by law enforcement on the Makran coast, in cooperation with Joint Task Force 150 in the Persian Gulf. Traffickers also transit land routes from Baluchistan to Iran and from the tribal agencies of NWFP to Afghanistan 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-sided luggage or concealment 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 recent years, 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.

Domestic Programs/Demand Reduction: The GOP, in coordination with the UNODC, completed a drug use survey, which was published in 2007 and was based on data gathered in 2006. 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 prevalence of drug-users testing positive for HIV is estimated at nearly 11 percent in March 2007, with the city of Karachi having the highest prevalence (28 percent). Eleven percent of users reported being infected with hepatitis and 18 percent reported being infected with tuberculosis. With the increased incidence of intravenous drug abuse these diseases have the potential to spread rapidly. The age of first use is 18 years and the initial drug of choice is cannabis (hashish); first use of heroin is 22 years. Cannabis and heroin are the most widely abused drugs, followed by raw opium. Prescription and synthetic drugs such as Ecstasy are gaining popularity among high-income users. The GOP views addicts as victims, not criminals. Despite the perseverance of a few NGOs and the establishment of two GOP model drug treatment and rehabilitation centers in Islamabad and Quetta, drug users have limited access to effective detoxification and rehabilitation services in Pakistan.

The ANF is also tasked with reducing demand and increase drug use awareness. In 2008, ANF organized USG-funded seminars for religious leaders in each provincial capital. The USG funded several NGOs in their efforts aimed at drug awareness and treatment and rehabilitation. The first such program supports a drug treatment center in Peshawar via the Colombo Plan, extending an already-successful program with a local NGO. The second program included support to a Karachi-based NGO to set up and operate a drug treatment/rehabilitation center and to organize awareness campaigns on drug abuse prevention with schools, youth groups, industries/ workplaces, and communities. There are several other USG-supported treatment/education programs.

While the GOP appears to have the political will to do more in demand reduction, it lacks the human and technical resources and an updated, comprehensive strategy.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives: It is increasingly clear that traffickers of hashish and opiates have financial links to the insurgents operating on both sides of the Pakistan-Afghanistan border. The United States has several counternarcotics policy objectives in Pakistan that are closely related with America's larger goals of defeating the insurgency on the Pak-Afghan border and preventing terrorist safe-havens in the FATA and Baluchistan. To achieve these objectives the US helps the GOP fortify its land borders and seacoast against drug trafficking and terrorists, supports expanded regional cooperation, encourages GOP efforts to eliminate poppy cultivation, and inhibits further cultivation. The United States is also working to increase the interdiction of narcotics from Afghanistan and to destroy DTOs by building the capacity of the GOP, as well as expanding demand reduction efforts. USG agencies continue to build GOP cooperation in the extradition of narcotics fugitives and to encourage enactment of comprehensive money laundering legislation. The United States is also focusing on streamlining Pakistani drug enforcement legislation, making it easier for the ANF and other law enforcement agencies to prosecute narcotics cases. The United States presses for the reform of law enforcement institutions and encourages cooperation among the GOP agencies with counternarcotics responsibilities. The United States also focuses on improving anti-smuggling capabilities of law enforcement agencies, including the Customs Department, the Frontier Corps, and the National Police, and the Maritime Security Agency (MSA). In coordination with CENTCOM, the U.S. Coast Guard is assisting in the procurement of patrol vessels for the MSA and is seeking other opportunities to improve MSA's drug interdiction capabilities.

Bilateral Cooperation: The United States, through the State Department-funded Counternarcotics Program and Border Security Project, provides operational support, commodities (e.g., vehicles, radios, and body armor), and training to the ANF and other law enforcement agencies. 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. Construction of 1423 km of roads in the border areas of the FATA is complete, and ongoing construction of 266 km continues to open up remote areas to law enforcement. Since 1989, the State Department also has funded construction of more than 547 km 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 971 development projects to provide water and electricity to remote areas and to encourage alternative crops in Bajaur, Mohmand, and Khyber Agencies. 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 September 2008, an INL-funded Resident Legal Advisor position was created at the U.S. Embassy in Islamabad. The RLA will institute training for prosecutors in coordination with USAID's Rule of Law efforts. The training will develop and improve advocacy skills, police-prosecutor cooperation, prosecutorial ethics, and management of the prosecutorial function. This program will be coordinated with NAS's police training and assistance to ensure that police investigations provide the material needed by prosecutors and that the prosecutors communicate their requirements to police.

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 Air Wing program operated by the Ministry of Interior (MOI) provides significant benefits to counternarcotics efforts and also serves to advance our Border Security 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 Road Ahead: The United States will continue to assist the GOP in its nation-wide efforts to eliminate poppy, to build capacity to secure 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, improvements in the prosecution and resolution of court cases, GOP interagency cooperation, more effective use of resources and training, and enhanced regional cooperation and information sharing.

V. Statistical Tables

Drug Crop—Opium Poppy

a) Cultivation: 2008—1,909 ha; 2007—2,315 ha; 2006—1,908 ha; 2005—3,147 ha; 2004—6,600–7,500 ha; 2003—6,811 ha

b) Harvested: 2008—1,909 ha; 2007—1,701 ha; 2006—1,545 ha; 2005—2,440 ha; 2004—3,145 ha; 2003—3,170 ha

c) Eradication: 2008—none; 2007—614 ha; 2006—363 ha; 2005—707 ha; 2004—4,426 ha; 2003—3,641 ha

Seizures:

a) heroin (including morphine base): 2008—5.3 MT; 2007—10.9 MT; 2006—35.3 MT; Jan-Nov 2005—24 MT; 2004—24.7 MT; 2003—34 MT

b) opium: 2008—18 MT; 2007—15.3 MT; 2006—8.0 MT; Jan-Nov 2005—6.1 MT; 2004—2.5 MT; 2003—5.4 MT

c) hashish: 2008—125 MT; 2007—93.8 MT; 2006—110.5 MT; 2005—80 MT; 2004—136 MT; 2003—87.8 MT

Illicit Labs Destroyed: No labs have been destroyed to date.

Arrests (total): 2008—31,330; 2007—50,100; Jan-Oct 1, 2006—34,170; Jan-Nov 2005—33,932; 2004—49,186; 2003—46,346

Panama

I. Summary

By virtue of its geographic position and well-developed maritime and transportation infrastructure, Panama is a major logistics control and trans-shipment country for illegal drugs to the United States and Europe. Major Colombian and Mexican drug cartels as well as Colombian illegal armed groups use Panama for drug trafficking and money laundering purposes. The Torrijos Administration has cooperated vigorously with the U.S. on counternarcotics operations. In 2008, seizure levels remained very high with 53 metric tons (MT) of cocaine having been seized. U.S. support to Panama's counternarcotics efforts, including developing an effective community policing model to help control a nascent gang problem, is crucial to ensure fulfillment of agency missions. Panama is a party to the 1988 United Nations Drug Convention.

II. Status of Country

Panama's geographic proximity to the South American cocaine and heroin producing countries makes it an important transshipment point for narcotics destined for the U.S. and other global markets. Panama's four major containerized seaports, the Pan-American Highway, a rapidly growing international hub airport (Tocumen), numerous uncontrolled airfields, and relatively unguarded Atlantic and Pacific coastlines all facilitate drug movement. Smuggling of weapons and drugs continues to take place, particularly between Colombia and the isolated Darien region, the Azuero peninsula and the sparsely populated Caribbean coastal areas. The flow of illicit drugs has contributed to increasing domestic drug abuse and gang violence, and Panamanian authorities attributed the majority of murders to revenge killings between traffickers. Panama is not a significant producer of drugs or precursor chemicals. Limited amounts of cannabis are cultivated for local consumption.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Torrijos Administration is strongly committed to counternarcotics and anti-crime cooperation with the United States. Panama participated in the U.S.-Central American Integration System (SICA) security dialogue. In 2008, Panama passed a law reforming the criminal system from a written (inquisitorial) system to a largely oral (accusatorial) system, which will be implemented over several years. The GOP merged the National Air Service (SAN) and the National Maritime Service (SMN) into a unified "Coast Guard"-type service to be called the National Aero-Naval Service (SENAN). The merger became official on 22 November and will require substantial investment by the GOP to become fully operational. The GOP also separated the frontier police from the National Police (PNP), creating an independent National Frontier Service (SENAFRONT). Early in 2008, another reform folded the Technical Judicial Police (PTJ) into the National Police Investigative Division, creating the new Division of Judicial Investigations (DIJ). A separate intelligence directorate known as the Police Intelligence Division (DIP) still remains and performs a separate function under the PNP. Forensic investigation responsibilities remained with the Public Ministry and Attorney General's office. In 2008, Panama, for a second straight year, carried out a successful table-top exercise (Panamax Alpha) to address asymmetrical threats to the Panama Canal.

Accomplishments. Panama seized 53 metric tons (MT) of drugs in 2008, including 51 MT of cocaine and 2 MT of marijuana. While this is lower than 2007 levels, last year's numbers include one 20-ton seizure made by the USCG on a case developed in Panama. Police also seized over \$3 million in cash linked to drug trafficking and confiscated \$1.5 million from 42 bank accounts. Drug Enforcement Administration (DEA)-monitored statistics for 2008 also indicate seizures of 17 kg of heroin, and 126 arrests for international drug-related offenses.

Law Enforcement Efforts. Several USG-supported Government of Panama (GOP) vetted units were fortified with equipment and increased personnel in 2008. The newly-created SENAN cooperates with U.S. Coast Guard (USCG) requests for ship registry data and provides officers to serve aboard USCG cutters as “ship riders,” allowing the USCG to patrol Panamanian waters. The SENAN also provides excellent support for counternarcotics operations within its limited means, including patrolling and photographing suspect areas, and identifying suspect aircraft. In 2008, under the bilateral agreement with Panama, the U.S. Coast Guard was able to remove over 5.8 metric tons of cocaine from Panamanian flagged vessels. Counterdrug cooperation with Panama has been solid and remains vital to ensuring continued success. In 2008, the Government of Panama staffed the U.S.-funded Guabala checkpoint (inaugurated in early 2006) on the Pan-American Highway, and the national police deployed mobile road blocks throughout the country targeting land based movements of drugs.

Corruption. The Government of Panama 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. President Torrijos's administration, through its National Anti-Corruption Commission, which is charged with coordinating the government's anti-corruption activities, continued to audit government accounts and launch public corruption investigations. Several government ministries established transparent, automated procedures to minimize opportunities for corruption (e.g., for registering a business, or preparing a shipment for export). Despite the Torrijos Administration's public stance on corruption, few high-profile cases, particularly involving political or business elites, have been acted upon.

A USG-funded "Culture of Lawfulness" program, designed to encourage officers to fight against corruption within the police, has produced 10 trainers within the National Police and will continue to train officers in 2009. This program is being combined with an aggressive effort to implement a community policing program with the PNP.

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. In 2008, Panama surrendered nine fugitives to the United States; seven of them were for narcotics charges. A Customs Mutual Assistance Agreement and a stolen vehicles treaty are also in force. In 2002, the USG and GOP concluded a comprehensive maritime interdiction agreement. Panama has bilateral agreements on drug trafficking with the United Kingdom, Colombia, Mexico, Cuba, and Peru. Panama is a party to the UN Convention against Transnational Organized Crime and its three protocols and to the UN Convention against Corruption. Panama is a member of the Organization of American States (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 an active participant in the U.S.-SICA (Integrated System for Central America) security dialogue.

Cultivation and Production. Limited cannabis cultivation, principally for domestic consumption, exists in Panama, particularly in the Pearl Islands.

Drug Flow/Transit. Panama remains an important hub for the transit and distribution of South American cocaine and heroin. Drugs are moved in fishing vessels, cargo ships, small aircraft, and go-fast boats. Drug-smuggling aircraft utilize hundreds of abandoned or unmonitored legal airstrips for refueling, pickups, and deliveries. Panama's coastlines are used to store drugs for continued shipment towards Mexico and to store fuel and supplies for go-fast boats making the runs. Couriers transiting Panama by commercial air flights also moved cocaine and heroin to the U.S. and Europe during 2008.

Domestic Programs/Demand Reduction. Various programs have U.S. sponsorship such as DARE programs for the Panama National Police, Youth Crime Watch for the Roberto Boutet Foundation, Young People Building a Better World for the White Cross Foundation and an Integral Prevention Education Program for the Pride Foundation.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. USG-supported programs focus on improving Panama's ability to intercept, investigate, and prosecute illegal drug trafficking and other transnational crimes; strengthening Panama's judicial system; improving Panama's border security; and ensuring strict enforcement of existing laws. The Narcotics Affairs Section (NAS), Department of Homeland Security (DHS), Office of Defense Cooperation (ODC) and USCG provided resources for modernization and upkeep of SMN and PNP vessels and bases, and assisted the newly-created SENAN with training personnel and maintaining key aircraft for interdiction efforts. In 2008, the USG provided training and operational equipment and support to the multi-agency Tocumen Airport Drug Interdiction Law Enforcement Team. NAS coordinated training for the DEA and ICE vetted units, as well as the quick response motorcycle team (“lynx” unit) in Tactical Law Enforcement procedures, internal affairs and Anti-Corruption investigations and crowd control procedures.

NAS and CBP continue to organize operational evaluation teams of Border Patrol Agents who work in the border areas with National Police. NAS continued to develop a major law enforcement modernization project with the PNP to develop its police leadership and implement community-based policing procedures. The program focuses on many pillars including proven community policing tactics, expansion of existing crime analysis technology, and promotion of managerial change to allow greater autonomy and accountability. NAS provision of computers, office equipment, and other operational equipment will help the counternarcotics units achieve their goals.

Bilateral Cooperation. In 2008, the Torrijos Administration continued to sustain joint counternarcotics efforts with DEA and USCG, and worked to strengthen national law enforcement institutions with assistance from NAS. Maritime cooperation continued to be excellent. The U.S. Coast Guard provided training to SMN and APC personnel on waterside port security, maritime law enforcement, and port security-vulnerability assessments.

The Road Ahead. The USG encourages Panama to devote sufficient resources to enable its forces to patrol land borders along Colombia and Costa Rica, its coastline, and the adjacent sea-lanes, and to increase the number of arrests and prosecutions of major violators, especially in the areas of corruption and money laundering. The USG will continue to offer the GOP expertise and resources to strengthen Panama's ability to safeguard its citizens, confront drug traffickers, and ensure that law enforcement efforts are anchored in democracy. The USG will also continue to support law enforcement modernization through improved equipment, maintenance, strategic planning, decentralization of decision making, and community-oriented policing philosophies.

For its part, the USG will provide significant support in the coming year under the Merida Initiative—a partnership between the governments of the United States, Mexico, Central America, Haiti and the Dominican Republic to confront the violent national and transnational gangs and organized criminal and narcotics trafficking organizations that plague the entire region, the activities of which spill over into the United States. The Merida Initiative will fund a variety of programs that will strengthen the institutional capabilities of participating governments by supporting efforts to investigate, sanction and prevent corruption within law enforcement agencies; facilitating the transfer of critical law enforcement investigative information within and between regional governments; and funding equipment purchases, training, community policing and economic and social development programs. Bilateral agreements with the participating governments were in the process of being negotiated and signed at the time this report was prepared.

Paraguay

I. Summary

In 2008, the Government of Paraguay, through its National Anti-drug Secretariat (SENAD), continued its efforts against illegal narcotics trafficking. SENAD seized locally-grown marijuana and Andean cocaine which transits Paraguay en route to Brazil and other Southern Cone countries. With renewed political support from the new Lugo administration, which ended 61 years of Colorado Party rule, SENAD captured drug traffickers linked to Brazilian drug trafficking organizations and made important inroads into fighting new threats posed by international ephedrine trafficking. The new Lugo Government has expressed interest in reversing Paraguay's status as a major drug transit country. Paraguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Paraguay is the largest producer of marijuana in South America, and its marijuana, which has high tetrahydrocannabinol (THC) content, is cultivated throughout the country. Marijuana in Paraguay is primarily trafficked for consumption in neighboring countries, and is not trafficked to the United States. Paraguay remains a major transit country for Andean-sourced cocaine destined primarily for Brazil, other Southern Cone markets, Europe, and Africa. The extensive land border with Brazil facilitates many types of illicit activities, including drug trafficking. Endemic public corruption in Paraguay, along with limited government controls, is a contributing factor to Paraguay's standing as a major drug transit country. Despite SENAD's efforts, the GOP's ability to fight narcotics trafficking is hampered by budget constraints, weak laws, and pervasive corruption.

III. Country Actions against Drugs in 2008

Policy Initiatives. President Fernando Lugo, who assumed office August 15, named Retired Police Commissioner Cesar Damian Aquino as the new SENAD director. President Lugo pledged during his campaign to fight narcotics, corruption and other illicit activities in Paraguay.

In August, Director Aquino reorganized SENAD to improve the institution's efficiency, naming a single Director of Operations to eliminate potential conflicts in a chain-of-command containing multiple directorships with equal authority. SENAD focused its efforts on major drug trafficking organizations and their assets. SENAD was dealt a major setback, however, when the Senate rejected a bill that would have made SENAD an autonomous institution with the power to regulate its agents independently. The measure had passed the Chamber of Deputies. Currently, SENAD officials are considered civil servants, rather than law enforcement agents, and are not issued weapons, though many carry personal weapons. The rejected legislation would have given SENAD agents the legal status of law enforcement agents. SENAD worked to professionalize its agents through training, but was unsuccessful in its efforts to augment the current SENAD force of 165 agents by an additional 30 recruits.

Law Enforcement Efforts. In 2008, SENAD seized a record 172 metric tons (MT) of marijuana. Cocaine seizures were substantially lower than previous years at 277 kilograms (kg).

SENAD arrested 419 persons, including several well-known Brazilian drug traffickers from the Comando Vermelho and First Comando Capital (PCC) drug trafficking organizations. SENAD expelled 17 individuals and facilitated the extradition of two persons to Brazil and one to Argentina.

Paraguayan authorities reported a new trend in ephedrine trafficking from South America through Paraguay to Mexico where it is reportedly processed into methamphetamine destined for the US market. This year, SENAD seized 127.36 kg of ephedrine, including the detention of a Mexican national in possession of 45 kg of ephedrine.

In the last year SENAD conducted a series of marijuana eradication operations in the departments of Amambay and Canindeyu, destroying 1,724 hectares of marijuana with an estimated weight of over five million kilograms.

Corruption. As a matter of policy, neither GOP policy nor senior GOP 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. 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, but the Lugo administration has already brought several corruption cases against public officials.

Agreements and Treaties. Paraguay is a party to the UN 1988 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 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 Trafficking in Illegal Firearms, the Inter-American Convention against Corruption and the Inter-American Convention against Terrorism. The GOP also signed the OAS/CICAD Hemispheric Drug Strategy. Paraguay has law enforcement agreements with Bolivia, Brazil, Argentina, Chile, Venezuela, and Colombia. An extradition treaty between the United States and Paraguay is in force and the 1987 bilateral letter of agreement under which the United States provides counter-narcotics assistance to Paraguay was extended in 2008. Paraguay is also a signatory to the 1992 Inter-American Convention on Mutual Assistance in Criminal Matters.

Cultivation/Production. The UN estimates that Paraguay produces 5,900 MT of marijuana per year—more than half the marijuana grown annually in all of South America. The crop is primarily cultivated in the departments of Amambay, San Pedro, Canindeyu and Concepcion and harvested year-round. Marijuana production has dramatically increased in recent years, spreading to nontraditional rural areas of the country. There are approximately 6,000 hectares under cultivation throughout the country, according to UN and SENAD estimates.

Drug Flow/Transit. Paraguay continues to be a major 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, traffickers are encouraged by the lack of controls along Paraguay's vast, porous border. Every year, 30-40 MT of cocaine are transshipped to Brazil and other Southern Cone markets, as well as to Europe, Africa, and the Middle East. The northwestern part of the country is poorly monitored, making that region an attractive staging area for transshipments of drugs, weapons, and other contraband. Paraguayan authorities report a new trend in ephedrine trafficking from South America to Mexico and the United States.

Domestic Programs/Demand Reduction. SENAD's drug prevention program includes educational workshops for 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 limited budget for demand reduction and its program has been concentrated in central Paraguay. A pilot prevention program introduced in 2007 in Pedro Juan Caballero has helped SENAD expand its drug abuse prevention program, and the Lugo government has expressed intent in further expansion. During the current school year SENAD sponsored 425 workshops, directly reaching 10,617 students, parents, and teachers. SENAD also distributed 1,741 informational pamphlets to teachers and counselors during workshops.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Working with the GOP, USG programs and policies in Paraguay focus on disrupting drug trafficking organizations and instituting stronger legal and regulatory measures to combat drug trafficking and money laundering. The GOP uses U.S. assistance to support SENAD's operations, including its base of operations in Pedro Juan Caballero and its canine program. U.S. assistance also provides support for SENAD operations in the northwestern town of Mariscal Estigarribia. The USG funded the participation of 50 new SENAD agents in a Basic Drug Enforcement Training Seminar which taught the knowledge and skills required to identify drug traffickers, to initiate and to develop investigations. The USG funded a five-week Sensitive Investigative Unit (SIU) program in Quantico, Virginia which trains DEA foreign counterparts to work on sensitive bilateral investigations. SENAD is one of only a dozen foreign counterpart agencies to obtain this training. The USG 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. The new Lugo administration has expressed interest in reversing Paraguay's status as a major drug transit country and as the largest producer of marijuana in South America. To do so, the GOP must focus its efforts on major narcotics trafficking organizations operating in Paraguay. The USG encourages the Lugo administration 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. New anti-money laundering legislation will take effect July 16, 2009, and will provide an important tool for law enforcement agencies. The GOP also needs to draft asset seizure and forfeiture laws, pass the new criminal procedure code pending before Congress, and implement in 2009 the new penal code signed into law in 2008.

Peru

I. Summary

Peru remains the world's second largest producer of cocaine and is a major importer of precursor chemicals used for cocaine production. In 2008, the Garcia Government consolidated gains in the eradication of illicit coca cultivation in the Upper Huallaga Valley by exceeding its coca eradication goal of 10,000 hectares for the second year in a row, and pressed forward on interdiction, including targeting precursor chemicals. The Government of Peru (GOP) promulgated additional decrees against corruption, money laundering, and other forms of organized crime. The GOP also implemented security measures against violent attacks against personnel engaged in eradication and interdiction efforts. Peruvian forces seized nearly 28 metric tons (MT) of cocaine in 2008 and destroyed record numbers of cocaine labs. The change in government in October 2008 did not alter Peru's commitment to full cooperation on counternarcotics matters. 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 used for cocaine production. In the Upper Huallaga Valley (UHV), coca growers, incited by their leaders, at times engaged in violent acts to resist eradication during 2008. Remnants of the terrorist group Shining Path (Sendero Luminoso—SL), reliant on drug trafficking for funding, were reportedly responsible for ambushing and killing police and military personnel in the UHV and the Apurimac and Ene River Valleys (VRAE); as well as threatening eradication workers and other government authorities and alternative development teams. In 2008, one eradication worker was wounded by a booby trap, and another was wounded as he strayed outside of an eradication site security perimeter. Since 2006, 26 Peruvian National Police (PNP) officers and one CORAH (Control and Reduction of Coca in the Upper Huallaga) employee have been killed in SL attacks.

CORAH implemented security measures to prevent and minimize the possible impact of violent attacks. Counter and anti-explosive measures reduced exposure and neutralized located improvised explosive devices. An internal accord with Peruvian Army elements stationed in the Huallaga valley provided additional security for eradicators. Coca growers' efforts to gain support for sit-ins, road blocks, and forcible eviction of eradicators were ineffective.

According to Catholic University's Institute for International Studies (IDEI), approximately four million Peruvians are reported to use up to 9,000 metric tons of coca leaf each year for such "licit" purposes as chewing the leaves, or brewing leaves for tea; however, IDEI estimates that over 90 percent of this 'licit' coca cultivation is actually directly diverted to narcotics trafficking. It is estimated that about 60,000 Peruvian families (a relatively small percentage out of the greater than 29 million total population) is involved in growing, processing coca leaf, and trafficking cocaine hydrochloride (HCl), and cocaine base. In various public forums, coca growers' leadership 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 drug trafficking on Peru.

III. Country Actions against Drugs in 2008

Policy Initiatives. In July the Peruvian Congress passed laws against organized crime, drugs, and terrorism and also strengthened the provisions of the Precursor Chemical law of 2004. The Attorney General's Office (Public Ministry) continued to strengthen its prosecutorial capacity for drug cases by increasing staff and enhancing training to improve investigative and procedural skills. In 2008, the Garcia Administration promulgated additional decrees against corruption, money laundering, and other forms of organized crime. The new Criminal Procedure Code (CPC), enacted in 2007, continued to be implemented across the nation with the final regions scheduled to come on line by 2010. As part of the Ministry of Justice's Anti-Corruption Plan, the section of the CPC which applies to public corruption came

into effect nation-wide in 2008. The Public Ministry created a new prosecutor's position to handle all money laundering cases not related to drug-trafficking. Also, new legislation came into effect in 2008 requiring all members of the Financial Investigation Unit to sign a Standards of Conduct document. Finally, in July 2008, President Garcia signed a defense pact with President Lula of Brazil and President Uribe of Colombia to jointly patrol rivers and expand regional cooperation on borders. This will help limit the cross-border activities, including drug trafficking of illegal armed groups such as the FARC and the SL. The change in government in October 2008 did not alter Peru's commitment to full cooperation on counternarcotics matters.

Accomplishments. The GOP disrupted the production and transshipment of cocaine through operations on land, sea, and air, seizing more than 16.2 metric tons (MT) of HCl and 11.7 MT of cocaine base as of December 15, 2008. Eradication helped tamp the number of hectares of illicit coca cultivation, although denser coca planting is evident and efficiency of extracting alkaloid among some traffickers has increased from 44 percent to 72 percent, according to the Drug Enforcement Administration (DEA) studies. The GOP also investigated and dismantled major drug trafficking organizations (Valdez in Pucallpa) and shut down drug-processing sites in coca-growing areas. The Peruvian National Police (PNP) Directorate of Antinarcotics Agency—DIRANDRO destroyed 1,225 cocaine-production laboratories, including 19 cocaine HCl and 1,206 base laboratories in the UHV and the VRAE; and 2,119 MT of dry and macerated coca leaf by in 2008.

Law Enforcement Efforts. Actions by Peruvian authorities in August and September led to the arrests of two important SL collaborators, one was considered a major SL financier and drug trafficker, the other was considered a prominent SL recruiter. In September, the Supreme Court upheld the conviction and 20-year sentence of drug "Kingpin" Fernando Zevallos. In October, authorities detained the mayor of the eastern city of Pucallpa on charges of laundering proceeds from drug trafficking, and began proceedings to seize assets valued at more than \$200 million.

In 2008, Peru continued to strengthen police capacity east of the Andes. Nine-hundred-thirty-five new police officers, including 76 women, with a 3-year commitment to serve in counternarcotics units, were trained at U.S.-supported police academies. The curriculum in these academies was extended from 12 to 26 months in compliance with Peruvian regulations. Related to this, 842 students also attended PNP pre-Academies that train qualified local police recruits. By the end of 2008, approximately 2,000 anti-drug police were operating in the source zones.

The PNP also continued to operate basic training academies collocated with DIRANDRO police bases at Santa Lucia, Mazamari, and Ayacucho. An increase of DIRANDRO personnel in source zones has contributed to more effective and sustained eradication and interdiction operations. The PNP is also reinvigorating the anti-drug police Special Operations Group, including a special Jungle Operations Training Course established in Mazamari for junior officers.

Despite these efforts, traffickers continued to adapt to counter-drug strategies and tactics, experimenting with new delivery and production methods.

Maritime/Airport Interdiction Programs. Peruvian agencies involved in maritime and airport counter-drug enforcement were responsible for approximately 13 metric tons of cocaine seized nationwide. An additional 2 metric tons were seized in third countries based upon research and alerts conducted by the joint Peruvian Customs (SUNAT) and National Police Manifest Review Unit (MRU). SUNAT personnel examined an average of 9,500 containers per month nationwide, compared to 3-4 per month less than two years ago. Interdiction efforts at Peru's international airport resulted in the detention of 190 internal carriers (mules).

SUNAT continued to emphasize training and utilization of non-intrusive inspection (NII) technology, at the Port of Callao and the international airport. Using XRAY Container Scanners, SUNAT inspected more than 116,000 export seagoing containers in 2008. Use of NII technology expanded to the southern frontier city of Tacna, with the deployment of a Body Scanner for screening suspect "mules" crossing into Chile. In 2008, SUNAT concentrated efforts to interdict illicit money transported through the international airport and domestic flights, resulting in the seizure of nearly one million dollars. In addition, SUNAT improved the security of cargo at the Port of Callao with a

camera system used to provide Peruvian law enforcement full situational awareness at the port. SUNAT now uses container and cargo electronic manifests for the Port of Callao and the Port of Paita (Peru's second leading port), and is in the final stages of completing electronic manifests for all air-cargo leaving the international airport.

SUNAT also augmented its drug detection canine force and, in collaboration with DIRANDRO, formed and trained a Dive Unit to conduct underwater counternarcotics operations and ship-hull inspections.

Corruption. 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. The Comptroller General has submitted a bill to modify the Asset Forfeiture Law to include corruption of public officials as a predicate offense. The GOP closed the National Anti-Corruption office inaugurated in 2007, dispersing the responsibilities among several Ministries. In October 2008, Luis Valdez, the mayor of Pucallpa, of one of the largest eastern cities was arrested and charged with narcotrafficking and money laundering. He is currently in custody awaiting trial.

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.

Extradition and Mutual Legal Assistance. The United States and Peru are parties to an extradition treaty that entered into force in 2003. Peruvian law requires individuals to serve sentences in Peru before being eligible for extradition. Among the pending U.S. extradition and provisional arrests, eight are related to narcotrafficking, and four have been approved; surrender is pending completion of judicial and penal processes in Peru. One subject of an extradition request remains at large, but three were extradited to the U.S. on December 10. The GOP has assured the USG that drug traffickers will be extradited upon completion of their Peruvian judicial and penal processes.

Cultivation and Production. The official U.S. Government estimate for 2007 indicated that 36,000 hectares of coca were under cultivation in Peru, a 14 percent decrease from 2006. This would potentially produce an annual harvest of approximately 43,500 MT of oven-dried coca leaf, enough to potentially produce 210 MT of pure cocaine, and 235 MT of export quality cocaine. Successful interdiction and eradication actions eliminated nearly one quarter of Peru's potential production of cocaine in 2008.

During 2008 the GOP continued eradication operations in the Upper Huallaga Valley, clearing out remaining coca in San Martin Department and beginning a much awaited program in Huanuco Department. During the year Coca growers' and their leadership pressured the Government of Peru (GOP) to halt or limit eradication, but their disarray made the protests more a distraction than an effective impediment to counternarcotics efforts. Day-to-day coordination among drug police, aviation components, and eradicators permitted eradication to continue at an optimum pace. As of December 15, based on the Embassy Lima Cocaine Production Averted Formula calculation, CORAH prevented the production of approximately 77 metric tons of cocaine.

Drug Flow/Transit. Cocaine HCl continues as the principal illicit drug product in Peru, with traffickers utilizing large-production laboratories and caletas (storage areas) to prepare and store this product. They transported cocaine base/HCl products from coca production zones, primarily in the Upper Huallaga and Apurimac Valley regions, to Peru's coastal and border areas for further processing and distribution.

Cocaine is exported from Peru to Bolivia, Colombia, Ecuador, Chile, Brazil, Europe, the Far East, Mexico, and the U.S. via maritime conveyances and commercial air flights. U.S. law enforcement agencies and their host nation counterparts from Australia, Hong Kong, Japan, Malaysia and Thailand report of Peruvian cocaine trafficking/transportation organizations operating in the Far East. In addition, cocaine HCl is shipped to Argentina, Bolivia, Brazil, Chile, and Ecuador via land routes, where it is subsequently exported to consumer markets in the United States and Europe.

Colombians and Mexicans were frequently found to be involved in Peru in drug transportation operations of multi-kilogram and multi-ton loads headed to Colombia, Mexico, and the Caribbean. Drug intelligence and investigations also detected clandestine airstrips along Peru's neighboring borders and in coca cultivation areas.

Maritime smuggling of larger cocaine shipments is becoming the primary method for transporting multi-ton loads of cocaine base and HCl.

Opium Poppy. Though limited, the reported presence of opium poppy cultivation in Peru, continues to raise international concerns. Opiate trafficking in Peru, including opium poppy cultivation, the production of opium latex, and suspected morphine, may be predominately concentrated in the northern and central parts of the country. Opium latex and morphine moved overland north into Ecuador and/or Colombia, for conversion to heroin and subsequent export to the United States and Europe.

In 2008, the PNP eradicated approximately 16 hectares of opium poppy and seized 171 kilograms of opium latex. The PNP reported instances of opium latex, intercepted at Jorge Chavez International Airport, being couriered by "drug mules" and/or mailed to European destinations.

Demand Reduction. The USG funds local NGOs in the development of 11 community anti-drug coalitions (CAC) targeting poor, at risk, communities in Lima. The CAC model emphasizes the participation of all sectors of the community in long-term, sustainable activities to reduce drug use. The CACs have proven effective in addressing community specific drug demand issues especially among youth.

The GOP, through its drug policy entity DEVIDA, engages in various media campaigns to inform public opinion, NGOs do most of the work in terms of education, research, and information. Most local/public schools have drug awareness education in the large cities, but drug use prevention programs are lacking in the regional education system and at the University level. Drug use in the regions outside of the major cities has increased steadily without a comparable increase in government sponsored treatment and prevention programs. Statistics indicate that there is a growing incidence of use among university students who report their first exposure and use of drugs occurred when they entered university, not before.

Public opinion has changed its perceptions about coca cultivation and the complicity of coca growers in drug trafficking, particularly when studies show that 90 percent of the coca leaf grown in Peru is made into narcotics. In Peru's major cities the public is most concerned about the impact of drug trafficking on and the effect of drug abuse among youth. Furthermore, there is a growing awareness of the damage that illicit drug cultivation and production causes to the environment. Recently, Environment Minister Antonio Brack stated that drug trafficking had destroyed nearly two million hectares of forest in Peru, that isolated protected areas are invaded for the purpose of coca cultivation, and that precursor chemicals used to process narcotics pollute water sources and alter hydro-biological resources.

Alternative Development (AD) Program. At the close of the sixth year of the alternative development program, more than 756 communities have renounced coca cultivation and continue to participate in the alternative development program. Over 49,000 family farmers have received technical assistance on 61,000 hectares of licit crops (cacao, coffee, African palm oil, etc.). With many of these long term crops now entering their most productive years, the alternative development program has expanded business development activities to link AD producers to local and world markets at optimum prices. In 2008, sales from AD assisted organizations reached nearly \$13 million in San Martin, Huanuco, and Ucayali.

The increase in counternarcotics police allowed the PNP to sustain interdiction and eradicate in previously "no-go" areas that have witnessed violent resistance in the past. CORAH workers focused their efforts in San Martin, where USAID's Alternative Development (AD) program has been in place since 2002. In 2005, USAID reoriented the AD

program to work directly in areas with established CORAH eradication programs. The initiative was confronted with threats from armed groups pressuring communities in the Tocache, San Martin area to refuse to sign up for the program. Extended dialogue and the strong will of these communities eventually overcame the challenges. The direct link between AD and eradication is successfully reducing coca cultivation and is a model for further progress against illicit cultivation.

Coordination between CORAH and USAID programs continued, including the return of eradication activities by CORAH to AD communities where there were residual pockets of coca cultivation. Growers in the 78 communities that signed no-replanting agreements are feeling the economic impact of AD assistance, as their licit crops have now gone through a harvest cycle and are starting to demonstrate improved productivity. Tocache serves as an example to other communities that viable alternatives to coca exist, reducing resistance to eradication and increasing acceptance of alternative development.

V. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. assistance to Peru focuses on strengthening governance and creating space for legal activities in isolated areas where drug traffickers and terrorists operate, using aggressive eradication, interdiction, and chemical control to reduce drug production; coupled with alternative development efforts geared to reduce dependence on illicit coca cultivation. The USG also provides support for GOP efforts to improve its counter-terrorism efforts and publicize the links between drug production and common crime; so that Peruvians understand that their quality of life (and not just that of United States citizens) is degraded by drug-trafficking.

Bilateral Cooperation. In 2008, the USG continued to work with the GOP on counterdrug operations in the major drug source zones of the UHV and the VRAE. The PNP received USG assistance to increase police presence and their operational productivity in these areas by supporting and renewing existing police bases and enhancing police training. Other U.S. government provided training included maritime law enforcement and container inspection. With U.S. Embassy support, DIRANDRO commanders and field personnel received specialized counternarcotics courses, including U.S. Special Forces Training, Colombian and Bolivian Police Jungle Schools, and refresher courses in advanced airport drug interdiction and chemical field testing. Law enforcement officials from other Andean countries also participated in the training courses, which contributes to regional cooperation in drug investigations and interdiction.

Peru's law enforcement organizations conducted joint operations with neighboring countries, and participated in drug enforcement strategy conferences to address drug trafficking along its borders, such as the joint chemical diversion—Operation Seis Fronteras. This multilateral initiative is conducted at various stages during the year to combat the diversion of controlled chemicals to illicit markets where these chemicals are utilized. At the September 2008 evaluation conference, participants chose Peru as the host country for Phase XI of Seis Fronteras in 2009.

The Cooperating Nation Information Exchange System (CNIES) Agreement signed in 2005 between the USG and the GOP enables the USG and other cooperating nations to share intelligence concerning trafficking of drugs by air. CNIES has been implemented in Air Force of Peru (FAP) locations in Lima, Pucallpa, and Iquitos.

The Military Assistance and Advisory Group (MAAG) coordinated and conducted CNIES training for FAP personnel and shifted radar assets in response to intelligence indicating potential trafficking by air. FAP conducted joint training exercises with Brazil and Colombia. Since 2005 the FAP Joint Anti-Drug C-26 Air Squadron, supported by NAS, has conducted CN reconnaissance and airlift east of the Andes. The C-26 Forward Looking INFRA-RED (FLIR) was used to map suspected clandestine runways in Peru and update the status of known airstrips. The FAP C-26s provide critical overhead real time coverage for eradication workers, eradication police, and army personnel in the field. The installation in 2008 of a visual spectrum mapping camera in the C-26 program will provide imagery of coca fields to aid in planning eradication operations in the UHV (Upper Huallaga Valley).

The Road Ahead. The USG encourages the GOP to continue its focus on core commitments to eradication, interdiction, and alternative development to reduce coca cultivation and cocaine production. The GOP's five-year counternarcotics plan reflects this emphasis on control and interdiction of precursor chemicals, drug seizures, reduction in coca cultivation, enforcement of money-laundering laws, demand reduction, and improvement of local economic conditions by introducing development alternatives to reduce dependency on coca cultivation. The GOP should continue its efforts to expand counternarcotics police presence east of the Andes to 2,700 personnel by late 2010. This will provide needed capacity to improve security and stem drug flows at air and seaports. Successful conclusion of negotiations on maritime operational procedures for counterdrug and migrant interdiction initiated in 2006 would be a positive step forward consistent with Peru's efforts on other counternarcotics fronts

V. Statistical Tables

Peru Statistics (1999-2008)

Coca	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Net Cultivation* (ha)	TBD	36,000	42,000	34,000	27,500	29,250	34,700	32,100	31,700	34,700
Eradication (ha)	10, 143	11,057	10,137	8,966	7,605	7,022	7,134	6,436	6,206	14,733
Leaf: Potential Harvest 3 MT)	TBD	67,645	50, 000	56,300	48,800	41,000	49,000	42,500	42,000	41,000
HCl: Potential (MT)	TBD	210	245	240	230	245	280	255		
Seizures										
Coca Leaf (MT)**	2,119**	1,858**	14.6	11.3	7.6	11.5	7.1	6.4	9.0	14.7
Coca Paste (MT)	11.7	7.5	5.1	4.5	6.4	4.3	10.4	6.2	1.6	7.2
HCL (MT)	16.2	7.9	14.1	11.7	7.3	3.5	4.1	2.9	2.8	4.2
Combined HCL & Base (MT)	27.9	15.4	19.2	16.2	13.7	7.8	14.5	7.1	4.4	11.4
Arrest/Detentions	10,383	11,197	7,633	11,260	10,149	10,608	13,158	13,343	2,836	15,557
Labs Destroyed	1225	650	724	1,126	821	964	238	72	97	51
Cocaine HCl	19	16	11	22	11	9	0	0	0	0
Base	1205	627	713	1,104	810	955	238	72	97	51

* Based on CNC estimates

** In 2007 the basis of reporting coca leaf seizure was shifted from dry leaf to include macerated leaf.

Philippines

I. Summary

The drug problem in the Philippines remains significant, despite the continued efforts of Philippine law enforcement authorities to disrupt major drug trafficking organizations and dismantle clandestine drug laboratories and warehouses. The Philippines faces challenges in the areas of drug use and production, law enforcement, corruption, and drug trafficking. There is widespread use of illegal drugs nationwide, although national statistics on drug use are inaccurate, according to the Chairman of the Dangerous Drug Board (DDB). As evidenced by drug seizures in 2008, the Philippines continued to be a producer of methamphetamine and marijuana.

While the scope of the drug problem is immense, the government had some successes in enforcing counternarcotics laws, including a large methamphetamine seizure made from a speedboat in Subic Bay, northwest of Manila, and the dismantling of a large clandestine laboratory in northwest Luzon in cooperation with the Philippine National Police (PNP). Enforcement remains a high priority for the administration of President Gloria Macapagal Arroyo and the Philippine Drug Enforcement Agency (PDEA) as the lead counternarcotics agency. As a relatively new agency, the PDEA's effectiveness remains hampered by a lack of investigatory discipline, leading to the dismissal of cases for insufficient evidence. There are also coordination problems with other agencies, and trained investigative staff is inadequate to the scale of the problem.

Corruption of police and other public officials remains an obstacle to better law enforcement; over 60 police officials were relieved from duty during the year for their alleged involvement with a clandestine laboratory. Pending whistleblower legislation, if passed, could help to fight corruption. The Philippines' vast stretches of unpatrolled and sparsely inhabited coastline across more than 7,000 islands make it an attractive narcotics source and transshipment country for traffickers, including terrorist and insurgent organizations. Illegal drugs and precursor chemicals also enter and leave the country through seaports, economic zones, and airports. Children are often used as street drug runners because of the difficulty in prosecuting them when they are caught in possession of illegal drugs. The Philippines is a party to the 1988 UN Drug Convention.

II. Status of Country

The Philippines continues to have a significant drug problem, based on quantitative data of the number of arrested drug traffickers, high-volume seizures of dangerous drugs, regular diversion of controlled precursors, and essential chemicals, as well as the number of clandestine laboratories identified and dismantled. A recent survey by the Philippine National Police (PNP) shows illegal drug usage is the fourth most pressing law enforcement problem in the Philippines. However, the DDB chairman announced that the Philippine infrastructure to fight illegal drugs is in place and implementation is proceeding as planned. The DDB reported in previous years that there are an estimated 6.7M illegal drug users in the Philippines, but the chairman acknowledged in 2008 that the estimate was based on a flawed methodology and is likely much larger. The DDB intends to conduct a more thorough survey in early 2009.

The Philippines' poorest regions, such as Mindanao, have the highest percentage of methamphetamine abusers. Crystal methamphetamine, locally known as "shabu," continues to be the drug of choice in the Philippines and is consumed by all demographics. Information from the 2008 United Nations (UN) World Drug Report indicates the Philippines has the world's highest estimated annual methamphetamine prevalence rate (6 percent). UN reports state that the problem is underreported by Philippine authorities, who claim seizures of clandestine laboratories have reduced supply, increasing the price of methamphetamine. However, it is more likely that price increases are driven by increased cost of foreign precursor chemicals rather than local law enforcement efforts. The current price of methamphetamine has doubled from 5,000 pesos per gram in 2007 (\$106) to 10,000 pesos in 2008 (\$212), with a street value of 10M to 12M pesos per kilo. Prices in the northern Philippines are higher than in central and southern Philippines, probably due to

higher lab-to-market transportation costs, since clandestine labs are concentrated in the south, particularly in Mindanao. The price increase is likely driven by what the market will bear, rather than a shortage of supply; law enforcement agencies report no shortage of available methamphetamine.

Methamphetamine is clandestinely manufactured in the Philippines. Precursor chemicals are smuggled into the Philippines from the People's Republic of China, India, and Thailand. There were 264 local drug trafficking groups in 2008, compared with 220 in 2007. According to the DDB, there were three known transnational criminal drug organizations operating in the country in 2008, compared with eight in 2007. The decrease in the number of known criminal drug organizations is a result of their project-based system of operations. The criminal drug organizations dismantle individual groups after completing an operation to avoid detection or apprehension and then form new organizations. Chinese and Taiwanese drug trafficking organizations remain the most influential foreign groups operating in the Philippines and control domestic methamphetamine production. Methamphetamine producers continue to compartmentalize production in diverse locations to prevent detection and to allow drug syndicates to produce large quantities during a production cycle. This sophisticated technique is employed by Chinese and Taiwanese drug trafficking organizations and may indicate a departure from the previous mega-lab production technique, which relies on quick production to avoid detection. Philippine authorities are also investigating five significant domestic organizations.

While Chinese criminal organizations continue to establish and operate many methamphetamine clandestine laboratories, investigations have revealed that Muslim traffickers, many affiliated with separatist groups, are the main distributors of methamphetamine in the Philippines. Insurgent activity in Mindanao facilitates methamphetamine production, according to DDB and local government sources, thus increasing availability within the Muslim community. There are widespread reports that methamphetamine is produced in laboratories in areas controlled by Muslim rebels, who use profits to fund their operations. There is also anecdotal evidence that rebel fighters take methamphetamine to combat lack of sleep and inadequate food intake, as well as to enhance aggression and withstand pain. Law enforcement investigations revealed that the Abu Sayyaf Group (ASG) and elements of the Moro Islamic Liberation Front (MILF) are directly involved in the smuggling, protection of methamphetamine production, and transportation of illegal drugs to other parts of the country and across Southeast Asia. The Philippines is a source of methamphetamine exported to Australia, Canada, China, Japan, Malaysia, South Korea, and in relatively small quantities to the U.S. (including Guam and Saipan).

The Philippines produces, consumes, and exports marijuana and it is currently the second most used drug in the country. Much of the cultivation of marijuana is in mountainous regions, often in government-owned areas inaccessible to vehicles. The ease of marijuana re-planting after eradication efforts by Philippine law enforcement makes marijuana eradication a never-ending operation, and official reports indicate an increase in the number of marijuana plantations in the Autonomous Region in Muslim Mindanao (ARMM). Elements of the Moro National Liberation Front (MNLF), the MILF, and the ASG earn funds by providing protection for marijuana cultivation and smuggling operations as well as participating in local distribution operations. The terrorist group New People's Army (NPA), a group of communist insurgents, controls and protects many marijuana plantation sites, particularly in the Cordilleras Autonomous Region of northern Luzon, as well as some eastern parts of Mindanao. Most of the marijuana produced in the Philippines is for local consumption, with some smuggled to Korea, Japan, Malaysia, and Taiwan.

Methylenedioxy-methamphetamine (MDMA or Ecstasy) is commonly used in Metro Manila night clubs and bars by young, affluent members of Philippine society. Multiple Philippine law enforcement agencies are conducting active investigations of MDMA sales. The demand for ketamine in the Philippines is low. Transnational drug groups utilize the country as a venue for the production of ketamine powder for export to other areas in the region, including mainland China and Taiwan. The PDEA reported seizing 51 million pesos (\$1,085,000) worth of ketamine in 2008.

III. Country Actions against Drugs in 2008

Policy Initiatives. The administration of President Gloria Macapagal Arroyo continues to concentrate on the full and sustained implementation of counternarcotics legislation and the positioning of the PDEA as the lead counternarcotics agency. The Government of the Republic of the Philippines (GRP) is implementing a counternarcotics master plan known as the National Anti-Drug Strategy. The strategy is executed by the National Anti-Drug Program of Action 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. The PDEA is a relatively new agency; it graduated its second class of 196 new agents and swore in a third class of 200 during the fourth quarter of 2008. The National Bureau of Investigations (NBI) also contributes to the narcotics fight.

As part of its demand reduction strategy, DDB continues to create sector-specific programs and activities to reach youth through an effective anti-drug campaign. Drug distributors frequently recruit and exploit children as drug runners. The law protects children below 18 years old from prosecution; children often return to illegal drug activities after leaving youth rehabilitation centers. DDB has submitted to the Senate a draft amendment to a law that would reduce the opportunity for drug traffickers to use children in illegal drug trafficking. The amendment would change the definition of children, for the purpose of drug trafficking only, to persons below the age of nine (9) instead of eighteen years of age.

In order to frustrate the rapid replanting of harvested marijuana, the DDB has developed alternative livelihood programs, and initiated a pilot program of silk production in the Cordilleras in Northern Luzon, where 70 percent of the country's marijuana is cultivated. The DDB is replicating this program in Cebu in central Philippines, the second largest area of marijuana cultivation.

Prosecuting a typical narcotics case takes four years, on average. In 2008, three clandestine laboratory operators arrested in 2004 were sentenced to life imprisonment. The slow judicial process not only demoralizes law enforcement personnel but also enables drug dealers to continue their drug business between court dates. Cases against alleged criminals are sometimes dismissed, but can be reinstated. In December, after a meeting with a concerned elected official and a local religious leader, President Arroyo ordered the reopening of a clandestine lab case from La Union province, reversing a November decision by the Department of Justice to dismiss charges against the accused. To improve the judicial process for drug offenses, the DDB conducted a series of joint seminar-workshops for law enforcement, prosecutors, and judges throughout the Philippines. There is no effective restriction on the use of telephones or possession of cash in Philippine jails, allowing incarcerated drug traffickers to continue practicing their trade. DDB established a toll-free telephone hotline in 2008 for citizens to report drug trafficking tips and complaints about alleged abuses by PDEA and other counternarcotics law enforcement agencies.

Law Enforcement Efforts. Counternarcotics law enforcement remains a high priority of the GRP, according to government pronouncements, although lack of resources continues to hinder operations. The PDEA, with its roughly 250 agents and 200 more in training, nearly all of whom began law enforcement careers in the past two years, can have only limited impact in a country of nearly 90 million people. Limited PDEA cooperation with the Department of Justice (DOJ), PNP, and NBI hinders progress in law enforcement. Helping to fill the enforcement gap, international support has had significant impact. Philippine Law enforcement officials believe that continued ILEA and JIATF-West training for law enforcement and military personnel has helped make interdiction operations more efficient and effective. GRP law enforcement agencies continued to target high-profile drug traffickers and clandestine drug labs in 2008. Significant successes included a series of seizures of clandestine laboratories and warehouses in Luzon, Visayas, and Mindanao. PDEA reports that in 2008, authorities seized 1471 kilograms of methamphetamine, valued at \$17.6 million; 10 kilograms of ketamine, valued at \$1 million (at \$106 per gram); 2,525 kilograms of processed marijuana leaves and buds, valued at \$1.3 million; 4.8 million plants (including seedlings), valued at \$23.5 million; 798 tablets of Ecstasy, valued at \$19,950 (at \$25 per tablet); and \$9 million worth of chemicals and precursors. So far, from January to September, 2008, the Philippine authorities claimed to have seized total narcotics worth approximately \$52.6 million and arrested 6,589 individuals for drug related offenses. By comparison, in 2007 Philippine authorities seized \$58.3 million in narcotics and arrested 10,293 individuals. The Philippine authorities dismantled six clandestine laboratories and four warehouses in 2008 and dismantled 106 marijuana plantations.

In May 2008, Philippine authorities seized 744 kilograms of methamphetamine that was smuggled by "go-fast" boats in Subic Bay, northwest of Manila. The estimated potential street price of the methamphetamine was \$8.9 million (at \$12,000 per kilogram). The counterfeit cigarette trade from Subic Bay was used to conceal methamphetamine trafficking activity. In July 2008, the PDEA, working closely with the PNP, dismantled a large clandestine laboratory in northwest Luzon. PNP officials told the media that the equipment and essential chemicals seized could have facilitated the production of 180 tons of methamphetamine; however, no precursor chemicals (ephedrine or pseudoephedrine) were seized, so no accurate estimate of the lab's output potential was possible. A lack of investigatory discipline has impeded the PDEA's effectiveness, while the forced assignment of 18 previously convicted-but-pardoned military officers as mid-level PDEA supervisors has lowered the agency's morale. Premature arrest of suspects has led to numerous case dismissals due to lack of sufficient evidence for prosecution. In November, for example, a judge at a Zamboanga City Regional Trial Court ordered the release of a Chinese national for lack of sufficient evidence for his role in a Zamboanga clandestine laboratory. Investigations are rarely continued after the initial arrests and seizures because of a lack of awareness of the significance of circumstantial, testimonial, and documentary evidence. Co-conspirators, frequently at the upper levels of DTO therefore have little fear of subsequent arrest by the PDEA. A lack of administrative oversight and inadequate fiscal controls promote inefficiency and corruption within the agency. Unit directors have unaudited discretion over operational funds disbursed from headquarters, and corruption sometimes prevents funds from reaching field agents, who often have to use personal funds to undertake drug sting operations. In turn, some agents may seek to recoup their spent personal funds through irregular means.

In addition to employing the pardoned mutineers, the Philippine Drug Enforcement Agency has replaced many experienced law enforcement officers at the Regional Director/Service Director level with active duty military officers, in the ranks of Major, Lt. Colonel, and Colonel. This apparently violates the Philippine Constitution just as it would in the US (Article 16 Section 5 Paragraph 4 of the Philippine Constitution mirrors the US Posse Comitatus Act, 18 U.S.C. § 1385, forbidding the use of military personnel in law enforcement capacities), despite claims that the officers' orders were endorsed by the Office of the President and so are exempt from Constitutional concerns. The military officers are often forceful leaders, but have no training in civilian law enforcement or court procedures. Cases produced by their offices/teams are frequently dismissed by PDOJ for lack of evidence and violations of defendants' rights, leaving the arresting officers potentially liable for civil suit, PDOJ/judicial chastisement, etc. For the loss of the cases, PDEA leaders often blame prosecutors rather than improving internal procedures. The PDEA Director General's public feud with the Secretary of Justice over one of these cases, known in the Philippine media as the "Alabang Boys" case, has quickly infected relations between PDEA and PDOJ nationwide; PDEA agents bringing cases to PDOJ are now treated with suspicion and contempt by prosecutors and court staff. This severely harms the morale of young PDEA agents who have been trained to do cases the right way, but whose military supervisors frequently don't give them time or resources to do so. Continued use of untrained military officers in the role of law enforcement supervisors will adversely affect the ability of PDEA to enforce drug laws, and lends support to the argument for making the PNP and NBI Drug Task Forces permanent and relatively autonomous from PDEA.

Early in 2008, a fire broke out at the PDEA Headquarters parking lot in a stack of shipping containers used for evidence storage. The fire was caused by spontaneous combustion of flammable, toxic chemicals seized from clandestine drug laboratories which had been stored for years in the containers. The PDEA continues to lack standardized, written guidelines for evidence collection and submission procedures. Two experienced PDEA laboratory directors with knowledge of such procedures were dismissed from their positions in 2008. PDEA agents lack means of movement and communication on the job. Personal vehicles are often used for surveillance, and communication between officers is generally by text message on personal cell phones. Few radios are available for team members to share observations or call for assistance.

PDEA has accelerated its recruitment and training timeline for new agents, although the large number of students per class impedes the training's effectiveness. The two most recent classes consisted of approximately 200 students, but the training facilities were designed for a maximum of 100 students. In the 2007-2008 class, half the students were

issued weapons during training, and they were able to practice firing only a small number of live rounds. PDEA lacks a training program for brand new law enforcement supervisors, nor do they have a comprehensive in-service training program.

The Foreign Terrorist Organizations (FTOs) 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 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 growers.

Corruption. Corruption continues to be a problem among the police, judiciary, and elected officials and poses a significant challenge to Philippine law enforcement efforts. The GRP has criminalized public corruption in narcotics law enforcement through the Comprehensive Dangerous Drugs Act, which clearly prohibits GRP officials from laundering proceeds of illegal drug actions. During the fourth quarter of 2008, the PNP made arrests of lower ranking police officers and high level politicians on corruption charges. In August 2008, over 60 police officials were relieved from duty pending investigation for their involvement in the protection of a clandestine laboratory in northern Luzon. In addition, five new PDEA agents in 2008 were summarily dismissed on corruption charges. Congressional investigations were underway in January 2009 to examine allegations of corruption in the Philippine DOJ's dismissal of a case against drug suspects in PDEA custody. Both the PNP and PDEA have internal affairs divisions to address corruption. Pending legislation, the Whistleblower Act, would enable individuals to come forward with information regarding corrupt government officials or employees without fear of physical or other retaliation. The Philippine Presidential Anti-Corruption Council received a large grant from the Millennium Challenge Corporation in 2008, much of which was given to PDEA to hire approximately 400 agents and support personnel and fund their basic agent training program. As a matter of government policy, the Philippines 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 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. Several active and former politicians and officials 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, and the UN Convention against Corruption. The U.S. and the GRP continue to cooperate in law enforcement matters through a bilateral extradition treaty and Mutual Legal Assistance Treaty. In October 2008, the PDEA Director General signed a Memorandum of Agreement with his Indonesian counterpart to share real-time drug intelligence through U.S.-funded intelligence fusion centers in both countries.

Cultivation/Production. DDB reports that there are at least 67 marijuana cultivation sites spread throughout the mountainous areas of nine regions of the Philippines, compared with PDEA's estimate of 60 sites in 2007. Using manual techniques to eradicate marijuana, various government entities claim to have successfully uprooted and destroyed 4.8 million plants and seedlings in 2008, compared with 2.5 million plants and seedlings in 2007. PDEA stated that number of marijuana plantation increased by 242 percent from 2007 to 2008, although data to corroborate this figure were not released.

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 more than

7,000 islands and 36,200 kilometers of coastline. Vast stretches of the Philippine coast are unpatrolled and sparsely inhabited. Busy seaports, often privately operated with limited customs and law enforcement controls, an under-funded Coast Guard with inadequate authorities, along with thousands of miles of open coastline, allow traffickers to use cargo ships (which off-load to smaller craft), shipping containers, fishing boats, and "go-fast" boats to transport multi-hundred kilogram quantities of methamphetamine and precursor chemicals. AFP and law enforcement marine interdiction efforts are hindered by a lack of intelligence sharing and insufficient fuel for patrol vessels. Maritime smuggling is prevalent in the tri-border region with Malaysia and Indonesia, and in northern Luzon. Commercial air carriers and express mail services remain the primary means of shipment of illegal drugs to Guam, Hawaii, and to the mainland U.S., with a typical shipment size of one to four kilograms.

Domestic Programs/Demand Reduction. The Comprehensive Dangerous Drugs Act of 2002 includes provisions that mandate drug abuse education in schools, the establishment of provincial drug education centers, development of drug-free workplace programs, the implementation of random drug testing for secondary and tertiary students; mandatory drug testing for military and law enforcement personnel, 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. Southern Mindanao enjoys a robust and effective, though under-funded, Drug Abuse Resistance Education (DARE) program in both public and private elementary schools. In 2008, there were 1,371 new admittances and 376 re-admittances to drug rehabilitation centers. A joint effort headed by the DDB is currently in its planning stage to fight drug use by a demand reduction strategy, while continuing the pursuit against drug cultivation and production. This includes improving drug rehabilitation programs. In 2008, there were four new rehabilitation centers in ARMM, Region 2, Region 12, and in CARR.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG's main counternarcotics assistance goals in the Philippines are to:

- Work with local counterparts to provide an effective response to counter the still growing clandestine production of methamphetamine;
- Cooperate with local authorities to prevent the Philippines from becoming a source country for drug trafficking organizations targeting the United States market;
- Promote the development of PDEA as the focus for effective counternarcotics enforcement in the Philippines and;
- 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, 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 Interagency Counter Narcotics Operations Network (ICON) is located at PDEA Headquarters in Quezon City. There are three ICON outstations 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 outstations 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.

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 counter-narcotics relationship serves the national interests of both the U.S. and the Philippines.

Poland

I. Summary

Poland has traditionally been a transit country for drug trafficking. As economic conditions improve, it is increasingly a more significant consumer of narcotics and producer of amphetamines. The Government of Poland has a comprehensive demand reduction program and integration into the European Union's Schengen zone appears to have improved law enforcement capabilities against narcotics trafficking. Poland is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2008, no significant changes were made in legislation. Compared to 2006, public expenditures on counternarcotics programs decreased in 2007. Polish law enforcement agencies have been successful in breaking up organized crime syndicates involved in drug trafficking, yet trafficking activities continue to become more sophisticated and global in nature. According to mid-year statistics provided by the Polish National Police (PNP), drug-related crimes have decreased since Poland's accession to the European Union's Schengen zone, which the PNP attributes to better information sharing via the EU's Schengen Information System. Police officials acknowledge that their statistics probably do not reflect the full scale of narcotics transiting through Poland, which according to anecdotal information appears to be constant or even slightly on the rise. Cooperation between USG officials and Polish law enforcement has been excellent and Poland's EU accession in 2004 accelerated GoP diligence on narcotics policy.

III. Country Actions against Drugs in 2008

Policy Initiatives.

Budget: The 2007 expenditures on the National Program for Counteracting Drug Addiction totaled approximately 136.5 million PLN (approx. \$58 million). This figure includes expenditures of the National Bureau for Drug Prevention, National AIDS Center, the Institute of Psychiatry and Neurology, Border Guards, the National Health Fund, provincial and municipal Governments, various training programs, and many other associated expenses. Starting in 2007, this figure excludes Police Headquarters and Central Management Board of Prison Service expenses, partially explaining the large decrease in expenditures from 2006 expenditures of 321 million PLN (approx. \$137 million). The National Health Fund's 2007 expenditures rose for the first time since 2004 by 2 million PLN from the 2006 level. **Legislation.** There have been no major changes in legislation. The Ministry of Health continues to seek to enact its National Plans on HIV and AIDS. In 2008, the Justice Ministry established a special inter-ministerial group to revise the 2005 Law on Combating Drug Addiction and to encourage alternative forms of punishment to incarceration for drug addicts or simple possession offenders. Although under current law, drug users can be required to attend specialized therapy and have their cases suspended or dropped if therapy succeeds, this option is rarely utilized. Polish law permits the use of informants, telephone taps, and controlled deliveries to fight international crime, and a witness protection program is in place. The maximum sentence for narcotics trafficking is 15 years. All forms of possession are punishable.

Law Enforcement. Administrative controls for programs like demand reduction and health care are largely decentralized, while law enforcement efforts remain centralized and hierarchical in nature. Demand reduction programs are managed by the Health Ministry's National Bureau for Drug Addiction (NBDA) and provincial and municipal governments, and are intended to target local populations. In contrast, regional law enforcement offices are required to coordinate most activities with Warsaw, which hinders the development of investigations and evidence collection. Cooperation between regional law enforcement offices at times is also limited by the centralized structure.

This centralization of power in Warsaw appears to have strengthened since the November 2007 election of Prime Minister Donald Tusk.

According to PNP mid-year statistics, since Poland's December 2007 accession to the EU's Schengen zone, drug-related crimes committed in Poland have dropped by 22 percent. The PNP attribute this drop to better access to information from the Schengen Information System. However, anecdotal information indicates that Poland's role as a transit nation has remained more or less constant or might even be on the rise. More comprehensive analysis of the impact of Schengen is not expected to be available until 2009. 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 Polish-Swedish project against trafficking of amphetamines. 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. From the beginning of 2008 through the end of October, the PNP closed down 10 amphetamine labs.

In 2007, 27,936 suspects were identified as being involved in drug-related crimes, including 2,945 underage suspects, and over 63,007 drug-related crimes were registered. In September 2008, four tons of hashish worth 120 million PLN (approx. \$51 Million) was seized in Germany, as the result of cooperation between the Polish Central Bureau of Investigation (CBS) and German and Dutch Police. On the basis of recent seizures, the Polish CBS assesses that it has managed to stem the flow of narcotics from Pakistan to Western Europe. In July, the Polish daily newspaper 'Rzeczpospolita' reported that new routes for transporting cocaine and marijuana from Africa through Poland into Western Europe had emerged. There were indications of the emergence of a shipment route for hashish from Morocco to Poland: in April 2007 Dutch Border Guard's seized a 44 million PLN (approx. \$19 Million) drug shipment destined for Poland, and in May 2007 CBS arrested four people suspected of smuggling 1.5 tons of hashish from Morocco to Poland.

Corruption. As a matter of policy, the Government of Poland 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. Poland has fulfilled requirements to harmonize its laws with the EU's Drug Policy and closely cooperates with the EU Monitoring Center on Drugs in Lisbon. 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. Poland is a party to the UN Convention Against Corruption and the UN Convention against Transnational Organized Crime and its three protocols. Poland is also a member of the Dublin Group. An extradition treaty and a mutual legal assistance treaty are in force between the U.S. and Poland. Poland has signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. The U.S. and Poland have ratified these instruments. None have entered into force.

Cultivation and Production. 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 more attractive to some users than cheaper, large-scale production amphetamines from Belgium or the Netherlands.

Drug Flow/Transit. A significant percentage 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 Poland's small amphetamine labs remains low. Shipments of 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 (\$6.50 to \$17) per pill and can be bought wholesale for 8 PLN (\$3.40). Opium originating from Afghanistan and Pakistan is also frequently shipped through Poland to Western Europe.

Domestic Programs/Demand Reduction. The NBDA has a comprehensive plan for reducing drug addiction and programs to discourage new users. The GoP estimates there are between 100,000 and 120,000 drug users in Poland.

In 2007, 85 drug-free residential facilities were in operation, and 13,000 addicts were successfully treated in 2006. An additional 169 outpatient clinics were in operation. In 2007, three new methadone programs were launched, bringing Poland to 15 active substitution treatment programs offered in 1230 centers around the country. Notwithstanding the extensive treatment programs, a gap exists between prison substitution programs and general programs which can lead to addict relapse. In 2007, the National Bureau for Drug Prevention co-financed the implementation of prevention programs for at-risk children and adolescents, focusing on recreational drug use. Programs like Monar, which targets discotheques and clubs, and Parasol, which focuses on commercial sex workers, are two of the seven demand reduction programs. The National Bureau for Drug Prevention also launched a "Watch Your Drink" program to combat date rape drugs like GHB, ketamine, and rohypnol.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral cooperation between U.S. and Polish counternarcotics agencies 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 turnover of senior- and managerial-level Polish police officials. Differences between the U.S. and Polish judicial systems continue to make cooperation and investigation of some leads problematic. Nonetheless, DEA and LEGAT assess that there is good cooperation at the working level. Cooperation has also been effective in cases where the USG has been able to supplement Polish resources and capabilities and to coordinate regional and intercontinental investigations. In 2008, the PNP cooperated with DEA in several narcotics investigations targeting criminal organizations that import controlled substances into and through Poland.

The Road Ahead. Given Poland's predominant role as a transit country, the USG will continue to promote regional cooperation and focus on providing training that promotes integrated interdiction efforts. Additionally, the USG will continue to advocate judicial reform measures that enable more efficient investigations and ensure more effective punishment for narcotics traffickers.

Portugal

I. Summary

Portugal once again saw a significant decline in cocaine seizures as shipments to Europe are increasingly being routed through African nations rather than Northern Atlantic routes. As a result, seizures of cocaine decreased from 5.2 metric tons in the first six months of 2007 to 2.6 metric tons during the same period in 2008. In the first half of 2008, seizures of heroin increased from 40 kilograms in 2007 to 49 kilograms in 2008. Hashish seizures increased significantly from 15.1 metric tons in the first half of 2007 to 24.4 metric tons in the first half of 2008. U.S.-Portugal cooperation on drugs has included high-level 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 have used Portugal as a primary gateway to Europe in recent years; their task is made easier by open borders among the Schengen Agreement countries and by Portugal's long coastline. Since early 2007, Portuguese law enforcement entities have seen a significant drop in cocaine seizures and speculate that traffickers have moved to Western African nations and then use "swallower mules" to enter Europe in smaller, harder to detect packages. South America remains the source of cocaine arriving in Portugal, usually transited through Brazil and Venezuela. For hashish, primary source countries were Moroccan hashish, transshipped through Spain. Cocaine and heroin enter Portugal by commercial aircraft, 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 2008

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 care 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 reports 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 2,550 individuals for drug-related offenses in the first six months of 2008 as "traffickers/consumers." Of those arrested, 80% were Portuguese citizens, but the foreign nationals arrested include citizens from Cape Verde (229), Guinea Bissau (50), Brazil (36), Angola (30), and Spain (23). 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 by 45% from 5.2 metric tons to just 2.6 metric tons in the first half of 2008. Also over the first six months of 2008, compared to the same timeframe in 2007, hashish seizures jumped by 60% to 24.4 metric tons, Ecstasy seizures increased to 64,361 pills and heroin seizures increased to 49 kilograms. PJ's first semester report on 2008 activities notes the seizure of over 1 million Euros in cash, plus the equivalent of over 12,000 Euros in foreign currency, and 344 vehicles, 1,565 cell phones, and 114 weapons.

- On May 14, 2008, GNR officers seized 4.4 metric tons of hashish in Cabanas de Tavira, Portugal. Most hashish seized in Portugal is intended for the Portuguese market, although some does go to Spain.
- On June 26, 2008, Portuguese Judicial Police (PJ) seized 199 bales of hashish, weighing 6 metric tons, off the southwestern coast in a Portuguese fishing boat.

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.

Agreements and Treaties. Portugal 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. Portugal is 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. have been parties to an extradition treaty since 1908. Although this treaty does not cover financial crimes, drug trafficking or organized crime, certain drug trafficking offenses are deemed extraditable in accordance with the terms of the 1988 UN Drug Convention. In addition, Portugal and the U.S. have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force.

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 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/Demand Reduction. 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 them. 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 2008 strategy includes prevention programs in schools and within families, early intervention, treatment, harm reduction, rehabilitation, and social reintegration measures.

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 April 2008, U.S. Director for the Office of National Drug Control Policy, John Walters, visited Portugal and met with Portuguese law enforcement, health, and NGO officials to discuss the narcotics problem in Portugal.

A USCG mobile training team provided maritime law enforcement training in Portugal in 2008, delivering an advanced boarding officer course.

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 continues to serve as a transit country for narcotics and lies along the well-established Northern Balkan route to move opiate derivatives such as opium, morphine base and heroin from Afghanistan to Central and Western Europe. Within Romania, the overall levels of drug use remained relatively stable, with some fluctuations. In 2008, for example, the number of injected-drug heroin abusers decreased but the use of synthetic, recreational drugs increased among segments of the country's youth. The average age-group of drug users is 14-25, with a 5-to-1 ratio of boys to girls. Metropolitan Bucharest is the key area for both drug traffic and use. Programs targeting heroin and synthetic drug users significantly increased in scope. Police and government authorities modernized their data collection methods and recorded increases in the amount of drugs seized. 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 therefore is a transit country for narcotics. This route has multiple branches. Heroin and opium move from Southwest Asia, principally Afghanistan, through Turkey, Ukraine and Bulgaria, Moldova and Romania and onward toward Central and Western Europe. Synthetic drugs and cocaine, as well as heroin precursor chemicals, also flow from Western Europe through Romania eastward; entry points are through Bulgaria, Serbia and Ukraine. The Balkan route generally involves transit by autos and by sea in containers. Cocaine, for example, is smuggled by sea directly from Spain. Marijuana and heroin are the primary drugs consumed in Romania. Among the country's youth, MDMA (Ecstasy) is increasingly consumed in homes and in nightclubs. Some government authorities believe consumption will increase as Romania continues to integrate into Europe.

III. Country Actions against Drugs in 2008

Policy initiatives. Romania continues to build an integrated system of prevention and treatment services at the national and local level. Forty-seven Anti-Drug Prevention and Counseling Centers are spread throughout the country with one in each of the 41 Romanian counties and six in Bucharest. The General Directorate for Countering Organized Crime and Anti-Drug (DGCCOA), a law enforcement body that is part of the Romanian Police, operates throughout the country. Joint teams of police and social workers carry out educational and preventative programs against drug consumption. The National Anti-Drug Agency (ANA), a government agency with the mandate to combat drug use, spends approximately 70 percent of its budget on prevention programs and works with 1500 volunteers nationwide. Romania continues to play an active role in the Anti-Drug task force of the Bucharest-based Southeast European Cooperative Initiative's Regional Center for Combating Trans-Border Crime (the SECI Center), as well as the Southeast European Prosecutors Advisory Group (SEEPAG).

Law Enforcement Efforts. In the first six months of 2008 the total amount of drugs seized increased over 250 percent from the same period of the prior year. From January through June, Romanian authorities seized 441.4 kilos of illegal drugs, including 324 kilos of heroin, 105.5 kilos of cannabis and 50,163 amphetamine and derivative pills. Cocaine is found in smaller amounts in Romania, and seizures usually do not exceed several kilos per year. Within this relatively small scale of cocaine seizure activity, the amount of cocaine seized has decreased significantly from 2007 to 2008. During the first half of 2008, 2,221 persons were investigated for drugs and precursor trafficking, possession and consumption. Of these, 397 persons were indicted and 275 were held in preventative arrest. The number of individuals investigated and indicted was 17 percent fewer than the first half of 2007. The Romanian courts convicted 256 individuals, including eight minors. Of these, 255 received prison sentences, although approximately

half of them were paroled or had their sentences conditionally suspended. Law enforcement activities are expanding. The ANA has developed closer relationships with counterparts in the countries around Afghanistan and those comprising the Balkan routes. Data collection techniques are improving but challenges remain, such as the need to improve communication between relevant agencies and the inadequacy of budget support.

Corruption: Corruption remains a serious problem in 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.

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. There is no evidence that senior Romanian officials 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 party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances. Bilateral instruments related to the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements were concluded in 2007; they have been ratified in both countries, but have not yet entered into force. Romanian legislation on precursor substances is consistent with that of the European Union. 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 illegal narcotics; however, there is a small amount of domestic amphetamine and cannabis production.

Drug Flow/Transit. Illicit narcotics from Afghanistan enter Romania by land from Ukraine, Moldova and Bulgaria, and by sea through the Black Sea port of Constanta. Once in Romania, the drugs move either northwest through Hungary or west through Serbia. Destination countries are primarily Germany, Austria, the Netherlands and Switzerland. The Balkan Route also includes transshipment of drugs eastward through Romania. Cocaine, for example, is smuggled by sea, directly from Spain. Romania also is becoming an increasingly important route for the transit of synthetic drugs and precursor chemicals from Western and Northern Europe to the East. Some Romanian authorities believe that as the economy grows, drug traffickers will become more aggressive.

Domestic Programs/Demand Reduction. Although drug use remained relatively stable within Romania, the authorities appear to be paying greater attention to the problem. Programs targeting heroin and synthetic drug users increased in scope; the National Drug Agency (ANA) estimates that 70 percent of its budget is allocated to prevention programs. ANA reports that the number of injecting-heroin abusers decreased, but officials are concerned that urban Romanian youth are increasingly using synthetic, recreational drugs in private, hard-to-reach places, such as homes and nightclubs. The average age-group of drug users is 14-25, with a 5-to-1 ratio of boys to girls. Synthetic drug use is thought to be especially on the rise in Transylvania, but Metropolitan Bucharest remains the center for both drug consumption and traffic. A 2007 study identified 35,000 to 40,000 users in the capital region. ANA reports it attracted several million dollars in external funding, but its programs remain hampered by resource constraints. Drug prevention programs were initiated in cooperation with local authorities, NGOs, religious organizations and private companies. Detoxification programs exist in some local hospitals, but treatment is limited. Four new rehabilitation centers are planned. A program of probation, based on the American model, was introduced in part as an attempt to separate drug users from those convicted of violent crimes.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2008, Romania benefited from U.S. financial assistance to the SECI Center for Combating Trans-border Crime, which more broadly supports the twelve participating states in the Balkan region and focuses in part on the narcotics trade. U.S. funding consisted of: (1) approximately \$1.4 million sent in 2007 by the U.S. Department of State for 2007-08 programs, and (2) approximately \$175,000 in financial support and equipment donations by the FBI. In addition to financial support, the U.S., which is a permanent observer country at the SECI Center, provides expertise and personnel to support the SECI Center's law enforcement efforts. A Supervisory Special Agent from the DEA is posted at the SECI Center, as well as a U.S. Department of Justice Resident Legal Advisor and a Supervisory Special Agent (retired) FBI liaison. The DEA representative assists in coordinating narcotics information sharing, maintains liaison with participating law enforcement agencies, and coordinates with the DGCCOA on case-related issues. The Resident Legal Advisor provides advice and technical assistance on various aspects of the SECI Center's mandate, including enhancing cooperation to combat drug trafficking.

The Road Ahead. DEA has increased its presence in Romania by assigning a Supervisory Special Agent and Supervisory Intelligence Research Specialist to the SECI. The two new positions will complement and strengthen the already solid relationship between DEA and Romanian Authorities, which up to now had been maintained and developed by DEA personnel assigned to Athens, Greece. The additional presence will enhance bilateral and multilateral cooperation and partnership, which will result in continued joint successes in international drug trafficking investigations. The United States stands ready to assist Romania and nearby countries in meeting the growing challenge of drug trafficking and abuse.

Russia

I. Summary

Trafficking in opiates from Afghanistan and their abuse continue to be major problems facing Russian law enforcement and public health agencies in 2008. The Federal Drug Control Service (FSKN) estimates (March 2008) that 5.1 million Russians (3.6 percent of a population of 143 million) 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 65 percent of newly detected HIV cases can be attributed to injecting drug use and that among HIV-positive injecting drug users, about 85-90 percent are Hepatitis C positive.

The 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 in any case 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 available 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 2008

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 an authorized staffing level of 40,000 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. Both FSKN and MVD routinely report large seizures of precursor chemicals. However these seizures are usually made for regulatory reasons and are not connected with clandestine drug production.

Russia is a producer of several precursor chemicals including the amphetamine precursor benzyl methyl ketone (aka Phenyl-2-Propanone or P2P), the heroin precursor Acetic Anhydride (AA), and the precursor Gamma-butyrolactone (GBL), a precursor in the production of Gamma-hydroxybutyric acid (GHB). In Russia, the production and

distribution of GBL is licensed. According to FSKN officials, there are five chemical plants in Russia that have the capacity to produce AA, though at the present time only one of them is actually doing so (Dzerzhinsk, Russia).

The State Anti-Narcotics Committee was established by Presidential decree on October 19, 2007. The stated purpose of the 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. The Committee has met twice in 2008: January 23 and March 5. Anti-narcotics commissions have been established at the regional level and are headed by the heads of regional administrations.

The FSKN has been given authority to station drug liaison officers in foreign states to facilitate information sharing and joint investigations. To date, FSKN personnel have been stationed in Afghanistan, the United States, and Kazakhstan. The FSKN has indicated its intent to assign personnel to Austria, China, Belarus, Germany, Iran, Kyrgyzstan, Poland, Tajikistan, Ukraine, and Uzbekistan as well. The FSKN has said, too, that its drug liaison officer in Kazakhstan will 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 September 2008, President Medvedev stated that Russia, too, would benefit from membership in CARICC. However, at the time of this report, Russia has yet to join.

As part of the NATO-Russia Council’s counternarcotics project, Russian trainers conducted training courses Central Asian counterparts at the Domodedovo training centre of the Ministry of the Interior in Moscow during 2008. These training courses assist Central Asian police entities in combating major heroin trafficking organizations.

On December 6, 2007, President Putin signed into law a bill amending the criminal code to criminalize imports into Russia of synthetic analogs of narcotic substances, to shift the authority to investigate such offenses from the Customs Service (FTS) to FSKN, and to stiffen the penalty from a fine to seven years in prison.

Law Enforcement Efforts. Through September 2008, the MVD registered 180,196 crimes related to illicit drug trafficking, in which they identified 83,491 perpetrators, and 114,974 of these cases were referred for prosecution.

The following table reflects total drug seizures in Russia for the timeframes established below: MVD for the period January–June 2008, FSKN for the period January–August 2008, and FTS for the period January–September 2008 (most figures are in kg):

Substance	MVD	FSKN	FTS
Hashish	379.2 (+7.4%)	767	242.1
Marijuana	4,047.6 (+78.8%)	8,752	243.3
Poppy Straw	None reported	709	None reported
Opium	15 (+.3%)	148	45
Heroin	396.9 (+7.7%)	1,091	658.7

Cocaine	26.1 (+.5%)	None reported	44.4
Psychotropic substances	193.1 (+3.7%)	163	None reported
Precursor chemicals	None reported	None reported	9,200
Synthetic drugs	81.6 (+1.6%)	84	2,185 units

DRUG PRICES

<i>Average Drug Prices Reported by Russian MVD in 2008</i>		
DRUG	PER GRAM	PER KILOGRAM
Heroin	\$50.00	\$7,000.00–\$20,000.00
Opium	\$25.00–\$33.00	\$5,000.00
Poppy Straw	N/A	\$287.00
Marijuana	\$4.00–\$10.00	\$1,000.00
Cocaine	\$80.00–\$250.00	\$35,000.00–\$60,000.00
MDMA	\$23.00 tablet	
Hashish	\$18.00	\$8,148.00

Note: The figures in the table above are an average of prices from 23 different Russian regions, and as such, vary considerably.

FSKN officials have stated that they see synthetic drugs as the threat of the future as new users opt for drugs that they perceive to be safer and more stylish than heroin.

According to reports, nearly 90% of synthetic drugs are imported into Russia from China, but there is some domestic production as well. Drug users may purchase ephedrine or medications that contain ephedrine, add water and potassium permanganate, and heat the mixture to create a solution whose active ingredient is methcathinone. The solution is then administered intravenously. Ephedrine and pseudoephedrine are also used to produce amphetamine. Authorities frequently report large seizures of pseudoephedrine in Russia's far eastern regions, but methamphetamine is rare. It appears that most pseudoephedrine seized in Russia is intended to produce other forms of amphetamine or methcathinone.

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

Since the end of 2005, tri-methylfentanyl has spread through the western regions of the country. Soviet authorities first encountered 3-methylfentanyl in 1990 but seizures were rare until the end of 2005. According to MVD chemists, they encounter tri-methylfentanyl in two forms. First, it is used to spike highly diluted heroin to improve its narcotic effect. Second, tri-methylfentanyl is added to lactose or other inert substances to produce a mixture with the potency of a similar weight of heroin. The FSKN believes that tri-methylfentanyl is most often smuggled into the country from Belarus or Ukraine, but admits that it may be synthesized in Russia as well. The FSKN also reports encountering 3-methylfentanyl mixed with methadone. 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.

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 (especially Ecuador) provide a convenient pool of potential couriers. From March through December 2008, the Russian FTS, working with the Russian FSB, made eight seizures of cocaine totaling 164.4 kilograms from cargo ships docked at the port of St. Petersburg. The majority of the ships had sailed from Ecuador.

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 seizures, totaling more than 122 kg of cocaine in 2008. 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. Presently, there are only 7-8 types of steroids which are illegal in Russia. Many criminal cases are made against those selling steroids based on the violation of not clearly marking what is being shipped (concealing the contents by marking them as something else).

A joint U.S.-Russian (DEA and FSKN) investigation into the internet sale of steroids from Russia to over 400 customers in the United States was successfully concluded in late 2007. Over \$350,000 and 75 kilograms of steroids were seized at the scene of a search warrant in Moscow, with six drug trafficking organization (DTO) members being arrested. According to the FSKN, two rogue Russian customs agents (FTS) were arrested for facilitating the DTO's overseas shipments.

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 reinserted into 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. As a matter of government policy, the GOR does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No GOR senior officials were known to engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Several criminal cases against law enforcement were made public in 2008, including the arrest and conviction for illicit drug trade of two police officers in Gelendzhik, Russia, one of them the Deputy Police Chief; the arrest for drug smuggling in the Leningradskiy Oblast, St. Petersburg of a senior police officer with the Vasileostrovsky District; the

arrest of a senior police operative with the Vyborgskiy District; the arrest of the Deputy Chief of the Kirovskiy District; and the arrest of a senior operative with the St. Petersburg Police. In Vladivostok, the Deputy Head of the Leninskiy District directorate of internal affairs was arrested for selling three kilograms of heroin. The Investigative Committee of the General Procuracy stated in November 2008 that its investigation of the general in charge of the FSKN's Department of Operative Support has been completed and that he will stand trial for abuse of power, accepting and paying bribes, illegal wiretapping and money laundering. In October 2008, a deputy chief of a department of FSKN was charged with abuse of power under Article 286 of the Criminal Code of the Russian Federation for misappropriation of about two million rubles allocated for the publishing of anti-drug promotion materials. There is no indication that these charges in these two cases were drug-related.

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 Convention against Corruption 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. In July, 2008, the Russian Federal Customs Service (FTS) signed a bilateral agreement on counter-narcotics cooperation including a Memorandum of Understanding with the U.S. Drug Enforcement Administration to enhance bilateral cooperation to combat 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 (FSKN estimates 1,000,000 hectares of "wild hemp"). Wild stands of the plant and large-scale outdoor cultivation are concentrated in the Caucasus and in the Republic of Tuva and the Amur River Basin in the Russian Far East. Russian authorities occasionally encounter indoor grows, which vary from a few plants in a city apartment to greenhouses in rural areas. The largest and most sophisticated indoor grows are typically discovered in and around Moscow and St. Petersburg. Marijuana, hashish, and hash oil can be found anywhere in Russia. Large amounts of cannabis are frequently seized in the Altai Territory and Republic of Buryatia (Kazakh-Chinese-Mongolian Border), the Amur Region (Far East) and Maritime Territory (Pacific Coast).

Opium poppies are grown in Russia. In rural areas, small plots of poppy were formally grown to produce poppy straw, which was steeped in water to produce a tea used as a folk remedy. In Soviet times and the early 1990's, large amounts of poppy straw or confectionary poppy seeds were chemically treated to extract acetylated opium. This process required large amounts of raw material to produce relatively small amounts of low-purity opium. Use of this practice has declined as Afghan opiates became widely available (and abused) in Russia.

Every year, Russian authorities carry out the "Operation Poppy" eradication effort throughout Russia, aimed at illicit cannabis and poppy cultivation. The partial data below indicate the extent of the 2008 MVD effort:

		Area (m2)	Amount (kg)
2008	Cannabis	59,837,886	

	Opium Poppy	11,347	
	Other plants	Not reported	
	Total	59,863,260	
Wild		Area (m2)	Amount (kg)
	Cannabis	67,164,886	
	Opium Poppy	Not reported	
	Other Plants	Not reported	
	Total	67,164,886	

The largest single marijuana seizure in 2008 was a grow operation uncovered in the Krasnodarsk Region of Russia, bordering the Black Sea, just north of Sochi. A total of 763 kilograms was recovered. In 2007 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.” An estimated 10-20 percent of Afghanistan’s annual heroin production (which is estimated at 600-800 MT/year) is moved along this Northern Route. 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.

An example of the volume of opiates being smuggled along the Northern Route into Russia were the seizures of 389 kilograms of opium in Tajikistan in May, 2008; 568 kilograms of heroin in Uzbekistan in February 2008; 537 kilograms of heroin in Kazakhstan (just south of the Russian border near Kurgan) in March 2008; 332 kilograms of heroin in Chelyabinsk in March 2008; and several more loads under 150 kilograms seized along the route from Afghanistan to Moscow.

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.

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, Uzbekistan, 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 2008, the first phase of Operation Canal took place in September. It included observers from Azerbaijan, Syria, China, Estonia, Latvia, Lithuania, Romania, the U.S., Uzbekistan, and Ukraine, as well from the OSCE, UNODC, INTERPOL and the Eurasia Anti-Money Laundering Group. As a result of this weeklong operation,

the Russian FSKN reported that law enforcement agencies from the CSTO seized 973.6 kilograms of heroin, 4,360.6 kilograms of hashish, 40.8 kilograms of synthetic drugs, 625 weapons, 25,588 rounds of ammunition, and 4,843 kilograms of precursor chemicals. The reported totals from Phase II, held in November 2008, included drug amounts seized in parts of the world not applicable to the identification of smuggling trends in Russia and the Central Asian countries.

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.

The Chu River Valley, which runs from Northern Kyrgyzstan into Kazakhstan, is the source of most of the foreign-grown cannabis brought into Russia. An estimated 140,000 hectares of cannabis, with a high THC content, is available free for anyone to harvest in the valley. No information has been received which would indicate a concerted effort is being made by either country, on a consistent basis, to destroy, or conduct operations geared specifically to the interdiction of marijuana. Therefore, the cultivation, smuggling and sale of this drug in Russia will likely continue unabated, despite law enforcement efforts.

Domestic Programs/Demand Reduction. Russian authorities are attempting to implement a comprehensive counter narcotics 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. Authorities report that this effort is on track to achieve this objective, with an estimated 5.1 million abusers in 2008 versus an estimated 5.9 million in 2004-5. FSKN is tasked with demand reduction among its other responsibilities and has begun conducting public awareness campaigns. 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). Between June 1 and 26, 2008, the FSKN carried out a country-wide public awareness campaign named "Report Where Death is On Sale" during which hotlines were established to collect citizen's reports on drug dens and drug dealers. According to FSKN, the hotline received more than 5,000 calls and the campaign resulted in the initiation of over 500 criminal cases and about 1,000 administrative cases.

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, for example, has 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. Healthy Russia's program reached almost 60,000 youth with substance abuse and HIV prevention messages in 2008.

USAID partner Population Services International (PSI) reached over 7,000 youth under 18 years of age in two pilot sites in the Leningradsky and Orenburg regions with substance abuse prevention messages, constructive recreational activities, and individual and family therapy in 2008. Professionals from the drug control, substance abuse treatment and HIV/AIDS services participate in providing services for these youth at risk of drug abuse and HIV/AIDS.

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 (MAT). This past year two study tours to the U.S. were arranged by USAID-partner, the American International Health Alliance, that brought medical and substance abuse clinicians to New Haven, Connecticut to observe the drug rehabilitation programs. Additionally, in 2008, a number of high level conferences and workshops were devoted to HIV/AIDS and substance abuse, particularly injecting drug use. The USAID partner, TransAtlantic Partners Against AIDs, along with the UN Office on Drugs and Crime and other partners supported a conference on HIV and substance abuse that included discussions on guidelines for care and treatment for substance abusers and international best practices such as medication assisted therapy. Additionally, in June of this year, UNAIDS assisted the Government of Russia in hosting the 2nd European Conference on HIV/AIDS, which again provided an opportunity for the international community to express support for methadone or other MAT programs in Russia. Resistance to methadone continues at senior levels of the Ministry of Health and Social Development and the FSKN. In the past year, a few Russian experts who have advocated publicly for MAT have even come under investigation. However, information sharing at international conferences, such as those hosted in Russia, demonstrates measured progress as well.

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 under the terms of the 2002 LOA continue into the present. They 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. 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 USCG, through the North Pacific Coast Guard Forum, works with the Russian Northeast Border Guard to track and interdict vessels involved in the illegal transport of goods in the North Pacific and Bering Sea. USCG units coordinate these activities daily through an email based, dual language reporting system.

The Road Ahead. The GOR expresses a desire to deepen and strengthen its cooperation with the United States and other countries on counternarcotics. 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.

Saudi Arabia

I. Summary

The Kingdom of Saudi Arabia has no appreciable drug production and is not a significant transit country for drugs. 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. Saudi Arabia's conservative cultural and religious norms discourage drug abuse. Nonetheless, drug abuse and trafficking are on the rise and are addressed as both social and law enforcement problems. This rise has caused increased arrests and SAG policy responses, including a new education curriculum, ongoing expansion of drug treatment facilities, efforts at economic development and employment programs for Saudi youth, as well as efforts to better coordinate narcotics law enforcement with neighboring countries, specifically on the Saudi-Yemeni border. 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. Due to 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. Approximately seven individuals were executed for narcotics related offenses in 2008. The SAG maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking.

Despite the SAG's determined counternarcotics efforts, Saudi officials themselves report that drug abuse and trafficking have increased significantly, though the SAG does not provide thorough public statistics on drug consumption, interdiction, or trafficking. In addition, most judicial proceedings in Saudi Arabia are closed, and many drug trafficking convictions likely go unreported. Anecdotal evidence suggests that this increase in drug use is significant, particularly amongst Saudi teenagers, mostly male. The combination of an affluent population, porous borders, large numbers of unemployed youth, and high profit margins, attracts both drug traffickers and dealers, despite strict criminal punishments.

According to a report issued in August 2008 by Prince Nayef Arab University for Security Studies, the overwhelming majority of narcotics traffickers are non-Saudi. The study estimated that 74% of smugglers are Pakistani nationals, with others coming mainly from Syria, Lebanon, Palestine, Nigeria, Yemen, Turkey, Philippines, and Thailand. According to the study, the vast majority of drug traffickers entering Saudi Arabia (96%) arrive by air with counterfeit travel documents. The majority of drugs themselves are trafficked via the porous borders with Yemen, Iraq, and Jordan, as well as by sea via Saudi Arabia's two main port cities of Jeddah and Dammam.

A November 2008 study published by Imam Muhammed Bin Saud University revealed that 77.5% of those incarcerated for drug-related offenses are "socially rejected" upon release from prison. According to other sources, drug users and traffickers are perceived very negatively in Saudi society, which discourages admission of drug problems and often leads to relapse in terms of usage and criminal activities. Reports in 2008 indicate that prison authorities and other government entities planned measures to aid former drug addicts post-incarceration, including specific programs to avoid relapse, such as incentives for companies to hire these individuals.

SAG efforts to treat drug abuse are aimed solely at Saudi nationals, while expatriate substance abusers are usually jailed and summarily deported. In addition, the cost of drug treatment facilities is often so high that many expatriate abusers, especially those in low-wage occupations, are unable to afford treatment. 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. The head of the Al-Amal Hospital in Jeddah stated that 100 women were treated for drug abuse within the last year, although the hospital lacks a female ward. Health officials describe a noticeable increase in drug-addicted inpatients and outpatients throughout the country in 2008. Hospitals officials say 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 the elderly, 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 2007 program which was extended into 2008 provided select, motivated patients with 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 many newer patients have a 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 2008

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. Specifically, the SAG has five drug liaison offices in Nigeria, Lebanon, Thailand, UAE (Dubai), and Pakistan. 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. Sources indicate that a series of judicial reforms passed in 2004 and implemented within the last two years has led to a dramatic increase in inter-state cooperation, with greater coordination between various Gulf and Arab countries for drug interdiction and pursuing traffickers. Saudi Arabia also has narcotics related bilateral agreements with Jordan, Turkey, and Syria. As a matter of policy, 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 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*. 2008 has seen a marked increase in research and publicity regarding the root causes of drug use and drug trafficking. Specifically, the SAG has stated that unemployment, most notably in the border regions of Saudi Arabia, has become a threat to the security of the country. As a result, the SAG has announced several new development projects in areas where recruitment for drug trafficking is high. In addition, there are plans to launch university expansions into these

regions in 2009. Recognition that many traffickers come from the border areas has led SAG officials to increase cooperation and funding for border area law enforcement, particularly the Saudi-Yemeni border.

Law Enforcement Efforts. The year 2008 saw increased reporting on the efforts of Saudi Arabian border guard units, or Frontier Police. Anti-drug units within the Frontier Police were reported to have played a significant role in drug-interdiction campaigns along the borders. In addition, Minister of Interior Prince Nayef stated on April 9 that in the course of the Kingdom's anti-drug campaigns, "more than 400 policemen had lost their lives." Prince Nayef also noted the connection between drugs and terrorism, stating that most of the terror suspects held by police were under the influence of narcotics.

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. Attempts to bribe prison officials for drug smuggling were reported this year, and anecdotal evidence suggests that drugs are widely used in Saudi prisons where certain guards are involved in selling and distribution.

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 three Protocols. Saudi Arabia has signed, but not ratified, the UN Convention Against Corruption.

Cultivation/Production. Cultivation and production of narcotics in Saudi Arabia are 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. Due to the porous border with Yemen as well as the mountainous topography, there were increased reports this year of khat production within the Kingdom in this region.

Drug Flow/Transit. Saudi Arabia is not a major drug transshipment point. SAG officials say the strict control measures practiced by the country have led to more seizures by Saudi Customs and border officials. Drugs are smuggled in by various means, mainly over land borders. Some drugs are smuggled by couriers who come to the Kingdom to participate in the annual *umra* and *hajj* ceremonies and via the land borders. The SAG appears to have improved coordination with Yemen on their shared border, but reports this year indicate that the porous Iraq-Saudi border, along with increased trafficking through Iraq, has led to increased transit through the northern region of the Kingdom. In conjunction with anti-terrorism efforts, the SAG has launched plans this year to reinforce law enforcement in the border region with Iraq, including using technology to better stem the flow of illicit activities.

Captagon and heroin are reportedly smuggled into the country from Eastern Europe, the Balkans, 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 education programs directed at school-age children, health care providers, and mothers. Several new development projects have been announced to improve the economic livelihood of certain areas to sway young people away from the economic advantages of trafficking. Pressure on the Ministry of Education to take action has increased as evidence suggests a marked increase in Captagon usage in both high schools and universities.

The SAG announced this year that approximately 3% of drug addicts in Saudi Arabia are female. Several media articles pointed out an increase in drug treatment of females. The Committee for the Care of Female Inmates and their Families announced in October it would develop a more thorough and larger scale treatment program directed at women.

The Ministry of Civil Service began requiring applicants for certain civil service positions to take a drug test beginning in 2007. In addition, according to news reports, King Saud University is considering requiring drug tests for the university's students and teaching staff.

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. Al-Hayat reported on July 6 that 60% of Saudi prison inmates were charged with "drug use and trafficking," and that Saudi courts investigate at least 20 cases of drug use and trafficking daily.

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 Counternarcotics Office in Cairo that works closely with U.S. counternarcotics agencies.

DEA Cairo provided SAG officials several leads on potential trafficking. Most leads were developed in Pakistan and passed by DEA Islamabad to DEA Cairo.

The Road Ahead. The U.S. will continue to explore opportunities for additional bilateral training and cooperation with Saudi counternarcotics and demand reduction officials.

Senegal

I. Summary

Counter-narcotics enforcement officers of the Senegalese government are increasingly concerned about the rise in cocaine trafficking through Senegal. Cocaine comes directly from South America transiting Senegal on its way to markets in Europe. There were also reports of cannabis originating in South Asia and utilizing Senegal as a transshipment point to Europe and Canada. Senegal remains concerned about the production and trafficking of cannabis, but to a lesser extent, given the explosive rise in cocaine seizures in West Africa. Senegal's 2005 money laundering statute and the establishment of a financial intelligence unit has had a limited impact on the seizure of bulk cash. Despite the apparent lack of success, CENTIF-Senegal's Financial Intelligence Unit understands the growing problem and is working hard to address it. Senegalese authorities have been under pressure from European nations to curtail illegal immigration to the EU and the subsequent bilateral assistance to combat immigration may also disrupt narcotics trafficking. Continuing education of its population about the dangers of drug abuse and strict enforcement of drug laws remain cornerstones of Senegal's counter-narcotics goals. Senegal is a party to the 1988 UN Drug Convention.

II. Status of Country

While trafficking of all types of drugs, including heroin, cocaine and psychotropic substances, exists in Senegal, cannabis production and trafficking continued to defy most enforcement efforts. Southern Senegal's Casamance region is at the center of the cannabis trade. It is generally acknowledged that a portion of apparent agricultural development in this region is illicit cannabis cultivation. Police are reluctant to undertake greater enforcement efforts against cannabis cultivation in the Casamance for fear of hampering the ongoing efforts to establish peace.

Senegal, along with other West African countries, serves as a transit country for traffickers due to its location, infrastructure and porous borders. Because of a decline in the U.S. cocaine market, increase in the European market, and rise of the Euro compared to the dollar, South American traffickers have increased the use of low governance areas in West Africa, including Senegal, as transit zones. Senegalese, European and UN Office of Drugs and Crime (UNODC) efforts to tighten security at the maritime ports are still in the development phase. In general, drug enforcement efforts remain under-funded and undermanned, allowing the illegal cannabis trade and trafficking in harder drugs, including cocaine, to continue.

III. Country Actions against Drugs in 2008

Policy Initiatives. Senegal continues to improve their national plan of action against drug abuse and the trafficking of drugs. Multidisciplinary in its approach, Senegal's national plan includes programs to control the cultivation, production and traffic of drugs; to inform the population of the dangers of drug use; and to reintroduce former drug addicts into society. Full implementation of this plan remains stalled due to funding constraints. Periodic efforts to improve coordination have been hampered because of insufficient funding. The Senegalese National Assembly passed a uniform common law and issued a decree against money laundering. As a member of ECOWAS, Senegal has recognized the importance of cooperation between West African countries to combat cocaine trafficking. Specifically, Senegal borders Guinea-Bissau and Guinea, two countries with significant cocaine trafficking problems. In November, 2008, Senegal participated in the fifteen country ECOWAS conference in Praia, Cape Verde. During the conference, the ECOWAS members discussed the various narcotics problems facing West Africa. Currently, ECOWAS is preparing a West Africa strategy which will be agreed to and signed by each participating country.

Law Enforcement Efforts. There is no comprehensive GOS policy for systematic destruction of domestic cannabis or prevention of transshipment of harder drugs. Enforcement efforts are sporadic and uncoordinated. Although no significant changes were made to law enforcement strategies, "L'Office Central de Repression du Traffic-Illicite de Stupefiants" (OCRTIS) seized more than expected. Dakar's position on the west coast of Africa and the presence of an international airport and seaport make it an enticing transit point for drug dealers. The Port of Dakar and the Leopold Sedar Senghor International Airport are the two primary points of entry/exit of drugs in Senegal. An increasing amount of narcotics, often cocaine, is being trafficked through Senegal by vehicle and boat from countries to the south of Senegal including Guinea Bissau and Guinea.

Given limitations on funding, training and policy, there is only limited ability to guard Senegal's points of entry from the transiting of drugs through Dakar. Drug enforcement agents are posted at the international airport, but they lack the training and equipment to systematically detect illegal drugs. The airport authority's efforts to attain Federal Aviation Administration (FAA) Category One certification have resulted in the tightening of security procedures and more thorough passenger luggage screening. Presumably, this has had the positive outcome of discouraging drug trafficking through the airport. UNODC is developing a multi-agency program (Customs, Gendarmes and Ministry of Interior Police) for screening and controlling container shipments. Although the USG sponsored the establishment of a Financial Intelligence Unit, with an in-country U.S. Treasury Department advisor, the unit has not been specifically targeted against traffickers. European assistance efforts to combat illegal immigration, particularly to Spain, which have provided maritime patrol capabilities to Senegal, may also serve to inhibit the trafficking of narcotics.

2007's cocaine seizure represents a regional success story in West Africa, but the amount of hard drugs seized by police in Senegal is relatively small by international standards. Due to weak enforcement efforts and inadequate record keeping, it is difficult to accurately assess the real drug problem in the country. Police lack the training and equipment to detect drug smuggling. Historically, Senegal has undertaken few cannabis eradication efforts. As previously mentioned, police forces are constrained in their efforts to eradicate cannabis cultivation in the southern part of the country because of a long-term insurgency.

Drug Seizures

DRUG	2006	2007
Opium	None on record	0
Cannabis	1,585 kg	5,138kg
Cocaine	27.7 kg	2,507kg
Methamph.	None on record	0
Heroin	168 gm	680 gm
Hashish	8395 kg	0
MDMA	N/A	N/A

NB. Figures for Senegal's drug seizures are compiled from separate reports generated by the Ministry of the Interior and the Ministry of Defense. Final statistics for 2008 are not yet available.

Corruption. Corruption is a problem for narcotics law enforcement all over Africa, but the USG is unaware of any narcotics-related corruption at senior levels of the Senegales government. In 2004, the National Commission against

Non-Transparency, Corruption and Misappropriation of Funds, an autonomous investigative panel, was created. The efficiency of the commission's efforts remains an issue in Senegal. The GOS does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior GOS officials that we are aware of engage in, encourage or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Senegal has several bilateral agreements with neighboring countries to combat narcotics trafficking, and has signed mutual legal assistance agreements with the United Kingdom and France in efforts to combat narcotics trafficking. Through cooperation with other members of the West African Economic and Monetary Union (WAEMU or UEMOA), a uniform common law against money laundering exists. Senegal is also a party to the Economic Community of West African States (ECOWAS) protocol agreement, which includes an extradition provision. Traffickers and their organizations are subject to asset seizures, imprisonment and permanent exclusion from Senegal if convicted. Senegal is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Senegal is also a party to the UN Convention against Corruption and the UN Convention against Transnational Crime and its three Protocols.

Cultivation/Production. Although cannabis cultivation in Senegal is not a large problem in relation to global rates of cultivation, it could become a serious domestic drug problem for Senegal itself. Efforts to eradicate cannabis cultivation in the Casamance region have improved slightly as military forces increased their presence and activities during 2008.

Drug Flow/Transit. According to the Chief of OCRTIS, the trend in the amount of illicit drugs transiting through Senegal continues to increase. OCRTIS is monitoring the transshipment of hashish and cocaine through Senegal. The U.S. is not a destination point for these drugs.

Domestic Programs/Demand Reduction. NGOs, such as the Observatoire Geostrategique des Drogues et de la Deviance (OGDD), have taken the lead in public education efforts. OGDD continued a program that began in 2001. The first phase involved a campaign of information targeted at cannabis cultivators, arguing that the land had greater potential if it were used for purposes other than drugs, that drugs were bad for the environment and health, and that drugs were degrading the economy. Village committees have been established to convey the above information to sensitize people to the problems associated with drug use. The focus of the second phase of the program is to encourage farmers to substitute alternative crops for drugs on their land. Due to funding constraints, however, implementation of this part of the program has been impeded. Other associations for the prevention of drug abuse are in the process of elaborating a program of drug prevention under the auspices of the International Committee for the Fight against Drugs, which is managed by the Ministry of the Interior.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG goals and objectives in Senegal are to strengthen law enforcement capabilities in counter-narcotics efforts. The USG is in the sixth year of continued training of the technicians at the National Drug Laboratory that was founded with basic drug analysis equipment and training provided by State INL, working with the Department of Justice.

The Road Ahead. The USG will continue to work closely with the Senegalese government to improve the capacity of its narcotics law enforcement officers to investigate and prosecute narcotics crimes.

Sierra Leone

I. Summary

Sierra Leone has taken steps to combat illicit trafficking of narcotic drugs and psychotropic substances and has mounted efforts against drug abuse. It has limited enforcement, treatment, and rehabilitation programs; however, corruption and a lack of resources seriously impede interdiction efforts. The largest bust in the nation's history netted over 700 kg of cocaine in July, causing the government to place considerable focus on developing strategies to curb the growing drug trafficking problem coming direct from Latin America. However, overall Sierra Leone made limited efforts to combat the increasing drug flow in 2008, hampered by resource issues and the lack of operational sophistication. Sierra Leone-U.S. law enforcement coordination on the narcotics issue increased in 2008, with potential for further engagement in the future. Interagency coordination among Sierra Leone's law enforcement entities is a challenge, due in part to a historic lack of trust among them. The creation of the Joint Drug Interdiction Task Force will hopefully ameliorate this problem until the National Drug Control Agency, established by the 2008 National Drug Control Act, is operational. Sierra Leone is a party to the 1988 UN Drug Convention.

II. Status of Country

Sierra Leone is a transshipment point for illegal drugs, particularly cocaine from South America. Europe is usually the final destination, often via sub-regional neighbors such as Guinea, though recent reports indicate the UAE via Accra as another destination. Lungi International Airport in Freetown is one focus for traffickers, though reports indicate that small, unmarked air strips throughout the country are also used. Narcotics primarily move overland or via sea to Guinea, with Konakridee near Port Loko as the usual port of exit. South American cocaine trafficking rings are increasingly active in Sierra Leone, relying somewhat on local partners with political and military connections.

Trafficking has also fueled increasing domestic drug consumption. Cannabis is cultivated in Sierra Leone and used regularly here. Law enforcement officials are concerned that narcotics rings are growing in size and influence. Major drug traffickers have been reported to pay local accomplices in kind with hard drugs in near-by countries; this practice could contribute to a domestic addiction problem in Sierra, should it be adopted there. Diversion of precursor chemicals is not a problem.

III. Country Actions against Drugs in 2008

Policy Initiatives. In the wake of the major July cocaine bust of 700 kilos, the government quickly took steps to enact a comprehensive law, the National Drug Control Act, to bring Sierra Leone into conformity with international conventions and norms. The Act expands on the Pharmacy and Drugs Act (2001), which had major substantive drafting problems and inadequate punishment for narcotics abuse and trafficking. The 2008 Act established a National Drug Law Enforcement Agency to serve as the focal point on policy issues and investigations. The new law also defined stricter penalties for all charges, contained mutual legal assistance provisions, and authorized a budget appropriation to support prevention and control activities. While the new Act is a positive step for Sierra Leone, harmonizing its legislation with international standards, some critics argue that the new law was rushed through to provide a visible response to the July cocaine case, and will soon need further amendment. Offenses by legal "persons", i.e., corporations and provisions for complicit or insufficiently responsible commercial carriers, and in addition the sections on forfeiture and foreign assets have been identified as areas needing either new or strengthened drafting. The Act also fails to adequately address prevention measures and treatment options for addicted drug abusers. Revising the law to address deficiencies may be undertaken as early as 2009.

The new Drug Agency is in the nascent stages of development, with the government providing only approximately \$125,000 budget allocation for FY 2009 for non-salary expenses. Officers are expected to be seconded from the Sierra Leone Police (SLP) in 2009 to work for the new Agency, but equipment expenses and other needs will challenge its ability to effectively enforce the law.

Government of Sierra Leone representatives participate in ECOWAS conferences and Mano River Union meetings, striving for better sub-regional cooperation. Law enforcement agencies cooperate with their counterparts in neighboring countries on specific cases and identifying trends.

Law Enforcement Efforts. Sierra Leone law enforcement agencies cooperated to combat narcotics trafficking through the Joint Drug Interdiction Task Force, which was established in February, 2008. The Task Force includes representatives from the SLP, Office of National Security (ONS), Republic of Sierra Leone Armed Forces, Immigration, Civil Aviation Authority, Anti-Corruption Commission, and the National Revenue Authority. Intelligence organizations research and follow-up leads generated by their own contacts and from other agencies, involving the police's enforcement divisions for investigations and operations. The July cocaine bust is counted as the Task Force's main success to date, and a significant one. The Task Force performed with distinction during this high profile incident in sharp contrast to the response to similar incidents in neighboring countries. Currently designed as a responsive, rather than pro-active, entity, the Task Force can call on up to 22 officers from both the SLP and ONS if another serious incident arises. It will continue to be the primary government body responsible for narcotics-related crimes until the new National Drug Control Agency becomes fully operational.

Drugs transit in and out of Sierra Leone by sea, but authorities have limited means to combat this. The Joint Maritime Wing, composed of military and police officials, conduct minimal patrols with two small vessels provided by the U.S. Coast Guard and a larger, Shanghai-class patrol boat donated by the Chinese Government. The expense of fuel and maintenance is an impediment to the Wing's effectiveness, as is the short-range nature of the patrol boats available to them. The Chinese-built boat, despite its longer range, has a shallow draft and is unsuitable for deep water operations.

The Government of Sierra Leone is working to improve the regularity and reliability of statistics maintained on arrest rates, prosecutions, and convictions. Data kept by the SLP between January and October, 2008, recorded seventeen seizures of cannabis and cocaine, netting approximately 10,602 kg of the former, and 743.5 kg of the latter. The majority of these seizures took place in and around Freetown, and though records indicate that charges were laid as a result of these seizures, information on convictions is unavailable. Twenty-one people were charged with various offenses surrounding the July case, though only 17 are facing narcotics charges in the High Court. There were no narcotics-related extraditions to or from the United States in 2008.

Corruption. Sierra Leone 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 has any senior official been charged with engaging in, encouraging, or facilitating narcotics production or trafficking. However, Sierra Leone's judicial system is still undergoing a rebuilding process, and struggles with low conviction rates across a spectrum of crimes, including those that are narcotics-related. Even those violators who are convicted often pay a fine in lieu of serving prison time, though the new National Drug Control Act has stiffer penalties and requisite jail terms. The limited resources available to the judiciary remain a problem in controlling drug trafficking in Sierra Leone.

Corruption among law enforcement officials is also a problem in Sierra Leone due to the low levels of pay and general endemic poverty. Two SLP officers and one ONS officer are on trial for charges related to the July cocaine bust. A number of defendants may face corruption charges under the 2008 Anti-Corruption Act following the current trial on the drug charge's conclusion.

Agreements and Treaties. Sierra Leone 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.-Sierra Leone extradition relations are governed by the 1974 Extradition Act. Sierra Leone is a party to the UN Convention against

Corruption. In March 2008, Sierra Leone ratified the African Union Convention on Preventing and Combating Corruption, five years after they became signatories. Though Sierra Leone signed the UN Convention against Transnational Organized Crime in 2001, it has yet to ratify it.

Cultivation and Production. Cannabis is widely cultivated and consumed locally. The Sierra Leone Police identified and destroyed a number of cannabis farms in 2008, and intend to ramp-up these efforts in 2009. Though cannabis is sent to other markets, the vast majority of what is grown is sold locally. One “joint” costs approximately 1,000 Leones, (33 U.S. cents) on the streets of Freetown.

Drug Flow/Transit. Cocaine is the main drug that transits Sierra Leone. Cocaine comes from South America en route to Europe. Sierra Leone’s unguarded and porous maritime border makes it highly vulnerable to traffickers moving shipments by sea. Narcotics are often held and repackaged in Sierra Leone for reshipment to Guinea, though some go directly to Europe via shipping containers or in air cargo. Individuals also carry small amounts on passenger aircraft, sometimes in their baggage or items with hidden compartments, and through body cavity concealment. In October, approximately 25kg of cannabis was interdicted between Sierra Leone and the UK. The cannabis was concealed in two separate shipments of fresh and frozen vegetables.

Improving security at Lungi Airport has been a priority for authorities and the international airlines that use it, and luggage is scanned for contraband. Individuals are also searched, as well as hand-luggage searches, resulting in most of the arrests at the airport to date. Still, officials assume that the drugs found are only a small portion of what slips through the cracks due to imperfect detection efforts and corruption.

Domestic Programs/Demand Reduction. The National Drug Control Agency, in conjunction with civil society, has conducted several public awareness campaigns about the dangers of drugs. This includes outreach to schools and over radio, and the publication of posters and pamphlets. The Agency intends to increase these efforts in 2009. Treatment programs are highly limited, with addicts receiving assistance at the country’s one psychiatric hospital and a few private facilities run by NGOs. The 2008 law puts treatment and rehabilitation for offenders under the purview of the Minister of Justice and appointed treatment assessment panels. Treatment can be in lieu of prosecution, or result in a sentence suspension, to be determined on a case-by-case basis. Funding for treatment and facilities will be provided by the Sierra Leone Fund for Prevention and Control of Drug Abuse, which will include funds from Parliament, moneys provided through mutual assistance agreements, voluntary payments, grants, or gifts, and investment income derived from the Fund. The Fund will also be used to support the Agency's overall efforts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG's counternarcotics and anticrime goals in Sierra Leone are to strengthen Sierra Leonean law enforcement capacity generally, improve interdiction capabilities, and reduce Sierra Leone's role as a transit point for narcotics. In 2008, Sierra Leone became eligible for ILEA-U.S Law Enforcement Academy training, and officers have started attending courses. Narcotics-specific training, especially in-country, is a priority that will hopefully begin to be addressed in 2009.

The Road Ahead. The July bust put an impossible-to-ignore spotlight on Sierra Leone's increasing role in narcotics trafficking. Though efforts had already been underway to strengthen the government's ability to combat the illicit drug trade, the bust served as a catalyst for the year's major policy initiative—enacting the National Drug Control Act. While this is a positive step forward, limited funding to effectively enforce the law will be a significant problem. Enhancing law enforcement's capacity to combat the drug trade through training and equipment and reducing corruption within the ranks require funds the Sierra Leone government simply does not have. Enforcing strict controls over financial transactions, to prevent funds earned from the narcotics trade being used for further criminal activity, is also an unaffordable necessity for Sierra. The government's quick actions immediately following the bust implied great political will to begin to address the problem, but the level of commitment may wane as public interest in this

specific, well-publicized case diminishes. Strengthening law enforcement capabilities, enhancing security measures at the airport, and improving surveillance of the ports and waterways are important priorities that the government can ill-afford to ignore if it seeks to prevent Sierra Leone from becoming an even more attractive target for criminal organizations.

Serbia

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 2008, Serbia took measures to improve its capacity to combat drug trafficking through new laws and law enforcement initiatives that tightened the regulations on narcotics, corruption, and organized crime, and included legislation authorizing asset seizure. Serbia's drug laws are adequate, but strategic coordination among law enforcement and judicial bodies is problematic. While Serbia realized record-setting successes with drug interdictions and seizures, organized crime groups still exploited Serbia's inadequate border controls to transship 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 party to the 1988 UN Drug Convention.

II. Status of Country

Serbia is primarily a transit country for the movement of narcotics, although law enforcement did recently uncover two synthetic narcotics labs near Belgrade. Serbia's porous borders make the country attractive for transit. Heroin and marijuana are the most prevalent narcotics, transported from Central Asia along the Balkan Route. There is also an increase in cocaine moving along the Balkan route, according to the Customs Administration Enforcement Directorate. Increasingly, Serbian organized crime groups are smuggling drugs from South America directly to Western Europe, bypassing Serbia, according to the Interior Ministry's Drug Smuggling Suppression Department. The Serbian government estimates that relatively small amounts of narcotics remain in the country for domestic consumption.

III. Country Actions against Drugs in 2008

Policy Initiatives. Serbia's Parliament passed a set of laws in October 2008 to enhance Serbia's law enforcement's efforts to combat narcotics smuggling, organized crime, and corruption. The package of laws includes a law to regulate immigration and movement of people through the country, an asset seizure law, and a law creating a new Anticorruption Agency. The Finance Ministry is drafting a Customs Service Law to reorganize the Customs Administration, provide clearer links to law enforcement agencies and prosecutors, and enable Customs officers involved in investigations to testify in court. (Currently Customs does not have law enforcement authority and cannot testify in court or continue investigations after drug seizures.) The Justice Ministry is drafting a new Criminal Procedure Code that would enable prosecutor-led investigations, plea bargaining, and the use of special investigative techniques such as wire tapping. The government has developed an Integrated Border Management Initiative to improve coordination among the agencies involved in border control. There is as yet no central oversight of the initiative, but individual agencies have begun implementation.

Law Enforcement Efforts. A number of law enforcement agencies are responsible for combating drug-related crimes, including the Interior Ministry's Drug Smuggling Suppression Department, the Finance Ministry's Customs Administration, the Interior Ministry's Border Police, and the Interior Ministry's Drug Addiction Suppression Department. While these agencies report generally good operational cooperation, there is no government-wide coordinating body that addresses law enforcement efforts.

The Drug Smuggling Department continues to develop a database for crimes, arrests, and seizures related to heroin, cocaine, marijuana, synthetic drugs, and chemical precursors.

Serbia hosts law enforcement liaison officers from Bulgaria, Romania, Croatia, Italy, Australia, and other countries in the region. The Interior Ministry conducts joint investigations with Bosnia-Herzegovina, Slovenia, and Croatia and provides intelligence to Western European countries, which aids in seizures in those countries

Serbia interdicted a record amount of narcotics in 2008. The Customs Administration seized approximately twice as much heroin and cocaine from January to July 2008 as it seized during the same period in 2007. Law enforcement seized 14.4 kg of heroin at the Merdare border crossing with Kosovo in November 2008. In October 2008, law enforcement seized 265 kg of marijuana at the Montenegro border, Serbia's biggest marijuana seizure in the past decade. The Drug Smuggling Suppression Department shut down two amphetamine labs located near Belgrade, in December 2007 and March 2008.

From January to June 2008, the Drug Smuggling Suppression Department and Customs Administration Law Enforcement Directorate made 3,379 drug seizures, including 410 kg of marijuana, 114 kg of heroin, 9.5 kg of cocaine, 1,006 tablets of Ecstasy, 45,976 other narcotic tablets, and small amounts of other drugs. The Interior Ministry reports that all Interior Ministry agencies made 2,043 seizures from July to October 2008, including 850.7 kg of marijuana, 60.7 kg of heroin, 750 grams of cocaine, 650 grams of other drugs, and 6,939 tablets. According to the Customs Administration, the price of heroin on the street remains the same this year, suggesting that these seizures are not affecting domestic availability.

Under Article 246 of the Criminal Code, Production, Distribution, and Possession of Narcotics, 2,978 individuals were tried and 2,811 were convicted in 2007. Arrests and prosecutions for 2008 are approximately the same as in recent years, according to the Justice Ministry. Defendants are usually drug users, street dealers, or couriers. Few major narcotics dealers ever appear in court. Most prosecutions (nearly 80% in 2007) are for possession, which carries more lenient sentences, than for production or distribution (18% of cases in 2007). Most sentences are light or suspended, or are for monetary fines or community service instead of jail time. Moving "up the food chain" from street pushers to the individuals behind them will require more strategic cooperation among agencies, according to the OSCE. Law enforcement agencies believe that pending legislation enabling prosecutor-led investigations, to replace investigative judges, will improve trial outcomes.

The government is prosecuting drug dealers at the head of the operation in one of the synthetic lab cases and has arrested the dealers in the other case, pending trial.

Corruption. Corruption within Serbia's law enforcement agencies responsible for counter narcotics remains a problem, in large part due to low pay. In a major corruption investigation in 2006, 3% of Customs enforcement officials were arrested and removed from their posts. Customs has replaced those individuals with new officers. Parliament passed a law on October 23, 2008 establishing a new Anticorruption Agency, an independent state body that will implement the National Anticorruption Strategy.

No evidence exists that the Serbian government encourages illicit production or distribution of narcotics, or actively launders proceeds from illegal drug transactions. There is no evidence that any senior government official engages in, encourages, or facilitates the illicit production or distribution of drugs. The Republic of Serbia is a party to the 2003 UN Convention against Corruption.

Agreements and Treaties. Serbia became the legal successor state to the State Union of Serbia and Montenegro on June 3, 2006. All international treaties and agreements continue in force, including the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the UN Convention against Transnational Organized Crime, and its protocols against trafficking in persons, migrant smuggling and trafficking in illegal firearms. Serbia has cooperative agreements with Slovenia, Croatia, and Bosnia and Herzegovina on issues relating to cross-border narcotics trafficking. Serbia signed a trilateral agreement with Romania and Bulgaria for counter-narcotics cooperation in 2008. The 1902 Extradition Treaty between the United States and the Kingdom of Serbia remains in force between the United States and Serbia.

Drug Flow/Transit: Serbia sits directly on the Balkan narcotics trafficking route. The UNODC estimates that over 80 tons of heroin travels along this route each year. Heroin grown and processed in Afghanistan is smuggled through Turkey, Bulgaria, and Kosovo into Serbia, and onward into Western Europe. The Customs Administration estimates that 5 -10 % of heroin stays in the country, but Serbia primarily serves as a transit point. Large amounts of marijuana and increasing amounts of cocaine also transit Serbia along the Balkan route. The Customs Administration reports an increasing number of individuals traveling by air from Central Asia to Serbia via Eastern Europe carrying ingested packages of cocaine. There is a decrease in cocaine transiting from South America. The Drug Smuggling Suppression Department believes that Serbian organized crime groups are bypassing Serbia and smuggling cocaine directly from South America to Western Europe. There is an increase in trafficking of synthetic drugs and precursors.

Domestic Programs/Demand Reduction. The government conducts an addiction prevention program in primary and secondary schools, “Drug Zero, Life One,” which includes lectures for students, parents, and teachers and referrals for families who seek help, but the program is not mandatory and individual schools choose whether to participate. The Serbian government and the Belgrade city government conducted a Drug-Free Month public awareness campaign in June 2008 with the support of UNODC, UNICEF, WHO, the Serbian Red Cross, and Serbian anti-drug NGOs. The National Network for the Fight against Drugs, a network of anti-drug NGOs, maintains a website with information about drug addiction and prevention. The Commission for the Fight against Drugs, composed of the Ministries of Health, Education and Sport, Interior, Social Welfare, and Justice, is developing a National Strategy for the Fight against Drugs which focuses on prevention.

The Health Ministry is developing a database to include information from other ministries to compile better data on the number of drug users. The Health Ministry estimates there are between 30,000 and 100,000 drug users in Serbia. Public hospitals, including prison hospitals, run outpatient and inpatient drug rehabilitation programs, and the Health Ministry has a pilot project to provide methadone substitution in primary care clinics. Drug rehabilitation programs include psychologists and social workers to provide life skills for social reintegration.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. The Serbian Government works closely with the United States and EU countries to reform and improve its law enforcement and judicial capacity. The United States has provided extensive technical assistance and equipment donations to the police, customs services, border police, 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 (OPDAT) have also been instrumental in supporting the Special Courts 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. A USCG mobile training team visited Serbia in 2008 and provided a basic small boat operations course.

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 would like to see additional progress in Serbian judicial and law enforcement reform, including tougher sentences for major narcotics dealers and more coordination among enforcement agencies and prosecutors to combat organized crime. Serbia also needs to improve its demand reduction programs.

Singapore

I. Summary

The Government of Singapore (GOS) enforces stringent counter-narcotics 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 counter-narcotics and law enforcement agencies are rare, and their officers regularly attend U.S.-sponsored training programs as well as regional forums on drug control. Singapore is a party to the 1988 United Nations Drug Convention.

II. Status of Country

In 2007, 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 figures, in 2007 authorities arrested 2,166 drug abusers, compared to 1,218 arrests in 2006. The increase in arrests by the GOS most likely does not represent an increase in narcotics trafficking, but rather the result of an August 2006 amendment to the Misuse of Drugs Act (MDA) that added buprenorphine hydrochloride, the active ingredient in the opiate-substitute, Subutex, used in addiction treatment as a Class A controlled drug, and subsequent enforcement action by the Singapore Central Narcotics Bureau (CNB). According to GOS statistics, in 2007 the number of first-time drug offenders increased from 477 arrests in 2006 to 520 arrests in 2007. In 2007 repeat drug offenders also increased with 1,661 arrested, compared to 741 arrested in 2006. Similarly, and consistent with previous years, abusers of synthetic drugs, including methamphetamine, MDMA, Erimin-5 buprenorphine hydrochloride and nimetazepam, comprise 63 percent of total drug abusers. The most significant increase is registered in the number of heroin abusers. In 2006 heroin offenders accounted for only 9.7 percent of total drug abusers, but this increased to 31 percent of total drug abusers in 2007. Conversely, decreases were observed in the number of MDMA, Ketamine and Nimetazepam abusers in 2007.

III. Country Actions against Drugs in 2008

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. Singaporean citizens 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 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 to the Misuse of Drugs Act in 2006 designated Ketamine as a Class A Controlled Drug and increased penalties for

trafficking accordingly. An individual 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.

Additional 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 up to seven years imprisonment and seven strokes of the cane, and up to 13 years imprisonment and 12 strokes of the cane for subsequent offenses. Singapore's long term imprisonment regime, first introduced in 1998, is considered a contributing factor in curbing the country's heroin use.

The Misuse of Drugs Act now classifies buprenorphine, the active ingredient in Subutex, as a Class A Controlled Drug. 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, involved in more than one-third of total narcotics offenses.

Law Enforcement Efforts. As noted above, arrests for drug-related offenses increased 43.7 percent, from 1,218 arrests in 2006 to 2,166 arrests in 2007, a reflection of new enforcement measures under the amended Misuse of Drugs Act. These statistics include persons arrested for trafficking, possession, and consumption of illegal drugs. The majority of drug-related arrests in 2007 were of abusers of buprenorphine, at 38 percent, followed by heroin at 31 percent. Abuse of synthetic drugs including Ecstasy, methamphetamine, Ketamine and nimetazepam accounted for 26 percent of drug arrests. Singapore recorded no cocaine-related seizures or arrests in 2007. Of the total arrests, 520 involved new drug abusers.

In 2007, authorities carried out 31 major enforcement operations which dismantled 27 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 2007: 17.2 kg of heroin; 30.3 kg of cannabis; 7,029 tablets of MDMA; 1.48 kg of crystal Methamphetamine; 518 tablets of tablet Methamphetamine; 4.6 kg of Ketamine; 24,881 Nimetazepam tablets; and 3,435 buprenorphine tablets.

Corruption. Singapore's Corrupt Practices Investigation Bureau (CPIB) actively investigates allegations of corruption at all levels of government. Neither the government nor any senior government official is believed 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 counter narcotics 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. In addition Singapore has a domestic Extradition Act that authorizes extradition to a foreign country for violations "listed" in the statute, including "drug trafficking" and offenses related "to benefits derived from...drug trafficking." Singapore and the United States signed a Drug Designation Agreement (DDA) in November 2000, a mutual legal assistance agreement limited to drug cases. Singapore has signed mutual legal assistance agreements with Hong Kong and ASEAN. Singapore ratified the UN Convention against Transnational Organized Crime on August 28, 2007 but has not signed any of its protocols. Singapore has signed, but has not yet ratified, the UN Corruption

Convention. In April 2006, Singapore amended domestic legislation to allow for mutual legal assistance cooperation with countries with 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. Similarly, the Port of Singapore is the second largest transshipment port in the world for cargo containers destined for the United States. According to GOS statistics during 2007, at the maritime Port of Singapore shipping tonnage reached 1,459 million gross tons (GT). This represents an increase of 11 percent from the 1,315 million GT record set in 2006. Given 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. 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 transshipped cargoes involving illicit narcotics shipments in 2007. 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, jeopardizing Singapore's position as the region's primary transshipment port.

However, Singapore has increased its scrutiny of shipped 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 and the Megaports Initiative. Singapore's export control law went into effect in 2003, and it is implementing an expanded strategic goods control list that took 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. In 2007, Changi International Airport handled 36.7 million passengers, a 4.8 percent increase over 2006 figures. 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.

Domestic Programs/Demand Reduction. Singapore uses a combination of punishment and rehabilitation against first-time drug offenders. Rehabilitation of drug abusers typically occurs during incarceration. The government may detain addicts for rehabilitation for up to three years. Similarly, under Singapore's "three strikes" laws, third-time convicted drug offenders are subject to a minimum of five years imprisonment and three strokes of the cane. 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. As noted above, 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

Bilateral Cooperation. Singapore and the United States enjoy good law enforcement cooperation, in particular under the Drug Designation Agreement. Under the terms of Designation Agreements, 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. In 2007, 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.

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.

Slovakia

I. Summary

Slovakia is not a major exporter of drugs. Cannabis and synthetic drugs are mostly produced locally for the domestic market and are mostly distributed without the involvement of organized crime. Cocaine and heroin are; however, imported by organized criminal groups. Synthetic drugs, including methamphetamine, pervitine, Ecstasy (MDMA), and MCPP are of the most concern to Slovak authorities as they are popular among youth and can result in severe health and social problems for users. Slovak Police reported significantly higher seizures of wet cannabis, pervitine, and psilocin (psychotropic mushrooms) in calendar year 2007 as compared to 2006. Slovakia is a party to the 1988 UN Drug Convention.

II. Status of Country

Interest in synthetic drugs, especially pervitine and Ecstasy, has driven an increase in local processing and production, as well as in the trade of precursors including ephedrine and pharmaceuticals from which ephedrine can be extracted. Slovak authorities 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 experience with higher-THC varieties imported from Western Europe, has driven growth in this sector. Officials report the market for heroin and cocaine is saturated. Supplies remain high and prices historically low despite the seizure of nearly three times as much cocaine in 2007 as compared to 2006. Authorities believe heroin is usually imported from the Balkans by organized groups of ethnic-Albanian criminals, working in concert with ethnic-Turkish groups that move it from points of production. The same ethnic-Albanian groups largely control the trade in cocaine, which is usually of South American origin, and passes through the Caribbean before reaching Slovakia. For all drugs, regional differentiation in consumption is diminishing. Pricier narcotics, including cocaine and heroin, remain modestly more prevalent in the wealthier west, but officials describe narcotics use generally as a concern across the whole territory.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2005, the National Program for the Fight against Drugs 2005-2008 was adapted into actions plans for relevant 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. County Councils were abolished as from October 1, 2007, and their duties and functions were delegated to district councils, which are organized according to the same geographic areas but which are appointed by provincial self-governments.

Law Enforcement Efforts. The valid Penal Code and Code of Criminal Procedure became effective January 1, 2006. Sections 171 and 135 of the Penal Code set a maximum sentence 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. In calendar year 2007, Slovak authorities pursued 2,390 criminal cases involving illegal narcotics. Heroin—212 cases involving seizure of 2.15 kg of powder, and 49 cases involving seizure of 12.8 ml of solution. Cannabis—1,257 cases involving seizure of 166.1 kg of dry herb, 8 cases involving seizure of 154 kg of wet herb, and 32 cases involving seizure of 469 g of hashish. Cocaine—15 cases involving seizure of 278.4 g of powder. Methamphetamines—677

cases involving seizure of 1.3 kg of powder, and 24 cases involving seizure of 6.17 ml of solution. MDMA—44 cases involving seizure of 1,464 tablets, and 1 case involving seizure of 0.32 g of powder. MCPP—2 cases involving seizure of 2 tablets, and 1 case involving seizure of 0.32 g of powder. Amphetamine—1 case involving seizure of 9 tablets, and 3 cases involving seizure of 1.6g of powder. Psilocin (mushrooms)—8 cases involving seizure of 39.8 g of mushrooms. Ephedrine—13 cases involving seizure of 11,108 tablets. Pseudoephedrine—20 cases involving seizure of 35.1 g of powder, and 1 case involving seizure of 3 ml of solution. There were also several additional cases involving the seizure of small amounts of synthetic drugs and abused prescription drugs.

Corruption. As a matter of policy, 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. Corruption more generally, however, remains a concern in both the public and private spheres.

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 Corruption and the UN Convention against Transnational Organized Crime and its three protocols. Extradition between the United States and Slovakia is governed by the 1925 extradition treaty between the U.S. and Czechoslovakia and a 1935 supplementary treaty. As an EU member, Slovakia has signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. Both countries have ratified these agreements. None have entered into force.

Cultivation/Production. Cannabis is increasingly cultivated in laboratory conditions as a "hydroponic crop." Under such conditions, it is possible to cultivate and harvest multiple crops of cannabis with elevated tetrahydrocannabinol (THC) each year. Seeds are mainly imported from the Netherlands, although authorities report increasing cases of cannabis grown from locally produced, high-quality hybrids. Cannabis was mainly grown in family homes and rented commercial properties. Slovak authorities report that a small but increasing portion of the locally produced cannabis crop is exported. Over the last 4 years, methamphetamine production and use has steadily increased in Slovakia. It is now the second most prevalent drug after cannabis. Slovak authorities believe the increase in production is driven by increasing domestic demand. Pervitine, produced from ephedrine and/or pseudoephedrine, is produced in special "laboratories," which produce bulk amounts of a high quality, and in small "kitchen labs". Although the "kitchen labs" produce a lower quality product less efficiently, authorities believe they were more popular with suppliers for their low start-up costs and ease of transport. Slovak-made pervitine was also found on the Hungarian and Austrian markets. The precursor for its production, in a powder form, was mainly imported from the Czech Republic. Precursors in the form of tablets were mainly imported from Hungary and Turkey. Locally available OTC medicines, as well as OTC imports from Hungary and Austria, were also used for the production of pervitine. Slovak authorities concluded that Modafen, Nurofen and Clarinase were the most commonly abused domestically available OTC inputs. As of January 1st, 2008, there were 8 OTC medicines containing ephedrine or pseudoephedrine available in the Slovak Republic. Slovak authorities report that producers and dealers of pervitine usually dealt in small quantities, and rarely appeared to be associated with organized criminal groups. In most cases, Ecstasy and pervitine were distributed concurrently by the same actors, mainly at discos or cultural events catering to young adults. In response to profit motives and fears of prosecution, Slovak producers continue to develop and experiment with new types of psychotropic and narcotic substances of synthetic origin. "MCPP", a drug with similar effects to Ecstasy, has been produced and available in Slovakia since 2006. It is sold in the tablet form at a very low price to appeal to individuals with lower incomes, notably high school and university students. Until November 1, 2007, MCPP was not included on the list of the controlled substances and its import was not criminal. MCPP is now on the list of controlled substances but now, like other narcotics and psychotropic substances, its import, export, production and distribution are criminal offenses. Hallucinogens, including LSD, magic mushrooms, and datura were consumed sporadically by youth and there was no organized market for these drugs. Hashish was mainly imported by tourists from Spain and Egypt.

Drug flow/Transit. Foreign criminal groups with local contacts, especially ethnic-Albanian and Turkish groups, are thought to be responsible for most of the imports and transshipments of heroin (from Central Asia), and cocaine from South America and Africa. Slovak Customs officials believe that many narcotics once transshipped through Slovakia

from Ukraine are now diverted north or south due to the intensely protected border. U.S. donations of training and equipment are partially credited for improvements in border security.

Domestic Programs/Demand Reduction. The National Program for the Fight against Drugs (NPFDD) 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 preventing social pathologies related to drug use, training courses for peer activists, teacher training, and methodological assistance to school psychologists and educational counselors.

IV. U.S. Policy Initiatives and Programs

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.

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 as appropriate.

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 attained full Schengen membership on December 21, 2007 and adheres to all Schengen border control requirements. 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, though a branch of the "Northern Route" through Ukraine and Poland is more popular. The June 2008 seizure of 98 tons of acetic anhydride, a processing agent used in making heroin, is the largest seizure of the agent in Slovenian enforcement history. Cannabis was the leading confiscated drug in 2008, as it was in 2007. 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. Two relatively large seizures of cocaine in June and July reflect the continued European trend toward cocaine use. 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 2008

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 1772 tablets of Ecstasy in the first 10 months of 2008 compared with 783 in the first 11 months of 2007. In 2008 authorities seized slightly more than 120 kg of heroin, compared to slightly less than 59 kg of heroin seized in 2007. In addition, police netted a little more than 245 kg of marijuana in 2008, compared to just over 118 kg of marijuana in 2007. Police also seized 4,949 cannabis plants in the first ten months of 2008, compared to 8,254 cannabis plants seized in 2007. Through mid-October police seized over 169 kg of cocaine, compared to only 4 kg seized in the same period in 2007. Police also seized approximately 2kg of amphetamines and slightly more than 400 individual tablets of amphetamines in the first 10 months of 2008, compared to 0.75 kg of amphetamines and 1,000 individual tablets in 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 on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The

1902 extradition treaty between the United States and the Kingdom of Serbia remains in force between the United States and Slovenia as a successor state. Slovenia is a party to the UN Convention against Transnational Organized Crime and its three protocols. In April 2008, Slovenia acceded to the UN Convention against Corruption.

Drug Flow/Transit. Slovenia is on the "Balkan Route" for drugs moving from Afghanistan, through Turkey, a traditional refining center for heroin, and then onward to Western Europe. Some heroin is thought to transit on so-called "TIR" trucks, long-haul trucks inspected for contraband at their place of embarkation, and then sealed by customs authorities before their voyage to a final destination.

Domestic Programs/Demand Reduction. 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 2008 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. DEA's office in Vienna has regional responsibility covering Slovenia and maintains a professional relationship with anti-narcotics officers within the Ministry of the Interior.

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 2009.

South Africa

I. Summary

South Africa is in a better position than much of the African continent to fight domestic and international drug trafficking, production, and abuse, but is facing serious problems with violent crime. The country is an important transit area for cocaine (from South America) and heroin (from Afghanistan 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 and is often used in combination with cannabis; it is smuggled, primarily from China, India 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) Annual Report 2007-2008 most of the organized crime syndicates in South Africa are foreign-led—primarily Nigerian, followed by Pakistani and Indian syndicates. Chinese organized crime is also present. The Prevention of Organized Crime Act (POCA, 1988), particularly its asset forfeiture section, is a potentially useful tool for law enforcement. South Africa is a party to the 1988 UN Drug Convention.

II. Status of Country

As the most prosperous and democratic country on the continent, South Africa attracts migrants from elsewhere in Africa. The country's 1800 mile coastline and 3,100 mile porous land border, coupled with South Africa's relative prosperity have resulted in 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. Many Nigerians live in South Africa, most of them illegally, and dominate the drug trade in the country. Cannabis is cultivated in South Africa, as well as imported from neighboring countries (Swaziland, Lesotho, Mozambique, Zimbabwe), and exported to neighboring countries (e.g., Namibia) and Europe (mainly Holland, UK) as well as consumed in South Africa itself. LSD is imported from Holland. Methamphetamine (locally known as "tik") 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 curb this trafficking, especially as the 2010 World Cup approaches, 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. South Africa's most widely used drug is marijuana, followed by methaqualone (Mandrax), often used in combination with marijuana (locally called "white pipe"). Most cannabis 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 the provinces of Gauteng, Mpumalanga and the Western Cape. According to press reports, heroin is widely abused in Pretoria. South Africa is becoming a larger producer of synthetic drugs, mainly Mandrax and methamphetamine, with precursor chemicals smuggled in and labs established domestically.

As in previous years, a number of clandestine narcotics laboratories were dismantled. In 2008, in the province of Kwa-Zulu Natal, SAPS (South Africa Police Service) introduced an initiative to root out clandestine laboratories through training and partnership with the local chemical industry. 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 addiction treatment 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 2008

Policy Initiatives. Combating the use of, production of, and trafficking in illicit narcotics remains 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. The loss of this specialized drug enforcement experience has impeded counter-narcotics progress. Another blow was the 2008 elimination of the Directorate of Special Operations of the National Prosecuting Authority (popularly known as “The Scorpions”), an elite unit created to investigate fraud that later expanded into drug investigation. The Central Drug Authority maintains and updates as necessary the “national drug master plan.” Other SAG agencies involved in counter narcotics efforts include—in varying degrees—the Home Affairs Department, the Customs Service, and the Border Police (a part of SAPS). 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 2007/2008 Annual Report noted that an analysis of threats from organized crime groups over the past decade identified drug crimes 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. The number of detected drug-related crimes, according to the annual SAPS Report was 104,689 in 2007. 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. 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.

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. All extradition matters in recent years, however, have been put on hold because of appeals raised by fugitives challenging the validity of the U.S.-South African extradition treaty. On January 21, 2009, the South African Constitutional Court ruled that the treaty was valid. Government officials have indicated that they intend to move quickly on the pending extradition cases. Both countries have also signed, a Letter of Agreement on Anticrime and Counter-narcotics Assistance which provides for U.S. training and commodity assistance to several South African law enforcement agencies. In 2000, the U.S. and South Africa signed a Customs Mutual Assistance Agreement.

Cultivation/Production. Cannabis or "dagga" grows wild in Southern Africa and is a traditional crop in many rural areas of South Africa, particularly the Eastern Cape and Kwa-Zulu Natal provinces. It also grows wild and is cultivated in neighboring Swaziland and Lesotho. It is possible to have three cannabis crops a year on the same piece of land in South Africa. Most South African cannabis is consumed domestically or in the region. Increasing amounts are, however, being seized in continental Europe and the UK. Some top-end estimates are that 20,000 to 30,000 hectares of arable land are used to grow cannabis, although most observers estimate the area dedicated to illicit cannabis to be about 1,500-2,000 hectares. Although the police force, with some success, sprays cannabis in South Africa, Swaziland, and Lesotho, illicit street prices never seem to rise—an indication of uninterrupted supply.

Mandrax, amphetamine, and methamphetamine are also produced in South Africa for domestic consumption. Among South Africans, "dagga" and Mandrax are the traditional drugs of choice; in more recent years, there has been rising interest in domestically produced amphetamine-type stimulants (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 during 2007, which is a 64 percent increase over 2006. This apparent increase in exports is at least 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 was the third-largest non-U.S. importer of pseudoephedrine and the fourth-largest non-U.S. importer of ephedrine in 2006. The latest Global Trade Atlas (<http://www.gtis.com/gta/>) statistics indicate South Africa’s imports of ephedrine in 2003 were 5703 kilograms and increased in 2004 to 11,185 kilograms, and again in 2005 to 14374; there was a sharp decline to 7,175 Kg in 2006, and the trend continued down in 2007, with only 2325 kg imported. Even more significant, imports of pseudoephedrine in 2003 to South Africa were 3,840 kilograms in 2003 and exploded in 2005 to 91,400 kilograms. In 2006 and again in 2007, pseudoephedrine imports fell precipitously to about 10,000 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 pseudoephedrine 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/Demand Reduction. 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 are continuing their 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 and 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's Security Office 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. Some U.S. training has been provided to the national police, the metropolitan police forces of Johannesburg and Tshwane (Pretoria), the Special Investigating Unit (Since disbanded), 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 in the future is in both sides' interest.

South Korea

I. Summary

Narcotics production or abuse is not a major problem in the Republic of Korea (ROK). However, reports continue to indicate that an undetermined quantity of narcotics is smuggled through South Korea en route to the United States and other countries. South Korea has become a transshipment location for drug traffickers, anomalously, due to the country's reputation for not having a drug abuse problem. This combined with the fact that the South Korean port of Pusan is one of the region's largest ports, makes South Korea an attractive location for illegal shipments coming from countries which are more likely to attract a contraband inspection upon arrival. Several large-scale diversions of dual-use precursor chemicals destined for Afghanistan were traced back to South Korea. 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. To discourage individuals from producing methamphetamine, the South Korean government controls 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 2008

Policy Initiatives. In 2008, 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 administering the precursor chemical program. In addition to existing regulatory oversight procedures to track and address diversion of narcotics and psychotropic substances from medical facilities, the ROK in 2008 strengthened the Ministry of Health, Welfare, and Family Affairs' role in the treatment, protection, and study of drug-addicts. In 2008, the ROK added benzylpiperazine to the list of narcotics and gamma butyrolactone (GBL) to the list of narcotic raw materials.

Law Enforcement Efforts. In the first ten months of 2008, South Korean authorities arrested 8,283 individuals for narcotic violations of which 6,120 individuals were arrested for psychotropic substance use and 814 persons for marijuana use. ROK authorities seized 17.2 kg of methamphetamine. Ecstasy seizures decreased from 18,151 tablets (for the first nine months of 2007) to 273. South Korean authorities seized 65.4 kg of marijuana, which is an increase from the 19.6 kg seized during the first nine months of 2007. South Koreans generally do not use heroin; and cocaine is used only sporadically, with no indication of its use increasing.

Corruption. There were no reports of corruption involving narcotics law enforcement in the ROK in 2008. 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. In 2008 South Korea became a party to the UN Convention against Corruption; it has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime and its three protocols. Korean authorities exchange

information with international counter narcotics agencies such as the United Nations Office on Drugs and Crime (UNODC) and the International Criminal Police Organization (INTERPOL), and have placed Korean National Police and/or Korea Customs Service attaches in Thailand, Japan, Hong Kong, China, and the United States.

Cultivation/Production. Legal marijuana and hemp growth is licensed by local Health Departments. The hemp is used to produce fiber for traditional hand-made ceremonial funeral clothing. Every year, each District Prosecutor's Office, in conjunction with local governments, conducts surveillance into suspected illicit marijuana growing areas during planting or harvesting time periods to limit possible illicit diversion. 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.

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 have been limited by the fact that the vast majority of transiting shipping containers never formally enters ROK territory. Nonetheless, the ROK continued its international cooperation efforts to monitor and investigate transshipment cases. Redoubled efforts by the Korea Customs Service (KCS) have resulted in increased seizures of methamphetamine and marijuana (12.8 kg and 13.9 kg respectively in the first ten months of 2008) 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, a trend that is most likely the result of 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) Seoul Country Office and U.S. Immigration and Customs Enforcement (ICE) officials work closely with ROK narcotics law enforcement authorities. Both the DEA and ICE consider their working relationships to be excellent.

Bilateral Cooperation. The DEA Seoul Country Office has focused its efforts on international drug interdiction, seizures of funds and assets related to illicit narcotics trafficking (in collaboration with ICE), and the diversion of precursor chemicals in South Korea and in the Far East region. In 2008, the DEA Seoul Country Office organized, coordinated, and hosted a one-week training seminar on Airport Interdiction. This training was co-hosted by the Korea Customs Service (KCS). 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, the Korean Supreme Prosecutors' Office (KSPO), and the Korean National Intelligence Service (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 USCG works with the Korean Coast Guard, mainly through the multilateral North Pacific Coast Guard Forum. Activities through this forum focus on the interdiction of maritime threats, including the smuggling of illegal drugs, in the North Pacific region.

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 response, Korean authorities established 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.

Spain

I. Summary

Spain remains the primary transshipment and an important market for cocaine imported into Europe from South and Central America. Although the Madrid government in 2008 declared that cocaine consumption is no longer on the increase, Spain continues to be the largest consumer of cocaine in the European Union (EU), with 3 percent of the Spanish population consuming it on a regular basis (20 percent of all European consumers live in Spain). Sixty-three percent of patient admissions to Spanish emergency rooms for drug consumption were due to cocaine consumption, and 47 percent of the people admitted in treatment/rehabilitation centers were cocaine users. Among EU nations, Spain is also the number one consumer of designer drugs and hashish, with 25 percent of Spaniards 15 to 24-year-olds having consumed hashish in the last year. Spanish National Police, Civil Guard, and Customs Services, along with autonomous regional police forces, maintained an intense enforcement operational tempo during 2008. Spanish security services carried out increased law enforcement operations throughout Spain. As of the end of September, they were on target to seize more than twice as much heroin in 2008 than in the previous year while seizures of hashish and ecstasy also appeared likely to increase. As of the end of September, the Spanish security services appeared on track to seize less cocaine in 2008 than they did in 2007.

The Spanish government ranks drug trafficking as one of its most important law enforcement concerns and Spanish drug enforcement continues to maintain excellent relations with U.S. counterparts. The United States continues to improve the current excellent bilateral and multilateral cooperation in law enforcement programs it has with Spain, as symbolized by joint operations to arrest key drug traffickers and a series of visits this year from high-level USG officials, such as the Commandant of the U.S. Coast Guard and several Congressional delegations. 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 some 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. In an effort to prevent this, Morocco and Spain created in November 2008 a joint working group to study drug-smuggling routes from the former country to the latter. The majority of heroin that arrives in Spain is transported via the "Balkan Route" from Turkey, although Security Forces in 2008 have noticed recent efforts to transport it into Spain by boat. The Spanish National Police have 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 Ministry of Health and Consumer Affairs' National Drug Plan, known by its Spanish acronym of PNSD.

III. Country Actions against Drugs in 2008

Policy Initiatives. The PNSD provides overall guidance and strategic directives for Spain's national policy on drugs. In 2008, Spain concluded its first-ever National Drug Plan, which covered 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 targeted money laundering and illicit commerce in chemical precursors and calls for closer counternarcotics cooperation with other European and Latin American countries.

During 2008, Spain also drafted its new PNSD for 2009-2016, which it formally unveiled on November 12, 2008. This new plan—which still needs to be approved by the Congress—aims to have citizens more involved in the fight against drugs, with the hope to prevent and/or lower consumption, delay the age for initial consumption (currently at age 20 for cocaine and heroin, and age 18 for hashish), and to guarantee assistance to drug addicts.

In October 2008, the Ministry of Health and Consumer Affairs released a report claiming that consumption of cocaine had stabilized after it decreased in 2007 for the first time since 1994. 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.

In March 2008, the International Narcotics Control Board (INCB), the independent and quasi-judicial monitoring body for the implementation of the UN's international drug control conventions, congratulated Spain for its 2007-2010 Action Plan to Fight Cocaine Consumption, a plan that has an annual cost of 7 million euros. The INCB report urged countries with cocaine consumption problems similar to Spain, such as the US, UK, Italy and Denmark, to follow the Spanish example. The report also highlighted that cocaine consumption in Spain has doubled in the last 10 years among the general population (from 1.8 percent to 3 percent), and quadrupled among the Spanish youth (from 1.8 percent to 7.2 percent).

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.

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. 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 September 2008, the Spanish National Police and the Civil Guard, working with the DEA, arrested Colombian national Edgar Vallejo Guarin in Madrid. Also known as "Beto the Gypsy", Vallejo Guarin was one of the most wanted drug traffickers in the world and the subject of a \$5 million reward by the US Government for information leading to his arrest. Spanish authorities recorded several large seizures of cocaine in 2008. For example, a Venezuelan-flagged ship with 3,600 kilos of cocaine was stopped in June by the Spanish IRS. Another operation in July ended with the seizure of 1,500 kilos of cocaine in a sailing boat on its way to Bilbao from South America.

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 also recorded several large hashish seizures in 2008. For example, in September authorities intercepted 1,110 kilos of hashish, arresting three people. In August, seven tons of hashish were seized in two boats near the Balearic Islands and six people were arrested, and the same month another two operations seized roughly 2.5 tons of hashish each in Malaga. In July, several operations seized more than 25 tons of hashish.

Spanish law enforcement officials have detected a worrying rise in the amount of heroin trafficked through the country in recent years. On August 1, 2008 Spanish police seized a sailboat in Sitges, just south of Barcelona, with 316.5 kilos of heroin, more than the entire amount of heroin seized in 2007. Heroin smuggled into Spain originates principally in Afghanistan and transits Turkey on the way to Spain; it is usually smuggled into Spain by commercial truck or private vehicle through the “Balkan Route” or from Germany or the Netherlands.

Seizures:	2001	2002	2003	2004	2005	2006	2007	2008 (Tentative)
Heroin (kg)	631	275	242	271	174	454	227	484 (as of September 30 2008)
Cocaine (MT)	34	18	49	33	48	47	38	25 (As of September 30 2008)
Hashish (MT)	514	564	727	794	670	451	653	567 (As of September 30 2008)
Ecstasy (pills x 1000)	860	1,400	772	797	573	408	491	488 (As of September 30 2008)

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. For example, the Chief of Police in El Molar and two Civil Guards in Guadalix de la Sierra were arrested in an operation to combat drug trafficking in the Autonomous Community of Madrid. Another case in 2008 involved the dismantling of a drug-dealing and illegal immigration network that operated out of Madrid’s Barajas airport. Forty-seven people, including a Police Deputy Inspector, were arrested. In April 2008, the Chief Inspector for Organized Crime of the Malaga Police Office was arrested, along with another five people. They were accused of stealing money from drug dealers to buy drugs and sell them later.

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 three protocols. A 1970 extradition treaty and its three supplements govern extradition between the U.S. and Spain. The U.S.-Spain Mutual Legal Assistance Treaty has been in force since 1993, and the two countries have also signed a Customs Mutual Assistance Agreement. Spain has signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. Both countries have ratified these agreements. None have entered into force.

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. Spain has been added to the list of nontraditional countries authorized to export narcotic raw materials (NRM) to the United States. This change replaced the former Yugoslavia with Spain. It allows 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 United States. Traditional exporters India and Turkey have 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, limited 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 extensive 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. This year has seen a significant increase in the number of “swallower mules” detained in Nigeria en route from Latin America to 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. Those two airports are also key transit points 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 hashish, 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. The PNSD closely coordinates its demand reduction programs with the Spanish National Police, Civil Guard, Ministry of Health and Consumer Affairs, and Ministry of Public Administration. Spain’s autonomous communities provide treatment programs for drug addicts, including methadone maintenance 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.

In November 2008, the Delegate of the Government for the National Drug Plan announced that several hospitals would administer, over a 12 month period, a vaccine against cocaine addiction to a number of volunteers to study its effects prior to its approval by the European Medicine Agency, which is expected in 2009.

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 programs it has with Spain, as symbolized by a series of visits this year from high-level USG officials, such as the Commandant of the U.S. Coast Guard and Congressional delegations. Bilateral cooperation in 2008 built upon a strong foundation from the previous year, when DEA coordinated with the Spanish government to host the annual IDEC conference in Madrid—the first time IDEC was held in Europe. On November 8, 2008, Spain’s Council of Ministers approved the extradition to the U.S. of Colombian drug dealer Vallejo Guarin. DEA continues to work very closely with its Spanish law enforcement counterparts, which has resulted in numerous successful joint investigations. DEA also has conducted training courses in undercover operations and financial investigations for its Spanish counterparts, which were very well received by the Spaniards. The U.S. urges Spain to

become a leader among EU member states in the fight against narcotics and is pleased to see that Spain in 2008 assumed the rotating leadership of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon.

Road Ahead. With drug traffickers targeting Spain in a major way and its government reaching out to the U.S. for collaboration, 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 Conference in 2007. 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.

Sri Lanka

I. Summary

Sri Lanka has a relatively small-scale drug problem. The Government of Sri Lanka (GSL) remains committed to targeting drug traffickers and implementing nation-wide demand reduction programs. In early 2005, the U.S. government strengthened its relationship with Sri Lanka on counternarcotics issues by offering training for the Sri Lanka Police. Sri Lanka is a party to the 1988 UN Drug Convention, ratifying key legislation in October, 2007.

II. Status of Country

Sri Lanka is not a significant producer of narcotics or precursor chemicals and plays a minor role as a transshipment route for heroin from India. GSL officials continue to raise internal awareness of and vigilance against efforts by drug traffickers attempting to use Sri Lanka as a transit point for illicit drug smuggling. Domestically, officials are addressing a modest upsurge in domestic consumption, consisting of heroin, cannabis, and increasingly Ecstasy.

III. Country Actions against Drugs in 2008

Policy Initiatives. The lead agency for counternarcotics efforts is the Police Narcotics Bureau (PNB), headquartered in the capital city of Colombo. The GSL remains committed to ongoing efforts to curb illicit drug use and trafficking. The PNB recruited more officers, resulting in increased investigations and interdictions. In early 2006, a special court was established to try drug cases with minimal delays. The PNB also conducted in-service counternarcotics training for police outside of the conflict-affected north and east and drug awareness programs in schools on a regular basis. 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. The program regularly provides advice relating to reducing the demand for drugs to NGOs and government agencies including the National Dangerous Drugs Control Board, Customs, PNB and the Ministry of Social Welfare. Over the past year 34 drug treatment practitioners in Galle and an additional 28 in Colombo have been trained on preventing relapse for those in recovery. Three new drug treatment centers opened for female addicts in Nawadiganthaya, Urapola and Nittambuwa.

Accomplishments. The PNB and Excise Department worked closely to target cannabis producers and dealers, resulting in several successful arrests. The PNB warmly welcomed and has been an active partner in taking full advantage of U.S.-sponsored training for criminal investigative techniques and management practices in the past.

Sri Lanka continued to work with South Asian Association for Regional Cooperation (SAARC) and the United Nations Office of Drugs and Crime (UNODC) on regional narcotics issues. SAARC countries met in Maldives in early 2004 and agreed to establish an interactive website for the SAARC Drug Offense Monitoring Desk, located in Colombo, for all countries to input, share, and review regional narcotics statistics. GSL officials maintain continuous contact with counterparts in India and Pakistan, origin countries for the majority of drugs in Sri Lanka. The SAARC Drug Offences Monitoring Desk (SDOMD) is co-located within Colombo's PNB. The SDOMD Anti-drug officials based in India and Pakistan regularly share information with the SDOMD, though other SAARC countries reportedly do not maintain such regular contact with the SDOMD desk.

Law Enforcement Efforts. The PNB continued to cooperate closely with the Customs Service, the Department of Excise, and the Sri Lankan Police to curtail illicit drug supplies in and through the country. As a result of these efforts, over the last 12 months GSL officials arrested 9,825 persons on charges of using or dealing heroin and 33,848 persons on cannabis charges. Police seized a total of 30.5 kg of heroin. Police also seized 37,310 kg of cannabis from late

2007 through late 2008. In addition, in response to slowly increasing Ecstasy usage in upscale venues in Colombo, the PNB made six Ecstasy-related drug arrests.

Apart from its Colombo headquarters, the PNB has one sub-unit at the Bandaranaike International Airport near Colombo, complete with operational personnel and a team of narcotics-detecting dogs. Greater vigilance by PNB officers assigned to the airport sub-station led to increased arrests and narcotics seizures from alleged drug smugglers. A planned new PNB substation at the Colombo port has not opened yet for lack of space.

Corruption. The GSL does not, as a matter of policy, encourage or facilitate the illicit production or distribution of any controlled substances or the laundering of proceeds from illegal drug transactions. A government commission established to investigate bribery and corruption charges against public officials that resumed operations in 2004 continued through 2008. There are unconfirmed reports of links between drug traffickers and individual corrupt officials. However, since late 2007, there have been no arrests of government officials on bribery or corruption charges related to drugs.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention and the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances. Over the past year Parliament ratified conventions, passing the Drug Dependent Persons Treatment and Rehabilitation Act in October, 2007 and the Conventions Against Illicit Traffic in Narcotic and Psychotropic Substance Act in 2008. 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 has signed, but not yet ratified, the Protocol on Trafficking in Persons and the Protocol on Migrant Smuggling. Sri Lanka is also a party to the UN Convention against Corruption. An extradition treaty is in force between the U.S. and Sri Lanka. A U.S.-Sri Lanka extradition treaty has been in force since January 12, 2001.

Cultivation/Production. Some cannabis is cultivated and used locally, but there is little indication that it is exported. The majority of cannabis cultivation occurs in the southeast jungles of Sri Lanka. PNB and Excise Department officials work together to locate and eradicate cannabis crops.

Drug Flow/Transit. Some of the heroin entering Sri Lanka is transshipped to other markets abroad, including Europe. In the last year, 10 Sri Lankans were arrested in India and the Maldives on drug charges. Sri Lanka's coast remains highly vulnerable to transshipment of heroin moving from India.

Police officials state that the international airport is a 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) established task forces in each regional province to focus on the issue of drug awareness and rehabilitation at the community level. Each task force works with the existing municipal structure, bringing together officials from the police, prisons, social services, health, education and NGO sectors. The GSL continued its support, including financial, of local NGOs conducting demand reduction and drug awareness campaigns.

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. Towards that end, the U.S. Coast Guard provided residential training to Sri Lankan officers in the areas of International Crisis, Command and Control, as well as residential training in Seaport Security.

Road Ahead. The U.S. government will follow up on its commitment to aid the Sri Lankan police in its transition to community-focused policing techniques. This will be accomplished with additional assistance for training. The U.S. also expects to continue its support of regional and country-specific training programs.

Suriname

I. Summary

Suriname is a transit zone for South American cocaine en route to Europe, Africa, and, to a lesser extent, the United States. The Government of Suriname (GOS) does not have the capacity to adequately control its borders. Inadequate resources, limited law enforcement training, the absence 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. As in 2007, there were no major drug seizures in 2008, but GOS efforts to eliminate major local narcotics organizations and to crack down on clandestine airstrips within Suriname have forced traffickers to shift tactics and in some cases to move operations to neighboring countries. 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 GOS ability to identify, apprehend, and prosecute narcotics traffickers is inhibited by its chronic lack of resources, limited law enforcement capabilities, inadequate legislation, drug-related corruption of the police and military, a complicated and time-consuming bureaucracy, and overburdened and under-resourced courts. Cocaine from South America, destined primarily for Europe, Africa, and, to a lesser extent, the United States is transshipped through Suriname. The GOS has no legislation controlling precursor chemicals and no tracking system to monitor them. This leaves the GOS unable to detect the diversion of precursor chemicals for drug production. However, in 2008, Suriname participated in a training seminar with Colombian counterparts and experts to learn how to identify precursor chemicals.

III. Country Actions against Drugs in 2008

Policy Initiatives. The National Anti-Drug Council and its Executive Office renewed its mandate from the Ministry of Health in June 2008 to continue to 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. Since 2007, national support has been broadened by involving Non-government Organizations (NGOs) and civil society in the implementation of the plan. The participatory approach was institutionalized by incorporating the Business Association, religious groups, and regional sites set up by the National Anti-Drug Council.

Accomplishments. In 2008, the GOS seized 228.1 kilograms (kg) of cocaine, 123 kg of cannabis, 785 MDMA (Ecstasy) tablets and 3,346.4 grams of heroin. While 2008 seizures were on par with previous year, the GOS Ministry of Justice and Police and law enforcement institutions' continued targeting large trafficking rings, (with direct links to South American and European rings), and its expanding cooperation with regional and international partners could yield improved results. USG law enforcement intelligence shows that traffickers have changed their routes and methods of operations in response to GOS efforts. The drug trafficking organizations (DTOs) have moved their landing strips further into the interior and changed trafficking tactics, such as using one landing strip for a very short period of time and then moving to another strip. The continuing GOS crackdown against clandestine airstrips within Suriname has also forced traffickers to develop new routes for transiting drugs. USG law enforcement intelligence shows a possible trafficking shift from Suriname to Guyana as the cost per kilogram in Suriname is now higher than in Guyana. Costs per kilogram in Suriname have risen due to an increase in security costs for shipments. In 2008, a total of 582 people were arrested for drug-related offenses.

Law Enforcement Efforts. In 2008, law enforcement officials noted a slight decrease in the number of drug mules arrested from 99 in 2007 to 66 in 2008. Traffickers continued the use of postal services to mail packages containing household items or foodstuff (ginger roots, noodles and syrup) laced with or containing narcotics. There was a notable increase of African nationals arrested at Suriname's Johan Adolf Pengel airport carrying narcotics intended for Africa (transported via the Netherlands). The most significant arrest trend in 2008 was the arrest of several members of different Surinamese music entertainment groups. These persons were arrested at Amsterdam's Schipol Airport after inspection showed they had ingested cocaine pellets. In 2008, GOS law enforcement agencies arrested 66 drug couriers, the majority of whom who had ingested cocaine pellets. In June, the GOS stepped up its enforcement efforts at the Johan Adolf Pengel International airport by installing luggage scanning equipment. Drug mules who evaded detection in Suriname were subsequently arrested at the airport in Amsterdam, which, in 2004, implemented a 100 percent inspection of all passengers and baggage arriving on all inbound flights from Suriname.

Corruption. As a matter of policy, no senior GOS official, nor the GOS, encourages or facilitates illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs, and does not discourage the investigation or prosecution of such acts. Public corruption by military and police who were possibly influenced and infiltrated by narcotraffickers is believed to have played some role in limiting the number of seizures made compared to the amount of illegal narcotics that is reportedly flowing through Suriname. Public corruption also appears to affect the prison system, where there are continued claims by non-governmental organizations of drug use and drug sales. Media reports and rumors of money laundering, drug trafficking, and associated criminal activity involving current and former government and military officials continue to circulate.

The GOS demonstrated some willingness in 2008 to undertake law enforcement and legal measures to prevent, investigate, prosecute, and punish public corruption. In October, for example, acting on a tip that drugs would be transported from Nickerie to Paramaribo, police stopped a car driven by an off-duty police officer. The off-duty officer resisted arrest and was shot and killed by his colleagues. Police found 50 kilograms of cocaine in the officer's car. Two other police officers were arrested on narcotics charges in separate cases in September.

Agreements and Treaties. Suriname is party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Suriname is also a party to the 1988 UN Drug Convention and has accordingly passed legislation that conforms to a majority of the Convention's articles, but 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 protocols against Trafficking in Persons and Migrant Smuggling. Suriname is party to the Inter-American Convention against Corruption and Migrant Smuggling. the Inter-American Convention on Mutual Assistance in Criminal Matters but not 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. Suriname did, however, deport foreign national Revolutionary Armed Forces of Colombia (FARC) members to Colombia in 2008 and is cooperating with regional counterparts on ongoing Drugs-for-Arms network investigations. During 2008, the U.S. made both formal and informal requests for assistance to Suriname. Suriname has worked with the in-country DEA office and has provided, and attempted to provide, information and evidence to assist U.S. investigations and trials.

Officials from Suriname, the Netherlands Antilles, and Aruba met in June. The three countries share intelligence on judicial and criminal matters and evaluated and expanded this cooperation. In May, Suriname and Guyana made the "Nieuw Nickerie Declaration," to combat transnational crime between the countries. The declaration said they had agreed to advance cooperation regarding narcotics, money laundering, trafficking in persons and weapons. Suriname has also signed bilateral agreements to combat drug trafficking with neighboring countries Brazil, 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 publicly announced its candidacy for the CICAD vice chair position in 2009-2010 in late 2008. Suriname has signed agreements with the United States, Netherlands and France that permit law enforcement attachés to work with local police.

Cultivation and Production. There is little data on the amount of cannabis under cultivation in Suriname, or evidence that it is exported in significant quantities.

Drug Flow/Transit. Suriname's sparsely populated coastal region and isolated jungle interior, together with weak border controls and infrastructure, make narcotics detection and interdiction efforts difficult. USG analysis indicates that drug traffickers use very remote locations for delivery and temporary storage of narcotics. There are also indications that the illicit drug flights are increasingly moving to Guyana. Narcotics shipments are then transported by ground through the Nickerie District into Suriname. Cocaine shipments that enter Suriname via small aircraft land on clandestine airstrips that are cut into the dense jungle interior and sparsely populated coastal districts. The GOS has worked to combat this flow by monitoring the illegal cross-border traffic near the city of Nieuw Nickerie and by destroying several clandestine airstrips in 2007 and 2008. European-produced Ecstasy is transported via commercial airline flights from the Netherlands to Suriname.

Drugs exit Suriname via numerous means including commercial air flights, by drug couriers and concealed in small private planes. The bulk of the cocaine movement out of Suriname to Europe and Africa is via commercial sea cargo. Traffickers move hundreds of kilograms, concealing it either in cargo, containers, or in the vessels. Small fishing vessels also carry drugs out to sea and transfer them to large freight vessels in international waters. Well-concealed cocaine is off-loaded at the destination port as legitimate cargo, while kilograms in block form, are packaged in bundles of 50 to 100 kilograms, and then off-loaded in international waters to smaller boats prior to entering port. The government has no coast guard or maritime capability to interdict drug traffickers at sea.

Domestic Programs/Demand Reduction. In 2008 the National Anti-Drug Council (NAR) established one new regional site in Saramacca for anti-drug activities, bringing the number of its active sites to three across the country. These sites were used as a base for data collection, analysis and recommendations based on trends, and drug awareness activities for the local communities. The NAR also organized a host of activities for the 2008 International Day Against Drugs, including a presentation of an anti-drugs song by primary school children, a poster competition at the youth detention center, a film presentation, distribution of drug information at community centers and via the mass media, and other activities. The NAR also coordinated training sessions for counselors working on prevention issues.

A 2007 CICAD-funded survey on alcohol and drug abuse in secondary schools in Suriname showed that among the 2,066 students surveyed the most common drugs used are alcohol, followed by cigarettes, tranquilizers, and marijuana. Less than 1 percent of the students use other substances such as heroine, hashish, opium, morphine, cocaine, and methamphetamines. The highest prevalence rate can be found in the age group 17 to 20 years, and most of them (19 percent) live in the capital city Paramaribo. The results of this study were analyzed in 2008, and will be made public on February 6, 2009.

IV. U.S. Policy Initiatives and Programs

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.

Bilateral Cooperation. In 2008, the GOS and Guyana made the "Nieuw Nickerie Declaration" to advance cooperation on transnational crime as a follow-on to the 2006 "Paramaribo Declaration," which provided a framework to establish an intelligence-sharing network, coordinate, and execute sting operations, destroy clandestine airstrips and

tackle money laundering. In December 2008, the Ministry of Justice and Police co-hosted (with the Embassy of the Republic of France in Suriname) a regional counternarcotics and money laundering seminar for law enforcement and police attaches.

In 2008, the United States provided training and material support to several elements of the national police to strengthen their counternarcotics capabilities. The Drug Enforcement Agency (DEA), office in Suriname provided counternarcotics training to several units of the Korps Politie Suriname (KPS). DEA also arranged for some KPS officers to take part in a larger U.S. military provided training course on interdiction, and provided operational assistance for the course. In 2008, DEA also provided technical assistance to the KPS in narcotics and money laundering investigations. The "Paramaribo Declaration" set forth several tenants of understanding among the participating countries, and in 2008 the DEA took actions to enhance the cooperative actions between the participating countries. The USCG provided resident training in leadership, crisis and command control and professional development.

The Road Ahead. The United States encourages the GOS efforts to continue to pursue major narcotics traffickers and to dismantle their organizations, and to build on and strengthen its regional and international cooperation to date. 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. A concerted effort by the GOS to increase the number of police and military boats capable of patrolling the border rivers and coastal areas would also likely enhance counternarcotics efforts. Similarly, in order to achieve greater results, the USG encourages the GOS to continue to engage in capacity-building measures of its counternarcotics-focused units, to monitor and protect its porous borders and vast interior with a radar detection system and adequate air support. With regard to enhancing its interdiction at the principal airport and border crossings, the GOS should invest in a passport scanning/electronic database system.

Sweden

I. Summary

Sweden is not a significant illicit drug producing country. However, police report that Sweden is increasingly becoming a transit country for illegal drugs to other Nordic countries and Eastern European states. The fight against illegal drugs is an important government priority and enjoys strong public support. There are an estimated 26,000 serious drug (viz., heroin, cocaine) users in Sweden, and the overall quantities of narcotics seized in 2008 did not change significantly from 2007. Amphetamine and cannabis remain the most popular illegal drugs. Cocaine has an increasing impact and police report a larger influx of it into the country. Total heroin and Ecstasy usage did not change from 2007, although the abuse of anabolic steroids rose. The quantity of Internet ordered narcotics increased in 2008. To combat these trends, law enforcement and customs entities have been active in several domestic and international counter-narcotic projects in the last year.

The majority of narcotics in Sweden originates in South America, West Africa, Eastern Europe, and Afghanistan and is smuggled via other EU countries. In 2008, authorities made a large bust of illegal drugs sold over the Internet. Khat usage remains restricted to specific immigrant communities. Limited residential cultivation of cannabis occurs, along with a limited number of small kitchen labs producing methamphetamine and anabolic steroids. Sweden is not believed to have any industrial 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 towards 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 at some point during their lives, and the number of drug users is twice as high among men as among women. In line with results first reported in 2007, Sweden continues to have approximately 26,000 serious drug addicts (i.e. regular intravenous use and/or daily need for narcotics). Some 25 percent of serious drug users are women (in both 2007 and 2008).

The National Institute of Public Health notes an increase in drug-related deaths in 2008; the average number of narcotics-related deaths is 300 per year. Last year's drop in the death rate, attributed by authorities to the increased use of Subutex, a synthetic opiate used for maintenance of heroin addicts during detoxification and treatment, did not continue into 2008. Drug-related deaths rose during 2008. According to police reports, Sweden is both a destination and transit country for amphetamines.

The government-sponsored Organization for Information on Drugs and Alcohol (CAN) reports that the overall number of young people who have used drugs recently remains comparable to that of 2007. The percentage of high school students (15-16 years old) who claim to have been offered drugs decreased to 19 percent in 2008, compared to 20 percent in 2007. High school aged boys who claim to have tried drugs increased one percentage point to seven 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 do so with cannabis. Amphetamines and Ecstasy are 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, but is growing in rural areas. The police have observed a countrywide increase in the use of cocaine. 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. In 2000, one gram of cocaine cost the approximate equivalent of \$200; today the street price is \$80 and it continues to decrease. The shift from heroin to cocaine among some addicts is attributed to this relative

price decrease and indications point towards an increased influx of cocaine. Cocaine is mainly smuggled to Sweden through the major European ports, such as Rotterdam, and then by land or air. South American smugglers and dealers have long-dominated the drug trade, however competition from other criminal groups, such as Serbians, have lead to a price decrease. Distribution is handled by different ethnic groups, such as from West Africa. Law enforcement entities note that West African networks, once heavily involved with heroin smuggling, now cooperate with South American smugglers in the cocaine trade.

Cannabis is one of the most commonly used narcotics in Sweden. Some 80 percent of the cannabis in Sweden comes from Morocco, the remainder from the Middle East and Central Asia. German citizens also smuggle cannabis from Germany to Scandinavia.

National Drug Policy Coordinator Björn Fries stated that the use of khat is an insufficiently acknowledged drug problem in Sweden. The use of khat is exclusive to immigrant communities such as Somalis and Ethiopians, who are continuing a practice of their birth countries. Khat is often smuggled into the country concealed in fruit and vegetable packages. In 2008, the police hired more personnel with in-depth knowledge of khat and intend to propose to change the law to reduce the possession amount of khat that is legally punishable.

In July, the government decided to classify the drug DMX (Dextrometofan) as a narcotic. Overdoses of the drug killed seven people during 2008.

The trend last years of an increase in the ordering of illicit drugs over the Internet continued. Cannabis is the drug most commonly smuggled via parcels ordered over the Internet. 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 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 2008

Policy Initiatives and Accomplishments. The Mobilization Against Drugs (MOB) Task Force and the National Drug Policy Coordinator positions were terminated during the year. The government's National Action Plan on Narcotic Drugs runs through 2010. Demand reduction and supply restriction figure prominently, and the plan includes provisions to increase treatment for prison inmates 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. The government has 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 doping crimes in athletics and expects to release its results soon.

Sweden ran a National Cannabis Project from 2004-2008, which focused on combating the organized criminal aspect of the cannabis trade. The project was replaced by an "action group" based in Malmo. Sweden participates in a three-year, 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 also has an active part in the EU strategy plan for narcotics and participates in the EU Minister Council Horizontal Working Group (HNG). Sweden also participates in the Western Balkans and drug combating projects spearheaded by COSPOL, a counternarcotics EU task force led by national police commissioners.

Fighting drugs remains a high priority area for Sweden's official development assistance. Sweden allocated over \$15 million in 2007 for the UN Office of Drugs and Crime's general and special-purpose programs.

Law Enforcement Efforts. In 2008, authorities did not uncover any major drug processing labs. Police reported 56,735 narcotics-related crimes from January to September 2008. This represents a one percent increase compared to the corresponding period of 2007. 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 February, authorities closed an Internet pharmacy based in Sweden for selling illegal prescription drugs. The case is one of the largest of its kind in Europe. Activity started in 2003 and registered customers in 65 countries with the largest market in the U.S. The drugs included Rohypnol, morphine and Viagra. Police estimate that the business grossed approximately \$5 million. Seven men were prosecuted.

A nation-wide drug bust was conducted by the police in October 2008, resulting in 43 apprehensions for internet-based drug trafficking. The suspects were between 18–55 years old.

In September 2007, Swedish police in coordination with DEA conducted a similar raid called “Raw Deal” against illegal sale of steroids over the Internet. The raid brought 22 individuals to justice. The majority was convicted of doping crimes carrying sentences of one to two years. Some cases were appealed and are ongoing.

In 2007, the police started investigating, together with the Doping Call Center, 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. The majority of the users are not athletes, but ordinary people.

**Amounts seized per substance per year in kilograms:
(January—September)**

	2008	2007	2006
Cannabis	1,331	848	419
Amphetamine	315	227.6	243
Heroin	37.7	13.5	73
Cocaine	48.8	15.7	25
Khat	6,800	5,000	4,400
Ecstasy	33,114	102,111	95,334
(number of pills)			

**Number of drug seizures by Swedish Authorities
(January—September)**

Cannabis	6,917	4,822	4,632
Amphetamine	3,259	4,154	4,294
Heroin	447	477	499
Cocaine	483	412	528
Ecstasy	143	120	160
Khat	175	146	234

Corruption. There were no known cases of public corruption in connection with narcotics in Sweden during the year. Swedish law covers all forms of public corruption and stipulates maximum penalties of six years imprisonment for gross misconduct or taking bribes. Neither the government nor any senior government official is believed 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.

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 also a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. The Swedish Police have a cooperation agreement with the Russian Narcotics Control Authorities. The agreement is meant to facilitate counternarcotics efforts in the region through information sharing and bilateral law enforcement coordination. In 2008, Swedish-Russian anti-drug efforts continued to be conducted under the auspices of the Baltic Sea Task Force. The US and Sweden cooperate in extradition matters under an extradition treaty signed in 1961 and amended in 1983. Sweden has bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. Both countries have ratified these agreements. None have entered into force.

Sweden has bilateral customs agreements with the United States, the United Kingdom, Germany, Spain, Norway, Hungary, Latvia, Slovakia, the Czech Republic, Iceland, Russia, Lithuania, France, Finland, Estonia, Poland, Denmark and the Netherlands. Through the EU, Sweden also has agreements with other nations concerning mutual assistance in customs issues and anti-drug efforts.

Cultivation/Production. No major illicit drug cultivation/production was detected during the year. However, in August the police detected modest-scale cannabis cultivations outside Kristianstad and seized 41 kilos of cannabis. One 48 year-old woman and one 41 year-old man were apprehended. Sweden is not believed to have any industrial narcotics laboratories and domestically 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 of the cultivation of flax and hemp for fiber.

Drug Flow/Transit. Drugs mainly enter the country concealed in commercial goods, by air, ferry, and truck over the Oresund Bridge linking Sweden to Denmark. The effectiveness of customs checks 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 region of Sweden. Most seized amphetamines originate in Poland, the Netherlands, and Baltic countries. Regular Baltic ferry routes serve Sweden; in the spring and southern months, amphetamines are trafficked into Sweden via maritime routes. Ecstasy usually comes from the Netherlands; cannabis from Morocco and southern Europe; and khat from the Horn of Africa via Amsterdam and London. The influence of outlaw motorcycle gangs, such as Hells Angels and Bandidos, remains significant in Sweden. Such groups are regularly involved in the distribution of methamphetamine, heroin, and cocaine, which they acquire from Albanian, Serbian and Montenegrin traffickers. Cocaine often comes through Spain and the Baltic region or directly from South America in freight containers. In December 2006, over one metric ton of cocaine was seized at the port of Gothenburg. 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. In 2008, Swedish law enforcement did not seize any drugs intended for the U.S. market.

Domestic Programs/Demand Reduction. The National Institute of Public Health and municipal governments are responsible for organizing and providing compulsory drug education in schools. In October, the government allocated \$2 million to the Swedish Council for Working Life and Social Research for research on drugs and narcotics. Several NGO's are also devoted to drug abuse prevention and public information programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swedish cooperation with U.S. Government law enforcement authorities on all issues, including narcotics, continues to be excellent.

The Road Ahead. The U.S. will pursue enhanced cooperation with Sweden and the EU on narcotics issues.

Switzerland

I. Summary

Switzerland is both a consumer market and transit route for illicit narcotics, but it is not a significant producer of illicit drugs. Nevertheless, in 2007 (NB: Throughout this report, the latest official statistics available are for 2007) total reported drug arrests reached 46,957, down 0.1 percent from the 47,001 cases recorded in 2006. Drug arrests peaked at just over 50,000 in 2004. Cocaine seizures reached another record high by increasing significantly-14 percent-to 404 kg from 354 kg in 2006(In 2005 cocaine seizures had increased by +44 percent; 2004: +91 percent) so the trend of increased cocaine abuse in Switzerland is clear. Overall, seizures of LSD and amphetamines increased, while Ecstasy and Methamphetamines seizures fell. Heroin seizures decreased from 231 kg in 2006 to 135 kg in 2007, but a major 2007 operation involving the seizure of 150 kg has not been accounted for in the statistics because the investigation is still on going. Contrary to previous increases, Ecstasy seizures dropped by 430 percent from 216,000 pills to 50,100 (2006: +7.1% 2005: +75 percent; 2004: +480 percent). 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 that seemed to have gained momentum in recent years. A drug bill aimed at decriminalizing cannabis use for Swiss adults was rejected by voters in 2008; however, voters approved a partial revision of the law on narcotics legalizing the sale of heroin for maintenance of addicts based on medical need. Additionally, authorities in many Swiss cantons largely tolerate possession of marijuana in small quantities for personal consumption. 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 percent of the population uses a narcotic substance regularly. While reported arrests for Ecstasy consumption increased by 15 percent in 2007, the use of other drugs remained more or less the same. Cannabis, cocaine, and heroin still remain popular among drug addicts. Swiss statistics show that cocaine consumption decreased among youths and 66% of cocaine consumers are aged above 30. Young drug addicts between 18-24 years are however the largest users of amphetamines, LSD and Ecstasy. 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 remained steady with 183 cases, and drug-related deaths decreased by 21% from 193 to 152. The Swiss Federal Police published a report on narcotics activities in 2008. It is available at:

www.fedpol.admin.ch/fedpol/fr/home/dokumentation/zahlen_und_fakten.html

III. Country Actions against Drugs in 2008

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 approval. 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, and a recent vote by Swiss citizens might institutionalize them indefinitely. 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 aspects 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 has not been supported 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 for harmful impurities outside nightclubs without criminal liability. In September 2006, the city decided to establish an office, open daily, which provides 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: West African networks involved in cocaine traffic; Albanian bands dealing in heroin and prostitution; and money laundering networks working from the former Soviet republics. Due to resident aliens, suspected (but not convicted) of drug dealing, traveling from canton to canton, several cantonal authorities have increasingly banned convicted drug dealers residing 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 trains to transport drugs to and from Switzerland, Holland or Spain. Their nationalities include Swiss, Italian, Lebanese, West-African, South-East Europe, South American, and the Dominican Republic. The “mules” generally originate from Africa, Brazil, the Dominican Republic or Europe.

By type of drug and offense:

Drug consumers were primarily arrested for consuming Marijuana (47%), Cocaine (18.6%), Heroin (12%), and Hashish (10%). Males accounted for 87% of drug consumers, and 63% of consumers were Swiss nationals. Most of the arrests took place in Zurich, Bern, and Vaud.

Drug traffickers were primarily arrested for smuggling Cocaine (30%), Marijuana (26%), and Heroin (19%).

Males totaled 75% of traffickers, and 27% were Swiss nationals. Foreigners not living in Switzerland accounted for 66% of drug traffickers. The major cantons involved were Zurich, Geneva, and Valais.

Drug dealers were 88% males, 21% Swiss nationals and 70% of the foreigners involved live in Switzerland. The major cantons involved were Geneva, Zurich, St.Gallen, Vaud, and Bern.

To give a sense of drug abuse developments in Switzerland, some important drug-related enforcement operations are described below:

In December 2007, the Zurich police made the largest drug seizure in Swiss history, by confiscating 144 kg of cocaine, worth SFr. 12 million (approximately \$10.5 million), and arresting four women and seven men ranging in age from 26-62. They originated from the Dominican Republic, Chile, Cuba, Spain and Switzerland.

In January 2008, Swiss customs seized a postal parcel containing 3500 Thai amphetamine pills (“yaa-baa”) originating from Bangkok, and addressed to a 48 year-old Vietnamese living in Basel. The investigation is still ongoing.

In February 2008, three Nigerian nationals accused of smuggling 235 kg of cocaine to Basel were on trial in a Basel court. The drugs were transported from Holland to Switzerland by train. They are accused of drug trafficking, money laundering and violations of the law on the residence of foreigners.

In March, the Zurich police arrested a 27 year old Nigerian acting as a mule. They found two bags totaling 1.4 kg of cocaine on him. He had a previous arrest record for pick-pocketing.

In March, a police search for asylum seekers selling cocaine continued in Lugarno. Six asylum seekers, mostly African, were arrested. The cantonal police believe the accused control a large part of the local cocaine network.

In April, four citizens of Guinea-Bissau were tried in the Federal Criminal Court in Bellinzona on the grounds they received large sums of money from cocaine dealers. The investigation is still continuing.

In April, four Albanian traffickers were on trial in a Vaud cantonal court in Lausanne on charges they sold heroin to drug dealers. Two of them had already been sentenced to 8 years in prison, but had used their probation period to look for additional drugs. The cantonal police also found 7 kg of heroin in their apartment.

In June, Swiss customs at a border post in St.Gallen used their narcotics detection dog to find 8 kg of heroin in a car arriving from Austria. The driver was a 29 year-old Macedonian accompanied by his 56 old mother, both of whom were living in Switzerland.

In June, the Lausanne police seized the largest amount of Thai pills in the canton since 2000. Following many evenings watching the area below the train station, the inspectors of the local drug squad managed to stop three Thai prostitutes and a Swiss holding a bag containing 1000 Thai methamphetamine pills (known as Yaa-baa) and more than SFr 7000. The ensuing investigation uncovered a network that was in operation since 2004 and had sold 15,000 pills. Twenty-five people were convicted for violations of the federal law on drugs, including 13 people for smuggling.

In July in Basel, a mobile Swiss customs unit stopped a car at an unguarded border post and found 160 kilograms of khat. The driver, a 50 year-old Frenchman was trying to move the drugs from Luxembourg into Switzerland. The drug was coming from Africa and was hidden in boxes located in the trunk of his limousine with a Neuchatel license number.

In July, an important network selling prescription drugs was dismantled in Lausanne after it had sold 342,500 sleeping pills to drug addicts between spring 2004 and June 2007. Police later arrested the main supplier who was working as a delivery driver for a pharmaceutical company in the western suburb of Lausanne. His accomplice was a Geneva pharmacist. He was ordering large quantities of the product “Dromicum 15mg”, and relied on the driver to divert the delivery to two women who sold it from their homes to drug addicts. In total, thirteen persons were arrested.

In August, a tourist group from Brazil tried to smuggle 41 kg of cocaine, but was arrested before they could depart. The remaining portion of the drug – 25 kg – still made its way to the Zurich airport in eleven suitcases. The group totaled 14 people, including 9 women and 5 men.

On August 26, a federal police expert warned that Ethnic Albanian criminal gangs continued to pose a serious security threat, as they dominate the transit and supply of heroin to Switzerland. According to the expert, the influence of ethnic Albanian criminal groups is still very strong, especially in the heroin market, and it is not abating. The vast majority of heroin sold in Switzerland still is trafficked by ethnic Albanian groups. According to the Vienna-based United Nations Office on Drugs and Crime (UNODC), Switzerland has historically been singled out as one of the countries most affected by ethnic Albanian heroin trafficking, due to the large expatriate population.

During the third quarter of the year, the Zurich Airport reported it had arrested 14 drug smugglers (10 men, 4 women), and confiscated 23 kg of cocaine and 15 kg of hashish. This is less than a year ago, when police had confiscated 26 kg of cocaine, 51 kg of marijuana, and 8 kg of hashish.

In September, a Bernese district court sentenced a 50 year old transport manager of Turkish origin to 11 years in prison. He had imported 150 kg of heroin illegally. The drugs had come from Bulgaria, and transited through Serbia, Croatia, Slovenia, and Austria. He had been paid SFr. 80,000 to carry out this operation. The man was trying to cross the Swiss-Austrian border at Diepoldsau when a Swiss customs officer discovered 300 bags of heroin, of 500 grams each with a 56% purity rate. The drugs could have been sold to a million consumers at a total street price of SFr.40 million. The man argued he had been forced by the Kurdish PKK to carry out the transport, but police determined he acted willingly to fund his transport company.

In October, the Federal Criminal Court tried three members of the same Kosovo family for operating one of Europe's largest heroin wholesale operations. Prosecutors say the 69-year-old father and his two sons, aged 42 and 28, used their base in Albania to import 1.5 tons of heroin from Turkey for sale elsewhere. The clan has been one of the principle suppliers of heroin in Western Europe since the middle of the 90s. According to drugs expert at the Federal Police Office, the seizure was very significant, even though it was split between different countries. The quantity seized approximates 25 to 50 percent of the total consumption in Switzerland in one year. The court sentenced the 42 year old son to a 15 year prison sentence, less than the 20 years requested by the prosecutor. The younger son was sentenced to a 2-year prison sentence, while the 69-year old father, who is living on social welfare, was released.

On October 28, the Criminal Court of Boudry (NE) sentenced two traffickers found with 430 kg of marijuana and 29 kg of hashish to 32 months imprisonment. Aged about 30, of Portuguese origin, and raised and educated in Switzerland, they conducted their illegal trade for several years until their arrest in early 2007. The revenue totaled 4 million francs with a profit estimated at more than 2 million. One of the defendants had created a company to cover the traffic and to justify his lavish lifestyle. The other defendant held a fictitious job at a restaurant, whose owner received a kickback of 445,000 francs for the purchase of real estate in Portugal. According to the traffickers, all the marijuana came from an outdoor field experiment. The defendants were also tried for money laundering.

On October 19, the Federal Criminal Court in Bellinzona sentenced four Guinean traffickers to 12-22 months in prison for money laundering offences. They were found guilty of carrying SFr. 900,000 of drug-related money to Africa. It is believed they worked on behalf of another person, and were paid a 10% commission on the funds transferred. Two of the traffickers had already been arrested at the Paris-Roissy airport with a significant amount of cash: Euro 100,000 and SFr. 334,000.

In October 2007, Swiss border guards arrested a drug smuggler from Sierra Leone who was traveling in a train from Paris with one kg of cocaine concealed in a bag. The man, aged 28, supplied local addicts in Lausanne and Vevey. The total value of the goods whose origin is not known, is valued at 125 000 francs. He had already been sentenced by a Vaud tribunal in a prior drug case, and confessed to having sold cocaine since May 2007. A dozen consumers, identified in Vevey and Lausanne, have also been brought up on charges.

On November 23, the Swiss border guards made the largest cocaine seizure in the Franco-Jura town of Boncourt. Customs officers found 400g of cocaine balls wrapped in cellophane and coated with powdered coffee on a Dutch

citizen driving a French registered car. Customs searched his vehicle and discovered another 700g of cocaine hidden in the windscreen washer. The drug (pure) would have had a market value of SFr. 100,000.

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 normally enters the country via courier. Trafficking routes tend to be from South/Central America, the Caribbean, and West Africa. West African based organizations are mostly involved in cocaine trafficking. Couriers for these groups, arriving at Switzerland's international airports, utilize ingestion and false-bottomed suitcases as their principal means of concealment. Excellent international air connections at Zurich and Geneva airports facilitate the movement of smugglers to other destinations as well as to Switzerland. Increasingly, countries from West Africa are used as storage/transshipment points for cocaine destined to Europe and Switzerland. 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 then apply for asylum. 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 about 200 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% 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 2008, 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. Unfortunately, the process for executing mutual legal assistance requests is very slow in Switzerland and defendants/account holders are provided with copies of the U.S. requests for assistance early in the process, thereby impacting U.S. law enforcement's ability to quickly and effectively pursue its investigation. 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 and has signed but not ratified the UN Convention against Corruption.

Cultivation and Production. Switzerland is not a significant producer of illicit drugs, with the exception of illicit production of high THC-content cannabis/hemp. 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 a decrease of smuggling cases involving cannabis (both resin and herb), thus following the trend of earlier years (except 2006). Surveys among pupils in 2006 suggest that cannabis consumption is slightly decreasing (corroborating 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/Demand Reduction. 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 purchase on an annual basis 250 kilograms of heroin for use in maintenance of the 130,000 registered addicts through the Heroin-assisted treatment (HAT) program at the 23 heroin distribution centers. The heroin imported by the Swiss government costs SFr. 100-130 million each year, and originates from Tasmania, Turkey or France—all licit producers of opium products. The Swiss government is also treating 20,000 people with methadone replacement therapy.

Three-quarters of those enrolled in the HAT 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. 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 many cases, patients’ physical and mental health has improved, their housing situation has become considerably more stable, and they have gradually managed to find employment. Numerous participants have managed to reduce their debts. In most cases, contacts with addicts and the drug scene have decreased. Consumption of non-prescribed substances declined significantly in the course of treatment.

Dramatic changes have been seen in regards to crime. While the proportion of patients who obtained their income from illegal or borderline activities at the time of enrolment was 70%, the figure after 18 months in HAT was only 10%. Each year, between 180 and 200 patients discontinue HAT. Of these patients, 35-45% are transferred to methadone maintenance, and 23-27% to abstinence-based treatment.

The current average cost per patient-day at outpatient treatment centers came to Swiss Franc 51. The overall economic benefit—based on savings in criminal investigations and prison terms and on improvements in health—was calculated to be Swiss Franc 96. After deduction of costs, the net benefit is Swiss Franc 45 per patient-day. Twenty percent of the costs were paid for by the cantons, while 80 percent was paid by the public health insurance.

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>

In early 2005, Switzerland also took part in an international pilot study, the implementation of the Multidimensional Family Therapy (MDFT) for adolescents with a cannabis problem. MDFT was developed at Miami University and has been used successfully in many instances in the U.S.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives/Bilateral Cooperation. On March 15, 2004, Switzerland and the U.S. joined forces to curb the rise in illegal sales of prescription drugs over the Internet. The two countries called for international action in a resolution presented at the annual session of the UN Commission on Narcotic Drugs (CND) 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. Some of the enforcement results of the cooperation which began with that CND resolution are reported in this document.

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.

Syria

I. Summary

In 2008, 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 (fenethylline), 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 2008

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 requires 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 a 2002 draft decree 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. Parallel to that, the SARG created the National Committee for Narcotic Affairs, which was tasked with setting up general drug-related policies and coordinating efforts with relevant local and international agencies to formulate prevention and treatment plans. The National Committee for Drug Affairs convened in June 2008 and recommended the establishment of a drug database, the funding of expanded awareness campaigns and treatment programs, and preparation of a national anti-narcotics strategy (including rehabilitation). Headed by the Minister of Interior, the committee includes representatives from a broad range of concerned Ministries, civic organizations and vocational unions.

Syria also contributed to combating the spread and trafficking in narcotics through the Arab Bureau of Narcotic Affairs, which is affiliated with the Arab League. Through this organization, Syria exchanges narcotics trafficking information with other Arab countries.

Nevertheless, there were some reports of public violence associated with drug addiction. One incident occurred in the Sbeina suburb of Damascus and included vandalism of private property, fist fighting and knife crime. One Sbeina shop owner told media that "not a day passes by without a problem or a quarrel". Another said that merchants shutter their shops whenever addicts are fighting for fear of sabotage. Pharmacists in the area reported that they refuse to sell tranquilizer tablets to drug addicts. One pharmacist added that tranquilizer tablets are smuggled from Lebanon through Syria.

Law Enforcement Efforts. According to a report published by the Counternarcotics Directorate, the number of successful drug apprehensions during the period January – August 2008 stood at 2,800 cases and the number of persons standing trial on drug-related offenses was 4,348. The report added that during the same period, the Syrian government confiscated 191 kg of hashish, 41 kg of heroin, 128.5 kg of cocaine, 6.8 billion Captagon tablets, 22 kg of hashish oil, 390 liters of precursor materials and 95,800 assorted narcotic tablets. The confiscated quantities were burnt by the Syrian authorities.

In a bid to combat narcotics smuggling and drug dealing, Syrian law enforcement personnel cracked down on drug dealers and continually reported their successful raids in the local media. In April 2008, the Syrian authorities dismantled a network of Arab and foreign nationals who were trafficking narcotics using Turkey as their base of operation. According to media reports, the culprits received a capital punishment sentence *and* were ordered to pay a fine of SYP 1.5 million each (presumably prior to their execution). Syrian law enforcement also apprehended a gang trafficking drugs in the Al Mujtahed neighborhood of Damascus and confiscated 1 kg of heroin intended for sale. On September 2008, law enforcement officers in Lattakia apprehended 21 persons for drug trafficking and addiction. Similarly two drug dealers were arrested in Dayr Ezzor with heroin in their possession. One particular case of smuggling along the Syrian-Israeli border was reported by Agence France Presse: On July 20, 2008 Israeli security forces opened fire on suspected drug smugglers along the Israeli-Syrian border, killing one Syrian citizen and wounding another. The incident occurred when a joint army and police patrol, searching for drug traffickers in the Golan Heights, identified a group of suspicious people, an Israeli army spokesman told AFP. The army said that the deceased man and the wounded man were both Syrian citizens. Others arrested were identified as residents of the mostly Druze town of Majd al-Shams in the northern Golan.

In October 2008, the Syrian Ministry of Interior and Interpol held a meeting at the Syrian Training Institute of the Internal Security Forces to discuss the smuggling of Captagon tablets to the Middle East. Experts from Interpol briefed the Syrian officers on ways that Interpol can help to combat Captagon trafficking, including an overview of Interpol forensic analysis programs and its anti-narcotics database.

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 on 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. However, the Syrian and Cypriot Interior Ministries are currently discussing the signature of an MOU (proposed by the Cypriots) to cooperate in fighting illegal migration, terrorism and drug trafficking. To this end, the Syrian Interior Minister and the Cypriot Assistant Police Commander met in June 2008. As of November 2008, both sides were still in the process of reviewing the draft MOU.

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.

Although cultivation of narcotics is a minor problem in Syria, rare incidents were reported. On June 2008, a law enforcement squad in Al Padrosia village apprehended a man for planting approximately 100 kg of marijuana on land adjacent to his house. Additionally, Syrian authorities found 3 kg of semi-dried marijuana in his house. The accused was transferred to Lattakia for trial.

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.

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/Demand Reduction. 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. Anti-drug campaigns were noticeably on the rise during 2008. A three-day drug awareness campaign took place in Aleppo in late June 2008, organized by the "For Aleppo" NGO, the Family Planning Association, the Aleppo Health Department and the UNRWA. The campaign will continue for one year, and is aimed at both drug awareness and treatment of addiction. Also, In November 2008, Aleppo University in cooperation with the Ministry of Interior held a seminar about the dangers of narcotics. Lt. General Ahmad Hourri, Head of the Anti-Narcotics Department, talked about different types of narcotics and the socio-economic dangers of drug addiction. Dr. Abdullah Al Habbash, Comparative Criminal Law specialist, discussed the 1993 drug law and its provisions for sentencing of drug dealers. The seminar was attended by the rector of the Law Faculty and a number of students. In late January 2008, the Boy Scouts and Girl Scouts held a special seminar on "Drugs and their devastating effects on youth and society."

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. The SARG maintained the same figures for 2008, adding that 95% of drug addicts are delinquents with criminal records. 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.

Taiwan

I. Summary

Taiwan authorities continued to make seizures of psychotropic drugs like ketamine and MDMA (Ecstasy) in 2008, but there is no evidence to suggest that Taiwan is reverting to a transit/trans-shipment point for drugs bound for the U.S. Taiwan Customs and counter-narcotics agencies work closely with their U.S. Drug Enforcement Administration (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. In 2008, as part of the Drug Signature program, the DEA received several samples of heroin and cocaine, demonstrating Taiwan's commitment to fully implement a 2004 legal 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, as well as establishment of Taiwan's Customs Services Canine Drug Detection and Training Center in 2008. 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 2008, Taiwan law enforcement and customs agencies continued to seize drug shipments originating from Thailand and Burma and identified heroin shipments seized in Thailand destined for the Taiwan market

III. Actions Against Drugs In 2008

Policy Initiatives. Taiwan's Legislative Yuan (LY) again failed to enact any new counter-narcotics legislation in 2008 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 2008; however, a continued effort is being made to encourage the LY to implement such legislation. In December 2007, the Ministry of Justice Investigation Bureau (MJIB) structure law was amended. The MJIB Drug Enforcement Center (DEC), which was originally a department established by administrative order, was renamed the MJIB & Drug Enforcement Division and became a formal division regulated by law.

Law Enforcement Efforts. In the absence of a single drug enforcement agency, like the U.S. DEA, the Ministry of Justice continues to lead Taiwan's counter-narcotics 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, however, all contributed to counter-narcotics efforts in 2008. MJIB, NPA/CIB, and Coast Guard Administration continue to cooperate on joint investigations and openly share information with their DEA counterparts. During 2008, Taiwan law enforcement authorities exchanged intelligence information with DEA and other foreign law enforcement agencies within the Asia Region. One example illustrating the successful results of this intelligence exchange and cooperation was the seizure of several kilograms of heroin concealed within containerized cargo that originated from Thailand and was destined for Taiwan.

In 2008, the DEA sponsored a National Police Agency/Criminal Investigation Bureau (NPA/CIB) officer to participate in an Intelligence Database Workshop at the National Drug Intelligence Center (NDIC) located in Johnstown, Pennsylvania. In addition, a NPA/CIB Forensic Chemist will attend training sponsored by the DEA Special Testing and Research Laboratory. From January 2008 through August 2008, Taiwan authorities seized 116.1 kilograms of heroin/cocaine, 23.6 kilograms of marijuana/MDMA/amphetamine, and 101.0 kilograms of Methylephedrine/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 2008.

Agreements. In 1992, AIT and its counterpart, TECRO, signed a Memorandum of Understanding on Counter-narcotics 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 cooperation.

Drug Flow/Transit. Thailand and Burma remain the principal sources for heroin coming to Taiwan. The PRC, Philippines, and Malaysia are seen as intermediary smuggling points for methamphetamine and synthetic drugs, such as ketamine and MDMA, destined for Taiwan. India has emerged as a source for diverted ketamine which is smuggled into Taiwan and other international markets. Taiwan's domestic clandestine laboratories continue to provide a majority of the methamphetamine consumption for Taiwan. In 2008, Taiwan seized ketamine sourced from India, Europe, and Mainland China and observed an increase in illicit domestic ketamine production. Couriers at Taiwan's International Airports, as well as fishing boats and cargo containers at Taiwan seaports, remain the primary means of smuggling drugs into Taiwan.

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. In 2008, Taiwan has seen an increase in domestically-produced methamphetamine and a decrease in methamphetamine that was imported from the PRC.

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. counter-narcotics policy. Counter-narcotics training and institution building have proven to be the cornerstones of this policy. In December 2007, the U.S. Customs and Border Protection conducted training for Taiwan Customs officers. In April 2008, the DEA provided asset forfeiture and financial investigations training in a training seminar titled International Asset Forfeiture School to law enforcement personnel from MJIB, NPA/CIB, Taiwan Customs, Taiwan Coast Guard Administration, and members of the Taiwan Prosecutors Office.

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 2008, resulting in several significant drug seizures and arrests in Taiwan and throughout the Pacific region. The USCG trained Taiwanese officers by presenting the Maritime Law Enforcement Boarding Officer Course in Taiwan.

The Road Ahead. AIT and DEA anticipate building upon and enhancing what is already an excellent working relationship with Taiwan's counter-narcotics agencies. Taiwan counterparts continue to pursue an island-wide forensic clandestine laboratory response capability. In the coming year, the DEA is already planning to conduct a Basic Drug Investigations Workshop, a Chemical Control Seminar, and a Precursor Chemical and Clandestine Laboratory Seminar. 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 counter-narcotics effort. More intelligence exchange and jointly conducted investigations are anticipated for 2009. DEA will also continue to urge Taiwan law enforcement to provide the DEA Drug Signature Program samples of drugs seized in Taiwan.

Tajikistan

I. Summary

Tajikistan is not a producer of illicit narcotics, but it is a major transit country together with Pakistan and Iran for heroin and opium from Afghanistan. The Republic of Tajikistan has emerged as a frontline state in the war on drugs and is suffering from the boom in Afghan drug production. The Republic of Tajikistan is also a major center for domestic and international drug trafficking organizations. A significant amount of opium/heroin is trafficked, primarily using land-based routes, through Tajikistan, onward through Central Asia to Russia and Europe. Approximately 40 percent reaches Russia; 30 percent goes to Europe; and there is evidence of trafficking in Afghan opiates to and through China. 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 five percent of Afghan opiates entering Tajikistan exit to China, three percent go to the United States, three percent through Africa to South America with the remainder going to Russia and Europe.

The Tajik Government is committed to fighting narcotics; however, corruption within the Tajik government continues to limit the effectiveness of counternarcotics efforts. Corrupt officials at all levels thwart law enforcement efforts as officers strive to move drug investigations up the chain of organized criminal groups. So far, no anti-corruption efforts by the Government of Tajikistan have had a significant impact on the corruption problem.

The Government of Tajikistan continues to implement counternarcotics activities, which the UNODC states yield more seizures than all other Central Asian states combined. While effectiveness is agency specific, Tajikistan's law enforcement and security services coordinate 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, the Kyrgyz Republic, and Tajikistan focusing on narcotics smuggling rings. Cooperation between Kazakhstan, the Kyrgyz Republic and, most importantly, Afghanistan is increasing among counter-narcotics agencies.

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, Tajikistan is a party to the 1988 UN Drug Convention, as well as the UN Convention against Corruption (UNCAC).

II Status of the Country

Geography and economics make Tajikistan an attractive transit route for illegal narcotics. The Pyanj River (Amu Darya in Afghanistan) which forms most of Tajikistan's border with 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 transit neighboring Uzbekistan. A new U.S.-built bridge provides a new route for trade through Afghanistan to the south. In the past, Uzbekistan closed and mined a significant portion of its border to combat a "perceived instability" from Tajikistan, although borders have generally 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 inadequate funding to support law enforcement all hamper efforts to combat illegal narcotics flows. With a \$40 average monthly income, high unemployment, poor job prospects, and massive economic migration to Russia, the temptation to become involved in lucrative narcotics-related transactions for those remaining in Tajikistan remains high.

In-country cultivation of narcotics crops is minimal. However, the Government of Tajikistan said that it is investigating the possible existence of small mobile Afghan opiate processing labs in the southern border area in Shurabad district near Yol and Sarigor, and in the east near Khorog in Gorno-Badakhshan.

III. Country Actions against Drugs in 2008

Policy Initiatives. In his annual speech to Parliament on April 25, President Rahmon called for the transfer by 2010 of the power to issue preliminary arrest warrants from the prosecutors to the courts. The transfer of powers to issue arrest warrants is one of the key elements of ongoing reform of Tajikistan's Criminal Procedure Code. President Rahmon ordered a new draft Code to be submitted for consideration to Parliament in 2008. While vesting the courts with greater oversight of criminal prosecutions would be an important development, a great deal of work will be required to improve the fairness, efficiency, and effectiveness of the criminal justice system. Passed in early 2008, the "Law on the Human Rights Commissioner" established an ombudsman who would independently review human rights claims against government officials. The law lacked some provisions that observers hoped would safeguard the Commissioner's independence. At the time of this report's publication, a Human Rights Commissioner had not yet been appointed.

In 2008 President Rahmon sent for ratification to the Majlisi Namoyandagon (Tajikistan's lower chamber of parliament) an agreement between Azerbaijan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan on the establishment the Central Asian Regional Information and Coordination Center (CARICC) for combating illicit trafficking in narcotic drugs, psychotropic substances, and precursors. UNODC launched the Center to counter illicit drug trafficking. The Center has liaison officers seconded from member states whose role is to ensure cooperation between CARICC and the competent authorities in the respective country.

Law Enforcement Efforts. The data below shows the narcotics seizures by law enforcement and security services during the first 9 months of 2008 compared with the same period of 2007:

Ministry of Internal Affairs (MVD):

Heroin (kg): 2007: 792. 2008: 751
Opium (kg): 2007: 1002. 2008: 411
Cannabis (kg): 2007: 347. 2008: 821
Total MVD (kg) 2007: 2141. 2008: 1983
MVD 2007 percentage change 2008: -7.4 percent.

Drug Control Agency (DCA):

Heroin (kg): 2007: 278. 2008: 307
Opium (kg): 2007: 329. 2008: 487
Cannabis (kg): 2007: 309. 2008: 358
Total DCA (kg) 2007: 916. 2008: 1152
Total DCA (kg) 2007: 916. 2008: 1152
DCA 2007 percentage change 2008: +25.8 percent

Border Guards (BG):

Heroin (kg): 2007: 82. 2008: 111
Opium (kg): 2007: 471. 2008: 241
Cannabis (kg): 2007: 276. 2008: 649
Total BG (kg) 2007: 829. 2008: 1001
BG 2007 percentage change 2008: +20.7 percent.

Committee for National Security (KNB):

Heroin (kg): 2007: 100. 2008: 200
Opium (kg): 2007: 397. 2008: 468
Cannabis (kg): 2007: 102. 2008: 121
Total KNB (kg) 2007: 599. 2008: 789
KNB 2007 percentage change 2008: +31.7 percent.

Customs Service (CS):

Heroin (kg): 2007: 36. 2008: 81
Opium (kg): 2007: 0. 2008: 01
Cannabis (kg): 2007: .026. 2008: 9
Total CS (kg) 2007: 36. 2008: 90
CS 2007 percentage change 2008: +149.8 percent.

Total-All Agencies:

Heroin (kg): 2007: 1280. 2008: 1450
Opium (kg): 2007: 2199. 2008: 1607
Cannabis (kg): 2007: 1034. 2008: 1958
Total (kg) 2007: 4521. 2008: 5015
All Agencies 2007 percentage change 2008: +11 percent.

According to the UNODC, in 2008 Tajikistan accounts for approximately 50 percent of Central Asia heroin and opium seizures. 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 as in previous years major narcotics traffickers are not 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 United States continues to advocate with the Tajik government to encourage official focus on investigations and prosecutions, rather than just seizures and arrests.

The State Committee on National Security on January 31st, 2008 in Qubodiyon district of Khatlon carried out the largest single drug seizure in 2008. Officers seized a total of 400 kg of drugs including 73 kg of heroin. Law enforcement officers arrested eight people including four Border Guard Officers. The courts sentenced the Border Guards to jail terms of 16-19 years and gave 15-16-year terms to the other traffickers. Another long sentence was awarded to three foreign nationals from Uganda, the Philippines and Afghanistan after an investigation linked them to a single criminal drug trafficking incident.

The Drug Control Agency is one of the most effective and active enforcement and intelligence agencies in Tajikistan. In the first nine months of this year they seized over 1152 kilos of illicit drugs. Agency operations are unique in their ability to collaborate effectively with other government agencies and regional and international law enforcement institutions. The Agency participated in thirty-seven joint operations with the Russian Federation, Kyrgyz Republic, Kazakhstan, and Afghanistan. These operations were successful, giving rise to information which helped Afghan forces to destroy four drug laboratories in Afghanistan and to seize large amounts of drugs and weapons.

As a means to encourage more cooperative enforcement activity, the USG is actively working with law enforcement bodies to develop and use joint operational intelligence strategies. These initiatives include the development of a Joint Intelligence Center and a Field Intelligence Center. The Joint Center is intended to improve the capacity of law enforcement officials to work jointly in detecting, investigating, apprehending, and prosecuting criminals and terrorists. This strategy complements the United States' ongoing efforts to upgrade database software utilized in the analytical centers to organize and better track complex criminal investigations.

The Border Guards which are the first line of defense against contraband trafficking along the Tajik-Afghan border were more successful in seizing drugs in 2008 than in 2007. They seized 1001 kg of drugs during the first nine months of 2008, which is a 17 percent increase over the same period last year. Shurabad region, on Tajikistan's southeastern border with Afghanistan, is considered to be the main entry route for Afghan drugs. It is also the region which experiences the highest incidence of violence targeting Border Guards. Fifteen skirmishes were reported in 2008, with casualties reported to both Border Guards and traffickers. The Border Guards' lower ranks are young, poorly paid conscripted soldiers, and very susceptible to corruption. Statistical information on border activity continues to be difficult to obtain since the Border Guards were placed administratively under the direction of the State Committee for National Security.

On the whole, Tajik law enforcement and security ministries are becoming more proactive and technically competent in dealing with border smuggling and organized crime although poor funding and corruption limit their effectiveness.

Corruption. As a matter of policy, the Tajik Government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances and has continued to seek international support in augmenting its efforts to combat narcotics trafficking. 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 discrepancy between the extravagant lifestyles of some senior officials and their nominal 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 past by the Drug Control Agency, Ministry of Interior, and State Anti-Corruption Agency; however, these are low level officers, and investigations rarely proceed beyond indictment of the courier and foot soldiers involved.

In 2006 Tajikistan ratified the United Nations Convention Against Corruption (UNCAC). In 2007, the President created the State Financial Control and Anti-corruption Agency, which reports to the President's office. The Agency has not conducted any investigations of high value targets. The Ministry of Justice and the Prosecutor General's Office remain major obstacles to improving many law enforcement efforts. As corruption continues to be the single largest obstacle to reform, the United States is looking at ways to engage law enforcement and support rule of law programs with a more grass-roots approach to promoting public action and involvement in supporting anti-corruption and community-based rule of law initiatives.

Law enforcement units of the Anti Corruption Agency discovered 693 corruption-based crimes in the first nine month of 2008: 244 of them were felonies, 142 were connected to bribery, and 121 were committed by government employees. Authorities accused employees of the courts and law enforcement agencies including officers from the Drug Control Agency and the Ministry of Defense of 132 corruption-based crimes. The Anti Corruption Agency investigated 232 cases and 208 of them were sent to the court for further proceedings.

The State Financial Control and Anti-Corruption Agency conducted 792 financial audits of government entities for the period January-October, 2008. Auditors discovered theft or misappropriation of \$31 million from the country's budget; almost \$10 million was returned. 983 officials received disciplinary punishment and 43 were released.

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 e UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation/Production. According to media reports in 2008 poppies and marijuana are cultivated in very limited amounts in various parts of the country. The Drug Control Agency does not consider Tajikistan a narcotics production country. The two largest cultivations were found by the Tajik police in Sughd region, along the Tajik-Kyrgyz and Tajik-Uzbek borders and in districts of the remote Badakhshan province. Officers found a total of 85,000 bushes of

wild marijuana and destroyed them as part of the "Poppy-2008" operations in 2008. There were no laboratories found or reported in Tajikistan.

Drug Flow/Transit. Tajikistan is an important transit route for the Afghanistan drug trade. Estimates suggest that between 15 percent and 30 percent of Afghanistan drugs pass through Tajikistan destined for Russia, China, and Europe. Although the volume has likely increased, because of higher Afghan production, the estimated percentage has remained relatively stable. Hashish from Afghanistan also transits Tajikistan en route to Russian and European markets. This year there has been a marked 89 percent increase in the quantities seized in Tajikistan. An undetermined quantity of Afghan opiate traffic is crossing into Tajikistan, transiting through the eastern Badakhshan region and entering western China. Lack of verifiable intelligence and actual seizures in that region make it difficult to assess the amount of this traffic. The remoteness of the Badakhshan region and limited law enforcement capacity continue to offer challenges to enforcement and deterrence on one hand while offering opportunities to traffickers on the other.

It is estimated, but not verified, that precursor chemicals used in Afghan heroin production are coming from western China to Afghanistan via the eastern Tajikistan route. With U.S. and other donor assistance Tajikistan authorities are addressing this region more aggressively, strengthening their enforcement profiles and developing their intelligence structures. In particular the USG has been working to develop integrated intelligence capacity and to encourage joint operational strategies.

Domestic Programs/Demand Reduction. Drug addiction in Tajikistan is increasing yearly and school-age children from all regions have relatively easy access to illegal narcotics. The Government of Tajikistan's resources to address both the user and transit problems are limited. Unofficial United Nations statistics estimate about 119 registered drug users per 100,000 people in Tajikistan, with heroin the overwhelming drug of choice in all regions in the country. Unregistered drug users, included in this estimate, cause the figure to be higher.

According to the Ministry of Health of the Republic of Tajikistan, in the first half of 2008, 8,732 drug addicts have been registered by health centers (7,791 in 2006, 8,117 in 2007). Most registered drug addicts are found in the capital Dushanbe (47 percent) and Sogd Region (19 percent). Drug-related problems, including crime and HIV infection, have begun to take their toll on Tajik society. The U.S. Embassy conducts drug demand reduction projects to address the increasing consumption. Jointly with the Tajik Karate-do Federation the U.S. embassy, co-sponsored an International Karate-do Tournament under the slogan "Strike a Blow Against Narcotics" to advocate a healthy lifestyle for Tajik youth. This program aims to stop drug addiction by bringing drug demand reduction information to young people in their schools. The program complements other U.S. counter-narcotics initiatives aimed at improvements in traditional narcotics interdiction and law enforcement institution-building. The project targets high school students in Dushanbe, Khujand and Khatlon to promote a healthy and drug-free lifestyle through peer-to-peer interaction.

The Drug Control Agency continued to expand and develop its initiatives to increase drug awareness during the reporting period, primarily among school children. The Tajik government funded the "Decrease of Demand for Drugs in Tajikistan" project which supports a rehabilitation center for drug users in Badakhshan. Under the project the government also constructed a sports complex in Khorog to provide healthy alternatives to young people. The Drug Control Agency organized 801 programs including 281 anti-drug publications, 274 TV programs, 268 meetings, seminars, round table discussions, and 69 sport activities. In April and July of 2008 the Prime-Minister of Tajikistan chaired sessions in Dushanbe to organize programs to prevent drug use in Tajikistan. Other leaders conducted similar sessions in all the regions of Tajikistan.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S.-Tajik bilateral relationship in counter-narcotics and law enforcement is sound. Cooperation in reform of the justice sector has just begun, but has already led to an invitation to assist in reform of the

process for selection and training of judges. However, international donor assistance for rewriting the Criminal Procedures Code resulted in bureaucracy and obstruction by Tajik officials with no assistance ever accepted. The counter-narcotics office in the U.S. Embassy in Tajikistan is headed by a full-time International Narcotics and Law Enforcement officer. He is assisted by a Senior Law Enforcement Advisor, Rule of Law Attorney Assistant, Program Managers for Border Security and Policing, and a Construction Engineer. The embassy funds the United Nations Office on Drugs and Crime as an implementer for support to the Drug Control Agency. The International Organization for Migration is the implementer of the INL-funded Trafficking in Persons programs; American Bar Association implements the rule of law programs, and local non-governmental organizations implement justice sector programs.

The United States has been supporting the Drug Control Agency (DCA) for nine years and is hoping to prepare the agency for full self-sufficiency, but this will require budget commitment by Tajik authorities. The Dushanbe Office of the United Nations Office on Drugs and Crime facilitates cross border cooperation between drug agencies in Kyrgyz Republic and Afghanistan. The DEA Dushanbe Country Office engages the Drug Control Agency and the Ministry of Internal Affairs Department on counter-narcotics by assisting in international counter-narcotics cases and mentoring Agency officers to improve operational skills.

U.S. security assistance to Tajikistan continues to expand with additional resources coming from the Department of Defense and other sources. The Office of Defense Cooperation manages Central Command's counter narcotics program to develop the Government of Tajikistan's capacity to limit narcotics trafficking along its porous border with Afghanistan through projects that promote interagency cooperation; improve mobility, communications, and support of guards stationed at isolated outposts by the Drug Control Agency and the Border and Customs Services; and professionalize the Government's approach to counternarcotics. The Office has implemented a major communications project that links all border posts and border guard headquarters. Next steps include expanding the system to link law enforcement/security agencies in Tajikistan and connect to the Central Asian Regional Information and Coordination Centre in Almaty, Kazakhstan. The purpose of the Center is to improve information flow and operational intelligence across Central Asian borders to better combat the increase of transnational organized crime networks in the region.

The Departments of Defense and State renovate border outposts; provide training, and operational and investigative equipment to various law enforcement and security-related government agencies. The embassy's Border and Law Enforcement Working Group (BLEWG) coordinates all USG assistance on counternarcotics and border assistance. Donor countries and organizations coordinate provision of assistance through the Border Security Working Group that meets monthly. Cooperation with the Border Guards is bureaucratic and slow. Lack of transparency, insufficient staffing, and regular leadership changes within the Border Guards delay project implementation and require more donor oversight and direct implementation. The US continues to assist the Ministry of Internal Affairs by renovating the Ministry's Training Academy, reforming curriculum, and improving teaching methodology.

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 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. The Drug Enforcement Administration will provide more sophisticated operational training and mentoring of the Drug Control Agency. A greater emphasis on recruiting and developing a network of reliable sources will enable the Drug Control Agency and the Ministry of Internal Affairs to initiate cases against major trafficking organizations operating regionally and internationally.

The United States will also sustain the justice sector reform program and coordinate with other donors and international organizations during planned training of prosecutors, judges, and defense attorneys. A major goal of the INL-funded rule of law program, a subset of the justice sector 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, ethics, 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. The embassy will focus on anti-corruption campaigns within existing counter-narcotics, policing, and border security programs. To combat the ever increasing drug consumption, the U.S. will sustain drug demand reduction programs especially using the peer-to-peer principle. To improve regional cooperation to address common problems and threats, the United States will coordinate closely with other donor countries and international organizations to organize and implement as many Afghan-Tajik joint training courses as possible.

Tanzania

I. Summary

Tanzania is located along drug trafficking routes linking Latin America, the Middle East, Asia, Africa, Europe, and, to a lesser extent, the United States. Drugs like hashish, cocaine, heroin, Mandrax, and opium pass through Tanzania's porous borders. In addition, the domestic production of cannabis is a significant problem, with active cultivation in many regions. Drug abuse, particularly involving cannabis and, to a lesser extent, cocaine and heroin, is gradually increasing, especially among younger people and in tourist areas. Tanzanian institutions have minimal capacity to combat drug trafficking, and corruption reduces that capacity still further. Tanzania is a party to the 1988 UN Drug Convention.

II. Status of Country

Sustained economic growth and increasing affluence, especially in urban areas, have helped drive the demand for narcotics. Domestic production of cannabis is expanding and improving in quality. Cannabis grown in the Arusha region reportedly sells at a premium price in Kenya. In October, police reported the seizure of over 200 kilograms of marijuana thought to be from Tanzania at a port in Comoros. During the year, Tanzanians were arrested for drug trafficking elsewhere in East Africa as well as in India and Mauritius.

Domestic use of narcotics appears to be on the rise. Because cocaine and heroin are not as affordable as cannabis or khat, they are used in smaller quantities and primarily within affluent urban areas. The growth of the tourism industry, particularly on Zanzibar and near Arusha, has also increased demand for narcotics. Tanzania's location, along trafficking routes with numerous possible points of entry through its eight land borders and 600-kilometer coastline, provides the opportunity for relatively easy drug trafficking.

Drugs are believed to enter Tanzania by air, sea, roads and rail. Major points of entry include airports in Dar es Salaam, Zanzibar and Kilimanjaro, seaports at Dar es Salaam and Zanzibar, and smaller ports like Tanga, Mtwara and Bagamoyo. Anecdotal evidence suggests that improved port surveillance has driven many traffickers out of the major points of entry to minor sea ports and unofficial land entry points. Traffickers reportedly conduct a significant amount of narcotics smuggling offshore via dhows and small boats that avoid ports.

III. Country Actions against Drugs in 2008

Policy Initiatives. According to the Deputy Minister for Trade, Industry and Marketing, Hezekiah Chibulunje, the government saw an upward trend in the trade of counterfeit goods in 2008. This new trend was thought to be a reaction by small-scale drug dealers, those hardest hit by antinarcotics efforts, to diversify from narcotics, as well as a means for large-scale traffickers to launder their money.

Efforts to amend the Anti-Drugs Control Commission Act of 1995, designed to strengthen the Drug Control Commission (DCC) and increase the penalty for drug trafficking, failed in 2007. With the failure of the amendments, the semi-autonomous archipelago of Zanzibar has indicated that it will proceed independent of the mainland with its own anti-narcotics legislation.

Law Enforcement Efforts. Tanzania has three counter-narcotics police teams, located in Dar es Salaam, Zanzibar, and MoshI. Law enforcement efforts are increasingly successful at arresting small-scale smugglers; however, law enforcement has been less successful at apprehending "kingpins" of narcotics activities. Newspaper articles and editorials have criticized the government for not investing more in manpower and training of drug control officials.

Senior Tanzanian counter-narcotics officials acknowledge that their officers need additional training. However, they are limited by a lack of resources and staff. Antinarcotics units lack such basic resources as modern patrol boats to monitor the harbor and must rely on modified traditional wooden dhows to interdict smugglers at sea. Tanzanian officers and police staff are not able to effectively implement profiling techniques to seize larger amounts of narcotics. Narcotics interdiction seizures generally result from tip-offs from informants. Moreover, low salaries for law enforcement personnel encourage corrupt behavior.

Formal cooperation between counter-narcotics police in Kenya, Uganda, Rwanda and Tanzania is well established, with bi-annual meetings to discuss regional narcotics issues. This cooperation has resulted in significant increases in effectiveness in each nation's narcotics control efforts. Tanzania also cooperates formally with countries from the Southern African Development Community, including Zambia and South Africa. In 2008, the United Kingdom provided counter-narcotics training to Tanzanian officers from immigration, customs and police divisions. Other officers attended various international training events held in Malawi, Botswana and Johannesburg.

In 2008 Tanzania's judiciary convicted 467 individuals for narcotic offenses involving “hard drugs” like cocaine and heroin, and 6033 individuals on minor offenses involving drugs like cannabis. It was reported by the police that approximately 200 metric tons of cannabis and two metric tons of khat, locally known as mirungi, were seized during the year.

Corruption. The Government of Tanzania 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; however, corruption continued to be a serious concern in the Tanzanian Police Force. It is widely believed that corrupt police officials at ports facilitate the transshipment of narcotics through Tanzania. There is no specific provision of the anticorruption laws regarding narcotics-related corruption cases. In June 2006, two police officers were arrested following the disappearance of approximately 80 kg of cocaine and heroin from police custody. During the year, the courts began hearing the case, but there was still no ruling by the end of 2008.

Many believe that corruption in the courts often leads to case dismissals or light sentencing of convicted narcotics offenders. Some prosecutors have complained that many arrested suspects plead “not guilty” until the magistrate hearing the case can be bribed. Once confident of the magistrate's complicity, the suspects change their plea to guilty, thereby forgoing a lengthy trial process, and the magistrate issues a judgment of only a minor fine.

Agreements and Treaties. Tanzania 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. Tanzania is also a party to the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime, and its three protocols. The 1931 U.S.-U.K. Extradition Treaty is applicable to Tanzania.

Cultivation and Production. Traditional cultivation of cannabis takes place in remote parts of the country, mainly for domestic use. It is estimated that an acre of land can produce up to \$1000 worth of cannabis crop as opposed to \$100 worth of maize. The Ministry of Public Safety and Security identified the following eight regions as the primary production areas for cannabis: Iringa, Tabora, Shinyanga, Mara, Arusha, Mwanza, Mbeya and Tanga. However, for 2008, Morogoro topped the list for farmland where cannabis plants were destroyed, with a reported 600 acres. No figures on total production exist, but during the year, police and government officials reported that production continued and had spread to different regions in response to eradication efforts and special police operations against drug traffickers in Iringa, Mbeya and Ruvuma regions. Given the availability of raw materials and the simplicity of the process, it is likely that most hashish is produced domestically; however, other illegal drugs in Tanzania are probably produced elsewhere.

Drug Flow/Transit. Due to its location and porous borders, its weakly controlled seaports and airports, Tanzania has become a significant transit country for narcotics moving in sub-Saharan Africa. Traffickers from landlocked

countries of Southern Africa, including Zambia and Malawi, use Tanzania for transit. Control at the ports, especially on Zanzibar, is difficult. Traffickers using sophisticated methods of forging documents and concealment face poor controls and untrained and corrupt officials. According to the Anti-Narcotics Unit, heroin entering Tanzania from Iran and Pakistan is being smuggled to the U.S., China and Australia in small quantities by traffickers from Nigeria, Tanzania (with a significant number of traffickers from Zanzibar) and other countries in East Africa. Cocaine enters Tanzania from Brazil, Colombia, Peru, Venezuela, and Curacao in transit to South Africa, Europe, Australia and North America. Cannabis Resin, a drug that is not known to be consumed domestically, enters Tanzania mainly by sea from Pakistan and Afghanistan. It is often concealed with local goods such as tea and coffee and smuggled to Europe, North America and the Seychelles. The port of Dar es Salaam is also a major point of entry for Mandrax from India, Nepal and Kenya headed toward South Africa. Tanzanians continue to be recruited as “drug mules” for trafficking.

In November, the Commissioner of the Drugs Control Commission said that number of suspects arrested for involvement in drug trafficking increased, while the overall volume of trafficked narcotics decreased. He attributed this to a new strategy by drug lords to spread the risk by increasing the number of traffickers, but giving each of them smaller amounts of drugs.

In April, a Tanzanian national was arrested in the Maldives after arriving from India for possession of large quantities of narcotics. In June, while traveling to the Olympic Games, Tanzanian boxers and their coach were arrested in Mauritius for trafficking in narcotics worth 120 million shillings, (approximately \$100,000). The president of the Boxing Federation of Tanzania was later arrested and charged with arranging the deal.

Domestic Programs/Demand Reduction. Police have been actively involved in community education programs to educate the public about the dangers of narcotics. In 2008, the Drugs Control Commission (DCC) worked together with the police to use the media to spread anti-narcotic messages. Police and DCC officials participated in state sponsored trade fairs and youth-centered events to create greater awareness about drug trafficking. The DCC attributed the increase in narcotics-related arrests to working more closely with local communities to identify and stop drug dealers and users. The DCC, under the Prime Minister's Office, also managed a small demand reduction program, which included training courses for nurses, counselors, and teachers in urban centers across the country. Limited government resources existed for specialized care for drug addiction and rehabilitation. Any required in-patient care was typically provided by psychiatric hospitals.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. policy initiatives and programs for addressing narcotics problems in Tanzania are focused on training workshops and seminars for law enforcement officials. One Tanzanian officer completed the residential USCG International Maritime Officers Course (IMOC). State Department law enforcement assistance included funding the establishment of a forensics lab and training in its use. The United State Government is funding the Personal Identification Secure Comparison and Evaluation System (PISCES) to improve interdiction capabilities at major border crossings. The program is primarily designed to target terrorist activities, but also is effective against narcotics and other smuggling activities. The DOS sent six officers from the Tanzania National Police Force to the International Law Enforcement Academy (ILEA) in Gaborone, Botswana for a course in money laundering, combating human trafficking, conducting drug investigations, and other subjects.

The Road Ahead. U.S.-Tanzanian cooperation will continue, with a focus on improving Tanzania's capacity to enforce its counter-narcotics laws.

Thailand

I. Summary

Thailand does not have significant levels of drug cultivation or production, but is, however, a transshipment point and a net importer of drugs. The trade in and use of illicit drugs remains a serious problem. The primary drugs of concern are amphetamine type stimulants (ATS), whose abuse is less widespread than a few years ago due to improved enforcement and public education, but are still readily available across the country. “Club drugs” such as Ecstasy and cocaine are mainly used by some affluent Thai and foreign visitors.

Trafficking of illicit drugs through Thailand poses a continuing challenge to Thai law enforcement agencies. As suppression of trafficking succeeded in certain targeted northern border areas, smugglers changed their routes. Heroin and methamphetamine continue to move from Burma across Thailand’s northern border for domestic consumption as well as for export to regional and international markets. Methamphetamine and some heroin move into Thailand from Burma, via Laos across the Mekong River into Thailand’s northeastern border provinces. Drugs also travel south through Laos into Cambodia where they enter Thailand across the Thai-Cambodian border. And drugs also move from Thailand directly through Laos to Vietnam and Cambodia for regional export. Some opium 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 no significant cultivation or production of opium, heroin, methamphetamine or other drugs in Thailand today, but various regional and international drug trafficking networks use Thailand as a transit point and sell drugs produced in Burma and elsewhere. Seizures of low-dosage methamphetamine tablets made from caffeine, inert filler substances (e.g., talcum powder), and methamphetamine—known locally as “yaa baa” or “crazy medicine”—slightly increased from the previous year to approximately 14.3 million tablets in 2007. Total seizures of “yaa baa” remain far below the 2002 seizure total of 96 million tablets. “Yaa-baa” remains Thailand’s most-commonly abused illicit drug. The recent emergence of crystal methamphetamine or “ice” production in the Shan State of Burma is of on-going concern to Thai authorities, who believe that it is a greater addictive threat, and could lead to an increase in domestic Thai consumption, with all the attendant social problems such a development would bring.

Thailand has long been a net importer of opium. The small quantities of opium produced in Thailand cannot support even the modest continuing domestic needs of traditional opium smoking ethnic tribal regions, much less, any refining into heroin in commercial quantities. Small pockets of local opium cultivation do persist – shifting locations in response to periodic eradication campaigns by Thai authorities. Such planting is usually carried out by ethnic highland tribal peoples trying to supplement their meager incomes by selling locally, or to meet their own consumption needs.

The region’s largest commercial-scale drug producer, the Burma-based United Wa State Army (UWSA), publicly pledged to eliminate opium poppy cultivation by the end of 2005, and did appear to reduce poppy cultivation in the region they control. Opium cultivation was not entirely eliminated, and was accompanied by the emergence of very significant ATS pill production. In general, the long-term decline in opium production over recent years, accomplished through improved law enforcement and crop reduction, has been offset by increasing production of methamphetamine tablet trafficking from Burma for sale in Thailand.

Thailand has a small domestic consumer market 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 for 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 other East Asian countries, such as China. While the cocaine market is still

largely controlled by West African criminal organizations, South Americans have become involved in Thailand to a limited extent. They are more aggressively involved elsewhere in the region, and represent a new trend in international organized criminal activity.

Marijuana is sold and consumed widely in Thailand without much law enforcement attention, and a steady flow continues to transit Thailand. It is still used by some as a flavoring ingredient in curries and noodle soup. The use of Kratom (*Mitragyna speciosa*), a plant with addicting stimulant properties found in southern Thai provinces, increased, as did marijuana use. In southern Thailand, the expanding use of Kratom is of concern to 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 Kratom plant leaves with cola drinks, cough syrup or tranquilizers to form a narcotic-laced drink. Kratom is reportedly popular due to its low cost, difficulty of detection, and broad acceptance by village society.

Ketamine is used throughout Asia by people searching a “high” without the criminal penalties that pertain to other controlled substances. It is found in both liquid and powder forms. Most Ketamine used in Thailand is produced in India. A veterinary tranquilizer, it has hallucinogenic side effects and is sometimes used in the youthful party scene, because it is cheaper and considered less dangerous than Ecstasy. Ketamine causes distorted perception and makes the user feel disconnected and out of control. While the hallucinogenic effects last only about 90 minutes, the coordination and distortions of the senses among Ketamine users can last for up to 24 hours. Finally, there is significant abuse of inhalants, such as glue, that impoverished users turn to because they are readily available and cheap. Such inhalants are not usually controlled substances.

Treatment data reported by the Thai government and United Nations Office of Drugs and Crime (UNODC) indicates that “yaa baa” use remains widespread. Consumption rates and trafficking volumes of “yaa baa” 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 2008 as well. Crystal methamphetamine, “ice” usage increased in 2008, 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 “yaa baa.”

Seizures of “ice” have declined steadily since 2005. “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 (\$88) per gram on the street. The “ice” that transits Thailand for regional markets usually goes to Malaysia, Indonesia, Singapore, the Philippines, Taiwan and Japan.

III. Country Actions against Drugs in 2008

Policy Initiatives. The uncertainties of the political situation in Thailand have not adversely affected the Thai Government’s efforts to combat drugs. During 2008 the Royal Thai Government (RTG) launched a special operation entitled “unity for freedom from the threat of drugs”, aiming to reduce the numbers of drug traffickers and users by focusing on high-risk youth groups. Government officials, civic groups and local administrations, and interested private citizens were deployed to monitor the drug problem. Three general areas were monitored; Bangkok Metropolitan, the southern border provinces, and other border areas known to present special smuggling control problems.

Law Enforcement Efforts. RTG efforts to interdict the trade and use of illicit drugs during 2007-08 included the following measures: a) Stronger border control; b) using units of the civil service, police and army to patrol, c) operation of check points to monitor high traffic areas; d) strengthening the anti-drug educational capacities of local communities and schools through anti-drug programs for youth; e) border Liaison Offices with Laos and Cambodia; f) using the new law on asset forfeiture and anti-money laundering against illicit drug traffickers; g) enhancing international assistance and operational cooperation; h) surveying and manual eradication of poppy cultivation areas; i)

education and alternative livelihood support for northern hill-tribe villagers; j) 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 renewed opium poppy planting is most likely to occur. The Office coordinates at least one opium eradication campaign per year, carried out by Thai 3rd Army units that have become specialists in this activity. These campaigns are conducted with financial support from the U.S. Mission, through intelligence developed by DEA's Bangkok Country Office.

Thailand has no quiet, well-controlled borders, and the country's central location and vibrant economy make it a lodestone for narcotics. Thai counter-drug air assets are insufficient to control the most narcotics-active land borders with Laos, Burma, and Cambodia because those areas are often remote and vegetation-covered. In recent years the Thai have stepped up efforts to coordinate with law enforcement entities in neighboring countries, even in times of border tension (the Thai Police report sustained contact with their colleagues in Cambodia, even during the recent military clashes between their countries). The relationship with Laos has improved the most. Recent Thai efforts in border interdiction and law enforcement coordination include continued intense policing of the northern and northeast border areas. Improved cross-border operational communications along the Mekong River have been fostered by 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 more frequent contacts and meetings, as well as better communications tools, to support operational cross-border communications. While still far from optimal, this is an order of magnitude better than the Mekong border situation only a decade ago.

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 commonly 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 shifted enforcement capacity to those areas. A new USG-outfitted drug intelligence center in northeastern Thailand, constructed with the help of the Joint Interagency Task Force, JIATF-West, further bolsters counter-narcotics coordinating and operational capabilities within the Royal Thai Police Narcotics Suppression Bureau (RTPNSB) network.

Corruption. As a matter of policy, the Thai Government does not permit, 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. 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. However, corruption is endemic in Thai society, even though in recent years it has graduated from a taboo topic to being frequently chronicled in press reports of high-profile court cases. Reports of official corruption are rarely drug-related, but drug-related corruption is very likely, given the volume and value of drugs consumed in and moving through Thailand.

Agreements and Treaties. Thailand is 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 United States and Thailand have extradition and mutual legal assistance treaties in force, and the Thai have been among the most cooperative USG partners in this area. During 2008, Thai authorities extradited two individuals to the United States on drug charges, but both were important as they were related to different high-priority targets of the Drug Enforcement Administration (DEA). Further, during 2008, international arms merchant Viktor Bout was arrested in Bangkok in March 2008 and his extradition process is currently moving through the Thai courts, as is that of one additional priority target of the DEA.

Cultivation/Production. There is no significant drug cultivation or production in Thailand.

Drug Flow/Transit. Thailand is a transit country for heroin and a small quantity of 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 and other countries. Drugs are transported into northern Thailand via couriers, by small caravans along mountainous jungle trails, and trans-shipped 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 motor vehicles. Use of the Thai mail system also continues to be a common means for moving smaller units of drugs within and out of the country. Burmese-based international drug trafficking organizations are believed to produce hundreds of millions of tablets of methamphetamine (“yaa baa”) each year. A substantial portion of them end up in Thailand, where, despite recent enforcement successes, “yaa baa” remains the number one drug of abuse.

Cocaine seizures in Thailand decreased in 2008 over the previous year (while seizures in Hong Kong and southern China have reportedly increased). Most of the cocaine smuggled from South America into Thailand is used as a “club drug” by well-off abusers and foreigners, and is most often found in private residences and entertainment places in Bangkok, as well as popular tourist destinations in the provinces. While the volume of cocaine seized is low, Thailand is a part of the regional market for this drug. Ecstasy trafficking is 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. During 2008, two Thai-based organizations that produced steroids in three countries, distributed them to multiple companies around the world and channeled or laundered much of their financial proceeds through Thailand were dismantled. The leaders of both organizations have either been extradited to the United States or are awaiting extradition.

Domestic Programs/Demand Reduction. Thailand carries out a comprehensive range of demand reduction programs, encompassing combinations of educational programs for the public and treatment for users. During the past four years the Thai government has taken positive steps to substitute treatment programs for prison terms in instances where the user was apprehended in possession of quantities of drugs clearly intended only for personal use. 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 revered Royal Family. This and other drug education and awareness campaigns are conducted in cooperation with private organizations, NGOs and public institutions, using radio, TV, and printed media.

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 conducted jointly by Thai law enforcement agencies and the U.S. Drug Enforcement Administration (DEA), as well as other U.S. law enforcement agencies. These programs build capacity in anti-narcotics, as well as other law enforcement areas, and foster cooperation with third countries on a range of narcotics control and anti-transnational crime activities. The former Narcotics Affairs Section in the U.S. Embassy in Bangkok has become the Transnational Crimes Affairs Section (TCAS), with some regional responsibilities. TCAS also continues to assist the Royal Thai Police bilaterally to improve professional standards—a matter of urgency given the unsettled political situation. The U.S. Department of Justice Attaché at Post also works closely with Thai authorities to facilitate extraditions and mutual legal assistance in narcotics and transnational crime matters.

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, in 2008 ILEA also conducted a number of bilateral skills-building courses and seminars to benefit Thai law enforcement and government agencies. These programs included 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.

A new law enforcement capacity building program with initial funding of one-half million U.S. dollars began in September, 2008. The program, under a U.S. Department of Justice Law Enforcement Policy Advisor (LEPA), is housed in the TCAS Office in the Embassy and aims to improve Thai law enforcement competence and to instill broader respect for human rights in the law enforcement culture of the country. This will entail institutional changes in the Royal Thai Police and other law enforcement agencies.

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. Four SIU teams currently operate in Thailand, and all are focused on the most important trafficking groups in the region. An intensive Department of State-funded forensics crime lab capacity-building training programs that began in 2007 to enhance Thai police and Ministry of Justice ability to build prosecutions using crime scene and other forensic evidence is being continued throughout 2008. This program is conducted by the Department of Justice experts, and will continue under the new LEPA program.

The Road Ahead. The United States will continue supporting the Thai Government’s efforts to interdict illicit drugs moving through Thailand and to the United States, as well as collaborate on a broad range of international crime control issues via material, legal and technical support. The U.S. will continue working with Thai counterpart agencies to improve law enforcement skills, enhance police attitudes regarding human rights, build better criminal cases based on evidence, encourage the promulgation of laws and regulations more closely aligned with international standards, and develop more consistent adherence to rule of law principals as part of the fight against illicit drug trafficking and all other transnational crime. The U.S. will 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 use 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 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

Methamphetamine (“yaa baa”)

2004	31 million tablets
2005	17.7 million tablets
2006	13.7 million tablets
2007	14.3 millions tablets
2008	11 million tablets (as of September 2008)

Crystal methamphetamine (“ice”)

2004	47 kg
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2005	322.6 kg
2006	93.9 kg
2007	47.4 kg
2008	29.4 kg (as of September 2008)

Ketamine

2004	163.9 kg
2005	47.5 kg
2006	42.7 kg
2007	3.0 kg
2008	12.5 kg (as of September 2008)

Opium seized: includes raw, cooked, and poppy plants

2004	1,595 kg
2005	5,767.5 kg
2006	787.6 kg
2007	1,707.3 kg
2008	2,370.37 kg (as of September 2008)

Heroin

2004	820 kg
2005	954.6 kg
2006	91.7 kg
2007	58.2kg (as of September 2008)

Ecstasy

2004	31 kg
2005	8.6 kg
2006	6.8 kg
2007	28.39 kg
2008	9.72 kg (as of September 2008)

Cocaine

2004	12.3 kg
2005	6.78 kg
2006	38.8 kg
2007	18.7 kg
2008	2.3 kg (as of September 2008)

Note: The seizure data above were 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. It is frequently hard to draw conclusions from seizure statistics, because of the large fluctuations. However, seizures of methamphetamine show a clear and steady downward trend, evidently due to enforcement success coupled with well-conceived and placed public education campaigns.

Togo

I. Summary

Togo is not a significant producer of drugs; however it plays an increasingly large role in the regional transport of narcotics. During 2008 the drug trade (particularly in hard drugs like heroin) continued to increase, and Togo is used more and more as a transit point for the inter-continental movement of drugs. Togo's capacity to address the transnational flow of drugs is undercut by its inability to control corruption, the country's extreme poverty, a resultant 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 use. 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 one metric ton 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, Ghana, and Niger on overland routes and ultimately to Europe. It has come to light that Togolese traffickers have developed distribution arrangements for drugs bound for Europe. According to police, most smugglers are long-term Lebanese residents or Nigerians, but they have recently arrested a Colombian smuggling network in Lomé. The gendarmerie is also targeting the Togolese players. Togo's long and relatively porous borders permit narcotics traffickers easy access/egress. Current law enforcement activity in Togo suggests greater complicity of GOT entities in the form of corruption than was previously known. While in the past it was assumed that the largest quantities of drugs were trafficked through the Autonomous Port of Lome, it is now evident that the traffickers are using the Lomé international airport as well as remote airfields, and land borders for vehicular transport of narcotics.

III. Country Actions against Drugs in 2008

Policy Initiatives. The Central Office Against Drugs and Money Laundering (OCRTIDB) is responsible for investigating and arresting all persons involved in drug-related crimes. The office has approximately forty-five police and gendarmerie officers assigned to conduct investigations and enforcement operations. Security agencies are supposed to report all drug-related matters to the Director of the Central Office of OCRTIDB. The Director of the Central Office, in turn, is directly responsible to the Minister of Security. The reality, however, is that the police and gendarmerie conduct their own investigations and enforcement operations, lending to poor accountability for seized contraband and money. The National Anti-Drug Committee (CNAD), which consists of representatives from various offices, including security, defense, commerce and finance, meets periodically to coordinate. Togolese officials have reported that they have good working relations with Beninese authorities.

Law Enforcement Efforts. The number of drug-related arrests increased in 2008. Only occasional spot checks are made of passengers at the airport. The Port of Lomé's cargo screening ability of 100 containers per day should aid the interdiction of drugs arriving by sea; however, many are skeptical of port authorities' willingness to use this tool aggressively. Arrests have been mainly at the land border crossings and in Lomé; 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 traffickers are widespread official corruption, the government's lack of computer technology, communication and coordination, and mutual distrust among security agencies and interested ministries. 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 for resale a quantity of captured drugs being held as evidence, was released in September 2006 and was assigned as the commander of a gendarmerie company in Dapaong, in Northern Togo. He has since been promoted and is currently the regional gendarmerie commander for the northern part of Togo. Reports continue to circulate that unnamed officials in various GOT agencies can be bribed to allow illicit narcotics to transit to or through Togo. After the recent arrest of a mostly foreign drug trade network in Togo, fresh rumors regarding corrupt Togolese officials are spreading widely. No officials have been arrested thus far, and it appears increasingly likely that Togo will miss a good opportunity to send a clear message to its public, its public officials and to the drug trade organizations regarding its purported tough stance on narco-trafficking. As a matter of government policy, the GOT 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.

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, and has signed, but not yet ratified, its protocols on Trafficking in Persons and Smuggling of Migrants.

Cultivation/Production. The only drug cultivated in any significant quantity in Togo is cannabis, but even this is limited. 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. Colombian drug trade organizations are also showing greater interest in Togo. 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 has sponsored anti-drug films and counter-narcotics discussion groups. For national anti-drug day, June 26, the committee worked with civil society organizations to hold a week of anti-drug activities, including awareness raising seminars, debates, a march against drugs, and, together with the OCRTIDB, a ceremony for the destruction of seized drugs. In addition, the Minister of Security and Civil Protection is planning a counter narcotics conference from December 8-14, which will include experts from the EU and UN.

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 through training opportunities and technical support, and to prosecute traffickers. The U.S. Coast Guard provided residential training focused in professional military education

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 support 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 severe corruption problems among Togolese officials and the weak state of GOT finances.

Trinidad and Tobago

I. Summary

Trinidad and Tobago is a transit country for illegal drugs from South America, principally from Colombia via Venezuela, to the U.S. and Europe. The illicit drug trade exploits the Government of the Republic of Trinidad and Tobago's (GOTT) lack of resources for border control, aircraft and patrol boats and for maintaining a law enforcement presence in Tobago. 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. The majority of narcotics are destined for other locations due to direct international flights to Europe as well as the ease of flow within the Caribbean and to Western Africa. Trinidad and Tobago's petrochemical industry imports and exports chemicals that can be used for drug production and the GOTT has instituted export controls to prevent their 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. Prime Minister Manning has placed an emphasis on increasing regional patrols and soliciting international assistance to combating the illegal drug trade. The GOTT is party to the 1988 UN Drug Convention.

II. Status of Country

Trinidad and Tobago, situated seven miles off the coast of Venezuela, is a convenient transshipment point for illicit drugs, primarily cocaine and marijuana but also heroin. During recent years, increased law enforcement pressure in Colombia and Central America has led to greater amounts of illegal drugs transiting the Eastern Caribbean. Drugs from Trinidad and Tobago do not have a significant effect on the U.S. market.

Trinidad and Tobago has an advanced petrochemical sector that requires the import and export of chemicals that can be diverted for the manufacturing of cocaine hydrochloride. In the past, precursor chemicals originating from Trinidad and Tobago have been found in illegal drug labs in Colombia. The GOTT works to track chemical shipments through Trinidad and Tobago, and export controls have been instituted to prevent future diversion to narcotics producers.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2008, the GOTT National Drug Council continued to implement counter-drug policy initiatives, including elements of the country's anti-narcotics master plan that address both supply and demand reduction. The GOTT has acknowledged that Trinidad and Tobago is a significant drug transshipment location and has underscored its intention to take action against traffickers. In June, the Ministry of National Security hosted a regional defense conference with the main objective of determining what assets could be shared throughout the region for counternarcotics exercises. This dialogue led to discussions with international partners to determine the framework for providing regional security. The GOTT also pledged support to assist the Regional Security System (RSS). Another initiative included the immigration division's establishment of a document examination laboratory at the Piarco International Airport. The laboratory's primary aim is to secure further the country's borders by countering the fraudulent use of travel and identity documents.

In 2008, the GOTT implemented the Bail Amendment Act, which makes the offenses of kidnapping for ransom or knowingly negotiating to obtain a ransom a non-bailable offense for sixty days. The Bill also made certain violent offenses, such as possession of a firearm or ammunition without a license and trafficking in a dangerous drug, non-bailable offenses if a person has been convicted on two prior occasions. In securing its borders, the GOTT passed the Advance Passenger Information Act to reauthorize the Advance Passenger Information System (APIS) after using it during the 2007 Cricket World Cup.

Law Enforcement Efforts. As a result of joint operations with foreign law enforcement counterparts, there were 51 drug trafficking arrests from January to September 2008, a decrease of 34 persons compared to the same period last year. Figures are incomplete due to a lack of reporting from all local law enforcement agencies, including Special Anti Crime Unit of Trinidad and Tobago (SAUTT), the Trinidad and Tobago Coast Guard (TTCG), Trinidad and Tobago Police Services (TTPS), Organized Crime and Narcotics Unit (OCNU), and Organized Crime Narcotics and Firearm Bureau (OCNFB). The USG recognizes this information and reporting is fragmented and incomplete and is working with the GOTT to improve reporting and tracking. Based on local investigations and data collection, as of October 31, 2008, inside the territory of Trinidad and coastal waters, the GOTT had unofficially seized approximately 141 kilograms (kg) of cocaine, over 27 kg of heroin and almost 3,711 kg of cannabis in various forms.

The TTCG, OCNU, Counter Drug and Crime Task Force (CDCTF), SAUTT and other specialized police/military units continued drug interdiction and eradication operations throughout 2008, destroying in excess of 168,700 fully-grown marijuana plants in several exercises. The DEA and U.S. Customs and Border Protection assisted with several of these joint exercises. The country has purchased technical equipment to augment human resources. While 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, the GOTT provided the Police Service with eight hi-tech vehicles fully equipped with forensic equipment, which will aid crime scene investigations. Retired Scotland Yard officers continue to work alongside GOTT law enforcement agents as "on-the-job mentors" 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 a decrease in seizures of various types of illicit drugs and disruption of the drug trade in 2008. For the period of January to September 2008, the OCNFB arrested 51 persons and seized almost 84 kg of cocaine, over 27 kg of heroin and almost 375 kg of marijuana.

The Special Anti-Crime Unit of Trinidad and Tobago (SAUTT) is an agency created and well funded by the current GOTT Administration. Although it has been involved in several tactical operations, legislation that would define its precise mission and strategy has not yet been passed, thus hindering its potential effectiveness. The combination of military and law enforcement personnel, with different skill sets and operating procedures, has also led to some operational difficulties involving SAUTT.

The GOTT Incident Coordination Center continued to facilitate information sharing among law enforcement agencies and the Counter Drug and Crime Task Force (CDCTF) and was active in developing and implementing counter drug operations and conducting financial investigations.

Maritime Smuggling: All vessels bearing a Trinidad and Tobago registration and flying a Trinidad and Tobago flag are free to transit Trinidad and Tobago territorial waters without notifying national Customs and Immigration authorities; this makes it relatively easy to conduct illegal trafficking in drugs, weapons, and people.

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 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 Special Anti-Crime Unit of Trinidad and Tobago (SAUTT) officers.

Corruption. Trinidad and Tobago is a party to the Inter-American Convention against Corruption and the UN Convention against Corruption. During 2008, there were no charges of drug-related corruption filed against GOTT senior officials, and the USG has no information indicating that any senior government officials encouraged or facilitated the illicit production or distribution of drugs or the laundering of drug money. The country actively fights against the production or distribution of illicit narcotics and works against laundering the proceeds of such crimes. The 1987 Prevention of Corruption Act and the 2000 Integrity in Public Life Act contain the ethical rules and responsibilities of government personnel. The Integrity in Public Life Act requires public officials to declare and

explain the source of their assets and an Integrity Commission initiates investigations into allegations of corruption. At GOTT request, the USG has polygraphed police and mid- and high-level officials selected for training or entering elite units. The purpose of such screening is to ensure that reputable and reliable personnel are chosen.

Agreements and Treaties. Trinidad and Tobago is party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Mutual legal assistance and extradition treaties with the U.S. entered into force in November 1999. The GOTT continued to comply with U.S. requests under the extradition and mutual legal assistance treaties. The GOTT updated its domestic extradition legislation in April 2004 to make it consistent with the extradition treaty and to streamline the extradition process. A bilateral U.S.-GOTT maritime agreement is also in force. The GOTT is also a party to the UN Convention against Transnational Organized Crime and its three Protocols. Trinidad and Tobago is also a member of the Organization of American States' Inter-American Drug Abuse Commission (OAS/CICAD).

Cultivation and Production. Small amounts of cannabis are cultivated year-round in the forest and jungle areas of northern, eastern, and southern Trinidad and, to a lesser extent, in Tobago. The total amount of cultivation cannot accurately be determined because plants are grown in small lots in remote areas.

Drug Flow/Transit. Illicit drugs arrive from the South American mainland, particularly Venezuela, on fishing boats, pleasure craft and commercial aircraft. Sizeable quantities of drugs also transit the country through commodities shipments from South America. Drugs are smuggled out on yachts, in air cargo, or by couriers, and the use of drug swallows continues to rise. Cocaine has also been found on commercial airline flights from Tobago en route to North America and Europe. Drug seizures reported by U.S. law enforcement officials at their international airports link directly to Trinidad and Tobago. Some shipments are bypassing Trinidad and Tobago in favor of other islands, due in large part to the counter-drug efforts of GOTT security forces.

Domestic Programs/Demand Reduction. 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. However, the GOTT does not maintain statistics on domestic consumption or numbers of drug users. 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. Approximately 2,000 children representing 20 schools throughout Trinidad and Tobago participated in D.A.R.E in 2008.

The USG supports 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

Policy Initiatives. To assist the GOTT to eliminate the flow of illegal drugs through Trinidad and Tobago to the United States, U.S. 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 GOTT's 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 2008, the USG continued to support Trinidad's recently established Drug Detection Canine Academy. In addition, the USG offered training classes to both policy makers and tactical law enforcement officials

on financial crimes, crime scene investigation, command and control, pollution incident response, damage control, and combating terrorism. The U.S. Immigration and Customs Enforcement (ICE) Forensic Document Laboratory (FDL) in conjunction with the International Organization for Migration (IOM) conducted a Document Examination and Intelligent Profiling Course in Port of Spain. This training program enhanced police and border officials' effectiveness in identifying improperly documented passengers destined to the United States and established an ongoing information sharing opportunity with the Government of Trinidad & Tobago. Over the past year, the DEA and its local counterparts have been involved in investigations that led to a significant amount of seizures. However, reporting data is incomplete and the GOTT was not able to provide accurate figures. 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. Drug interdictions in Trinidad and Tobago remained difficult, in part due to the lack of effective legislation in combating crime and narco-trafficking. We encourage the GOTT to pass court-authorized wiretap legislation to allow for the introduction of the contents of intercepted oral communication as evidence in court for specific crimes. Furthermore, civil forfeiture and criminal enterprise legislation is needed. Civil forfeiture legislation would allow the government to seize funds and/or assets identified as proceeds of illegal activities. This would also allow the proceeds to be used to fund certain law enforcement activities. With criminal gang activity a major concern for GOTT officials, the criminal enterprise legislation would also allow each member of a criminal organization to be charged for illegal acts committed by any one member of the organization, if it can be shown that one member committed the criminal act in furtherance of, or in support of the criminal organization. The difficulty in advancing this legislative agenda stems, in part, from the GOTT's parliamentary process that requires a two-thirds or three-quarters vote to approve these acts. Other initiatives that would strengthen the counter-drug/crime capabilities of the GOTT's law enforcement agencies include the establishment of a drug court to deal with drug offenses; strengthening border protection by automating inspection methods 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 bribery; initiating more border patrols on the western side of the island; and, participating in the SOUTHCOM initiative called Carib Venture, which is a multinational mission in the Southern Caribbean focused on stemming the flow of drugs in the region.

Turkey

I. Summary

Turkey continues to be a major transit route for Southwest Asian opiates moving to Europe, and serves as a staging area for major narcotics traffickers and brokers. Turkish law enforcement organizations focus their efforts on stemming the traffic of drugs and intercepting precursor chemicals. The Department of Anti-Smuggling and Organized Crime of the Turkish National Police (TNP), Jandarma, and Coast Guard are all part of the Ministry of Interior and have significant anti-narcotics responsibilities. The TNP has responsibility for law enforcement in Turkey's cities and towns. The Jandarma, a paramilitary police organization, is responsible for all law enforcement in rural areas. TNP-developed intelligence frequently leads to rural areas where the Jandarma has jurisdiction and, in these cases, the two agencies work together to conduct investigations and effect seizures. The Undersecretariat of Customs falls under the authority of a State Minister. DEA's counterpart within Customs is the Directorate General of Customs Guards. There are eighteen regional directorates and 136 subunits. The Ministry of Health is the competent authority for issues relating to importation of chemicals for legitimate use. The Ministry of Finance oversees the financial intelligence unit, known by its Turkish acronym as MASAK, which has responsibility for investigation of potential money laundering schemes.

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. 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, which has been a success since its inception. Turkey is a party to the 1988 UN Drug Convention. Although Turkey is a major donor to the UNODC, it is still eligible for bilateral assistance and assistance for projects that are regional in nature and the UN funds a variety of projects in Turkey each year. UNODC continues to sponsor training sessions at the Turkish International Academy against Drugs and Organized Crime (TADOC) in Ankara.

II. Status of Country

Turkey is a transshipment point for Afghan opiates moving towards Europe and Russia. Information from investigations indicates that while heroin is being produced in Afghanistan at record levels, some processing of opium and morphine base from Afghanistan is occurring near the Turkish/Iranian border. Many major traffickers based in Turkey are ethnic Kurds or Iranians, and many of the same individuals and families have been involved in smuggling contraband for years. Ethnic Kurds generally live in the areas where opiates enter Turkey from the east. Of course, many other Turkish Kurds no longer live in the traditional ethnic Kurdish region of Turkey, but have moved to larger cities in Turkey and even to other countries in Europe. Some have continued drug smuggling in their new locations. Large drug trafficking organizations and major traffickers based in Turkey are frequently involved in both heroin manufacture and transport, and several have also been involved in the production and/or smuggling of synthetic drugs.

Drug proceeds are often moved to and through Turkey via the informal sector, despite the fact that alternative remittance systems are illegal in Turkey and only banks and authorized money transfer companies are officially allowed to move money. In general, investigations of money exchange bureaus, jewelry stores, and other businesses in Turkey believed to be part of the underground banking system (hawala) are initiated only if the business is directly tied to an existing drug or other criminal investigation.

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 year.

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 international treaty obligations. Under the current method of production, the poppy is not incised; instead, the plant is allowed to mature and the opium flower and stalk is then collected, and processed in a large sophisticated plant to extract opium alkaloids such as morphine. 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 countries in the Middle East.

III. Country Actions against Drugs in 2008

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 National Police uses its International Academy against Drugs and Organized Crime (TADOC) to train officers on interdiction and investigation techniques to fight drug trafficking in and through Turkey. Border control initiatives and upgrades are expected to be completed in 2008, which will provide for increased inspection of vehicles transiting Turkish borders.

Accomplishments. TADOC organized 64 training programs for 2,597 local and regional law enforcement officers in 2008. A total of 22 programs for 446 foreign officers were held at TADOC in 2007, including officers from the countries of Azerbaijan, Guinea Bissau, Iran, Kazakhstan, 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. Furthermore in 2008, TADOC conducted training in several foreign countries. TADOC also trained a total of 2,396 Turkish officers in computer-based training centers throughout Turkey in 2008. Turkey also hosted the XXVI International Drug Enforcement Conference (IDEC) in July, 2008.

Law Enforcement Efforts. Turkey continues to serve as a transit point for large amounts of heroin being smuggled to Western Europe. The chart below summarizes the seizures made in Turkey in the January-June 2008 period.

Heroin	7,425 kg
Hashish	15,410 kg
Opium	303 kg
Cocaine	54 kg
Amphetamine (Captagon)	2,376,736 dosage units
Ecstasy	401,021 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. As in most countries, it is likely that some corruption is present 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 for domestic consumption and has no impact on the United States. The Turkish Grain Board strictly and successfully controls licit opium poppy cultivation, 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 over land from Afghanistan, sometimes through Pakistan, to Iran and then to Turkey. While the Balkan Route on to Western Europe remains heavily used, intelligence and investigations suggest that traffickers also use a more northerly route through Georgia, Russia, and Ukraine. In addition to use of the northern route, traffickers are using vehicle ferries to move TIR (long-haul, customs-sealed) trucks from Turkey to Italy. From Italy, the TIRs are driven to other countries in Europe where the heroin, smuggled in either hidden compartments or within legitimate cargo, is delivered. Opiates and hashish are also smuggled to Turkey overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia. Turkish authorities report an increase in the amount of opium seized in Turkey but destined for Europe. It is not unusual to seize small amounts of opium in conjunction with heroin shipments, particularly when Iranians are involved in heroin smuggling. The total amount of opium seized in Turkey remains relatively small when compared to heroin seizures. 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 are 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.

Domestic Programs/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), have been established, which serve as regional and drug treatment centers. Due to a 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 does not conduct regular, periodic drug abuse surveys. 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 some survey questions postponed this survey to 2008. Turkey became a full member of the European Monitoring Center for Drugs and Drug Addiction (EMCDDA) after the European Parliament ratified Turkey's participation in October 2006, following a successful EU twinning project. Turkey's national focal point for this effort is the Turkish Monitoring Center for Drugs and Drug Addiction, known as TUBIM. TUBIM is charged with collecting data on drug use and addiction in Turkey, reporting on new drugs found in Turkey, and for conducting demand reduction activities.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. Embassy Ankara wants to capitalize on Turkey's work as a regional leader in counternarcotics training and education. The Embassy plans to offer regional training opportunities at the TADOC center to provide additional investigative and prosecutorial tools to Turkish officials and their international counterparts. One example

of such training was done in February 2007, when 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. In 2008, the USCG provided maritime law enforcement training in the U.S. to Turkish officers.

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 is a transshipment route for narcotics traffickers attempting to smuggle contraband to Turkish, Russian and European markets from Afghanistan, either directly or through Iran. It is not, however, a major producer or source country for illegal drugs or precursor chemicals. It shares a rugged and remote 744-kilometer border with Afghanistan and a 992-kilometer boundary with Iran. Most illegal drug seizures occur along those borders. A major development during 2008 was the creation of the State Counter Narcotics Service (SCNS) in January. This new agency will be responsible for all counter narcotics law enforcement and for ensuring Turkmenistan's compliance with relevant international counternarcotics treaty obligations. Law Enforcement authorities seized a total of 1,330 kg of illegal narcotics in the first six months of 2008. In an address to law enforcement officials at a special session of the State Security Council in September 2008, President Berdimuhamedov affirmed that the country's war on drugs is a top priority of the government. Turkmenistan continues to increase its cooperation with international organizations and diplomatic missions in Turkmenistan, but its law enforcement agencies are hampered by a lack of resources, training and equipment. There is strong evidence that domestic drug abuse has been increasing steadily, although reliable statistics are not publicly available. Turkmenistan is a party to the 1988 UN Drug Convention

II. Status of Country

Turkmenistan remains a key transit country for the smuggling of narcotics and precursor chemicals. 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. The government directs the bulk of its law enforcement resources and manpower towards stopping the flow of drugs that come directly from Afghanistan or via 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 have been more focused on interdicting smuggled commercial goods than on narcotics, thus providing an opening to drug traffickers. Commercial truck traffic from Iran continues to be heavy, and Caspian Sea ferry traffic from Turkmenistan to Azerbaijan and Russia continues to be an opportune smuggling route. In January 2008, President Berdimuhamedov established the State Counter Narcotics Service ("SCNS") and appointed Colonel Murat Yslamov as its first chief. Previously, Yslamov served as the Chairman of the Department for the Analysis of Law Enforcement Activities and Military Agencies (Presidential Apparatus). The new agency, in coordination with all other law enforcement agencies, will serve as the main governmental organization for combating drug related crimes and implementing national anti-drug addiction programs. There are plans to make it a 1000-person agency at full capacity. President Berdimuhamedov has called narcotics a "real threat to all of humanity."

III. Country Action Against Drugs in 2008

Policy Initiatives. The government announced a National Program for Combating Illegal Drug Trafficking and Assistance to Drug and Psychotropic Substance Addicts for 2006 to 2010. Key elements of its agenda include 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 in drug trafficking and money laundering. To further its implementation, the National Program will continue the government's cooperation with U.S. government programs and with international organization and diplomatic missions.

Law Enforcement Efforts. The government continues to give priority to counter-narcotics law enforcement, and President Berdimuhamedov has paid special attention to improving technical capacity of the law enforcement agencies. Law enforcement agencies with counter narcotics enforcement authority have received equipment and training from the United States and international organizations. The first international conference on combating drug-trafficking at seaports was held in Ashgabat on the initiative of the Paris Pact on June 25-26, 2008. Representatives of all five Caspian littoral states and international organizations such as the World Customs Organization (WCO), International Organization for Migration (IOM), OSCE, Central-Asian Regional Information Coordination Centre (CARICC), the UN Environmental Program, as well as Turkmen law enforcement agencies, ministries and also the heads of diplomatic missions and international organization and journalists accredited in Ashgabat attended the conference. DEA representatives also attended the conference. Participants witnessed a drug burn event at Kasamguly Julge, where approximately 1330 kilograms of illegal narcotics were liquidated. Turkmenistan's drug seizure data for the first six months of the year 2008 is as follows: Heroin: 161 kg 85 grams Opium: 496 kg Marihuana: 24 kg Hashish: 67 kg Poppy straw: 217 kg Diazepam (valium) 130,380 tablets

Corruption. The government does not encourage or facilitate the illicit production or distribution of narcotics or other controlled substances. Nevertheless, law enforcement officials' low salaries and 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 occur frequently. Reports persist that senior government officials are directly linked to the drug trade. Early in 2008, the chief of the personnel department of the Ministry of Defense, LTC Rozymyrat Akmuradov, was tried for the crime of bribery and sentenced to 13 years in prison. Another official at the Ministry of National Security was arrested the same day and charged with a similar offense.

Agreements and Treaties. Turkmenistan is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Turkmenistan is a party to the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime, and its three protocols. Turkmenistan and the United States signed a letter of agreement for the provision of U.S. government counter-narcotics assistance in September 2001. During the past year, the DEA has had discussions with the SCNS regarding joint counter-narcotics training programs, and the SCNS has asked for specific assistance in training laboratory chemists. In June 2007, the governments of Turkmenistan and Iran agreed to form a special joint committee to combat narcotics trafficking. The following month, the presidents of Turkmenistan and Afghanistan signed a joint communiqué noting the need to further develop their counter-narcotics and counterterrorism cooperation. The same month, Turkmenistan entered into 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.

Cultivation/Production. Turkmenistan is not a significant producer of illegal drugs, although small-scale opium and marijuana cultivation is believed to occur in remote mountain and desert areas. Each spring, the government conducts limited aerial inspection of outlying areas in search of illegal poppy cultivation. Law enforcement officials eradicate any opium crops that are discovered. According to the State Counter-Narcotics Coordination Committee, law enforcement officials conduct Operation "Mak" ("poppy") twice a year to locate and destroy poppy fields.

Drug Flow/Transit. Turkmenistan is a primary transit corridor for smuggling organizations seeking to transport opium and heroin to markets in Turkey, Russia and the whole of Europe, and for the shipment of precursor chemicals to Afghanistan. Turkmenistan's two major border control agencies, the State Customs Service and the State Border Service, 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 communication systems have been identified by the government and are being improved. Nevertheless, Turkmenistan is likely to continue to serve as a major transit route for illegal drugs and precursors.

Domestic Programs/Demand Reduction. Currently, the Ministry of Health operates seven drug treatment clinics, one in Ashgabat, one in Serdar City, and one in each of the five provincial administrative centers. Addicts can receive treatment at these clinics without revealing their identity and all clinic visits are kept confidential. Drug addiction is a prosecutable crime and persons convicted are subject to jail sentences, 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. Although not yet implemented, the government is currently considering internationally funded prevention programs. In August 2008, a Drug Demand Reduction Program (DDRP) was launched by the Turkmenistan Red Crescent. The program is funded by the Department of State (INL) and planned to last for three years, aiming to increase the awareness of young people and adults of the harmful health effects of narcotics. DDRP headquarters in Ashgabat has opened branches in Turkmenbashi and one in each of the five provincial administrative centers.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In addition to the completed construction of new border crossing stations at Imamnazar (Afghan border) and Altin Asir (Iranian border), at a total cost of \$4.2 million, the U.S. is funding and overseeing the construction of a similar facility at Ferap (Uzbek border). The total U.S. contribution to that project is expected to total \$5.5 million. The U.S. is also funding a number of upcoming counter-narcotics training activities, including a familiarization visit to the U.S. in two parts in November 2008 for three SCNS officials. In July 2008, five Turkmen government officials, including a senior official from the Presidential Apparatus and a SCNS representative, undertook a U.S. Coast Guard (USCG) study tour, funded by INL that focused on U.S. maritime counter-narcotics programs. In September, USCG training officers conducted a two-week workshop on maritime security, also funded by State-INL, with participants from several state law enforcement agencies, including the SCNS. DEA training classes included surveillance techniques, interviews and interrogation, raid planning, tactical training, DEA mission and history, and case development. DEA's Country Office, based in Dushanbe, Tajikistan, has had increased interaction with the SCNS in the latter part of 2008, and presently has a long-term TDYer in Ashgabat for the purpose of furthering cooperation with the SCNS.

The Road Ahead. Staying engaged with all Turkmenistan's counter-narcotics enforcement agencies is necessary to encourage a successful partnership against narcotics trafficking. Bilateral cooperation is expected to continue, and the U.S. government will expand counter-narcotics law enforcement agency training at the working level. As both Turkmenistan and U.S. officials identify areas for improved counter-narcotics efforts, the United States will provide an appropriate, integrated and coordinated response. The U.S. government will also encourage the government of Turkmenistan to institute long-term demand reduction efforts and supply reduction through interdiction training, law enforcement institution building, the promotion of regional cooperation, and an exchange of drug-related intelligence.

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 contribute to making 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 2008, 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. In October 2006, the U.S. Drug Enforcement Administration 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's term will end in 2011. 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 transhipped cargo is not usually subjected to the same inspection as goods that enter the country.

III. Country Actions against Drugs in 2008

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 agreement, 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 center 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. In October 2008, the UN and UAE Ministry of Interior signed an agreement to open another semi-regional office in Abu Dhabi. In October of 2008, the UAE Ministry of Interior and the United Nations

Office on Drugs and Crime (UNODC) signed a cooperation agreement under which a regional UNODC office would be established in Abu Dhabi. The agreement paves the way for greater technological cooperation to prevent and control crimes.

Law Enforcement Efforts. The UAE essentially exercises a zero-tolerance policy with regard to illegal consumption and possession of drugs. The standard minimum jail sentence for possession is four years imprisonment. Drug cases have increased sharply since 2007, in part due to the increasing population of Dubai but also because of increased enforcement. UAE has also increased the use of sophisticated detection equipment at airports and other public facilities. According to UAE Ministry of Interior statistics, nationwide there were 678 narcotic drug cases, involving 980 individuals, in the first five months of 2008. During this period, narcotics enforcement officials seized 990 kg of hashish, 120 kg of heroin, and 21 kg of opium, mostly in the Emirates of Dubai and Sharjah. Arrestees included Iranians, Pakistanis, Africans, Arabs and some UAE nationals. In 2008, the UAE Ministry of Interior conducted several successful Precursor Chemical investigations and disrupted a number of suspicious shipments. In Dubai, according to statistics from Department of Drug Enforcement at Dubai Police, the number of narcotics cases in the first five months of 2008 reached 465, compared to 338 cases in the same period in 2007. Dubai Police arrested 575 people for drug-related offenses from January to July 2008, compared to 433 people in 2007. As of June 2008, 181 kg of drugs were seized; a 76 percent increase over the same period in 2007. According to the Deputy Commander of Dubai Police, there were 14 major narcotic related cases in Dubai in 2008, which involved the seizure of 70 kg narcotics worth \$9.5 million and the arrest of 27 suspects. He stated that most of narcotic consignments were to be smuggled outside the UAE. In Abu Dhabi the number of narcotic cases in the first half of 2008 reached 79 cases involving 118 suspects. In August 2008, Sharjah Police, in cooperation with Dubai Police disrupted a major drug-smuggling ring, seizing 202 kg of heroin worth \$11 million (AED 40.2 million). The traffickers were led by a gang of 19 Afghans. In May 2008, Dubai Police arrested three Asians and four Africans who attempted to traffic 24 kg of heroin, valued at \$6 million.

A 1995 law stipulates capital punishment as the penalty for drug trafficking. Sentences usually are commuted to long-term imprisonment. In 2008, courts in UAE issued several verdicts against suspects in narcotic cases. In January 2008, the Fujairah Appeals Court sentenced nine Arab nationals to 4-9 years in jail and subsequent deportation for trafficking hashish in Fujairah. In February, the Dubai Court of First Instance sentenced an American visitor to four years in jail after he pleaded guilty to charges of smuggling and possessing marijuana for personal use. From January to April, the Ras Al Khaimah Criminal Court sentenced five Arabs to 1-4 four years in jail for possession. In June, a court in Sharjah sentenced two Asians to 10 years in jail for smuggling 200 kg of hashish, and the Fujairah Appeal Court handed out a life term to an Iranian in a separate case.

UAE authorities are committed to drug smuggling and distribution interdiction and cooperate with other countries to stop trafficking. In June 2007, the UAE Ambassador to Pakistan announced that the UAE had a drug liaison office in Islamabad and was in process of establishing a second in Karachi. Enhanced cooperation on and investigation of transnational trafficking cases and related money laundering and bulk cash smuggling would complement existing UAE efforts, he said.

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 is also a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime, but has not signed any of its protocols.

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, Africans and third-country Arabs made up the largest number of non-UAE nationals arrested in drug cases in 2008. 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 United States. CSI inspectors arrived in Dubai in 2005, and are inspecting containers destined for the United States. 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 evidence 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, including issuing postage stamps to highlight the hazards of drugs. 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. In 2008, the UAE Ministry of Interior announced a toll free number for people to report narcotics suspects. The Ministry of Interior launched also several awareness campaigns in 2008, which included the following themes "Yes to Life", "Drugs Mean Your End—Never Start". The campaigns were promoted in shopping malls, media, booklets, and lectures. UAE efforts also included religious-themed anti-narcotics campaigns promoted by Muslim preachers.

In March 2008, Abu Dhabi Police launched an awareness campaign for students against narcotic drug addiction. The campaign aimed at educating higher secondary students about the hazards of drug addiction. In April 2008, the Abu Dhabi based National Rehabilitation Center (NRC) announced that some 600 drug addicts have been rehabilitated over the past six years. In 2008, in connection with International Anti-Narcotics Day, the Dubai General Headquarter of Police organized its 4th Annual Forum to discuss the risk of narcotic drugs and HIV/AIDS from health, social and religious perspectives. The UAE has trained volunteers to educate people about the risks of drug use. In 2008, Dubai Police trained 24 Iraqi police officers. In June Dubai Police organized a training workshop on drug awareness skills with the Ministry of Health.

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,

when identified. 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 the visit, the UAE accepted establishing a DEA presence in the UAE to work closely with UAE authorities. The first DEA office was formally established in October 2006 in Dubai. DEA officials try to work with UAE authorities to combat both drug smuggling and drug related money laundering. Successes have been limited as the UAEG has taken a formal position not to provide evidence or assistance in the apprehension and return of U.S. fugitives.

The Road Ahead. The United States and the UAE will continue to try to work together to discourage narcotics trafficking and related financial crimes and to protect citizens from the scourge of drug abuse. The DEA Country Office looks forward to developing an ordinary law enforcement cooperation relationship with the UAE.

Ukraine

I. Summary

Combating illegal narcotics is a rising national priority for Ukraine as both use of and the transit through Ukraine of illegal narcotics continues to increase. Coordination between law enforcement agencies responsible for counter-narcotics occurs but continues to be stilted due to regulatory and jurisdictional constraints. Ukraine's anti-drug legislation is well developed and the GOU is committed to keeping it current with the evolving threats. Ukraine is a party to the 1988 UN Drug Convention, and it follows the provisions of the Convention in its counter-narcotics legislation.

II. Status of Country

Ukraine is not a major drug producing country; however, it is located astride several important drug trafficking routes into Western Europe, and thus is an important transit country. Ukraine's numerous ports on the Black and Azov seas, its extensive river transportation routes, its porous northern and eastern borders, and its inadequately financed and under-equipped Border and Customs Agencies make Ukraine an attractive route for drug traffickers into the bordering European Union's profitable illegal drug market. Narcotics, primarily heroin, originating in East, Central and Southwest Asia (Afghanistan) move through Russia, the Caucasus and Turkey, pass through Ukraine and on to Western Europe. Seizures of hard drugs increased significantly in 2008. Ukrainian border protection authorities seized 18% more heroin and 270% more cocaine in the first 10 months of 2008 compared to the same period in 2007. Analysts seem to be unanimous in the opinion that Ukraine is increasingly being viewed by drug traffickers as both a transit and a destination point.

Meanwhile, domestic drug abuse continues to be focused on drugs made from locally grown narcotic plants (hemp and poppy) which account for approximately 85% of the total drug market in Ukraine, but the use of synthetic drugs and psychotropic substances, especially amphetamines, has been rapidly increasing in Ukraine over the past few years. Drugs consumed in Ukraine are either produced in Ukraine or supplied from Russia and Moldova (poppy straw, hemp, opium) as well as 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 increased from 173,328 in 2007 to 178,043 by September 2008 (official statistic of the Ministry of Interior). However, according to indicative estimates of Ukraine's Security Service analysts, the total number of unregistered drug addicts may go as high as 300,000 users. Based on these assumptions, drug addicts in Ukraine could potentially consume one ton of heroin, 300 tons of opiate-related drugs, and up to 10 tons of amphetamines and other synthetic drugs annually. Relative to other European countries, this is still a low number; however, the rate of increase of drug abuse appears to be quite high.

III. Country Actions against Drugs in 2008

Policy Initiatives. Ukraine has well-developed anti-drug legislation consistent with international standards. In 2008, the GOU continued to implement a comprehensive anti-drug 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 consists of two stages, 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 (\$39 million). However, the GOU has not been able to ensure full allocation of these resources in previous years. For example, due to the lack of funds, the GOU has not provided funding for the Interagency Research Laboratory for Narcotics, Psychotropic Substances and Precursors proposed by the Ministry of Interior. As a result, Ukraine has no common database on illegal narcotics and the level of information sharing between Ukrainian government agencies is low.

The GOU has taken additional steps to update its anti-drug laws. The revised version of the “Law on Narcotic Drugs, Psychotropic Substances and Precursors” entered into force on January 1, 2008. The Cabinet of Ministers approved a set of new regulations to improve the handling of controlled drugs and precursors as well as storage and disposal of seized narcotics. 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 GOU has amended its legislation to make illegal the non-prescribed use of strong and poisonous medications, like Tramadol. Over the last few years Ukraine experienced significant problems with uncontrolled production and use of Tramadol. The new legislation allowed a much more effective law enforcement response to this problem. Almost five times more tramadol pills (2,020,000 doses total) were seized in 2008 (through September) compared to 2007. Increased quantities of seized psychotropic substances and illegally distributed prescription drugs also suggest a growing popularity of such drugs among young addicts.

In the framework of GUAM (Georgia, Ukraine, Azerbaijan, Moldova), a virtual law enforcement center has been established in each member-state, including Ukraine, to share law enforcement information electronically, including information related to drug trafficking cases.

Accomplishments. In 2008, Ukraine continued to implement the BUMAD (Belarus, Ukraine, Moldova Anti-Drug) Program sponsored by the European Union and designed to decrease drug traffic in these three EU border countries. As part of the BUMAD Program, Ukraine is strengthening its potential to collect, process, and disseminate information on drug trafficking at both the national and the regional level. The BUMAD Program funded the establishment of a National Drug Observatory at the Ministry of Health 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 eventually 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. The responsibility for counter-narcotics enforcement in Ukraine is shared by the Ministry of Interior (MOI), with its primarily 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) interdict drugs along the border and at ports of entry.

In 2008 (January through September), the Ukrainian Ministry of Interior seized approximately 9 tons of various drugs, including 4 tons (79,500 doses) of poppy straw, 3.7 tons (7,400,000 doses) of marijuana, 28.4 kilos (284,400 doses) of opium, 91.8 kilos (917,700 doses) of heroin, 1.7 kilos (17,000 doses) of cocaine, 36.3 kilos (183,500 doses) of psychotropic substances, over 2 million doses of Tramadol, 670,000 doses of strong prescription drugs, 247 tons of precursors, and destroyed 160 tons of illegally grown poppy and 320 tons of cannabis.

In the same period of 2008, the Security Service seized 214.2 kilos of heroin, 42.2 kilos of cocaine, 12.8 kilos of methadone, 18.8 kilos of amphetamine and other synthetic drugs.

The MOI Drug Enforcement Department restructured itself to place a greater focus on investigating organized crime groups, complex trafficking activity, criminal cross-border connections, confiscation of assets, prevention of laundering of criminal proceeds, etc. It established a new unit that focuses on developing drug trafficking cases involving international criminal links. It also set up a separate division to address unlawful misuse of legal drugs, strong and poisonous substances.

The MOI and SBU continued to build cooperative relationships with international counterpart agencies in Western Europe, Eurasia and America. Given an increasing tendency to use Turkish International Road Transit (TIR) certified trucks to transit drugs across Ukraine, the SBU worked particularly closely with Turkish law enforcement authorities. Thanks to SBU-generated intelligence, the Turkish National Police ran an operation in 2008, which resulted in multiple arrests and the seizure of 680 kilos of heroin.

The Security Service participates in the automatic pre-export control information system (PEN) introduced by the International Narcotics Control Board (INCB) in 2006. This system has been used extensively under the Project Prism to prevent unlawful use of amphetamine precursors. In one instance, a coordinated effort of the SBU, U.S. DEA and Chinese drug control authorities resulted in the prevention of 500 kilos of ephedrine precursor being illegally imported from China into Ukraine. The SBU has also participated in Operation Topaz and Operation Purple. Projects Prism, Topaz, and Purple are all efforts by the International Narcotics Control Board (INCB) to encourage and facilitate international cooperation to avoid diversion of dual use precursor chemicals to the manufacture of illicit drugs.

The Ukrainian law enforcement agencies are paying increasing attention to the role of organized crime groups, and utilizing informants, operational analysis, controlled buys and deliveries, and information from their overseas counterparts to disrupt illegal narcotic activities. The Ukrainian border and customs authorities are also setting up new structures to develop and analyze criminal information, including any leads that help to interdict drugs on the border more efficiently. In 2008, the State Border Guard Service adopted an agency “Program to Combat Trafficking of Narcotic Drugs, Psychotropic Substances, Analogues and Precursors for 2008-2009.”

Corruption. The GOU openly acknowledges that corruption remains a major problem in society, due to the existence of a bribe-tolerant mentality, and the lack of law enforcement capabilities to investigate and prosecute corruption. The government has committed to strengthen its capabilities to investigate and prosecute corruption by adopting international and European standards for creating a specialized law enforcement body to investigate sensitive corruption cases. Meanwhile the number of successful prosecutions of corruption cases is extremely low. In 2008, the prosecution authorities investigated 10 drug cases involving law enforcement authorities, including 5 police officers who covered or facilitated illegal activities. Suspects were indicted in 3 cases. Some experts and the media warn that such practices may be much more widespread than is indicated by these few cases. 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 signed but has not yet ratified the UN Corruption Convention. . Ukraine is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. The U.S. and Ukraine signed a Memorandum of Understanding on Law Enforcement Assistance in December 2002. This memorandum provided for State Department-funded assistance to Ukraine to help the GOU bring its law enforcement institutions, including those involved in the effort against narcotic drugs, up to European and international norms and standards, with the goal of

facilitating Ukraine's entry into Euro-Atlantic institutions such as the European Union. It has been amended regularly to add funding and establish justice sector and law enforcement projects as agreed by Ukraine and the U.S.

Cultivation/Production. Opium poppy is grown in western, southwestern, and northern Ukraine, while hemp cultivation is concentrated in the eastern and southern parts of the country. Poppy and hemp are grown legally by licensed farms, which are closely controlled. 13,700 hectares of poppy and 900 hectares of hemp were legally grown in 2008. Despite the prohibition on the unauthorized cultivation of drug plants (poppy straw and hemp), many cases of illegal cultivation in small quantities by private households are regularly discovered.

Drug Flow/Transit. Ukraine continues to experience an increase in drug trafficking. Heroin is trafficked from Central Asia (primarily Afghanistan) and comes into Ukraine mostly through Russia, the Caucasus and Turkey. Shipments are usually destined for Western Europe, and arrive by road, rail, or sea, which is perceived as less risky than air or mail shipment. Lately, experts have noted an increase in heroin traffic from Turkey into Ukraine by sea, or into Russia and then into Ukraine across its South-Eastern border, and further by land across Ukraine's western border into Western Europe. Experts believe that traditional Balkan drug traffic routes have become saturated and criminals are looking for new traffic channels. Drug traffic from Asia is increasingly controlled by well-organized international criminal groups of Afghan, Pakistani, and Tajik origin that use citizens of the former Soviet republics as drug couriers.

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 medical prescription drugs from Moldova is growing. Criminal groups of mixed origin (Ukrainians, Polish, Belarussians and Russians) that formed back in the 1990s and traditionally stayed away from drug trafficking are increasingly taking up this lucrative niche. The price of these drugs is lower than that of heroin and cocaine and therefore the drugs are attractive to young addicts. 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.

In the first 10 months of 2008, Ukrainian law enforcement authorities detained 222 individual drug couriers, including 19 women. They were predominantly citizens of Ukraine (151) but also Russia (41), Moldova (10), Poland (5), Belarus (4), Iran (4) and other countries of the region.

Domestic Programs/Demand Reduction. In the last four years, the number of registered drug addicts in Ukraine has increased approximately by 40%, up from 124,805 in 2004 to 178,043 in 2008, i.e. 38 addicts per 10,000 citizens. Various experts however estimate that the total number of drug addicts in Ukraine may range from 300,000 to 500,000. Traditionally, southern and eastern regions of Ukraine rate the highest in terms of drug addiction (on average 70 addicts per 10,000 individuals). 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 (5–8 dollars per dose (1 ml)) 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 2008 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 produced by various estimates 25 times that quantity. The GOU has responded to this abuse by listing Tramadol as a controlled narcotic drug in 2008 and tightening control over its production and distribution which now has been licensed. Tramadol has become a prescription drug and sales of Tramadol pills are subject to stricter supervision by the government. The law enforcement authorities seized five times more illegally possessed or stored Tramadol pills in 2008 than in 2007.

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. Local authorities together with NGOs implement regional anti-drug programs called "Life Free from Narcotics." However, a number of local authorities failed to implement government programs or efficiently use the funding allocated for this purpose.

Ukraine's drug problem today is increasingly affected by a rapidly growing HIV/AIDS epidemic in which intravenous 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 substitution maintenance treatment programs with 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. Starting in June 2008, the Ministry of Health began a methadone substitution program available to approximately 2,000 individuals, every second of which is HIV positive. It is expected that the methadone therapy will cover up to 20,000 addicts in 111 clinics countrywide by 2013.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. objectives are to bring Ukrainian law enforcement and justice sector institutions in line with European and internationally accepted norms and standards, facilitating Ukraine's integration into Euro-Atlantic institutions. This will in turn assist Ukrainian authorities to build law enforcement capacity and develop effective counter-narcotics programs in interdiction (particularly of hard 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 advanced drug investigation techniques. The DEA has established a good working relationship with both the MOI and SBU, and the training programs have helped deepen these relationships. The Department of State, through a variety of projects, is also assisting the MOI build capacity while simultaneously strengthening the Ukrainian State Border Guard Service (SBGS) capability to control Ukraine's borders. These projects include helping the SBGS develop Risk and Criminal Analysis capabilities that are compliant with European Union norms in order to more accurately target and suppress threats, including narcotics trafficking, along its approximately 7,000 km long border. In addition, the USG has provided a wide range of equipment to the SBGS and State Customs Service, including video and electronic border monitoring systems, which should enhance these services' ability to detect narcotics smuggling. Finally the State Department is supporting the Georgia, Ukraine, Azerbaijan, Moldova (GUAM) international organization, particularly through a virtual law enforcement center which will facilitate counter-narcotics information sharing between member states law enforcement bodies.

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 recently completed a 10-year drug strategy launched in 1998 to address both the supply and demand aspects of illegal drug use. An assessment of the program has determined that it has been successful in meeting its goals. The new program launched this year, called the “Drugs: Protecting Families and Communities' 2008-2018” comprises four strands: 1) protecting communities by tackling drug supply, drug-related crime and anti-social behavior; 2) preventing harm to children, young people and families affected by drug misuse; 3) delivering new approaches to drug treatment and social re-integration; 4) public information campaigns, communications and community engagement. 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 2007/08 British Crime Survey (BCS), indicated that there has been a decline in drug use between 2006/07 and 2007/2008. 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 at least to some degree. The BCS estimated that nearly 2.4 million adults in England and Wales had used cannabis in the previous year. Government data suggested 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 (9.3 percent down from 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 2006/07 and 2007/2008 overall use of any illicit drug among 16-59 year olds also declined.

The 2007/2008 BCS showed that the use of Class A drugs among the 16-59 age range has returned to 1995 levels (3 percent) after several years of being slightly above those levels (illegal drugs in the UK are characterized by their level of harm, and are 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 tranquilizers, anabolic steroids, cannabis and Ketamine.) The increase in overall Class A drug 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 while LSD use has decreased, and overall Class A drug use has decreased as well. In 2007/08 seven percent of 16-24 year olds reported use of any Class A drug in the past year, which is a slight decline from last year's eight percent. Thus, Class A drug use among 16-24 year olds is lower than it has ever been since HMG began statistical recordkeeping.

Frequent use of any illicit drug in the past year by 16-24 year olds decreased from 11.6 percent in 2002/03 to 8.3 percent in 2006/07. Police recorded that drug offenses increased by eighteen percent in 2007/08 compared with 2006/07. Increases in recent years have been largely attributable to increases in the recording of possession of cannabis offenses. From 2006/07 to 2007/08, possession of cannabis increased by twenty-one percent, which followed an increase of nine percent over the previous year (36 percent increase in 2005/06). The increases coincided with rises in the number of formal warnings for possession of cannabis issued by the police. In 2007/08 the rise in formal warnings for cannabis possession was 28 percent, 10 percent more than offenses of cannabis possession, and indicates the greater use of this method of handling cannabis protection by the police. The increase in possession of other drugs was 15 percent in 2007/08, over the previous year. Historically, drugs have been linked to about 80 percent of all organized crime in London, and to about 60 percent of crime overall.

III. Country Actions against Drugs in 2008

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 2008, the British government completed 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 2008 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 the review recommended no change to the policy, Home Secretary Jacqui Smith announced that HMG will increase the classification of cannabis from "C" to "B" in the interests of public health. This decision was largely due to two factors; first, the rise in the use of "skunk" cannabis, which is seen as more dangerous than older, weaker types of the drug, rather than pure cannabis which was the substance studied by the scientific board conducting the review. Secondly, there was some evidence linking cannabis use to psychosis. While this link was not accepted by the majority of scientists, HMG believed it was sufficient to warrant the increase in classification as a tool to limit usage, primarily as it involves increased penalties. The upgrade is expected to become law by late 2008 or early 2009. Police chiefs have urged that if cannabis is upgraded to Class B fixed penalties be established to streamline enforcement. Despite an aggressive government education campaign aimed at cannabis users, some police authorities reported that offenders were unaware that the drug remained illegal and they could 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 26 percent in 1995 to 17.9 percent.

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 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. In 2007, the ACMD was asked to examine new evidence on cannabis as well. As noted above although they found that the existing classification as a Class "C" drug should be maintained, HMG has decided to upgrade cannabis to a Class "B" drug.

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 show drug treatment expenditures were \$1.6 billion (800 million GBP). Similarly, 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 in expenditures will come in more 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. HMG 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 is also applied to offenders serving community sentences and those on parole. A Drug Rehabilitation Requirement (DRR) is one of the 12 requirements that can be included in a community sentence. Community Sentences with DRRs can be used by the courts instead of a criminal charge requiring custody. They offer the courts an effective tool for tackling the most serious and persistent drug 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 donor.

Law Enforcement Efforts. The UK gives 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 data indicate that the total amount recouped by all agencies involved in asset recovery in England, Wales and Northern Ireland was \$250 million (125 million GBP) 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 at ports remained constant at about 70 percent since 2001, while the purity of cocaine seized by the police fell from 55.1 percent in 2001 to 34.7 percent in 2007. This statistic indicates that the cocaine is being cut after importation. Heroin was the most commonly seized Class A drug followed by cocaine. Seizures in the UK are normally made with both cocaine and heroin in mixed caches. The total number of seizures in the UK was up 15 percent to 186,028—more than in any year since 1973.

There were 230,500 drug offenses recorded in England and Wales in 2007/2008 (the latest full year data available), an 18 percent increase from the 189,010 offenses recorded in 2006/07. Class A offenses rose by two percent to 36,350. Trafficking arrests increased from 27,230 in 2006/07 to 28,939, for an increase of six percent. About 87 percent of persons dealt with in the courts for drug offenses were for possession.

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, and the exchange of instruments of ratification occurred in May 2007. All 27 EU member states, including the UK, have signed bilateral instruments with the U.S. implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. The U.S. has ratified all and all EU countries except Belgium, Greece, Ireland and Italy have also ratified these agreements. None have entered into force. 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 April 2008, the USCG and the Royal Navy signed a memorandum of understanding to cooperate on issues of maritime domain awareness. 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 out LEDETs in waters

beyond the Caribbean and Bermuda areas of operations subject to the consent of both parties. In FY 2008, USCG LEDETs (Law Enforcement Detachments) deployed on British ships removed over 22,280 pounds of cocaine. The deployment of Royal Navy assets to the drug transit zone remains vital to ensuring continued success. In addition, the two countries have concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. The protocols are pending entry into force.

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. Over 70 more were discovered in Scotland. Cannabis cultivated overseas was imported into the UK from Europe both in bulk by serious organized criminals, sometimes in mixed loads alongside Class A drugs. Crack cocaine was rarely imported, but was produced in the UK from cocaine powder. Almost all of the Ecstasy consumed in the UK was manufactured in the Netherlands or Belgium; but tablet making sites have been found in the north of England. Most illicit amphetamines and MDMA (Ecstasy) were imported from continental Europe, but some were manufactured in the UK in limited amounts. Authorities destroyed crops and clandestine facilities as they were detected. U.S. authorities were 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, a close chemical equivalent of GHB, remained uncontrolled. DEA asked the UK to control GBL, and the ACMD recommended that it be listed as a Class “C” drug in 2006, but the UK is deferring to the EU-wide discussions on control of this substance. Several small clandestine methamphetamine laboratories were seized in the UK with law enforcement starting to embrace awareness training and strategic planning.

Drug Flow/Transit. The UK remained one of the most lucrative markets in the world for traffickers in Class A drugs and was targeted by a wide range of criminals. In terms of the scale of serious organized criminal involvement, drug trafficking, especially in Class A drugs, posed the single greatest threat to the UK. London, Birmingham, and Liverpool were known to be significant centers for the distribution of all types of drugs. Steady supplies of heroin and cocaine entered the UK. Some 90 percent of heroin in the UK (amounting to 25-35 tons a year) came 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 arrived directly from Pakistan.

Traffickers with ethnic connections to Turkey continued to dominate the supply of heroin to the UK. An increasing amount, however, was coming via East Africa and West Africa (Kenya to Nigeria to London). Caribbean criminals (primarily West Indians or British nationals of West Indian descent) were involved in the supply and distribution of heroin as well as cocaine. Most heroin continued to enter the UK through ports in the southeast, although some came through major UK airports with links to Turkey, Northern Cyprus, and Pakistan. Average purity increased since mid-2003, while average street prices have fallen consistently, from \$140 (70 GBP) per gram in 2000 to \$80-100 (40-50 GBP) in 2007. Cocaine imports are estimated at 35-45 tons a year and emanate chiefly from Colombia, although there was also cultivation in Bolivia and Peru. An estimated 65-70 percent of the cocaine in the UK market was believed to be produced in Colombia, and increasing amounts transit West Africa before entering the UK.

Supplies of both cocaine and crack cocaine reached the UK market in a variety of ways. The main method of moving cocaine from South America to Europe was in bulk maritime shipments on merchant vessels and yachts from Colombian and Venezuelan ports to the Iberian Peninsula. Importation of small quantities was becoming more frequent and may indicate a trend towards ‘little and often’ importations. Around 75 percent of cocaine was 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 organized this smuggling. There was increasing evidence that a significant amount of the cocaine smuggled into the UK came from West Africa trafficked by Nigerians, Ghanaians and British Nationals of West African descent. 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, was a major transshipment point for cocaine to the UK from Colombia. Cocaine came by both airfreight and by couriers, usually women, who attempted 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 the street level has fallen. Purity has fallen in England from 55 percent in 2001 to 34.7 percent in 2007. Cocaine purity in Scotland is half that of England and Wales (17 percent), suggesting that it originated in England and was being cut twice. In Northern Ireland cocaine was even less pure (12 percent). Cocaine related deaths occurred in Northern Ireland for the first time in 2007. The use of chemicals (such as phenacetin), bulking agents, and effect enhancing adulterants to cut cocaine and crack helped traffickers compensate for shortages in the cocaine supply. Further a field, there were some indications that increased interdiction with Mexico and on the US/Mexico border, potentially higher profits for cocaine sold in the UK and other EU states, and fear of extradition to the United States, were encouraging Mexican criminal groups to shift their focus to the European market.

Supplies of synthetic drugs continued to originate from Western and Central Europe; amphetamines, Ecstasy, and LSD were again mainly traced to sources in Belgium, the Netherlands, and Poland, with some supplies originating in the UK. The makers rely heavily on precursor chemicals made in China. In a newly identified transit trend, *khat* (a plant whose fresh leaves and tops are chewed or, less frequently, dried and consumed as tea, as a euphoric stimulant) was being imported to the UK from East African nations and Yemen. Khat is not controlled in the UK, but its stimulant component, cathinone, is a Schedule I controlled substance in the United States. Estimates for 2006 put 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 continues to come to the UK primarily from Morocco.

Domestic Programs/Demand Reduction. The UK government’s demand-reduction efforts focus on school and other community-based programs to educate young people and to prevent them from starting on drugs. In 2003, the government launched a national helpline/website through a multimedia drug awareness campaign called “FRANK.” The FRANK helpline offers advice to anyone who may be affected by drugs. Over the last five years FRANK has had 2 million call to its helpline and averaged over 500,000 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 specifically to target socially vulnerable young people, and 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 the national charity Crime Concern. The contract has been tentatively extended based on successes thus far. The charity hopes to use the heightened interest in sports generated by London’s hosting of the 2012 Olympics 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 210,000 people were now receiving treatment (out of an estimated 330,000 problem users). The so-called “pooled treatment budget” administered by the Home Office and the Department of Health was targeted to increase from \$448 million (GBP 253 million) nationally in 2004/05 to \$1.6 billion (800 million GBP). This was broken down by department with \$800 million (400 million GBP) coming from the Department of Health and the other \$800 million (400 million GBP) divided between the Departments of Justice and other government agencies (primarily the Home Office). A strategic capital bidding

program from 2007/08 was also announced in 2006. A total of GBP 54.9 million was made available with a view to improving and expanding in-patient drug treatment and residential rehabilitation for drug abusers, while improving the bidding/contracting process for these services. Additional services are provided through the National Health Service.

According to the National Treatment Agency (NTA) there were approximately 10,000 registered drug treatment workers as of 2008. The average waiting time for treatment was under one week for the first intervention, with a goal of 85 percent of individuals treated within three weeks of the first intervention. This was 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 1506 in 2005 to 4107 in 2006. This was an increase of nearly 300 percent compared with 2005. This figure was an all-time high, but may reflect new statistical ways of tabulating deaths that were introduced in 2006.

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 2007 (and therefore for the reporting year 2007/08) 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 were 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 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.

Uruguay

I. Summary

Uruguay is not a major narcotics producing or transit country. However, as traffickers are pressed by interdiction efforts elsewhere, Uruguay's strategic position and porous land border with Brazil make it vulnerable to drug-trafficking. There has been an increase in the involvement by foreign trafficking cartels and individuals—especially from Colombia, Bolivia, and Mexico. Uruguay also continues to experience increasing local consumption of the highly addictive and inexpensive cocaine-based product known locally as “pasta base.” Efforts to upgrade port security and customs services advanced in 2008. Uruguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Though not a major narcotics producing or transit country, Uruguay is nonetheless exploited by drug traffickers from Colombia, Bolivia, and Mexico as a transit point, more so as neighboring countries increase their interdiction efforts at their ports and border crossings. Limited inspection of airport and port cargo makes Uruguay an attractive transit point for contraband, including chemical precursors destined for Paraguay and elsewhere. Though precursor chemical controls exist, they are difficult to monitor and enforce.

The most commonly abused drug in Uruguay is marijuana, though officials are concerned about the growing popularity of synthetic drugs. Counternarcotics police units target small-scale facilities used for processing and shipping Bolivian coca as well as distribution centers for “pasta base” – a by-product of cocaine hydrochloride (HCl) production which is both highly addictive and inexpensive. Local demand for “pasta base” increased significantly in 2008, as did the incidence of crime related to this drug, according to the National Anti-Drug Secretariat. Individual drug use is not viewed as a criminal offense. Rather, users are sent for rehabilitation in ever-increasing numbers, which has over-burdened Uruguay's rehabilitation centers.

III. Country Actions against Drugs in 2008

Policy Initiatives. In 2008, the GOU continued to make counternarcotics a policy priority. In August, the Uruguayan parliament passed legislation to create a special court for organized crime, including drug trafficking, money laundering, corruption, and banking fraud. The Uruguayan counternarcotics police also launched a Financial Investigation Unit (FIU) to provide the judiciary with more complete financial information to facilitate a wider range of asset seizures than has been possible in the past. Additionally, the National Anti-Drug Secretariat enhanced drug rehabilitation and treatment programs and continued demand reduction public awareness campaigns focused on young adults. 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.

Law Enforcement Efforts. The GOU is highly conscious of the rising counternarcotics threat and has made consistent efforts to improve its capacity to respond. In 2008 the military purchased a new radar system that will be integrated with the civilian system to gain better control of airspace in the north, thereby enhancing interdiction efforts. The Uruguayan counternarcotics police also augmented their intelligence unit. To improve port security, non-intrusive inspection equipment (NIIE—such as ion scanners and backscatter x-ray equipment) was installed in 2008 in the port of Montevideo. Customs officials there conduct both targeted and random inspections and plan to increase the number of containers scanned by 20 percent.

In 2008, the GOU seized 819 kilograms (kg) of cocaine in both national and international counternarcotics operations. The GOU also seized 96 kg of “pasta base,” up significantly from 69 kg in 2007; and 1.058 kg of marijuana, down

from 1,817 kg in 2007. Uruguay's interdiction numbers—low in the context of its neighbors—are a reflection of both a less serious narcotics consumption and trafficking problem in Uruguay and the GOU's proactive and aggressive efforts to contain these problems.

The GOU made 2,280 drug-related arrests leading to 668 convictions. These numbers are a slight increase from 2007 in both overall arrests number of convictions.

Of the GOU agencies with charters for narcotics-related law enforcement, the Uruguayan counternarcotics police continued to be the most effective. Internal coordination among GOU agencies remains difficult because they report to different ministries, though the GOU hopes to improve cooperation through a new vice-ministerial level coordination body. Collaboration between the counternarcotics police and their regional counterparts is better and their joint efforts continue to result in successful counternarcotics operations.

Corruption. As a matter of policy, no senior GOU official nor 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. 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. In October 2008, 25 customs brokers at the port of Montevideo were arrested for bribery. Related to the same case, the former legal advisor to the Director of Customs is also under investigation for committing a crime of omission in failing to report irregularities. The case is currently being tried.

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 Convention Against Terrorism; the Inter-American Convention Against Trafficking in Illegal Firearms; the UN Convention Against Transnational Organized Crime and its three Protocols; 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 (MLAT) that entered into force in 1994, and a Letter of Agreement through which the USG funds counternarcotics and law enforcement programs. Uruguay has also signed drug-related bilateral agreements with Brazil, Argentina, Paraguay, Bolivia, Chile, Mexico, Panama, Peru, Venezuela and Romania. In 2008, Uruguay signed a new agreement with Argentina to promote a human rights-conscious approach to drug-related criminals. Uruguay is a member of the regional financial action task force Grupo de Accion Financiera de Sudamerica (GAFISUD).

Cultivation/Production. USG agencies have no evidence of significant cultivation of illicit drugs in Uruguay. Production is also rare, though the seizure of a single processing plant in April yielded 44 kg of cocaine and 7 kg of crack cocaine. Occasionally, limited quantities of probably Bolivian coca products are reprocessed in locally to produce higher quality cocaine prior to export.

Drug Flow/Transit. 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, small private airplanes, trucks, commercial aircraft flights, and containerized cargo. The port of Montevideo has relatively weak controls despite the installment of NIIE. 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. This practice is encouraged by the absence of control of the airspace in northern Uruguay due to the lack of tracking radar capability and the ability of drug traffickers to avoid detection by inadequate radar surveillance.

From Uruguay, narcotics are generally transported to Brazil for domestic consumption there or transshipped onward to the United States and Europe. In 2008 there were two intercepts of significant cocaine shipments carried on small

planes; the shipments landed on improvised airstrips in the interior of Uruguay (the departments of Salto and Paysandu) and account for a large percentage of cocaine seized this year.

Domestic Programs/Demand Reduction. Uruguay's demand reduction efforts focus on prevention programs, rehabilitation and treatment. These programs are based on a strategy developed cooperatively in 2001 between the National Anti-Drug Secretariat, public education authorities, various government ministries, municipalities and NGOs. In 2008, the National Drug Rehabilitation Center continued to train health care professionals and sponsored teacher training, public outreach, and other programs in community centers and clubs. The program, known locally as the "Portal Amarillo," features drug rehabilitation clinics and a hotline, continued services for both in-patient and out-patient drug users in northern Montevideo and in the Department of Maldonado, targeting specifically "pasta base" addicts. Staffed by recent graduates of Uruguay's largest nursing school, the Montevideo facility 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 in 2008 included support to demand reduction programs; support for narcotics interdiction operations, including provision of equipment; and assistance with police training. The increase of International Military Education and Training (IMET) funds in FY 2008 permitted the USG to provide maritime law enforcement leadership, port security, and border security training to the Uruguayan Navy, Coast Guard, and Marines. IMET in 2008 also included a legal seminar on border security and a river patrol operations course. Assistance in the effective use of radar systems is also being provided through the State Partners program.

The Road Ahead. The GOU needs to increase its programs for informing the public about the dangers of drug abuse, and enhancing the expertise of its law enforcement community in combating drug trafficking. Some initial steps have been taken via the establishment of a bilateral GOU-USG working group to enhance cooperation and develop effective partnerships. Embassy-based USG agencies are focused on a range of needs, including demand reduction programs and coordination of training programs for GOU officials, and DEA and DHS officials resident in Buenos Aires provide guidance and technical assistance to GOU counterparts in areas such as port security. The USG would like to see Uruguay expand this concept by improving collaboration with other USG agencies not based permanently in Uruguay. We also encourage the GOU to use its increased capabilities in police intelligence to better target investigations against foreign trafficking cartels, and should utilize its newly-acquired non-intrusive inspectional equipment at the port of Montevideo for increasing interdiction operations and drug seizures.

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. Seizure data indicates that the smuggling of highly regulated prescription medications is becoming more prevalent, and cannabis cultivation is increasing. 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 1,704 kilograms of illegal narcotics in the first six months of 2008 (heroin accounted for 46 percent of seizures). Authorities also seized 118,940 psychotropic pills, mostly prescription medicines. 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. Seizures for the first half of 2008 increased by 54 percent compared to the same time period in 2007, 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. In April 2008 Uzbek authorities interdicted 1.6 tons of acetic anhydride on a train that had entered Uzbekistan and was bound for Afghanistan. This was the first reported seizure of precursor chemicals since 2001 and occurred as part of the UNODC's "Operation Tarcet." Uzbek officials also reported seizing 320 liters of contraband sulphuric acid bound for Tajikistan. According to official statistics, no chemicals that can be used in the manufacture of narcotics were legally exported to Afghanistan. Effective government eradication programs have eliminated nearly all the illicit production of opium poppies in Uzbekistan.

III. Country Actions against Drugs in 2008

Policy Initiatives. The United States and Uzbekistan continued limited counternarcotics cooperation in 2008 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. A bilateral Law Enforcement and Security Assistance Working Group met in November 2007 to discuss mutual interests in border security and counter-narcotics cooperation, which contributed to restored dialogue between the U.S. and Uzbekistan on these issues. 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. However, Uzbekistan adopted new laws in 2008 which introduced some habeas corpus elements

and strengthened the powers of defense attorneys. President Karimov also issued decrees establishing a judicial research center and encouraging improvements in professional legal standards.

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 to the point that there is little left to eradicate. As of October 2008, the annual operation had eradicated a very modest 1.24 hectares of drug production crops. Efforts to achieve other UN 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, border security, and drug demand reduction. UNODC has also reported that cooperation with Uzbek law enforcement agencies is steadily improving, particularly with regard to prompt reporting of seizure data. The Government of Uzbekistan also participated in the successful pilot phase of the Central Asia Regional Information and Coordination Center (CARICC), which includes a full-time Ministry of Internal Affairs liaison officer at the headquarters in Almaty, Kazakhstan. Uzbek authorities reported participating in a joint controlled delivery training exercise along with counterparts from Tajikistan, Kyrgyzstan, and Kazakhstan in October 2008 in the framework of the CARICC. 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 2008, Uzbek law enforcement seized a total of 1,704 kg of illicit drugs, a 54 percent increase from the same period last year heroin accounted for 46 percent of the total, opium for 25 percent, cannabis 19 percent, kuknara 7 percent, and hashish three percent. The GOU also reported seizing 118,940 psychotropic pills in 90 separate seizures, the vast majority of which were prescription medicines. During the first six months of 2007 Uzbekistan reported 5,405 criminal cases pertaining to narcotics, including 176 arrests for drug smuggling and 2,931 for drug distribution. For the first six months of 2008 authorities report 5,737 narcotics-related criminal cases, including 176 arrests for drug smuggling and 3,219 for drug distribution. The number of criminal cases for the first half of 2008 represents a six percent increase compared with the same period in 2007. Four agencies with separate jurisdictions have counternarcotics responsibilities: the Ministry of Internal Affairs (MVD), the National Security Service (NSS), the State Customs Committee and, in a new development in 2008, the Ministry of Defense. 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. However, the National Center for Drug Control readily shares data with the U.S. Government and other international entities.

In 2007, training and equipment were provided to the State Customs Committee under U.S.-Uzbekistan counternarcotics-related bilateral agreements. The U.S. Drug Enforcement Administration (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 counternarcotics mission. Despite overtures by the Government of Uzbekistan in 2008 that it would welcome reengagement with the DEA, a formal proposal submitted by the Embassy to reestablish a DEA office was turned down in July 2008, and efforts continue to clarify the GOU's stance on DEA activity conducted out of Embassy Tashkent.

According to National Center reports, most smuggling incidents involve one to two individuals, likely backed by a larger, organized crime groups. 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 difficult to obtain. Uzbekistan has relied heavily on international assistance from UNODC, the U.S., the UK, the EU, and others to supplement their own thinly-funded programs.

In 2008 Tashkent-based UNODC officials reported a noticeable increase in cooperation with the GOU. In December 2007 the UNODC completed construction of a modern border checkpoint facility at the main Hayraton crossing between Uzbekistan and Afghanistan which was partially funded by the U.S. Government through the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL). In June 2008 UNODC launched a project to upgrade security and interdiction capabilities at the Termez River Port linking Uzbekistan with Afghanistan, a project which is solely sponsored by the U.S. through INL. However, despite numerous statements from GOU officials affirming the grave common threat posed by increased narcotics production and trafficking in Central Asia, Uzbekistan still remained cautious about approving direct bilateral counternarcotics projects with the United States.

In 2008 Uzbekistan participated in "Operation Typhoon," which successfully targeted a major Central Asian group which trafficked Afghan drugs to Russia. The long-term investigation also involved authorities from Afghanistan, Tajikistan, and Kazakhstan, which ultimately led to the leader of the organized criminal group and associates. Operation Typhoon netted seizures of 880 kilos of heroin and 100 kilos of opium. A total of 24 criminal cases were initiated and 42 active members of the group were arrested. Significantly, Operation Typhoon demonstrated the ability and willingness of Uzbek authorities to conduct a sustained investigative operation in collaboration with neighboring countries that reached beyond low-level "mules." Uzbek authorities also highlighted "Operation Caravan" which, in September 2008 in collaboration with Russia and Kazakhstan, resulted in the arrest of an international drug-smuggling ring that hid drugs in bags of garlic and transported them on buses.

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 ratified the Protocol against Trafficking in Persons in August 2008, and has signed but not ratified the protocol on Migrant Smuggling. In July 2008 Uzbekistan acceded to the UN Convention against Corruption, an unexpected development which should help long-term efforts to increase transparency. 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. A successful pilot project concluded in 2008 and has been extended until participating states ratify the CARICC agreement. 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. The annual "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.

Authorities report that in 2008 the first phase of Operation Black Poppy involved 875 search details involving 368 canines that yielded 805 instances of illegal drug cultivation. A total area of 1.24 hectares of cultivated crops were eradicated.

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. 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 Fergana Valley, Samarkand and Syrdarya.

Domestic Programs/Demand Reduction. According to the National Drug Control Center, as of the end of 2007 there were approximately 21,777 registered drug addicts in Uzbekistan, of which eighty-five percent were heroin users. In contrast with the official statistics, the Ministry of Internal Affairs estimates there are 35,000 drug addicts in Uzbekistan. However, observers in the international community believe the official number of registered addicts is only 10-15 percent of the actual drug addicts in Uzbekistan. A UNODC study estimated 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. There were 849 new HIV cases registered in the first half of 2008, of which 231 (27 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 2008 the GOU broadcast 129 TV and 304 radio broadcasts to raise awareness about the dangers of drug use, and 232 newspaper articles were published. In 2007, UNODC completed an INL-funded drug demand reduction project that demonstrated increased drug abuse awareness among school children. Additional INL funds were provided to UNODC in 2008 which will be used for a follow-up drug demand reduction project. A USAID drug demand reduction project which focused on key points along drug trafficking routes to prevent at-risk young people from becoming injecting drug users ended in 2008; some of the activities are continuing under the auspices of local NGOs or health facilities.

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 or third countries as well as equipment donations. In spite of the GOU's continuing hesitance to engage in U.S.-sponsored programs in a variety of areas, including counternarcotics, eight mid-level officers from the Ministry of Internal

Affairs and the National Security Service participated in an eight-week training program at the International Law Enforcement Academy (ILEA) in Budapest, Hungary from August—October 2008. This was the first time Uzbekistan officers attended training at ILEA since 2005, although the GOU only agreed to send half the number of officers for which invitations were extended. An INL-funded drug demand reduction project administered by UNODC will begin in late 2008, which will build on a previously completed project to raise awareness about the dangers of drug use among schoolchildren.

The State Department's Bureau of Export and Related Border Security (EXBS) modestly increased its activities in Uzbekistan in 2008 as the political relationship improved. The Embassy delivered ten radioisotope identification devices to the Higher Military Customs Institute in June 2008. Several officials from various parts of the Government of Uzbekistan participated in an export control training workshop in Washington, DC in September 2008. A mobile x-ray van previously delivered to Customs was repaired with EXBS funds and cooperation from the Government of Kazakhstan in August 2008. The Department of Defense increased counternarcotics activities with the GOU during 2008, following reengagement between Central Command (CENTCOM), the Ministry of Defense, and the National Center for Drug Control. In previous years Ministry of Defense officials stated that counter-narcotics was not in its competency; however, a July 2008 diplomatic note from the GOU confirmed that the Ministry of Defense was ready to join CENTCOM's counter-narcotics program. GOU officials participated in DOD-sponsored counternarcotics events in FY 2008, including Marshall Center counternarcotics programs and other military-to-military training events concerning counternarcotics. Former CENTCOM Commander Admiral William Fallon and his successor, General Martin Dempsey, both raised the importance of counter-narcotics cooperation during separate visits to Uzbekistan in January 2008 and August 2008, respectively.

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.

V. Statistical Table

Summarized Drug Seizure Statistics

Uzbekistan

January–October 2008

	2008 (9 months)	2007 (9 months)
Total drug related crimes	7,837	7,328

Note: increase of 6.5%

Drug Seizures:

	2008	2007
Total	2,973kg	1,554kg
Heroin (kg)	1,151	195.4
Opium (kg)	995.4	666.1
Cannabis (kg)	630	492.7
Hashish (kg)	59.8	54
Opium Poppy Straw (kg)	137	146

Drug seizures made in Uzbekistan by transportation type:

61.2%—Pedestrian

23.4%—Vehicular (excl. motorcycle)

5.8%—Rail

4.4%—Waterborne

4%—Air

1.2%—Motorcycle

Venezuela

I. Summary

Venezuela remains a major drug-transit country with high-levels of corruption and a weak judicial system. Growing illicit drug transshipments through Venezuela are enabled by Venezuela's lack of international counternarcotics cooperation. Venezuela refused to cooperate on almost all bilateral counternarcotics issues, rejecting U.S. criticism and accusing the U.S. Government (USG) of complicity with drug trafficking organizations.

The Government of Venezuela (GOV) declared the U.S. ambassador *persona non grata* on September 11, 2008, in what President Chavez characterized as "solidarity" with the Bolivian government's decision to expel the U.S. ambassador in La Paz. In September, The U.S. Treasury's Office of Foreign Assets Control designated to senior Venezuelan government officials and the former Justice and Interior Minister as "Tier II Kingpins" for materially assisting the narcotics trafficking activities of the Revolutionary Armed forces of Colombia (FARC). Also in September 2008, the President determined, as in 2007, 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

Venezuela is one of the principal drug-transit countries in the Western Hemisphere. Counternarcotics successes in Colombia have forced traffickers to shift routes through neighboring Venezuela, whose geography, corruption, a weak judicial system, incompetent and in some cases complicit security forces, and lack of international counternarcotics cooperation make it vulnerable to illicit drug transshipments. While the majority of narcotics transiting Venezuela continue to be destined directly for the U.S. and Europe, a rapidly increasing percentage has started to flow towards western Africa and then onwards to Europe. The movement of drugs continues to compound Venezuela's corruption problem, and increase the level of crime and violence throughout the country. The acceleration of violent crime over the last decade is highlighted by a tripling of the country's homicide rate during the same period. According to international sources, today Venezuela is reported to have the second highest murder rate in the world.

III. Country Actions against Drugs in 2008

Policy Initiatives. A proposal announced by the Venezuelan government in 2007 to establish a new counternarcotics task force under the National Anti-Drug Plan did not materialize in 2008. Although it was to take effect in January 2008, Venezuela's national counternarcotics strategy for 2008 – 2013 still has not been released publicly. However, a few uncoordinated civic and law enforcement activities have been credited to the plan. The drug education program "Planting Values for Life," launched in 2007, operated regularly in 2008. At least four of the ten radar systems purchased from China by the GOV National Counternarcotics Office (ONA) in 2007 were installed in 2008, but, due in part to ONA's persistent refusal to share information or engage with international counter drug partners, their potential effectiveness to scan Venezuelan airspace for illegal drug transshipments is unclear.

The GOV has rejected nearly all counternarcotics cooperation with the USG since 2005 as a matter of policy, and has undermined USG efforts to collaborate with state and municipal governments. Initially, the GOV claimed that it rejected collaboration 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, but the GOV still has not signed it.

In August 2008, the GOV denied visas to the Director and staff of the Office of National Drug Control Policy (ONDCP). The ONDCP Director had offered to travel to Caracas to meet with GOV officials in order to follow up on President Chavez' July 5 public comments to the U.S. ambassador that he wished to renew bilateral counternarcotics cooperation. GOV Vice President Ramon Carrizalez subsequently accused DEA of being part of an international drug cartel.

This lack of counternarcotics cooperation is an important piece of the general chilling of bilateral relations over the past few years, capped by President Chavez' September expulsion of the U.S. ambassador. Given the GOV's refusal to cooperate bilaterally with the United States and other factors, the President determined in 2008, as in 2007, 2006, and 2005, that Venezuela "failed demonstrably" to adhere to its obligations under international counternarcotics agreements. According to the ONA, the GOV did not enter into any new counternarcotics cooperation agreements with other countries in 2008. Germany, the Netherlands, and the UK cooperated on some modest counternarcotics initiatives with Venezuela. For example, Germany provided week-long intelligence training courses to Venezuelan law enforcement units.

Law Enforcement Efforts. Corruption and failure to use all the state's tools and resources to fight drug trafficking and illicit activity have created an environment conducive to organized crime. Whether due to security forces' weakness, lack of will, or corruption, Venezuela has effectively lost control of large portions of western Venezuela, abutting Colombia, to narco-trafficking organizations, including the Revolutionary Armed Forces of Colombia (FARC). The FARC's ability to operate freely in this portion of Venezuela facilitates its well-established involvement in narco-trafficking. Venezuelan police and prosecutors do not receive sufficient training or equipment to properly carry out counternarcotics investigations. Without effective criminal prosecutions, and with the politicization of investigations and corruption, the public has little faith in the judicial system. Venezuelan arrests are usually limited to low-level actors. However, in November authorities raided a farm belonging to Walid Makled, Venezuela's largest drug trafficker, and arrested 10 persons, including his brother Abdla Makled. Authorities also seized 300 kilograms (kg) of cocaine and arms. Walid Makled remains at large.

The GOV reported seizures of over 54 metric tons (MT) of cocaine in 2008, claiming an increase from 28 MT in 2007. However, the GOV does not permit the USG to confirm its seizures or to verify the destruction of seized illicit drugs. Moreover, these figures include seizures made by other countries in international waters that were subsequently returned to Venezuela, the country of origin. Additionally, the GOV reported seizing 111 kg of heroin, 17 MT of marijuana, and 53 kg of crack cocaine.

Corruption. On March 1, 2008, the Government of Colombia obtained information during an operation against the FARC showing that GOV officials have provided support to the FARC. In September, based on this and other corroborating information, the U.S. Treasury's Office of Foreign Assets Control designated two senior Venezuelan government officials, Hugo Armando Carvajal Barrios and Henry de Jesus Rangel Silva, and the former Justice and Interior Minister, Ramon Rodriguez Chacin, as "Tier II Kingpins" for materially assisting the narcotics trafficking activities of the FARC. Members of 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 (CICPC). 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 against illicit traffic in narcotic drugs and psychotropic substances, the 1961 UN Single Convention on Narcotic Drugs 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 authorizes 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 USG requests.

Extradition and Mutual Legal Assistance. The United States 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 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. In September, the GOV expelled Colombian drug traffickers Aldo Mario Alvarez Duran and Marcos Jorge Orozco Wilches to Colombia, where the USG had previously submitted provisional arrest requests. Also, in November, the GOV expelled Colombian drug traffickers Henry Fortich Coneo, Wilmer Villadiego Coneo, and May Mitchell Palacios directly to the United States, although no formal extradition requests had been made.

Cultivation/Production. Some coca cultivation does occur along Venezuela's border with Colombia, but the levels are historically insignificant. However, no reliable cultivation data has been released recently by the GOV. Periodic GOV eradication operations were carried out in 2008, including "Operation Sierra" along the western border with Colombia, which included elements of the ONA and the Venezuelan Armed Forces (FAN). Results of these eradication programs have not been released by the GOV.

Drug Flow/Transit. Narcotics trafficking in Venezuela has increased five-fold since 2002, from 50 MT to an estimated 250 MT in 2007. 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 routinely exploit a variety of routes and methods to move hundreds of tons of illegal drugs on the Pan-American Highway, the Mata and Orinoco Rivers, the Guajira Peninsula, and dozens of clandestine airstrips. The Venezuelan armed forces claim to have destroyed many of these airstrips, but they did not invite foreign government representative to review the results. The majority of illicit drugs transiting Venezuela are destined for the U.S. and Europe. Venezuelan traffickers have been arrested in the Netherlands, Spain, Ghana, the Dominican Republic, Mexico, Grenada, Dominica, St. Lucia, and other countries.

Illicit narcotics are smuggled from Venezuela to the principal markets in the U.S. and Europe in maritime cargo containers, fishing vessels, go-fast boats, and private aircraft taking off from clandestine airstrips. Illicit narcotics destined for the U.S. from Venezuela are shipped through the Dominican Republic, Haiti, Central America, Mexico, and other Caribbean countries. Narcotics destined for Europe are 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. Clandestine flights departing Venezuela are another means of transporting cocaine shipments to West Africa. Multi-kilogram shipments of cocaine and heroin are also mailed through express delivery services to the United States.

Between January and June 2008, the U.S. estimates that 116 MT of cocaine transited Venezuela: 28 MT via maritime routes and 87 MT via air, according to the Joint Interagency Task Force-South. In an effort to combat the transit of narcotics through Venezuela, the GOV launched Operation Boquete in 2008. The operation was designed to disable clandestine landing strips used for drug trafficking. There were four phases that reportedly destroyed an approximate total of 200 airstrips in Apure, Falcon, Anzoategui, and Monagas. Most of these airstrips were old, unused, and could be easily repaired. These efforts achieved only short-term gains in transit areas of Venezuela, temporarily disrupting drug trafficking flights.

The USG assesses that Colombian guerrilla and paramilitary organizations, including two designated Foreign Terrorist Organizations (FTOs), the FARC and the National Liberation Army (ELN), conduct drug trafficking operations in Venezuelan territory, often using local traffickers to coordinate transportation and logistics. 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.

Domestic Programs/Demand Reduction. Venezuelan law has required since 2005 that companies with more than 200 workers donate one percent of their profits to the National Anti-Drug Office (ONA), which is supposed to 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, and has proven ineffective.

ONA has been slow to certify the numerous NGOs involved in demand reduction, and has tried to dissuade NGOs from accepting support from the United States. 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. Also, legal challenges to the requirement that funds be donated directly to ONA have frozen the donation process. Companies have postponed making donations, either to ONA or to NGOs, until the statutory requirement is clarified, and many NGOs have shut their doors due to a 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 continue to report that drug abuse may be on the rise.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The GOV has almost eliminated 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 August 2008, the GOV did hold one judicial sector training exercise with the technical support of the United Nations Office of Drugs and Crime (UNODC), despite having said in 2007 that it would end the judicial sector's participation in several USG-funded UNODC programs, and indicated to the UNODC that the GOV would not participate in any programs receiving USG funds. No further cooperation with the GOV was reported during 2008. 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 USG-funded Container Inspection Facility (CIF) at Puerto Cabello remains unused by the GOV, despite the fact that the USG estimates that the majority of narcotics from Colombia transit the Tachira-Puerto Cabello corridor and other parts of the northern coast. 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. The Autonomous Port Institute of Puerto Cabello (IPAPC) expropriated and now controls access to the unused facility.

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.

The GOV generally continues to authorize the USG to board Venezuelan-flagged vessels on the high seas suspected of being engaged in narcotics trafficking, and the GOV retains jurisdiction. The GOV does not share information on the final disposition of seizures made by the United States Coast Guard on Venezuelan-flagged vessels and the corresponding legal cases.

Several high-level Venezuelan officials, including former Interior and Justice Minister Rodriguez Chacin, current Interior and Justice Minister Tarek El Assaimi, and Vice President Ramon Carrizalez have been repeatedly and publicly critical of US counternarcotics policy and have accused the Drug Enforcement Administration (DEA) of engaging in illicit narcotics trafficking. The USG refuted these charges, and offered to meet with Venezuelan officials to detail our response – an offer that was rejected. The GOV did deport DEA fugitive Luis Ramon Guerra on February 1, and also seized his assets worth over \$10 million. The GOV also arrested DEA fugitive Hermagoras “Gordito” Gonzalez in March 2008 but refused to extradite him, though his arrest led to the seizure of nearly \$24 million worth of assets.

The Road Ahead. The USG remains prepared to renew cooperation with Venezuela to fight the increasing flow of illegal drugs, but the GOV needs to take concrete steps to demonstrate its own commitment. These could include signing the outstanding MOU addendum, and stemming the rise in drug transshipments from Colombia by working with the USG to start operation of the Container Inspection Facility (CIF) at Puerto Cabello. These steps would help to dismantle the growing organized criminal networks and aid in the prosecution of criminals engaged in trafficking.

Vietnam

I. Summary

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2008. 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) has improved, but continued progress is still needed in order to achieve significant results. Vietnam is a party to the 1988 UN Drug Convention.

II. Status of Country

This year, Vietnam reported an increase in the poppy cultivation areas, particularly in the provinces of Son La, Lao Cai, Yen Bai, Lai Chau, Lang Son, Gia Lai, Dac Lak, Hau Giang and Dong Nai. Official UNODC statistical tables no longer list Vietnam separately with major drug production countries 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. There appear to be small amounts of cannabis grown in remote regions of southern Vietnam. In previous years, DEA has had no evidence of any Vietnamese-produced narcotics reaching the United States nor was Vietnam a source or transit country for precursors. However, more recent information indicates that precursor chemicals and Ecstasy are beginning to be shipped from Vietnam into Canada for eventual distribution in the United States. The dual use chemical, Safrole, (sassafras oil-From which Ecstasy can be produced) is no longer produced in Vietnam, but it continues to be imported into Vietnam for re-export under controls to third countries. The potential for diversion of sassafras oil into clandestine MDMA production remains an area of concern. In 2008, 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-Amphetamine-type Stimulants use among urban youth. During 2008, 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 continue to face resource constraints for the foreseeable future, despite annual budget increases for counternarcotics efforts.

III. Country Actions against Drugs in 2008

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 2008, many provinces and cities continued to implement 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 2008. Officially sponsored activities cover every aspect of society, from schools to unions to civic organizations and government offices. The MPS also works with relevant agencies to outline a national strategy on drug abuse control from now to 2020. The strategy is slated to intensify the crackdown on drug trafficking. In addition to work on the long term strategy, the MPS also took part in revising and supplementing the GVN's current basic Anti-Narcotic Law. In 2008, the GVN continued 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 the Standing Office for Drug Control (SODC) under the Ministry of Public Security (MPS), during 2008 there were 13,239 drug cases involving 20,636 suspects. Out of that number, press reports indicate there were 61 cases involving 127 foreigners. Total seizures included 205 kg of heroin, 33 kg of opium, 8.6 tons of marijuana oil, 128 kg of dry marijuana, 3 tons of fresh marijuana, 28 kg of ATS powder (used to make tablets) and 45,983 ATS tablets, 2 kg of ketamine, and 873,346 tablets and 1,188 ampoules of addictive pharmaceuticals. Total seizures include 156 kg of heroin, 19 kg of opium, 8,657 kg of cannabis, 44,054 ATS tablets, and 13,543 tablets and 1,188 ampoules of addictive pharmaceuticals. Press reports note that the numbers of cases and traffickers during 2008 represent an increase of 3,900 cases (43.6 percent) and 6,700 suspects (49.4 percent) percent compared with 2007. 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.

Foreign law enforcement representatives in Vietnam say that operational cooperation on counternarcotics cases is limited largely 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. Changes in Vietnamese law to allow the establishment of a legal and procedural basis for Vietnam's cooperation with foreign law enforcement agencies are necessary to reach international standards of cooperation, rather than the current situation where operational "cooperation" is determined on a case-by-case basis. USG law enforcement agencies noted that the development of agency-to-agency agreements have improved the cooperation climate. During 2008, cooperation levels between GVN law enforcement authorities and DEA continued to improve. DEA agents have experienced a few incidents where they have been officially permitted to work directly with GVN counternarcotics officials on specific cases. While cooperation was limited to receiving information and investigative requests from DEA, the GNV counternarcotics department was more interactive and demonstrated more cooperative attitude to DEA requests. Thus far, counternarcotics police have not shared detailed investigative information with DEA, providing only the investigative basics.

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. Nevertheless, a certain level of corruption, both among lower-level enforcement personnel and higher-level officials, is consistent with the fairly large-scale movement of narcotics into and out of Vietnam, which is happening. The GVN demonstrated willingness to prosecute some corrupt officials, although the targets were relatively low-level.

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. During the 2007 – 2008, authorities nationwide detected and destroyed 99 hectares of poppy plants and 1 hectare of marijuana. While no specific data for 2008 is available on the total amount of illicit drug crop cultivation; however, estimates suggest that opium poppy cultivation remains sharply reduced from an estimated 12,900 ha in 1993, when the GVN began opium poppy eradication. There have been some 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). As part of its efforts to comply fully with the 1988 UN Drug Convention, the GVN

continued to eradicate poppies when found and to implement crop substitution. There were, however, some reports of drug refining and trafficking in heroin among hill tribes along the border with Laos.

Drug Flow/Transit. Law enforcement sources and the UNODC believe that significant amounts of drugs are transiting Vietnam. 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 2008 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 and rank with heroin and cannabis as the most popular drugs in Vietnam. Such drugs are most popular in Hanoi, Ho Chi Minh City and other major cities. During 2008, numerous cases involving ATS trafficking and consumption were reported in the media, including mass arrests following raids on popular nightclubs. DEA has received recent information on Vietnam based organization beginning to ship Ecstasy from Vietnam into Canada for the eventual distribution in the United States.

Domestic Programs/Demand Reduction. According to SODC, at the end of November 2008, there were 173,000 officially registered drug users nationwide. Included in that figure are 97,382 addicts living in the community, and 44,496 and 31,122 other addicts living, respectively, in MPS prisons and Ministry of Labor, War Invalids and Social Affairs (MOLISA) 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. 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. SODC reports that during 2008 20,978 drug users received treatment, 6,321 received vocational training, and 2,648 received basic education. 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 and addressing the HIV prevention needs of injecting drug users (IDU) remains the foremost priority in Vietnam's efforts to combat HIV/AIDS. UNAIDS reports a total of 132,000 HIV cases in the country, a figure considered accurate by both the GVN and the USG. More than 60 percent of known HIV cases are IDUs, with many additional infections resulting from transmission to the sexual partners and children of these individuals. 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.

In June 2004, Vietnam was designated the 15th focus country under the President's Emergency Plan for AIDS Relief (PEPFAR). USG FY08 funding, \$88.5 million, is distributed through key PEPFAR agencies such as USAID, HHS/CDC, and the U.S. Department of Defense. 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. The Methadone Maintenance Therapy (MMT) program for IDU is currently operational in three sites in HCMC and three sites in Hai Phong, with plans to expand the program to Hanoi in the near future. The concentration of HIV infection in IDU populations in Vietnam has spurred the PEPFAR program to focus HIV prevention, care, and treatment efforts in these key urban settings and along drug transport corridors to prevent the continued spread of HIV. Even in focused settings, stigma and discrimination against IDU in Vietnam—exacerbated

by historical campaigns characterizing drug use as a "social evil"—have made it difficult to obtain accurate IDU population size estimates and to expand access to needed services. The GVN has officially "registered" 173,000 IDU nationally, but the actual size of this population is estimated to be many times higher. In addition, using even the most conservative estimates of population size, coverage of basic prevention services remains low. For example, PEPFAR-supported outreach efforts only provided education to a maximum of 4 percent of the estimated number of IDU in Hanoi, and a maximum of 40 percent of the estimated number of registered IDU in Ho Chi Minh City. The successful referral of these individuals to HIV counseling and testing and other care and treatment services also remains an essential priority given the burden of HIV infection among IDU, but continues to be a challenge. According to the latest PEPFAR program reports, a maximum of 5 percent of the number of IDU in Hanoi, and a maximum of 13 percent of the number of IDU in Ho Chi Minh City, have received HIV counseling and testing.

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. 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, and a three-week Small Craft Maintenance and Training Seminar for MPS in HCMC. 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 its support of UNODC.

The Road Ahead. The GVN is acutely aware of the threat of drugs and Vietnam's increasing domestic drug problem. However, there is a guarded approach to foreign law enforcement assistance and/or intervention in the counternarcotics arena. During 2008, as in previous years, the GVN made progress with on-going and new initiatives aimed at the law enforcement and social problems that stem from the illegal drug trade. The GVN continued to show a willingness to take unilateral action against drugs and drug trafficking, and began to reach out for assistance from foreign law enforcement organizations. Vietnam still faces many internal problems that make fighting drugs a challenge. USG-GVN operational cooperation is on the rise. However, such cooperation will remain limited until the development of a legal framework to allow some manner of involvement of foreign law enforcement officers in law enforcement investigations on Vietnamese soil, or the signing of a bilateral agreement between the United States and Vietnam to 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) was a first step in this direction, but this non-binding understanding directly addresses law enforcement cooperation on a case-by-case basis and only at the central government level.

Zambia

I. Summary

Zambia is not a major producer or exporter of illegal drugs, nor is Zambia a significant transit route for drug trafficking. Cannabis is the only illicit drug that is locally cultivated. It is exported to other countries in the region, as well as to the Netherlands and United Kingdom. Zambia's Drug Enforcement Commission (DEC) reported a large number of seizures of cannabis in 2007 and 2008. Seizures of other drugs remained small. The DEC works closely with other Zambian law enforcement agencies and has a record of international cooperation with the U.S. Government. As is true of the Zambian government generally, the DEC is hampered by a lack of resources. Zambia is a party to the 1988 UN Drug Convention.

II. Status of Country

Based on narcotic seizures and rehabilitation program participation, cannabis is the most commonly consumed drug in Zambia. Other drugs that are abused in Zambia include heroin, cocaine, and khat. According to the DEC, pharmaceuticals such as diazepam, morphine, and Phenobarbital are also occasionally used for recreational purposes.

Apart from small-scale cultivation of cannabis, Zambia is not a source of illegal drugs. Subsistence farmers grow cannabis from the cannabis sativa plant. Most of this production is exported regionally to Malawi, Mozambique, Namibia, Botswana, Tanzania, and South Africa. Some cannabis is also transported to European countries, including the Netherlands and the United Kingdom. There are no reports or indications of synthetic drug production in Zambia.

Although Zambia is not an important route for drug shipments or a source of precursor chemicals, it has been a transit point for minor amounts of cocaine, raw opium, and heroin. Zambia may also be a transit route for ephedrine, which is used to manufacture methamphetamines that are destined for the Democratic Republic of Congo (DRC) and Angola. Locally consumed cocaine is imported from DRC, whereas khat and heroin are imported from Tanzania.

III. Country Action Against Drugs in 2008

Policy Initiatives. In addition to cannabis eradication, other DEC programs focus on officer training, drug demand reduction, and money-laundering investigations. In collaboration with public health institutions, the DEC provides counseling and rehabilitation programs to treat and prevent drug abuse. Although an increasing number of Zambians are participating in these programs, the DEC has not yet conducted a nationwide survey to ascertain the extent of narcotics abuse in Zambia. In 2008 the DEC began expanding its presence in rural areas with the intention of deploying counter-narcotics officers and establishing DEC branches in every national district. The DEC also is constructing a dedicated treatment and rehabilitation center and conducting an outreach effort at primary and secondary schools.

Law Enforcement Efforts. Almost all of the DEC's interdiction effort is related to cannabis. Between January and October 2008, the DEC arrested 1,674 persons on drug-related offenses, resulting in 848 convictions. Total drug seizures amounted to 31 metric tons of cannabis, 360 kilograms of khat, 1.3 kilograms of heroin, and 24 grams of cocaine. These figures mark a slight decline from 2007, when the DEC arrested 2,593 persons for drug related offenses, resulting in 1,402 convictions. Total narcotics seizures in 2007 included 53 metric tons of cannabis, 305 kilograms of khat, 3.9 kilograms of heroin, and 746 grams of cocaine. Law enforcement officers are also authorized to confiscate licit pharmaceutical drugs that are transported in large quantities without adequate permits. These include diazepam (valium), diphenylhydramine (benadryl), bromazepam, lidocaine, and lorazepam. Some medical

practitioners have complained that these enforcement efforts are restricting the availability of pharmaceuticals for legitimate medical purposes.

Corruption. In 2008 the Government of Zambia continued its anti-corruption initiatives by prosecuting acts of corruption that high-level officials committed during the administration of former President Frederick Chiluba. In recent years, the Zambian Government has also focused on strengthening its lead anti-corruption agency, the Anti-Corruption Commission. Although the DEC has played a role in this anti-corruption campaign, these efforts have had no direct impact on narcotics control. No evidence has emerged to suggest that current government officials are involved in the production or trafficking of drugs, although several members of parliament, including the government chief whip, have previously been implicated in allegations of drug trafficking. As a matter of policy, the Government of Zambia 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. Zambia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Although there is no bilateral mutual legal assistance treaty with Zambia, requests for assistance can be made under these conventions. In the past, the U.S. has responded to requests made by Zambia for assistance. Zambia is also a party to the UN Convention against Corruption and the UN Convention against Transnational Crime and its three Protocols. A 1931 extradition treaty between the U.S. and the UK governs extraditions from Zambia.

Cultivation and Production. Cannabis is the only illicit drug that is locally cultivated. It is used domestically and there is some export to the region and to Europe.

Drug Flow/Transit. Some Afghan heroin enters Zambia from Tanzania, and some South American cocaine transits Zambia from Angola to Mozambique.

Domestic Programs/Demand Reduction. No sophisticated treatment for drug abuse is available in Zambia. Drug abuse cases are handled by the government-run healthcare system.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Government is not engaged in any ongoing programs or policy initiatives in the field of counternarcotics with the DEC. However, the U.S. Government provides significant training assistance to Zambian law enforcement agencies, including the DEC. In 2007-2008 over fifty enforcement officers, including several who are active in narcotics control, completed training at the U.S.-sponsored International Law Enforcement Academies in Gaborone, Botswana and Roswell, New Mexico. A U.S. Coast Guard Mobile Training Team (MTT) conducted a course in Zambia focused on Port Security/Port Vulnerability.

The Road Ahead. The U.S. and Zambia will stand ready to cooperate on counternarcotics cases with a nexus in the two countries.



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

International Narcotics Control Strategy Report

Volume II
Money Laundering
and Financial Crimes

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Common Abbreviations

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ARS	Alternative Remittance System
BCS	Bulk Cash Smuggling
CFATF	Caribbean Financial Action Task Force
CTF	Counterterrorist 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
EC	European Commission
ECOWAS	Economic Community of West African States
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
FSRB	FATF-Style Regional Body
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
IVTS	Informal Value Transfer System
MENAFATF	Middle East and North Africa Financial Action Task Force
MLAT	Mutual Legal Assistance Treaty
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MOU	Memorandum of Understanding
NCCT	Non-Cooperative Countries or Territories
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
OAS	Organization of American States
OAS/CICAD	OAS Inter-American Drug Abuse Control Commission
OFAC	Office of Foreign Assets Control

Common Abbreviations (Continued)

OFC	Offshore Financial Center
OPDAT	Office of Overseas Prosecutorial Development, Assistance and Training
OTA	Office of Technical Assistance
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TTU	Trade Transparency Unit
UNCAC	United Nations Convention against Corruption
UN Drug Convention	1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
UNTOC	United Nations Convention against Transnational Organized Crime
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 2009 INCSR is the 26th 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 2009 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

¹ The 2009 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 2009 report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. A principal contributor is the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN), which, as a member of the international Egmont Group of Financial Intelligence Units, has unique strategic and tactical perspective on international anti-money laundering developments. FinCEN is the primary contributor to the individual country reports. Another key contributor is the U.S. Department of Justice's Asset Forfeiture and Money Laundering Section (AFMLS) of Justice's Criminal Division, which plays a central role in constructing the Money Laundering and Financial Crimes Comparative Table and provides international training. Many other agencies also provided information on international training as well as technical and other assistance, including the following: Department of Homeland Security's Bureau of Immigration and Customs Enforcement; Department of Justice's Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development Assistance; and Treasury's Internal Revenue Service, the Office of the Comptroller of the Currency, and the Office of Technical Assistance. Also providing information on training and technical assistance are the independent regulatory agencies, Federal Deposit Insurance Corporation, and the Federal Reserve Board.

amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year's list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category:

Major Money Laundering Countries in 2008:

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bolivia, Brazil, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guatemala, Guernsey, Guinea-Bissau, 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, Venezuela, and Zimbabwe.

The Money Laundering and Financial Crimes section provides further information on these countries/entities, as required by section 489 of the FAA.

Introduction

Volume II of the *2009 International Narcotics Control Strategy Report, Money Laundering and Financial Crimes*, highlights the continuing vulnerabilities and potential threats to stability and security posed by global money laundering, terrorist finance, and other financial crimes. This year's report demonstrates anew that criminals and terrorists continue to disguise their illicit financial activities. Tainted funds have the potential to destabilize economies, weaken the integrity of the international financial system, subvert rules-based international commerce, and corrupt governments. New and cutting edge money laundering methodologies represent tremendous challenges for the financial, regulatory, legal, intelligence, and law enforcement communities.

Earlier editions of this volume have chronicled progress made in formulating and implementing anti-money laundering and counterterrorist financing (AML/CTF) measures. The 2009 INCSR describes recent AML/CTF developments, as well as emerging trends that could merit increased attention.

Growing Threats

Threat Convergence of Illicit Drug Wealth, Organized Crime, and Terrorism. In 2008, Khan Mohammed became the first known Taliban to be convicted of drug trafficking. His case demonstrates the linkages between the proceeds of narcotics, organized crime, and terrorism. In a groundbreaking operation by the U.S. Drug Enforcement Administration, an Afghan farmer acting in an undercover capacity secretly recorded Mohammed conspiring to purchase weapons and engage in trafficking narcotics. Mohammed was arrested and, with the cooperation of the Afghan government, brought to the United States for trial in late 2007. In December 2008, Mohammed was sentenced in U.S. District Court for the District of Columbia to two terms of life in prison on drug trafficking and narcotics terrorism charges.

Afghanistan produces more than 90 per cent of the world's opium. As is discussed below, in this volume's Afghanistan country report, much of the narcotics trade is facilitated by the Taliban. The profits generated by the drug trade enable the Taliban to operate not only in Afghanistan but across parts of Central Asia and Pakistan. Drug terror-threat convergence is also found in Colombia with the Revolutionary Armed Forces of Colombia (FARC), and in Peru with the Sendero Luminoso (Shining

Path). In fact, approximately half the 44 U.S. Department of State designated Foreign Terrorist Organizations have ties to narcotics trafficking.

Trade-Based Money Laundering (TBML). As is made clear in many of the 2009 country reports, trade is used to launder money and transfer value around the world. Estimates of the annual dollar amount laundered through trade range into the hundreds of billions. Some academics have argued that TBML is the most prevalent form of money laundering in the United States. In recent years, analysts and policy makers are increasingly recognizing the existence of trade-based money laundering.

The 2003 edition of this volume introduced the TBML concept. In 2007, TBML was included as a priority threat in the 2007 National Money Laundering Strategy. In recent years, the Financial Action Task Force (FATF) has begun to recognize the need to formulate international countermeasures to address TBML and in June 2008, the FATF produced a best practices paper on the subject. The FATF could emphasize its importance by adding TBML as its tenth “Special Recommendation on Terrorist Financing”. The Wolfsberg Group, an association of 12 of the world’s largest banks, calls for enhanced due diligence to prevent TBML tied to drug cartels, terrorist organizations, sanctions violators and weapons proliferators. Also, a nascent but growing network of Trade Transparency Units (TTUs) has revealed the extent of transnational TBML through the monitoring of import and export documentation. The United States established a TTU within the U.S. Department of Homeland Security Bureau of Immigration and Customs Enforcement (ICE) that generates both domestic and international investigations. The number of cases initiated by the INL-funded TTU network continues to grow. In 2008, Mexico’s TTU investigated seven cases; Colombia, four; Paraguay, six; Brazil, one; and Argentina, two. Unfortunately, financial institutions’ compliance programs and corresponding suspicious transaction reporting—which are the backbone of most countries’ AML/CTF regimes—are not yet structured fully to detect TBML.

Service-Based Laundering. Just as TBML depends primarily on commodity invoice fraud (particularly over-and-under invoicing), a similar mechanism is used in service-based industries to launder money and illegally transfer funds across borders without detection. Marketing surveys, accounting and legal services, and concert promotions are just a few examples of service-based industries that can conceal international fraud. Fraudulent invoices and supporting documentation can be used to justify payment or the transfer of money for real or fictitious services from one jurisdiction to another. In this manner, some service-based industries may be laundering money, evading taxes, engaging in fraud, and conducting other financial crimes. Pursuing service-based fraud and money laundering is a challenge because there is no commodity to follow. Moreover, investigations are often stymied because law enforcement agencies have difficulties sorting out jurisdictional issues.

Mobile Payments and Stored Value Cards Laundering. The potential threat of mobile payments for money laundering and other financial crimes was highlighted in the 2008 edition of the INCSR. In the digital age, it is increasingly difficult to “follow the money;” and some argue that money launderers and terrorist financiers may attempt to exploit mobile payments. FATF calls mobile payments “new payment methods” or NPMs. They are also sometimes called “e-money” or “digital cash.” Examples include Internet payment services, digital precious metals, electronic purses, and mobile payments or “m-payments.” Driven by the convergence of the financial and telecommunications sectors, the rapid global growth of m-payments raises particular concern. 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).

A related risk is the growing threat from stored value cards (SVCs) as a mechanism for money laundering and terrorist financing. SVCs are cards with data encoded in either a magnetic strip or a computer chip, for example, prepaid credit cards, or gift cards, that are preloaded with a fixed amount of electronic currency or value. The SVCs can be redeemed or transferred to individuals and/or merchants in a manner similar to spending physical currency. An ICE/Internal Revenue Service

investigation into a stolen credit card number network operating in Mexico found that a co-conspirator was paid by a criminal organization with gift cards issued by U.S. retailers. The gift cards were then used to purchase mobile phone cards, which were smuggled into Mexico and sold at a profit. SVCs also pose a challenge in detection, since they fit in a wallet and look like any other plastic card. As we noted in 2008, much work and creative thinking will be necessary to prevent exploitation and misuse of SVCs by money launderers and terrorist financiers while simultaneously maintaining the advantages they offer and protecting both user privacy and the integrity of the global financial system.

Virtual World Laundering. Virtual reality universe games are increasingly popular around the world. Some of these cyberspace games are not just a source of entertainment but a venue for real commercial activity. Players buy and sell virtual property, goods and services. Some games also allow players to convert genuine currency deposits to virtual currency and then back to real currency at fixed exchange rates. Such capabilities in virtual world games have potential implications for money laundering and other financial crimes. It is now possible to set up an account by furnishing false identification, fund the account with illicit proceeds, and have a co-conspirator in a criminal enterprise on the other side of the world withdraw funds. For example, in 2008 South Korean authorities arrested a group involved with the laundering of \$38 million in virtual currencies. Observers also fear that terrorist groups may use virtual worlds to meet, chat, plan activities, and perhaps transfer funds. The added venue and jurisdictional challenges of following virtual money and value trails in and out of the virtual world compound the challenges regulatory and law enforcement agencies already face in the real world.

Suspect Internet Value Transfer. The Internet is being used today by money launderers in a variety of ways including Internet gaming and the misuse of on-line payment providers. Some suspect Internet value transfer services avoid financial transparency reporting requirements and other standard regulatory and law enforcement countermeasures. There have been instances where terrorist fundraisers have directed that “contributions” be made via suspect on-line payment providers.

On-line payment providers serve as an electronic alternative to traditional paper settlement methods such as cash, checks and money orders. They connect subscribers, card holders, on-and-offline resellers, as well as online businesses and traditional merchants. For some providers, U.S. dollar-based money can be sent to anyone that has a valid email address, whether or not that address is a subscriber. In the United States, these payment providers are subject to many of the rules and regulations governing nonbank financial institutions and they are registered and licensed as a money service business. However, this is not the case in many jurisdictions, and even where regulations do exist, they are difficult to enforce. Due diligence and “know your customer” requirements often do not exist for online gaming and online payment providers. Users can add credit to their accounts via bank payments. Banks in some countries will transfer money directly into payment provider accounts. Users can also use Internet banking to make transfers directly from any computer. Credit card payments are accepted. And for those who do not wish to use banks, a user can purchase “refill coupons” at a variety of brick and mortar retailers. The nexus of Internet, value transfer, and Internet auctions is a more difficult to detect, virtual mirror to traditional TBML.

Growing Linkage Between Tax Evasion and Money Laundering. According to the Internal Revenue Service (IRS), “Money laundering is the means by which criminals evade paying taxes on illegal income by concealing the source and the amount of profit. Money laundering is in effect tax evasion in progress.” For investigators, separating money laundering from tax evasion is increasingly difficult. Although the intent differs, many of the same methodologies are used. One citizen’s tax haven can be the same as a money launderer’s hidden offshore account. For example, because of the difficulty in determining the true beneficial owners of international business companies (IBCs), they are favored mechanisms to both launder illicit proceeds and evade taxes. As noted in the country reports, the British Virgin Islands and Hong Kong each have nearly 500,000 international business companies (IBCs) registered in their jurisdictions.

Extant Challenges

Lack of Capacity Among Some of the Most Vulnerable Countries. While most countries in the world have committed themselves to upholding the FATF standards, there are many countries that find themselves unable to construct comprehensive AML/CTF regimes, precluding effective implementation. There is often a lack of public understanding about money laundering and financial crimes. Additionally, those charged with monitoring, inspecting, regulating, investigating, and prosecuting violations may suffer a lack of resources that could contribute to inadequate training, and competition for scarce resources. In some countries, systemic corruption also serves as an impediment to the development and implementation of viable anti-money laundering/counterterrorist financing regimes.

Lack of Money Laundering and Terrorist Financing Prosecutions and Convictions. A review of country reports shows that far too many countries that boast solid AML/CTF standards and infrastructures do not enforce their laws. This is true in all corners of the world and for both developed and developing countries alike. In many instances, the lack of enforcement is due to lack of capacity, but in some cases it is due to a lack of political will. The country reports in this INCSR volume document how countries are making progress in enacting enabling legislation and refining reporting requirements that financial institutions, money service businesses, and even nonfinancial businesses must follow to file suspicious transaction reports (STRs)—but the implementation of these measures is stymied. An AML/CTF legal framework, promulgating regulations, the number of STRs filed, and the creation of financial intelligence units (FIUs) are closely tracked metrics. However, there are limited corresponding increases in prosecutions and convictions—the true measure of success.

A review of the 2009 country reports indicates both progress and challenges continue to exist in combating money laundering, terrorist financing, and other financial crimes. The following examples illustrate advances and regression:

- By December 2008, 180 countries had criminalized money laundering to include predicate crimes beyond narcotics— an increase of 17 countries since 2004.
- In 2008, 13 countries criminalized terrorist financing bringing the total to 149 countries that have criminalized terrorist financing—an increase of 36 countries since 2003.
- In Paraguay, the General Attorney’s Office processed 40 money laundering cases that resulted in 15 convictions.
- Ghana passed its first anti-money laundering law.
- The FIUs of Moldova and the Turks and Caicos became members of the Egmont Group. Total Egmont membership now totals 107.
- In December, the Egmont Group expelled Bolivia’s FIU because of the Bolivian government’s refusal to criminalize terrorist financing.
- With approximately 600 money laundering convictions annually, Italy ranks second to only the United States in successful prosecutions.
- In Iran, the Islamic Parliament and Guardian Council approved a new Iranian money laundering law. The law, however, lacks specificity and does not adhere to international standards.
- Serbia adopted a new National Strategy Against Money Laundering and Terrorism Financing.
- Cote d’Ivoire’s FIU became operational.

- Russia's FIU estimates that Russian citizens may have laundered as much as \$370 billion in 2008.
- The Hungarian FIU seized over 4.5 million euros (approximately \$5,694,850) in illicit proceeds, and froze a total of 7 million euros (approximately \$8.850,500).
- The Government of Mexico took on internal corruption in 2008 and launched "Operation Clean House" aimed at ending corruption inside its enforcement agencies. By December, eight enforcement agents had been apprehended and accused of leaking confidential information to drug cartels.
- In Indonesia, the scale of the terrorism threat is evidenced by 423 arrests and 367 convictions of terrorists in recent years. However, there has been little success in following the terrorists' money trail and no prosecutions focused on the financing of terrorism.
- In 2008, substantial property assets were seized relating to a Miami, Florida Medicare fraud scandal involving the Benitez brothers. Of the \$110 million in fraudulent funds seized, over \$30 million were invested in assets in the Dominican Republic.
- In June, Spanish authorities dismantled an international criminal organization accused of drug-related money laundering and cocaine smuggling operations, arresting 21 individuals including nationals of Spain, Colombia, Peru, and Romania.
- In September, Germany participated in a multi-national customs cash smuggling enforcement operation that included many of the European Union countries as well as a number of North African nations. Frankfurt-based representatives of the U.S. Department of Homeland Security Bureau of Immigration and Customs Enforcement (ICE) assisted in the coordination of the operation by providing real-time intelligence support to the German command center. During the week-long effort, 181 cases of money smuggling were discovered and 5.5 million euros (approximately \$6,960,250) were seized.
- In Panama, approximately 46,178 IBCs were registered in Panama in 2007 and 40,825 through the first ten months of 2008. Panama has no requirement to disclose the beneficial owners of any corporation or trust; bearer shares are permitted for corporations; and nominee directors and trustees are allowed. The result is that illicit funds can be laundered and taxes evaded with little fear of detection and prosecution.
- The Dominican Republic, Grenada, Jamaica, Trinidad and Tobago plan to open "international financial centers", most of which offer the same services as offshore financial centers.
- In India, the analysis of suspicious transaction reports by the FIU led to the arrest of several suspected terror operatives not involved in the Mumbai attack.
- The European Commission referred Spain, Poland, Belgium and France to the European Court of Justice over non-implementation of the Third Money Laundering Directive, which requires members to update their AML regimes to comport with the most current international standards, particularly with regard to regulation and terrorism financing. The deadline for transposition of the Directive was December 15, 2007.
- Kazakhstan authorities initiated 54 money laundering cases in 2007; 41 were prosecuted, resulting in eight convictions. Kazakhstan estimated that approximately

\$400 million was “lost to corruption.” In 2008, 21 money laundering cases were successfully prosecuted. Kazakhstan estimated \$1.6 billion was lost to corruption.

As history demonstrates again and again, political stability, democracy and free markets depend on solvent, stable, and honest financial, commercial, and trade systems. The Department of State’s Bureau of International Narcotics and Law Enforcement Affairs looks forward to continuing to work with our U.S. and international partners in furthering this important work and strengthening capacities globally to combat money laundering and expose the illicit networks of criminal organizations, the web of corruption, and help unravel conspiracies to commit terror acts.

Bilateral Activities

Training and Technical Assistance

During 2008, 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 U.S. Department of State’s Bureau of International Narcotics and Law Enforcement (INL) Crime Programs Division helps 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 (USG) agencies, the INL Crime Programs Division addresses a broad cross-section of law enforcement and criminal justice sector areas including: counternarcotics; drug demand reduction; money laundering; financial crime; terrorist financing; smuggling of goods; illegal migration; trafficking in persons; domestic violence; border controls; document security; corruption; cyber-crime; intellectual property rights; law enforcement; police academy development; and assistance to judiciaries and prosecutors.

INL and the State Department’s Office of the Coordinator for Counterterrorism (S/CT) co-chair the interagency Terrorist Finance Working Group (TFWG), and together are implementing a multi-million dollar training and technical assistance program designed to develop or enhance the capacity of a selected group of more than two dozen countries whose financial sectors have been used, or are vulnerable to being used, to finance terrorism. As is the case with the more than 100 other countries to which INL-funded training was delivered in 2008, 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 U.S. Department of State, U.S. Department of Justice (DOJ), U.S. Department of Homeland Security (DHS), U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, and various nongovernmental organizations, TFWG provided in 2008 a variety of law enforcement, regulatory and criminal justice programs worldwide. This integrated approach includes assistance with the drafting of legislation and regulations that comport with international standards, the training of law enforcement, the judiciary and bank regulators, as well as the development of financial intelligence units (FIUs) 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 where 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 AML/CTF 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 State Department, in conjunction with DHS' Immigration and Customs Enforcement (ICE) and the Department of Treasury, supports five trade transparency units (TTUs) in Latin America: three in the tri-border area of Brazil, Argentina, and Paraguay, one in Mexico, and one in Colombia. TTUs are entities designed to help identify significant disparities in import and export trade documentation and continue to enjoy success in combating money laundering and other trade-related financial crimes. The number of trade-based money laundering investigations emerging from TTU activity continues to grow. In 2008, Mexico's TTUs investigated seven cases; Colombia, four; Paraguay, six; and Argentina, two. Similar to the Egmont Group of FIUs that examines and exchanges information gathered through financial transparency reporting requirements, an international network of TTUs would foster the sharing of disparities in trade data between countries and be a potent weapon in combating customs fraud and trade-based money laundering. Trade is the common denominator in most of the world's alternative remittance systems and underground banking systems. Trade-based value transfer systems have also been used in terrorist finance.

The success of the 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 AML/CTF regimes. Accordingly, INL funded the establishment of the Pacific Island Anti-Money Laundering Program (PALP) in 2005. The objectives of 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. PALP's staff of resident mentors provides regional and bilateral AML/CTF mentoring, training and technical assistance to the 14 Pacific Islands Forum countries that are not members of the Financial Action Task Force (FATF). The management of the program was transferred to the UN Global Program against Money Laundering from the Pacific Islands Forum in September 2008, as the PALP began its third year of operation. INL will provide a total of nearly \$6 million for the four-year PALP project.

Including the \$1.5 million for the management of the PALP, INL obligated \$2.2 million to the UN Global Program against Money Laundering (GPML) in 2008. In addition to sponsoring money laundering conferences and providing short-term training courses, 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 Horn of Africa countries targeted by the U.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 resident mentor based in Namibia 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 South Africa's national prosecuting authority. The GPML mentors in Central Asia and the Mekong Delta continued assisting the countries in those regions develop viable AML/CTF regimes. GPML continues to develop interactive computer-based programs, translated into several languages that are distributed to several regions globally.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2008, INL supported FATF, the international AML/CTF standard setting

organization. In addition to sharing mandatory membership dues to FATF and the Asia Pacific Group on Money Laundering (APG) with the U.S. Department of the Treasury and DOJ, INL is a financial supporter of FATF-style regional bodies (FSRBs) secretariats and training programs, including the Council of Europe's MONEYVAL, the Caribbean Financial Action Task Force (CFATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the South American Financial Action Task Force, Grupo de Accion Financiera de Sudamerica Contra el Lavado de Activos (GAFISUD). In 2008, INL also provided funding to the secretariat of the West African FSRB, Groupe Intergovernmental d'Action contre le Blanchiment d'Argent en Afriique de l'Ouest (GIABA), and has provided funding to GPML to place a residential mentor in Dakar, Senegal, to assist those member states of GIABA that have enacted the necessary legislation to develop FIUs. 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 Counter-Terrorism Committee. In preparation for the April 2009 Summit of the Americas, INL provided funding to CICAD and CICTE to persuade and assist those Latin American countries that have yet to criminalize the financing of terrorism to do so.

As in previous years, INL training programs continue to focus on both interagency bilateral and multilateral efforts. When possible, we seek participation with our partner countries' law enforcement, judicial and central bank authorities to design and provide training and technical assistance to countries with the political will to develop viable AML/CTF financing regimes. This allows for extensive synergistic dialogue and exchange of information. INL's approach has been used successfully in Africa, Asia, the Pacific, Central and South America, the Newly Independent States of the former Soviet Union, and Central Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including assistance to the International Law Enforcement Academies.

International Law Enforcement Academies (ILEAs)

The mission of the regional International Law Enforcement Academies (ILEAs) is 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 between 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 cohesive international law enforcement. This goal is to train professionals who will shape 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. 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. The core program typically includes 50 participants, normally from three or more countries. The specialized courses are comprised of about 30 participants and normally run one or two weeks long, often simultaneously with the core program. Lastly, there are regional seminars with different topics of interest, such as transnational crimes, financial crimes, and counterterrorism.

The ILEAs help to develop an extensive network of alumni who exchange information with their regional and U.S. counterparts and assist in transnational investigations. These graduates are also expected to be future leaders in their respective societies. The U.S. Department of State works with the U.S. Departments of Justice (DOJ), Homeland Security (DHS) and the Treasury, as well as with

foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained more than 28,000 officials from more than 75 countries in Africa, Asia, Europe and Latin America.

Africa. ILEA Gaborone (Botswana) opened in 2001. Its main feature is a six-week intensive personal and professional development program, the Law Enforcement Executive Development Program (LEEDP), designed for mid-level law enforcement managers. The LEEDP brings together approximately 40 participants from several nations for instruction in areas 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 counterparts to combat international criminal activities. These courses concentrate on specific methods and techniques in a variety of subjects, such as counterterrorism, anticorruption, financial crimes, border security, drug enforcement, firearms, and many others.

Instruction is provided to participants from Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Uganda, Nigeria, Cameroon, Comoros, Congo, the Democratic Republic of Congo, Gabon, Madagascar, Burundi, Rwanda, Sierra Leone, Ghana, Guinea, and Senegal.

U.S. and Botswana trainers provide instruction. ILEA Gaborone has offered specialized courses on money laundering and terrorist financing-related topics such as criminal investigation, presented by the Federal Bureau of Investigation (FBI) and international banking and financial forensics, presented by DHS and DHS' Federal Law Enforcement Training Center (FLETC), and international money laundering schemes, presented by DHS' Immigration and Customs Enforcement (ICE). ILEA Gaborone trains approximately 500 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. This ILEA focuses on enhancing 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 (SCIC), designed to strengthen management and technical skills for supervisory criminal investigators and other criminal justice managers. In addition, it also presents one senior executive-level 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 and terrorist financing-related topics such as computer crime investigations, presented by FBI and DHS, and complex financial investigations, presented by the Internal Revenue Service (IRS), FBI and, the Drug Enforcement Administration (DEA). ILEA Bangkok trains approximately 800 students annually.

Europe. ILEA Budapest (Hungary) opened in 1995. Its mission has been to support the region's emerging democracies by combating an increase in criminal activity that emerged against the backdrop of economic and political restructuring following the collapse of the Soviet Union. ILEA Budapest offers three different types of programs: an eight-week core course, regional seminars, and specialized courses in a variety of criminal justice topics. Instruction is provided to participants from Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic,

Macedonia, Moldova, Montenegro, 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 and terrorist financing-related topics such as investigating and prosecuting organized crime and transnational money laundering, both presented by DOJ's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT). ILEA Budapest trains approximately 800 students annually.

Global. ILEA Roswell (New Mexico) opened in September 2001. It offers a curriculum comprised of courses similar to those provided at a typical criminal justice university or college. These three-week courses have been designed and are taught by academics for foreign law enforcement officials. This ILEA 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, and 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 (El Salvador) opened in 2005. Its training program is similar to the ILEAs in Bangkok, Budapest and Gaborone. It offers a six-week Law Enforcement Management Development Program (LEMMP) for law enforcement and criminal justice officials as well as specialized courses for police, prosecutors, and judicial officials. In 2009, ILEA San Salvador will deliver four LEMMP sessions and approximately 20 specialized courses that will concentrate on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing, and financial crimes investigations. Segments of LEMMP focus on terrorist financing, presented by the FBI, and financial evidence and money laundering application, presented by FLETC and IRS. Instruction is provided to participants from: Antigua and Barbuda, Argentina, Barbados, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Vincent, St. Lucia, Suriname, Trinidad and Tobago, Uruguay, and Venezuela. ILEA San Salvador trains approximately 800 students per year

The ILEA Regional Training Center in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The center augments the delivery of region-specific training for Latin America and concentrates on specialized courses on critical topics for countries in the southern cone and Andean regions. The RTC trains approximately 300 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. In 2008, the FRB conducted training and provided technical assistance to bank supervisors and law enforcement officials in anti-money laundering (AML) and counterterrorist financing (CTF) tactics in partnership with regional supervisory groups or multilateral institutions, including the Middle East and North Africa (MENA) Financial Regulator's Training Initiative. The FRB also provided seminars in Anti-Money Laundering Examination and workshops in the Fundamentals of Fraud. Officials from Albania, Bahamas, Bolivia, Chile, Croatia, Czech Republic, Dominican Republic, Ecuador, Ghana,

Guatemala, Haiti, Honduras, Hong Kong, India, Indonesia, Israel, Japan, Korea, Lebanon, Mexico, Morocco, Nigeria, Panama, Paraguay, Peru, Philippines, Qatar, Russia, Turkey, Venezuela, and Zambia attended one or both of these events.

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 Brazil and the Baltics meeting in Lithuania 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 2008.

Federal Bureau of Investigation (FBI), Department of Justice

During 2008, with the assistance of U.S. Department of State (DOS) funding, the U.S. Federal Bureau of Investigation (FBI) continued its extensive international training in combating terrorist financing, money laundering, financial fraud, and complex financial crimes, as well as training in conducting racketeering enterprise investigations. One such training program is the FBI's International Training and Assistance Unit (ITAU), located at the FBI Academy in Quantico, Virginia. ITAU coordinates with the Terrorist Financing and Operations Section (TFOS) of the FBI's Counterterrorism Division (CTD), as well as other divisions at FBI headquarters and in the field, to provide instructors for these international initiatives. FBI instructors, who are most often intelligence analysts, operational Special Agents (SAs) or Supervisory Special Agents (SSAs), 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 2008, the FBI delivered training in white collar crime investigations to 216 students from 16 countries at ILEA Budapest. At ILEA Bangkok, the FBI provided training to 60 students from Thailand in the Supervisory Criminal Investigators Course (SCIC). At ILEA Gaborone, the FBI provided antiterrorist financing training to 161 students from 22 African countries. At ILEA San Salvador, the FBI provided antiterrorist financing training to 120 students from El Salvador, Brazil, Paraguay, Peru, Uruguay, Colombia, Ecuador, Costa Rica, Guatemala, and Honduras.

In 2008, the FBI also conducted trainings, in conjunction with other U.S. agencies, for officials from Serbia, Macedonia, Morocco, Philippines, Paraguay, Algeria, Tanzania and Senegal. One such training involved FBI participation in an anti-money laundering conference in Serbia that the U.S. Department of Justice's Office of Overseas Prosecutorial Development (OPDAT) delivered to 100 students. Another involved FBI participation in an anti-money laundering workshop in Macedonia that OPDAT delivered to 35 students. Also in 2008, the FBI conducted, jointly with the Internal Revenue Service's (IRS) Criminal Investigative Division (CID), a one-week course on combating terrorist financing and money laundering for 181 international students from Morocco, Philippines, Paraguay, Algeria, Tanzania, and Senegal.

At the FBI Academy, the FBI included blocks of instruction on combating terrorist financing and/or money laundering for 18 students participating in Session #12 of the Latin American Law Enforcement Executive Development Seminar (LALEEDS); the students were from Colombia,

Ecuador, Paraguay, Argentina, Uruguay, Costa Rica, Nicaragua, Panama, Belize, El Salvador, Guatemala, Honduras, Chile, Bolivia, and the Dominican Republic. The FBI included similar blocks of instruction for 14 students participating in Session #3 of the Arabic Language Law Enforcement Executive Development Seminar (ALLEEDS); these students were from Djibouti, Egypt, Jordan, Morocco, Qatar, Sudan, the United Arab Emirates (UAE) and Yemen. As part of the FBI's Pacific Training Initiative's (PTI) Session #21, the FBI included terrorist financing instruction for 53 participants from 13 countries: Thailand, China, Australia, Hong Kong, Pakistan, Indonesia, Malaysia, Philippines, India, Korea, Singapore, Japan and the United States (Honolulu).

Federal Deposit Insurance Corporation (FDIC)

In 2008, the Federal Deposit Insurance Corporation (FDIC) continued to work in partnership with several federal agencies and international groups to combat money laundering and inhibit the flow of terrorist funding through training and outreach initiatives. In partnership with the U.S. Department of State, the FDIC hosted three anti-money laundering and counter financing of terrorism (AML/CTF) training sessions for 49 representatives from Jordan, Kuwait, Paraguay, Qatar, Saudi Arabia, Senegal, Thailand, and the West Africa Central Bank. The training sessions included discussions on the AML examination process, customer due diligence, and foreign correspondent banking risks and controls.

During the year, the FDIC also met with supervisory and law enforcement representatives from 15 countries to discuss AML issues, including examination policies and procedures, the USA PATRIOT Act, suspicious activity reporting requirements, and government information sharing mechanisms. Those countries included: Afghanistan, Chile, Ghana, Haiti, Japan, Laos, Madagascar, Malawi, Mongolia, Nigeria, Pakistan, Syria, Tanzania, Timor-Leste, and Ukraine.

Additionally, the FDIC traveled to Uruguay to provide AML/CTF training to approximately 40 regulators from the Banco Central del Uruguay. The session focused upon AML examination procedures and the AML risk assessment process expected of domestic depository institutions. Separately, an overview of the FDIC's role as a regulator and supervisor was presented to approximately 100 Uruguayan bankers and government officials.

To compliment the FDIC's strong AML/CTF training commitment, the FDIC participated in the second annual U.S.-Latin American Private Sector Dialogue in Miami, Florida. This U.S. Department of the Treasury initiative provides a forum for discussion among U.S. and Latin American banks about common issues related to money laundering and terrorist financing. The FDIC also participated in a seminar focusing on Islamic banking hosted by Perbadanan Insurans Deposit Malaysia (PIDM) in Kuala Lumpur, Malaysia.

The FDIC has eight full-time subject matter experts in the Washington, D.C., office dedicated to AML/CTF initiatives as well as a group of 28 individuals available to assist the U.S. Government (USG) with AML/CTF Financial System Assessments.

Financial Crimes Enforcement Network (FinCEN), Department of Treasury

The Financial Crimes Enforcement Network (FinCEN) is a bureau of the U.S. Department of the Treasury and is the U.S. financial intelligence unit (FIU). It participates and promotes international collaboration and information sharing to detect and deter illicit financial activities and helps other countries develop their FIUs, which is a valuable component of a country's anti-money laundering and counterterrorist financing (AML/CTF) regime. FinCEN coordinates and provides training and technical assistance to foreign nations seeking to improve their capabilities to combat money laundering, terrorist financing, and other financial crimes. FinCEN's 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, analytical 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. In support and assistance to other FIUs, FinCEN participates in personnel exchanges (from a foreign FIU to FinCEN and vice versa); supports delegation visits to foreign FIUs and other agencies from the intelligence, regulatory and law enforcement communities; and coordinates regional workshops.

In 2008, FinCEN hosted representatives from approximately 47 countries, including general orientations and consultations under the auspices of the U.S. Department of State's International Visitor Leadership Program, International Law Institute's Anti-Corruption Seminar, and the World Bank Program for Leadership in Financial Market Integrity. 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 an FIU, and various additional topics.

FinCEN gives assistance to new or developing FIUs that are not yet members of the Egmont Group of FIUs. The Egmont Group is comprised of FIUs that cooperatively agree to share financial intelligence and has become the standard-setting body for FIUs. FinCEN hosts FIU orientation visits and provides training and mentoring on FIU development. In 2008, FinCEN hosted representatives from Afghanistan, Tanzania, and Cameroon's nascent FIUs for orientation visits. These visits included an overview on various aspects of developing an FIU such as the legal framework in which the FIU operates, an FIU's international role and its cooperation with other FIUs, and an overview of Egmont Group request processing and information sharing.

For those FIUs that are fully operational, FinCEN's goals are to assist the unit in increasing effectiveness, improve the unit's information sharing capabilities, and expand the unit's understanding 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. FinCEN is currently sponsoring FIUs from ten jurisdictions for Egmont Group membership: Afghanistan, China, Jordan, Kuwait, Oman, Pakistan, Saudi Arabia, Suriname, Tanzania, and Yemen. Additionally, FinCEN works multilaterally through its representative on the Egmont Training Working Group to design, implement, and co-teach Egmont-sponsored regional training programs for Egmont Group members as well as 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 or country receiving assistance. Such trainings provide trainees with improved knowledge and understanding of topics related to money laundering and terrorist financing, which include 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. In 2008, FinCEN conducted training seminars in Nigeria, Kuwait, Kazakhstan, Uzbekistan, and Afghanistan. The training focused on enhancing the capacity and cooperation of FIUs to combat money laundering and the financing of terrorism.

FinCEN conducts core analytical training to counterpart FIUs, both at FinCEN and abroad, and 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 2008, FinCEN collaborated with Mexico's FIU and provided training on basic analytical skills to FIUs from Mexico, Belize, Guatemala, El Salvador, Panama, Honduras, and Colombia. Over the past twelve months, in an effort to reinforce the sharing of information among established Egmont member FIUs, FinCEN conducted personnel exchanges with Egmont Group members from Latvia, Mexico, South Africa, Australia, Netherlands, the United Kingdom, Canada, and Korea. These exchanges offer the opportunity for FIU personnel to see first-hand how other FIUs operates; to 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 2008, the U.S. Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE), Financial, Narcotics and Public Safety Division, in conjunction with the DHS Office of International Affairs, delivered training to law enforcement, regulatory, banking, and trade officials from more than 60 countries to combat money laundering, terrorist financing, and bulk cash smuggling, and to conduct financial investigations. 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.

Bulk Cash Smuggling

Using primarily U.S. Department of State funding, ICE provided bilateral and multilateral training and technical assistance on the interdiction and investigation of bulk cash smuggling (BCS) for 390 officials from 30 countries. Notably, ICE conducted two BCS training conferences in Iraq for more than 65 Iraqi security and police forces. ICE also provided basic BCS training in the Argentina, Malaysia, Indonesia, Thailand, Egypt, Nigeria, Mauritania, and Georgia.

ICE, with the participation of Australian officials, conducted a regional training program for three countries that had completed the basic and advanced BCS modules BCS: the Philippines, Malaysia, and Indonesia. This week-long regional program was intended to encourage participating countries to share information with counterpart agencies in neighboring countries. Thailand, which has received only the basic BCS course, participated in the training as an observer. ICE also conducted BCS training in Amman, Jordan, to officials from 11 member states of the Middle East and North Africa Financial Action Task Force (MENA-FATF), including Lebanon, Egypt, Kuwait, Yemen, Oman, Algeria, Qatar, Mauritania, Morocco, Tunisia, and Jordan. Officials from the Palestinian Authority also attended this conference.

Through the U.S. Department of State's International Law Enforcement Academy (ILEA) programs, ICE conducted in 2008 more than 50 financial investigations and anti-money laundering training programs for more than 755 participants. The participants represented law enforcement personnel from 69 countries.

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 U.S. Department of State's Bureau of International Narcotics and Law Enforcement (INL), ICE worked to expand the network of operational TTUs beyond Colombia, Brazil, Argentina, and Paraguay by providing IT equipment and training to the newly established TTU in Mexico City, Mexico. As Mexico is a major trading partner with the United States, the Mexico unit is the largest TTU initiative to date.

In 2008, ICE updated the technical capabilities of existing TTUs and trained new TTU personnel in Colombia, Paraguay, and Mexico as well as members of their financial intelligence units. Additionally, ICE strengthened its relationship with its TTUs by deploying temporary and permanent personnel overseas to work onsite and provide hands on training to all five TTUs in the hemisphere. This action has continued to facilitate the information sharing between the U.S. Government and foreign TTUs in furtherance of ongoing joint criminal investigations.

Other ICE Programs

Additionally in 2008, ICE expanded Operation Firewall, a joint strategic bulk cash smuggling initiative with DHS' U.S. Customs and Border Protection (CBP) to provide hands-on training and capacity building to law enforcement officials in Mexico, Honduras, El Salvador, Guatemala, Panama, Colombia, Ecuador, and Dominican Republic. Operation Firewall was initiated to address the threat posed by bulk cash smuggling via all modes of transportation at air and land ports of entry. In fiscal year (FY) 2008, Operation Firewall resulted in approximately 978 seizures totaling more than \$51 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 FY 2008, ICE Cornerstone liaisons conducted 884 outreach meetings with more than 21,000 industry professionals in the U.S. and abroad.

Internal Revenue Service (IRS), Criminal Investigative Division (CID) Department of Treasury

In 2008, the U.S. Internal Revenue Service (IRS) Criminal Investigative Division (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 U.S. 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 participated in delivering State Department-funded courses to combat terrorism financing and money laundering, which were hosted by the Federal Bureau of Investigation (FBI) in Morocco, Paraguay, Algeria, Tanzania, and Senegal. IRS-CID conducted a financial investigative technical course in Asuncion, Paraguay, funded by an interagency agreement between the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) and the U.S. Department of the Treasury's Office of Technical Assistance (OTA). The training program was attended by 40 officials from the government of Paraguay, including the Ministry of Finance's Tax Department, the Customs Office, the Prosecutors' Office, the Secretary for the Prevention of Money Laundering, the Justice Department, and the Trademark Office. IRS-CID also conducted financial investigative techniques classes in Tirana and Durrës, Albania. The focus of the courses was money laundering relating to public corruption and the target audience was the newly formed Joint Investigative Unit for Economic Crimes and Corruption (JIU). The classes were comprised of both prosecutors and investigators from the JIU and also included non-JIU participants. Investigators and prosecutors from Albania's many provincial areas were represented in the class.

IRS-CID provided instructor and course delivery support to the four International Law Enforcement Academies (ILEAs) run by the State Department in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador. At ILEA Bangkok, IRS-CID participated in one supervisory criminal investigator course and was the coordinating agency of the complex financial investigations course. These courses were provided to senior, mid-level, and first-line law enforcement supervisors and officers from Brunei, Cambodia, Hong Kong, Indonesia, Laos, Macau, Malaysia, Maldives, Philippines, Singapore, Thailand, Timor-Leste, and Vietnam. Also at ILEA Bangkok, IRS-CID conducted a complex financial investigations course sponsored by OPDAT. Various Thai government agencies attended this course, including the police, and officials involved in anti-money laundering, customs enforcement, consumer protection, counternarcotics, insurance regulation, and securities and exchange regulation.

At ILEA Budapest, IRS-CID participated in five sessions delivering financial investigative techniques training. IRS-CID also provided a class coordinator for a six-week ILEA course, the Core Program Session #65, for which the IRS-CID coordinator held the responsibility of coordinating and supervising the participant's daily duties and activities. The countries that participated in these classes were 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, delivering financial investigative techniques training. Countries that participated in these classes were Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Seychelles, Uganda, Nigeria, Cameroon, Comoros, the Republic of the Congo, Gabon, and Madagascar. At ILEA San Salvador, IRS-CID participated in three of the Law Enforcement Management Development Programs (LEMDP), delivering financial investigative techniques training. Countries that participated in these classes were Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Chile, El Salvador, Grenada, Guatemala, Jamaica, Mexico, Paraguay, Peru, St. Kitts and Nevis, and Suriname. LEMDP stresses the importance of conducting a financial investigation to further develop a large scale, criminal investigation.

Office of the Comptroller of the Currency (OCC), Department of Treasury

The U.S. Department of the Treasury's Office of the Comptroller of the Currency (OCC) performs on-site examinations and provides Bank Secrecy Act (BSA) and anti-money laundering (AML) guidance to national banks and federal branches of foreign banking organizations. On-site examinations include reviewing compliance with BSA/AML laws and regulations at some of the largest financial

institutions in the world. Working with other federal banking regulators through the Federal Financial Institution Examination Council (FFIEC), the OCC assists with developing and providing BSA/AML guidance and training to examiners and foreign banking supervisors. Such initiatives include maintaining the FFIEC BSA/AML examination manual, providing instructors for FFIEC AML compliance workshops, and providing speakers for the FFIEC advanced BSA/AML compliance conference.

The OCC conducted and sponsored a number of anti-money laundering initiatives for foreign banking supervisors during 2008. In June, the OCC sponsored its Anti-Money Laundering and Counter Financing of Terrorism (AML/CTF) 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. Banking supervisors from 19 countries attended the school at the OCC's Washington, D.C., headquarters, including Algeria, Argentina, Austria, Belize, India, Italy, Korea, Mexico, Netherlands, Nigeria, Panama, Philippines, St. Vincent and the Grenadines, and Turkey. The OCC also contributed personnel to a Middle East Northern Africa Regional AML Seminar in Casablanca, Morocco, during July that assisted government personnel from Morocco, Egypt, Lebanon, and Qatar. AML technical assistance was also provided to banking supervisors from Uruguay and Russia through participation on AML/CTF on-site examinations. Various OCC officials participated in international conferences on combating money laundering. In March and May of 2008, OCC officials were part of a body of U.S. regulators that presented at the Money Laundering Alert's International Conference on Combating Money Laundering and the Institute of International Bankers 2008 Annual Anti-Money Laundering Seminar.

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 U.S. Department of Justice's (DOJ) Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) assesses, designs, and implements training and technical assistance programs for U.S. criminal justice sector counterparts overseas. OPDAT draws upon the anti-money laundering and counter financing of terrorism (AML/CTF) expertise within DOJ, including the Asset Forfeiture and Money Laundering Section (AFMLS), Counterterrorism Section (CTS), and U.S. Attorney's Offices, to train and advise foreign AML/CTF partners. Much of the assistance provided by OPDAT and AFMLS is provided with funding from the U.S. Department of State.

In addition to training programs targeted to a country's immediate 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 U.S. Embassies for a period of one or two years to work directly with counterparts in legal and law enforcement agencies, including ministries of justice, prosecutor's offices, and offices within the judiciary branch. 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 programs, OPDAT draws upon

expertise from DOJ's Criminal Division, the National Security Division, AFMLS, and other DOJ components as needed.

Money Laundering/Asset Forfeiture/Fraud

In 2008, OPDAT and AFMLS provided training to foreign judges, prosecutors, and other law enforcement officials, and provided assistance in drafting anti-money laundering statutes compliant with international standards. Such assistance enhanced 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 varied, depending on the participants' specific needs, but topics addressed in 2008 included money laundering legislation development, international AML/CTF standards compliance, 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. In 2008, AFMLS provided such assistance to nine countries, including Azerbaijan, Haiti, India, Indonesia, Kosovo, Kyrgyz Republic, Liberia, Turkey, and Vietnam. AFMLS provided training on money laundering issues in Albania, Armenia, Bangladesh, Bosnia, China, Colombia, Croatia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, New Zealand, Serbia, Turkey, Ukraine, and Uzbekistan. In addition, AFMLS continued to participate in meetings of the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (CICAD) Experts Group on Money Laundering to develop and promote best practices in money laundering and asset forfeiture. AFMLS also participated in the Camden Asset Recovery Inter-Agency Network (CARIN) Group on asset recovery.

In an effort to improve international cooperation, AFMLS, in conjunction with Poland's ministry of justice, co-hosted a conference in April in Krakow, Poland, on international forfeiture cooperation among prosecutors and investigators. This conference brought practitioners, investigators, and international experts together to discuss experiences and provide practical tools to further international forfeiture cooperation. Officials from Bulgaria, Estonia, Latvia, Liechtenstein, Moldova, Poland, Romania, Switzerland, Ukraine, and the United States participated.

In April 2008, AFMLS conducted a conference on international issues in asset forfeiture that covered international asset sharing, obtaining evidence and assistance from foreign countries, black market peso exchanges, terrorist financing, and digital currency and e-gold investigations. More than 30 foreign prosecutors attended from Brazil, Canada, Georgia, Guernsey, Switzerland, Thailand, and the United Kingdom.

In October 2008, AFMLS developed an international conference that focused on AML/CTF and corruption issues. The conference was held in Budapest, Hungary, and was attended by the Prosecutors General and deputies of Albania, Armenia, Bosnia, China, Croatia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Macedonia, Moldova, Montenegro, Serbia, Turkey, Ukraine, and Uzbekistan.

With U.S. Department of State funding, OPDAT provided training to government officials on money laundering and financial crime-related issues to officials from more than 20 countries, including Albania, Armenia, Azerbaijan, Bangladesh, Bosnia and Herzegovina, Brazil, Bulgaria, Georgia, Grenada, Indonesia, Jordan, Kosovo, Kuwait, Liberia, Macedonia, Paraguay, Russia, Serbia, Trinidad and Tobago, Ukraine, and the United Arab Emirates.

Training for Local Judiciary and Investigators in Serbia. OPDAT provided a series of trainings to enhance local judiciary and law enforcement capacity to investigate, prosecute, and adjudicate money laundering and terrorism financing cases. The objectives of these trainings were to build Serbian prosecutor and investigator capacity to conduct complex financial investigations, and to promote cooperation among prosecutors and investigators, as well as with different institutions providing assistance on financial matters.

New Money Laundering Law for Albania. OPDAT participated in a working group tasked with drafting a new AML/CTF law in Albania. In May 2008, the new law passed, lowering the reporting threshold for financial transactions and enhancing customer identification requirements.

Assistance to the Bangladesh FIU. OPDAT provides to the Bangladesh Financial Intelligence Unit (FIU) regular assistance to enable it to become the first South Asian nation admitted to the Egmont Group. To that end, OPDAT has sponsored several FIU advisors to work directly with the central bank of Bangladesh. In 2008, OPDAT sponsored two such advisors for three-week assignments each.

Money Laundering/Asset Forfeiture Training in Brazil. In 2008, OPDAT's RLA to Brazil formed a working group that includes a federal money laundering judge, prosecutors, and law enforcement officials. This group meets regularly and plans to draft an "undercover manual" for money laundering investigations. In addition, the RLA is planning a national money laundering course for Brazil's 27 federal money laundering judges, the prosecutors who work in their courts, and law enforcement personnel.

Money Laundering/Asset Forfeiture Program in Azerbaijan. OPDAT's RLA to Azerbaijan held a one-day seminar for members of Parliament, the Ministry of Justice, nongovernmental organizations, and the press, to discuss pending draft legislation on the money laundering law. At the seminar, the 60 participants vigorously debated and ultimately voiced their support for the passage of a Financial Action Task Force (FATF) complaint money laundering law. This draft law recently passed in second reading in Azerbaijan's parliament.

AML Training for Russian Police and Prosecutors. OPDAT's RLA to Russia works on an ongoing basis with the Russian FIU, the FSFM, to plan training on AML and terrorism financing prevention and detection for the ministry of internal affairs. The RLA facilitates communication between DOJ's Organized Crime and Racketeering Section and the FSFM on money laundering cases, works closely with the Department of the Treasury's Office of Technical Assistance (OTA) representative to the FSFM on training and case cooperation issues, and represents DOJ at U.S. Embassy Moscow's anti-money laundering working group.

Financial Crimes Trainings in Ukraine. In 2008, OPDAT conducted several half-day training modules on the investigation of complex financial crimes and money laundering. Between May and December, OPDAT conducted five of these training modules at the Ukraine Academy of Prosecutors for a total of 300 prosecutors enrolled in continuing education courses. In October, OPDAT conducted two of these training modules for the 250 future prosecutors enrolled in the master's degree program at the Academy of Prosecutors. In November, OPDAT conducted three of these training modules for 200 undergraduate law students enrolled at the specialized Ministry of Interior University, the State Security Service Academy, and the National Law Academy in Lviv.

Asset Forfeiture Legislation and Workshops in Ukraine. Between May and September, OPDAT, in cooperation with AFMLS, worked with Ukraine's ministry of justice on the drafting of a new law on asset forfeiture. That draft has since been forwarded to the cabinet of ministers for consideration. In 2008, OPDAT also presented a speech on asset forfeiture at an international roundtable that included representatives of Ukraine's ministry of justice, prosecutor general's office, and the academy of prosecutors.

Support for AML Reform and Specialization in Ukraine. OPDAT worked with Ukraine's FIU and with the cabinet of ministers to improve Ukraine's AML regime, and to develop an annual AML action plan, issued by the cabinet of ministers, which specifically calls for greater specialization of AML prosecutors and investigators. OPDAT participated in two international AML conferences, in April and June, speaking to approximately 70 lawyers and investigators from Ukraine's procuracy, its FIU, and the ministry of justice. OPDAT also supported the participation of several Ukrainian prosecutors at those conferences.

AML Assistance to Georgia. In 2008, with OPDAT's facilitation, U.S. agents from the U.S. Federal Bureau of Investigation (FBI) polygraphed members of Georgia's new Anti-Money Laundering Unit (AMLU). The polygraphs protect the office of public prosecutions (OPP) from charges that they replaced a polygraphed unit with a nonpolygraphed unit. After completing the polygraphs, an OPDAT and a U.S. Department of the Treasury advisor conducted two seminars to improve the OPP's ability to combat money laundering. In the first seminar, OPP, Georgia's financial monitoring service (FMS), and the ministry of internal affairs (MOIA) investigative unit participated in a roundtable to improve communications between the various units.

AML Seminars in Georgia. OPDAT and the U.S. Department of the Treasury coordinated a series of seminars with the aim of increasing communications among the AMLU, FMS, and MOIA. One such roundtable sought to teach the three agencies to work as a single unit to prosecute money laundering cases. The roundtable prepared the agencies for an anti-money laundering seminar at which U.S. money laundering experts assisted the three agencies with improving and increasing their anti-money laundering prosecutions. OPDAT also sponsored a second seminar to discuss money laundering issues with representatives from the AMLU, FMS, and MOIA, as well as Armenian prosecutors and financial investigators.

Asset Forfeiture Assessment in Albania. In May, OPDAT brought two members of the Asset Forfeiture Division of the U.S. Marshals Service to Albania to conduct a preliminary assessment of the country's asset forfeiture laws and administration. The assessment provided an excellent opportunity to highlight areas in need of improvement and plans for specialized asset forfeiture training. The visit also helped prompt some action by the Albanian government to physically secure seized terrorism-related assets.

Asset Forfeiture Legislation in Indonesia. OPDAT's RLA to Indonesia has worked with an Indonesia interagency team to draft Indonesia's first asset forfeiture law. In July, OPDAT organized a drafting workshop with the draft team and an AFMLS asset forfeiture expert. In addition to providing an overview of various countries' asset forfeiture, asset sharing, and asset management regimes, the AFMLS expert provided for discussion by the team a section-by-section analysis of each of the 44 provisions in the draft Indonesia law.

Financial Crimes Program in Grenada. In January, OPDAT conducted the second phase of a financial crimes program in the St. George's section of Grenada for approximately 20 prosecutors and law enforcement officials. During the prior phase in 2007, participants had developed a handbook, for both operational and training purposes, that standardized the processes involved in investigating and prosecuting financial crimes in Grenada. During this second phase, the emphasis was on practical exercises, such as conducting searches for financial records.

AML Program in Bangladesh. In January, OPDAT, AFMLS, and FBI conducted an anti-money laundering program in Dhaka. The program was twofold—to provide technical advice to the Bangladesh Corruption Task Force on cases that have monetary links to the United States and to meet with officials from the law ministry, attorney general's office, and the Bank of Bangladesh about AML/CTF legislation that could help Bangladesh's FIU to qualify for admission to the Egmont Group.

Police/Investigators/Prosecutors Training in Serbia. In February, OPDAT's RLA to Serbia, in conjunction with the American Bar Association Central Europe and Eurasia Law Initiative and the Organization for Security and Cooperation in Europe (OSCE), conducted programs for prosecutors, police, and other investigators on combating financial crimes, in Pancevo and Belgrade, Serbia.

FIU Assistance in Kuwait. OPDAT's RLA to the United Arab Emirates, in conjunction with AFMLS, OTA, and the Financial Crimes Enforcement Network (FinCEN), organized an FIU implementation program in Kuwait City, Kuwait. The U.S. Government (USG) representatives met with Kuwaiti officials to assist them in developing a blueprint to improve the effectiveness of their FIU and make it eligible for admission to the Egmont Group.

Money Laundering and Asset Forfeiture Workshops in Macedonia. In February, OPDAT's RLA to Macedonia conducted two workshops in Skopje, Macedonia on investigating and prosecuting money laundering and asset forfeiture cases. The objective of these two workshops, which were presented to prosecutor and judge candidates at the National Training Academy, was to familiarize them with basic good practices and lessons learned in prosecuting money laundering offenses domestically and internationally.

Training on Financial Crimes Investigation and Prosecution Bosnia and Herzegovina. In March, OPDAT conducted training on investigation and prosecution of financial crimes for prosecutors as well as tax and police inspectors. Emphasis was placed on asset forfeiture and police-prosecutor cooperation.

Asset Seizure Legislation in Serbia. From March to June, OPDAT's RLA to Serbia, in cooperation with the OSCE, participated in meetings of the Serbian asset seizure working group, and supported two working group retreats, at which the group finalized the asset seizure bill. This is the culmination of DOJ assistance to the working group, which has included programs on international best practices, examinations of asset forfeiture regimes from other countries, and a detailed review of the Serbian draft law on asset seizure. The Parliament adopted its first ever asset seizure law in October 2008.

Financial Crimes Workshop in Trinidad & Tobago. OPDAT, in partnership with OTA and the U.S. Embassy in Port-of-Spain, Trinidad & Tobago, conducted a workshop on combating financial crimes for approximately 25 representatives from the Government of Trinidad and private industry. The purpose was to enhance the ability of Trinidad's prosecutors and investigators to investigate and prosecute financial crimes; to that end, the participants drafted a handbook of best practices for investigating and prosecuting financial crimes.

Financial Crimes Workshop in Bulgaria. In May, OPDAT and DOJ's Organized Crime and Racketeering Section, in conjunction with Bulgaria's prosecutorial training facility, the National Institute of Justice (NIJ), conducted a financial crimes workshop in Sofia for 35 Bulgarian prosecutors who specialize in money laundering and other financial crimes. The workshop covered money laundering investigations and prosecutions in the United States and how they compare to Bulgarian cases. The program will be adopted into the permanent curriculum of the NIJ.

U.S. Study Tour on AML Issues for a Delegation from Bangladesh. In July, OPDAT organized a week-long, U.S.-based study tour for Bangladesh's Home Secretary and the Deputy Governor of the Bank of Bangladesh. The delegation learned about avenues of international cooperation and the ramifications of a positive or negative AML/CTF assessment by the Asia Pacific Group FATF-style regional body.

Intellectual Property and Financial Crimes Programs in Trinidad & Tobago. In September, OPDAT conducted two workshops in Port-of-Spain, Trinidad & Tobago, one to enhance the ability of Trinidad law enforcement officials to combat intellectual property rights (IPR) crimes, and the other to assist them in fighting financial crimes. The IPR program included practical exercises, such as conducting searches. The financial crimes program focused on developing strategies for combating financial and

financially-motivated crimes, as well as enhancing collaboration with the financial sector. Participants to both workshops included police, prosecutors, and representatives of the financial sector.

Financial Investigative Techniques Training in Paraguay. In September, OPDAT, jointly with OTA and the Internal Revenue Service's Criminal Investigative Division (IRS-CID), coordinated a week-long advanced money laundering course for 42 Paraguayans, including prosecutors from the financial crimes and anticorruption unit, judges, FIU investigators, and analysts from the tax and customs investigative units. The course focused on money laundering investigative techniques and instructors taught participants to analyze bank accounts and financial documents in several hypothetical money laundering cases.

Task Force Development Program in Jordan. In October, OPDAT, in collaboration with OTA, conducted a seminar in Amman, Jordan, on task force development for Jordanian prosecutors, investigators, and judges. The program focused on using the task force approach in the investigation and prosecution of organized crime. The agenda covered definitions and examples of international organized crime; enterprise theory of investigating and prosecuting organized crime; money laundering, racketeering, gang, and corruption offenses; specialized forensics and investigative techniques; and organizing a case involving complex financial crimes, including terrorism financing.

Financial Crimes Seminar in Liberia. In October, OPDAT's RLA to Liberia conducted a financial crimes seminar in Monrovia, Liberia, for 50 Liberian criminal prosecutors and investigators. The primary objectives were to introduce the concept of long term investigations; encourage a working relationship between criminal investigators and prosecutors; present better practices in the areas of ethics and organization; and show how basic financial crimes investigative techniques can be used in corruption cases.

Suspicious Transaction Reporting Seminar in Armenia. In November, OPDAT, in coordination with the U.S. Department of State's Bureau of International Narcotics and Law Enforcement (INL) and FinCEN, held a three-day training program on the generation and analysis of suspicious transaction reports. Thirty Armenian bankers, financial investigators, and prosecutors attended the seminar; the topics included various analytic tools such as data mining, the use of link analysis, and prioritizing suspicious targets.

Embedded Prosecutor within Bulgarian Prosecution Service. A prosecutor from DOJ's Organized Crime and Racketeering Section began in 2008 to mentor Bulgarian prosecutors working on some of the country's most sensitive organized crime and corruption cases, with special focus on two key money laundering cases. The prosecutor also provides advice to a U.S. Embassy team that is working with the Bulgarian Prosecution Service and Ministry of Interior to develop an organized crime task force that would target some of the country's most elusive organized crime figures.

Tracing Illegal Proceeds in Brazil. OPDAT's RLA to Brazil, in conjunction with FBI, developed a course on tracing illegal money used for criminal conduct. The course was held in August 2008 in Rio de Janeiro and more than 200 participants attended, including law enforcement, judges, and prosecutors.

Crimes Against the Credit System, Against Creditors, Fraud and Embezzlement. In July, OPDAT held a seminar for 25 Bulgarian prosecutors on crimes against the credit system, crimes against creditors, and fraud and embezzlement. This course will be adopted into the permanent curriculum of Bulgaria's National Institute of Justice, the country's official training institution for judges and prosecutors.

Financial Investigative Techniques Training to Combat Corruption in Albania. In April, OPDAT's two RLAs to Albania, assisted by three IRS criminal investigative experts, conducted two week-long intensive seminars on effective financial investigative techniques for prosecutors and investigators. The trainings concentrated on practical exercises involving cases of money laundering, asset forfeiture, and public corruption. These seminars are part of a series of specialized training sessions,

begun in December 2007, designed to increase the capacity of the newly-created Joint Investigative Unit to fight economic crime and corruption in the Tirana district prosecution office.

Third South Africa Judicial Colloquium on Racketeering and Asset Forfeiture. In May, OPDAT coordinated a three-day colloquium for South African judges on the subject of racketeering in Cape Town. The colloquium focused on racketeering, the use of crime participants as witnesses, and the use of asset forfeiture in combating criminal organizations. The colloquium was the third in an on-going series of such programs.

U.S. Study Tour for Macedonian Prosecutors. In May, OPDAT's RLA to Macedonia hosted a nine-person delegation from Macedonia to visits to Madison, Wisconsin, and New York, New York. The delegation included prosecutors who specialized in organized crime and financial crimes. The focus of the study tour was to examine the prosecution of money laundering cases and the use of task force building.

Organized Crime and Fraud Training in China. In calendar year 2008, OPDAT's RLA to China lectured on investigative techniques in organized crime prosecutions to ten different audiences throughout China, including prosecutors, judges, and law students. In September, the RLA facilitated a presentation by DOJ's Fraud Section on best practices from the Katrina Fraud Task Force to the Chinese ministry of supervision and others in the Chinese government responsible for monitoring fraud in the use of relief funds for the Sichuan province earthquake.

Assistance in Combating Organized Crime in Serbia. In February, OPDAT's RLA to Serbia, in conjunction with the UN Office on Drugs and Crime, conducted training for Serbia's organized crime prosecutor's office on analyst notebook software, which OPDAT donated to the prosecutor's office. The office handles a high volume of complex corruption and economic crimes cases, including money laundering during the Milosevic era, judicial bribery cases, fraud and corruption of Serbian government officials, and international smuggling cases. The software, related equipment, and training will permit the organized crime units of prosecutors and police to work more effectively together in analyzing, organizing, and later presenting evidence in court.

U.S.-Bulgaria Mutual Legal Assistance and Extradition Treaties. In June, OPDAT organized with the Bulgarian Association of Prosecutors a two-and-a-half day training for 30 prosecutors and five officials from the ministry of justice on the new Mutual Legal Assistance Agreement and Extradition Treaties between the two countries. Presenters came from DOJ's Office of International Assistance, the State Department's Office of the Legal Advisor, and the International Department of the Bulgarian Supreme Cassation Prosecution Service.

Asset Management System Assessment in Macedonia. OPDAT, with the assistance of the U.S. Marshals Service, conducted an assessment of Macedonia's current seized and forfeited assets management system. In a specialized workshop, OPDAT and the U.S. Marshals Service presented to the Macedonian government a set of recommendations for the government to consider on how to create an efficient and corruption-free assets management system.

Terrorism/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 interagency U.S. Terrorist Financing Working Group (TFWG), co-chaired by the State Department's INL bureau and the Office of the Coordinator for Counterterrorism (S/CT).

The TFWG supports seven RLAs assigned overseas, located in Bangladesh, Indonesia, Kenya, Pakistan, Paraguay, Turkey, and the United Arab Emirates. 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.

Also in 2008, OPDAT, AFMLS, and CTS met with and provided presentations to international visitors from more than 29 countries on AML/CTF topics. Presentations covered U.S. policies to combat terrorism, including 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's Offices bring trial attorneys or Assistant U.S. Attorneys with case or investigation experience with the visitors' countries to participate in the programs.

RLA Assistance in Bangladesh for CTF and to Develop a Career Prosecution Service. In March 2005, OPDAT placed its first RLA in South Asia at U.S. Embassy Dhaka with the goal of assisting the Government of Bangladesh in strengthening its AML/CTF regime, and improving the capability of its law enforcement agencies to investigate and prosecute complex financial and organized crimes. To assist in the development of a permanent career prosecution service in Bangladesh, OPDAT's RLA to Bangladesh arranged a study-tour program in January 2008 for eight high-level Bangladesh government officials to meet with and receive guidance from their counterparts in the Singapore Attorney General's Chambers in Singapore. This program is the first in a series of DOJ efforts designed to help Bangladesh develop a career prosecution service with a professionally selected and trained cadre of government prosecutors, similar to institutions like the U.S. Attorney's Office or Crown Prosecution Service, where career prosecutors are chosen on merit rather than political connections.

RLA Assistance for CTF in Indonesia. The OPDAT RLA program in Indonesia began in June 2005. In 2008, 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 cases involving four key areas: terrorism, money laundering, trafficking in persons, and cyber crime. The SATGAS unit has yielded tangible results. In its first two years of operation, it successfully prosecuted 43 terrorists—including 26 Jamaah Islamiyah (JI) members and more than 40 trafficking-in-persons cases. The SATGAS unit has nationwide jurisdiction for such prosecutions, but also works with the local offices to promote such prosecutions. Over the course of 2008, the RLA conducted a number of regional training programs for SATGAS. These programs focused on providing substantive knowledge to local prosecutors concerning the task force's priorities while building relationships between the members of the task force and the prosecutors in the field. The RLA engaged the experienced members of 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 Indonesia's physical size and SATGAS' national mandate, regional training and outreach is a key element in USG support for SATGAS. On September 26, 2008, Ambassador Hume and Attorney General Supandji signed a two-year extension agreement for USG support of the SATGAS unit.

RLA Assistance for CTF in Turkey. The OPDAT program in Ankara, Turkey, began in September 2006 and includes three prongs—anti-money laundering, terrorist financing, and PKK issues. In May, OPDAT's RLA to Turkey hosted a high level, three-person delegation from Turkey to Washington,

D.C., to discuss extradition, mutual legal assistance, and counterterrorism. In June, OPDAT's RLA to Turkey convened a conference on counterterrorism and extradition in Istanbul, Turkey. The purpose of the program was to exchange best practices on combating terrorism and discuss the basic legal requirements for extradition in terrorism and terrorism-related cases.

RLA Assistance for CTF in Kenya. OPDAT's RLA program in Kenya began in 2004. In 2008, the RLA continued to engage Government of Kenya partners—such as the Department of Public Prosecutions, Kenya's Anticorruption Commission, the Law Society of Kenya, and others—in a program that focuses on counterterrorist financing, anticorruption, and procedural reform.

RLA Assistance for CTF in Pakistan. Despite the difficult political climate in Pakistan, OPDAT launched its RLA program at U.S. Embassy Islamabad in September 2006. The RLA, to the extent possible, concentrated on assisting Pakistan in combating terrorist financing and money laundering, judicial reform, judicial security, and IPR violations. OPDAT deployed the current RLA to Islamabad in October 2008.

RLA Assistance for CTF in Paraguay. OPDAT's RLA program in Paraguay began in 2003, and now carries regional responsibilities in the Tri-Border Area of Paraguay, Argentina, and Brazil. In 2008, the RLA continued to encourage Paraguayan legislators to pass a revised draft Criminal Procedure Code, which is pending before the lower chamber of the legislature. The Paraguayan legislature has already passed a revised Penal Code that contains new money laundering, IPR, and trafficking in persons statutes; the new Penal Code will go into effect in June 2009. The RLA also discussed Paraguay's fulfillment of international commitments and passage of a CTF law. In addition, the RLA is working closely with the U.S. Agency for International Development (USAID) on plans to form, train, and coordinate the activities of a new Paraguayan money laundering task force. Specifically, USAID and the RLA are working on standardizing reports used by the various law enforcement agencies charged with investigating money laundering and financial crimes. The reports will be used by members of the task force to foster timely information sharing.

Counterterrorism/CTF Program in Azerbaijan. In conjunction with a visiting team, OPDAT held a four-day seminar for 18 prosecutors and police on detecting and fighting terrorism and its financing.

U.S. Study Tour for Romanian Delegation on Financial Investigations, Counterterrorism, and CTF. In November, OPDAT organized a series of meetings in Washington, D.C., for two officials from Romania's FIU. The focus of the program was to aid the Romanians in meeting relevant USG counterparts with same or similar counterterrorism and CTF responsibilities.

AML/CTF Training Courses in Serbia. From May to October, OPDAT conducted four training courses for Serbian prosecutors, police, and trial judges on prosecution and adjudication of money laundering and terrorist financing cases. The training courses focused on improving participants' knowledge of money laundering legislation, terrorist financing, available investigative techniques, and standards of proof. From May to September 2008, OPDAT conducted four additional training courses for prosecutors, police, and investigative judges on financial crimes investigations to enhance their capacity to detect and prosecute a variety of financial crimes.

Office of Technical Assistance (OTA), Treasury Department

The U.S. Department of the Treasury's Office of Technical Assistance (OTA) is located within the Office of International Affairs. OTA has five training and technical assistance programs: revenue policy and revenue administration, government debt issuance and management, budget policy and management, banking and financial services, and economic crimes (formerly financial enforcement). The economic crimes program offers technical assistance to combat money laundering, terrorist financing, and other financial crimes.

Sixty experienced intermittent advisors (IAs) and resident advisors (RAs) comprise the Economic Crimes Team (ECT). These advisors provide diverse expertise in the development of regimes for anti-money laundering and combating the financing of terrorism (AML/CTF), and the investigation and prosecution of complex financial crimes. ECT is divided into three regional areas, each of which is managed by a full-time RA: Europe and Asia, Africa and the Middle East, and the Americas.

OTA receives funding from direct appropriations from the U.S. Congress, from the U.S. Department of State's Bureau of International Narcotics and Law Enforcement (INL), the U.S. Department of Defense, U.S. Agency for International Development (USAID) country missions, and the Millennium Challenge Corporation (MCC).

Assessing Training and Technical Assistance Needs

The goal of OTA's economic crimes 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: combating money laundering, terrorist financing, and other financial crimes; fighting organized crime and corruption; and building capacity for financial law enforcement entities.

Before initiating any training or technical assistance to a host government, an OTA economic crimes advisors conduct a comprehensive assessment to identify needs and to formulate a responsive assistance program. These needs assessments examine 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 2008, OTA executed assessments in Oman, Algeria, West Bank, Lesotho, Egypt, Sao Tome and Principe, El Salvador, Guatemala, Honduras, Jamaica, Uruguay, Cambodia, Kyrgyzstan, Laos, and Turkmenistan.

AML/CTF Training

OTA specialists delivered AML/CTF 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; financial analysis techniques; forensic evidence; computer assistance and criminal analysis; interviewing; case development, planning, and organization; report writing; and, with the assistance of local legal experts, rules of evidence, search, and seizure, and asset seizure and forfeiture procedures.

In Africa and the Middle East, OTA delivered the financial investigative techniques (FIT) course in Malawi, Jordan and Egypt, and conducted regional FIT training for members of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the Intergovernmental Action Group against Money Laundering in West Africa (GIABA). OTA partnered with the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Training and Assistance (OPDAT) to deliver seminars to investigators and prosecutors in Namibia and Jordan, promoting the use of the task force concept to investigate and prosecute complex financial crime cases. OTA presented a pilot analytical training course to Namibia's financial intelligence unit (FIU) and law enforcement analysts. OTA provided specialized cross border cash smuggling, trade-based money laundering, and investigative techniques training to Jordanian Customs officials.

OTA also collaborated with the U.S. Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE) and Customs and Border Protection (CBP) to deliver regional bulk cash smuggling training to member countries of the Middle East and North Africa Financial Action Task

Force (MENA-FATF) in Jordan. In collaboration with USAID, OTA provided training for Jordanian insurance industry personnel and regulators in AML/CTF compliance programs. OTA provided training to Namibian law enforcement officials, prosecutors, and casino regulators, and provided training and technical assistance to banking, securities and insurance regulators in Namibia, Jordan and Egypt as well as at a GIABA-sponsored banking regulator workshop in the Gambia.

OTA held a government executive AML/CTF seminar for officials in Sao Tome and Principe. In Lesotho, OTA provided a long-term IA to work with Lesotho's revenue authority in establishing a criminal investigation and intelligence department to address tax evasion, much of which is related to trade-based money laundering. In Tunisia, OTA provided an RA to the African Development Bank (AfDB) to establish an antifraud and corruption department, mentor investigators, establish training programs, develop procedures for an antifraud hot line, and set up a case management system. The advisor also co-chaired an internal AfDB committee tasked with the development of the Bank's AML/CTF strategy implementation plan.

Through the MCC, OTA placed an RA in Sao Tome and Principe to work with customs authorities to modernize operations. Work focuses on passing an internationally compliant customs code, installing a modern automated system to improve the processing, transparency, and security of goods moving through the seaport and airport, and improving infrastructure and capacity to execute customs operations, including inspection and countersmuggling. OTA also sponsored officials from Sao Tome and Principe to attend the regional FIT training course in Cote d'Ivoire.

In Asia, OTA conducted FIT training in Afghanistan, Cambodia, Laos, and Vietnam. OTA funded officials from Vietnamese law enforcement agencies and FIU for a study and orientation tour of the Philippines' FIU and law enforcement agencies. 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 financial analysis techniques training to FIU staff from Kyrgyzstan and Kazakhstan.

In Europe, OTA teams delivered a variety of technical assistance products, including FIT training in the northern part of Cyprus and Georgia's revenue service; financial analysis techniques training to the Armenian FIU; and training for Macedonian banking supervisors. OTA provided a regional cybercrime workshop in Poland for FIUs from ten countries in Eastern Europe and the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG). OTA also funded officials from law enforcement agencies and the Kyrgyz FIU for a study and orientation tour of Poland's FIU and law enforcement agencies. OTA's RA to the secretariat of the EAG in Moscow continued to assist that body to develop operational standards in strategically important areas related to the Financial Action Task Force (FATF) recommendations.

In the Americas, OTA delivered technical assistance in Chile, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Paraguay, and Uruguay during 2008. In Chile, OTA continued to provide technical assistance to the Chilean national gaming authority in the supervision of casinos and their risks related to money laundering and terrorist financing. OTA provided financial analysis techniques course (FATC) training to the analysts of Ecuador's and Mexico's FIUs. OTA also worked closely with the Ecuadorian FIU to plan in financial investigative techniques, and in gaming sector supervision for money laundering and terrorist financing risk. OTA provided four iterations of FIT training to Mexico's FIU, and one at the International Law Enforcement Training Academy in El Salvador for participants from El Salvador and Guatemala. OTA also worked closely with the Mexican tax authority to provide AML/CTF training to its money service businesses supervisors.

OTA advisors presented its four-week criminal investigations training program for two newly established investigation units in Honduras, and provided assistance focused on developing capacity within each unit to conduct investigations and implement case management systems. In Haiti, OTA initiated technical assistance to develop a financial crimes unit and train its personnel, prosecutors and

judges. OTA presented the FATC for staff of the FIU and continued technical assistance with drafting a new and revised criminal code, drafting criminal provisions of the Haitian tax code, and mentoring of active cases.

In Paraguay, OTA's RA continued to work with the customs authority to stand up an internal investigations unit with MCC funding. In Uruguay, OTA provided an advisor who worked with the Uruguayan FIU to present a workshop on prevention and detection of money laundering and terrorist financing. OTA continued to offer a train-the-trainer course so that the basic skills taught in investigative courses can be passed on by the recipients to their agency colleagues.

Financial Intelligence Units

OTA placed a new RA in Kabul in late 2008 to continue to assist in the development of an operational FIU within the Da Afghanistan Bank, Afghanistan's central bank, and the licensing of hawaladars in Afghanistan. In January 2008, OTA established a new resident technical assistance project to stand up an FIU in Kosovo. RAs in Montenegro and Serbia, and intermittent advisors in Armenia, Georgia, and Kyrgyzstan, delivered technical assistance to streamline and enhance host governments' FIUs. In Georgia, this assistance included information technology (IT) development. In Paraguay, OTA continued to advise the FIU on its analytical and IT operational capacity.

In Namibia, Ethiopia, Algeria, Sao Tome and Principe, Malawi, and Jordan, advisors engaged with the respective central banks to establish and develop fully functional FIUs. In Malawi, OTA purchased IT equipment and software for the newly-established FIU, funded the training of FIU staff on the use of analytical and database software, and provided training to FIU staff. In Namibia, the RA assisted in drafting implementing regulations for the FIU, and funded UN officials to conduct an FIU IT assessment resulting in the acquisition of UN-developed software to support its database functions.

In Jordan, the OTA RA worked with the FIU director to prepare for a mutual evaluation and engagement in all OTA-sponsored training with FIU stakeholders. The RA also served as the coordinator for the expenditure of INL funds for the physical development of the FIU, including IT equipment, and database and IT system development. In Kuwait, OTA, with OPDAT and the U.S. FIU, Financial Crimes Enforcement Network (FinCEN), conducted an FIU workshop. In Sao Tome and Principe, OTA executed a terms of reference with the government to assist in the revision of its AML legislation, and to establish an FIU and an overall AML/CTF regime.

OTA continued its work with the FIUs of Guatemala, El Salvador, and Honduras by providing training seminars in the area of Financial Investigative Techniques and Financial Analysis. In Ecuador and Mexico, OTA provided a Financial Analysts Training Course for analysts of those nations' FIUs. In addition, OTA continued its work in the IT area, assisting the Ecuador FIU in its efforts to streamline the process of receiving reports from obligated entities. In Uruguay, OTA collaborated with the FIU by providing a speaker for a seminar focused on AML/CTF issues.

Casinos and Gaming

In the casino gaming group (CGG), OTA experts from its economic crimes program has provided 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 implementing regulations. The CGG also includes training for gaming industry regulators, including FIU personnel, to develop the capacity for implementing AML programs, conducting pre-licensing investigations, and auditing and inspecting casino operations and all games of chance. In addition, The CGG organized and conducted two advanced technical workshops in Las Vegas involving Chilean regulators. In 2008, the CGG assessed the gaming regulatory systems and AML programs for the governments of Kosovo, Bosnia-Herzegovina, and Namibia, and assisted Kosovo in major revisions to its gaming laws. A

member of the CGG presented on AML issues and the casino environment at a conference sponsored by Panama's gaming commission.

In September, 40 regulators, analysts, and financial investigators from Mexico's tax authority, FIU, and commission for banks and securities gathered in Mexico City for a two-day workshop on money service businesses oversight, regulation, and examination given by the tax authorities and OTA.

Insurance

OTA provides technical assistance to foreign governments to protect insurance systems from money laundering, terrorist financing, and fraud. OTA initiated new projects in Egypt, Namibia, and Central America. Work with the Egyptian insurance regulatory authority concentrates on insurance sector compliance with AML/CTF laws requiring inspections by government regulators and will subsequently focus on antifraud measures. Insurance assistance provided to Namibia included inspection procedures to regulate insurance companies' AML compliance. Training was provided to both government officials and the insurance industry. OTA presented on AML/CTF risks in the insurance sector at a regional conference hosted by Panama. In Paraguay, OTA continued to focus on curbing money laundering by assisting government regulators with regulatory review, training, and compliance inspections of insurance companies. The Paraguay project concluded with a regional conference in Asuncion devoted to the prevention and detection of money laundering risk in the insurance sector. The conference included participation from 11 countries and a presentation by the U.S. Internal Revenue Service.

Regional and Resident Advisors (RA)

OTA RAs continued international support in the areas of money laundering and terrorist financing. In February, OTA moved its Africa and Middle East Regional Advisor, previously based in Pretoria, South Africa, to Cairo, Egypt, resulting in increased support for programs in the Middle East and North Africa. An RA posted in Namibia continued assisting with FIU development. OTA upgraded its economic crimes advisor position in Sao Tome and Principe to a full-time residency to better implement a customs modernization project. Supported by long-term Advisors with customs and AML expertise, the RA provided technical assistance to strengthen core responsibilities and infrastructure. OTA extended the presence of a RA to work with Jordan's law enforcement, regulatory, and customs authorities. OTA closed out its RA program in Zambia in August.

OTA's Regional Advisor for Europe and Asia participated as one of two delegates from the United States at the Asia-Pacific Economic Cooperation (APEC) "Seminar on Securing Remittance and Cross Border Payment from Terrorist Use" held in Jakarta, Indonesia, in October. OTA continued its RA to the secretariat of the EAG, and RAs in Montenegro and Serbia focused on supporting national efforts against financial crimes.

OTA's RA in Paraguay continued to provide assistance to develop the internal affairs unit within the customs administration, including assistance with the identification, vetting, and training of personnel, and the provision of workplaces. The customs unit has made significant progress in investigating matters under its jurisdiction. OTA closed out its resident economic crimes advisor program in Argentina in June.

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, France with respect to its overseas departments (French Guiana, Guadeloupe and Martinique) and collectivities (French Polynesia and Saint Martin), Greece, Grenada, Hungary, India, Israel, Italy, Jamaica, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malaysia, 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. The United States also has agreements in place for cooperation in criminal matters with Hong Kong (SAR) and the Peoples Republic of China (PRC). Mutual legal assistance agreements have been signed by the United States but not yet brought into force with the European Union and the following countries: Bermuda, Bulgaria, Colombia, Finland, Germany, Ireland, Sweden, and Venezuela. The United States is actively engaged in negotiating additional MLATs with countries around the world. 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.

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 Albania, Argentina, Aruba, Australia, Belgium, Bulgaria, Canada, Cayman Islands, Chile, Croatia, Cyprus, France, Guatemala, Indonesia, Italy, Japan, Macedonia, Malaysia, Mexico, Montenegro, the Netherlands, Netherlands Antilles, Panama, Paraguay, Philippines, Poland, Romania, Russia, Singapore, Slovenia, South Africa, South Korea, Spain, the Money Laundering Prevention Commission of Taiwan 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 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 2008, the international asset sharing program, administered by the Department of Justice, shared \$229,580,918 with foreign governments that cooperated and assisted in the investigations. In 2008, the Department of Justice transferred \$499,913.50 in forfeited proceeds to Canada. 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, Honduras, 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 2008, the international asset-sharing program administered by the Department of Treasury shared \$28,025,669 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2008, the Department of Treasury transferred \$218,657 in forfeited proceeds to Canada (\$145,659), Guernsey (\$18,690), and Palau (\$54,308). 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)

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, comprising 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. FATF admitted The Peoples 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)

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, Maldives, Marshall Islands, Mongolia, Nauru, Nepal, New Zealand, Niue, Pakistan, Palau, Philippines, Samoa, Singapore, Solomon Islands, South Korea, Sri Lanka, Thailand, Tonga, Timor Este, United States, Vietnam, and Vanuatu. Papua New Guinea became the 39th member of the APG in December 2008.

The Caribbean Financial Action Task Force (CFATF)

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)

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)

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)

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)

The Financial Action Task Force on Money Laundering in South America (GAFISUD) was formally established on 8 December 2000 by the nine member states of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay.

The Groupe Intergouvernemental d'Action contre le Blanchiment en Afrique/ Intergovernmental Action Group against Money Laundering in West Africa (GIABA)

The Groupe Intergouvernemental d'Action contre le Blanchiment en Afrique/Intergovernmental Action Group against Money Laundering in West Africa (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)

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 national entities—today referred to as financial intelligence units (FIUs)—seeking to explore ways to cooperate internationally among themselves. The FIU concept 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. The Egmont Group recognizes four types of FIUs: the administrative model, the judicial or prosecutorial model, the law enforcement model, and the hybrid/mixed model.

The Egmont Group has grown dramatically from 14 units in 1995 to a recognized membership of 107 FIUs in 2008. The current 107 includes two new Egmont members, the FIUs of Moldova and the Turks and Caicos, as well as the removal of Bolivia's FIU from the Egmont Group. Today, the Egmont Group is a major player in the world of financial intelligence expertise and information sharing. It vigorously promotes cooperation in the fight against money laundering and financing of terrorism worldwide and fosters the implementation of domestic, regional, and international programs in the area.

Significant achievements of the Egmont Group for 2007/2008 include: an increased focus on the fight against corruption; a revised definition of what constitutes an Egmont Group FIU, which includes a strict and mandatory terrorist financing component; ensuring all current and future members meet the

new FIU definition; a revised working relationship with the Financial Action Task Force (FATF); and holding four major meetings in Bermuda, Republic of Korea, Ukraine, and Chile.

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. The U.S. FIU, called the Financial Crimes and Enforcement Network (FinCEN), on behalf of the Egmont Group, maintains the Egmont Secure Web (ESW). Currently, there are 106 Egmont Group FIUs (with the exception of Niue) connected to the ESW. FinCEN and the European Union's FIU.net Bureau reached an agreement on allowing a connection between the ESW and FIU.net, so that FIUs using either of those secured networks can exchange information across the two of them.

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 107 heads of member FIUs and the five Egmont working groups. This Committee addresses the administrative and operational issues facing the Egmont Group 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. This working group 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.

In July of 2007, the Egmont Group established a Secretariat office to meet an ever-growing demand in terms of volume and complexity. In 2007-2008, the primary focus of the Egmont Secretariat has been on operational matters, including developing its financial and administrative procedures. Its future work will be focused on developing and enhancing the cooperative relationship between the Egmont Group and other international anti-money laundering and combating financing of terrorism (AML/CTF) organizations. It will 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 Egmont secretariat is now established in Toronto, Canada, and is headed by an Executive Secretary, appointed by the heads of FIUs, and reports directly to them through the Egmont committee.

In December 2008, the Egmont Group expelled Bolivia's FIU from its membership, due to a lack of terrorism financing legislation in Bolivian law. To regain Egmont membership, Bolivia must reapply and provide written evidence of its FIU's compliance with Egmont FIU definitions and requirements. The remaining 107 members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Armenia, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belarus, Belgium, Belize, Bermuda, 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, Moldova, 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 and Nevis, St. Vincent and the Grenadines, Sweden, Switzerland, Syria, Taiwan, Thailand, Turkey, Turks and Caicos, 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 2008, CICAD continued to carry out its activities in anti-money laundering and combating the financing of terrorism (AML/CTF) throughout Latin America and the Caribbean. CICAD's AML/CTF training programs seek to improve and enhance the knowledge and capabilities of judges, prosecutors, public defenders, law enforcement agents, and financial intelligence unit (FIU) analysts. The U.S. Department of State Bureau of International Narcotics and Law Enforcement (INL) provided full or partial funding for many of the CICAD training programs in 2008.

CICAD's Group of Experts to Control Money Laundering met twice this year, once in Washington, D.C., in July, and once in Mexico City, Mexico, in October. The first meeting was held specifically for the asset forfeiture and FIU-law enforcement coordination and integration sub-groups. Experts at the second meeting discussed and approved a best practices manual on the management of seized and forfeited assets in Latin America, which was initially discussed during the subgroups meeting in July. As a next step, CICAD plans to implement the asset forfeiture best practices manual by offering technical assistance to interested OAS member states. The initial set of countries chosen for the first phase of this project includes Uruguay, Chile, and Argentina.

With participation from the UN Office on Drugs and Crime (UNODC), CICAD held money laundering mock trial training sessions in 2008 in four countries: Mexico (39 participants), Paraguay (28 participants), Uruguay (30 participants), and Venezuela (29 participants). The mock trial sessions provided specialists from these countries an opportunity to simulate the steps involved in investigating and prosecuting real money laundering cases. This hands-on learning method takes place over four days, the first of which consists of international expert presentations, and the following days consist of the trial itself. Over the course of the mock trial, teams of investigators, prosecutors, financial analysts, and judges follow a money laundering case from the initial probes to detect illegal activity, through the preparation of an indictment and, finally, to trial. In addition to the mock trials, CICAD offered workshops for judges and prosecutors in Mexico (39 participants), Venezuela (65 participants), and Guatemala (44 participants). The events in Mexico and Guatemala, both the mock trials and the

workshop for judges and prosecutors, occurred with the assistance of financial and organizational support from the U.S. Embassy's narcotics affairs sections in both countries.

In 2008, CICAD's AML section supported the development and implementation of an online money laundering case classification system, called the Typologies Database, that stores, classifies, organizes, updates, and retrieves information on case histories, common money laundering practices, techniques to detect them, and the prosecutorial methods to take cases to trial. With its interactive functions and hemispheric scope, the database is the first of its kind in the world and is now operative on CICAD's website (www.cicad.oas.org/tipologias). It allows investigators to search the database for cases similar to those they are investigating. This user-friendly Internet application permits authorized users to load, validate, and publish new typologies based on the latest cases analyzed by law enforcement agencies.

CICAD's AML section held two events to complement the database application. In Ecuador, CICAD offered a regional seminar on money laundering typologies, which included representatives from eight GAFISUD (Grupo de Acción Financiera Internacional de Sudamérica or Financial Action Task Force of South America) member states. At the seminar, participants identified and defined the typologies, terminology, and classification criteria in the database. The final document from this seminar will soon be published online as a shared reference tool.

The second event was held in Bogotá, Colombia, where the FIU organized a workshop to train its staff to use and begin uploading cases into the database. As a result of this initiative, CICAD's AML section developed two documents on typologies in coordination with the FIU of Colombia: one on terrorist financing that includes eight cases and a second one on money laundering that includes 11 cases.

CICAD's AML section also supported the development and evaluation of a software application to capture, store, query, analyze, and manage information from Uruguay's FIU. The goal is to expand the use of this software, currently in "Beta" version, to other countries.

In cooperation with Spain's University of Salamanca, CICAD is working on an online degree in anti-money laundering, aimed at law enforcement agents, prosecutors, judges, FIU analysts, and bankers. This program would be taught by Spanish money laundering experts, and consist of three modules at the basic, intermediary, and advanced levels.

CICAD acquired computer hardware and projectors as a follow-up to a train-the-trainer program in Costa Rica. CICAD purchased one laptop and one projector for Costa Rica this year, in order to advance the program in that country.

CICAD's AML section also worked with the Inter-American Committee against Terrorism (CICTE), participating in two of their CTF seminars, one in Antigua & Barbuda and the other in Brazil.

Pacific Anti-Money Laundering Program (PALP)

The Pacific Anti-Money Laundering Program (PALP) was launched in September 2006. PALP is a joint initiative between the UN Office on Drugs and Crime (UNODC) and the U.S. Department of State. PALP was conceived by and is funded by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs. 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 combating the financing of terrorism (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.

During its first two years, PALP was coordinated and administered by the Pacific Islands Forum Secretariat. In September 2008 the coordination role was assumed by the UNODC Global Programme against Money Laundering, Proceeds of Crime and Financing of Terrorism (GPML).

The goal of PALP training and technical assistance is to support participating jurisdictions to comply with international FATF standards and relevant UN conventions and UN Security Council resolutions. PALP is essentially a regional outreach program, utilizing experienced mentors based in host countries to assist with legal, law enforcement, regulatory, and financial intelligence unit (FIU) development. In 2008, PALP provided assistance on a wide range of AML/CTF issues, including legislative drafting, capacity building, and case support. Regional and bilateral training was also conducted for prosecutors and law enforcement officers and other key stakeholders.

Mentoring

PALP uses resident and intermittent mentors to deliver regional and bilateral training and advice for establishing viable AML/CTF regimes. PALP currently has mentors in the legal and law enforcement fields in Tonga and Palau, respectively, as well as intermittent mentors for FIUs and regulatory issues. In the first half of 2008, a second law enforcement mentor was based in Vanuatu. Although 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, often for periods up to one month or more at a time.

The PALP mentoring program supports multiple AML/CTF elements. Due to their extensive experience, PALP mentors advise officials on applying and adapting international standards to fit local situations. PALP mentors provide on-the-job training and work with local officials to ensure that they have sufficient capacity to implement the member country's AML/CTF regime. The amount of time spent in-country also offers a useful opportunity for mentors to assess the situation on the ground with regard to AML/CTF regime compliance and vulnerabilities.

Reviews were conducted by the PALP intermittent FIU mentor in the Marshall Islands, Palau, Tonga, and Vanuatu in 2007. Those reviews resulted in vigorous follow-up by the PALP legal and law enforcement mentors, which included 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 systems entails efforts to strengthen the role of national AML/CTF committees at the policy level. In 2008, the PALP mentors played vital roles in providing support and advice to the national AML/CTF committees of several jurisdictions in the region, including Tonga, Cook Islands, Fiji, Palau, the Marshall Islands, the Solomon Islands, and Vanuatu.

Legislative Drafting

Vanuatu. Drafts have been provided to the authorities in Vanuatu for border currency reporting legislation and amendments to the Money Laundering and Proceeds of Crime Act identified in the last mutual evaluation by the Asia/Pacific Group on money laundering (APG). These bills are currently awaiting passage at the next sitting of Parliament in March 2009. Additional assistance will be provided in drafting legislation and regulations to remedy deficiencies discussed in the recent mutual evaluation report.

Tonga. Legislative drafting support was provided by preparing drafts for amendments to the Money Laundering and Proceeds of Crime Act and the Transnational Crimes Act as it relates to terrorist financing. Risk-based regulations have also been provided. These draft bills await cabinet approval and passage in the House of Assembly in June of 2009.

The Solomon Islands. Drafts have been provided for border currency reporting and FIU legislation. Continuing support will be provided in 2009 for other legislation.

The Cook Islands. Drafts have been provided for a suite of legislation and regulations, including border currency reporting legislation, FIU legislation, and civil forfeiture and risk-based AML/CTF regulations. These drafts await cabinet approval and passage in the House of Assembly in 2009.

Palau. Risk-based regulations have been drafted to meet the recommendations following a mutual evaluation. These regulations await approval of Congress. The PALP financial mentor who started in Palau in February 2008 has trained and worked with Palauan customs, police, and airport security agencies to identify potential bulk currency smugglers and methods employed by bulk currency smuggler. Palauan agencies have identified and made six bulk currency seizures in 2008. The mentor continues to assist law enforcement agencies enhance investigation techniques.

Republic of the Marshall Islands. Drafts have been prepared for border currency reporting, amendments to terrorist financing legislation, and amendments to the Banking Act. Risk-based regulations have also been provided. These drafts of legislation, amendments, and regulations await passage in the Parliament in 2009. Further assistance will be offered in 2009 to all beneficiaries in the support of legislative assistance.

Capacity Building Initiatives

In 2008 PALP provided technical assistance and training workshops at the regional, sub-regional and national levels for law enforcement, customs officials, and prosecutors. PALP mentors developed a border currency smuggling (BCS) training to implement international standards under FATF Special Recommendation IX. This program was first presented in Palau to members of Palauan customs, immigration, and airport security. PALP then expanded this BCS training program by working in conjunction with the Oceania Customs Organization and the Australian Attorney General's Anti-Money Laundering Assistance Team (AMLAT). BCS training will be presented to the countries in the region at first on a bilateral basis and then via sub-regional and regional training. This training has been presented in Palau, Fiji, and the Solomon Islands.

PALP mentors conducted a pilot training in Palau to address basic law enforcement skills in report and affidavit writing. This training was delivered to members of the Palauan national police, customs and marine police. The success of this training has resulted in the development of a more advanced basic law enforcement skills training to include country laws and law enforcement authorities, report writing, interview techniques, evidence collection and processing, affidavits, court orders, subpoenas, executions of search warrants, and court room demeanor. This will be a two-part training initiative delivered to countries starting in 2009. The first part will be classroom-based and involve theory and practical exercises. The second part will be in the field, working through an investigation, and culminating in a mock trial.

In August 2008 PALP conducted a money laundering workshop in the Cook Islands with participants from the Cook Island FIU, national police, customs, tax and revenue, banking commission, and from some private banks. This workshop provided training on investigative techniques for investigation of money laundering.

PALP works in close cooperation with the APG in order to coordinate delivery of technical assistance and training to jurisdictions that are both APG members and PALP participants. The PALP law enforcement mentor made several presentations during the APG annual 2008 typologies workshop in Colombo, Sri Lanka. The presentations covered investigative techniques, letters of credit and basic charting techniques.

In June 2008, the PALP hosted a prosecutors' workshop on money laundering, and terrorist financing in Auckland, New Zealand. Twenty-two prosecutors from the Marshall Islands, Federated States of Micronesia, Palau, Papua New Guinea, Solomon Islands, Tonga, Fiji, Vanuatu, Samoa, the Cook Islands, Kiribati, and Tuvalu participated in this training. The workshop was funded and conducted by PALP. Additional experts from Hong Kong and the U.S. Department of Justice assisted in the presentation of the workshop. The course, which ran for one week, used a real case to demonstrate ways to take a money laundering case from investigation to the enforcement of a confiscation order and covered the following areas: investigation of money laundering and proceeds of crime; freezing and/or restraining of assets; management receivership orders; money laundering indictments; confiscation hearings; enforcement of confiscation orders; mutual legal assistance; terrorist financing; and civil forfeiture.

Civil Forfeiture

The course format was practically based with participants drafting orders and presenting applications in a courtroom setting. At the conclusion of the course, all prepared materials were given the participants on CD-ROM. Feedback from participants highlighted the benefit of the practical aspect of the workshop.

In December 2008 in Vanuatu, a series of workshops for stakeholders were held. The attendees were from casinos, money remitters, exchange houses, the legal profession, accountants, and trust and company service providers. The workshops covered, customer due diligence, monitoring, suspicious transaction reporting, and internal controls. The compliance with Vanuatu's Financial Transactions Reporting Act was central to the usefulness of the workshops for the stakeholders.

In 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. This has now resulted in a number of cases being brought before the High Court in Fiji for civil forfeiture.

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 cases. In 2008, the PALP provided case support to the Cook Islands, Palau, and the Marshall Islands.

PALP initiated multi-agency suspicious transaction report review teams hosted by the FIU's in Palau and the Marshall Islands. As a result of this multi-agency approach to reviewing FIU intelligence, several significant money laundering investigations have been initiated in Palau and the Marshall Islands. Although these investigations remain ongoing, one has already resulted in a 60-count indictment for money laundering and tax fraud violations.

The Year Ahead

PALP will continue to focus its technical assistance and training efforts on delivering targeted AML/CTF assistance through the work of senior mentors and trainers. PALP will direct its in-country assistance via mentoring and coaching as well as assistance with case development. In addition, PALP will deliver regional, sub-regional, and national training courses designed to give police investigators, customs officers, prosecutors, FIU staff, and regulators the knowledge and skills they need to identify, investigate, and prosecute money laundering and terrorist financing cases. PALP will grow in 2009 with the addition of another legal mentor to the team and greater use of our intermittent FIU and regulatory mentors.

United Nations Global Programme Against Money Laundering

The United Nations Global Programme against Money Laundering is one of the most experienced global providers of anti-money laundering (AML) training and technical assistance and, since 2001, training and technical assistance to combat the financing of terrorism (CTF). The UN Global Programme against Money Laundering, Proceeds of Crime, and the Financing of Terrorism (GPML), part of the UN Office on Drugs and Crime (UNODC), was established in 1997 to assist member states in complying with UN Conventions and other instruments that deal with money laundering and terrorist financing. These now include the UN Convention against Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 Vienna Convention), the UN International Convention for the Suppression of the Financing of Terrorism (the 1999 Convention), the UN Convention against Transnational Organized Crime (the 2000 Palermo Convention), and the UN Convention against Corruption (the 2003 Merida Convention).

In March 2008, GPML's scope and objectives were widened to meet growing needs and demands of the international community for tailor-made assistance for implementing UN instruments and related international AML/CTF standards, and using AML/CTF systems as a tool to achieve improved financial transparency, integrity, and good governance. GPML has elaborated an ambitious program to make international action against the proceeds of crime and illegal financial flows more effective. This is done through a wide range of technical assistance measures and in close partnership with regional or multilateral organizations.

In September 2006, the UN General Assembly adopted the UN 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 AML policy and activities within the UN system and a key player in strengthening CTF efforts. 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 CTF technical assistance work has also received priority. As part of the implementation of the UN Global Counter-Terrorism Strategy, GPML is one of the lead entities in the UN Counter-Terrorism Implementation Task Force (CTITF) working group, an information-sharing and coordinating body aimed at developing policy recommendations in tackling the financing of terrorism. GPML now incorporates a focus on CTF in all its technical assistance work.

In 2008, GPML provided training and long-term assistance in the development of viable AML/CTF regimes to more than 50 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 participated in 2008 in several training events on confiscation of stolen assets.

The Mentoring Program

GPML's mentor program is a core part of GPML's technical assistance activities and serves as a model for other organizations' initiatives. The GPML mentoring program provides targeted on-the-job training that adapts international standards to specific local and 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 provide advice to 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). In many countries, GPML mentors are the only locally placed AML/CTF experts, and 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 Namibia's prosecutor general's office 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, and continued to monitor 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 South Africa's national prosecuting authority.

In Eastern and Southern Africa, a law enforcement long-term consultant helped with the delivery of technical assistance, in particular a train-the-trainer certification program on financial investigations in Namibia and Tanzania. 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, where the mentor focuses on legislative assistance and FIU development in Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan. The AML/CTF mentor in Hanoi, Vietnam, provided assistance to Vietnam, Laos, and Cambodia to establish comprehensive AML/CTF regimes, including the establishment and enhancement of FIUs. In October 2008, GPML assumed the coordination and administration role of the Pacific Anti-Money Laundering Program (PALP), which was established to provide AML/CTF advice, training, and technical assistance to support the establishment, development and implementation of AML/CTF regimes to 14 Pacific Island Forum jurisdictions that are not members of the FATF.

Mentoring and FIUs

GPML was among the first technical assistance providers to recognize the importance of countries creating financial intelligence capacity, and GPML mentors have worked extensively on the development and the implementation phases of FIUs in several countries in the Eastern Caribbean, Southern and Eastern Africa, the Pacific, Central Asia and in South East Asia. A major initiative that could have global implications for many FIUs is the development by the UNODC Information Technology Service (ITS), with substantive input 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. Version one of goAML is fully developed and has now been deployed in Namibia's and Kosovo's FIUs. It is likely that the next deployment will be to Tanzania's FIU. GoAML is also deployed at the Nigerian FIU and should soon be fully operational. In August 2008, goAML was evaluated by two of the world's leading FIUs, FINTRAC in Canada and AUSTRAC in Australia, on behalf of the Egmont Group. The positive outcome of the evaluation was reported to the IT Working Group of the Egmont Group in October 2008.

Computer-Based Training

Other highlights of GPML's work in 2008 included the ongoing development of its global computer-based training (CBT) initiative. The program provides 12 hours of interactive basic AML training, consisting of 13 modules for global delivery. The CBT 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, which is translated into several languages, lends itself well to GPML's global technical assistance operations.

Delivery continued in particular with the deployment of additional CBT training classrooms in Rwanda (Police Criminal Investigations Department) and in the Russian Federation (Eurasian Group's International Training and Methodological Centre on Financial Monitoring), and a training center in Uganda (Police Headquarters). GPML also used its Amharic version of the CBT program and conducted a financial investigations training seminar, jointly with the Italian Guardia di Finanza, at the Police Academy of Ethiopia in October 2008. In 2008, GPML continued the development of additional CBT modules on asset forfeiture.

Other GPML Initiatives

GPML contributed to the delivery of mock trial training sessions in Latin 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 2008 in Brazil, Mexico, Peru, Uruguay, and Venezuela.

As part of the UNODC Rainbow Strategy, which aims to reduce the supply, trafficking, and consumption of opiates in Afghanistan and neighboring countries, GPML took the lead in a new initiative on "financial flows to and from Afghanistan linked to the illicit drug production and trafficking." An expert consultation meeting was held in November 2008 to comment on a draft background paper produced by a working group on the issue. The working group consists of representatives from the UNODC, International Monetary Fund (IMF), INTERPOL, Egmont Group, Eurasian Group, and the World Bank. The outcomes of this meeting were presented during the sixth Consultative Group Meeting of the Paris Pact held in Vienna in December 2008.

In 2008, GPML, in a collaborative effort with the IMF, finalized the revision of model provisions 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 the U.S. Department of Justice, the U.S. Department of the Treasury's Office of Technical Assistance (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, South Asia and the Pacific, 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. The database now contains legislation from some 180 jurisdictions.

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. In 2007, GPML launched the French language version of IMoLIN and continued its second round of legal analysis using a revised AMLID questionnaire. The updated AMLID questionnaire reflects new money laundering trends and standards, and takes provisions related to terrorist financing and other new developments into account, including the revised FATF recommendations. In 2008, 15 new questionnaires were uploaded to the database, raising the total of revised AMLID questionnaires in the database under the second round of legal analysis to more than 70.

Law Enforcement Cases

Lloyds of London Violates IEEPA

Lloyds TSB Bank, a United Kingdom corporation headquartered in London, has agreed to forfeit \$350 million to the United States and to the New York County District Attorney's Office in connection with violations of the International Emergency Economic Powers Act (IEEPA). The violations relate to transactions Lloyds illegally conducted on behalf of customers from Iran, Sudan and other countries sanctioned in programs administered by the Office of Foreign Assets Controls.

A criminal information was filed in the U.S. District Court for the District of Columbia charging Lloyds with one count of violating the IEEPA. Lloyds waived indictment, agreed to the filing of the information, and has accepted and acknowledged responsibility for its criminal conduct. Lloyds agreed to forfeit the funds as part of deferred prosecution agreements with the Department of Justice and the New York County District Attorney's Office.

Under the IEEPA, it is a crime to willfully violate, or attempt to violate, any regulation issued under the act, including the Iranian Transactions Regulations, which prohibit exportation of services from the United States to Iran, and the Sudanese Sanctions Regulations, which prohibit exportation of services from the United States to Sudan.

According to court documents, beginning as early as 1995 and continuing until January 2007, Lloyds, in both the United Kingdom and Dubai, falsified outgoing U.S. wire transfers that involved countries or persons on U.S. sanctions lists. Specifically, according to court documents, Lloyds deliberately removed material information—such as customer names, bank names and addresses—from payment messages so that the wire transfers would pass undetected through filters at U.S. financial institutions. This process of “repairing” or “stripping,” as Lloyds commonly referred to it, allowed more than \$350 million in transactions to be processed by U.S. correspondent banks used by Lloyds that might have otherwise been blocked or rejected due to sanctions regulations or for internal bank policy reasons. According to court documents, the criminal conduct by Lloyds was designed to evade, and to assist its customers in evading, U.S. economic sanctions imposed against Iran, Sudan and other countries.

“For more than 12 years, Lloyds facilitated the anonymous movement of hundreds of millions of dollars from U.S.-sanctioned nations through our financial system,” said Acting Assistant Attorney General Matthew Friedrich. “More than \$350 million moved from places such as Iran through locations around the world because Lloyds stripped identifying information from international wire transfers that would have raised a red flag at U.S. financial institutions and caused such payments to be scrutinized. The Department will continue to use criminal enforcement measures against the knowing and intentional evasion of U.S. sanctions laws, particularly where such conduct has the potential to finance terrorist activities.”

The bank's forfeiture of \$175 million to the United States and \$175 million to New York County will settle forfeiture claims by the Department of Justice and the state of New York related to the misconduct. In light of the bank's remedial actions to date and its willingness to acknowledge responsibility for its actions, the Department will recommend the dismissal of the information in two years, provided Lloyds fully cooperates with, and abides by, the terms of the agreement.

The case was prosecuted by the Department of Justice Criminal Division's Asset Forfeiture and Money Laundering Section and was investigated by the IRS-Criminal Investigation's Washington Field Division.

Holy Land Foundation Revisited

On November 24, 2008, in the Northern District of Texas, all defendants in *United States v. Holy Land Foundation* were found guilty by a jury of all counts charged. On November 12, 2008, the jury began deliberating. The defense rested its case on November 6, 2008, and closing statements began on Monday, November 10, 2008. Holy Land Foundation (“HLF”) was a Hamas front organization that received start up assistance from Mousa Abu Marzook—a leader of Hamas and a specially designated terrorist—and raised millions of dollars for Hamas over a thirteen-year period. The new trial results from a mistrial declared on October 22, 2007, in the Northern District of Texas, when a jury found defendant Mohammed El-Mezain not guilty as to most charges, but failed to reach a verdict on a material support count against him, and deadlocked on the remaining counts against the other defendants. All other defendants at trial—Shukri Abu Baker, Ghassan Elashi, Mufid Abdulqader, and Abdulrahman Odeh—and all counts resulted in a mistrial. The case was 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.

Hawala, Money Laundering and Terrorism Financing

On November 4, 2008, in the District of Maryland, Saifullah Anjum Ranjha, a Pakistani national residing in Washington, D.C. and Maryland, was sentenced to 110 months in prison, followed by three years of supervised release, for conspiring to launder money and for concealing terrorist financing. The judge also signed a preliminary order forfeiting \$2,208,000 of Ranjha’s assets.

Ranjha was born in Pakistan and became a lawful permanent resident of the United States in September 1997. He operated a money remitter business in the District of Columbia known as Hamza, Inc. During the U.S. Immigration and Customs Enforcement (ICE) led investigation, a cooperating witness, acting at the direction of law enforcement, presented himself to Ranjha and his associates as someone involved in large scale international drug trafficking, international smuggling of counterfeit cigarettes and weapons. He also represented that he was providing assistance and financing to members of al Qaeda and its affiliated organizations and their operatives. From October 2003 to September 19, 2007, the cooperating witness gave Ranjha and his associates a total of \$2,208,000 in government funds to transfer the monies abroad through the hawala informal money transfer system, bypassing conventional banking systems and regulations.

The cooperating witness represented that the monies were the proceeds of his purported illegal activities. There were a total of 21 hawala transactions in amounts ranging from \$13,000 to \$300,000. Most of the monies were turned over to Ranjha in locations in Maryland. On a few occasions the cooperating witness met Ranjha and other co-conspirators at Hamza, Inc. to provide monies for a particular hawala transfer. Ranjha arranged with his associates for the equivalent amount of monies, minus commissions, to be delivered to the cooperating witness, his third party designee, or a designated bank account in Canada, England, Spain, Pakistan, Japan and Australia. Ranjha kept a commission of approximately five percent of the amount of currency transferred. Other conspirators involved in a particular transaction retained an additional commission of between three to five percent of the transaction amount. All the funds transferred abroad were picked up by cooperating individuals and returned to the Government.

Other agencies involved in the investigation included, the Federal Bureau of Investigation and the Internal Revenue Service—Criminal Division. International law enforcement partners included the Spanish National Police, Australian Federal Police, London Metropolitan Police, and Royal Canadian Mounted Police.

NGO Support of a Terror Organization

On August 25, 2008, in the Southern District of Florida, Richard David Hupper was sentenced to 46 months in prison and a \$15,000 fine. He had pled guilty on May 21, 2008, to one count of providing material support to Hamas, in violation of 18 U.S.C. § 2339B.

Between December 2004 and September 2006, Hupper, a United States citizen, traveled on numerous occasions to the Middle East. He met and worked with individuals in the International Solidarity Movement (ISM), a pro-Palestinian nongovernmental organization (NGO), and gradually became interested in assisting Hamas. Through his contacts with ISM, Hupper became friendly with a major figure in the ISM and a suspected Hamas member. On several occasions during an approximate two year period of time, Hupper provided money, both in person and via Western Union wire transfer, with knowledge that the funds he gave were going directly to Hamas. These funds were to be used by Hamas in a variety of ways including assisting the families of Israeli-imprisoned Hamas members. Hupper also procured a fraudulent passport using an alias after the government restricted his travel to the Middle East. He was earlier arrested and prosecuted for identity theft. After his arrest on the identity theft charges, Hupper was interviewed and admitted to the illegal conduct to which he later pled.

“Bust-Out” Scheme

In August 2008, in the Central District of California, Reza Bahram Tabatabai was sentenced to 87 months in federal prison and ordered to pay \$2,235,801 in restitution.

Tabatabai was found guilty of conspiracy, seven counts of interstate transportation of fraudulently obtained property, six counts of mail fraud, eight counts of wire fraud, conspiracy to commit money laundering and 33 counts of money laundering in connection with a series of “bust-out” schemes in which several companies were taken over and their credit lines were exhausted.

Tabatabai, with the help of several others, purchased established businesses so they could make large purchases of goods using the companies’ existing lines of credit. The goods sold to the companies were re-sold at discounted prices to quickly generate profits for the participants in the scheme. Although some payments were made in order to secure larger lines of credit, lenders to the four companies lost more than \$8 million. The evidence at trial showed that Tabatabai and his co-conspirators engaged in a series of complex monetary transactions to both conceal and promote the fraudulent scheme. Tabatabai controlled numerous bank accounts, held in the names of numerous businesses, in which he concealed the proceeds of the fraudulent conduct.

Previously, in October 1999, Tabatabai was charged in a Superseding Information with one count of conspiracy, in violation of 18 U.S.C. § 371, and one count of providing material support to a designated foreign terrorist organization, the Mujahedin-e-Khalq (MEK), in violation of 18 U.S.C. § 2339B. Tabatabai pled guilty to the charges and was sentenced to 24 months in prison.

Sentencing Hearings Held in CARE International Case

Defendants Emadeddin Muntasser, Muhamed Mubayyid, and Samir al-Monla were charged in a March 8, 2007 superseding indictment with a scheme to defraud various United States agencies of information relating to a Massachusetts charity known as Care International. In January 2008 the defendants were found guilty of charges including a Scheme to Conceal Material Facts and Aiding and Abetting, in violation of 18 U.S.C. §§ 1001(a)(1) and 2; Conspiracy to Defraud the United States, in violation of 18 U.S.C. § 371; and Obstructing and Impeding the Internal Revenue Service, in violation of 26 U.S.C. § 7212(a). Mubayyid was found guilty of three additional counts of Filing a False Tax Return, in violation of 26 U.S.C. § 7206(1), and Muntasser was found guilty of one count of False

Statements to the FBI, in violation of 18 U.S.C. § 1001(a)(2). On June 3, 2008, the District Judge dismissed, post verdict, a number of charges against Mubayyid and Muntasser under Rule 29 of the Federal Rules of Criminal Procedure. Defendant Samir al-Monla was acquitted on all charges. The United States Attorney's Office has filed a notice of appeal.

On July 18, 2008, in the District of Massachusetts, Mubayyid was sentenced to 11 months in prison followed by 3 years of supervised release. Mubayyid was also ordered to pay a \$1,000 fine and a \$500.00 special assessment. On July 17, 2008, Muntasser was sentenced to 12 months in prison followed by 3 years of supervised release. Muntasser was ordered to pay a \$10,000 fine and a \$100.00 special assessment.

Muntasser formed Care International in 1993, shortly after another organization with which he was associated, the Al-Kifah Refugee Center, was publicly implicated in the first World Trade Center Bombing. Thereafter, Muntasser, Mubayyid, and Al-Monla filed a number of false documents with the Internal Revenue Service, concealing the fact that Care International was an outgrowth of Al Kifah and was continuing its support of mujaheddin and violent jihad overseas. Al-Monla served as the president of Care from 1996-1998 while Mubayyid is the former treasurer of the organization. After the September 11, 2001 terrorist attacks, the defendants made false statements to the FBI about Care International's operations, and Muntasser falsely denied on his U.S. naturalization application that he was affiliated with any organization or that he had traveled to Afghanistan.

Money Laundering and Harboring Illegal Aliens

In a U.S. Immigration and Customs Enforcement (ICE) led investigation in Greenbelt, Md., Juan Faustino Solano of Kensington, Md., was sentenced to 15 months in prison, for money laundering and conspiracy to commit alien harboring in connection with the operation of the El Pollo Rico restaurant in Wheaton, Maryland. Juan's sister, Consuelo Solano, 69, of Arlington, Virginia, was sentenced to two months in prison for money laundering. Both Juan Solano and Consuelo Solano were ordered to forfeit \$7.2 million derived from the illegal activities, including 13 bank and investor accounts, a life insurance policy, eight properties in Maryland, three vehicles, collectible coins, and jewelry. Moreover, as part of this amount, Consuelo Solano has to forfeit over \$2.1 million in cash found in her home.

Juan Solano conspired with others to employ illegal aliens and undocumented workers at the restaurant from January 1999 to July 2007, paying them in cash and housing them in multiple residences owned by Solano and his co-conspirators in Maryland. To further the conspiracy, Solano did not prepare or maintain Employment Eligibility Verification Forms for those employees, which establish the eligibility of an individual to be employed in the United States legally.

In addition, Consuelo and Juan Solano admitted that they conspired to conceal the proceeds from the illegal employment of aliens. They deposited more than \$7 million from the operation of the restaurant into the El Pollo Rico business account from 2002 to 2007. Transfers were made from the El Pollo Rico business account to business and personal accounts. As a result of their roles in alien harboring and in conducting these deposits, transfers, and purchases involving the proceeds of alien harboring, both Juan and Consuelo Solano will receive enhanced sentences for managing and organizing criminal activity.

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 involving 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 2009 INCSR identified money laundering priority jurisdictions and countries using a classification system that consists of three different categories: Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

"Jurisdictions of Primary Concern" are those that are identified, pursuant to 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 engaged in transactions that involve significant amounts of proceeds from other serious crimes 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 crimes. Thus, the focus 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 Financial Action Task Force's 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 several factors that may include: (1) whether the country's financial institutions engage in transactions involving significant amounts of proceeds from serious crimes; (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 (e.g., whether it involves drugs or other contraband); (4) the ways in which the U.S. Government (USG) 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 the USG. 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 a "Jurisdiction of Concern" or an "Other Jurisdiction Monitored." 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 as "Jurisdictions of 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 Jurisdictions Monitored" category do not pose an immediate concern, it is nevertheless 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. A checklist of what drug money managers reportedly look for, however, 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 customer” 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 and a lack of uniform guidelines for identifying suspicious transactions.
- Use of bearer monetary instruments.
- Well-established nonbank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, in particular where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing, and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to Basel Committee’s “Core Principles for Effective Banking Supervision,” especially in jurisdictions where the monetary or bank supervisory authority is understaffed, under-skilled or uncommitted.
- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.

- Jurisdictions where charitable organizations or alternate remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering or terrorist financing.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering, and financial crime enforcement, and lack of trained investigators or regulators.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward 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 2008

Countries moving to the “Jurisdictions of Primary Concern” category from the “Jurisdictions of Concern” category: **Bolivia, Guinea-Bissau, and Zimbabwe.**

Countries moving to the “Jurisdictions of Concern” category from the “Other Jurisdictions Monitored” category: **Azerbaijan and Trinidad and Tobago.**

Country moving to “Other Jurisdictions Monitored” category from the “Jurisdictions of Concern” category: **Dominica**

In the Country/Jurisdiction Table on the following page, “major money laundering countries” that are in the “Jurisdictions of Primary Concern” category are identified for purposes of INCSR statutory 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 or jurisdiction in the “Jurisdictions of Concern” or “Other Jurisdictions Monitored” category.

Note: Country reports are provided for only those countries and jurisdictions listed in the “Primary Jurisdictions of Concern” and “Jurisdictions of Concern” categories.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Panama	Albania	Peru	Andorra	Mali
Antigua and Barbuda	Paraguay	Algeria	Poland	Anguilla	Malta
Australia	Philippines	Angola	Portugal	Armenia	Marshall Islands
Austria	Russia	Argentina	Qatar	Benin	Mauritania
Bahamas	Singapore	Aruba	Romania	Bermuda	Mauritius
Belize	Spain	Azerbaijan	Samoa	Botswana	Micronesia FS
Bolivia	Switzerland	Bahrain	Saudi Arabia	Brunei	Mongolia
Brazil	Taiwan	Bangladesh	Senegal	Burkina Faso	Montenegro
Burma	Thailand	Barbados	Serbia	Burundi	Montserrat
Cambodia	Turkey	Belarus	Seychelles	Cameroon	Mozambique
Canada	Ukraine	Belgium	Sierra Leone	Cape Verde	Namibia
Cayman Islands	United Arab Emirates	Bosnia and Herzegovina	Slovakia	Central African Republic	Nauru
China, People Rep	United Kingdom	British Virgin Islands	South Africa	Chad	Nepal
Colombia	United States	Bulgaria	St. Kitts & Nevis	Congo, Dem Rep of	New Zealand
Costa Rica	Uruguay	Chile	St. Lucia	Congo, Rep of	Niger
Cyprus	Venezuela	Comoros	St. Vincent	Croatia	Niue
Dominican Republic	Zimbabwe	Cook Islands	Suriname	Cuba	Norway
France		Cote d'Ivoire	Syria	Denmark	Oman
Germany		Czech Rep	Tanzania	Djibouti	Papua New Guinea
Greece		Ecuador	Trinidad and Tobago	Dominica	Rwanda
Guatemala		Egypt	Turks and Caicos	East Timor	San Marino
Guernsey		El Salvador	Uzbekistan	Equatorial Guinea	Sao Tome & Principe
Guinea-Bissau		Ghana	Vanuatu	Eritrea	Slovenia
Haiti		Gibraltar	Vietnam	Estonia	Solomon Islands
Hong Kong		Grenada	Yemen	Ethiopia	Sri Lanka
India		Guyana		Fiji	Swaziland
Indonesia		Honduras		Finland	Sweden
Iran		Hungary		Gabon	Tajikistan
Isle of Man		Iraq		Gambia	Togo
Israel		Ireland		Georgia	Tonga
Italy		Jamaica		Guinea	Tunisia
Japan		Jordan		Iceland	Turkmenistan
Jersey		Korea, North		Kazakhstan	Uganda
Kenya		Korea, South		Kosovo	Zambia
Latvia		Kuwait		Kyrgyz Republic	
Lebanon		Laos		Lesotho	
Liechtenstein		Malaysia		Liberia	
Luxembourg		Moldova		Libya	
Macau		Monaco		Lithuania	
Mexico		Morocco		Macedonia	
Netherlands		Netherlands Antilles		Madagascar	
Nigeria		Nicaragua		Malawi	
Pakistan		Palau		Maldives	

Introduction to Comparative Table

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2008, that jurisdictions have, or have not, taken to combat money laundering. This reference table provides a comparison of elements that includes legislative activity and other identifying characteristics that can have a relationship to a jurisdiction's money laundering vulnerability.

Glossary of Terms

1. "Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.
2. "Criminalized Beyond Drugs": The jurisdiction has extended anti-money laundering statutes and regulations to include nondrug-related money laundering.
3. "Record Large Transactions": By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.
4. "Maintain Records Over Time": By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
5. "Report Suspicious Transactions": By law or regulation, banks are required to record and report suspicious or unusual transactions to designated authorities. On the Comparative Table the letter "M" signifies mandatory reporting; "P" signifies permissible reporting.
6. "Financial Intelligence Unit": The jurisdiction has established an operative central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information concerning suspected proceeds of crime, or required by national legislation or regulation, in order to counter money laundering. These reflect those jurisdictions that are members of the Egmont Group.
7. "System for Identifying and Forfeiting Assets": The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.
8. "Arrangements for Asset Sharing": By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that 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 is 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. “States Parties to 1988 UN Drug Convention”: States parties 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.
15. “Criminalized the Financing of Terrorism”: The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.
16. “States Parties to the UN International Convention for the Suppression of the Financing of Terrorism”: States parties 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.

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.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. 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	Y
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	Y	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.

Money Laundering and Financial Crimes

Actions by Governments	Actions by Governments															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NIMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. 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	Y	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	Y	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	Y	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

Actions by Governments	Criminalized Drug Money Laundering															
	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NIMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention	
Congo (Republic)	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	
Cook Islands	Y	Y	Y	Y	M	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	
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	
Croatia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Cuba	Y	Y	N	N	P	N	Y	N	N	Y	N	N	N	Y	Y	
Cyprus ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Djibouti	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	
Dominica	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Dominican Republic	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	
East Timor	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	
Egypt	Y	Y	N	Y	M	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	
Equatorial Guinea	Y	Y	Y	Y	M	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	
Estonia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Ethiopia	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	Y	
Fiji	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	

¹ This information relates to the areas under the control of the Government of Cyprus. The following data relate to the area administered by Turkish Cypriots:

Area Administered by Turkish Cypriots	Y	Y	Y	Y	M	N	N	N	N	Y	N	N			NA	NA
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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 (NIMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	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
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	Y	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	Y	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	Y
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	Y	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

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.

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.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
Iran	N	N	N	Y	M	N	N	N	N	N	N	N	N	N	Y	N
Iraq	Y	Y	Y	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	N
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Isle of Man ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Israel	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Italy	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Jamaica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	Y	NA	NA
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	N
Kyrgyzstan	Y	N	Y	Y	M	N	Y	N	N	N	Y	Y	Y	N	Y	Y
Laos	Y	Y	N	N	M	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
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	N	Y	N	Y	P	N	N	N	Y	Y	N	N	N	N	Y	Y
Libya	Y	Y	N	Y	M	N	N	N	N	N	N	Y	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.

Money Laundering and Financial Crimes

Actions by Governments	Actions by Governments															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
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
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	M	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		Y	N	Y	Y	Y
Mali	Y	Y	N	Y	M	N	Y	Y	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	Y	Y	Y	Y	Y
Mauritius	Y	Y	N	Y	M	Y	Y	Y	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	M	N	Y	N	Y	N	Y	N	Y	N	Y	Y
Moldova	Y	Y	Y	Y	M	Y	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	Y	N	N	Y	M	N	Y	N	N	N	N	Y	Y	Y	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

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.

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	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.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
Mozambique	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
Namibia	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	Y	N	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	N	Y
Nepal	Y	N	N	Y	M	N	N	N	Y	Y	Y	Y	N	Y	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	Y	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	N	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	Y
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

Money Laundering and Financial Crimes

Actions by Governments	Criteria															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NIMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
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	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y
Saudi Arabia	Y	Y	Y	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	Y	N	N	Y	M	N	N	N	N	Y	Y	Y	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	Y	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	Y	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

Actions by Governments	Criminalized Drug Money Laundering															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NIMP)	Egmont Financial Intelligence Units	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	International Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	Criminalized Financing of Terrorism	States Party to 1988 UN Convention	Intl. Terrorism Financing Convention
Thailand	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Togo	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
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	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Uganda	Y	N	N	N	M	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 expanding rapidly while its traditional informal financial system remains significant in reach and scale. Afghanistan remains a major drug trafficking and drug producing country and the illicit narcotics trade is the primary source of laundered funds. Afghanistan enacted anti-money laundering and terrorist financing laws through presidential decree in October 2005. These laws are currently pending approval in parliament. While efforts continue to strengthen police and customs forces, there remain few resources, limited capacity, little expertise and insufficient political will to seriously 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 also a significant problem. Afghanistan ranks 176 out of 180 countries in Transparency International's 2008 Corruption Perception Index.

According to United Nations Office of Drug Control (UNODC) statistics, opium poppy cultivation declined 19 percent in 2008. Poppy free provinces rose from 13 to 18. Despite these successes, Afghanistan still accounts for over 90 percent of the world's opium production. Opium gum is sometimes used as a currency—especially by rural farmers—and is used to store 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.

The majority of opium production comes from Taliban provincial strongholds in primarily the southern part of the country. The Taliban impose taxes on farmers and narcotics dealers, which undoubtedly helps finance their insurgency 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 a growing number of production labs 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. 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. 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. It is estimated that between 80 percent and 90 percent of all financial transfers in Afghanistan are made through hawala. 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. Hawala is a traditional form of finance and is deeply entrenched and widely used throughout Afghanistan and the neighboring region. Although the hawala system and formal financial sector are distinct, the two systems have links. Hawala dealers often keep accounts at

banks and use wire-transfer services, while banks will occasionally use hawaladars to transmit funds to hard-to-reach areas within Afghanistan.

There are some 300 known hawala dealers in Kabul, with branches or additional dealers in each of the 34 provinces. There are approximately 1,500 dealers spread throughout Afghanistan that vary in size and reach. Primary hawala hubs include: Jalalabad, Kandahar, Herat, and Mazar-e-Sharif. 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 and take note of currencies traded, international pricing, deposit balances, debits and credits with other dealers, lending, cash on hand, etc. Hawaladars are required to be licensed. To address this requirement, Da Afghanistan Bank (DAB) the Central Bank of Afghanistan, issued a new money service provider regulation in 2006 that streamlined the licensing process and substantially reduced the ongoing compliance burden for hawaladars. The focus of the regulation is largely on anti-money laundering and counterterrorist financing (AML/CTF). The regulation requires and provides standard mechanisms for record keeping and reporting of large transactions. The DAB is currently studying ways to improve the licensing process and streamline the reporting process, which is largely paper-based. In Kabul, 110 licenses have been issued under the regulation, which is the result of DAB outreach, law enforcement actions, and pressure from commercial banks where hawaladars hold accounts. However, DAB supervision beyond Kabul remains limited and presents an important regulatory challenge. In response, the DAB has begun outreach efforts to money service providers in other large cities, including Jalalabad, Mazar-e-Sharif and Herat, and hopes to expand the licensing to these cities in 2009. Given how widely used the hawala system is in Afghanistan, financial crimes undoubtedly occur through these entities.

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, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), Afghanistan's FIU, was established and functions as a semi-autonomous unit within the DAB. The FIU was opened in October 2005 with the assignment of a General Director, office space, and other basic resources. Since 2005, the FIU has expanded its operations into a new, secure building and added new analysts and law enforcement liaison officers.

Banks and other financial and nonfinancial institutions are required to report to the FIU all suspicious transactions (of any value) and large cash transactions above the equivalent of \$10,000, as prescribed by the DAB. These financial institutions are also required to maintain their records for a minimum of 10 years. Approximately 22,000-25,000 large cash transaction reports are received from financial institutions and processed each month. This is a significant increase from last year and a clear indicator that financial flows through the formal financial system are gaining ground. The FIU currently has on record close to 500,000 large transaction reports. These reports are stored in a sophisticated and secure 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 and the FIUs of other nations through information sharing agreements. Currently, FinTRACA has information sharing agreements with the following countries: Belarus, Kyrgyz Republic, Russia, Turkey, Sri Lanka, and the United Kingdom. FinTRACA is not yet a member of the Egmont Group.

The formal banking sector consists of fifteen 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. Recent ABA meetings have centered on the ensuring that banks submit suspicious transaction reports (STRs) in higher numbers and of better quality. Twenty-seven STRs were received in 2008, several of which were referred to law enforcement for investigation. By comparison, the FIU received seven STRs in 2007. Despite the increase in STR reporting, new workshops are planned to address this issue further in 2009.

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. Many banks also run their own compliance software to screen customers against UN and OFAC lists.

The Supervision Department within the DAB was formed at the end of 2003 and has been reorganized several times since then. The Supervision Department is currently divided into five divisions: Licensing, General Supervision (which includes on-site and off-site supervision), Special Supervision (which deals with special cases of problem banks), Regulation, and AML/CTF compliance. The AML/CTF compliance division is the newest addition. It is responsible for conducting examinations, overseeing money service providers, and conducting outreach to the commercial banking sector in the area of AML/CTF. Despite recent changes, the effectiveness of the Supervision Department in the AML area remains limited due to staffing, disjointed organization, and ongoing management issues. As a result, FinTRACA has taken on some supervisory responsibilities, yet resources at the FIU are limited for this task.

The Ministry of Interior (MOI) and the Attorney General's Office (AGO) 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 specialized knowledge in financial crimes enforcement and the resources to trace, seize, and freeze assets. According to DAB, it is not aware of Afghanistan freezing, seizing, or forfeiting related assets in 2008. To address this area of concern, FinTRACA is building on an existing MOU with the MOI for cooperation and currently shares information with the Sensitive Investigations Unit (SIU), a law enforcement group within the MOI. Moreover, FinTRACA recently signed an MOU with the AGO and is awaiting finalization of another information sharing agreement with the National Directorate of Security (NDS).

Pursuant to the Central Bank law, a Financial Services Tribunal was established to review certain decisions and orders of the DAB. As part of its duties, the Tribunal reviews supervisory actions of the DAB, but does not prosecute cases of financial crime. At present, all financial crime cases are being forwarded to the Kabul Provincial Court where there has been limited activity in the past several years. The process to prosecute and adjudicate cases is long and cumbersome, significantly underdeveloped, and corruption often plays an important role across various levels. Afghanistan did not prosecute anyone for terrorist financing or money laundering in 2008.

Border security continues to be a major issue throughout Afghanistan. At present there are 14 official 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 under policed or not policed at all. These areas are therefore susceptible to illicit cross-border trafficking, trade-based money laundering, and bulk cash smuggling. Furthermore, officials estimate that there are over 1,000 unofficial border crossings along Afghanistan's porous border. Customs authorities, with the help of outside assistance, have made important improvements, but much work remains to be done.

Customs collection and enforcement has improved in some areas and remained static in others, 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 official or unofficial border crossing. However, a new pilot program is underway at Islam Qalah (a key border crossing point between Iran and Afghanistan) to search suspected cargo. In addition, a pilot program is underway for declaring large, cross-border currency transactions at the Kabul International Airport (KIA). This prototype serves as the foundation for expansion to other land and air crossings. Currently, KIA requires incoming and outgoing passengers to fill out declarations forms for carrying cash in an amount of 1 million Afghanis (approximately \$20,000) or its equivalent. There is no restriction on transporting any amount of declared currency. The DAB is working with Customs authorities to further improve enforcement of airport declarations at KIA and other international airports in country. Currently, cash smuggling reports from KIA are entered into the Customs database. This Customs data is shared with the FIU for analysis. To address cash smuggling at the border, the DAB sent delegations to key border crossings to assess capacity and describe the provisions of the law to the local authorities. Serious commitment is needed to adequately police the border to detect and intercept bulk cash smuggling.

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 extremely weak, 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 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 the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Afghanistan has signed, but not yet ratified the UN Convention against Corruption (UNCAC). Ratification of UNCAC and amendment of domestic laws to conform to the UNCAC's obligations, among the benchmarks established under the London Compact, 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.

The Government of Afghanistan has made progress over the past year in developing its overall AML/CTF regime. Recent improvement includes encouraging steps at the FIU, an increase in the reporting of large cash transactions, active participation in international AML bodies, continued work to improve AML compliance awareness among Afghan banks, and development and integration of information technology systems. However, Afghanistan must commit additional resources and find the political will to aggressively combat financial crimes, including corruption. Increasing the capacity of the DAB Supervision Department to conduct onsite AML/CTF supervision must be a priority. This should include both the formal and informal banking sectors. Specifically, the GOA must develop, staff, and fund a concerted effort to bring hawaladars into compliance in Kabul and major areas of commerce. As part of this effort, Afghanistan is developing secure, reliable, and capable relationships among departments and agencies involved in law enforcement. Afghanistan should also continue efforts to develop the investigative capabilities of law enforcement authorities in various areas of financial crimes, particularly money laundering and terrorist finance. Judicial authorities must also 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. Afghanistan should ratify the UN Convention against Corruption and make corresponding changes in its domestic laws.

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. Albania continues to be a source country for human trafficking. 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. The European Commission's (EC) November 2008 progress report on Albania identifies corruption, judicial deficiencies, politicization of the civil service, and organized crime as the biggest problems in Albania. The report also says money laundering, organized crime, and drug-trafficking are "serious concerns," stating that Albania has made "limited progress" in its fight against organized crime and money laundering.

Criminals frequently invest tainted money in real estate and business development projects. Because of its high level of consumer imports and weak customs controls, Albania has a significant black market for certain smuggled goods such as tobacco, jewelry, and mobile phones. 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.

Because Albania's economy, particularly the private sector, remains largely cash-based, the proceeds from illicit activities are easily laundered in Albania. Albanian customs authorities report that organized criminal elements launder their illegal proceeds by smuggling bulk cash into and out of Albania by using international trade and fraudulent practices through import/export businesses. According to the Bank of Albania (the Central Bank), 23 percent of the money in circulation is outside of the banking system, compared to an average of ten percent in other Central and Eastern European transitioning economies. A significant portion of remittances enters the country through unofficial channels. It is estimated only half of total remittances enter Albania through banks or money transfer companies. The Central Bank estimates that in 2007, remittances comprised nearly 14 percent of Albania's annual gross domestic product (GDP). Black market exchange is still present in the country. However, it is declining steadily as a result of concerted efforts by the Government of Albania (GOA) to impede such exchanges. The Bankers Association estimates about half of all financial transactions take place through formal banking channels. Similarly, the GOA estimates proceeds from the informal sector account for approximately 30-60 percent of Albania's GDP. Although current law permits free trade zones, none are currently in operation.

The GOA is committed to fighting informality in the financial sector. There are 17 banks in Albania, and most of them have expanded both their national presence and the variety of services they offer. Electronic and automated teller machine (ATM) transactions are growing, especially in the urban areas, as more banks introduce this technology. ATM and debit and credit card usage expanded after the GOA decided to deliver public administration salaries through electronic transfers in 2005, and then compelled the private sector to follow suit in 2007. A May 2007 ruling also requires the private sector to channel at least 90 percent of its transactions through the banking sector. As of August 2008, 710,000 cards have been issued, almost entirely debit cards, but only a small number of people possess them and usage is primarily limited to a few large vendors.

Albania criminalizes money laundering through Article 287 of the Albanian Criminal Code of 1995, as amended. Albania's original money laundering law is "On the Prevention of Money Laundering," Law No. 8610 of May 17, 2000. In June 2003, Parliament approved Law No. 9084, which strengthens

Law No. 8610 and improves the Criminal Code and the Criminal Procedure Code. Law No. 9084 redefines the legal concept of money laundering, revises its definition to harmonize it with international standards, outlaws the establishment of anonymous accounts, and permits the confiscation of accounts. The law also mandates the identification of beneficial owners and places reporting requirements on both financial institutions and individuals. According to the law, obliged institutions are required to report to Albania's financial intelligence unit (FIU) all transactions exceeding \$20,000 as well as those transactions that involve suspicious activity, regardless of amount. Currently, no law criminalizes negligence by financial institutions in money laundering cases.

In 2006, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body, conducted a mutual evaluation of Albania's anti-money laundering/counterterrorist financing (AML/CTF) regime. In an attempt to address the many deficiencies identified by MONEYVAL, in May 2008, the Albanian Parliament passed Law No. 9917, "On Money Laundering and Terrorist Financing." The law entered into force in September 2008. The new anti-money laundering (AML) law lowers the reporting threshold for cash transactions from \$20,000 to \$15,000. Law No. 9917 strengthens customer due diligence (CDD) requirements by requiring the identification of all customers regardless of the size of their transactions, mandating that reporting subjects maintain on-going due diligence of clients according to the know-your-customer (KYC) concept, and establishing the requirement to perform enhanced due diligence on a risk sensitive basis. The law also includes a better definition of "client" to include any natural or legal person that is party to a business relationship, and mandates that CDD measures apply in transactions where terrorist financing is suspected. The law also increases the number of reporting entities, clarifies record keeping requirements, and better defines the responsibilities of the FIU.

Covered 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 have compromised client confidentiality.

The Central Bank has established a task force to confirm banks' compliance with customer verification rules. It is the responsibility of the licensing authority to supervise intermediaries for compliance with AML regulations. For example, the Ministry of Justice is responsible for oversight of attorneys and notaries, and the Ministry of Finance (MOF) for accountants. Although regulations also cover nonbank financial institutions, enforcement remains poor in practice. There is an increasing number of suspicious transaction reports (STRs) coming from banks as that sector matures. A large number of STRs continue to come from tax and customs authorities and foreign counterparts.

Individuals must report to customs authorities all cross-border transactions that exceed approximately \$10,000. Reportedly, Albania provides declaration forms at border crossing points but apparently only to those individuals who voluntarily make a declaration that would require completing the form. 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 establishes an administrative FIU, the General Directorate for the Prevention of Money Laundering (DPPPP), 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. Albania is in the process of preparing a new administrative law on FIU operations. Referred to as the "draft law," it will clarify certain AML 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 obligated entities, analyzes them, and then disseminates the results of its analysis to the Prosecutor's Office. Despite improvements of facilities and equipment, the Albanian FIU continues to

face many operational obstacles. The FIU's capacity remains limited as staff turnover is a persistent problem, and coordination and cooperation with the Prosecutor's Office remains problematic.

Since 2005, the FIU has referred to the Prosecutors Office 24 cases of both money laundering and terrorist financing, eight of which were reported during the first nine months of 2008. One case of money laundering has been prosecuted and currently there are two cases ready to be sent to the court. However, prosecution was declined for the rest. In January 2008, the first terrorist financing criminal case began in the First Instance Court for Serious Crimes. The case is against a Jordanian citizen accused of concealing funds allegedly intended to finance terrorism.

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 conviction for the predicate offense before issuing an indictment for money laundering. 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 Prosecutors 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 MOF's Customs Service and Tax Police, and Albanian intelligence services. The ECCJIU also cooperates with the FIU and the National Intelligence Service. The ECCJIU has responsibility for the prosecution of money laundering cases within the District of Tirana.

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 to support the volume of assets. During the first half of 2008, the Serious Crimes Prosecution Office rendered eight sequestration and confiscation decisions pursuant to the anti-mafia law. The properties sequestered include one hotel and \$7,000 in cash. The properties confiscated include \$13,000 in cash and bank accounts, seven vehicles, and a coffee bar. The Agency for the Administration of the Sequestration and Confiscation of Assets (AASCA) was created in 2004, and is charged with the responsibility of administering confiscated assets. So far the agency has failed to function in a meaningful fashion. However, in response to pressure from U.S. government officials, the agency has started to perform better and has effectively taken control over several properties.

Article 230/a of the Penal Code criminalizes terrorist financing. The financing of terrorism, or its support of any kind, is punishable by a term of imprisonment of at least 15 years, and carries a fine of \$50,000 to \$100,000. The Penal Code also contains additional provisions dealing with terrorist financing, including sections dealing with disclosing information regarding an investigation or identification to identified persons and conducting financial transactions with identified persons. In an effort to make Albania's terrorist financing legislation comply more fully with international standards, the GOA, in 2007, amended its penal code to include a more specific definition for terrorist organizations. In addition, actions for terrorist purposes were identified and Albania's jurisdiction in terrorist financing cases was extended to include both resident and nonresident foreign citizens.

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 terrorist financiers, particularly with regard to the United Nations (UN) updated lists of designees. While comprehensive, it lacks implementing regulations and thus is not fully in force. As of June 2008, the MOF claimed to maintain asset freezes against six individuals and 14 foundations and companies on the UN Security Council's 1267 Committee's consolidated lists of identified terrorist entities. In total, assets worth more than \$10,000,000, belonging to six persons, five foundations and nine companies, remain sequestered, including 83 bank accounts containing more than \$3,950,000; 18 apartments in an

expensive high rise apartment building in the center of Tirana; and several other properties throughout Albania. The full extent of sequestered assets is unknown.

The MOF is the main entity responsible for issuing freeze orders. After the MOF executes an order, the FIU circulates it to other government agencies, which then sequester any discovered assets belonging to the UNSCR 1267 named individual or entity. The sequestration orders remain in force as long as the subject's name remains on the list.

Albania is a party to the UN 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 MONEYVAL, and the FIU is a member of the Egmont Group. The FIU has signed memoranda of understanding with 31 countries, Turkey being the most recent.

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 program deficiencies continue to hamper progress. In addition, although the new AML law was adopted in May 2008, it is difficult to evaluate the effectiveness of the new measures as implementing regulations have not yet been passed. The Government of Albania must provide the competent authorities adequate resources to administer and enforce the AML/CTF measures included in the May 2008 law. Albania also should incorporate into AML 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 remove the requirement of a conviction for the predicate offense before a conviction for money laundering can be obtained. The FIU, prosecutors and the ECCJIU should enhance their effectiveness through improved cooperation with one another and outreach to other entities. The FIU should take steps to achieve effective analysis of the large volume of currency transaction reports and STRs received. The GOA should enact its draft law on FIU operations and promulgate implementing regulations for all applicable laws as soon as possible. The GOS should ensure that those charged with pursuing financial crime increase their technical knowledge to include modern financial investigation techniques. The GOA should provide its police force with the means to adequately maintain and retrieve its case files and records. The link between criminal intelligence and investigations remains weak as there is a lack of coordination between the prosecutors and the police. Investigators and prosecutors should implement case management techniques, and prosecutors and judges need to become more conversant with the nuances of money laundering. The GOA should devise implementing regulations for Law 9258 regarding sequestration and confiscation of assets linked to terrorist financing so that it can be fully effective. The GOA also should improve the enforcement and enlarge the scope of its asset seizure and forfeiture regime, including fully funding and supporting the AASCA.

Algeria

Algeria is not a regional or 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.

The Algerian unemployment rate hovers unofficially above 25 percent, and mostly affects males under 30. This contributes to the crime rate, particularly kidnapping, theft, extortion, drug trafficking, and arms and cigarette smuggling. In addition to general criminal activity, terrorism has been on the rise. Al-Qaida in the Islamic Maghreb (AQIM) has committed a number of suicide attacks, kidnappings, roadside bombs, and assassinations throughout the country as well as in Algiers.

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 CTRF’s leadership is composed of officials from the Ministries of Finance, Justice, Customs, Interior and the Central Bank.

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 also 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. Since 2004, 204 suspicious transaction reports (STRs) have been received by the CTRF. Of that number, two have been referred for prosecution, with one referral resulting in a conviction.

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 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 \$700 to \$70,000). In addition to its provisions pertaining to money laundered from illicit activities, the law allows the investigation of terrorist-associated funds derived from “clean” sources.

The law provides significant authority to the Algerian Banking Commission, the independent body established under authority of the Bank of Algeria to supervise banks and financial institutions, to inform CTRF of suspicious or complex transactions. The law 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.

In 2006, the Government of Algeria (GOA) decreed that payments exceeding a certain value must be made by check, wire transfer or other specified methods that are traceable, rather than in cash. However, a nation-wide electronic check-clearing system has been slow to develop, and actors in the government, banking system and business community have been split as to what the cash payment limit should be, and if exceptions should be made for certain vendors such as traders of vegetables and fish. While nonresidents would be exempt from the requirements, they would still be obliged (like all travelers to and from the country) to report foreign currency in their possession to the Algerian Customs Authority.

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 undoubtedly escape the notice of government monitoring efforts.

There are reports that Algerian customs and law enforcement authorities are increasingly concerned with cases of customs fraud and trade-based money laundering. Other risk areas for financial crimes include unregulated alternative remittance and currency exchange systems; tax evasion; misuse of real estate transactions as a means of money laundering; commercial invoice fraud, and a cash-based economy. Most money laundering is believed to occur primarily outside the formal financial system, given the large percentage of financial transactions occurring in the informal gray and black economies.

Algerian authorities are taking steps to coordinate information sharing between concerned agencies. In 2008, the Ministry of Justice established a specialized cadre of investigators, prosecutors and judges who are being trained in the investigation and prosecution of financial crimes.

In November 2004, Algeria became a member of the Middle East and North Africa Financial Action Task Force (MENA FATF). Algeria is a party to the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, 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 Government of Algeria has taken significant steps to enhance its statutory regime against anti-money laundering and terrorist financing. It needs to move forward now to implement those laws and eliminate bureaucratic barriers among various government agencies. The CTRF should be the focal point for anti-money laundering/counterterrorist finance (AML/CTF) suspicious transaction report analysis, which would require the CTRF to develop an in-house analytical capability. The CTRF should conduct outreach to the formal and informal financial sectors, adhere to international standards, and take steps to prepare for membership in the Egmont Group. In addition, given the scope of Algeria's informal economy, new emphasis should be made to identify value transfer mechanisms not covered in Algeria's AML/CTF legal and regulatory framework, and to limit the frequency and the size of cash transactions. Algerian law enforcement and customs authorities should enhance their ability to investigate trade-based money laundering, value transfer, and bulk cash smuggling used for financing terrorism and other illicit financial activities.

Angola

No new information was received for 2008. The following is a reprint of last year's report:

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, 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 due to its offshore financial sector and Internet gaming industry. Illicit proceeds from the transshipment of narcotics and from financial crimes occurring in the U.S. also are laundered in Antigua and Barbuda.

As of 2008, Antigua and Barbuda has eight domestic banks, seven credit unions, seven money transmitters, 18 offshore banks, two trusts, three offshore insurance companies, 2,967 international business corporations (IBCs), and 20 licensed Internet gaming companies. In addition, there are approximately 33 real estate agents, five casinos, and 14 dealers of precious metals and stones. 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 naturalized 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 \$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.

The Money Laundering Prevention Act of 1996 (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 creates a Supervisory Authority. In 2003, the director of the Office of National Drug Control and Money Laundering Policy (ONDCP) was designated to act in this capacity. The MLPA covers institutions defined under the Banking Act, IBCA, and the Financial Institutions (Non-Banking) Act, which include offshore banks, IBCs, money transmitters, 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 \$25,000. The GOAB amended the MLPA in 2008 to provide for the licensing and regulation of money transmitters; enhance tipping off and record retention provisions; require financial institutions to review complex or unusual transactions whether the transaction was completed or not; and to extend power to seize and detain suspected currency to ONDCP officers.

Domestic casinos 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 \$2,800,000 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 areas deemed as priority by the government. Casinos and sports book-wagering operations in Antigua and Barbuda's free trade zone are supervised by the ONDCP, and the Directorate of Offshore Gaming (DOG), housed in the 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 gaming 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. The GOAB does not have 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 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, the MLPA contains provisions for obtaining client and ownership information. Section 25 of the MLPA states the provisions of the 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 Office of National Drug Control and Money Laundering Policy Act, 2003 (ONDCP Act) establishes the ONDCP as the 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. In its role as the Supervisory Authority, the ONDCP fulfills the responsibilities described in the MLPA, which includes the supervision of all financial institutions with respect to filing suspicious transaction reports (STRs). STRs from domestic and offshore gaming entities are sent to the ONDCP and FSRC. As of December 2008, the ONDCP had received 73 STRs (increased from 43 in 2007), 14 of which were investigated. 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 programs and submit reports 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 (MOU) with the FSRC and is expected to sign another with the ECCB. Other MOUs 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. No arrests, prosecutions or convictions were reported by the GOAB in 2006 or 2007.

Under the MLPA, a person entering or leaving the country is required to report to the ONDCP whether he or she is carrying \$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 \$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. One arrest was made in January 2008, involving the undeclared importation of approximately \$80,000 by a passenger at the airport who carried part of it in his hand luggage and the rest strapped around his waist.

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 for 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 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 has entered into an asset sharing agreement with Canada, and is currently working on asset sharing agreements with other jurisdictions, including the U.S. The director of ONDCP, with Cabinet approval, may enter into agreements and arrangements that cover matters relating to asset sharing with authorities of a foreign State. There are asset sharing agreements with some countries, while others are negotiated on an ad hoc basis. Regardless of its own civil forfeiture laws, currently the GOAB can only provide forfeiture assistance in criminal forfeiture cases, an anomaly which should be remedied.

In recent years, the GOAB has frozen approximately \$6,000,000 in Antigua and Barbuda financial institutions as a result of U.S. requests and has repatriated approximately \$4,000,000. The GOAB has frozen, on its own initiative, over \$90,000,000 believed to be connected to money laundering cases still pending in the United States and other countries. The GOAB reported seizing \$420,236 in 2006, \$14,753 in 2007, and \$81,601 in 2008.

The GOAB enacted the Prevention of Terrorism Act 2001(PTA), amended in 2005, to implement the UN conventions on terrorism. The PTA 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 PTA 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 PTA requires financial institutions to report every three months on whether they are in possession of any property owned or controlled by or on behalf of a terrorist group. In addition, financial institutions must report every transaction suspected to be related to the financing of terrorism to the ONDCP. The GOAB amended the PTA in 2008 to provide the Supervisory Authority and the ONDCP the power to direct a financial institution to freeze property for up to seven days while the authority seeks a freeze order from the court. The amendment also includes provisions making it an offense for individuals to know and/or fail to disclose information leading to prevention of an attempt to commit a terrorist act. Those who conceal wrongdoings will be ordered to pay a penalty of \$500,000.

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 the 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 MOU is established. In 1999, a Mutual Legal Assistance Treaty and an extradition treaty with the United States entered into force. An extradition request related to a fraud and money laundering investigation remains pending under the treaty. The GOAB signed a Tax Information Exchange Agreement with the United States in December 2001 that allows the exchange of tax information between the two nations.

Antigua and Barbuda is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force-style regional body, and underwent a mutual evaluation in June 2008. The evaluation notes several deficiencies in the GOAB’s anti-money laundering/counterterrorist financing (AML/CTF) regime including: weak requirements for enhanced customer due diligence for high risk customers such as politically exposed persons; non-enforceable requirements for financial institutions to have policies and procedures in place to address specific risks associated with non-face-to-face customers; non-enforceable requirements prohibiting domestic and offshore banks from having correspondent banking relationships with shell banks; and wire transfer requirements not enforceable in accordance with the FATF Recommendations. Furthermore, the evaluation notes the GOAB needs to enact provisions to require financial institutions to develop internal controls and procedures to include terrorist financing; the supervisory authorities have not been given the responsibility for ensuring financial institutions adequately comply with AML/CTF requirements; and there are no measures in place to ensure that bearer shares under the IBCA are not misused for money laundering.

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, and the UN Convention for the Suppression of the Financing of 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 take steps to amend its legislation of cover intermediaries, enhanced due diligence for PEPs and other high-risk customers, and to provide for enforceable provisions on the prohibition of correspondent accounts for or with shell banks. The GOAB also should implement and enforce all provisions of its AML/CTF legislation, including the comprehensive supervision of its offshore sector and gaming industry. The ONDCP should be given direct access to financial institution records in order to effectively assess their AML/CTF compliance. 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. More comprehensive investigations could lead to higher numbers of arrests, prosecutions, and convictions. Continued efforts should be made to enhance the capacity of law enforcement and customs authorities to recognize money laundering typologies that fall outside the formal financial sector. Continued international cooperation, particularly with regard to the timely sharing of statistics and information related to offshore institutions, and enforcement of foreign civil asset forfeiture orders will likewise enhance Antigua and Barbuda's ability to combat money laundering.

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. 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 outside the formal financial system (both offshore and in-country), much of it legitimately earned money that was not taxed. To combat capital flight and to encourage the return of these undeclared billions, on December 18, 2008, Argentina's legislature approved a tax moratorium and capital repatriation law that would provide a tax amnesty for persons who repatriate undeclared offshore assets during a six-month window. The law entered into force December 24. Under the law, government tax authorities are prohibited from inquiring into the provenance of declared funds; and some critics have raised concerns that this could facilitate money laundering. Implementing regulations are to be promulgated in February 2009, which will clarify that transactions under this law will be subject to existing laws, rules, and regulations related to the prevention of financial crimes and will also reportedly include a requirement that transfers from abroad originate in countries that comply with international money laundering and terrorism financing standards. Top-level GOA officials have indicated that they will ensure all Argentine legislation, including this law, abides by Argentina's obligations as a member of the Financial Action Task Force (FATF) and the Financial Action Task Force for South America (GAFISUD). In January, the GOA takes over the Presidency of GAFISUD for 2009.

In 2007, the Argentine Congress passed legislation criminalizing terrorism and terrorist financing. Law 26.268, "Illegal Terrorist Associations and Terrorism Financing," 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. With the passage of Law 26.268, Argentina joins Chile, Colombia, and Uruguay as the only countries in South America to have criminalized terrorist financing.

On September 11, 2007, former 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 ongoing challenge is for Argentine law enforcement and regulatory institutions to continue to implement the National Agenda and aggressively enforce the 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 (although money laundering was first criminalized under Section 25 of Law 23.737, which amended Argentina's Penal Code in October 1989). Law 25.246 expanded the predicate offenses for money laundering to include all crimes listed in the Penal Code, set a stricter regulatory framework for the financial sectors, and created 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 requires similar reporting by designated self-regulated nonfinancial entities that report to the UIF. Further, 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 special anti-money laundering and counterterrorism finance prosecution unit of 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 30,000 pesos (approximately \$9,000).

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 Counter-narcotics Secretariat (SEDRONAR), and the Justice, Economy, and Interior Ministries. The UIF legally must consult the Board of Advisors, although its 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 a designated period. As of September 2008 the UIF had received 4,032 reports of suspicious or unusual activities since its inception in November 2002, forwarded 491 suspected cases of money laundering to prosecutors for review, and collaborated with judicial system investigations of 155 cases of suspected money laundering. There have been only two convictions for money laundering since it was first criminalized in 1989 under Article 25 of Narcotics Law 23.737 and none since the passage of Law 25.246 in 2000. A third money laundering case brought under Law 23.737 is pending before Argentina's Supreme Court.

The Central Bank requires by resolution that all banks maintain a database of all transactions exceeding 30,000 pesos, and submit the data to the Central Bank upon request. Law 25.246 requires banks to make available to the UIF upon request records of transactions involving the transfer of funds (outgoing or incoming), cash deposits, or currency exchanges that are equal to or greater than 10,000 pesos (approximately \$3,200). The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over \$10,000 in currency or monetary instruments. These declarations are required by Resolutions 1172/2001 and 1176/2001, which were issued by the Argentine Customs Service in December 2001. In 2003, the Argentine Congress passed a law that would have provided for the immediate fine of 25 percent of the undeclared amount, and for the seizure and forfeiture of the remaining undeclared currency and/or monetary instruments. 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 anti-money laundering and counterfinancing of terrorism (AML/CTF) regime, Law 25.246 still limits the UIF's role to investigating only money laundering arising from seven specific or "predicate" crimes. Also, the law does not criminalize money laundering as an offense independent 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 \$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, Security, and Human Rights became fully functional, managing the government's AML/CTF efforts and representing Argentina at the Financial Action Task Force (FATF), the Financial Action Task Force for South America (GAFISUD), and the Organization of American States Inter-American Control Commission (OAS/CICAD) Group of Experts. The Attorney General's special prosecution unit set up to handle money laundering and terrorism finance cases began operations in 2007. Although the Argentine Central Bank's Superintendent of Banks has not created a specialized anti-money laundering and counterterrorism finance examination program as previously considered, it began in 2008 specific anti-money laundering and counterterrorism finance inspections of financial entities and exchange houses.

Argentina's Narcotics Law of 1989 authorizes the seizure of assets and profits, and provides that these or the proceeds of sales will be used in the fight against illegal narcotics trafficking. Law 25.246 provides that proceeds of assets forfeited under this law can primarily be used to fund the UIF. Argentine courts and law enforcement agencies have used the authority to seize and utilize assets on a

selective and limited basis, although complex procedural requirements complicate authorities' ability to take full advantage of the asset seizure provisions offered under these laws.

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 provided financial or logistical support to Hizballah and operated in the territory of neighboring countries that border Argentina. This region is commonly referred to as the Tri-Border Area, located between Argentina, Brazil, and Paraguay. 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. One key focus of the TTU, as well as of other TTUs in the region, is financial crime occurring in the Tri-Border Area. The creation of the TTU was also a positive step toward 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 and settling accounts.

The GOA remains active in multilateral counternarcotics and international AML/CTF organizations. It is a member of the 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 Convention for the Suppression of the Financing of 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 U.S. government 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 counterterrorist financing legislation and strengthened mechanisms available under Laws 26.119, 26.087, 25.246, and 26.268 Argentina has the legal and regulatory capability to combat and prevent money laundering and terrorist financing. The new national anti-money laundering and counterterrorist financing agenda provides the structure for the GOA to improve existing legislation and regulation and enhance interagency coordination. The ongoing challenge is for Argentine law enforcement and regulatory agencies and institutions, including the Ministry of Justice, Central Bank, the UIF, and other institutions to implement fully 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 \$16,000) required to establish a money laundering offense. To comply fully with the FATF recommendation on the regulation of bulk money transactions, Argentina should review policy options that are 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 a semi-autonomous constituent part of the Kingdom of the Netherlands; authority over foreign affairs, defense, some judicial functions, human rights, and good governance issue are retained by the Kingdom. 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 one offshore bank, one mortgage bank, one credit union, an investment bank, a finance company, seven life and general insurance companies, and eleven casinos. The island also has four registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), 13 nonlife and general insurance companies, four captive insurance companies, and 11 company pension funds. There are approximately 5,343 limited liability companies of which 372 are offshore limited liability companies or offshore NVs, which were to have ceased operation in 2008. In addition, there are approximately 2,763 Aruba Exempt Companies (AECs), which mainly serve as vehicles for tax minimization, corporate revenue routing, and asset protection and management.

The offshore NVs and the AECs are the primary methods used for international tax planning in Aruba. The offshore NVs pay a small percentage tax and are subject to more regulation than the AECs. The AECs pay an annual \$280 registration fee and must have a minimum of \$6,000 in authorized capital. Both offshore NVs and AECs can issue bearer shares. A local managing director is required for offshore NVs. The AECs must have a local registered agent, which must be a trust company.

In 2001, the Government of Aruba (GOA) made a commitment to the Organization for Economic Cooperation and Development (OECD), in connection with the Harmful Tax Practices initiative, to modernize fiscal legislation in line with OECD standards. In 2003, the GOA introduced a New Fiscal Regime (NFR) containing a dividend tax and imputation 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 ceased 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 Meeting 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 banks, insurance companies, company pension funds, and money transfer companies and is responsible for on-site and off-site examinations. However, the Central Bank has not conducted any on-site examinations of its offshore banks. 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. Draft legislation to regulate company service providers is also in legislative review.

Aruba's State Ordinance 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 florins (\$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 (statistics for 2008 are not available). 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 florins (\$11,300) 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 on Money Laundering 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 FATF Nine 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 Kingdom of the Netherlands (KON) 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 KON 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 KON 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 Kingdom has not yet extended application of the UN Convention against Corruption to Aruba. Aruba participates in the Financial Action Task Force (FATF) as part of the Kingdom of the Netherlands and underwent a mutual evaluation in November 2008. 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 counterterrorist 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 counterterrorist 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 \$78 trillion). Australia's total stock market capitalization is over AU \$1.63 trillion (approximately \$1.1 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 \$ 3 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.

Subsequent to the Financial Action Task Force (FATF) Mutual Evaluation, 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 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 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 2007-08, AUSTRAC published 11 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.

A requirement went into effect for reporting entities to submit an AML/CTF compliance report to AUSTRAC indicating their level of preparedness and compliance with AML/CTF rules, in March 2008. An AML/CTF compliance report provides information about reporting entities' compliance with the AML/CTF Act 2006, the regulations and the AML/CTF Rules. It is required under the AML/CTF Act in Part 3, Division 5, which came into effect in June 2007. The compliance reports provide AUSTRAC and the reporting entity an indication of their progress in implementing their AML/CTF obligations.

The Australian Government is working 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.

The AML/CTF Act will gradually replace the Financial Transaction Reports Act 1988 (FTR Act) which currently operates concurrently to the AML/CTF Act. As a result of the passage of the AML/CTF (Transitional Provisions and Consequential Amendments) Act, a number of amendments to other Commonwealth legislation, including the FTR Act, were necessary. The AML/CTF Act makes those amendments, which include the repeal of some provisions of the FTR Act. The second tranche includes further obligations in relation to customer due diligence and reporting, commenced in December 2008.

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. \$6,500), and all international funds transfers into or out of Australia, regardless of value. The FTR Act will continue to apply to cash dealers who are not reporting entities under the AML/CTF Act.

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 is 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 2007-08 Australian financial year, AUSTRAC's FTR information was used in 2968 operational matters. Results from the Australian Taxation Office (ATO) shows that the FTR information contributed to more than AU \$76 million (approximately U.S. \$49 million) in ATO assessments during the year. In 2007-08, AUSTRAC received 17,965,373 financial transaction reports, with 99.7 percent of the reports submitted electronically through the EDDS Web reporting system. AUSTRAC received 29,089 suspect transaction reports (SUSTRs), an increase of 19 percent over the previous year.

During 2007-08, there was a significant increase in the total number of financial transaction reports received by AUSTRAC. Significant cash transactions reports (SCTRs) account for 16 percent of the total number of FTRs reported to AUSTRAC in 2007-08 and are reported by cash dealers and

solicitors. In 2007-08, AUSTRAC received 2,934,855 SCTRs, an increase of 9.7 percent from the previous year. Cash dealers are also required to report all international funds transfer instructions (IFTIs) to AUSTRAC. Cash dealers reported 14,963,719 IFTIs to AUSTRAC during the financial year—a 15.0 percent increase from 2005-06. Cross-border movement of physical currency (CBM-PC) reports (which have replaced international currency transfer reports, ICTRs) are primarily declared to the Australian Customs Service (ACS) by individuals when they enter or depart from Australia. For 2007-08, AUSTRAC received 36,131 CPM-PC reports, a 54.7 percent decrease from the previous financial year. This increase in reports came after AUSTRAC and ACS undertook extensive public awareness campaigns during 2007-08 to inform travelers of their obligation to declare physical currency. The Infringement Notice Scheme (INS) is a 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 Minister for Home Affairs launched three new tools to assist industry compliance with AML/CTF obligations, in addition to updating the eLearning application. AUSTRAC Online is a secure Internet-based system that 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/counterterrorist 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 provides AUSTRAC with a civil penalty framework and other intermediate sanctions, such as enforceable undertakings, remedial directions and external audits for noncompliance. AUSTRAC 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. Between July 2007 and July 2008, AUSTRAC delivered more than 215 education sessions to approximately 5000 people from more than 1500 reporting entities ranging from banks and mortgage brokers, to pubs and casinos and designated remittance services. Additionally, AUSTRAC provided more than 100 presentations to partner agencies, including the Australian Federal Police (AFP), the Customs Service, Taxation Office and the State and Territory Police. In 2007-08 AUSTRAC developed and began implementation of a new on-site assessment strategy, including governance arrangements, a target for the number of annual inspections to be done, and inspection selection criteria. AUSTRAC in 2007-08 conducted over 130 on-site assessments of reporting entities to assess their compliance with FTR Act and AML/CTF Act obligations.

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. It 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.

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.

The Australian Government is also developing a strategy for improving controls to prevent the misuse of non profit organizations (NPOs) for financing terrorism. A critical aspect of this strategy will be to work in partnership with the NPO sector to raise awareness about the vulnerability of the sector to abuse for terrorism financing. A review is underway to determine if any gaps exist in information currently collected from the NPO sector by Australian government agencies.

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. The Australian Federal Police accepted 52 new money laundering investigations from July 2007 to April 2008 and restrained AU \$37,831,143 (approximately U.S. \$24,630,000) of which AU \$341,923 (approximately \$6,082,000) was forfeited. From July 2007 through mid-May 2008, the CDPP reported that 68 indictments for money laundering were issued. At the July 2008 plenary of Asia Pacific Group held in Bali, Indonesia, Australian delegation mentioned that a conviction for money laundering involving AU \$43,000 (approximately \$30,000) was the largest sum ever involved in a successfully prosecuted money laundering case in the country. 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. This group of five countries includes 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 FATF, the Pacific Islands Forum, and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the Asia/Pacific Group on Money Laundering (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's CEO was appointed to a one-year term as Chair of the Egmont Commission in May 2008. 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 52 other countries. AUSTRAC has also signed 34 domestic MOUs with Commonwealth, State, and Territory partner agencies covering a spectrum of agencies to include regulatory, law enforcement, social justice, national security and revenue.

Following the bombings in Bali in October 2002, the Australian Government announced an AU \$10 million (approximately \$6.5 million) initiative managed by the Australian Agency for International Development (AusAID), to assist in the development of counterterrorism capabilities in Indonesia. As part of this initiative, the AFP has established a number of training centers such as the Jakarta Centre for Law Enforcement Cooperation. AUSTRAC, ACS and the AFP worked closely with agencies from the United States and Japan to hold the South-East Asian Regional Bulk Cash Smuggling Workshop at the Jakarta Centre for Law Enforcement Cooperation (JCLEC) in Semarang, Indonesia in April 2008. As part of Australia's broader regional assistance initiatives, AUSTRAC has 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; this program will continue until 2009-10. AUSTRAC assisted the Indonesian FIU, PPAATK (Indonesian Financial Transaction Reports and Analysis Center), in developing a program for the receipt and analysis of suspicious transaction reports and the improvement of data quality and information processing. In the Pacific region, AUSTRAC has developed and provided unique software ("FIU-in-a-Box") 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, and conducted a review of these FIUs in June 2008. AUSTRAC concluded IT Needs Assessments in Papua New Guinea and Nauru in 2007-08 as part of its engagement with Pacific FIUs. The AGD received a grant of AU \$7.7 million (approximately U.S. \$5.1 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 United Nations Global Program against Money Laundering and employs residential and intermittent mentors to develop or enhance existing AML/CTF regimes in the non-FATF member states of the Pacific Islands Forum.

The GOA continues to pursue a comprehensive anti-money laundering/counterterrorist financing regime that meets the objectives of the revised FATF Forty Recommendations and Nine Special Recommendations on Terrorist Financing. To enhance its AML/CTF regime, as noted in the FATF mutual evaluation, AUSTRAC has been provided with substantially increased powers to ensure compliance. There will be more on-site compliance audits and AUSTRAC can require regular compliance reports from reporting entities; can initiate monitoring orders and statutory demands for

information and documents; can seek civil penalty orders, remedial directions and injunctions; and, can require a reporting entity to subject itself to an external audit of its AML/CTF program. The AML/CTF Act also provides for greater coordination amongst the regulatory agencies of its financial, securities and insurance sectors.

The GOA is continuing its exemplary leadership role in emphasizing money laundering/terrorist finance issues and trends within the Asia/Pacific region and its commitment to providing training and technical assistance to the jurisdictions in that region. Having significantly enhanced its increased focus on AML/CTF deterrence, the Government of Australia should increase its efforts to prosecute and convict money launderers.

Austria

Austria is a major financial center, and Austrian banking groups control significant shares of the banking markets in Central, Eastern and Southeastern Europe. According to Austrian National Bank statistics, Austria ranks among those with the highest numbers of banks and bank branches per capita in the world, with 870 banks and one bank branch for every 1,610 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 volume 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. The law is 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. Since January 1, 2008, the GOA has implemented strict new criminal regulations against corruption that define corruption as an additional predicate offense, and has appointed a special public prosecutor with responsibility for corruption investigations and indictments in all of Austria.

The Law on Responsibility of Associations mandates 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.

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 \$14,300) or more. This declaration, which includes information on source and use, must be provided when crossing an external EU border. 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 (approximately \$21,450) 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 non-face-to-face transactions, including Internet banking, on the basis of a secure electronic signature or a copy of a picture ID and a legal business declaration submitted by registered mail.

An amendment to the Banking Act, in effect since January 1, 2008, tightens 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 also require institutions to determine the identity of beneficial owners and introduce risk-based customer analysis for all customers. Financial institutions must also 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 apply if the customer has not been physically present for identification purposes (for example, non-face-to-face transactions or 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 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, tightens record keeping requirements for insurance companies.

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 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 suspicious transaction reports (STRs) and record keeping for dealers in high value goods, auctioneers, real estate agents, casinos, lawyers, notaries, certified public accountants, and auditors. Amendments to the Stock Exchange Act, the Securities

Supervision Act, the Insurance Act, and Austrian laws governing lawyers and notaries came into effect on January 1, 2008. The amendment to the Gambling Act has been in effect since August 26, 2008, and the amendment to the law governing accounting professionals since April 23, 2008. These introduced stricter regulations regarding customer identification procedures, including requiring customer identification for all transactions of more than 15,000 euros (approximately \$21,450) for customers without a permanent business relationship. Lawyers and notaries are exempt from their reporting obligations for information obtained in the 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 requires 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 (approximately \$21,450) 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 January 1, 2007, financial institutions require customer identification for all fund transfers of 1,000 euros (approximately \$1,430) or more.

Austria's FIU is located within the Austrian Interior Ministry's Bundeskriminalamt (Federal Criminal Intelligence Service). The FIU is the central repository of STRs and has police powers. During the first ten months of 2008, the FIU received approximately 910 STRs from banks and others—a figure indicating little change from the 1,085 suspicious transactions reported in 2007. The FIU has also responded to requests for information from Interpol, Europol, other FIUs, and other authorities. There were ten money laundering convictions in 2006 and 18 in 2007.

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 2008, Austrian courts froze assets worth more than 110 million euros (approximately \$157,000,000).

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 introduces the following criminal offense categories: terrorist "grouping," terrorist criminal activities, and financing of terrorism, in line with UNSCR 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 Executive Order 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 (35 in 2007 and 26 during the first ten months of 2008) with the Austrian Interior Ministry's Federal Agency for State Protection and Counterterrorism (BVT). There were no convictions for terrorist financing in 2006 or 2007.

The GOA has undertaken important efforts that may help thwart the misuse of charitable or nonprofit entities as conduits for terrorist financing. The Law on Associations covers charities and all other nonprofit associations in Austria. The law regulates the establishment of associations, by-laws, 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 (approximately \$4,300,000) or annual donations of more than 1 million euros (approximately \$1,430,000) 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 of monitoring for charities and nonprofit organizations, particularly in cases where business relationships suggest they could be connected to money laundering or 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.—GOA agreement on sharing of forfeited assets is pending signature in both the U.S. and Austria. 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 and with Croatia.

Austria is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Austria is a member of the FATF and will undergo a FATF mutual evaluation in 2009. The FIU is a member of the Egmont Group.

The Government of Austria has implemented a viable, comprehensive anti-money laundering and counterterrorist financing regime. The GOA should ensure it provides the FIU and law enforcement the resources 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 should consider mandating the reporting of all currency transactions exceeding an established threshold. The GOA also should consider enacting legislation that will provide for asset sharing with other governments.

Azerbaijan

The following information was obtained primarily from the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) public statement of December 12, 2008 and the mutual evaluation report on Azerbaijan adopted at the MONEYVAL plenary in December 2008.

At the crossroads of Europe and Central Asia and with vast amounts of natural resources, Azerbaijan is a rapidly growing economy. The illicit drug trade generates the largest amount of illicit funds by far, followed by theft and fraud. Illicit funds also derive from robbery, tax evasion, and smuggling, and in recent years, trafficking in persons has also become an increasing problem that generates illicit funds.

Corruption is endemic in the country, and organized crime groups exist as well, although authorities do not have a good understanding of the groups or their operations. Azerbaijani authorities believe that money laundering and terrorist financing operates largely through the banking sector.

Economic growth, fueled by the oil and natural gas resources present in Azerbaijan and the energy sector, is strong. International trade has also been increasing since independence, as has foreign investment. At the end of 2007, Azerbaijan had 46 commercial banks, 6 of which worked mostly with foreign capital. Two banks are completely state-owned. There were 77 licensed credit unions and 18 licensed microfinance institutions, as well as 29 licensed insurance companies. As of January 1, 2008, Azerbaijan had 37 licensed professional securities actors.

Azerbaijan's Customs authorities have received no guidance regarding identification of potential money launderers or terrorist financiers entering or exiting the country. Even if Customs suspected financial crime, the agency does not have the legal authority to interdict or confiscate currency, nor does it have the obligation to report suspicions to other law enforcement authorities.

In 2003, law enforcement found a number of charitable organizations linked to terrorist financing and shut them down. Authorities remain cognizant of the vulnerabilities that the nonprofit sector poses and consider nonprofit organizations (NPOs) reporting entities. However, Azerbaijan has not examined the risks of this sector and authorities have not reviewed the organizations for terrorist financing vulnerabilities.

In February 2006 MONEYVAL initiated Compliance Enhancing Procedures against Azerbaijan due to its failure to pass satisfactory and comprehensive AML/CTF preventive legislation, lack of an FIU and lack of a legally based and effective STR regime. In February 2008, MONEYVAL conducted a high-level visit to draw the attention of senior Azerbaijani authorities to the importance of an anti-money laundering/counterterrorist financing (AML/CTF) regime. In April 2008, MONEYVAL assessors conducted an on-site evaluation of the Azerbaijan AML/CTF regime, which the plenary adopted in December 2008. In December 2008, MONEYVAL issued a public statement registering its concern with Azerbaijan's failure to pass and implement an AML/CTF law, and calling upon member states and other countries to advise their financial institutions to apply enhanced due diligence to transactions with links to Azerbaijan.

The Government of Azerbaijan (GOAJ) has no AML/CTF preventative law in place, although a draft law passed a second reading on October 31, 2008. Reportedly, when implemented, the draft law anti-money law will, in part, address some of the current shortcomings, such as anonymous accounts, enhanced due diligence for politically exposed persons (PEPs), freezing and seizure protocols and the filing of suspicious transaction reports, although the draft law does not comport with international standards. The GOAJ has recently advised that it intends to amend the draft law to meet international standards. The GOAJ has instituted some provisions aimed at criminalizing money laundering, but the current provisions in place designed to criminalize money laundering have major deficiencies and there has been no implementation. Only natural persons are subject to criminal liability for money laundering. Azerbaijan has not applied the principles of corporate criminal liability, so no legal persons can be punished for money laundering or terrorist financing. Azerbaijan has taken the "all crimes" approach to predicate offenses. However, insider trading and market manipulation are not considered offenses.

The mutual evaluation report (MER) noted that the GOAJ provided no evidence of investigations or court proceedings involving money laundering as a stand-alone offense. Under the current patchwork regime, it is unclear whether prosecutors must obtain a conviction for the predicate offense in order to open a money laundering investigation. It is also unclear whether authorities can pursue money laundering if the predicate offense takes place in another country. Azerbaijan has no criminal liability for legal persons. Only natural persons can receive punishment for money laundering and terrorist financing.

Although in the absence of a comprehensive law there are no specific supervisory bodies for AML/CTF compliance in the various sectors, authorities maintain that the AML/CTF competencies are addressed by the supervisors in the course of general supervisory activities. The National Bank of Azerbaijan (NBA) is the supervisory authority for banks and credit unions. The Ministry of Finance supervises insurance companies, and the State Committee on Securities supervises the securities sector. The competent authorities appear knowledgeable, well-resourced, and well-trained in AML/CTF issues and conduct inspections regularly. However, only the NBA includes an AML/CTF component in its inspections.

Customer due diligence (CDD) measures derive from a number of laws and regulations. GOA-issued regulations are enforceable, although for the most part a legislative body has not authorized or issued them. The NBA has issued “Methodological Guidance on the Prevention of the Legalization of Illegally Obtained Funds or Other Property Through the Banking System,” but this guidance is not law and is not binding. There is no legal provision in the law for sanctioning violations of AML/CTF guidance or regulations. Likewise, there are few customer identification obligations outlined in the law “On Banks.” While the law does prohibit the opening of anonymous accounts, it does not require institutions to verify the beneficial owner of an account. Joint stock companies can issue unlimited numbers of bearer shares. There is no particular enhanced due diligence requirement for dealings with PEPs, and Azerbaijani banks lack regulations governing their actions when opening correspondent accounts elsewhere as well as when conducting non face-to-face transactions or establishing relationships in this manner. There are no prohibitions on financial institutions executing transactions with shell banks. Although there is a record-keeping requirement, it lacks clarity regarding the records that need to be retained and provides no possibility for extending the record-keeping time, even when requested by a competent authority. Azerbaijan does not mandate its financial institutions to ensure that their foreign branches and subsidiaries submit to the requirements of the country where their headquarters are located. Bank secrecy provisions do not pose obstacles for law enforcement investigations. A court decision will mandate the lifting of professional secrecy.

Azerbaijan has no law obliging financial institutions to file suspicious transaction reports (STRs) when they suspect or have reasonable grounds to suspect that funds are the proceeds of crime. The NBA issued letters to banks in 2007, generating approximately 500 STRs. Of these, the NBA passed 24 to law enforcement. There is also no legal obligation on financial institutions to report suspicion of terrorist financing to a financial intelligence unit (FIU). Azerbaijani authorities have not conducted any training or outreach with regard to money laundering and terrorist financing. Even the formal financial sector lacks awareness and understanding of AML/CTF issues: one major commercial bank was unaware of STRs and STR reporting. There are no legal obligations for financial institutions to establish AML/CTF programs or designate a compliance officer.

Because there is no effective law, the designated nonfinancial businesses and professions (DNFBPs) have no AML/CTF obligations. There are no competent authorities to serve as the AML/CTF supervisors. Tax advisors, the 800 lawyers, the 94 auditors and accountants (of which none are independent) do not fall under the AML/CTF rubric at all, as authorities consider them to be a small portion of the nonbank sector and low risk. The 150 notaries in Azerbaijan and approximately 1000 dealers in precious metals and stones may have reporting obligations in the future. The Assay Chamber supervises the dealers in precious metals and stones, but lacks any AML/CTF component. Azerbaijan has prohibited gaming and casino activities, although it does run a state lottery.

The MER reported that there appeared to be little coordination at the policy and at the working level between the agencies charged with combating AML/CTF and between the supervisory bodies.

Azerbaijan lacks an FIU. The GOAJ has advised that until adoption of the AML/CTF law, it will not be able to establish an FIU. Currently, the 3-member AML Division of the National Bank of

Azerbaijan (NBA) has taken on some of the functions that an FIU would manage. However, the General Prosecutor's office was unaware of the existence of any suspicious transaction reports (STRs).

Investigatory authority in AML/CTF cases lies ultimately with the General Prosecutor. The Ministry of National Security has also worked with AML/CTF issues, reporting that the majority of STRs relate to terrorist financing. However, few terrorist-related investigations or prosecutions appear to have taken place. Although there are ways that the current criminal law could be effective, the Prosecutor's Office does not use it. Law enforcement authorities have not received training or outreach with regard to money laundering and terrorist financing issues, and lack overall awareness of the offense. They also lack training in financial investigation techniques. While law enforcement overall appears to have proper authority and enough resources, the amount of resources directed to pursuing money launderers as opposed to other crime seems scant. There is an overall perception that prosecutions for money laundering would be very difficult and would not add value to the conviction for the predicate offense. Authorities interpret the money laundering offense to mean self-laundering only and have not considered third party laundering or the use of money laundering in organized crime.

Azerbaijani authorities did not provide statistics regarding asset seizure and confiscation, but told the MONEYVAL assessors that they have issued such orders. The only crimes whose proceeds would be subject to confiscation are money laundering and crimes punishable by two years or more in prison. Because there is no criminal liability for legal persons, the authorities cannot confiscate property from legal persons.

Although the GOAJ has criminalized the financing of terrorism, it has applied a very narrow definition. As the definition now stands, it is not wholly a predicate offense for money laundering. Authorities would also need to provide evidence of financial or material support for specific terrorist acts, as Azerbaijan has not explicitly criminalized the financing of terrorist organizations or an individual terrorist; it also has omitted as a criminal offence the support of recruitment and other activities by terrorist organizations and support of the families of terrorists. Prosecutors have obtained one successful prosecution against an individual collecting money to finance future terrorist acts.

Azerbaijan appears to have instituted a system to implement UNSCR 1267 and 1373, and the Ministry of Foreign Affairs has sent out the lists to other Ministries and supervisory bodies. However, there has been no guidance issued, even to the financial sector, and no one outside the banking sector appears to be aware of the lists. The nonbank sectors have never frozen assets in conjunction with the UNSCRs. There does not appear to be an authority charged with designating persons or entities subject to freezing orders. Since 2003, Azerbaijani authorities have not issued any freezing orders.

Azerbaijan has entered into a number of mutual legal assistance treaties, although the absence of criminal liability for legal or corporate persons and the dual criminality requirement could pose challenges to legal cooperation. Azerbaijan does not have a mutual legal assistance treaty with the United States. Azerbaijan's law enforcement authorities are developing a network of cooperation and information exchange at the intelligence level. Although the lack of an FIU means that Azerbaijan's cooperation with the FIU community is severely hampered, the NBA has responded to requests from two FIUs.

Azerbaijan has ratified the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN Convention for the Suppression of the Financing of Terrorism. It is a member of the MONEYVAL Committee.

It is encouraging that the Government of Azerbaijan (GOAJ) will have passed AML/CTF legislation in early 2009 that will provide for the development of a financial intelligence unit. However, that legislation will require amending to conform to international standards. The GOAJ should begin implementing the new legislation through promulgating binding and enforceable regulations for both the financial sectors and the DNFBPs. It should conduct awareness and outreach campaigns for the

entities that will be subject to the law, and work to establish an FIU so that upon passage of the legislation, the FIU will be able to begin its work. Azerbaijan should prohibit bearer shares. The GOAJ should ensure that the regulatory authorities and enforcement agencies have resources targeted specifically to the pursuit of money laundering and terrorist financing/ The GOAJ should provide training, in particular for law enforcement and prosecutors, to enable authorities to conduct complex investigations and obtain convictions. The GOAJ should establish venues for both strategy formulation and coordination and cooperation between the relevant authorities charged with AML/CTF work. The GOAJ should conduct outreach regarding the UN Security Council Resolutions and freezing orders.

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 registered in the offshore financial sector.

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, and societies. Regulated designated nonfinancial businesses and professions include casinos; lawyers; accountants; real estate agents; and company service providers. Dealers in precious metals and stones are not included.

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 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, augments 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. In May 2008, amendments to the Banks and Trust Companies Regulation (Amendment) Act 2008 and the Central Bank of Bahamas Act 2008 formally place money transmission businesses under the supervision of the Central Bank. The Banks and Trust Companies (Money Transmission Business) Regulations 2008 requires money transmission agents to register with the Central Bank.

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 from to full physical presence is complete. Some industry sources have suggested that this requirement has contributed to a decline in shell banks and trusts from 301 in 2003 to 136 as of June 30, 2008.

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.

The Proceeds of Crime Act 2000 criminalizes money laundering. The POCA provides for four main money laundering offenses: the transfer or conversion of property with the intent to conceal or disguise the property; assisting another to conceal the proceeds of criminal conduct; the acquisition, possession or use of the proceeds of crime; and a legal obligation to make a report to the financial intelligence unit (FIU) or police when it is known or suspected that another person is engaged in money laundering. Individuals found guilty of money laundering can be fined up to \$100,000 or imprisoned for up to five years or both, or up to twenty years and/or an unlimited fine. Individuals found guilty of failing to disclose and/or tipping off can be fined up to \$50,000 or imprisoned up to three years or up to ten years and/or an unlimited fine.

The Financial Transaction Reporting Act 2000 (FTRA) establishes customer due diligence “know your customer” (KYC) requirements. The FTRA requires the verification of identity of any customer before establishing a business relationship; transactions exceeding \$15,000; structured transactions in the amount exceeding \$15,000; when it is known or suspected a customer’s transaction is the proceeds of crime; doubt of customer’s identity; and transactions conducted on behalf of a third party. 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 were frozen.

The FTRA is limited to transactions involving cash and does not cover all occasional transactions. Financial institutions are not required to undertake customer due diligence measures when carrying out occasional transactions that are wire transfers. Enforceable requirements related to politically exposed persons (PEPs) are applicable only to banks and trust companies through the Central Bank’s AML/CTF Guidelines. Non-enforceable provisions regarding PEPs were adopted by the Securities Commission’s Guidelines and the Compliance Commission’s Code of Practice. In December 2008,

amendments were passed to the FTRA, the Securities Industry Act, the Financial Service and Corporate Providers Act, and the Financial Intelligence Unit Act to address these deficiencies and bring The Bahamas into compliance with international standards for customer due diligence. The amendments provide for the enforceability of the guidelines, codes, procedures, and rules issued by regulators other than the Central Bank.

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. 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. The FIU receives approximately 100-150 STRs annually; most are related to suspicions of fraud, corruption and drug trafficking. If money laundering or terrorist financing 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. Data on STRs received in 2008 was unavailable prior to the annual report published by FIU in early 2009.

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. The FIU plans to implement the National Strategy to Prevent Money Laundering in early 2009. 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.

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 2008, nearly \$4 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 and UN Security Council Resolution 1373 and make provision for preventing and combating terrorism. In addition to formally criminalizing terrorism and making it a predicate crime for money laundering, the law provides for the seizure and confiscation of terrorist assets, reporting of suspicious transactions related to terrorist financing, and strengthening of existing mechanisms for international cooperation. The ATA was amended in 2008 to clarify aspects of the legislation and further comply with UN Conventions related to terrorist financing. In 2007, The Royal Bahamas Police Force established a Special Anti-Terrorism Unit to investigate cases of terrorism and terrorist financing.

The Royal Bahamas Police Force (RBPF) has cooperated with the U.S. Immigration and Customs Enforcement (ICE) in various financial investigations, including sharing of records and other financial data. In 2008, ICE obtained the cooperation of RBPF officials with the identification of subjects and assets identified as relating to or generated by money laundering activities, particularly pertaining to the smuggling of bulk currency, a preferred method for drug dealers and other criminals to move illicit proceeds across international borders. Between January 2000 and September 2008, 17 individuals were charged with money laundering by the Royal Bahamas Police Force's T&F/MLIS, leading to

seven convictions. Seven defendants await trial, while two defendants fled the jurisdiction prior to trial.

The Bahamas is a member of the Offshore Group of Banking Supervisors and the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body. 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 (MOUs) with other counterpart FIUs to exchange information.

The Bahamas is a party to the UN 1988 Drug Convention, and the UN International Convention for the Suppression of the Financing of Terrorism. In 2008, The Bahamas became a party to both the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. 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 Bahamas has a Mutual Legal Assistance Treaty (MLAT) with the United States, which entered into force in 1990, and agreements with the United Kingdom and Canada. Recently, several successful cases involving asset sharing have occurred between the United States and the Bahamas resulting in large amounts being shared by each government with the other.

The Government of the Commonwealth of The Bahamas should continue to enhance its anti-money laundering and counterterrorist financing regime by implementing the National Strategy on the Prevention of Money Laundering. It should also ensure that there is a public 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.

Bahrain

Bahrain is an important international financial center in the Gulf region. In contrast with its Gulf Cooperation Council (GCC) neighbors, Bahrain has a service based economy, with the financial sector providing more than 20 percent of GDP. It hosts a diverse group of financial institutions, including 195 banks, of which 57 are wholesale banks (formerly referred to as off-shore banks or OBUs); 46 investment banks; and 26 commercial banks, of which 19 are foreign-owned. There are 35 representative offices of international banks. Bahrain has 38 Islamic banks and financial institutions. There are 22 moneychangers and money brokers, and several other investment institutions, including 87 insurance companies. While Bahrain is not a major money laundering country, the greatest risk of money laundering stems from foreign proceeds that transit through the country. 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.

In January 2001, the Government of Bahrain (GOB) enacted an anti-money laundering law (AML) that criminalizes the laundering of proceeds derived from any predicate offense. The law stipulates punishment of up to seven years in prison, and a fine of up to one million Bahraini dinars (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.

The 2001 AML was amended in August 2006 by Law 54/2006, which 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. In June 2008, the government moved to increase supervision of its borders, by placing Ports and Customs inspections under the Ministry of Interior. The Ministry of Interior subsequently instructed its officials to strictly enforce laws against the illegitimate movement of currency.

A controversial provision of Law 54 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 2001 AML law, the Bahrain Monetary Agency (BMA) was the principal financial sector regulator and de-facto central bank, issuing regulations and requiring financial institutions to file suspicious transaction reports (STRs), to maintain records for a period of five years, and to provide ready access for law enforcement officials to account information. Immunity from criminal or civil action is given to those who report suspicious transactions. Even prior to the enactment of Law 54, financial institutions were obligated to report suspicious transactions greater than 6,000 dinars (approximately \$16,000) to the BMA/Central Bank. The current requirement for filing STRs stipulates no minimum thresholds and since 2005 the BMA/Central Bank 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 with the Central Bank of Bahrain (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 2001 AML 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 CBB.

In addition, the 2001 AML 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 suspicious transaction reports (STRs); 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 counterterrorist financing (AML/CTF) regulations, but it does not

independently investigate the STRs as the 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 eight insurance companies in 2007 and had conducted eleven more inspections by October 2008. Additional insurance industry inspections are scheduled for 2009. 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 announced an increased focus on enforcement, including car dealers, jewelers, and real estate agencies noting 274 visits to DNFBPs in 2007, and 271 through October 2008. Of the 271 visits in 2008, 145 were assigned an MOIC compliance officer as a result. The MOIC has also increased its inspection team staff from seven to nine.

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 2008, the AMLU has received and investigated 201 STRs, 42 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 expatriate felons with sentences of one and three years and fines of \$380 and \$1900 respectively.

In October 2007 the government used the new AML/CTF law of 2006 to bring charges against five suspects. In January 2008, they were convicted of a range of charges, including the financing of terrorism. The five were sentenced to six months' imprisonment. In June 2008, authorities arrested two Bahrainis on charges of financing terrorism. The case remained pending as of December 2008.

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 September 2009.

There are 57 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 (DDLDS) 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 38 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 does not have a mutual legal assistance agreement with the United States. Bahrain is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. Bahrain is not a party to the UN Convention against Corruption. 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. Bahrain hosts the Secretariat and is a member of the Middle East and North Africa Financial Action Task Force (MENFATF), a FATF-style regional body that was established 2004. In November 2006, MENAFATF approved the mutual evaluation report on Bahrain.

The Government of Bahrain has demonstrated a commitment to establish a strong anti-money laundering and terrorist financing system and appears determined to engage its large financial sector in this effort. The AMLU 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. Supporting regulations should be enacted and enforced governing bulk cash smuggling. Bahrain should become a party to the UN Convention against Corruption.

Bangladesh

Bangladesh is not a regional or offshore financial center. Under the 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 \$180 million in proceeds—a fraction of the estimated total amount of corrupt funds located both domestically and abroad. Fighting corruption is a keystone of the caretaker government under the state of emergency. 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 and \$7.9 billion in fiscal year 2008. 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 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.

The Government of Bangladesh (GOB) realized that it did not have a mechanism to request assistance from other nations to help track illegal proceeds flowing overseas, some of which is related to corruption and capital flight. As a result, in February 2007 the GOB acceded to the UN Convention against Corruption (UNCAC). Pursuant to UNCAC, the GOB designated the Attorney General’s Office as the central authority for mutual legal assistance requests. In August 2008, Bangladesh signed the South Asian Association for Regional Cooperation (SAARC) Convention on Mutual Assistance in Criminal Matters. Using UNCAC as the legal basis, the government has so far sent Mutual Legal Assistance Requests on tracing, freezing and seizure to foreign jurisdictions.

In April and June 2008 the government promulgated the Money Laundering Prevention Ordinance (MLPO 2008) and the Anti-Terrorism Ordinance (ATO 2008). The laws facilitate international cooperation in recovering money illegally transferred to foreign countries and mutual legal assistance in terms of criminal investigation, trial proceedings, and extradition matters. The GOB has formed a national level committee headed by the Law Adviser and an inter-agency Task Force headed by the Governor of the CB to retrieve illegally transferred money.

For the past twenty years, corrupt practices became so common that, between 2001 and 2005, Transparency International ranked Bangladesh in its Corruption Perception Index as the country with the highest level of perceived corruption in the world. In 2008, Bangladesh was ranked 147 out of 180

countries surveyed. 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. The GOB does not place a limit on how much currency can be brought into the country, but amounts over \$5,000 must be declared within 30 days. The Customs Bureau is primarily a revenue collection agency, accounting for 40-50 percent of Bangladesh's annual government income.

The MLPO of 2008 introduced a new set of financial organizations that must report to the CB regarding their activities in a manner similar to that of banks and financial institutions. These reporting organizations (ROs) include insurance companies, money changers and remitters, fund-transfer companies or organizations, and companies permitted to operate as business organizations under the CB's authority. The CB also has the right to notify other organizations that they must function as ROs for purposes of the MLPO of 2008. The inclusion of these new ROs pose new regulatory and oversight challenges for the CB's Anti-Money Laundering Department (AML) In addition, the GOB regulates insurance companies and money changers and remitters under the Foreign Exchange Regulation Act (FERA), 1947.

The CB regularly conducts training, conferences and seminars for the staff and officers of 48 commercial banks around the country regarding "know your customer" procedures. The CB carries out additional training focusing on identifying suspicious and cash transactions and reporting them to the CB, where the country's financial intelligence unit (FIU) is located.

In May 2007, the GOB identified the CB's AMLD as Bangladesh's financial intelligence unit (FIU). The MPLO of 2008 officially established the existence of the FIU. The FIU depends on the CB for its operation and budget. The CB enjoys complete operational and budgetary independence. An Executive Director of the CB heads the FIU, which consists of approximately 25 officials.

The MLPO of 2008 allows the FIU to enter into agreements and arrangements with foreign FIUs to receive and request information in relation to money laundering offenses or suspicious transactions. In August 2008, the FIU signed its first Memorandum of Understanding (MOU) with the Malaysia's FIU to facilitate the exchange of information on money laundering, terrorism financing, and related criminal activity. In October 2008, the FIU signed its second MOU with the Nepal's FIU. The FIU is negotiating similar agreements with other counterparts. However, many counterparts require that the Bangladesh FIU be a member of the international association of FIUs, the EGMONT Group, before negotiating MOUs with Bangladesh.

The recently enacted ordinances, MLPO 2008 and ATO 2008, enhance the powers and responsibilities of the CB and its FIU in many ways. The CB is empowered and authorized to analyze suspicious transaction reports (STRs) and cash transaction reports (CTRs) and maintain a financial intelligence database and related information. In September 2007, the Cash Transaction Report (CTR) threshold increased from 500,000 to 700,000 takas (approximately \$10,250). The CB may call for and receive from ROs any information related to transactions where there are reasonable grounds to suspect the transaction involves money laundering and/or terrorist financing. The CB can direct ROs to take measure to combat money laundering and terrorist financing activities. Overall, the CB can monitor and observe the activities of banks as well as nonbanking institutions. The CB can, if necessary, conduct on-site inspection of ROs. Finally, the CB can arrange training, conferences and seminars for all ROs. The FIU spearheads national efforts and promotes national awareness in detecting and preventing money laundering and terrorism financing.

The new ordinances allows the CB, without a court order, to order any bank or financial institution to suspend a transaction or freeze an account for a period of 30 days when there are reasonable grounds to suspect that a transaction involves the proceeds of a crime. The CB may extend such orders for an additional 30 days for the purpose of further investigation. The CB is authorized to have access to the

information of bank accounts of any individual or company on demand without a court order if the CB has reasonable grounds to suspect that a transaction involves the proceeds of a crime.

The MLPO of 2008 designates the Anti-Corruption Commission (ACC), established pursuant to the Anti-Corruption Commission Act, 2004, as the national Investigating Organization (IO) regarding money laundering matters. Any official empowered to act on behalf of ACC may be considered part of the IO. The Bangladesh police are in charge of investigating crimes under ATO 2008. Under separate authorities, the National Board of Revenue (NBR), the country's tax authority, is allowed to freeze an account without a court order for tax purposes only. Under the MLPO of 2008, on an application of the IO, a court may pass a freezing or attachment order on the property of the accused, situated within or outside Bangladesh, in which the people of the state have interest. The law allows for only conviction based forfeiture against the property connected to the crime.

The ACC is not adequately staffed and trained to handle money laundering investigations. Media accounts and discussions with ACC staff indicate that the ACC has largely confined itself to gathering records of the assets of corruption suspects and using them to pursue less complicated criminal cases. The offense of "Amassing wealth through illegal means beyond known source of income" is a typical charge brought against suspects investigated by the ACC. The MLPO of 2008 requires the ACC prove one of the designated predicate offenses in order to successfully prosecute the crime of money laundering. The MLPO of 2008 lists 16 predicate offenses, including corruption and bribery; counterfeiting currency or documents; extortion; fraud; forgery; and illicit trafficking in persons or arms or narcotic drugs and psychotropic substances. Under the prior money laundering law (MLPA 2002), the ACC was not required to prove a predicate offense. The money laundering prosecutions currently pending have been carried out pursuant to MLPA 2002.

Following passage of MLPA 2002, the GOB made the now defunct Bureau of Anti-Corruption (BAC) responsible for taking legal steps regarding money laundering crimes. Between 2002 and 2004, BAC filed 35 cases for money laundering. The ACC had no jurisdiction to initiate legal steps on money laundering charges until the middle of 2007, when the offence was included in the ACC Act 2004.

In recent years, Bangladesh law enforcement has made little progress in pursuing money laundering investigations, in part due to difficulties in procedure and inter-agency cooperation. A major setback occurred in December 2005 when the newly created ACC advised the CB that it would not investigate money laundering cases and returned them to the CB. As a result, the Criminal Investigation Division of the national police force agreed to investigate the cases. During 2006, the CB and police hammered out a procedure to pursue investigations initiated through suspicious transactions reports. The State of Emergency in 2007 brought a differently-configured law enforcement regime headed by military officers. The government set up ten fast-track courts to try graft suspects. As of October 2008, the ACC and the NBR had filed 244 cases in the fast-track courts. Of those cases, the court delivered verdicts in 122 cases. Most of the remaining cases were stayed at different stages by the Supreme Court. The court stayed some cases before charge framing, some after charge framing, and others just before the delivery of verdict. When verdicts were delivered, the court passed confiscation and forfeiture orders in most cases. The ACC has so far won two money laundering cases in 2008. Both cases were tried under MLPA 2002. In October 2008, the International Criminal Police Organization (Interpol) detected laundered money deposited with a Hong Kong bank by a former BNP minister and his son. ACC is currently working on the case.

Bangladesh authorities have not yet tried any cases under the newly enacted ATO 2008. According to published media reports, the trials of Jama'atul Mujahideen Bangladesh (JMB) members responsible for staging over 400 bombings around Bangladesh in August 2005 were mostly conducted under the Arms Act 1878 and the Explosive Substances Act 1908. As of August 2008, the Bangladesh courts completed 77 trials, during which 271 JMB leaders and activists were convicted. As a result, the courts have awarded 41 death sentences, 98 terms of life imprisonment and 132 different other jail

terms. Intelligence officials told news media that 72 persons were acquitted in the cases, as allegations against them were not proved.

The ATO of 2008 authorizes the filing of STRs related to terrorist finance, empowers the CB to monitor suspect financial transactions related to terror finance and prohibits a person from enjoying or possessing property or proceeds of terrorist activity. Property or proceeds of terrorist activity, which is in the possession of a terrorist or a person who is or is not an accused or convicted under the provisions of the ordinance, is liable to be confiscated and forfeited in favor of the government. A judge may pass an order of forfeiture/seizure of proceeds of terrorist activity if he or she is satisfied that such property was seized or confiscated because of its terrorist-related nature.

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.

Since the Money Laundering Prevention Act (MLPA) was enacted in 2002, the Central Bank has received approximately 483 STRs. Between April and October 2008, ROs submitted 23 STRs to the CB. 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, Bangladesh became a party to the UN International Convention for the Suppression of the Financing of Terrorism. Bangladesh is also a party to the 1988 UN Drug Convention and the UN Convention against Corruption. Bangladesh is not a signatory to the Convention against Transnational Organized Crime.

Bangladesh is a member of the Asia-Pacific Group (APG), a Financial Action Task Force-style regional body. In August 2008, a regional team of experts visited Bangladesh as part of APG’s mutual evaluation of the country’s safeguards against money laundering and terrorism financing. Earlier in 2008, the GOB formed a National Coordination Committee and a Working Level Committee to prepare for the visit. In the coming year, Bangladesh will face the twin challenges of successfully completing the evaluation and implementing the recommendations of the APG. The GOB has expressed interest in membership in the EGMONT Group, signing MOUs with other FIUs for intelligence gathering and sharing purposes, effectively analyzing and employing STRs/CTRs, and establishing an effective inter-agency working relationship with national stakeholders (law enforcement, regulators and other authorities).

Although positive legislation has been passed and 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. The GOB should support technology enhancements to reporting channels from outlying districts to the Central Bank. While the FIU is growing steadily, the FIU analysts and investigators need to enhance their ability to conduct analysis, investigations, understand money laundering and terror finance methodologies and guide the ROs. Bangladesh law enforcement and customs should examine forms of trade-based money laundering and initiate money laundering and financial crimes investigations at the “street level” instead of waiting for a STR to be filed with the

FIU. 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

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, as Barbados is a transit country for illicit narcotics. 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 October 2008, there are six commercial banks in Barbados. The offshore sector includes 3,334 international business companies (IBCs), compared to 3,615 in 2007, 163 exempt insurance companies and 65 qualified exempt insurance companies, five mutual funds companies and one exempt mutual fund company, seven trust companies, five finance companies, and 57 offshore banks. There are no free trade zones and no domestic or 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 enhances 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 (AML) policy documents and analyzing prudential returns. Additionally, permission must be obtained from the Central Bank to move currency abroad.

The Government of Barbados (GOB) criminalizes 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 extend 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 \$1,000,000. 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. Customer due diligence measures include customer identification and due diligence; beneficial ownership requirements; and, enhanced due diligence for new technologies and correspondent banking, and for high risk customers such as politically exposed persons and non-face-to-face customers. Financial institutions are required to conduct on-going due diligence on business relationships engaging in exchanges of \$10,000 or more, and all instructions for international funds transfers of \$10,000 or those transiting Barbados. Financial institutions must also report suspicious transactions to the Anti-Money Laundering Authority (AMLA). Tipping off is prohibited.

In 2007, the Central Bank revised the AML guidelines for licensed financial institutions to reflect a risk-based approach, and to include guidance on how licensees can fulfill their obligations in relation to combating terrorist financing. The guidelines apply to all entities that are incorporated in Barbados and are licensed under the Financial Institutions Act 1996 (FIA) and the IFSA. The Central Bank conducts off-site surveillance and undertakes regular on-site examinations of licensees to assess compliance with AML legislation and regulations. Licenses can be revoked by the Minister of Finance for noncompliance. In 2008, the GOB announced its intentions to consolidate regulatory functions into a single agency (except for the Central Bank) to enhance supervision. The proposed Financial Services Commission (FSC) will include: the Office of the Registrar of Co-operatives and Friendly Societies; the Office of Supervisor of Insurance and Pensions; the Securities Commission; and the regulatory and supervisory functions of the office of the Director of International Business. The FSC will regulate nonbanking activities including insurance, pensions, credit unions, securities and mutual funds.

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 activity reports (SARs) from financial institutions; instructing financial institutions to take steps to facilitate an investigation; and, conducting awareness training in regard to record keeping 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 or 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. Between January 1, 2008 and June 30, 2008, the FIU had received 76 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 the FIU. The Royal Barbados Police Force pursues all potential prosecutions.

Barbados has a cross-border reporting system for all persons carrying BDS 10,000 (approximately \$5,000) entering and leaving Barbados. Customs has the ability to share information on declarations and seizures with domestic and foreign counterparts. It should be noted that suspicion of money laundering, terrorist financing, or making a false declaration does not provide a basis for stopping and seizure of currency and negotiable instruments. The Money Laundering Financing of Terrorism (Prevention and Control) Act (MLFTA) contains provisions to control bulk cash smuggling and the use of cash couriers.

The MLPCA provides 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 MLFTA, criminalizes the financing of terrorism. 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. However, there is no requirement to freeze terrorist funds or other assets of persons designated by the UN al-Qaida and Taliban Sanctions Committee. In 2008, 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 the 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 Barbados entered into force in 2000.

Barbados is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force-style regional body, and underwent a mutual evaluation in December 2006, which was finalized in 2008. The evaluation noted deficiencies in the areas of record keeping; designated nonfinancial businesses and professions (DNFBPs); special attention for higher risk countries; and AML requirements for money/value transfer services. Barbados also 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 Convention for the Suppression of the Financing of Terrorism. Barbados has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The Government of Barbados has taken a number of steps in recent years to strengthen its anti-money laundering and counterterrorist 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 devote sufficient resources to ensure the FIU, law enforcement, supervisory agencies, and prosecutorial authorities are properly staffed and have the capacity to perform their duties. The GOB should amend its legislation to allow for the seizure of suspected illegal funds at the border and to allow the freezing of funds or assets linked to terrorist financing, al-Qaida or the Taliban. Barbados should consider the adoption of civil forfeiture and asset sharing legislation. Supervision of nonprofit organizations, charities, DNFBPs, and money transfer services should be strengthened, as should information sharing between regulatory and enforcement agencies. Finally, to further enhance its legal framework against money laundering, Barbados should move expeditiously to become a party to 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. Corruption (including embezzlement through abuse of office, taking bribes, and general abuses of power or office) and illegal narcotics trafficking are primary sources of illicit proceeds. 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 January 1, 2008, 27 banks with 368 branches comprised the banking sector. Of these, 23 were banks with foreign capital, including 7 banks with 100 percent foreign capital. 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. Banks and branches have separate business units such as payment processing centers, banking service centers, and foreign exchange offices. 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. Nonbank financial credit institutions have gradually closed, due to money laundering concerns and other factors.

Based on a 1996 Presidential Decree, Belarus has established one free economic zone (FEZ) in each of Belarus' six regions. 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.

Officials have reported several cases of attempts to smuggle undeclared cash across borders. 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. However, the declaration system was not designed, nor is it used to detect the physical cross-border movement of currency and bearer negotiable instruments to prevent and interdict bulk cash smuggling for money laundering and terrorist financing purposes. Individuals may import or export securities certificates denominated in foreign currencies and payment instruments in foreign currencies without any limitations on the amount, and without the need to declare them in writing to the customs authorities. Customs authorities do not store information on declarations that they consider suspicious and are unable to apply sanctions against persons moving funds cross-border on the basis of suspicion of money laundering or terrorist financing.

The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force (FATF)-style regional body, evaluated the anti-money laundering and counterterrorist financing (AML/CTF) regime of Belarus in July 2008. The EAG adopted the mutual evaluation report (MER) at the December 2008 plenary meeting. The major deficiencies outlined in the MER focused on the lack of adequate customer due diligence (CDD) requirements, including allowing electronic cash accounts in fictitious names, no clear requirement to perform CDD on establishing business relations with a customer in the banking, insurance and securities sectors; no

requirement for CDD for legal entities below (\$300,000) threshold; no affirmative obligation to identify beneficial ownership in the banking sector, and no beneficial ownership or ongoing monitoring requirements for other sectors; and lack of effective regulation and supervision for correspondent accounts and designated nonfinancial businesses and professions (DNFBPs); inadequate record keeping requirements; inadequate wire transfer identifier requirements; and shortcomings in the Belarusian cross-border cash declaration regime.

By law, only licensed banks and the postal service can conduct money transfers. The government does not acknowledge alternative remittance systems and allows currency exchange only through licensed currency exchange kiosks. The Department of Humanitarian Assistance in the Presidential Administration has registered all charities. Presidential Decree 24, passed in 2003, requires all organizations and individuals receiving charity assistance, including assistance provided by foreign states, international organizations and individuals, to open charity accounts in a local bank.

Belarus' "Law on Measures to Prevent the Laundering of Illegally Acquired Proceeds" (AML Law), adopted in 2000 and amended in 2005, establishes the legal and organizational framework to prevent money laundering and terrorist financing. The AML/CTF law does not fully incorporate the requirements of the Vienna and Palermo Conventions (e.g., acquisition possession or use are not covered, nor are indirect proceeds). Belarus criminalizes self-laundering, but restricts the self-laundering offense to cases that involve using the illicit proceeds to carry out entrepreneurial or other business activities. Belarus also criminalizes the financing of terrorism. Although Belarus has adopted an all crimes approach to money laundering predicates, with some exceptions for tax evasion crimes, it does not criminalize insider trading and market manipulation, and therefore does not meet FATF requirements for the minimum list of predicate offenses. A money laundering conviction does not require conviction of the predicate offense. Legal entities are not criminally liable and there also is no administrative liability of legal entities for money laundering. However, if a legal entity aids an organized group or criminal organization or is created with funds of an organized group or criminal group, it can be liquidated by the Supreme Court of Belarus and its assets seized by the state. The criminal code provides adequate sanctions for individuals convicted of money laundering, including fines and incarceration for two-1- years. The law defines "illegally acquired proceeds" as currency, securities or other assets, including real and intellectual property rights, obtained in violation of the law.

Financial institutions are obligated to report suspicious transactions regardless of value, and large value transactions, for which the reporting threshold for individual financial transactions is approximately \$27,000 and for corporate transactions is approximately \$270,000. In Belarus, these reporting obligations attach to transfers that are subject to special monitoring. Specifically, transactions subject to special monitoring include: 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 transactions exceeding the currency reporting threshold that involve cash, property, securities, loans or remittances. Financial institutions conducting such transfers are required to disclose to the FIU—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. 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. 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

reporting requirements (extraordinary inspection). The government has used the AML Law as a pretext for preventing several pro-democracy NGOs from receiving foreign assistance.

The AML Law authorizes the following government bodies to monitor financial transactions for the purpose of preventing money laundering: the State Control Committee (SCC); 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. Under the 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.

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. However, casinos do not need to address AML/CTF issues before receiving operating licenses, and the system for supervising and applying sanctions for noncompliance with AML/CTF requirements is not effective. Belarus has similar shortcomings with the other DNFBPs: there is little effective monitoring for compliance with AML/CTF measures for most of these sectors, and accountants lack a supervisory agency—even a self-regulating organization—so they completely lack supervision and monitoring altogether. Across sectors, there is no clear customer identification requirement for DNFBPs at the establishment of the business relationship, there are no beneficial ownership identification requirements, and exceptions in the reporting requirements mean that there may be times that DNFBPs do not perform client identification measures even when they suspect the client of involvement in money laundering or terrorist financing. These sectors also lack the legal obligation to execute enhanced CDD measures for high-risk clients. Likewise, Belarus has no requirements for these sectors to obtain information from the customer regarding his or her source of funds or the expected purpose of the business relationship. The MER notes an overall lack of implementation across these sectors, in particular, the absence of effectiveness in the gaming sector, as well as with regard to dealers in precious metals and stones.

In 2003, Belarus established the DFM as its financial intelligence unit (FIU). Although it is an autonomous unit within the State Control Committee of Belarus with the rights of a legal entity, it does not have an independent budget and cannot independently hire staff. 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 since 2007 it is a member of the Egmont Group. The DFM also has the authority to initiate its own investigations. In 2007 the DFM received and analyzed 269,701 suspicious transaction reports (STRs) and forwarded 2,088 reports to law enforcement and control authorities.

The DFM has noted that there is increased interest by law enforcement in the FIU's work. Belarusian legislation provides for broad seizure powers for law enforcement to identify and trace assets. The Criminal Code provides for asset forfeiture 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.

Belarus has focused on targets beyond money laundering. In June 2007 Parliament passed Criminal Code amendments to toughen penalties for various offenses 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 has made an effort to ensure cooperation and coordination between state bodies through the Interdepartmental Working Group established specifically to address 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.

Terrorism is a crime in Belarus and 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. Article 290-1 of the Criminal Code explicitly criminalizes terrorist financing. However, the law does not criminalize indirect provision of money for purposes of terrorist financing and does not criminalize provision of funds for a terrorist organization or an individual terrorist, if the funds are not intended for a specific act of terrorism. The Criminal Code also does not criminalize the financing of theft of nuclear materials for terrorist purposes. Legal entities are not criminally liable for terrorist financing, but organizations engaged in the financing of terrorism may be liquidated by decision of the Supreme Court upon indictment by the General Prosecutor. In December 2005, the Parliament amended the Criminal Code to stiffen the penalty for 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.

Belarus does not have an adequate system in place to freeze without delay terrorist assets. The AML/CTF (Article 5) requires financial institutions and DNFBPs to suspend a financial transaction if one of its participants is a person suspected of being involved in terrorist activities or controlled by terrorists. The National Bank provides banks with the State Security Committee's lists of persons suspected of being involved in terrorist activities or controlled by persons engaged in terrorism—including persons on the United Nations Security Council Resolution (UNSCR) 1267 Sanctions Committee's consolidated list—and has given banks and nonbank credit institutions an instruction on the procedure for freezing funds. DNFBPs do not receive the terrorism lists and have little awareness of freezing requirements. In addition, the AML/CTF law (Article 11) also authorizes the Financial Monitoring Department to suspend a transaction for up to five days, after which time it must decide either to report the information to law enforcement, which can attach the funds, or resume the transactions. 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. Belarus has no procedures in place for reviewing requests to remove persons from the list or for unfreezing the funds of persons to whom the freezing mechanism was accidentally applied.

Belarus is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. 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. The United States and Belarus do not have a mutual legal assistance agreement in place. Belarus is a member of the EAG. The DFM is a member of the

Egmont Group. Belarus is ranked number 151 out of 180 territories listed in Transparency International's 2008 International Corruption Perception Index.

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 further amended to comport with international standards and to provide for more transparency and accountability. The GOB should, for example, extend 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 also bring the nonfinancial sectors under the same AML/CTF requirements that it imposes on the financial sector, and ensure resources for supervision, monitoring and a sanctions regime for noncompliance. 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

Belgium's banking industry is of medium size, with assets of over \$2 trillion dollars in 2008. Illicit funds, formerly consisting mostly of narcotics-trafficking proceeds, now derive mainly from financial fraud, including tax fraud. Other noteworthy predicate offenses include trafficking in persons and in diamonds, due to Belgium's active diamond industry, as well as in other goods. Authorities note that criminals are increasing their use of remittance transactions and shell companies, and misuse of the nonfinancial sectors, in particular lawyers, real estate and nonprofit organizations to launder money.

Strong legislative and oversight provisions are in place in the formal financial sector to combat money laundering and terrorist financing. Belgium criminalized money laundering with the Law of 11 January 1993, On Preventing Use of the Financial System for Purposes of Money Laundering. Additional laws expanded the scope of the legislation: the Law of 22 March 1993, On the Legal Status and Supervision of Credit Institutions; and the Law of 6 April 1995, On Secondary Markets, On Legal Status and Supervision of Investment Firms, On Intermediaries and Investment Advisors. These laws mandate the customer due diligence and reporting requirements that apply to banks and the formal financial sector as well as nonfinancial businesses and professions, including estate agents, private security firms, funds transporters, diamond merchants, notaries, bailiffs, auditors, chartered accountants, tax advisors, certified accountants, surveyors and casinos. Article 505 of the Penal Code sets penalties of up to five years of imprisonment for money laundering convictions. Any unlawful activity may serve as the predicate offense.

The Law of 12 January 2004 amended Belgian domestic legislation by making it applicable to attorneys and broadening the scope of money laundering predicate offenses beyond drug trafficking to include the financing of terrorist acts or organizations. The Belgian bar association challenged this law

and brought it to the Court of Arbitration, which referred the challenge to the European Court of Justice. The bar argued that the Second EU Directive, which served as the basis for this law, violates the right to a fair trial, because the reporting obligations prejudice lawyers against fully and independently representing their clients. In October 2008, the European Commission referred Belgium to the European Court of Justice over non-implementation of the Third Money Laundering Directive, which requires members to update their AML regimes to comport with the most up-to-date standards, particularly with regard to regulation and terrorism financing.

Belgium is currently working to address the deficiencies described in the 2005 Financial Action Task Force (FATF) mutual evaluation report (MER), including due diligence and regulation requirements for designated nonfinancial businesses and professions, licensing or registration of businesses providing money or value transfer services, allocation of adequate resources to the authorities charged with combating financial crimes, elimination of bearer bonds, development of an independent authority to freeze assets, and implementation of a system to monitor cross-border currency movements.

Authorities believe that 3,500 phone shops—small businesses where customers can make inexpensive phone calls and access the internet—may be operating in Belgium. Only an estimated one-quarter of these shops are formally licensed, and Belgian authorities are considering enforcing a stricter licensing regime. Some Brussels communes have also proposed heavy taxes on these types of shops in an effort to dissuade illegitimate commerce. Since 2004, Belgian police made a series of raids on “phone shops.” In some phone shops, authorities uncovered money laundering operations and hawala-type banking activities. In 2006 and 2007 raids in some locations uncovered numerous counterfeit phone cards in addition to evidence of money laundering activities. Authorities have closed more than 200 such shops since 2004, and estimate that the Belgian state loses up to \$256 million in 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. In 2007, the cities of Antwerp and Gent also increased enforcement activities against such phone shops.

Despite some diffusion in recent years, Belgium continues as the world’s diamond-trading center. Fully 90 percent of the world’s crude diamonds and 50 percent of cut diamonds pass through Belgium. 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. The Kimberley certification process has introduced much-needed transparency into the global diamond trade. A regulation approved by a Royal Decree dated October 22, 2006 contains a detailed description of the obligations that diamond dealers must observe. This regulation primarily deals with the different aspects of the client’s identification, including the identification of ‘non-face-to-face’ operations and of the beneficial owner, customer due diligence and obligations regarding the internal organization. Belgium’s robust diamond industry presents special challenges for law enforcement, but authorities have transmitted a number of cases relating to diamonds to the public prosecutor, and they monitor the sector closely in cooperation with local police and diamond industry officials.

The Belgian financial institutions are supervised by the Belgian Banking and Finance Commission (CBFA) supervises financial institutions, 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.

Financial institutions must comply with “know your customer” principles, regardless of 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 \$12,500) as well as retain records of suspicious transactions reported to the FIU for at least five years.

Financial institutions or other entities with reporting requirements are liable for illegal activities occurring under their control. Financial institutions must train their personnel in the detection and handling of suspicious transactions that could be linked to money laundering. Failure to comply with the anti-money laundering legislation, including failure to report, carries a fine of up to \$1.72 million.

Money laundering legislation imposes restrictions on cash payments for real estate. Purchasers may not use cash for amounts exceeding 10 percent of the purchase price or approximately \$18,750, whichever is lower. Cash payments over \$25,000 for goods are also illegal.

Belgium had long permitted the issuance of bearer bonds (“titres au porteur”), widely used to transfer wealth between generations and to avoid taxes. As of January 1, 2008, companies may no longer issue bearer bonds, although bearer bonds issued before that date are still valid, as are non-Belgian bearer bonds. Bearer shares are permitted for individuals as well as for banks and companies.

In Belgium, the Royal decree of 5 October 2006 on measures to control cross-border transportation of cash came into force on June 15, 2007. The Royal decree stipulates the obligation to declare transportation of currency worth 10,000 euros or more in cash entering or leaving the EU/Belgium.

In cases of a failure to declare, or if there is a suspicion that the cash declared originates from illegal activities or is intended to finance such activities, the Belgian Customs and Excise administration will confiscate the cash for up to 14 days and send a report to the financial intelligence unit (FIU). The FIU examines all the declarations submitted and Customs reports filed. Since June 2007, Belgian Customs has received information about 4.5 million euros in cash passing through Zaventem International airport. To date, Belgian Customs has confiscated 670,000 euros and filed 196 reports with the FIU.

Belgian officials are working to increase transparency in the nonprofit sector through better enforcement of registration and reporting procedures. Nonprofit organizations must register, furnish copies of their statutes and membership lists, provide minutes from council meetings, and file budget reports.

The Belgian financial intelligence unit, known in French as the Cellule de Traitement des Informations Financières and in Flemish as Cel voor Financiële Informatieverwerking (CTIF-CFI), was created by a Royal Decree issued on June 11, 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 (STRs) submitted by obliged 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. Employees and representatives of institutions who report transactions to CTIF-CFI in good faith are exempt from civil, penal, or disciplinary actions. Legislation also exists to protect witnesses, including bank employees, who report suspicions of money laundering or who come forward with information about money laundering crimes. Belgian officials have imposed sanctions on institutions or individuals that knowingly permitted illegal activities to occur. CTIF-CFI also acts as the supervisory body for professions not supervised by CBFA or other authorities. CTIF-CFI has also been very active in analyzing the diamond industry and working to eliminate its potential for money laundering and terrorist financing.

The FIU is composed of financial experts, including three magistrates (public prosecutors), appointed by the King, who serve six-year renewable terms. A magistrate presides over the body. In addition to administrative and legal support, the investigative department consists of inspectors/analysts. There are also liaisons that maintain contact with the various law enforcement agencies in Belgium, including three police officers, one customs officer, and one officer of the Belgian intelligence service.

From its founding in 1993 until the end of 2007, CTIF-CFI received 127,293 disclosures and opened a total of 30,223 individual case files (numerous disclosures may be linked to a single case). Of these, the FIU has transmitted 8,310 cases to the public prosecutor aggregating approximately \$16.5 billion. In 2007, the FIU received 12,830 disclosures, opened 4,927 new cases, and transmitted 1,166 cases to the public prosecutor, up from 912 cases transmitted in 2006. Reports from credit institutions comprise about 81 percent of disclosures on files transmitted to the federal prosecutor. Foreign exchange offices and foreign counterpart units accounted for an additional 12 percent of the files transmitted, with notaries, casinos, and other entities also reporting. The files concerning serious and organized tax fraud represented 36.7 percent of the total number of cases in 2007, while cases regarding terrorism and terrorist finance represent 7 percent of the total amount (up from 6 percent in 2006). Belgian statistics show that from the start of its activities until the end of 2007, the FIU reported 175 cases regarding terrorism or terrorist financing to the judicial authorities. Thirty-two of these cases were reported in 2007.

Since the creation of CTIF-CFI in 1993, Belgian courts and tribunals have pronounced sentences in at least 1,046 of the 8,310 cases transmitted to the Federal Prosecutor (some of these convictions are still under appeal). From 1993-2007, the conviction rate was 11.4 percent. To date, Belgian courts have convicted 2,060 individuals for money laundering on the basis of cases forwarded by the FIU, yielding combined total sentences of 3,568 years. Although five years imprisonment is the maximum sentence for money laundering, the length of the sentence may increase if the financial crime is compounded by another type of crime such as drug trafficking. The cumulative fines levied for money laundering total approximately \$91 million. Belgian authorities have confiscated more than \$788 million connected with money laundering crimes. The majority of convictions related to money laundering are based upon disclosures made by the financial institutions and others to CTIF-CFI.

As with Belgium's FIU, the federal police must 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, and 28 percent involved narcotics. The federal police established a special bureau to combat VAT fraud shortly after 2001, when estimates of lost revenue topped \$1.4 billion. In 2007, 57.3 percent of all cases reported to the Public Prosecutor involved VAT carousel fraud. 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. According to the FATF MER, prosecutorial authorities have the necessary power to carry out their functions; however, in places or at times, the prosecutors and police seem to lack resources to properly perform their AML/CTF duties.

Belgium has created a sophisticated and comprehensive confiscation and seizure regime, encompassing the Central Office for Seizure and Confiscation (COSC), operating under the auspices of the Ministry of Justice. The COSC ensures that authorities execute confiscations and seizures smoothly and efficiently in accordance with the law. Belgian law requires a judicial order to execute confiscations and seizures, and allows civil as well as criminal forfeiture of assets. A law passed in July 2006 allows for the possibility, on a reciprocal basis, of the sharing of seized assets from serious crimes, including those related to narcotics, with affected countries.

Seizures in Belgium can be direct or indirect. Direct seizures involve the seizure of items linked directly to a crime. Indirect seizures are “seizures by equivalence,” usually of homes, cars, jewels and other items not directly linked to the crime in question. Belgian authorities attempt to sell confiscated items such as cars, computers, and cell phones soon after confiscation in order to minimize the loss of the market value of the goods over time. If a suspect is later found innocent, he or she receives the cash equivalent of the item(s) sold, plus accrued interest. Money from seizures and from the sale of seized goods is deposited in the Belgian Treasury. 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. Belgium has a verification program to check legal records of suspects to whom the authorities will return seized assets. If the person owes taxes or has overdue fines, COSC can ensure that the Belgian government is paid before proceeds are returned. According to the COSC, information concerning the value of seizures is not available publicly.

In January 2004, the Belgian legislature passed domestic legislation criminalizing terrorist acts and material support (including financial support) for terrorist acts, allowing judicial freezes on terrorist assets. The law implemented eight of FATF’s Special Recommendations, including prohibiting the provision of material support to terrorist groups by nonprofit organizations. Article 140 of the Penal Code criminalizes participation in the activity of a terrorist group, and Article 141 criminalizes the provision of material resources, including financial assistance, to terrorist groups and carries a penalty of five to ten years’ imprisonment.

Under Belgium’s 1993 anti-money laundering and counterterrorist finance (AML/CTF) law (amended in 2004), bank accounts can be frozen on a case-by-case basis if there is sufficient evidence that a money laundering crime has been committed. The FIU has the legal authority to suspend a transaction for a period of up to two working days in order to complete its analysis. If criminal evidence exists, the FIU forwards the case to the public prosecutor. In 2006, CTIF-CFI temporarily froze assets in 41 cases, representing approximately \$220 million. To date, there are no figures for 2007 or 2008.

Under the January 2004 law, the Ministry of Justice can freeze assets related to terrorist crimes. However, in order for an act to constitute a criminal offense, authorities must demonstrate that the support was given with the knowledge that it would contribute to the commission of a crime by the terrorist group. Since the law does not establish a national capacity for designating foreign terrorist organizations, authorities must demonstrate in each case that the group that was lent support actually constitutes a terrorist group.

In Belgium, the Ministry of Finance can administratively freeze assets of individuals and entities associated with al-Qaeda, the Taliban and Usama Bin Laden on the United Nations 1267 Sanctions Committee’s consolidated list and/or those covered by an EU asset freeze regulation. Seized assets are transferred to the Ministry of Finance. If an entity appears on the UN 1267 Sanctions Committee’s consolidated list, the GOB can pass a ministerial decree to freeze assets in order to comply with the UN requirement. Assets of entities appearing on the EU list are automatically subject to a freeze without additional legislative or executive procedures. Belgium is working on legislation to permit the administrative freeze of terrorist assets in the absence of a judicial order or UN or EU designation.

CTIF-CFI was a founding member of the Egmont Group and headed the Secretariat from 2005 to 2006. Belgium’s FIU shares information with its European colleagues. Belgium is also a cooperative and reliable partner in law enforcement efforts. The federal police enjoy good cross-border cooperation with other police and investigative services in neighboring countries. Belgium does not require an international treaty as a prerequisite to lending mutual assistance in criminal cases.

Belgium 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. Belgium also ratified the UN Convention against Corruption in September 2008. A mutual legal assistance treaty

(MLAT) between Belgium and the United States has been in force since 2000. Belgium and the United States have since signed a bilateral instruments amending and supplementing this treaty, in implementation of the U.S.-EU Extradition and Mutual Legal Assistance Agreements.

The Government of Belgium's (GOB's) continuing work implementing the FATF recommendations complements an already solid anti-money laundering regime and a clear official commitment to fighting against financial crimes, including the financing of terrorism. Belgium should also prohibit all bearer shares. 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. Belgium should continue its efforts to uncover, investigate, and prosecute illegal banking operations, as well as the informal financial sector and nonbank financial institutions. The GOB should strengthen enforcement of reporting requirements by some nonfinancial entities in Belgium, in particular lawyers and notaries. To be even more effective in its efforts, Belgium may need to devote more resources, including investigative personnel, to police, prosecutors and key Belgian agencies that work on money laundering, terrorist financing, and other financial crimes.

Belize

Belize is not a major regional financial center. In an attempt to diversify Belize's economic activities, authorities have encouraged the growth of offshore financial activities that are vulnerable to money laundering. Belize has pegged the Belizean dollar to the U.S. dollar and continues to offer financial and corporate services to nonresidents in its offshore financial sector. Belizean officials suspect that money laundering occurs primarily within that sector. Money laundering, primarily related to narcotics trafficking, and contraband smuggling, is suspected to occur through onshore banks operating in Belize. There is no evidence to indicate that money laundering proceeds are primarily controlled by local drug trafficking organizations organized criminals or terrorist groups. The vulnerability created by the government's lack of supervision of its offshore sector is exacerbated by its the lack of supervision of the gaming sector, including Internet gaming facilities, and the refusal of the Government of Belize (GPB) to fund its financial intelligence unit.

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, all offshore banks must be licensed by the Central Bank and be registered with the international business companies (IBCs) registry. 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 nominee directors.

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. Neither offshore banks nor onshore banks are permitted to issue bearer shares. Only the Central Bank of Belize and authorized dealers/depositories (i.e., commercial banks and casas de cambio) may deal in foreign currencies. Local money exchange houses, which were suspected of money laundering, were closed effective July 2005. Internet gaming is regulated by a Gaming Control Board, which is guided by the Gaming Control Act. There is one licensed internet gaming site, but there are an undisclosed number of Internet gaming sites illegally operating from within the country. Reportedly, there are no offshore casinos.

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 nonbanking sector for the provision of international financial services. 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., formerly primarily engaged in internet gaming, was sold to Belize Telemedia Limited and is now International Communications and Services Limited. It is designated as an Export Processing Zone (EPZ) and is regulated in accordance with the EPZ Act. There are presently 59 EPZ's in Belize. Commercial free zone (CFZ) businesses are allowed to conduct business within the confines of the CFZ, provided they have been approved by the Commercial Free Zone Management Agency (CFZMA) to engage in business activities. All merchandise, articles, or other goods entering the CFZ for commercial purposes are exempted from the national customs regime. However, any trade with the national customs territory of Belize is subject to the national Customs and Excise law. The CFZMA, in collaboration with the Customs Department and the Central Bank of Belize, monitors the operations of CFZ business activities. There is no indication the CFZ is presently being used in trade-based money laundering schemes or by financiers of terrorism. The incidents involving developments in the CFZ have largely been related to counterfeit goods and more recently, pharmaceuticals such as ephedrine and pseudo-ephedrine.

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, and these systems have not yet been deterred through fines or criminal prosecution. Belizean customs authorities monitor such activities at the borders with Mexico and Guatemala; however, no domestic investigations have been undertaken.

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 counterterrorist 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 counterterrorist financing requirements. Government of Belize (GOB) officials have reported an increase in financial crimes, such as bank fraud, cashing of forged checks, suspicious transactions, and counterfeit Belizean and United States currency. The Central Bank of Belize continues to engage in public awareness activities and conduct training sessions related to 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 have bank secrecy legislation that prevents disclosure of client and ownership information but information can be made available at the request of the courts. These bank secrecy provisions significantly hamper the GOB’s ability to assist other governments in mutual legal assistance requests for financial records.

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. Although it is a member of the Egmont Group, 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. Currently, the FIU has a seven member staff: a director, a legal officer, an investigator, a financial examiner, an office manager, an office assistant, and a secretary. Historically, there has been a lack of coordination between the FIU and the Director of Public Prosecutions, resulting in the FIU attempting to bring its own cases, which are often dismissed from court.

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 anti-money laundering regime in Belize remains relatively ineffective. The FIU received 49 suspicious transaction reports (STRs) during 2008. Fourteen became the subject of investigations. The FIU usually sends queries to the Securities and Exchange Commission and the Financial Crimes Enforcement Network (FinCEN) in the United States and investigations remain open until responses are received. In 2007, there were press reports indicating a possible money laundering scheme by a former public official, but no subsequent investigation was conducted. In 2008, relatives of high ranking government officials were allegedly linked to a money laundering scheme spanning offshore accounts in several countries including Belize. In December 2008, the FIU dropped charges against two of Belize’s most prominent banks, the Belize Bank and First Caribbean International Bank—a Canadian controlled bank. The banks had faced charges related to several millions in “suspicious transactions” they were accused of failing to report. The official reason given for dropping the charges was because foreign correspondent banks were discussing severing ties with local banks, threatening to cause a possible collapse and a destabilization of the country’s financial sector. The banks are to fund an electronic reporting system for the country, and fund refurbishment of two parks, equal to a monetary penalty of \$300,000. The DPP needs to designate, and specially train, attorneys to pursue money laundering charges.

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 government 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 Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the 1988 UN Drug Convention. Belize is not a party to the UN Convention against Corruption. Belize is a member of the Organization of American States and the Caribbean Financial Action Task Force, a FATF-style regional body. The FIU became a member of the Egmont Group of financial intelligence units in 2004. However, Belize has not established a history of providing formal mutual assistance, and in fact has been a particularly nonreactive partner in the area of freezing and confiscating assets.

The Government of Belize should ensure effective implementation of its anti-money laundering and counterterrorist financing regime. The GOB should consider applying civil penalties as well as criminal penalties to further deter these financial crimes. The GOB should increase resources to provide adequate staffing levels and training to those entities responsible for enforcing Belize's anti-money laundering and counterterrorist financing laws, including the financial intelligence unit and the asset forfeiture regime. Belize should take steps to address the vulnerabilities in its supervision of its onshore and offshore sectors, particularly the lack of supervision of the gaming sector, including Internet gaming facilities, and ensure charitable and nonprofit entities cannot be used to aid in the financing of terrorism. Belize should immobilize bearer shares and ensure that the offshore sector complies with anti-money laundering and counterterrorist financing reporting requirements. The GOB should also become a party to the UN Convention against Corruption.

Bolivia

Bolivia is not a regional financial center; however, its money laundering activities continue to take place throughout the country, and are related primarily to the government's lack of political will to combat money laundering, narcotics trafficking, public corruption, smuggling and trafficking of persons, as well as Bolivia's long tradition of bank secrecy and the lack of effective government oversight of nonbank financial activities facilitate the laundering of organized crime and narcotics trafficking profits, the evasion of taxes, and the laundering of other illegally obtained earnings. The majority of existing money laundering criminal investigations is located in the Department of Santa Cruz and associated with significant narcotics trafficking organizations operating from that area.

Bolivia's financial sector consists of 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 90 percent of deposits and 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.

Most entities that move money in Bolivia continue to be unregulated. Hotels, currency exchange houses, illicit casinos, cash transporters, and wire transfer businesses are known to transfer money freely into and out of Bolivia without being subject to anti-money laundering controls. Informal exchange businesses, particularly in the Department of Santa Cruz, also transmit money in order to avoid law enforcement scrutiny. The Government of Bolivia (GOB) recognizes shortcomings in Bolivian financial regulation and proposals have been made to address these deficiencies through modifications to the existing legislation.

Bolivia's current anti-money laundering regime is based on Article 185 of Law 1768 of 1997. Law 1768 modifies the penal code and criminalizes money laundering related only to narcotics trafficking offenses, organized criminal activities and public corruption. It provides for a penalty of one to six years for money laundering and defines the application of asset seizure beyond drug related offenses. Article 185, however, cannot be applied unless the prosecution demonstrates in court that the accused participated in and was convicted of the predicated crime. Although terrorist acts are criminalized under the Bolivian Penal Code, the GOB lacks actual statutes that specifically criminalize the financing of terrorism or that grant the GOB authority to identify, seize, or freeze terrorist assets. Legislation that has been in draft for several years, and now currently in Congress, seeks to address this omission by amending the penal code to including the criminalization of terrorist financing.

Article 185 of Law 1768 created Bolivia's financial intelligence unit, the Unidad de Investigaciones Financieras (UIF), located within the Office of the Superintendence of Banks and Financial Institutions. The UIF's function is to conduct financial investigations in an effort to produce findings and evidence of money laundering activities and other financial crimes and to share this information with both the Bolivian National Police and the Public Ministry, as appropriate. The UIF is also responsible for implementing anti-money laundering controls, and may request that the Superintendent of Banks sanction obligated institutions for noncompliance with reporting requirements. After conducting an initial analysis, the UIF reports detected criminal activity to the GOB's Public Prosecutor. The UIF also performs on-site investigations of obligated entities to review their compliance with the reporting of suspicious transactions and can request additional information from obligated financial institutions to assist prosecutors with their investigations. Given the UIF's limited resources relative to the size of Bolivia's financial sector, compliance with reporting requirements is extremely low. The actual exchange of information and financial intelligence between the UIF and appropriate police investigative entities is also limited or, in some cases, non-existent.

Bolivia's UIF has endured substantial turmoil since 2006, when the GOB issued Supreme Decree 28695 proposing the replacement of Bolivia's UIF with a new "Financial and Property Intelligence

Unit” focused on combating corruption rather than money laundering. As a result of the decree, the UIF lost a significant amount of its staff and although the new Financial and Property Intelligence Unit was never implemented, Bolivia’s UIF has been unable to recover. As of 2007, the UIF maintained a staff of seven; however, the lack of personnel, combined with inadequate resources and weaknesses in Bolivia’s basic legal and regulatory framework fundamentally limits its reach and effectiveness as a financial intelligence unit (FIU).

Further complicating the situation for Bolivia’s UIF is its relationship with the Egmont Group, an international network of FIUs that facilitates the exchange of financial intelligence and analysis. 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. In July of 2007, as a direct result of a lack of terrorism financing legislation within the existing Bolivian laws, the UIF received a “Letter of Suspension” from the Egmont Group for “noncompliance with the international mandate to have appropriate legislation addressing this issue.” The GOB’s continued lack of terrorist financing legislation since the Egmont Group’s 2004 requirement went into effect resulted in Bolivia’s expulsion from the Egmont Group of financial intelligence units in December 2008—an unprecedented move by 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. To regain Egmont membership, Bolivia must reapply and provide written evidence of the UIF’s compliance with Egmont requirements. The Egmont Group has offered, and continues to offer, assistance to the Bolivian FIU to address its structure and implementing laws to facilitate its re-admission to the Group.

The GOB’s pro-coca policies have enabled drug trafficking organizations to become well entrenched in the country and another major blow to Bolivia’s anti-money laundering regime is the expulsion of U.S. Drug Enforcement Administration (DEA) agents from the country in November 2008. This action is likely to diminish the effectiveness of several financial investigative groups operating in the country, including Bolivia’s Financial Investigative Team (EIF), the Bolivian Special Counternarcotics Police (FELCN), and the Bolivian Special Operations Force (FOE).

The EIF was created in 2002 within Bolivia’s FELCN and is responsible for investigating narcotics-related money laundering cases. Currently, there are three EIF units in Bolivia (La Paz, Santa Cruz, and Cochabamba) consisting of a total of 30 personnel (one civilian auditor, and 29 BNP/FELCN investigators). The National Director of the FOE seeks to expand these financial investigative units from 30 personnel nationwide to a total of 60, which would include four financial auditors, one national legal advisor, one national information technology specialist and 51 financial investigators. This initiative was still pending as of late 2008. During the last 12 months, the EIF reported six new money-laundering cases and a total of approximately \$10 million in assets seized. The EIF, UIF, Public Ministry, National Police and FELCN have established mechanisms for the exchange and coordination of information, including formal exchange of bank secrecy information.

Under Supreme Decree 24771, obligated entities such as banks, insurance companies and securities brokers are required to identify their customers, retain records of every transactions for a minimum of ten years, and report to the UIF all transactions that are considered unusual (without apparent economic justification or licit purpose) or suspicious (customer refuses to provide information or the explanation and/or documents presented are clearly inconsistent or incorrect). Bolivia, until recently, had no requirement for these obligated entities to report cash transactions above a designated threshold, and no requirement stating that persons over a designated threshold.

On August 20, 2008, the GOB signed into law Supreme Decree 29681 requiring nationals and foreigners entering or leaving the country to declare the transportation of currency and also obligates any person or business with the intention of transporting, either into or out of the country, any amount of currency in excess of \$50,000 to register the transaction with Bolivia’s Central Bank. Additionally,

the decree states all transactions reported to customs in excess of \$10,000 must be reported on a monthly basis to the UIF. Also, the GOB's Superintendent of Banks issues written instructions to the national banks directing them to report any cash transactions in excess of \$10,000 or other suspicious financial activities to the UIF.

Corruption remains a serious issue in Bolivia. In the past, allegations against high-ranking law enforcement officials were routinely dismissed without further investigation. While some improvement in the effectiveness of investigations is apparent, few cases are fully prosecuted. On April 26, 2006, for example, the GOB promulgated Supreme Decree 28695, the Organizational Structure for the Fight against Corruption and Illicit Enrichment, as a means to further combat corruption in the police force and other government agencies. As of October 2008, the Bolivian National Police's Office of Professional Responsibility (OPR) investigated a total of 2,043 cases in 2008 involving allegations of misconduct and/or impropriety by police officers. Of these, 176 cases involved police officers assigned to Bolivia's Special Counter-Narcotics Force (FELCN); none resulted in findings of corruption. A total of 876 cases have been adjudicated before the Police Disciplinary tribunal, the remainder are still in the investigative stage and/or awaiting tribunal action.

There continue to be serious deficiencies in Bolivia's legal framework with regard to civil responsibility in financial and money laundering cases. 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 since the legislation is full of inconsistencies and contradictions, and is open to wide interpretation. As a result, prosecutors are often reluctant to pursue money laundering investigations.

While traditional asset seizure continues to be employed by counternarcotics authorities, the ultimate forfeiture of assets continues to be problematic. 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 and plagued by corruption for years, and has only auctioned confiscated goods sporadically. In late 2006, then newly appointed DIRCABI staff, including the National Director and several Regional Directors, began initiating positive steps to improve the organization's internal operating procedures. In 2007, DIRCABI proposed Supreme Decree 29305, which was signed by the Bolivian President in October 2007 and provides for some positive changes relating to asset seizure, forfeiture, and sharing. DIRCABI is involved in drafting new civil asset forfeiture legislation to address persisting problems in terms of forfeited asset sharing among law enforcement entities. To address the inadequate management and related administrative issues that have plagued DIRCABI for years, special administrative legislation was submitted for approval that will resolve long standing organizational issues that resulted in questionable administrative procedures in these forfeiture cases. As of October 31, 2008, DIRCABI has initiated 615 asset forfeiture cases. In these 615 cases, 1,201 items were seized—the majority of which included electronic equipment, such as cellular phones. In addition, a total of 26 residences, 211 vehicles, as well as cash, jewelry, and other miscellaneous items were seized.

Bolivia is a party to the 1988 UN Drug Convention, UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. Bolivia does not have a mutual legal assistance agreement with the United States, but is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters. Bolivia is also a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group on Money Laundering.

The GOB is currently a sanctioned member of the Financial Action Task Force for South America (GAFISUD). The GAFISUD placed sanctions on Bolivia in July 2007 as a result of the GOB's failure to pay three years of its membership dues. The GOB was able to make partial payment of its arrears and a bill is currently pending in Bolivia's Congress to authorize payment of its remaining debt to GAFISUD. At the GAFISUD December 2008 plenary meeting, GAFISUD members agreed to continue sanctions that prohibit Bolivia from having a voice or vote at GAFISUD plenary meetings, with the expectation that Bolivia will have met the requirements to fully reinstate its membership by the June 2009 plenary meeting.

Several of Bolivia's current AML/CTF regime deficiencies can be remedied if the GOB were to enact current draft legislation to improve Bolivian law in the area of financial investigations. With support from the USG and others, the GOB has formed a working group composed of key GOB ministry and police representatives with the goal of creating new legislation to address issues such as the interception of communications, money laundering, civil forfeiture, modifications to the existing Criminal Code of Procedures, consensual recordings, and cooperation agreements. In addition, within this legislative initiative, the area of terrorism financing would be addressed along with a new special administrative law to improve the functions of DIRCABI. The GOB completed this draft legislation in October 2008, received interagency approval, and submitted the bill to the Bolivian Congress for review in late 2008. It is anticipated that the legislation will be approved and written into law at the beginning of 2009. This legislation would significantly improve the abilities of the GOB investigators and prosecutors to more successfully attack criminals and organizations involved in illicit financial activities in Bolivia, including terrorism financing.

The GOB should take all necessary steps to ensure that the draft anti-money laundering legislation is enacted and conforms to international standards. Among the most important legislative adjustments, it is imperative that the GOB criminalizes terrorist financing and allow for the blocking of terrorist assets; doing so is not only mandated by Bolivia's commitments as a member of the United Nations and GAFISUD, but could improve the likelihood that the UIF may successfully re-apply for Egmont Group membership. In addition, money laundering should be an autonomous offense without requiring prosecution for the underlying predicate offense, and currently unregulated sectors, particularly designated nonfinancial businesses and persons, should be subject to anti-money laundering and counterterrorist financing controls. Bolivia should also ensure that the UIF has sufficient staff and resources. The GOB should also pay the remainder of its GAFISUD dues to avoid being fully suspended from GAFISUD.

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. Statistics from Bosnia's financial intelligence unit (FIU) indicate that financial crimes have increased over the past year. Bosnia is also vulnerable to terrorist financing. The cash-based economy and weak border controls on bulk cash couriers contribute to BiH as an attractive venue for terrorist financiers and organized criminal elements to carry out illicit financial activities.

Corruption is also a serious problem in BiH. The European Commission's November 2008 Progress Report for Bosnia identified widespread corruption as one of the key problems in the country. In addition, Transparency International has recently ranked Bosnia as the most corrupt country in the Balkan region, stating that corruption is of particular concern in Bosnia because it involves political

corruption as well as corruption in privatization and public procurement procedures. Bosnia adopted an anticorruption strategy in 2006, but has since failed to fully implement any aspects of the plan.

It is likely that trade-based money laundering occurs in BiH, but there is no indication that law enforcement has taken any action to combat it. There are five active Free Trade Zones in BiH, with production based mainly on automobiles and textiles. There have been no reports that these trade zones are used in trade-based money laundering. The Ministry of Foreign Trade and Economic Relations is responsible for due diligence and monitors the activities of these zones.

The threat posed by bulk cash couriers is not well understood in BiH. Remittances from abroad are estimated to be in the millions of U.S. dollars annually, and constitute as much as 20 percent of the BiH gross domestic product. Many of these remittances likely enter the country in the form of cash. Customs officials are required to report any cross-border transportation of cash in excess of KM 10,000 (approximately \$6,770), but this regulation is not enforced and there is no declaration or disclosure system in place for cash entering the country.

The September 2006, International Monetary Fund's Financial System Stability Assessment report praises Bosnia and Herzegovina for the progress made since the 2005 mutual evaluation by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force-style regional body. However, the report also cites problems with information-sharing, coordination, and communication, as well as jurisdictional issues between the Financial Police and other State agencies. Those problems continue to exist with little evident correction.

The capabilities of the BiH anti-money laundering/counterterrorist financing (AML/CTF) regime should be viewed in the context of Bosnia's decentralized political structure. There are multiple jurisdictional levels in Bosnia and Herzegovina, including the State, the two entities (the Federation of Bosnia and Herzegovina (the Federation) and the Republika Srpska (the RS)), 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. Each jurisdiction, however, maintains its own separate supervision and 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. This confusion undermines State-level institutions and impedes efforts to improve operational capabilities to combat money laundering and terrorist financing. 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, enacted in 2004, takes an "all serious crimes" approach and 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 an FIU within the State Investigative and Protection Agency (SIPA). Those convicted of money laundering exceeding the equivalent of \$30,000 receive prison terms of 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 26 types of entities to report to the FIU all transactions of \$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 (NFIs) and designated nonfinancial businesses and professions (DNFBPs), 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 practice, most NFIs and DNFBPs do not understand the law, thereby resulting in very low reporting from those sectors. The

FIU is developing an automated AML reporting system, on which all bodies responsible for reporting will eventually be trained. 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. The banking sector and the ITA file the majority of reports.

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 12 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 AML/CTF 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 and alternative remittance systems, 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 to an Economic Crime Unit, the Federation Police has a specialized Financial Police Unit that focuses on public corruption, economic crimes, money laundering, and cybercrime. The RS police has a Special Investigations Unit to investigate financial 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. Because BiH is largely a cash economy, it is typical for individuals to carry large amounts of cash, even across borders. Bosnia and Herzegovina also receives a significant volume of remittances from emigrants. Official remittances constitute over 17 percent of GDP. While some of these will enter the country through bank transfers, others 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 interagency 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. However, 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. During the first nine months of 2008, the FID reports it froze assets in only one case, in the amount of KM 4.3 million (\$2,900,000).

The FID currently faces several challenges. Information sharing and interagency cooperation are major operational deficiencies of the FID. Although it receives and analyzes information from reporting

entities, it does not effectively share the results of its analysis with relevant law enforcement agencies. One reason for this is an ambiguous provision in the AML law that does not clearly define the FID's obligation to disseminate information to appropriate law enforcement entities. FID officials have interpreted the information sharing provision in the AML law so narrowly that it has resulted in a virtual standstill in the dissemination of reports to agencies outside of SIPA. The failure by the FID to properly disseminate its information has greatly isolated the agency, affecting not only communication and cooperation between the FIU and law enforcement but the overall effectiveness of the FID as well.

Management of the data submitted to the FID is another problem facing the FIU. Obligated entities submit reports to the FIU through an electronic reporting system. However, prior to the implementation of the electronic reporting system, institutions submitted hardcopy reports which were then entered manually into the FID's database. There is currently a backlog of approximately 140,000 reports that have not yet been input into the FID's database.

In the first nine months of 2008, the FID received 208,378 CTRs from banks and other financial institutions. Of these, the FID identified 47 cases as suspicious and investigated them. Of these 47 cases, the FID submitted seven reports to the BiH Prosecutor. Since BiH established its AML regime in 2004, the Court of BiH has pronounced 38 money laundering verdicts: 17 legally binding verdicts in 2004 and 2005 (in which the total amount of laundered money was nearly \$10,900,000, and for which nearly \$800,000 in assets was forfeited), 12 first instance verdicts in 2006, and nine first instance verdicts in 2007. Statistics for 2008 are not yet available. A major problem facing BiH is the high rate of verdicts overturned or modified on appeal (which is not exclusively a problem for money laundering convictions). So it is possible that some of the 2006 and 2007 verdicts may yet be overturned. The FID is not the only active agency in the AML regime: the RS entity police agency and the Federation Financial Police, among others, all reported money laundering-related cases. In 2008, the Bosnian Court system pronounced five money laundering verdicts involving a total of seven people. Out of these five cases, four included prison sentences and one a suspended sentence.

BiH has no specific asset forfeiture law as regards money laundering, with the exception of the Persons Indicted for War Crimes (PIFWC) support laws that allow for the seizure of PIFWC assets or assets of those providing material support to them. Articles 110 and 111 of the BiH Criminal Code (along with similar laws in the harmonized entity and Brcko Criminal Codes) are the only legal provisions that 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 in 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." 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. Article 133 of the criminal code also allows the courts to 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, although, Article 110 (3) of the Criminal Code appears to contemplate a civil or quasi-civil forfeiture: "a separate proceeding if there is probable cause to believe that the gain derives from a criminal offense and the owner is not to give evidence that the gain was legally acquired." 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 Code criminalizes terrorist financing. 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. There is no one government entity that regulates or supervises the nongovernmental organization (NGO) sector, but NGOs are subject to some supervision from the relevant ministry, tax administration, labor or other inspectors.

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. 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 March 2008, five Bosnian Muslims belonging to a radical group were arrested for suspected terrorist activity and handed over to the State Prosecutor's Office for investigation. Weapons, including mines and other explosive devices, as well as materials for making explosive devices, were found and seized during the operation. They were subsequently released by the prosecutor for lack of admissible evidence pertaining to formal terrorism charges. A Bosnian investigation is still ongoing.

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, however, 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 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 party. Bosnia is a member of MONEYVAL and the FID is a member of the Egmont Group. Bosnia is scheduled to undergo a mutual evaluation by MONEYVAL in 2009.

The Government of Bosnia and Herzegovina (GOBiH) 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 GOBiH should make efforts to increase funding for its AML/CTF programs and enhance cooperation between concerned departments and agencies. With regard to the FID, BiH should amend its AML law to clarify the FID's obligation to disseminate information outside of SIPA. The FID also needs to reduce the backlog of reports that have not been input into its database. Although prosecutors, financial investigators, and tax administrators have received training on tax evasion, money laundering, and other financial crimes, the GOBiH should enhance their capacity to 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 should increase awareness by improving outreach programs to address major vulnerabilities, including the identification of shell companies and beneficial owners. In addition, GOBiH should implement formal supervisory mechanisms for nonbank financial institutions and intermediaries, and NGOs. BiH law enforcement and customs authorities should take additional steps to control the integrity of the borders

and limit smuggling. The GOBiH should study the formation of centralized regulatory and law enforcement authorities. BiH should take specific steps to completely implement its anticorruption strategy and to combat corruption at all levels of commerce and government. BiH also should adopt a comprehensive asset forfeiture law that 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 party.

Brazil

Brazil is the world's fifth largest country in size and population, and in 2008 its economy remains the tenth largest in the world. Brazil is considered a regional financial center for Latin America. It is also a major drug-transit country. Brazil maintains adequate banking regulations, some controls of capital flows, and requires disclosure of the ownership of corporations. Money laundering in Brazil is primarily related to domestic crime, especially drug-trafficking, corruption, organized crime, and trade in various types of contraband. Trade of all kinds generates funds that may be laundered through the banking system, real estate investment, financial asset markets, luxury goods or informal financial networks. An Inter-American Development Bank study of money laundering in the region found that Brazil's relatively strong institutions helped keep the incidence of money laundering to below average for the region.

Terrorist financing is not an autonomous offense in Brazil, although the money laundering bill currently awaiting legislative action contains language effecting that change. The bill would make it a crime to directly or indirectly provide or to receive from any person or group funds, goods, services or anything else of value, with the intention of causing public panic, and/or trying to constrain or influence a government or international body to act or refrain from acting. Those convicted would be punished for up to 12 years in prison. To implement fully this important change and other aspects of its financial crimes regime, Brazil intends to enact legislation that will provide for the effective use of 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. Currently, such techniques can be used only for information purposes, and are not admissible in court.

The U.S. Government (USG) continues to believe the Brazil-Paraguay-Argentina Tri-Border Area (TBA) to be a source of terrorist financing, although the Government of Brazil (GOB) maintains that it has not seen any such evidence. That said, there may be as much or more reason to be concerned about other areas of the country. GOB and local officials in the states of Mato Grosso do Sul and Parana, for example, have reported increased involvement by Rio de Janeiro and Sao Paulo gangs in the already significant trafficking in weapons and drugs that plagues the states in the tri-border area. Consequently, antismuggling and law enforcement efforts by state and federal agencies have increased. In addition to weapons and narcotics, a wide variety of counterfeit goods, including CDs, DVDs, and computer software (much of it of Asian origin), are routinely smuggled across the border from Paraguay into Brazil. Brazilian customs authorities have continued their efforts to combat contraband in the TBA given the resulting loss of tax revenues.

Brazil's anti-money laundering policy is to advance six goals: improve coordination between federal and state anti-money laundering agencies; develop and make maximum use of computerized databases and public registries to facilitate monitoring and enforcement; constantly evaluate and improve existing mechanisms; increase international cooperation in enforcement and the recovery of assets; promote an anti-money laundering culture in Brazil; and prevent violations before they occur through the foregoing.

Brazil's first anti-money laundering legislation passed in 1998 and has since been amended by subsequent legislation, decree and regulation. Law 9.613 criminalizes money laundering related to

drug trafficking, terrorism, arms trafficking, extortion by kidnapping, public administration, the national financial system and organized crime. The 1998 statute requires that individuals bringing more than 10,000 reais (then \$10,000, now \$4,700) in cash, checks, or traveler's checks into Brazil must fill out a customs declaration. Subsequent modification to the law and associated regulations criminalize the corruption or attempted corruption of foreign public officials involving international commercial transactions, and establishes terrorist financing as a predicate offense for money laundering. The current legal regime also establishes crimes against foreign governments as predicate offenses, and requires the Central Bank to create and maintain a registry of information on all bank account holders.

The 1998 anti-money laundering statute also created Brazil's financial intelligence unit, the Conselho de Controle de Atividades Financeiras (COAF), which is housed under the Ministry of Finance. COAF staff includes representatives from regulatory and law enforcement agencies, including the Central Bank and Federal Police, and is empowered to request financial information on any individual suspected of criminal activity from all government entities. COAF has a staff of 43 and expects to add 25 new personnel in 2009.

Entities under the authority of the Central Bank, the Securities Commission (CVM), the Private Insurance Superintendence (SUSEP), and the Office of Supplemental Pension Plans (PC), are required to file suspicious activity reports (SARs) with their respective regulator, which passes them to COAF. COAF directly regulates and receives SARs from those financial sectors not already under the jurisdiction of another supervising entity, such as commodities traders, real estate brokers, credit card companies, money remittance businesses, factoring companies, gaming and lottery operators, bingo parlors, dealers in jewelry and precious metals, and dealers in art and antiques.

The Central Bank's Department to Combat Exchange and Financial Crimes (DECIC) examines entities under the supervision of the bank to ensure compliance with suspicious transaction reporting requirements, and forwards information on the suspect and the nature of the transaction to COAF. In 2005, DECIC was able to bring on-line a national computerized registry of all current accounts in the country. A Central Bank regulation issued that same year requires banks to report identifying data on all parties to foreign exchange transactions and money remittances, regardless of the amount involved.

In addition to filing SARs, banks are also required to inform the Central Bank of institutional transactions exceeding 100,000 reais (\$57,000) and "unusual" amounts transacted by individuals. Lottery operators must notify COAF of the names and identifying information of winners of three or more prizes equal to or higher than 10,000 reais within a 12-month period. Subsequent changes in the law authorize the monitoring of transactions with possible links to terrorism and by politically exposed persons.

SUSEP requires insurance companies and brokers to report large policy purchases, settlements or otherwise suspicious transactions to both SUSEP and COAF. Insurance-related activities by or on behalf of politically exposed persons are also monitored. In addition, on January 8, 2008, the Securities Commission (CVM) extended monitoring/reporting requirements to include dealers in luxury goods and persons or companies that engage in activities involving a high volume of cash transactions.

COAF has direct access to the Central Bank database, so that it can review its SARs and information about all current accounts. COAF also has access to government databases, and is authorized to request additional information directly from the entities it supervises and the supervisory bodies of other reporting entities. Complete bank transaction information may be provided to government authorities, including COAF, without a court order. Brazilian authorities that register with COAF may directly access COAF databases via a password-protected system.

During the first 10 months of 2008, COAF received information regarding 226,413 cash and 296,070 noncash transactions, an increase of 55 percent compared to 2007. During the same period, the Central Bank received 830,257 reports of transactions exceeding 100,000 reais and 367,566 reports were submitted to SUSEP regarding activities in the insurance sector. Through October 2008, COAF has provided 1,002 Financial Intelligence Reports involving 8,997 individuals to cooperating agencies. The Justice Ministry used COAF reports to seize 640 million reais in 2008. COAF has referred 17 cases for administrative sanctions this year, resulting in fines of 3.8 million reais.

Additional legislative changes are currently under consideration by the Brazilian legislature. The pending legislation, if approved in its current form, would facilitate greater law enforcement access to financial and banking records during investigations, criminalize illicit enrichment, allow seized assets to be monetized to preserve their value, and facilitate prosecution of money laundering cases by making it an autonomous offense. The proposed changes would also help to bring the Brazilian legal regime in line international anti-money laundering standards. This legislation is considered a priority, and is expected to be voted on by Congress shortly.

The National Corruption and Money Laundering Strategy Task Force (ENCCLA—Estratégia Nacional de Combate a Corrupção e Lavagem de Dinheiro) is comprised of GOB and state agencies with jurisdiction over money laundering and other financial crimes and began convening periodic strategy and planning sessions in 2003. Twenty-eight agencies, ranging from the National Intelligence Agency to the Brazilian Banking Federation attended the first meeting; 51 participated in 2007. In November 2008, ENCCLA met in Salvador, Bahia. Participants from federal, state, and municipal governments took part and established ways to confront administrative fraud, domestic money laundering through business activities, and to regulate investigation techniques.

Some of the agencies, and most of the laws and regulations that comprise Brazil's anti-money laundering apparatus were conceived within the ENCCLA framework, including pending revisions of the current statute. ENCCLA members have also drafted a bill imposing conditions on banking privacy and allowing for the forfeiture of assets. The National Registry of Account Holders, which permits authorities to monitor transactions between individuals and corporations utilizing the national financial system, was also an ENCCLA initiative. Prior to the creation of the registry, information requests from judges could take several weeks to process. Now, detailed information can be compiled and forwarded within 24 hours of the request.

ENCCLA also helped create the Justice Ministry's Department of Asset Recovery, which, among other duties, is responsible for international cooperation on money laundering cases and is empowered to share seized forfeited assets with other countries. The determination that "politically exposed" individuals merited special attention was first proposed at a 2006 ENCCLA meeting. The Central Bank now maintains a registry of 30,000 office holders, persons who have held office in the past five years, and persons who appear to have or have had some financial nexus to them.

The GOB reported regular increases in the number of money laundering investigations, trials and convictions beginning in 2003. The annual number of investigations grew from 198 in 2003 to 625 in the first three quarters of 2006. These investigations led to 26 trials to 41 in the first three quarters of 2006, while convictions increased from 172 in 2003 to 866 in 2006. One reason for the growing number of money laundering prosecutions is the number of cases that are resulting from the Banestado bank scandal of the late 1990s. Through 2008, this investigation has resulted in 95 indictments against 684 persons, of which 97 have already been tried and found guilty. Yet another reason for the increase in investigations since 2005 is the establishment of Brazil's Trade Transparency Unit (TTU) that identifies discrepancies in trade data that are indications of trade-based money laundering. In its first year of operation, Brazil's TTU (with the assistance of U.S. DHS ICE agents) uncovered a discrepancy so large that 250 search warrants were issued throughout Brazil and eventually led to 128 arrest warrants. The number of investigations and convictions since 2006 is still not available, as the

Ministry of Justice remains in the process of developing a unified reporting system that would account for information from the various money laundering courts involved.

The GOB also credits the creation of specialized money laundering court branches, founded in 2003, for the increasing number of successful prosecutions. Fifteen such courts have been established in fourteen states, including two in São 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 was formed aimed to build on the success of the specialized courts by creating complementary specialized federal police financial crimes units in the same jurisdictions. In 2008, the Federal Police established such units in the Federal District (Brasilia), and the states of Rio de Janeiro and São Paulo. All other 24 states have established financial working groups.

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.

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.

The USG has placed nine individuals and two entities in the TBA on its list of Specially Designated Nationals, because they have provided financial and/or logistical support to Hezbollah. The nine individuals operate in the TBA 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 Pag 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 TBA.

Brazil is party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN Convention for the Suppression of the Financing of Terrorism. Brazil is a member of the Financial Action Task Force (FATF) and assumed its presidency for one year in July 2008. Brazil was a founding member of the Financial Action Task Force against Money Laundering in South America (GAFISUD), and held the GAFISUD presidency in 2006. Brazil is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Brazil’s financial intelligence unit, the Council for the Control of Financial Activities (COAF), has been a member of the Egmont Group of financial intelligence units since 1999.

The Mutual Legal Assistance Treaty between Brazil and the United States entered into force in 2001, and a bilateral Customs Mutual Assistance Agreement, signed in 2002, became effective in 2005. Using the Customs Agreement framework, the GOB and U.S. Immigration and Customs Enforcement in 2006 established a Trade Transparency Unit (TTU) in Brazil to detect money laundering via trade transactions. The GOB also participates in the “3 Plus 1” Security Group (formerly the Counter-Terrorism Dialogue).

The Government of Brazil should criminalize terrorist financing as an autonomous offense. In order to successfully combat money laundering and other financial crimes, Brazil should 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 in order to provide its investigators and prosecutors with more advanced tools to tackle sophisticated organizations that engage in money laundering, financial crimes, and terrorist financing. Brazil should also enforce currency controls and cross-border reporting requirements, particularly in the TBA and among designated nonbanking financial businesses and professions. Additionally, COAF must continue to fight against corruption and ensure the enforcement of existing anti-money laundering laws, including the obligation for all financial institutions to report transactions suspected of being related to terrorist financing.

British Virgin Islands

The British Virgin Islands (BVI) is a Caribbean overseas territory of the United Kingdom (UK), and remains vulnerable to money laundering due to drug trafficking and the exploitation of its offshore financial services.

The BVI is considered a major offshore financial center with the industry contributing nearly fifty percent of the Government's annual revenue. As of June 2008, the BVI has approximately nine banks, nine money remitters, 2,840 active mutual funds, 31 local insurance companies, 392 captive insurance companies, 213 trust licenses, eight authorized custodians, 22 company management companies, 117 registered agents, 532 limited partnerships, 10,666 local companies, and 445,865 active BVI business companies or international business companies (IBCs).

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. Under the BCA, a company limited by shares may issue bearer shares that are immobilized or registered through an authorized custodian. IBCs registered before 2005 with bearer shares have until 2009 to register their bearer shares with an authorized custodian.

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 (the most widely used vehicle); companies limited by

guarantee authorized to issue shares (typically used for structuring transactions by combining equity and guarantee membership); companies limited by guarantee (not authorized to issue shares); unlimited companies (authorized to issue shares); unlimited companies (not authorized to issue shares); restricted purposes companies (used primarily in structured finance and securitization transactions); and segregated portfolio companies (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 GOBVI 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 includes banking and fiduciary businesses, investment businesses, insolvency services, accountants, insurance companies, and company management and registration businesses. The FSC is also responsible for off-site and on-site inspections of these institutions. 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. From January to June 2008, the FSC conducted eight on-site inspections and issued four warnings, one advisory, and assessed one fine.

The FSC cooperates with 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 offenses except drug trafficking as predicates for money laundering; drug trafficking predicated money laundering is established under similar provisions in the Drug Trafficking Offenses Act 1992 (DTOA). The POCCA outlines penalties for money laundering. Upon summary conviction, penalties include six months imprisonment or a fine not exceeding three thousand dollars or both; and on indictment to a term of imprisonment not exceeding 14 years or a fine of \$20,000 dollars or both. The POCCA and the DTOA 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 not directly linked to narcotics related crimes are unclear.

In February 2008, The Anti-Money Laundering Regulations (AMLR) replaced the Anti-Money Laundering Code of Practice 1999, and the Anti-Money Laundering and Terrorist Financing Code of Practice 2008 (AMLTFCOP) revoked The Guidance Notes 1999. The AMLTFCOP establishes a risk based approach to anti-money laundering (AML) and counterterrorist financing (CTF) supervision and compliance. Issued by the FSC, the AMLTFCOP applies to all financial institutions and designated nonfinancial businesses and professions (DNFBPs) including charities and nonprofit associations. Car dealers, yacht dealers, dealers in precious metals and stones, dealers in heavy machinery, and leasing companies were brought under the sphere of the BVI's AML regime through the Nonfinancial Business (Designation) Notice in February 2008. The Financial and Money Services Act 2008 (FMSA) will require entities that engage in money and currency exchange, money or value transfers, financial services businesses to become regulated entities and subject to the AMLR and the AMLTFCOP.

The AMLTFCOP identifies procedures for customer due diligence, identifying beneficial owners and politically exposed persons, internal controls, shell banks and corresponding banking relationships, wire transfers, record keeping, and anti-money laundering training and reporting requirements. Concerning customer due diligence, regulated entities must update clients' due diligence information every three years for low risk business relationships and once every year for higher risk business relationships. The AMLR requires the retention of records for a period of at least five years from the date when all transactions relating to a one-off transaction or a series of linked transactions were completed, when the business relationship formally ended, or when the last transaction was carried out. However, there is no formal requirement for account files to be maintained for at least five years following the termination of an account or business relationship.

The POCCA (Amendment) 2006 mandates financial institutions and other providers of financial services to report suspected money laundering transactions including attempted transactions. The AMLR and the AMLTFCOP establishes procedures to identify suspicious transactions and report them to the financial intelligence unit (FIU). Obligated entities are protected from liability for reporting suspicious transactions. Reporting entities are required to create a clearly defined reporting chain for employees to follow when reporting suspicious transactions, and to appoint a reporting officer to receive such 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 POCCA mandates the creation of an FIU, the Reporting Authority. The Financial Investigation Agency (FIA) Act 2003 reorganized and renamed the FIU. The FIA's staff is comprised of a director, two senior police officers, one senior customs officer, a chief operating officer, a junior analyst, 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, Director of the FIA, Commissioner of Police, and Comptroller of Customs.

The FIA is responsible for the collection, analysis, investigation, and dissemination of suspicious transaction reports (STRs). The FIA receives approximately 200 STRs annually. The FIA refers STRs that warrant further investigation to the Royal Virgin Islands Police Force (RVIPF), which is responsible for investigating drug trafficking, money laundering, and terrorism financing. In 2007, the FIA Act 2003 was amended to redefine the FIA's responsibilities to include investigation and analysis of any offense in relation to money laundering and terrorist financing. The amendment empowered the FIA to investigate matters relating to the breach of any domestic or international sanction prescribed by or under any enactment. It also provided the FIA authority to receive disclosures of suspected terrorist financing. However, a discrepancy exists with the FIA's ability to receive STRs related to the financing of terrorism. Technically, reporting institutions are to submit terrorist financing STRs directly to the RVIPF. It is unclear whether the RVIPF has an obligation to share the STR with the FIA. Presently, no terrorist financing STRs have been reported.

The FIA has the ability to request additional information from reporting institutions. The FIA also 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. The FIA has the authority to provide a written order to freeze a transaction for up to 72 hours, as well as has the authority to freeze a bank account on behalf of the Governor, Attorney General, the FSC, or a foreign FIU or law enforcement agency for a period of five days.

The POCCA (Amendment) 2008 replaced the Joint Anti-Money Laundering Coordinating Committee (JAMLCC) with the Joint Anti-Money Laundering and Terrorist Financing Advisory Committee (JALTFAC). The JALTFAC is comprised of the Managing Director of the FSC, the Attorney General, Commissioner of Police, Comptroller of Customs, Director of the FIA, and the Financial Secretary.

The JALTFAC also includes private sector stakeholders such as the Registered Agents Association, Compliance Officers Association, Bankers Association, Bar Association, and the Society of Trusts and Estate Practitioners. The purpose of the JALTFAC is to assist the FSC in formulating a code of practice; ensure reporting institutions are compliant with relevant AML/CTF measures; and keeping the BVI aware of AML/CTF developments locally and internationally.

The United Kingdom's Terrorism (United Nations Measures) (Overseas Territories) Order 2001 (TUNMOTO) and the Anti-Terrorism (Financial and Other Measures) (Overseas Territories) Order 2002 (ATFOMOTO) 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 (ATUNMOTO) also apply to the BVI. Terrorist financing offenses are covered under the TUNMOTO under article 3 which makes it an offense for any person to invite another person to provide funds, or to receive and provide funds with the intention or knowledge that the funds may be used for the purpose of terrorism. Under the ATFOMOTO a person guilty of terrorist financing may be subject to imprisonment for a term not exceeding 14 years, to a fine, or to both, or on summary conviction to imprisonment for a term not exceeding six months, a fine not exceeding the statutory maximum or both. To date, there are no investigations of terrorism financing in the BVI.

The POCCA and the DTOA provide the ability to freeze or seize assets. Forfeiture is also covered by the POCCA and the DTOA upon conviction. The freezing and forfeiture of funds and property used for terrorist financing is covered by the ATUNMOTO, TUNMOTO, and the ATFOMOTO. The Governor of the BVI is responsible for executing freeze orders related to terrorist financing. Reporting institutions are advised to monitor relevant websites for names of suspected terrorists and related organizations. No specific guidance has been issued to outline reporting institutions obligations to freeze funds of designated terrorists and terrorist organizations.

The Office of the Director of Public Prosecution (ODPP) is responsible for obtaining forfeiture, charging and restraint orders, and the prosecution of all money laundering and other criminal investigations. Currently, there are two ongoing money laundering investigations. The last money laundering conviction was obtained in 2003. In May 2008, the GOBVI confiscated \$45 million in an alleged international money laundering case from the Bermuda based IPOC International Growth Fund. The IPOC case gained international notoriety with allegations that IPOC was a money laundering front with ties to Russia's Telecommunications Minister, among others. Tried in the BVI, the case involved IPOC and three BVI IBCs. A 17-month investigation by BVI authorities revealed a complex web of irregularities with false parties to agreements, allegedly forged signatures, and falsified documents exhibiting that the three BVI IBCs received payments from third parties for services rendered; however, those companies had not provided the services claimed, or had not made the payments. As a result, these entities plead guilty to furnishing false information and obstruction of justice. The BVI intends to confiscate the entire funds of IPOC within its jurisdiction and share the forfeited assets with the Government of Bermuda. The BVI IBCs will be dissolved no later than April 2009.

The BVI is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body and underwent a mutual evaluation in February 2008. As a result the government enacted anti-money laundering legislation that requires financial institutions to identify the beneficial owners of companies, cut ties with shell banks and refuse requests to open anonymous accounts. This legislation helps the country comply with the European Union's Third Money Laundering Directive. The BVI is an observer to the Offshore Group of Supervisors, and the FIA is a member of the Egmont 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. The U.S. and the British Virgin Islands established a Tax Information Exchange Agreement (TIEA) in 2006. Application of the U.S.-UK Mutual Legal Assistance Treaty (MLAT)

concerning the Cayman Islands was extended to the BVI in 1990. The FIA handles MLAT and other legal assistance requests after they have been reviewed by the Office of the Attorney General.

The Government of the British Virgin Islands (GOBVI) made substantial efforts to bolster their AML/CTF regime during 2008. However, the GOBVI should consider revising money laundering and terrorist financing penalties to dissuade criminals and terrorists from exploiting the territory. The GOBVI should specify that the FIA directly receive STRs related to terrorism financing. The BVI should ensure that designated nonfinancial businesses and professions adhere to the provisions of its AML/CTF regulations particularly with the reporting of STRs. The GOBVI should ensure that there are a sufficient number of regulators and examiners to exercise effective due diligence, regulation, and inspections of its 446, 865 active BVI companies in a manner compliant with international standards.

Bulgaria

The Government of Bulgaria (GOB) needs to seriously strengthen its anti-money laundering regime. While Bulgaria is not considered an important regional financial center or an offshore financial center, it is significant in terms of its geographical position, its well-developed financial sector relative to other Balkan countries, its relatively lax regulatory control, and its government tolerance of corruption and failure to strictly enforce anti-money laundering (AML) laws. Moreover, Bulgaria is a major transit point for the trafficking of drugs and persons into Western Europe, generating criminal proceeds that are subsequently laundered in Bulgaria. Bulgaria is primarily a cash economy, thereby making it more difficult to trace illicit money flows. ATM and credit card fraud remain serious problems. Tax fraud is prevalent. Smuggling remains a problem, reportedly sustained by corrupt Bulgarian businessmen and politicians. Organized crime groups are moving into legitimate business operations, making it difficult to determine the origins of their wealth. While tourism and construction formed the basis for the country's economic revival in recent years, they have also become favorite money laundering routes for organized crime groups with suspected ties to politicians.

Since its admission to the European Union (EU) in 2007, Bulgaria has faced constant criticism and pressure from the European Commission (EC) regarding its failure to effectively combat corruption. Public officials, watchdog institutions, and journalists who challenge organized crime operations often face intimidation. Corruption, fraud, and organized crime are such pervasive problems in Bulgaria that the EU stripped the country of 220 million Euros (approximately \$285,200,000) of funds in November 2008 and said Bulgaria might lose another 340 million Euros (approximately \$440,700,000) if it failed to curb corrupt practices and political interference in funding processes by the end of 2009. Although Bulgaria has launched several investigations into government officials and businessmen suspected of funds fraud, it has failed to convict a single senior official of graft and has jailed only one organized crime leader.

Despite the prevalence of corruption and weak enforcement of AML laws, Bulgaria has managed to make some progress in 2008. Facing sharp EU, U.S. and civil society criticism, the Bulgarian government finally closed all duty free shops and petrol stations at Bulgaria's land borders in July 2008. These establishments had been suspected to be major centers for contraband, tax evasion, and money laundering. In October 2008, after repeated requests by the U.S. and EU, and after protracted delays, the government decided to mandate that the actual amount of a cash transaction be listed on reporting forms. This closed an important loophole in AML legislation that had previously served to facilitate money laundering. Despite these improvements, the GOB's AML efforts still need substantial intensification.

Article 253 of the Bulgarian Penal Code criminalizes money laundering related to all crimes. As such, drug-trafficking is but one of many recognized predicate offenses. 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.

The Law on Measures against Money Laundering (LMML) is the legislative backbone of Bulgaria's AML regime. Adopted in 1998, the LMML has since been amended several times, most recently in 2008. The many revisions to the law, though often in the right direction, have rendered the law less comprehensible and hence less effective. 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. The 2006 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.

In response to pressure from the EU, in 2006, Bulgaria's Parliament tightened the LMML with further amendments. These amendments expand the definition of money laundering and the list of reporting entities; outlaw anonymous bank accounts; expand the definition of "currency"; and require the disclosure of the source of 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 transaction reports (STRs). The banking sector, with some key exceptions, has substantially complied with the law's filing requirement. Reporting by other sectors, in particular reporting related to the explosion of real estate transactions (e.g., notaries and real estate agents), has been much lower.

The Law on Administrative Violations and Penalties, as amended in 2005, establishes the liability of legal persons (companies) for crimes committed by their employees.

Bulgaria's financial intelligence unit (FIU), the Financial Intelligence Directorate (FID) within the State Agency for National Security (DANS) is the main administrative unit for collecting and analyzing information on suspected money laundering transactions. The FID-DANS does not participate in criminal investigations. In the past year, FID has had its powers severely limited. Prior to December 2007, Bulgaria's FIU was a fully independent agency operating under the Ministry of Finance (MOF), with the independence of its director 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 that came into force on January 1, 2008, which limits the FID's effectiveness and autonomy. This law, the Act on the State Agency for National Security, establishes DANS as the new national intelligence agency. The law also restructures the FID by changing its status from an independent agency within the MOF to a directorate within the DANS; consequently, the FID is no longer an individual legal entity with its own budget. Some of the FID's previous authorities were removed from the law and included only in regulations, further diminishing the FID's status. Other authority was assigned to the director of DANS, but not expressly to the FID, thereby limiting its ability to compel legal compliance by banks. In addition, discrepancies between the LMML and the law creating DANS create uncertainty regarding the FID's inspection and sanctioning authorities, including its ability to perform AML on-site inspections. In addition, the analytical capacity of FID is not precisely defined: the DANS law permits the FIU to acquire and handle national security-related information, but financial crimes information is not necessarily of national security importance. From January 1 to May 1, 2008, the Egmont Group of FIUs temporarily suspended Bulgaria's access to its secure information exchange system, pending a review of FID's authorities under the new legislation.

As of September 2008, the FID-DANS conducted 46 on-site inspections and issued 44 penal decrees totaling 119,500 BGN (approximately \$78,826), as compared with 83 such inspections of banking and nonbanking institutions as of October 2007. As of September 2008, there was only one on-site

inspection of a bank, and the bank challenged the powers of FID-DANS inspectors to ask for information necessary for completing the inspection. FID-DANS proposed the issuance of three criminal citations related to that on-site inspection for refusal to provide access to bank documents and clients' files.

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 FID-DANS of any cash payment greater than 30,000 BGN (\$22,500). Because of inconsistent interpretation of the cash reporting requirement, some believe it covers only cash deposits, allowing a loophole to exist to the benefit of money launderers by leaving an unknown percentage of large cash withdrawals or exchanges unreported. As mentioned previously, as of January 1, 2009, Bulgarian banks will have to include the actual amount of all cash deposits above the 30,000 BGN (approximately \$22,500) cash transaction reporting (CTR) threshold. This is in contrast to the previous requirement mandating banks report only that the transaction occurred but not the actual amount.

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.

Bearer shares can be issued by joint stock companies, although not by banks or state companies. There are no limitations on the issuance. The identity of the first owner is registered; however, subsequent sales are not recorded. The GOB indicated these share are rarely issued.

Bulgaria does not systematically track cross-border electronic currency transactions, thereby making Bulgaria an attractive entry point to funnel money into the European financial system. During the year, the FID-DANS noted an increase in flows of money through Bulgaria. Bulgaria's Customs Agency collects criminal intelligence from its officers at points of entry, reviews cash reporting documents, and requests assistance from foreign partners to determine whether cash couriers are engaged in criminal activity. Customs officers have intercepted enormous quantities of cash in hidden compartments in cars.

Cash transactions in Bulgaria have grown an average of 46 percent per year over the past three years (while the economy has grown, on average, about seven percent). In 2008, the FID-DANS received 344,897 CTRs, but only 592 STRs for a total value of 257,459,070 euros (approximately \$347,569,740). Banks submitted 515 of the STRs. Given the scale of growth of cash transactions over the 30,000 BGN (approximately \$22,500) reporting threshold, the number of STRs is exceptionally low. Some banks in Bulgaria have not filed any suspicious transaction reports in the past three years, with no clear consequence for the vast majority of them. Other locally-owned Bulgarian banks do inordinate volumes of their business in cash. Despite the cash intensive nature of Bulgaria's economy, the large volume of cash transactions being observed in Bulgarian business is disproportionate to ordinary, customary, and normal practices.

Historically 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. According to its most recent evaluation of Bulgaria conducted in 2007, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force-style regional body, noted deficiencies in Bulgaria's STR reporting regime, citing (among other problems) a lack of reporting from nonbanking financial institutions. During 2008, FID-DANS noted that while the compliance by nonbank entities remained low, the quality of their STRs

improved. As of September 2008, the FID-DANS inspected eight exchange offices, imposing fines in seven cases for a total of 20,000 BNG (approximately \$13,000) for failure to identify clients or request declarations on the origin of funds, and for not filing STRs.

DANS and the Prosecution Service drafted an instruction regulating interaction mechanisms between the two entities, including elements on interaction of FID-DANS and the Prosecutors Office. The instruction also establishes a permanent Contact Group of four prosecutor sector heads within the Supreme Prosecutors Office of Cassation and four directors from DANS, including the FID Director, to coordinate and manage cooperation between the two entities. DANS also drafted another instruction regulating interaction mechanisms between DANS and the Interior Ministry. These two instructions, signed by the Chairman of DANS and the Prosecutor General and Minister of Interior, respectively, replace the prior instructions on cooperation mechanisms.

Although case law remains weak, there has been an increase in the prosecution of money laundering cases. In October 2006, the courts rendered the country's first two convictions for money laundering. Bulgaria still has failed to convict a major high-profile organized crime figure, and most money laundering cases involve relatively small amounts of money and lower level crime figures. In the first half of 2008, prosecutors worked on 106 pre-trial investigations compared to 54 for the same period of 2007, or a 51 percent increase in caseload. During this period, prosecutors filed five indictments in court (equal to the number of indictments in the first half of 2007), against eight persons (as compared to five persons in the first half of 2007). There were two convictions (as compared to four in the first half of 2007) and no acquittals. Bulgaria's location as a crossroads for the entry into Europe of southwest Asian narcotics suggests that drug monies flow as well, as do proceeds from trafficking in persons and other crime activities. Money laundering has not figured prominently in legal cases against such perpetrators, though the Ministry of Interior is eager to strengthen its capacity in this area.

Although there are few indications of terrorist financing directly connected with Bulgaria, the possibility remains that terrorism-related funds can transit Bulgarian borders through cash couriers and other informal mechanisms. In 2008, FID-DANS received only one STR in the amount of 1,681,248 euros (approximately \$2,269,685) related to possible terrorist financing. To date, no suspected terrorist assets have been identified, frozen, or seized by Bulgarian authorities. 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 authorizes the FID to use its resources and financial intelligence to combat terrorist financing along with money laundering. Bulgaria's STR reporting requirements with regard to terrorist financing are still deficient, however, lacking a reporting obligation covering funds suspected to be linked to terrorists or terrorist financing.

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, DANS, Council of Ministers, Supreme Administrative Court, Sofia City Court, and the Prosecutor General. The FID-DANS and the Bulgarian National Bank circulate the names of suspected terrorists and terrorist organizations found on the UNSCR 1267 Sanctions Committee's Consolidated List, the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224, and those designated by the relevant EU authorities.

Although alternative remittance systems may operate in Bulgaria, their prevalence 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 civil 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 Forfeiture 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. Since its establishment, the Commission has faced strong criticism and demands for its closure from both government officials who question its effectiveness and politically connected businessmen allegedly protecting their interests. Initial indications show that the Commission is starting to become effective despite the fact that the process is slow, requires preliminary criminal prosecution against the owner, and often results in assets being transferred to relatives or significantly undervalued. As of October 2008, the Commission froze five million BGN (approximately \$3,300,000). During this period, the Commission noted that first instance courts in six cases (approximately 80 percent of the cases) granted claims for 2.8 million BGN (approximately \$1,800,000). In one case, the Commission accepted a conviction from a U.S. federal court as the basis for asset freezing and forfeiture proceedings in Bulgaria.

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. As of October 2007, the FID had bilateral memoranda of understanding (MOU) regarding information exchange relating to money laundering with 28 countries. The FID-DANS is authorized by law to exchange financial intelligence on the basis of reciprocity without the need of an MOU. As of October 2007, the FID-DANS sent 261 requests for information to foreign FIUs and received 54 requests for assistance from foreign FIUs.

Bulgaria participates in MONEYVAL, and the FID Director is the current Chairman of MONEYVAL. The FID-DANS is a member of the Egmont Group. Bulgaria is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption.

Until December 2007, Bulgaria's legislative framework was largely viewed as consistent with international AML standards. The Act on the State Agency for National Security compromised the FID's independence and investigatory mandate. It is essential that the Government of Bulgaria rectify these shortcomings. It must clarify and strengthen the FID's inspection and sanctioning authorities. The GOB should also take steps to improve and tighten its regulatory and reporting regime, particularly with regard to nonbank sectors, bearer shares, and cash payments, including cash withdrawals and exchanges, cross border transactions, and real estate transactions. The GOB should correct the deficiencies in its STR system regarding suspected terrorist financing. 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. Interagency cooperation should be streamlined to ensure effective implementation of Bulgaria's anti-money laundering and counterterrorist financing regime, and to improve prosecutorial effectiveness in money laundering, trafficking, narcotics, and terrorist financing cases. To improve judicial review of money laundering cases, the Government should enhance the capacity of judges regarding money laundering

and promote a consistent interpretation of money laundering and asset forfeiture laws. In order to remove the risk that criminal interests are able to regain possession of confiscated goods, the GOB should also clarify the authorities of the Asset Forfeiture Commission so as to provide a mechanism to manage and dispose of confiscated properties.

Burma

Burma is a major drug-producing country and its economy remains dominated by state-owned entities, including the military. Drug trafficking and human trafficking are the major sources of money laundering in Burma. Wildlife, gems, timber, and other contraband flow through Burma and are additional sources of money laundering, as is public corruption. 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. Regionally, value transfer via trade is of concern and hawala/hundi networks frequently use trade goods to provide countervaluation. 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 2008, the criminal underground faces little risk of enforcement and prosecution. Corruption in business and government is a major problem. Burma is ranked 178 out of 180 countries in Transparency International's 2008 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 Asia/Pacific Group on Money Laundering (APG)—the relevant FATF-style regional body (FSRB) continues to monitor developments there for a period of time after de-listing. In 2008, the FATF advised the GOB to enhance regulation of the financial sector, including the securities industry, and to ensure that the GOB responds adequately to any foreign requests for cooperation.

Burma underwent a mutual evaluation by the APG in July 2008. This evaluation assessed Burma's AML/CTF regime as noncompliant or only partially compliant in all but four of the FATF 49 recommendations, a clear indication that Burma remains highly vulnerable to money laundering and terrorism finance threats. Key findings in the report included the observation that Burma has no law specifically penalizing terrorism as a separate crime, and has not enacted a law specifically criminalizing terrorist financing and designating it as one of the predicate offences to money laundering. In addition, the prevalent use of the U.S. dollar in Burma makes cash courier/currency smuggling of U.S. dollars an attractive method of laundering illicit proceeds.

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 2004. 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 \$75,000). Between 2004 and August 2008, more than 86,000 cash transaction reports were filed. However, the FIU lacks a separate budget and its independence is hampered by the operational role of the Central Control Board (CCB) in Suspicious Transaction Reporting (STR) processing. 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 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, 2007, and 2008. 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 anti-money laundering (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. However, there are significant inadequacies in the Control of Money Laundering Law and regulations for a number of key preventive measures including the obligation to identify persons who either control or are the actual beneficial owners of corporations and the absence of application of customer due diligence to existing customers or to politically exposed persons (PEPs).

In 2007, the Burmese Government amended its “Control of Money Laundering Law” to expand the list of predicate offences 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. However, there is no law or regulation that requires the licensing or registration of informal money remitters (Hundi), other than as financial institutions. In March 2008, the CCB brought additional nonbank financial institutions, including the Andaman Club Resort Hotel and gems and jade trading companies (both wholesale and retail) under the AML/CTF compliance regime. However, there is no law or regulation that requires the licensing or registration of informal money remitters (Hundi), (other than as financial institutions) or to Designated Non-Financial Businesses and Professions. The Central Bank also required banks and financial institutions to maintain all records and documents related to customer accounts and transactions for a minimum of five years. Currently, there are 4 state-owned banks, 15 domestic private banks and a few nonbank financial institutions, which include a state-owned insurance enterprise, a state owned small loan enterprise, and a private owned leasing company.

The Law Relating to Forming Organizations (LRPO) governs Non-Profit Organizations (NPOs) of which there are three hundred and two registered under this law, seventy-eight of which have international connections. There has been no comprehensive review of the LRFO or the NPO sector including any review to assess the vulnerabilities to terrorist financing, nor is there any requirement for NPOs to maintain and make their records available to public authorities.

As of August 2008, a total of 1,495 STRs had been received. In 2007, nine cases were identified as potential money laundering investigations. As of August 2008, the FIU received 444 STRs, of which seven cases were identified as potential money laundering investigations. The FIU has investigated four cases to date, two of which were sent to the courts for prosecution. According to the 2008 Asia Pacific Group on Money Laundering (APG) Mutual Evaluation Report, there has been only one conviction for money laundering itself since 2004 despite twenty-three money laundering investigations and fifty-four people having been convicted for predicate crimes under the “Control of Money Laundering Law.

The United States maintains the anti-money laundering measures it adopted against Burma in 2004, identifying 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 measures prohibit 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.

The United States also maintains other sanctions on Burma, which include bans on certain importations, new investment, and certain financial transactions, as well as a visa ban on selected individuals. Under the Block Burmese JADE (Junta’s Anti-Democratic Efforts) Act of 2008, the Burmese Freedom and Democracy Act of 2003, and several Executive Orders, the United States bans the transfer of funds and other provision of financial services to Burma by any U.S. person, freezes assets of the ruling junta and other Burmese individuals and entities, and prohibits the import of all Burmese-origin goods into the United States (with tighter restrictions on jadeite and rubies). Additional U.S. laws—such as 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, and the Tariff Act (19 USC 1307)—place further restrictions on financial transactions with Burma. Other U.S. sanctions, such as visa bans on certain individuals affiliated with the military regime, also apply to Burma.

In September 2008, the United States Government identified Burma as one of three countries in the world that had “failed demonstrably” to meet its international counternarcotics obligations. On November 13, 2008, the Office of Foreign Assets Control in the Department of the Treasury named 26 individuals and 17 companies tied to Burma’s Wei Hsueh Kang and the United Wa State Army (UWSA) as Specially Designated Narcotics Traffickers pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act). Wei Hsueh Kang and the UWSA were designated by the president as Foreign Narcotics Kingpin on June 1, 2000 and June 2, 2003 respectively.

Burma became a member of the Asia Pacific Group on Money Laundering in 2006. The GOB is a party to the 1988 UN Drug Convention. Over the past several years, Burma has expanded its counternarcotics cooperation with other states. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, the Philippines, China, and Thailand. These agreements include cooperation on drug-related money laundering issues. In July 2005, the Myanmar Central Control Board signed an MOU with Thailand’s Anti-Money Laundering Office governing the exchange of information and financial intelligence. The government signed a cooperative MOU with Indonesia’s FIU in November 2006.

Burma is a party to the UN Convention against Transnational Organized Crime and to the UN Convention for the Suppression of the Financing of Terrorism. Burma is not a party to the UN Convention on Corruption. Burma signed the Treaty on Mutual Legal Assistance in Criminal Matters among Like-Minded ASEAN Member Countries in January 2006, and deposited its instrument of ratification with the Attorney General of Malaysia in January 2009.

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/counterterrorist financing regime, Burma must provide the necessary resources to administrative and judicial authorities who supervise the financial sector so they can apply and enforce the government's regulations to fight money laundering successfully. Burma must also continue to improve its enforcement of the new regulations and oversight of its financial sector, including its banks, its DNFBPs as well as its NPOs. The GOB should 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 and the FIU should become a fully funded independent agency that is allowed to function without interference. Customs should be strengthened and authorities should monitor more carefully the misuse of trade and its role in informal remittance or hawala/hundi networks. Burma should become a party to the UN Convention against Corruption. 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. Finally, the GOB should adhere to all laws and regulations that govern anti-money laundering and terrorist financing to which it is committed by virtue of its membership in the UN and the APG.

Cambodia

Cambodia is neither an important regional financial center nor an offshore financial center. The major sources of money laundering are widespread human trafficking and exploitation, drug trafficking, and corruption. Cambodia serves as a transit route for drug trafficking from the Golden Triangle to international drug markets such as Vietnam, mainland China, Taiwan, and Australia. Cambodia's fledgling anti-money laundering regime, a cash-based economy with an active informal banking system, porous borders with attendant smuggling, limited capacity of the National Bank of Cambodia (NBC) to supervise a rapidly expanding banking sector, and widespread corruption continue to contribute to a significant money laundering risk. 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 the 2003 case involving Jemaah Islamiyah (JI). However, with the 2007 enactment of the "Law on Anti-Money Laundering and Combating the Financing of Terrorism" (AML/CTF) and the subsequent May 2008 implementing regulation, and the enactment of the "Law on Counter Terrorism" Cambodia has created a foundation to combat acts of money laundering and terrorist financing within the banking sector. Additional implementing regulations are needed to bring all designated nonfinancial businesses and professions (DNFBPs) into compliance with reporting requirements established in the AML/CTF law.

The AML/CTF law was promulgated in June 2007 and provides the framework for the Cambodian Financial Intelligence Unit (CAFIU) to exert control over banks and DNFBPs, such as casinos and realtors and entities to be designated by the CAFIU. The NBC is making strides to regulate large or suspicious financial transactions. There were two suspicious cases reported as of the third quarter of 2008 and investigations are ongoing. The Prakas (implementing regulation) on the AML/CTF law was issued on May 30, 2008, and was soon to put into force. The new Prakas places a wide range of AML/CTF obligations on banks and financial institutions that are regulated by the NBC. Since then, the CAFIU has been working with the Ministry of Interior, Ministry of Justice, and other relevant ministries to take cooperative action, ranging from identifying and reporting suspicious financial transactions, raising awareness, to lodging judicial complaints to the Ministry of Justice for court action on possible cases. The Prakas requires all reporting entities regulated by the NBC to report on a regular basis and to establish internal control systems for AML/CTF procedures to be fully compliant with the law. However, additional decrees are necessary to establish reporting procedures and formats for DNFBPs to fully implement the AML/CTF law. The Ministry of Interior has a legal responsibility for general oversight of casinos operations and providing security; however, in practice it exerts little

supervision. The Ministry of Interior is authorized to investigate cases of suspicious transactions reported to it by the CAFIU.

Cambodia's banking sector is relatively small, yet rapidly expanding, with 25 commercial banks (an increase of ten in the last year); six specialized banks; 18 registered micro-finance institutions (MFIs); 3,808 money exchangers (556 in Phnom Penh and 3,252 in the provinces); and 26 registered and roughly 60 unregistered NGO credit operators. Bank operations are widely made on a cash basis and predominantly in U.S. dollars. Recently, the Royal Government of Cambodia (GOC) encouraged the use of the national currency (the riel) in lending and borrowing. Despite an increase in the use of banking and finance systems, overall lending and banking activities remain low due to lack of trust and prohibitive interest rates on loans. Increased borrowing and loans are due mainly to expansion in the construction and real estate sectors. Economists note that while a typical country would have a bank deposit to GDP ratio of roughly 60 percent, Cambodia's ratio is only 26.2 percent (August 2008), low even by developing economy standards. Cambodia's banking system is highly consolidated, with two banks—Canada Bank and ANZ Royal—accounting for more than 30 percent of all bank deposits. In addition to banks, individual and legal persons can undertake foreign exchange provided they register with the NBC.

The NBC has regulatory responsibility for the banking sector, and it audits and inspects individual banks on-site on an annual basis to ensure full compliance with laws and regulations. Moreover, off-site investigations can be made on a daily, weekly, or monthly basis contingent upon each individual case. The AML/CTF law requires that banks and other financial institutions report transactions over 40,000,000 riel (approximately U.S. \$10,000). However, large cash reporting is not yet implemented due to lack of a database within the CAFIU. While there are no reports to indicate that banking institutions themselves are knowingly engaged in money laundering, until the CAFIU was established, government audits would likely not have been 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 on average by about 41.6 per cent per year from 2004 to 2007. From January to August of 2008, deposits grew on average by 52 percent, due in part to new increased deposit requirements. 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, continues to grow.

Cambodia lacks meaningful statistics on the extent of financial crime that exists and only a few crime statistics and limited open source information is available to evaluate the major sources of illicit funds. Despite the establishment of the CAFIU, some larger-scale money laundering in Cambodia may also flow through informal banking activities and/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 across borders. The black market in Cambodia for smuggled goods, including drugs and imported substances for local production of the methamphetamine ATS, is notable. Most of the smuggling is intended to circumvent official duties and evade tax obligations and involves items such as fuel, alcohol optical disks, and cigarettes. Some government officials and their private sector associates have some control over the smuggling trade and its proceeds. Cambodia's economy is cash-based and largely dollarized, and the smuggling trade is usually conducted in U.S. dollars. Such proceeds are rarely transferred through the banking system or other financial institutions. Instead, they are readily channeled into land, housing, luxury goods or other forms of property. Cambodia's urban real estate sector, fueled by foreign investment, has witnessed rapid growth and soaring prices in recent years.

The CAFIU is under the control and financing of the NBC with a Permanent Secretariat working under the supervision of a Board of Directors composed of one senior representative each from the NBC, Council of Ministers, and the Ministries of Economy and Finance, Justice, and Interior. Under Article 5 of the Prakas on AML/CTF, banks and financial institutions are required to conduct customer

due diligence when carrying out an occasional or one-off transaction that involves a sum in excess of U.S. \$10,000 (or 40 million riel or foreign currency equivalent) or a wire transfer that involves a sum in excess of U.S. \$ 1,000 (or 4 million riel or other equivalent foreign currency). The CAFIU has also offered “Know Your Customer” and other training to banking institutions to inform them of their obligations under the new AML/CTF regime.

The CAFIU has the authority to apply anti-money laundering requirements to DNFBPs such as casinos and other intermediaries, such as lawyers, notaries, and accountants. The major nonbank financial institutions in Cambodia are the casinos, which the authorities have noted are particularly vulnerable to money laundering. By law, foreigners, but not Cambodian nationals, are allowed to gamble in 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 CAFIU has the authority to receive and disseminate reports, including suspicious transaction reports, on casino financial transactions and cooperate with casino regulators on AML/CTF. There are currently 27 operational licensed casinos in Cambodia, a few other licensed casinos are under construction, and there are an unrecorded number of small-sized gambling houses. Most casinos are located along Cambodia’s north-west border with Thailand and along the Cambodia’s southeastern border with Vietnam. However, one can also find casinos and so-called ‘gambling houses’ at hotels in major cities and towns. 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 NBC. 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 to seize the cash or instruments involved. Therefore, Cambodia does not at present have a system in place for effective monitoring cross border movement of cash and monetary instruments as required by international standards on AML/CTF.

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 2007 AML/CTF law, these 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 Draft Criminal Code, which is currently under consideration by the Council of Ministers, has provisions to criminalize money laundering in relation to proceeds from all serious crime.

The 2007 Law on Counter Terrorism criminalizes terrorist financing; and regulations on transactions suspected of financing terrorism are covered by the AML/CTF law. Under the 2007 Law on Counter Terrorism, the Minister of Justice may order the prosecutor to freeze property of a legal or natural person if that person 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 a 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 May 2008, the UN Counter-Terrorism Committee Executive Directorate (CTED) visited Cambodia and commended the GOC for the significant progress achieved in developing its AML/CTF regime but also noted remaining deficiencies. The CTED recommended that the CAFIU be further empowered to develop implementation and coordination procedures and undertake related training and public awareness campaigns. The CTED also recommended the development of procedures to ensure adequate AML/CTF measures, in particular for casino operations and real estate transactions.

Cambodia is a party to the UN Drug Convention, the UN Convention Against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. In June 2004, Cambodia joined the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF) style regional body.

The Government of Cambodia (GOC) should take steps enact the Draft Criminal Code as a matter of priority so as to adopt a money laundering offence for proceeds of all serious crime. In addition, the GOC should strengthen control over its porous borders as well as increase the capability of its nascent FIU. The GOC should issue additional decrees necessary to fully implement the AML/CTF law—particularly implementing provisions relating to designated nonfinancial businesses and professions mandating compliance with reporting requirements established in the AML/CTF law. Developing the capability of its law enforcement and judicial authorities to investigate, prosecute, and adjudicate financial crimes are necessities. Establishing a national coordination group, including all relevant agencies involved in AML/CTF issues should be considered a high priority for the GOC to ensure that its AML/CTF regime comports with international standards.

Canada

Money laundering in Canada is primarily associated with drug trafficking and financial crimes, particularly those related to fraud. According to the Canadian Security Intelligence Service (CSIS), criminals launder an estimated \$5 to \$17 billion each year. With \$1.5 billion in trade crossing the border each day, the United States and Canadian governments share concerns about illicit cross-border movements of currency, particularly the proceeds of drug trafficking. Organized criminal groups involved in drug trafficking also remain a challenge. CSIS estimates that approximately 950 organized crime groups operate in Canada, with approximately 80 percent of all crime groups in Canada involved in the illicit drug trade.

The Government of Canada (GOC) enacted the Proceeds of Crime (Money Laundering) Act in 2000 to criminalize money laundering, facilitate the investigation and prosecution of money laundering, and create the financial intelligence unit (FIU), known as 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 law expands the list of predicate money laundering offenses to cover all indictable offenses, including terrorism and trafficking in persons.

The PCMLTFA created a mandatory reporting system for suspicious financial transactions, large cash transactions, large international electronic funds transfers, and suspected terrorist property. Failure to file a suspicious transaction report (STR) could result in up to five years' imprisonment, a fine of approximately \$2 million, or both. The law protects those filing suspicious transaction reports from civil and criminal prosecution.

The PCMLTFA requires reporting of all cross-border movement, including through the mail system, of currency and monetary instruments totaling or exceeding C\$10,000 (approximately \$7931), to the Canadian Border Services Agency (CBSA). Failure to report cross-border movements of currency and monetary instruments could result in seizure of funds or penalties ranging from C\$250 to C\$5,000 (approximately \$198 to \$3966). The CBSA forwards cross-border and cash seizure reports to FINTRAC. The CBSA also provides evidence to the RCMP, which investigates and brings charges. From April 2007 through March 2008, CBSA seizures totaled C\$40 million (approximately \$31.72 million). In the same interval, CBSA executed 130 "Level IV" seizures, which occur when a CBSA officer suspects funds are proceeds of crime or linked to terrorist activities.

In December 2006, Parliament passed Bill C-25, amending the PCMLTFA. This legislation expands the coverage of Canada's anti-money laundering (AML) and counterterrorist financing (CTF) regime and applies to banks; credit unions; life insurance companies; trust and loan companies; brokers/dealers of securities; foreign exchange dealers; money services businesses; sellers and redeemers of money orders; accountants; real estate brokers; and casinos. In December 2008, lawyers, notaries (in Québec and British Columbia only) and dealers in precious metals and stones became subject to the PCMLTFA. However, lawyers in several provinces have successfully filed legal challenges to the applicability of the PCMLTFA to them based upon common law attorney-client privileges, so lawyers are not completely covered by the AML provisions.

Bill C-25 enhances client identification and record-keeping by requiring greater scrutiny of correspondent banking relationships; enhanced monitoring of politically exposed persons; expanded record keeping and due diligence requirements for real estate agents and brokers; mandatory risk assessments to mitigate high risk activities for money laundering and terrorist financing; originator information for outgoing international wire transfers; and information on the beneficial owners of corporations. The Bill mandates that FINTRAC create a national registry for money service businesses, and establish a system to render administrative monetary penalties for noncompliance effective December 2008. FINTRAC's administrative monetary penalties regime provides for fines of up to C\$1,000 (\$793) for a minor violation, up to C\$10,000 (approximately \$7931) for a serious violation, and as much as C\$500,000 (\$396,445) for a very serious violation.

In February 2008, the Financial Action Task Force (FATF) adopted a mutual evaluation report (MER) of Canada. The report stated that although Canada has strengthened its overall AML/CTF regime, shortcomings still existed, including the scope and coverage of the AML/CTF requirements applicable to designated nonfinancial business and professions. The report also cited concern regarding FINTRAC's effectiveness communicating relevant information to law enforcement authorities. The mutual evaluation on-site assessment visit took place after the passage of Bill C-25, but before Canada could implement all related measures. In June 2008, Canada implemented the bill, resulting in a somewhat stronger comportment with international standards. As a result of the implementation of the bill, authorities introduced a risk-based approach, required new client identification and recordkeeping requirements for real estate agents and brokers, and established a national registry of money service businesses to ensure sector compliance and transparency. Bill C-25 also permits FINTRAC to include

additional information in the intelligence product that it can disclose to law enforcement and national security agencies.

While Canada's Office of the Superintendent of Financial Institutions (OSFI) and other federal and provincial regulatory agencies supervise institutions for safety and soundness, FINTRAC is the sole authority with the mandate to ensure compliance with the PCMLTFA and associated regulations. FINTRAC recently revised regulations and guidelines explaining the PCMLTFA and its requirements to incorporate the most recent implementation of Bill C-25 effective June 2008. The guidelines provide an overview of FINTRAC's mandate and responsibilities, and include background information about money laundering and terrorist financing. The guidelines also provide an outline of requirements for maintaining a compliance regime, record-keeping, client identification, and reporting transactions.

Operational since 2001, FINTRAC is an independent agency with regulatory and FIU functions. FINTRAC has a staff of approximately 320 employees that work as analysts, compliance officers, and information technology specialists. FINTRAC receives and analyzes reports from regulated entities as mandated by the PCMLTFA, and disseminates its findings—disclosures—to law enforcement and intelligence agencies. 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 requires an MOU in order to exchange information and has signed 53 MOUs with foreign counterparts. From April 2007 to the end of March 2008, Canada sent 62 case disclosures to partner FIUs.

FINTRAC received over 21 million reports from reporting entities between April 2007 and the end of March 2008. These reports included more than 50,000 STRs more than 5.5 million cash transaction reports, in excess of 50,000 cross-border reports, and more than 16 million electronic funds transfer reports (which includes funds that enter and exit the country). FINTRAC may only disclose information related to money laundering or terrorist financing offenses. FINTRAC produced a total of 210 case disclosures between 2007 and 2008. Of the 210 case disclosures, 171 were suspected money laundering, 29 were suspected terrorist activity, and 10 involved suspected money laundering, terrorist financing, and/or threats to the security of Canada.

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. 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. From April 2007 through the end of March 2008, FINTRAC conducted 277 examinations with national and provincial regulatory agencies conducting 257 examinations for their respective sectors. FINTRAC identified and disclosed five cases of noncompliance for further law enforcement investigation and prosecution. OSFI completed 13 AML on-site compliance examinations of financial institutions. The Department of Finance has established a public/private sector advisory committee and is now coordinating a National Risk Assessment. In May 2008, the OSFI held an information session on the risk-based approach.

Although all Canadian police forces can investigate money laundering and terrorist financing offenses, the Royal Canadian Mounted Police (RCMP), in particular its Integrated Proceeds of Crime Initiative (IPOC) Units, and the provincial law enforcement authorities in Ontario (the Ontario Provincial Police) and Québec (Sûreté du Québec) undertake virtually all money laundering and terrorist financing investigations. In 2007, the RCMP opened 73 money laundering cases, and opened seven in the first four months of 2008; most have not concluded. The RCMP also seized approximately \$8.9 million and forfeited \$283,000 in 2007. In the first half of 2008, RCMP seized approximately \$484,000.

The attorney general of Canada (through public prosecution offices) and provincial attorney generals prosecute money laundering and terrorist financing cases. In 2007, authorities charged targets with 150 possession of proceeds of crime charges, three specifically for money laundering, and in the first four months of 2008 registered four such charges, none specific to money laundering. In 2007 prosecutors obtained five convictions of the original 150 and none in 2008.

The PCMLTFA enables Canadian authorities to identify, deter, disable, prosecute, convict, and punish terrorist groups. The PCMLTFA expands FINTRAC's mandate to include counterterrorist financing and allow disclosures to CSIS of information related to financial transactions relevant to threats against Canadian security. The GOC also designates suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. Financial institutions must freeze the assets of those designated. The PCMLTFA also prohibits fundraising for these organizations. There are currently more than 500 individuals and entities associated with terrorist activities designated by the GOC. Investigations indicate that terrorist cells generate funds locally through drug trafficking and various fraud schemes, and terrorist groups employ identical methods to money launderers including bulk cash smuggling; the use of the formal banking sector; money exchange/transfer services; and emerging technology such as internet transfer systems. To deter the exploitation of nonprofit and charitable organizations by terrorists, the 2001 reforms criminalize knowingly collecting or providing funds to carry out terrorism. They also denied or removed special charitable status from nonprofits supporting terrorism; and facilitated freezing and seizing their assets.

Canada has longstanding agreements with the U. S. on law enforcement cooperation, including treaties on extradition and mutual legal assistance, as well as an asset sharing agreement. Recent cooperation concerns focus on the inability of U.S. 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 between the CBSA and the U.S. Department of Homeland Security's Immigration and Customs Enforcement (ICE) on exchange of cross-border currency declarations expanded the extremely narrow disclosure policy. However, the scope of the exchange remains restrictive. To remedy this, the CBSA is developing an information-sharing MOU with the United States related to its Cross-Border Currency Reporting Program.

Canada is a party to the UN 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.

Canada is a member of the FATF as well as the Asia/Pacific Group on Money Laundering (APG), and is a supporting nation of 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 is a member of the Egmont Group, which maintains its Secretariat in Toronto. The GOC is contributing approximately \$5 million over a five-year period to help establish the Secretariat.

The Government of Canada has demonstrated a strong commitment to combat money laundering and terrorist financing both domestically and internationally. In 2008, the GOC continued to make strides in enhancing its AML/CTF regime, and reducing its vulnerability to money laundering and terrorist financing. The GOC should continue to 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. FINTRAC should maintain its new registry of money services bureaus, making use of the registry and executing compliance examinations. The GOC should also continue to improve the communication between FINTRAC and law enforcement authorities. The GOC should ensure effective reporting of cross-border reports to FINTRAC and increase efforts to share information in this regard with U.S. counterparts.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continues to make strides in strengthening its anti-money laundering and counterterrorist 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 and drug trafficking. Due to their status as a zero tax regime, the Cayman Islands is also considered attractive to those seeking to evade taxes in their home jurisdiction.

The Cayman Islands is home to a well-developed offshore financial center that provides a wide range of services, including banking, structured finance, and investment funds, various types of trusts, and company formation and management. As of December 2008, there are approximately 278 banks, 159 active trust licenses, 773 captive insurance companies, seven money service businesses, and more than 62,572 exempt companies licensed or registered in the Cayman Islands. At the end of June 2008, there were 10,037 hedge funds registered, up from 9,413 at the end of 2007, according to the Cayman Islands Monetary Authority (CIMA). 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. As an offshore financial center with no direct taxes and a strong reputation for having a stable legal and financial services infrastructure, the Cayman Islands is attractive to businesses based in the United States and elsewhere for legal purposes but also equally attractive to criminal organizations seeking to disguise the proceeds of illicit activity.

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.

The Proceeds of Crime Law 2008 (POCL) came into effect in September 2008. The law repeals and replaces the Proceeds of Criminal Conduct Law (2007 revision). The POCL introduces the concept of criminal property (includes terrorist property) that constitutes a person's benefit (directly or indirectly) from criminal conduct; tax offenses are not included. No longer applicable to an indictable offense, the term criminal conduct was also amended to cover any offense. Extraterritorial and appropriate ancillary offenses are covered in domestic legislation and criminal liability extends to legal persons. The POCL also consolidates the law relating to the confiscation of the proceeds of crime and the law relating to mutual legal assistance in criminal matters. The penalties for money laundering are \$5000 Cayman Island (KYD) dollars (approximately \$6,125) fine and/or imprisonment for two years for summary conviction, and a fine and/or imprisonment for 14 years on conviction on indictment.

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 counterterrorist 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 Money Laundering (Amendment) Regulations 2008, which came into force on October 24, 2008. A 2007 amendment to the Money Laundering Regulations brought dealers of precious metals and stones under the definition of relevant financial businesses, and they were 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.

Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing (Guidance Notes) are issued by the CIMA and were last amended in December 2008. The amendments, among other things, require institutions to keep appropriate evidence of client identification, account opening or new business documentation. Adequate records identifying relevant

financial transactions should be kept for a period of five years following the closing of an account, the end of the transaction or the termination of the business relationship. This includes records pertaining to inquiries about complex, unusual large transactions, and unusual patterns of transactions. The amendments also address correspondent banking and enhanced due diligence procedures. Financial institutions are prohibited from correspondent relationships with shell banks. In addition, financial institutions must satisfy that respondent financial institutions in a foreign country do not permit their accounts to be used by shell banks.

The CIMA conducts on-site and off-site examinations of licensees. These examinations include monitoring for compliance with the POCL and the CIMA's Guidance Notes. Additional requirements of 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 KYD \$15,000 (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. Tipping off provisions were broadened through the POCL and include situations where an individual knows or suspects that criminal conduct is about to take, is presently taking, or has taken place. The penalties for tipping off were increased to a KYD \$5000 fine and/or imprisonment for two years for summary conviction, and a fine and/or imprisonment for five years on conviction on indictment.

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. From June 2007 through June 2008, the FRA reviewed 247 cases and made 70 disclosures to domestic and foreign law enforcement and regulatory agencies. The majority of reports filed were related to suspicious financial activity, fraud, and money laundering. Under the PCCL, the FRA has the authority to require all obligated entities to provide additional information related to a SAR. The FRA can request a court order to freeze bank accounts if it suspects the account is linked to money laundering or terrorist financing. The FRA is an active member of the Egmont Group and has Memoranda of Understanding in place with Australia, Canada, Chile, Guatemala, Indonesia, Mauritius, Nigeria, Thailand, and the United States.

The Financial Crime Unit (FCU) of the Royal Cayman Islands Police Service (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. In July 2008, the FCU arrested an individual in connection with the collapse of the Grand Island Fund following serious irregularities in the fund's

trading activities. The collapse of the fund is believed to involve millions of dollars. The FCU investigation is ongoing.

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 KYD \$15,000 (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 the 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. The POCL provides the Attorney-General with the ability to issue restraint orders once an investigation has begun without the need to bring charges within 21 days. Confiscation orders may also now be made by the Attorney-General upon conviction in either Summary or Grand Courts. The legislation also permits the Attorney General to bring civil proceedings for the recovery of the proceeds of crime. 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 (TUNMOTO). The Cayman Islands criminalized terrorist financing through the passage of the Terrorism Bill 2003, which extends criminal liability to the use of money or property for the purposes of terrorism. It also contains a specific 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 (MLAT) 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. Many U.S. investigations involve, at some stage, a defendant who has secreted funds in the Caymans, often in accounts held by offshore trust entities. Although generally helpful when receiving formal MLAT requests from the U.S. for assistance, the Cayman Islands has not been proactive with regard to money laundering prosecutions based on its own investigations.

The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body. In November 2007, CFATF conducted its third mutual evaluation of the Cayman Islands. The evaluation found the Cayman Islands to be compliant or largely compliant with 38 of the Forty-Nine Financial Action Task Force recommendations and noted that a strong culture of compliance exists within the AML/CTF regime. However, recommendations to address remaining weaknesses were identified. Over the course of 2008, the Cayman Islands revised legislation in accordance with most of the recommendations made in the report including the following: The Proceeds of Crime Law (POCL) was enacted in June 2008; The Money Laundering (Amendment) Regulations 2008 became enforceable in October 2008; The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing (GN) was revised and issued in September 2008.

In March 2008, the United Kingdom published The Foreign and Commonwealth Office: Managing Risk in the Overseas Territories. In terms of AML/CTF, the Foreign and Commonwealth Office indicated that regulatory standards in most Territories are not up to those of the Crown Dependencies (Jersey, Guernsey and the Isle of Man) and that a lack of capacity has reduced the ability of Territories

to investigate and prosecute money laundering. However, the report noted that only the Cayman Islands has, so far achieved successful prosecutions of local participants for offshore money laundering offenses. This trend will hopefully continue in the future, as it sets a model for other offshore financial sectors in the Caribbean basin. There have been only five money laundering convictions in the Cayman Islands since 2003, which is not a large amount considering the size of the Caymans' financial sector and the volume of offshore entities holding assets there.

In July 2008, the U.S. Government Accountability Office (GAO) issued a report entitled: "Cayman Islands: Business and Tax Advantages Attract U.S. Persons and Enforcement Challenges Exist." The report was conducted in response to a Congressional inquiry regarding offshore tax evasion; the business activities of U.S. taxpayers involving a corporate service provider in the Cayman Islands; the extent, motives, and tax implications of these activities; and the extent that the U.S. government has examined these activities.

The report found that U.S. persons who conduct financial activity in the Cayman Islands commonly do so to gain business advantages, such as facilitating U.S.-foreign transactions or to minimize or obtain tax advantages; while much of this activity is legal, some is not. In June 2008, two former Bear Stearns hedge fund managers were arrested and indicted in the U.S. on conspiracy and fraud charges related to the collapse of two Cayman Islands funds they oversaw. A companion civil suit to recover over \$1.5 billion in losses was filed against four individuals and companies in the Cayman Islands. The report did highlight the cooperation between U.S. agencies and its Cayman counterparts in investigating money laundering, financial crimes, and tax evasion. In general, U.S. officials said that cooperation with its Cayman counterparts has been good and that compliance problems are not more prevalent than elsewhere offshore.

The Government of the Cayman Islands bolstered its AML/CTF regime in 2008, to be in accordance with international standards. However, for a jurisdiction with one of the largest and most developed offshore sectors, the Cayman Islands should continue to strengthen and implement its AM.L/CTF regime to include ensuring the new provisions related to AML/CTF requirements for dealers in precious metals and stones. Additionally, the disclosure/declaration system for the cross-border movement of currency should be fully implemented. The Cayman Islands also should work to fully develop its capacity to investigate and prosecute money laundering and terrorist financing cases.

Chile

Chile has a large and well-developed banking and financial sector. Systemic vulnerabilities in Chile's anti-money laundering and combating the financing of terrorism (AML/CTF) regime include stringent bank secrecy laws that emphasize privacy rights impede Chilean efforts to identify and investigate money laundering and terrorist financing, as well as relatively new regulatory institutions in which oversight gaps remain. The Government of Chile (GOC) is actively seeking to turn Chile into a global financial center, but not an offshore financial center. Chile has Free Trade Agreements with 55 countries and is negotiating four more. Increased trade and currency flows, combined with an expanding economy, could attract illicit financial activity and money laundering. Given Chile's extensive trading partnerships and long and somewhat porous borders, its largely unregulated free trade zones are additional vulnerabilities. Illicit proceeds from limited drug trafficking and domestic consumption are laundered in the country.

Chile criminalized money laundering under Law 19.366 of 1995, Law 19.913 of 2003, and Law 20.119 of 2006. Law 19.913 identifies predicate offenses for money laundering, which include narcotics trafficking, terrorism in any form and the financing of terrorist acts or groups, illegal arms trafficking, kidnapping, fraud, corruption, child prostitution, 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.

Chile's financial intelligence unit (FIU) is the Unidad de Análisis Financiero (UAF), created by Law 19.913. The UAF is an autonomous agency affiliated with the Ministry of Finance and has a staff of 32—an increase from 21 personnel in 2007. It does not have criminal investigative or regulatory responsibilities. Law 19.913 requires mandatory reporting of suspicious transactions to the UAF, but does not establish specific parameters to determine irregular or suspicious activity. The UAF may access any government information (police, taxes, etc.) not covered by secrecy or privacy laws. The UAF can issue general instructions, such as requiring obligated entities to report any transactions by persons suspected of terrorist financing.

Financial institutions subject to suspicious transaction reporting requirements include banks, savings and loan associations, 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, and sports clubs. 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) (450 UF is approximately \$15,000). 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 six months. In all cases, institutions must report CTRs dating from May 2004, when the obligation to record cash transactions over 450 UF went into effect. The UAF had received 1,312 CTRs through June 2008, and 311 STRs through September 2008.

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. Since the beginning of 2008, a new pilot system that allows for better management of information by the UAF was put in place. The system allows Customs to file its reports directly from the place where the activity being reported is taking place. At this point, the system is fully operational at the Santiago Airport's Customs and in the process of being implemented in the rest of the country.

Law 20.119 authorizes the UAF to impose sanctions on obligated entities if they fail to comply with requirements to establish an AML/CTF system or report suspicious cash transactions. The sanctions range from warning letters to fines. In 2008, the UAF identified 35 cases where entities failed to comply with ALM/CTF requirements or report suspicious cash transactions. The UAF levied fines in 29 of the 35 cases. Of these 35 cases, nine involved factoring companies and eight involved currency exchange houses.

The UAF continues to develop its capabilities. In 2008, it created a compliance division to ensure that required entities meet reporting requirements. The compliance division will initially focus on currency exchange houses. The Association of Banks and Financial Institutions, the Superintendence of Banks and Financial Institutions (SBIF), and the UAF provide training and resources to required reporting entities. In 2008, the UAF organized several money laundering seminars for compliance officers at

banks and currency exchange houses. The UAF also issued instructions to customs agents and real estate agents that emphasized the importance of “know your customer” (KYC) requirements.

The SBIF supervises and regulates banks in Chile. 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 KYC standards and other money laundering controls for checking accounts. 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.

Chile’s gaming industry is supervised by the Superintendence of Casinos (SCJ). The SCJ is responsible for drafting regulations about casino facilities and managing the development of the industry. Online gambling is prohibited except for the Internet purchase of lottery tickets from one of Chile’s two lotteries. Sixteen 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 new casinos to operate in Chile after participating in an international and domestic bidding process to assign permits during 2005 and 2006. Eight new casinos opened in 2008. Six more are expected to open in 2009, bringing the total number of casinos to 22. The SCJ screened applications for the new casino licenses with the support of domestic and international police and financial institutions. Chilean law, however, limited 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 (approximately \$15,000) and to designate a compliance officer. According to the GOC, the UAF issued a regulation jointly with the SCJ, which verifies that to date 100 percent of operational casinos have: a compliance officer; an AML/CTF manual; and on site supervision and enforcement. In addition, the UAF instructed casinos to identify, know, and maintain records on all customers—Chileans and foreigners—who carry out any cash transaction over \$3,000; this is a reduction in the cash transaction threshold from \$10,000. The SCJ also requires the casinos to prepare and submit for approval manuals detailing their AML/CTF plan. The SCJ is actively 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 SJC and prohibit individuals without licenses from operating electronic gambling games.

While the regulatory and oversight system established by Chile for banks, financial institutions, and the gaming industry provides a foundation to combat money laundering, there are weaknesses. For example, there is no common definition for “suspicious activity” among financial institutions. The UAF publishes a list of warning signs to help reporting entities identify suspicious activity, but financial institutions are given wide latitude to police themselves regarding activities that could be considered suspicious. Another weakness is the absence of regulatory oversight for nonbank financial institutions such as money exchange houses and cash couriers. There are more than 60 money exchange houses in Santiago and 125 registered with the UAF throughout the country. While money exchange houses must register with the UAF, they are not supervised by any regulatory body. Non-bank 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. This sector appears particularly vulnerable to abuse by money launderers.

The Public Ministry directs the investigation and prosecution of money laundering cases. When the UAF receives a STR or a CTR, it analyzes the information and determines if an account or a case requires further investigation. If a case requires further investigation, the UAF passes the information to the Public Ministry. 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. Through September, the UAF referred 47 cases to the Public Ministry.

The Public Ministry's unit for money laundering and economic crimes proactively investigates potential crimes and seeks opportunities to enhance its capabilities. Public prosecutors in all regions have received training on money laundering. The money laundering unit has also developed reference materials for prosecutors, including a manual that provides practical steps to investigate assets in order 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 (PDI) and the uniformed national police (Carabineros) work in conjunction with the Public Ministry on money laundering investigations. The PDI has an economic crimes division and a unit dedicated to money laundering investigations. They also cooperate with U.S. and regional law enforcement in money laundering investigations. In 2004, this cooperation resulted in the break-up of an international money laundering ring that involved smugglers in Colombia, Chile and the United States.

The Public Ministry and police are competent and professional, but there are several factors that limit their ability to successfully investigate and prosecute money laundering cases. The units in charge of money laundering investigations and prosecutions are new and do not have extensive experience. There is a shortage of qualified investigators to pursue cases, and some institutional resistance to the idea that money laundering is worth prosecuting. Regulations also restrict information sharing among different agencies. Under the current money laundering laws, the UAF is prohibited from giving information directly to the PDI or Carabineros. The UAF is only permitted to share information with the Public Ministry and foreign FIUs. The PDI or Carabineros must request financial information from the Public Ministry, which in turn requests it from the UAF. The UAF responds with all available information, which the Public Ministry gives to the PDI or Carabineros, but this process costs valuable time.

The most significant obstacle to money laundering investigations is bank secrecy. Article 154 of the General Banking Law places all types of bank deposits and obligations under banking secrecy, and only allows banking institutions to share information about such transactions with the depositor or creditor (or an authorized legal representative). Law 707 states that banks may not share information about the movement and balances in a current account with a third party. Due to these legal restrictions, banks do not share information with prosecutors without a judicial order. Some banks and their compliance officers aggressively apply rigorous, international AML/CTF standards, but they are restricted to simply reporting suspicious activity and then waiting for the appropriate court authorization to release any private information. Other banks are slow to reply to judicial court orders to provide prosecutors with additional information. Police and prosecutors complain they lose valuable time waiting at least a month (but usually more) for some banks to provide 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 STR 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. 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 always received permission to examine an account when requested, but it has only made requests when it was confident the judge would comply. The system does not 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 under review 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 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. 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. 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 also 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. The GOC seized just over \$2 million in assets in 2008.

The GOC pursued 14 money laundering cases in 2008. Eleven cases were tied to drug trafficking, two of which were by-products of public corruption cases, and one derived from a prostitution case. The public corruption and prostitution cases are the first money laundering cases to be prosecuted that are not tied to drug trafficking. One case has led to a conviction and the other 13 cases are awaiting trial. The majority of the accused are being held in pre-trial detention. In the case that led to a conviction, the prosecution charged a Chilean member of an international criminal organization with drug trafficking and money laundering. The criminal organization included members from Mexico and Colombia. The defendant concealed illicit proceeds from drug sales and invested the money in various businesses. The defendant was sentenced to 10 years in prison; the case is noteworthy because of its complexity and international connections. While the GOC pursued two money laundering cases tied to public corruption in 2008, public corruption does not contribute significantly to money laundering in Chile. There is no indication that financial institutions engage in currency transactions involving international narcotics proceeds from significant amounts of U.S. currency or currency derived from drug sales in the United States. Most money laundering cases have been connected to domestic drug dealing. Detection methods, particularly when not tied to drug trafficking, are still weak. It is difficult to determine if other crimes, such as smuggling of goods, are connected to money laundering or if trade-based money laundering occurs. Given Chile's extensive trading partnerships, long borders, and advanced financial system, it is possible that criminal organizations, in addition to drug smugglers, use Chile as a money laundering location.

Chile has free trade zones in Iquique and Punta Arenas. The Iquique free trade zone is the larger of the two and has over 1,600 companies conducting retail and wholesale operations. It is located in northern Chile and has an extension in Arica, near Chile's border with Peru. Punta Arenas is located in southern

Chile and is relatively small compared to Iquique. The physical borders of both free trade zones are porous and largely uncontrolled. All companies in the free trade zones are reporting entities and are required to report any suspicious activity to the UAF. It is nearly impossible to determine the extent of money laundering in the free trade zones. Detection methods are weak and Chilean resources to combat the issue are limited. Iquique is 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. Police investigative efforts suggest possible criminal links between Iquique and the Tri-Border Area involving both terrorist financing of Hezbollah and Hamas and money laundering.

Laws 18.314 and 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 SBIF 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. To date, the GOC has not identified any terrorist assets belonging to individuals or groups named on the list. 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 GAFISUD, which was released in December 2006, the Finance Ministry initiated discussions with the SBIF 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 Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Chile is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and GAFISUD. During the GAFISUD Plenary XIV, Chile's Mutual Evaluation Report was approved. According to the GAFISUD procedures, the report was approved and a process of "intensive monitoring" was established. This was a result of low ratings on compliance with key FATF Recommendations. In the case of Chile, the evaluators rated Chile "partially compliant" on FATF Recommendation 5, which relates to customer due diligence and record keeping, and rated Chile "not compliant" on FATF Special Recommendation IV, which centers on reporting of terrorist-related suspicious transactions. The UAF is a member of the Egmont Group of FIUs 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 occurs, including the exchange of sensitive financial information with Financial Crimes Enforcement Network (FinCEN), the UAF's counterpart in the United States, through the Egmont Secure Web. The U.S. Government (USG) and GOC continue their judicial and investigative cooperation via the Inter-American Convention on Mutual Assistance in Criminal Matters. In 2008, the Carabineros joined the U.S. Federal Bureau of Investigation's (FBI) South American Fingerprint Exchange project that allows Chile and the USG to share fingerprint records of criminals. In addition, the FBI signed Memorandum of Cooperation agreements with the Carabineros, PDI, the Public Ministry, and the Customs agency for increased cooperation on transnational criminal investigations. As a result, there has been a significant increase in the amount of interaction and information exchange between the USG and GOC. 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.

Chile's anti-money laundering efforts continue to mature. The investigation and prosecution of three money laundering cases that are not tied to drug trafficking is an important step for the GOC. At the same time, the GOC can still do more to investigate complex money laundering schemes, such as trade-based money laundering. The UAF and the Public Ministry signed a collaboration agreement in October 2008 that aims to improve communication and cooperation between organizations. Given the current legal structure that separates reporting suspicious activity from investigating and prosecuting suspicious activity, it is essential that these institutions establish procedures to quickly and effectively share information and resources. The GOC should also expand the list of predicate crimes for money laundering to include all serious crimes, such as trafficking in persons and intellectual property rights violations, as well as establish regulatory control over nonbank institutions such as money exchange houses and charities. The GOC should ensure the passage of the draft law currently pending 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 (AML) and counterterrorist financing (CTF) measures including legislative reform, strengthening enforcement mechanisms, and implementing international cooperation initiatives. 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, corruption, and other financial crimes are major sources of laundered funds. Most money laundering cases currently under investigation involve funds obtained from corruption and bribery. Proceeds of tax evasion, recycled through offshore companies, often return to China disguised as foreign investment and, as such, receive tax benefits. Chinese officials have noted that most acts of corruption in China are closely related to economic activities that accompany illegal money transfers. Observers register increasing concern regarding underground banking and trade-based money laundering.

The People's Bank of China (PBOC), China's central bank, maintains primary authority for AML/CTF coordination. The PBOC shares some AML 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 (MPS) has both an Anti-Money Laundering (AML) Division and an Anti-Terrorism Bureau, which lead anti-money laundering and counterterrorist finance-related law enforcement efforts.

China has criminalized money laundering under three separate articles of the Penal Code. China introduced Article 349 of the Penal Code in December 1990 to criminalize the laundering of proceeds generated from drug-related offenses, and amended Articles 191 and 312 of the Penal Code in June 2006. Article 191 expands the criminalization of money laundering to additional categories of predicate offenses: narcotics trafficking, smuggling, organized crime, terrorism, embezzlement and bribery, financial fraud and disrupting the financial management order. The Article 191 amendments to seven predicate offenses, including fraud, bribery, and embezzlement, narcotics trafficking,

organized crime, smuggling, and terrorism. Article 312 criminalizes money laundering on the basis of an all-crimes approach, and criminalizes complicity in concealing the proceeds of criminal activity. The Financial Action Task Force (FATF) 2007 mutual evaluation report (MER) identified several deficiencies in China's criminalization of money laundering. These included the failure to fully cover the sole and knowing acquisition and use; criminalize self-laundering; provide for corporate criminal liability for article 312 and 349 offences; and adequately criminalize terrorist financing as a money laundering predicate offense.

Chinese authorities are in the process of addressing several of these deficiencies. China has interpreted its Penal Code to extend the all-crimes offence set out in article 312 to the sole and knowing acquisition and use of proceeds—a judicial interpretation which is poised to become law after undergoing a third reading by the Legal Affairs Committee of the National People's Congress (LAC/NPC). Chinese authorities are amending the Penal Code to provide for corporate criminal liability. A draft Penal Code amendment (Amendment 7) extending corporate criminal liability to article 312 (the all-crimes money laundering offence) passed its first reading at the end of August 2008 but must still undergo second and third readings.

A new anti-money laundering (AML) law, which covers AML/CTF preventative measures for the entire financial system, took effect January 1, 2007. The law extends AML/CTF obligations to the securities and insurance sectors, requires financial institutions to maintain thorough account and transaction records and reports of large and suspicious transactions, and explicitly prohibits financial institutions from opening or maintaining anonymous accounts or accounts in fictitious names. The PBOC remains the primary regulator for AML/CTF purposes for all financial institutions, including insurance and securities, although other regulators (CBRC, CSRC and CIRC) have a role in formulating the requirements, primarily in relation to systems and controls. To implement the new AML Law, PBOC issued "Rules for Anti-Money Laundering by Financial Institutions" (AML Rules) (effective January 1, 2007); "Administrative Rules for Reporting of Large-Value and Suspicious Transactions by Financial Institutions" (LVT/STR Rules) (effective March 1, 2007); and "Administrative Rules for Financial Institutions on Customer Identification and Record Keeping of Customer Identity and Transaction Information (CDD Rules) (effective August 1, 2007). The AML 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. Under the new regulatory framework, all financial institutions—securities, insurance, trust companies and futures dealers—must manage their own AML mechanisms and 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, banks must report any cash deposit or withdrawal of over renminbi RMB 200,000 (approximately \$27,000) or foreign-currency withdrawal of over \$10,000 in one business day to the PBOC's financial intelligence unit (FIU). Banks must report either electronically within five days or in writing within 10 days. They must also report money transfers exceeding RMB 2 million (approximately \$274,000) between companies in one day or between an individual and a company greater than RMB 500,000 (approximately \$68,500). All financial institutions must submit monthly reports describing 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 revocation of their licenses or forced suspension of business operations.

The new CDD Rules require all financial institutions to identify and verify their customers, including the beneficial owner, (although this requirement may be limited to the natural person who ultimately controls—as opposed to owns—a customer), and extend requirements relating to the identification of legal persons to all financial institutions. Banks must identify and verify customers when carrying out occasional transactions over 10,000 RMB or 1,000 U.S. \$ equivalent, or when providing cash deposit

or case withdrawal services over 50,000 RMB or 10,000 U.S. \$ equivalent. Similar provisions cover a range of cash and other transactions for the insurance sector. All securities transactions must be funded through a custodian bank account subject to CDD. The CDD Rules call for risk-based CDD and monitoring, and introduce specific requirements for financial institutions in relation to foreign Politically Exposed Persons (PEPs), including the requirement to obtain approval from senior management before opening an account and determine the source of funds.

According to Article 16 of China's AML Law, when establishing business relationships, financial institutions must require prospective customers to show a valid identification card or other identification document issued by a reliable independent source. For example, when opening an account, customers who are residents of China must produce an official or temporary identification card, or in the case of military unit servicemen or armed police, an army or police identification card. The financial institution must verify the customer's identity documents by examining their authenticity and keep records of the information contained therein. Financial institutions may also verify the customer's identity through the State Administration of Industry and Commerce (SAIC) or through public security departments. To remedy deficiencies in regulators' ability to obtain information, the PBOC 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.

Because of the country's size, the Chinese authorities have evolved a decentralized system of AML/CTF supervision, with general oversight being exercised from PBOC head office in Beijing. The supervisory program includes both onsite and offsite monitoring (based on submission by financial institutions of periodic reports). The frequency of onsite inspections for particular institutions is risk-based. The overall adequacy and effectiveness of China's AML supervisory system is improving, but problems remain, particularly with respect to the usefulness of the offsite process. According to the PBOC 2007 China Anti-Money Laundering Report, examiners executed on-site inspections of 4,533 financial institutions to determine compliance with the AML rules. Of the inspected institutions, 350 received financial sanctions for violating the regulations. The fines totaled RMB 26.52 million (approximately \$3.9 million). Of the 350 institutions incurring penalties, 341 were banking financial institutions, 4 were in the securities and futures sector, and the other 5 were in the insurance sector. Of the 350, 347 institutions failed to verify customer identification or report large-value or suspicious transactions, and 3 failed to set up an AML internal control system. Fifty-five percent of the sanctioned institutions were State-owned and joint-stock commercial banks, and 98 percent were Chinese-funded. More recent data is not available.

The AML Law provides for the PBOC's AML authorities, roles and functions, including its FIU. China's FIU is divided into two units within the single overarching authority of the PBOC: China Anti-money Laundering Monitoring & Analysis Center (CAMLMAC) and the Anti-Money Laundering Bureau (AMLB). The heads of CAMLMAC and the AMLB both report to a single deputy governor.

CAMLMAC, established in April 2004, specializes in data collection, processing and analysis, as well as international cooperation. It receives and analyzes STRs and LVTs, and is the central point of contact for foreign FIUs. Established in October 2003, the AMLB organizes and coordinates China's anti-money laundering affairs, and executes administrative investigation, dissemination and policy oversight. Although CAMLMAC and the AMLB work together to conduct follow-up analysis on LVTs and STRs, the AMLB conducts the majority of the additional analysis and dissemination functions.

According to the PBOC, authorities in 2007 discovered 89 cases of money laundering involving RMB 28.8 billion (approximately \$4.17 billion). In the first half of 2008, the PBOC sanctioned 12 financial institutions involved in money laundering, with fines totaling RMB 2.25 million (approximately

\$329,000), The PBOC has also helped police solve 42 money laundering cases involving about RMB 84.4 billion (approximately \$12.4 billion).

The Ministry of Public Security (MPS), China's main law enforcement body, follows up on STRs and guides and coordinates public security authorities across China in money laundering investigations. The AML Division of the MPS Economic Crime Investigation Department (ECID) handles the majority of responsibilities related to the seizing, freezing and confiscation of criminal proceeds. The Anti-Terrorism Bureau of the MPS investigates 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 Procurator (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 the SPP and the SPC can issue judicial interpretations. Law enforcement agencies have authority 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 records held by financial institutions. Reportedly, however, law enforcement and prosecutorial authorities focus on pursuing predicate offences, to the exclusion of AML/CTF.

China has implemented a cross-border currency disclosure system using risk-based targeting operated by the General Customs Administration (GCA). All travelers must declare cross-border transportation of cash exceeding RMB 20,000 for local currency (approximately \$2,930) or of foreign currency. There is no requirement for bearer negotiable instruments. However, a FATF follow up report states: "China has finished drafting new Administrative Rules on Management of AML Information of Cross-Border Transportation of Cash and Bearer Negotiable Instruments (informal name). The draft is now being circulated among relevant competent authorities for comment. The main issues that are still being debated relate to: (1) reconciling the FATF definition of bearer negotiable instruments with related definitions in existing Chinese legislation; (2) ensuring that the new Rules do not conflict with existing currency-control legislation; and (3) setting the declaration threshold." China prohibits cross-border transportation of RMB through the mail 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 created loopholes for money laundering activity. Authorities do not appear to effectively use captured data for money laundering or terrorist financing investigations.

Only banks have the authority to provide money or value transfer services in China, and may not have agents that offer such services. Article 174 of the Penal Code states that it is a criminal offense to operate an illegal financial institution or provide financial services illegally in China. Although China has had some success at combating illegal underground banking, the country'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 adept at 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. The prevalence of counterfeit identity documents and underground banks, which in some regions reportedly account for over one-third of lending activities, further hamper AML efforts. Authorities have expressed concern that criminal or terrorist groups could exploit underground banking mechanisms to bypass law enforcement.

The extent of the linkages between underground banking and the large expatriate Chinese community remains unknown. Traditionally, money changers, gold shops, and trading companies operate "flying money" or fei-chien networks. The international Chinese underground banking system depends on close associations and family ties 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 participate in the trade of Chinese-manufactured counterfeit goods, in violation of intellectual property rights. Reportedly, 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 address online fraud, the PBOC has tightened regulations governing electronic payments. PBOC rules prohibit consumers from making online purchases of more than RMB 1,000 (approximately \$137) in any single transaction or more than RMB 5,000 (approximately \$688) in a single day. Enterprises are limited to electronic payments of no more than RMB 50,000 (approximately \$6,900) in a single day. In March 2007, Chinese regulators announced additional online restrictions regarding the use of “virtual money” (online credits sold by websites to customers to pay for games and other web-based services) amidst rumors that criminals were using the credits to launder money.

Terrorist financing is criminalized in Article 120bis of the Penal Code. The MER found that China did not adequately criminalize the sole collection of funds in a terrorist financing context. Through a judicial interpretation of the Penal Code, China has clarified that the terrorist financing offence covers the sole and knowing collection of terrorist funds and has defined “funds” to conform to the definition set forth in the Vienna Convention. These judicial interpretations will likely become law after undergoing a third reading by the Legal Affairs Committee of the National People’s Congress (LAC/NPC).

China’s primary domestic concerns with terrorist financing focus on the western Xinjiang Uighur Autonomous Region. 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. However, according to the MER, China has not implemented UNSCR 1267 and UNSCR 1373 in a manner that meets the specific requirements of FATF Special Recommendation III.

China is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN 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 \$9.1 billion) involved. In late 2004, China joined the Eurasian Group on combating money laundering and financing of terrorism (EAG)—a FATF-style regional body. China became a member of the FATF in June 2007.

The Government of China has 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 take steps to develop a viable AML/CTF regime consistent with international standards. 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. Authorities should assess the application of sanctions for noncompliance with identification, due diligence and record-keeping requirements to ensure that they have a genuinely dissuasive effect. China should ensure that its judicial interpretations that clarify and strengthen its AML/CTF regime become codified in law. In addition to strengthening its counterterrorism finance regime, Chinese law should ensure that it defines the term "terrorist activities" consistently 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 take steps to effectively implement the UNSCRs and strengthen its mechanisms for freezing terrorist assets. Chinese law enforcement authorities should examine domestic and home-grown ties to the international network of Chinese expatriate brokers and traders that often link to underground finance, trade fraud, and trade-based money laundering activities.

Colombia

The Government of Colombia (GOC) is a regional leader in the fight against money laundering. Nevertheless, the laundering of money from Colombia's illicit cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. In addition to drug-related money laundering, laundered funds are also derived from commercial smuggling for tax and import duty evasion, kidnapping for profit, arms trafficking, and terrorism connected to violent paramilitary groups and guerrilla organizations. Further, money laundering is carried out to a large extent by U.S. Government-designated terrorist organizations. 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, including exchange houses, 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; the trade of counterfeit items in violation of intellectual property rights is an ever increasing method to launder illicit proceeds. Colombian money is also laundered through offshore centers, generally relating to transactions involving drug-related proceeds. Casinos and free trade zones in Colombia present opportunities for criminals to take advantage of inadequate regulation and transparency. Although corruption of government officials remains a problem, its scope has decreased significantly in recent years.

Colombia's economy is robust and diverse. It is fueled by significant export sectors that ship goods such as coal, petroleum products, textiles and apparel, flowers, and coffee to the United States and beyond. While Colombia is not a regional financial center, the banking sector is mature and well regulated. Comprehensive anti-money laundering regulations, as well as international cooperation on anti-money laundering, have allowed the government to refine and improve its ability to combat financial crimes and money laundering. The GOC and U.S. law enforcement agencies closely monitor transactions that could disguise terrorist finance activities. The United States 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 applies to most money laundering activities resulting from Colombia's drug trade.

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 44 techniques for laundering

money. Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency and European Union euros. Local currency exchangers registered to conduct exchange house transactions, convert narcotics currency to Colombian pesos and then ship U.S. dollars and euros to Europe, 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 narcotics traffickers have also been known to coerce local businessmen into purchasing properties, including real property, in “straw” (or nominee) names, which are then leased to unsuspecting tenants. Colombian authorities have had difficulty in prosecuting such schemes for money laundering, and in confiscating such properties under Colombia’s *extincion de dominio* nonconviction based forfeiture law regime. Colombian authorities have also noted increased body smuggling (carrying currency on a person) of U.S. and other foreign currencies, an increase in the number of shell companies operating in Colombia, and rising laundering threats in the real estate and cargo transport sectors. 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. In November 2008, several pyramid schemes collapsed, and the largest alleged scheme was shut down by the Colombian government, under charges of illegal enrichment and suspected money laundering.

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 law enacted 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 15 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.

Terrorist financing is an autonomous crime in Colombia. Law 1121 of 2006 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 law allows the UIAF to receive STRs regarding terrorist financing, and freeze terrorists’ assets immediately after their designation. In addition, banks are 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 in 2007 from 45 to 65 positions and authorized the creation of new subdivisions for Information Management and Legal Affairs.

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 Financial Superintendent. In 2007, the Financial Superintendent issued a

circular that requires entities under its authority to implement a new consolidated risk-based monitoring system (called SARLAFT) that includes risk prevention and control measures based on international standards. In June 2008, the Financial Superintendent issued a circular effective October 2008 further tightening financial reporting requirements for the financial, insurance, and securities sectors with strict deadlines for submitting regular transaction reports.

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 Mexico, and 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, money 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 \$5,000. The UIAF requires exchange houses to provide data on all transactions above \$200. Between October 2007 and September 2008, 7,980 suspicious transaction reports (STRs) were filed, with 34 percent of STRs deemed by UIAF to merit further investigation by their analysis unit. The Colombian Fiscalía (National Prosecutor’s Office) reported 48 convictions for money laundering in 2008.

In 2006, the UIAF inaugurated a new centralized data network connecting 15 governmental entities as well as the private banking 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 2008, the UIAF’s database contained over 709 million transaction and activity reports. Between October 2007 and September 2008, the UIAF provided authorities with 604 financial intelligence reports pertaining to 6,231 individuals, 842 businesses, and approximately \$3 billion in transactions. During the same period, UIAF responded to 3,067 information requests from national authorities and 499 requests from Egmont Group members, reducing its response time from an average of eight to three days. The UIAF has also increased its staff from 45 to 65 members, which allows for more and better analysis of financial information.

Given concerns about bulk cash smuggling, the GOC requires individual cash transactions above \$5,000 or combined monthly transactions above \$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 \$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.

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. Provisional use has caused some liability issues in Colombia when properties have to be returned for various reasons prior to a final forfeiture.

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 2007, 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 require an evaluation of an asset's worth prior to seizure, and made other significant changes to the manner in which seizures for forfeiture is 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. The GOC aggressively pursues the seizure of assets obtained by drug traffickers through their illicit activities. In 2008, new regulations were also enacted which permit the DNE to make "interlocutory" sales of assets in some instances, if the values of the properties will deteriorate before final forfeiture can be obtained.

For the last five 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 drug cartels' business empires, including the Rodriguez Orejuela brothers, the Grajales family, and Juan Carlos Ramirez Abadia ("Chupeta"). The Cali and Norte Valle drug cartels, as well as their leaders and associated front persons and businesses, have been named by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) as Specially Designated Narcotics Traffickers (SDNTs), pursuant to Executive Order 12978. The Executive Order imposes financial sanctions against designated targets in order to attack the financial empires built by significant 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 2008, the Colombian National Police and Colombian Prosecutor's Office seized over 400 assets, including businesses and properties, tied to major Colombian drug trafficker Juan Carlos Ramirez Abadia, bringing the total value of seized cash and assets to nearly \$1 billion. These assets included office buildings, a resort hotel, night clubs, and an amusement park. OFAC added additional businesses and front men tied to Chupeta's financial empire to its SDNT list, including a regulated Colombian money exchange business, CAMBIOS Y CAPITALS S.A. These joint actions to seize assets and apply financial sanctions have affected the Colombian drug cartels' abilities to use many of their assets derived from their narcotics trafficking activities and have assisted the Colombian government to pursue major cases to seize narcotics-related assets.

In 2008, 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 Titan, which resulted in 113 arrests for money laundering and drug trafficking world wide. Extradition requests to the United States are pending in many of the arrests for Operation Titan and Agents were able to make a direct connection between a traditional Colombian Drug Trafficking and Money Laundering Organization and Middle Eastern money launderers tied to Hezbollah.

The U.S. Department of Homeland Security's Immigration and Customs Enforcement (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.

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 STRs.

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), the GOC's participation in GAFISUD-sponsored events is limited, and the GOC does not have a voice at GAFISUD plenary meetings. According to GOC officials, new legislation is required to authorize the GOC to pay its membership dues; past dues had been paid without legal authorization. In April 2008 the Colombian Congress passed Law 1186 to authorize future payments to GAFISUD. However, at the time of this report, the Constitutional Court had referred the legislation back to the Congress for republication before final constitutional approval—a process expected to take several months. A Mutual Evaluation (ME) by GAFISUD of Colombia was conducted during June 30 to July 9, 2008. Overall, Colombia's AML/CTF regime complies with the FATF 40 Recommendations and the Nine Special Recommendations.

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, and in August 2008, proposed concluding a regional memorandum of understanding with 11 Caribbean Basin countries as well as promoted the incorporation of money laundering and terrorism financing provisions into the Cartagena Declaration of the Regional Counternarcotics, Security and Cooperation Summit. The GOC also issued presidential joint statements with Paraguay and Honduras in 2008 to strengthen cooperation between respective FIUs. In 2008, UIAF organized nine international workshops, which trained more than 220 officials from Ecuador, Peru, Bolivia, and Paraguay. The GOC is a party to the 1988 UN Drug Convention, the UN 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 2008, the Government of Colombia made additional progress in the development of its financial intelligence unit, regulatory framework and interagency cooperation within the government. The further strengthening and broadening of financial reporting requirements reinforce efforts to fight terrorism and financial crime. International cooperation with the U.S. and other countries has led to several high-profile seizures and prosecutions. The transition to a new criminal procedure provides potential for improved use of undercover and other critical investigative techniques, as well as increasing the possibility of plea bargaining and the use of confidential investigations. However, this new system is still being learned. Greater focus and priority toward money laundering investigations, including increased resources, are needed to ensure greater progress. 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, Colombia's Trade Transparency Unit, and 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 the 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 counterterrorist 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. Although Comoros lacks homegrown narcotics, the islands are used to transit drugs, mainly from Madagascar. The presidency of the Union rotates between the three islands. An ongoing struggle for influence between the Union and the island presidents continued into 2008.

Comoros is not a principal financial center for the region. An anti-money laundering (AML) law addressing many of the primary AML issues of concern was passed by Presidential Decree in 2004. However, the 2004 law does not meet international standards. Also, while legally applicable to all three islands, the AML law was not enforced on Anjouan prior to March 2008. In addition, Comoran authorities lack the capacity to effectively implement and enforce the 2004 AML law, as the three islands in the Comoros retain a great deal of autonomy, particularly with respect to their security services, economies, and banking sectors.

In 2007 Comore and Moheli held free elections. However, Colonel Mohamed Bacar refused to hold elections in Anjouan. In June 2007, Anjouan, under the leadership of Colonel Mohamed Bacar, de facto seceded from the Union. Union President Ahmed Abdallah Mohamend Sambu and his cabinet were unable to govern Anjouan. On March 25, 2008, a joint Union of the Comoros and African Union military force removed Colonel Bacar and restored Union legal authority and order.

Both Moheli, pursuant to the International Bank Act of 2001, and Anjouan, pursuant to the Regulation of Banks and Comparable Establishments of 1999, licensed more than 300 offshore banks. Neither island required applicants for banking licenses to appear in person to obtain their licenses. Anjouan required 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) to obtain an offshore license and accepted faxed copies of the required documents. In addition to licensing shell banks, Anjouan sold the right to issue bank licenses. All of the shell banks and other entities were located offshore and had no permanent presence in the Comoros. Neither jurisdiction had the expertise or resources to effectively regulate an offshore banking center. Anjouan delegated most of its authority to operate and regulate the offshore business to private, non-Comoran domiciled parties.

In addition to offshore banks, both Moheli, pursuant to the International Companies Act of 2001, and Anjouan, pursuant to Ordinance Number 1 of 1 March 1999, licensed insurance companies, internet casinos, and international business companies (IBCs). Moheli claims to have licensed over 1200 IBCs. Moheli law permits bearer shares of IBCs. Anjouan also allows trusts, and will register aircraft and ships without requiring an inspection of the aircraft or ship in Anjouan.

The Union Central Bank retains a French financial professional as “Financial Controller,” and corresponds with French commercial banking authorities. Central Bank Governor Abdoulbastoi sent the United States a comprehensive report on Union Government policies and actions with regard to Anjouan illicit banking activities. The Union Central Bank published informational circulars intended to warn members of the international financial system against dealings with banks “licensed” by Anjouan. The circulars explained that offshore and onshore financial institutions operating within the jurisdiction of the Union of the Comoros must abide by the provisions of legislation No. 80-7 of May 3, 1980, which requires that a financial institution operating in the Union of the Comoros receive prior authorization from the Union Finance Minister upon recommendation from the Comoros Central Bank. Therefore, offshore banks operating in the autonomous islands of the Union of the Comoros without prior authorization from the Union Finance Minister were operating illegally. Because the involved computer servers and illicit “entities” are located outside the Comoros, the GOC lacks the jurisdiction and capacity to act beyond the announcements and warnings regarding the illegal entities.

Citing the law conferring sole authority for granting banking licenses on the Union Central Bank, the Governor asked financial authorities in France, Belgium, and the United States to prohibit all activities within their jurisdictions by Anjouan-registered entities. Union President Sambu also requested international assistance in closing any shell banks or illicit financial entities that operate within the Comoros without legitimate approval. The Governor repeated an earlier request to U.S. and European authorities for help closing all websites associated with Anjouan. The government also issued numerous public announcements warning the public against Anjouan financial entities. A regularly-updated circular lists the 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 Ex-Im Bank, a Tanzanian entity, opened in 2008.

Since Bacar fled to Benin and is no longer in power in Anjouan, Union authorities report that these illicit activities have ceased in Anjouan. During 2008, Comoros closed many of the illegitimate financial institutions, and Moheli and Anjouan no longer issue banking licenses to offshore entities. Current legal licensing authority rests with the Union Finance Minister and Union Central Bank Governor, and the Anjouan and Moheli counterparts are under Union control. However, the already established offshore entities remain outside Union control. The entity to which the Anjouan authorities sold licensing authority may still be issuing licenses in the name of Anjouan. The Comoran government has solicited the law enforcement authorities in the United Kingdom and France to locate and arrest the perpetrators, who were reportedly in Europe.

In early 2007, Union Vice President Idi Nadhoim hosted a World Bank- Bank of France seminar on policies to combat money laundering and terrorist finance. Union Central Bank officials, commercial banks, and operators participated.

As of December 2008, the Union had a draft of a new AML law before the Parliament. Until that law is promulgated, Comoros will use its 2004 federal-level AML law, based on the French model. The 2004 law requires financial and related records to be maintained for five years; permits assets generated or related to money laundering activities to be frozen, seized and forfeited; requires residents to declare all currency or financial instruments upon arrival and departure, and nonresidents to declare all financial instruments upon arrival and all financial instruments above Comoran francs 500,000 (approximately \$1,250) on departure; permits provision and receipt of mutual legal assistance

with another jurisdiction where a reciprocity agreement is in existence and confidentiality of financial records is respected; requires nonbank financial institutions to meet the same customer identification standards and reporting requirements as banks; requires banks, casinos and money exchangers to report unusual and suspicious transactions (by amount or origin) to the Central Bank and prohibits cash transactions over Comoran francs 5 million (approximately \$12,500); and criminalizes the provision of material support to terrorists and terrorist organizations. In addition, there is a suspicious activity filing requirement in the Union's AML law, and reports go to the Central Bank, as stipulated in the law. Comoros does not have an operational financial intelligence unit (FIU).

Foreign remittances from Comorans living abroad in France, Mayotte (claimed by France) and elsewhere remain the most important influx of funds for most Comorans. A 2008 African Development Bank report estimated total annual remittances at \$100 million, with two-thirds arriving via informal means. In 2006, Western Union established a presence in Comoros to capture part of this market, but most Comorans continue to prefer to use informal sectors.

As mentioned above, Union authorities have limited ability to implement AML laws in Anjouan and Moheli due to the islands' degree of autonomy. 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 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). However, 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 Sambi has reiterated Union Government support for efforts to bring AML enforcement under Union government jurisdiction. These efforts include the drafting of the new AML legislation currently under consideration by Parliament and the prosecution of corrupt former officials. A grossly inadequate budget, dysfunctional ministries, and a nonfunctioning judiciary limit effectiveness. The lack of capacity severely hinders progress on AML issues, despite apparent high-level political support.

France, the former colonial power, maintains substantial influence and activity in Comoros and, where possible, has bypassed the Union and island governments to prosecute suspected money launderers or shell banks under French law.

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 is a member of the free-trade area of the Common Market for Eastern and Southern Africa (COMESA). It has obtained observer status in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The Comoros is moving toward full membership in ESAAMLG, which will commit Comoros to adherence to the FATF's international standards. Comoros has agreed to an on-site visit by ESAAMLG, scheduled to take place in early 2009, and a mutual evaluation visit by the IMF, scheduled for May 2009.

The Government of the Union of the Comoros (GOC) should ensure that the draft anti-money laundering legislation meets international standards, and pass the legislation, which will apply to the three islands that comprise the federal entity. Authorities should ensure that their activities relating to the implementation of the law, when promulgated, take place in all three islands. Authorities should

establish an FIU with jurisdiction over the entire country and prohibit bearer shares. Authorities should circulate the list of individuals and entities that are included on the United Nations 1267 Sanctions Committee's consolidated list to Comoran banks. With a total annual operating budget of the Union Finance Ministry less than \$100,000, Comoran authorities should ensure that resources target FIU development and regulatory and law enforcement capacity.

Cook Islands

The Cook Islands is a self-governing parliamentary democracy in free association with New Zealand and a member of the British Commonwealth. The Cook Islands' offshore sector makes it vulnerable to money laundering, as the sector offers banking, insurance, and formation of international business companies and trusts. However, due to recent legislative and regulatory changes, the Cook Islands comply 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 to the three domestic banks, the Cook Islands financial sector also consists of four international banks, six trustee companies, and three offshore and three domestic insurance companies. The domestic insurance companies are not regulated by the FSC, but legislation has been enacted to allow regulation to take place from 1 January 2009.

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." It is possible, that under a "flee clause," if a foreign law enforcement agency makes an inquiry regarding the trust, the trust will be transferred automatically to another offshore center. According to officials of the Government of the Cook Islands (GOCI), the "flee clause" 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 Cook Islands 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) 2003 established a new framework for licensing and prudential supervision of domestic and offshore financial institutions in the Cook Islands. The legislation requires international offshore banks to have a physical presence in the Cook Islands, transparent financial statements, and adequate records prepared in accordance with consistent accounting systems. The physical presence requirement is intended to prohibit shell banks. All banks are subject to a vigorous and comprehensive regulatory process, including on-site examinations and supervision of activities.

The FSCA established the Financial Supervisory Commission as the licensed financial sector's sole regulator. The FSC is empowered to license, regulate, and supervise the business of banking. It serves as the administrator of the legislation that regulates the offshore financial sector. The FSC can license

international banks and offshore insurance companies and register international companies and limited liability 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) 2004, which replaced a similar Act passed a year earlier, the Cook Islands authorities strengthened its anti-money laundering and counterterrorist financing (AML/CTF) legal and institutional framework. The threshold approach of serious offenses is 12 months imprisonment or \$5,000 fine. The Financial Supervisory Commission (FSC) supervises and examines financial institutions for compliance with anti-money laundering laws jointly with the Financial Intelligence Unit (FIU). Reviews are underway to consider how the AML/CTF legislation affects other domestic laws. The legislation regulates 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, money remitters, motor vehicle dealers, dealers in precious metals and stones, and friendly societies. 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) and the FIU decides if any matters are to be referred for prosecution. The CIFIU is also responsible for assessing compliance by nonlicensed institutions.

The CIFIU is an independent ministry of the Cook Islands Government and is the central unit responsible for the collection, analysis and dissemination of financial information and intelligence on suspected money laundering, terrorist financing and other serious offences to the appropriate authorities in the Cook Islands. The Cook Islands Police are responsible for investigating financial crimes, including money laundering and terrorist financing. The CIFIU is responsible for the supervision of all registered Reporting Institutions in the Cook Islands, as required by the Financial Transactions Reporting Act 2004. For financial institutions this responsibility is shared with the FSC, but is the sole responsibility of the FIU for DNFBPs. In 2008, the CIFIU received 30 STRs; 3,130 CTRs; 2 Border Currency Reports and 6,384 Electronic Funds Transfer Reports, which resulted in a

total of 2 intelligence reports. There have been no seizures and/or confiscations related to money laundering or terrorist financing to date.

The FTRA 2004 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. To facilitate information exchange within Cook Islands' borders, the FIU has signed domestic MOUs with the FSC, Cook Islands Police, as well as Customs and Immigration.

Obligated institutions are required to report any attempted or completed large currency transactions and suspicious transactions to the CIFIU. The currency reporting requirements apply to all currency transactions of NZ\$10,000 (approximately \$6870) and above, electronic funds transfers of NZ\$10,000 and above, and transfers of currency in excess of NZ\$10,000 into and out of the Cook Islands. Failure to declare such transactions could incur penalties. The CIFIU is required to destroy a suspicious transaction report if there has been no activity or information related to the report or to a person named in the report for six years. The CIFIU does not have an investigative mandate. If it determines that a money laundering offense, serious offense or terrorist financing offense has been or is being committed; it must refer the matter to law enforcement for investigation. The Attorney General, who is responsible for administrative oversight, appoints the head of the CIFIU.

Cross border movement of cash in and out of the Cook Islands is criminalized under the Proceeds of Crime Act for cash and negotiable bearer instruments over \$10,000. Border Cash reports are submitted to the FIU and if the information requires further dissemination, it would be disseminated to the appropriate agency for analysis. However, to date, there has not been any necessity for dissemination of information.

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 Cook Islands is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. The Cook Islands is not a party to the UN Convention Against Corruption.

The Cook Islands is an active member of the Asia/Pacific Group on Money Laundering (APG) and the CFIU is a member of the Egmont Group. The CFIU has bilateral agreements allowing the exchange of financial intelligence with Australia, New Zealand, Philippines, Chinese Taipei, Vietnam and the Philippines. The Cook Islands is still negotiating a memorandum of understanding (MOU) with Thailand and is in the process of signing Mutual Legal Assistance Agreement with Poland. 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 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 no free trade zones; and participates in the Pacific Island Countries Trade Agreement (PICTA).

The Cook Islands has received nine requests for mutual legal assistance since the Mutual Assistance in Criminal Matters Act came into force in 2003. Six have been answered, and three 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 cooperates with the international community on all money laundering, financial crimes, and terrorist related financing issues. The UN 1267 sanction committee's consolidated list of individuals and entities has been circulated to financial institutions. No accounts with names or entities listed on the UN list are being maintained with any financial institutions in the Cook Islands.

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 continues to comport with international standards. The GOCI should enact and implement Border Currency Reporting legislation, Civil Forfeiture legislation, and a Risk Based Money Laundering and Terrorist Finance regulation, together with amendments to the Financial Transactions Reporting Act and the Terrorism Suppression Act. The Government should continue to monitor alternative money service businesses, and enact legislation governing such businesses in the event that transaction volumes in alternative money services increase. Doing so would further ensure that the GOCI's status as a low risk AML/CTF jurisdiction that could serve as model for other Pacific Island jurisdictions.

Costa Rica

Costa Rica is not a major regional financial center but does have an offshore financial sector and remains vulnerable to money laundering and other financial crimes (Illicit proceeds of narcotics trafficking (mainly cocaine); fraud; trafficking in persons, arms trafficking; corruption; and unregulated Internet gaming companies likely are laundered in Costa Rica. Bank fraud, especially via the Internet, appears to be on the rise, though there has not been a rise in use of counterfeit currency. While local criminals are active, the majority of criminal proceeds laundered derive primarily from foreign criminal activity. In 2002, the Government of Costa Rica (GOCR) enacted Law 8204 that supersedes a prior law that only criminalized narcotics-related money laundering. Law 8204 criminalizes the laundering of proceeds from all serious crimes, which are defined as crimes carrying a sentence of four years or more. 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 banks, 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 Superintendent General of Financial Entities (SUGEF), Superintendent General of Securities (SUGEVAL), and the Superintendent of Pensiones (SUPEN). All three entities fall under the National Council of Supervision of the Financial System (CONASSIF). Law 8204 also established Costa Rica's financial intelligence unit (FIU), the Unidad de Analisis Financiero (UAF). The law obligates financial institutions and other businesses to identify the beneficial owners of all accounts; retain financial records for at least five years; and, to report currency transactions over \$10,000 and suspicious transactions, regardless of the amount involved or transaction to the UAF. Law 8204 does not establish any protection for reporting individuals, however failure to file suspicious transaction reports (STRs), can result in monetary sanctions established in Article 81 of the law. The UAF requests, collects and analyzes STRs submitted by obligated entities and cash transaction reports (CTRs) it receives.

The UAF has no regulatory responsibilities. The UAF has access to the records and databases of financial institutions and other government entities, but the Judicial Investigative Organization (OIJ) 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 is somewhat ill-equipped and under-funded to provide information needed by investigators. In 2009, the UAF plans to hire four additional forensic auditors, and one investigator to bring total staffing to 27. In 2008, the UAF continued to increase the quality of its analysis and forwarded more thoroughly analyzed cases to prosecutors. In 2008, the UAF received 500 STRS and forwarded 36 to the Unidad de Investigacion Financiero (UIF) of the Money Laundering, Financial, and Economic Crimes Unit, the OIJ, under the Public Ministry (Prosecutor's Office); the entity responsible for investigating financial crimes. The OIJ is assisted by the UAF and has adequately trained staff. In 2008, there were two prosecutions for financial crime.

The UAF does not directly receive CTRs. Each superintendence that receives CTRs holds the CTRs until it determines that further analysis is required or until the UAF requests the CTRs. After analysis, if the UAF thinks that a CTR warrants further investigation, the CTRs would be forwarded to the UIF for investigation.

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. All persons carrying, entering or exiting Costa Rica are required to declare any amount over \$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. The OIJ reports that currency smuggling has increased at land borders; also, money laundering may be occurring through the use of wire-transfer services. Alternative remittance systems exist in Costa Rica, mainly as a result of Costa Rican migration to the United States, or Nicaraguans to Costa Rica. However, there is no confirmation that these remittance systems are used for money laundering. Remittances as of June 2008 totaled approximately \$589 million. According to the GOCR, there is a black market for smuggled goods in Costa Rica, but the size is not known. There is no particular evidence that it is being funded by narcotics or other illicit proceeds.

There are 28 free trade zones (FTZs) within Costa Rica, used by approximately 250 companies. 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 aimed primarily at preventing tax evasion. The four major types of firms operating under Costa Rica's FTZ regime are manufacturing, professional services, trading, and administrative organizations. PROCOMER reports that there was no evidence of money laundering activity in the FTZs in 2008.

While the formal banking industry in Costa Rica is tightly regulated, the offshore financial sector, which offers banking, corporate and trusts 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 146 of the Costa Rican Central Bank's Organic Law, which requires offshore banks to have assets of at least \$3 million dollars, 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. There are memoranda of understanding (MOUs) between Costa Rica and Panama and the Bahamas to allow easy information exchanges. The 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 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, the primary anti-laundering legislation criminalizing the laundering of proceeds from all serious crime. Draft legislation to correct the contradiction and reassert the SUGEF's regulatory power was submitted to the national assembly for consideration in 2008. Purportedly, additional but unspecified actions by SUGEF should decrease the number of offshore banks in the next year.

Gambling is legal in Costa Rica, and in April of 2008, five government decrees established new rules to better identify casino ownership and regulate operations. None addressed online casinos and there is no requirement that the currency used in Internet gaming operations be transferred to Costa Rica. There are over 250 Internet sports-book companies registered to operate in Costa Rica. In January 2008, the United States charged 12 individuals with money laundering and gambling offenses related to the operation of a Costa Rican based gambling website and call center that serviced sports books in the U.S.

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 asset seizure or freeze 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 2008, officials seized over \$2 million 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) or as determined by ICD's council. It is unclear whether GOCR will assist other countries in obtaining nonconviction-based forfeiture since its domestic laws only provide for conviction-based forfeiture.

Although Costa Rica is a party to the major United Nations counterterrorism conventions, including the UN Convention for the Suppression of the Financing of Terrorism, terrorist financing is not yet a crime in Costa Rica. In 2002, a government task force drafted a comprehensive counterterrorism law with specific terrorist financing provisions that has not been enacted. However, a draft of Bill 17009, expected to be enacted in February 2009, explicitly criminalizes the financing of terrorism, and will obviate the expulsion of the UAF from the Egmont Group

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 Executive Order (E.O.) 13224. However, these authorities cannot block, seize, or freeze property without prior judicial approval. 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 2008. Yet, according to the Government of Costa Rica (GOCR) there is some evidence of FARC (Revolutionary Armed Forces of Colombia) money laundering operations here. In a high-profile incident in March 2008, a prominent couple from the Costa Rican academic community was found with a safe containing \$480,000 in FARC money. The couple was also involved in a real estate transaction on behalf of a prominent FARC leader, which to date has not been investigated.

Costa Rica fully cooperates with appropriate United States government 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 Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GOCR is a member of the Money Laundering Experts Working Group of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD). Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF) style regional body. The CFATF conducted a mutual evaluation of Costa Rica in 2006. During the CFATF Plenary in St. Kitts and Nevis in November 2008, the GOCR reported on actions taken to comply with recommendations made by the team of experts who evaluated the GOCR's anti-money laundering regime in 2006. There were modifications to Bill 17009 and 8204 to clarify the filing of STRs to the UAF, among others. However, the GOCR may still need to amend its laws to provide for a "safe harbor" protection for those who submit suspicious AML/CTF activity reports.

The GOCR should pass legislation that reconciles contradictions regarding the supervision of its offshore banking sector. With the expected passage of the terrorism bill 17009 the loopholes in anti-money laundering legislation, regulations to cover the Internet gaming sector, dealers in jewelry and precious metals, intermediaries such as lawyers, accountants or broker/dealers, casinos, as well as any business activity that might entail the use of cash and other nonbank financial institutions, should be addressed. The GOCR should also consider either adopting civil forfeiture, or, at a minimum, clarify in law or regulation that it can assist other countries with forfeiture when a conviction has been obtained even if the forfeiture is not part of the criminal proceeding. Finally, Costa Rica should ensure that its financial intelligence unit and law enforcement agencies 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 in Cote d'Ivoire is 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, rule of law implementation remains poor. As a result, Ivorian and other West African nationals are becoming increasingly involved in criminal activities and the subsequent laundering of illicit funds. Public corruption, including embezzlement of public funds and the laundering of those funds also pose concerns. 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 but is of concern to law-enforcement officials. Ivorian law enforcement authorities have little control over the northern half of the country. The ongoing de facto division of the country makes it difficult to assess Ivorian involvement in narcotics trafficking, as well as Cote d'Ivoire's possible role as a center for the laundering proceeds from narcotics trafficking.

The outbreak of the rebellion in 2002 increased the amount of smuggling of goods across the northern borders, including cocoa, cashews, timber, textiles, tobacco products, and light motorcycles. Reportedly, there has also been an increase in the processing and smuggling of diamonds from mines located in the north. National authority is slowly redeploying, but 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, coffee, cars, and pirated DVDs occurs in the government-controlled south and is motivated by a desire to avoid the payment of taxes (principally value-added 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 illicit funds that are primarily laundered via informal money services businesses and exchange houses. In addition to informal money service businesses, authorities believe criminal enterprises also use the formal banking system, cash couriers, and the used car and real-estate industries to launder funds. Cash earned by immigrant or migrant workers generally flows out of Cote d'Ivoire, going to extended families outside the region, although there is no evidence that such flows are tied to money laundering.

The banking sector is active, but because banking services were largely absent from the northern part of Côte d'Ivoire until the end of 2007, the public used informal money couriers, money transfer organizations similar to hawaladars and, increasingly, goods transportation companies to transfer funds domestically, as well as within the sub-region. The standard fee for informal money transfer services is approximately ten percent. There is no regulation of domestic informal value transfer systems. Informal remittance transfers from outside Cote d'Ivoire violate West African Central Bank (BCEAO) money transfer regulations.

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. However, in June 2008, the Export-Import Bank of India opened a \$21 million line of credit for the Ivorian government to build a free trade zone for information technology and biotechnology in Grand Bassam. The Ivorian government has not yet chosen contractors for the project.

The Economic and Financial Police report an ongoing rise in financial crimes related to credit card theft and foreign bank account fraud. These include wire transfers of large sums of money primarily involving British and American account holders who are the victims of Internet-based advance fee scams. Cote d'Ivoire has no law specifically targeting Internet scams. The Ministry of Finance remains concerned by the high levels of tax fraud, particularly VAT tax fraud, by merchants.

Cote d'Ivoire has the largest bank network in the region. French financial interests account for the majority of retail and other banking and insurance services. 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. Ivorian authorities recently amended the banking law, which now requires that banks be capitalized with \$10 million and nonbank financial institutions (mortgage firms, insurance companies, etc.) with \$5 million.

Originally, 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 (l'UEMOA/WAEMU), common law on money laundering. With this law, Cote d'Ivoire adopted the all-crimes approach to money laundering, making it a criminal offense regardless of the predicate 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 mandates 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 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 both instruments for and proceeds of crime. Legitimate businesses are among the assets that can be seized if used to launder money or support terrorism or other illegal

activities. Authorities cannot seize substitute assets, as assets can only be seized if there is a relationship between the assets and 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) under the Minister of Finance. CENTIF became operational in January 2008. CENTIF can share information with other FIUs in l’UEMOA/WAEMU and with those of non-L’UEMOA/WAEMU countries on a reciprocal basis and with the permission of the Ministry of Finance, as long as those institutions keep the information confidential.

CENTIF is led by a group of six directors, detailed to the agency from the Finance Ministry, the Justice Ministry, police, customs, and the central bank/ CENTIF has 18 technical staff members, including financial analysts, an accountant, an attorney, an economist/statistician, and a computer network manager. It works 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 continue to investigate 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. Since its inception, CENTIF has received approximately 20 suspicious activity reports (the majority of them submitted by banks) and has forwarded two cases to prosecutors. To date, no arrests or convictions have resulted. CENTIF has also received three information requests. Although CENTIF has blocked funds, such action has proved counterproductive. Ivorian law allows funds to be blocked for a maximum of 48 hours, unless prosecution of a crime commences. In cases in which action does not take place within 48 hours, the holder of the account becomes aware that he or she is under suspicion and is likely to move the funds elsewhere. CENTIF’s greatest deficiencies relate to a lack of funding and the need for training—both CENTIF’s own employees as well as for prosecutors.

The FIU participates in the newly-formed National Committee, an interministerial committee dedicated to building effectiveness in the anti-money laundering/counterterrorist financing (AML/CTF) regime. The Committee has met seven times and developed a National Strategy and Action Plan for combating money laundering and terrorist financing. The Committee is working with the FIU on training initiatives and has participated in CENTIF’s FIU orientation seminar.

The Ministry of Finance, the BCEAO, and the West African Banking Commission, headquartered in Cote d’Ivoire, supervise and examine banking compliance with AML/CTF laws and regulations. All Ivorian financial institutions must maintain customer identification and transaction records for ten years. Additionally in all BCEAO member countries, banking officials must report all deposits over CFA 5,000,000 (approximately \$10,000) 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 2008, there were no arrests or prosecutions for money laundering or terrorist financing.

Legislation requires financial institutions to retain records of all “significant transactions,” which are transactions with a minimum value of CFA 50,000,000 (approximately \$100,000) for known customers, for ten years. 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; it does not have additional domestic laws or regulations. 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 \$1,000) for tourists, and two million CFA francs (approximately \$4,000) for business operators, without prior approval from the Department of External Finance of the Ministry of Economy and Finance. If additional amounts are approved, they must be in the form of travelers' checks.

Cote d'Ivoire 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 for Cote d'Ivoire for November 2009. 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 the United States on money laundering and terrorist financing.

There are no laws or regulations that specifically permit the allow the exchange of records with United States on money laundering and terrorist financing, other than the authority granted to CENTIF by the AML law. However, 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 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. Cote d'Ivoire is ranked 151 out of 180 countries in Transparency International's 2008 Corruption Perceptions Index.

The Government of Cote d'Ivoire should specifically criminalize terrorist financing. The Ministry of Finance should continue to 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. 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 become a party to 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. Although Cyprus has made progress from its days as an offshore haven for tax evasion, money laundering and other types of criminal financial activity, Cyprus remains vulnerable to significant money laundering and illicit finance activities. Simple financial crime such as fraud and tax evasion, along with narcotics-trafficking and proceeds from organized crime 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. However, these same factors also make Cyprus attractive to illicit actors seeking access to European markets or desiring to launder criminal proceeds. Cyprus' historic ties to organized criminal elements and large number of shell companies—which may be used by criminals and proliferators as fronts to facilitate illegal activity—also may attract illicit financiers.

Cyprus currently hosts a total of 44 banks, 17 of which are incorporated locally. The remaining 27 banks are branches of foreign-incorporated banks and conduct their operations mainly with nonresidents. At the end of October 2008, the cumulative assets of all banks are €109 billion (approximately \$147,150,000,000). Under the EU's "single passport" policy, banks licensed by competent authorities in EU countries may establish branches in Cyprus or provide banking services on a cross-border basis without obtaining a license from the Central Bank of Cyprus. By the end of 2008, nine foreign banks were operating branches 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), 43 licensed insurance companies, 400 licensed real estate agents, 2,496 registered accountants, 1,820 practicing lawyers, and approximately 118 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 since 2004. Their number has declined from 359 to the current 118 in less than four years, and authorities expect this trend to continue.

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. 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. The high number of nonresident businesses raises concern about money laundering due to difficulties in monitoring their activities.

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 definition of predicate offense is any criminal offense punishable by a prison term exceeding one year. Money laundering is an autonomous crime in Cyprus. 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.

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. The Institute of Certified Public Accountants of Cyprus—the designated supervisory authority for auditors and accountants in Cyprus—has publicized strict “know your customer (KYC)” regulations and has outsourced its supervisory oversight function to the UK’s Association of Chartered Certified Accountants). The Cyprus Bar Association, which regulates lawyers, also has strict KYC regulations. 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. However, regulatory oversight of entities such as lawyers and accountants, who are involved in corporate registration and the collection of beneficial ownership information, remains low. This lack of oversight could complicate the ability of authorities to access beneficial ownership information if such information is not collected at the time of registration and can create a permissive environment for beneficial owners of shell companies who may use these firms to conceal illicit activities. 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 Cypriot or foreign currency and gold bullion worth €2,500 (approximately \$16,875) or more. The Central Bank has the authority to revise this amount. On June 15, 2007, EU Directive 1889/2005 went into effect regulating cash movements of currency worth €10,000 (approximately \$13,500) or more for travelers entering Cyprus from countries outside the EU.

On December 13, 2007, Cyprus passed legislation entitled “Law for the Prevention and Suppression of Money Laundering Activities,” (LPSMLA) which came into effect on January 1, 2008. This legislation consolidates and supersedes pre-existing legislation. It encompasses all recent recommendations of the Financial Action Task Force (FATF) and the recommendations made by the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body (FSRB), at its mutual evaluation in 2006. The LPSMLA provides much stricter administrative fines for noncompliance, i.e., from €5,130 (approximately \$6,925) to €200,000 (approximately \$270,000), and generally raises Cyprus’ AML standards.

The LPSMLA also addresses enhanced due diligence, extending coverage of “politically-exposed persons” (PEPs), cross-border transactions, and transactions with customers not physically present or acting 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 the Unit for Combating Money Laundering (MOKAS), the Cypriot FIU, and other supervisory authorities to collect statistical data. MOKAS must

provide banks and other obligated entities with feedback in response to any suspicious transaction report (STR) submission.

Article 59 of the LPSMLA specifies the specific supervisory authorities for the various types of financial businesses, as well as other types of business activities. It also strengthens enforcement by expressly stipulating that directives issued by supervisory authorities are binding and obligatory, and by describing the range of possible enforcement measures, including requiring specific remedial action, imposing increased fines, and revoking the license of the supervised person or entity. Articles 61 and 62 describe the method and timeline for applying customer due diligence and identification procedures, while Article 64 refers to enhanced due diligence. Article 70 requires covered entities to notify the FIU before they carry out transactions that they know or suspect to be related to money laundering or terrorist financing. Furthermore, Article 49 provides an exception from the restriction on the disclosure of information, allowing the exchange of information between professionals belonging to the same group of companies.

While the recent AML law addresses many of the previously identified gaps in the Cyprus' AML/CTF regime, the effectiveness of these measures is unknown, as some provisions have not been fully implemented or tested through the detection, investigation and prosecution of money laundering cases.

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 (CSEC). 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.

In recent years the Central Bank has introduced directives 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 FATF as deficient in their AML regime, particularly concerning counterterrorist financing. The definition of beneficial owner under Article 2 (b) of the LPSMLA is "the natural person(s), who is the beneficiary of or exercises control over 10 percent or more of the property of a legal arrangement or entity."

In April 2008, shortly after passage of the LPSMLA, the Central Bank issued a revised "Directive to Banks for the Prevention of Money Laundering and Terrorist Financing." Among other provisions, the new Directive assigns responsibility on all levels of bank management, including senior managers, for ensuring compliance and implementation; imposes additional duties on bank compliance officers; and specifies additional high-risk situations.

All banks must report to the Central Bank on a monthly basis individual cash deposits in any currency exceeding €10,000 (approximately \$13,500). 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 also must file monthly reports with the Central Bank indicating the total number of 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 the updating of customers' identification data and business profiles. Banks must have computerized risk management systems to verify whether a customer is a PEP. They must also provide full details on any customer sending an electronic transfer in excess of €1,000 (approximately \$1,350), 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 involving high-risk countries, as well as high-risk customers. Since January 1, 2007, Cyprus has been 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 (approximately \$1,350).

The Central Bank also requires compliance officers to file annual reports outlining measures taken to prevent money laundering and to comply with its directives 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. This approval allows banks in Cyprus that acquire United States securities on behalf of their customers to enter into a "withholding agreement" with the IRS and become qualified intermediaries.

A draft law, expected to pass in early 2009, will regulate trust and company service providers (other than accountants and lawyers), bringing them under the supervisory authority of the Central Bank. As soon as this law goes 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 notes that the CSEC is legally unable to cooperate with foreign regulators if the CSEC does not have a direct interest, and that the CSEC has difficulty obtaining information regarding the beneficial owners of Cypriot-registered companies. The CSEC drafted amending legislation to resolve these issues, expected to pass in 2008, but now anticipated in early 2009. In the meantime, an amendment to the Market Abuse Law, passed in late 2007, enables the CSEC to share information with other competent authorities, as necessary. The IMF report also notes that commitments emerging from EU accession had "placed stress on the skills and resources" of the staff of the CSSDA and of the Insurance Superintendent.

The Prevention and Suppression of Money Laundering Activities Law mandates the establishment of MOKAS, the Cypriot FIU, and authorizes criminal (but not civil) seizure and forfeiture of assets. 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 filed STRs. Between January 1 and December 18, 2008, MOKAS received 242 STRs. In the same interval, MOKAS received 321 information requests from foreign FIUs, other foreign authorities, and INTERPOL. MOKAS cooperates closely with the U.S. in money laundering investigations.

MOKAS evaluates evidence generated by its member agencies and other sources to determine whether 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.

During the interval from January 1 through December 18, 2008, MOKAS opened 563 cases and closed 195. Since 2000, there have been 20 prosecutions for money laundering, seven of which took place in 2008. Of the 20 prosecutions, 11 have resulted in convictions. In 2008, MOKAS issued three confiscation orders for a total of approximately €70,000 (approximately \$94,500). A number of other cases are pending. Despite the size of the financial sector and the seemingly comprehensive nature of the AML/CTF legislative regime, the number of reports, investigations and convictions of money laundering cases in Cyprus remains surprisingly low. Furthermore, suspicious transaction reporting from the nonfinancial sector, including lawyers and accountants, also remains low.

Sections four and eight of 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 they 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 terrorist finance offenses. The LPSMLA 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 explicitly covers terrorist finance (although already considered a predicate offense under existing legislation). 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 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 as a terrorist or terrorist organization by the UN 1267 Sanctions Committee or the EU 931 Working Party, which replaced the previous informal EU “clearinghouse” with more formal mechanisms. If a financial institution finds matching accounts, it will immediately freeze the accounts and inform the Central Bank. As of November 2008, no bank has reported holding a matching account. When FIUs or governments—not the UN or the EU 931 Working Party—designate and circulate the names of suspected terrorists, MOKAS has the authority to block funds and contact 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 no terrorist assets have been found in Cyprus to date and thus there have been no terrorist financing 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 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 Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Cyprus has signed, but not yet ratified, the UN Convention against Corruption. Cyprus is a member of MONEYVAL. 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.

The Government of Cyprus has put in place a comprehensive anti-money laundering/counterterrorist financing regime, which it continues to upgrade. Cyprus should ensure not only the passage, but also the full implementation, of the two laws that will regulate trusts and company service providers, and provide the CSEC with the ability to obtain necessary information and share information both domestically and internationally. The GOC should provide a clear safe harbor to individuals who cooperate with law enforcement. Cyprus should provide adequate resources and capacity to the CSSDA and the Insurance Superintendent. Cyprus should also increase regulatory oversight of designated nonfinancial businesses and professions (DNFBPs) including lawyers and accountants. The ROC should ensure it is able to implement the law criminalizing the collection of funds with the knowledge they will be used by terrorists or terrorist groups for any purpose, not only to commit terrorist or violent acts. Cyprus should consider enacting provisions that allow for civil forfeiture of assets. Cyprus should ratify the UN Convention against Corruption.

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, although significant progress has been made over the last year. There are currently 24 domestic banks in the area administered by Turkish Cypriots and Internet banking is available. The offshore sector consists of 14 banks and 34 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. Under revised laws passed in 2008, the “Central Bank” took over the regulation and licensing of offshore banks from the “Ministry of Finance.” The new law permits only banks previously licensed by Organization for Economic Co-operation and Development (OECD)-member nations or having “friendly relations” with “TRNC” to operate an offshore branch in northern Cyprus.

It is thought the 23 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 changes 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. 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 approximately 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 staffs. Nevertheless, several other casinos are still believed to have significant links to organized crime groups in Turkey. Casinos fall under the purview of the AML law passed in 2008. A draft law, expected to be passed in January 2009, is designed to tighten the licensing and regulation of casinos.

Another area of concern is the approximately five hundred “finance institutions” 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.

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 FSRB and thus is not subject to normal 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. After including the northern part of Cyprus as an

area of concern for money laundering in February 2008, FATF found “significant progress” had been made by its October 2008 meeting.

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 include that the bank is licensed as an offshore bank in a jurisdiction with inadequate AML controls, particularly those applicable to its offshore sector; and 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 individuals with links to organized crime who own, control, and operate First Merchant Bank. 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 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 €10,000 (approximately \$13,500). Under the “AMLL,” banks must report to the “Central Bank” and the “Money and Exchange Bureau” any electronic transfers of funds in excess of \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. Under the new law, banks, nonbank financial institutions, and foreign exchange dealers must report all currency transactions over €10,000 (approximately \$13,500) and suspicious transactions in any amount to the “Money and Exchange Bureau” which deals with AML at the “Ministry of Finance.” Banks must follow a know-your-customer policy and require customer identification. Banks also must submit 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.”

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 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 it by providing evidence or appearing to testify, the authorities have difficulty presenting cases to their court system.

The “AMLL” requires individuals entering the area administered by Turkish Cypriots to declare cash over \$10,000 and prohibits individuals leaving the area administered by Turkish Cypriots from transporting more than \$10,000 in currency. However, “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 Turkish Cypriot “AMLL” provides better banking regulations than were in force previously, 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 the

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 establish a strong, functioning “financial intelligence unit,” and adopt and implement a strong licensing and regulatory environment for all obligated institutions, in particular casinos, money exchange houses, and entities in the offshore sector. Turkish Cypriot authorities should stringently enforce the cross-border currency declaration requirements. 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, more efficient STR reporting, better analysis of reports, and enhanced use of legal tools available for prosecutions.

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 sources of laundered assets in the country, Czech officials and media outlets voice 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, 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 problem. For many years, the Czech Republic was a transfer country in the international illegal animal trade. In recent years, authorities have reported an increase in cases of animal smuggling and believe the Czech Republic is becoming a target for such activity. In the Czech Republic, animals reportedly come third on the list of smuggled goods after drugs and weapons. Last year, the authorities confiscated altogether 151 animals, mainly tortoises, songbirds and parrots.

The growth of the Czech Republic economy between 2000 and 2008 was supported by exports to the European Union (EU). However, despite the progressive development of modern payment techniques, the economy is still heavily cashed-based. Major sources of criminal proceeds include criminal offenses against property, insurance fraud, and credit fraud. Insurance fraud in the Czech Republic rose by 50 percent in the first quarter of 2008. The Czech Association of Insurance Companies (CAIC) says that one in five insurance claims is fraudulent. The most common type of fraud concerns car insurance and property damage claims. 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. Criminal groups operating in the Czech Republic are mostly of foreign origin. They often enter the country by first opening various front companies, then receiving residency permits for employment in their own companies. Alternatively, immigrants often start business companies, which in many cases create the base for illegal migration, which subsequently creates a personnel base for criminal organizations. 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 criminalizes 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. Section 252a, "Legalization of Proceeds from Criminal Activity," of the Criminal Code criminalizes money laundering.

The Czech anti-money laundering legislation became effective in July 1996. The Anti-Money Laundering (AML) Act (Act No. 61/1996, Measures Against Legalization of Proceeds from Criminal Activity) provides the general preventive AML framework. It has been amended eleven times. The latest amendment, Act No. 253/2008 came into force September 1, 2008. Act No. 253/2008 requires customers to verify their identities for all transactions exceeding 1,000 euros (approximately \$1,400). The previous limit was 15,000 euros (approximately \$21,000). For transactions above 15,000 euros (approximately \$21,000), customers are required to provide more extensive information that includes details of the purpose and nature of the intended transaction. The new law also calls for more stringent controls of financial transactions involving politically exposed persons (PEPs) and their immediate family members. 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). The institutions must all keep internal records of all transactions exceeding 1,000 euros (approximately \$1,400). 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.

The Czech Republic still has more than 2.6 million anonymous deposit passbooks containing 3.9 billion crowns (approximately \$200,000,000). 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 \$18,000,000) were withdrawn from these accounts.

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 \$14,000) 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. As a result of the Czech Republic's December 2007 entry into the Schengen zone, all passport and customs stations on the borders are closed. Although the customs station at the Prague Airport remains operational, detecting the smuggling or transport of large sums of currency by train or 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 1996, financial institutions have been required to report all suspicious transactions to the FAU. The FAU is authorized to cooperate with the Czech Intelligence Service (BIS) and Czech National Security Bureau (NBU) in addition to its ongoing cooperation with the Czech Police, Customs, and counterpart FIUs abroad.

The FAU is charged with reviewing cash transaction reports (CTRs) and suspicious transaction reports (STRs) filed by police agencies, financial, and other institutions. It is also charged with uncovering cases of tax evasion, a widespread problem in the Czech Republic. The FAU has neither the mandate

nor the capacity to initiate or conduct criminal investigations. 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 number of STRs transmitted to the FAU decreased in 2007 after several years of rapid growth. There were 3,404 suspicious transactions reported in 2005, 3,480 in 2006, but only 2,048 in 2007. During the first five months of 2008, the FAU received 1,722 STRs. The number of inquiries evaluated and forwarded to law enforcement bodies also has decreased. In 2005, the FAU forwarded 208 reports to the police, 137 in 2006 and only 102 in 2007. During the first five months of 2008, the FAU forwarded 67 reports to the police.

Investigative responsibilities remain with the Czech National Police Unit for Combating Corruption and Financial Crimes (UOKFK) or other Czech National Police bodies. The UOKFK has primary responsibility for all financial crime, corruption and terrorist financing cases. Following the dissolution of the specialized Financial Police on January 1, 2007, the unit became the main law enforcement counterpart to the FAU. Following the abolition of the Financial Police, the UOKFK took over all of its ongoing cases, but the pace of investigations has slowed. The abolition of the Financial Police and the transfer of its cases to the UOKFK caused temporary difficulties in communication between the FAU and the Police. It is not clear whether every case transferred to law enforcement was investigated.

The Czech Republic saw its first convictions of individuals attempting to legalize proceeds from crime in 2004. In 2005, there were 23 alleged offenders prosecuted and three were convicted. In 2006, 33 were prosecuted, and five were convicted. In 2007, the Police investigated 32 cases, 13 of which are being prosecuted. As of November 2008, no data is available regarding the number of convictions. In the past, sentences have been low and generally consisted of suspended sentences or fines. A new Penal Code is likely to come into effect in 2009 and is expected to significantly increase penalties for financial crimes, including money laundering. An ongoing issue in criminal prosecutions is that law enforcement agencies must prove the assets in question were derived from criminal activity. The accused is not obligated to prove 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 Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body, have both emphasized the need for the Czech Republic to increase the FAU's staff. Despite numerous requests by the FAU for an increase in staffing, to date, the GOCR has not yet approved the FAU's request. 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 and had a good track record of investigating and prosecuting money laundering and terrorist financing cases, has also had a negative impact on police work on financial crimes.

The Law on Implementation of 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 Implementation of International Sanctions.

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 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 Implementation of 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 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 implements provisions and responsibilities addressing 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 brings 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 assets as well as equivalent assets 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 2007, the NDH confiscated the equivalent of approximately \$165,000 in euros and CZK, and other assets worth CZK 1.92 million (approximately \$106,700). For the first ten months of 2008, the figures are approximately \$161,888 in CZK and euros, and other assets valued at CZK 1.72 million (approximately \$95,556).

In November 2004, the Czech Government amended the Criminal Code and enacted new definitions for terrorist attacks and terrorist financing. The amendments impose a penalty of up to 15 years' imprisonment on those who support terrorists financially, materially, or by other means. On November 11, 2008, the lower house of the Czech Parliament passed a new penal code that will tighten the penalties for financing terrorism from the present 8-15 years to 12-20 years imprisonment. The code, however, must still be passed by the Senate and signed by the President before it can go into effect. 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 AML law in 2000 requires financial institutions to freeze assets that belong to suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee consolidated list.

The GOCR adopted the National Action Plan for the Fight Against Terrorism for 2005-2007, subsequently updated for 2007-2009. 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 financing threat in the Czech Republic is considered to be modest, some law enforcement officials believe the presence of third-country remuneration networks operating in the country (“hawala” shops) could translate into a greater possibility of terrorist financing 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. An informal interagency body called the Clearinghouse was established in 2002 under the FAU to streamline the collection of information from institutions and enhance cooperation and response to a terrorist threat. The Clearinghouse meets only in cases of necessity. 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 on Implementation of International Sanctions has made their work easier. Several cases have been detected, and payments to suspected organizations were not permitted. In two cases sanctions had been imposed.

The Czech Republic has signed memoranda of understanding on information exchange with 23 countries, the most recent being 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. Cooperation with foreign counterparts remains good. In 2005, the FAU received 130 assistance requests from foreign counterparts and sent 69 requests abroad. In 2006, it received 128 requests and sent out 77. In 2007, the FAU received 133 requests and sent out 66.

The Czech Republic participates in MONEYVAL. The most recent mutual evaluation of the Czech Republic was conducted by MONEYVAL in 2005. The mutual evaluation report was adopted by MONEYVAL at its plenary meeting in September 2007. The Czech Republic is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The United States and the Czech Republic have a Mutual Legal Assistance Treaty (MLAT), which entered into force on May 7, 2000. In May 2006, the United States and the Czech Republic signed a supplemental MLAT, which was ratified in 2007, but has not yet come into force.

The Government of the Czech Republic has made progress in its efforts to strengthen its anti-money laundering regime. However, the GOCR should strengthen its incomplete legal framework on seizure and confiscation and take steps to resolve its FIU and police resource problems. The GOCR also should increase staffing and resources for the FAU and national police so these agencies can effectively implement and enforce the anti-money laundering/counterterrorist financing measures under their charge. To successfully implement its risk-based approach, the GOCR must adopt and put in place a comprehensive CDD program and ensure that all obligated entities have the capacity and guidance to apply it. The GOCR also should ratify the UN Convention against Transnational Organized Crime and UN Convention against Corruption.

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. The lack of a viable financial intelligence unit and the proposed

creation of an offshore financial center exacerbate the Dominican Republic's vulnerability to money laundering.

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, and the Government of the Dominican Republic (GODR) is in the process of amending the law to add a parallel structure of criminal penalties.

The 1995 Narcotics Law allows preventive seizures and criminal forfeiture of drug-related assets, and authorizes international cooperation in forfeiture cases. 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. However, there is a lack of regulations to implement the legislation that led to ineffective asset inventory and management. There is a pending amendment to Law No. 78-03 recently introduced by the GODR Attorney General's office. If approved, this amendment will greatly improve the administration of seized, confiscated, or abandoned properties and will also significantly reduce the time period that seized property must be held prior to forfeiture. Assets Laundering Law 72-02 applies to seized assets. 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. None were reported for 2008.

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 \$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 \$10,000 in domestic or foreign currency.

In August 2006, the Dominican Republic Attorney General created the Money Laundering 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. 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.

In the BANINTER case, the bank's president and vice-president were convicted and sentenced for violations of banking and monetary laws, although both were acquitted of money laundering. A

Dominican economist and entrepreneur, a U.S. citizen, was convicted of criminal money laundering in connection with the collapse and sentenced to ten years in prison. In November 2008, the Dominican Supreme Court upheld the convictions in the BANCREDITO case, although none of the convictions were for money laundering. While these convictions were criticized by civil society, the media, and jurists as internally inconsistent, reportedly, they nevertheless serve as a significant challenge to impunity for the country's elite.

In 1997, the Dominican Republic established the Unidad de Inteligencia Financiera (UIF) as the country's financial intelligence unit (FIU) 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, projected to occur by the end of the summer in 2009. 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 thought 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 December 2008, legislation was passed by the Dominican Congress 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. Among the financial services proposed to be available will be businesses and investment banking, public and private brokerage, trading of titles and commercial paper, money and asset management. 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 counterterrorist 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 the creators proposed 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.

In August 2008, the Government of the Dominican Republic (GODR) criminalized terrorist financing with the enactment of the Anti-Terrorism Law. 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.

According to U.S. law enforcement officials, cooperation between law enforcement agencies on drug cases, human trafficking, and extradition matters remains strong. In 2008, GODR and U.S. law enforcement continued 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 continues targeting commercial flights and vessels that operate to drug source countries to disrupt the illicit money flow back to narcotics traffickers. In view of the recent increase in asset

forfeiture cooperation with the U.S., the Dominican Republic has requested that the U.S. enter into an Asset Sharing Agreement to better streamline future sharing efforts.

In July 2008, the National Drugs Control Agency (DNCD) raided exchange businesses used by a Dominican-Colombian drug ring that laundered millions of dollars through “Operation Pitufu” (Smurf). The DNCD and the U.S. Drug Enforcement Administration (DEA) exchanged information to identify others implicated in the money-laundering organization.

In June 2008, the Dominican Republic made a substantial asset seizure relating to a Medicare fraud prosecution in the Southern District of Florida involving a large amount of assets purchased by Luis, Carlos, and Jose Benitez (the Benitez Brothers) brothers. Of the \$110 million dollars in fraudulent funds obtained, over \$30 million were invested in assets in the Dominican Republic. Assets included a hotel, water park, houses, helicopter, seafront apartments, and automobiles. The Government of the Dominican Republic’s (GODR) Prosecutor General’s office assisted the Federal Bureau of Investigation agents in conducting the seizures. This is an on-going case at this time, and the United States anticipates taking over the forfeiture through litigation in Miami, Florida. The two countries are working closely together to discover additional assets in this, and other fraud cases, so that restitution may be made to victims of the fraud in the United States. The United States generally shares a large part of any confiscations that result from cooperation between the two countries on drug cases, and other nonvictim criminal matters, with the Dominican Republic.

In September of 2008, ICE conducted a month long enforcement operation with GODR Customs and National Police consisting of teams at various airports and at the ferry to Puerto Rico focusing on identifying individuals who failed to declare currency in excess of \$10,000. The operation, conducted at airports around the country and the ferry terminal in Santo Domingo, resulted in 15 currency seizures totaling over \$340,000. This was the most recent of several similar operations and ICE will continue to coordinate similar operations on a routine basis.

The Dominican Republic is a member of the Organization of American States (OAS) and the Caribbean Financial Action Task Force (CFATF)- a FATF-style regional body. The Dominican Republic and the United States do not have a mutual legal assistance treaty in place. The United States continues to encourage the GODR to sign and ratify the Inter-American Convention on Mutual Assistance in criminal matters, and to sign related money laundering conventions. The Dominican Republic is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, the UN Convention against Transnational Organized Crime and, the UN Convention for the Suppression of the Financing of Terrorism.

The Government of the Dominican Republic (GODR) continues to enhance its anti-money laundering regime; however, additional improvements are still needed, particularly with regard to combating terrorist financing. While legislative and oversight provisions are being put in place in the formal financial sector, there still 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, to 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. With adequate personnel and enhanced capability, GODR officials working jointly with U.S. Law Enforcement agencies will have a greater capacity to conduct more effective money laundering investigations. The GODR should devote its resources to developing and implementing a viable anti-money laundering/counterterrorist financing regime that comports with international standards, and should not establish an offshore financial center, which would greatly increase the risk of all-source money laundering.

Ecuador

Ecuador is a major drug transit country, and as such, is vulnerable to money laundering. 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 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, as well as through trafficking of people. Weakly regulated casinos serve as an additional vulnerability for money laundering. 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. Recent allegations, however, have surfaced about the possibility of Colombian drug traffickers' involvement in using Ecuador's financial system to launder drug proceeds through pyramid or Ponzi schemes.

Ecuador's financial sector consists of 29 banks, 13 investment companies, two formal exchange houses, 28 regulated cooperatives (and an estimated 600 to 800 additional unregulated, unlicensed and unsupervised cooperatives), 39 insurance companies, two stock exchanges, and eight mutual funds. Several Ecuadorian banks maintain offshore offices. The Superintendency 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 Superintendency of Banks. These private accounting firms perform the standard audits on offshore banks that would generally be undertaken by the Superintendency in Ecuador. Bearer shares are not permitted for banks or companies in Ecuador. Small local credit unions that provide loans and money transfers are numerous—approximately 5,800, according to tax authorities—and are regulated only by the Ministry of Social Affairs.

Law 2005-12 of October 2005 criminalizes money laundering in Ecuador. The law amends the Narcotics and Psychotropic Substance Act of 1990 (Law 108) and criminalizes the laundering of illicit funds from any source. It also penalizes the undeclared entry of more than \$10,000 in cash or other convertible assets. The 2005 law also 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.

Law 2005-12 establishes 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 Superintendency of Banks and the National Police. The law also establishes Ecuador's financial intelligence unit (FIU), the Unidad de Inteligencia Financiera (UIF), under the purview of the Council. There have been three UIF directors since the first was appointed in November 2006, with the most recent taking office in May 2008. The UIF became operational on December 1, 2007, and continues to strengthen its analytical capacity through technical assistance and improved software. An initiative under the new director has been to target casinos as potential sources of money laundering. During the year, the UIF promulgated two new regulations to strengthen monitoring and enforcement of the Money Laundering Law, one relates to casinos and the other to banks, cooperatives and credit unions. Under the new director, the UIF has referred 15 cases to the Attorney General's office for prosecution, with three of the cases related to casinos.

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 Superintendency of Banks and Insurance currently report suspicious transactions to the Superintendency. Obligated entities are also required to establish “know-your-client” provisions, report cash transactions over \$10,000 (including structured transactions amounting to more than \$10,000 over a 30-day period), 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 Superintendency 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 Ministry of the Public. The UIF is also empowered to exchange information with other financial intelligence units on the basis of reciprocity, and has entered into agreements with several countries to do so.

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 Superintendency 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. The UIF is seeking legal reforms to address at least some of these issues.

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 extradited to the United States from Colombia. In February 2008, seven defendants in the case were convicted of money laundering, with prison sentences of four to eight years. The court also ordered the forfeiture of all seized assets to the state and the closing of six businesses. In August 2008, there was a second conviction under the 2005 Money Laundering Law, with an Ecuadorian female and Spanish male sentenced to three years and a fine of \$265,000 for attempting to bring more than \$500,000 into Ecuador illegally in July 2007.

In 2008, ICE and Ecuadorian customs authorities conducted joint interdiction operations in furtherance of ICE’s Operation Firewall, a law enforcement effort focusing on the interdiction and investigation of bulk cash being smuggled around the world. The operations, conducted at airports in Quito and Guayaquil, resulted in the seizure of approximately \$1,014,952. ICE is providing technical assistance to the Ecuadorian investigations.

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 Government of Ecuador (GOE) in 2008.

Ecuador has not criminalized terrorist financing. The Ministry of Foreign Affairs, Superintendency 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 no further

actions were taken before the Congress went into recess and was replaced by a Constituent Assembly in 2007. In late 2008, the UIF developed a new draft law that included terrorist financing and was vetting it through government offices before introducing it to the legislature for approval. The Superintendency 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 Superintendency would have to obtain a court order to freeze or seize such assets, in the event they were identified in Ecuador. Currently, there are no measures in place to prevent the misuse of charitable or nonprofit entities to finance terrorist activities.

Following a referendum in September in which a new Constitution was approved, the government has been reorganizing the judiciary and considering various legal reforms. Among these possible reforms are changes to the Money Laundering Law, the Criminal Procedures Code and the Narcotics Law. The government is also considering adopting anti-terrorist financing and civil asset forfeiture legislation. While many of these proposed changes could greatly improve the prosecuting of money laundering and financial crime cases, it is too early to determine whether these changes will occur or what specifically they might entail.

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 counterterrorist financing law and the lack of successfully prosecuted money laundering cases, but recognized that the UIF was making some progress.

Ecuador is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GOE is also 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 1988 Drug Convention 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 United States 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 GOE 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 three 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. The GOE should criminalize the financing of terrorism to adhere to the UN Convention to which it is a party; such a step would also enable its FIU to apply for membership in the Egmont Group. The GOE should also 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. Similarly, the GOE should amend its current legislation so that penalties applying to the laundering of funds under \$5,000 are sufficiently dissuasive (the current penalty for laundering less than \$5,000 is a fine of double the amount laundered and no prison terms apply), and

clarify whether a conviction for a predicate offense is required before prosecutors may charge an individual with money laundering. Finally, the GOE should take all necessary steps to comply fully with international anti-money laundering and counterterrorist financing standards to which it has formally committed through its membership in the UN, the OAS and GAFISUD.

Egypt, The Arab Republic of

Egypt is not considered a regional financial center or a major hub for money laundering. Egypt is becoming a more sophisticated financial center, but still has largely a cash economy. Many financial transactions do not enter the banking system. Egypt has a large informal economy as well, but data on the size of the informal economy is hard to come by. As part of its on-going economic reform plan, which began in 2004, the Government of Egypt (GOE) continued its financial sector reforms in 2008, and Egypt has received positive feedback from the World Bank and IMF on many of the financial sector reform efforts. However, some scheduled reform items were not completed in 2008, which may be partly attributable to global financial conditions. Accomplishments in 2008 included the launch of the small and medium size enterprise (SME) stock exchange, needed revisions to the capital markets law, and new amendments to the anti-money laundering law. One setback in 2008 was when efforts to privatize Banque du Caire (Cairo Bank) stalled after the Central Bank of Egypt (CBE) determined that none of the submitted bids met the government's minimum accepted bid. Few money laundering cases have made it to court in the last several years. While Egypt has improved supervision and the quality of its regulatory regime to prevent and fight money laundering, some activities continue which make Egypt vulnerable, including: illegal dealings in antiquities, corruption, misappropriation of public funds, smuggling, the use alternative remittance systems, and the misappropriation of public funds.

While there is no significant market for illicit or smuggled goods in Egypt, there is evidence that trade goods, arms, and cash are smuggled across Egypt's border with Gaza. The funding source is unclear, as is the destination of the proceeds. 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, although those taxes and fees have been reduced in recent years. Customs fraud and invoice manipulation are also found in regional value transfer schemes and underground finance. A large portion of Egypt's economy remains undocumented and tax evasion remains a problem. The Ministry of Finance is attempting to address the evasion problem by improving the capacity of its anti-evasion unit and trying to obtain high profile prosecutions.

The CBE estimates that Egyptian expatriate workers remitted \$8.5 billion in fiscal year 2007-2008. Western Union and Moneygram are the two primary formal cash transfer operators in Egypt. Egyptian authorities believe that informal remittance systems such as hawala are not a large phenomenon in Egypt, and therefore these systems are not monitored or regulated. As the black market for Egyptian pounds has dried up, the need for using alternative remittance systems has lessened. There are many overseas Egyptian workers, so as in many countries in the region, informal remittance systems exist. Those overseas workers who may be using informal means for convenience purposes, may do so because of lack of familiarity with banking procedures, desire to avoid fees, or because some banks require the sender to be an account holder.

Egypt's Law No. 80 of 2002 criminalizes laundering of funds from narcotics trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. Law No. 80 provides the legal justification for providing account information to responsible civil and criminal authorities. The law established the Money Laundering Combating Unit (MLCU) as Egypt's financial intelligence unit (FIU), which officially began operating on March 1, 2003, as an independent entity within the CBE. The anti-money laundering law (AML) provides the main requirements of an anti-money laundering regime, such as record keeping, AML supervision,

reporting of suspicious transaction reports (STRs), protection from liability for reporting, and details of the penalties. The legal basis by which the MLCU derives its authority, also spells out the predicate crimes associated with money laundering, establishes a Council of Trustees to govern the MLCU, defines the role of supervisory authorities and financial institutions, allows for the exchange of information with foreign competent authorities, and set the detailed procedures for the implementation of Security Council Resolutions related to targeted financial sanctions. Article 86 of the Penal Code criminalizes the financing of terrorism.

In 2008, Law 80 was amended to strengthen the AML by including some additional categories of crimes that are now covered under the law. These include, insider trading, and customs evasion. The amendments also strengthened the role of MLCU within the GOE, requiring other competent government agencies to report to the MLCU any available information on money laundering crimes or the financing of terrorism. The amendment also requires that if a conviction judgment is passed in a money laundering case related to a legal person, that the judgment be published in two daily widespread newspapers and allows the judge to order suspension of the activities of the legal person for no more than one year.

After the promulgation of the new amendments, each one of the supervisory authorities (Central Bank of Egypt, Capital Markets Authority, Egyptian Insurance Supervisory Authority, General Authority for Investment and Free Zones, Ministry of Technology and Telecommunication and Mortgage Finance Authority) updated their own AML/CTF regulations and the FIU issued new know your customer (KYC) rules for each type of financial institutions.

The MLCU has its own budget and staff and full legal authority to examine all STRs and conduct investigations. Field investigations are administered by the FIU and conducted on behalf of the FIU with the assistance of law enforcement agencies, including the Ministry of Interior, the National Security Agency, and the Administrative Control Agency. Once concluded, results of investigations are sent back to the FIU for further examination and analysis. The FIU decides whether or not to forward the case to the public prosecutor. The MLCU shares information with appropriate agencies and those agencies are required to share information with the MLCU.

The MLCU is directed by a five-member 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 Capital Markets Authority, the Deputy Governor of the CBE, a representative from the Egyptian Banking Federation, and an expert in financial and banking affairs. In June 2004, the MLCU was admitted to the Egmont Group.

Money laundering investigations are carried out by one of the three law enforcement agencies in Egypt, according to the type of predicate offense involved. The Ministry of Interior, which has general jurisdiction for the investigation of money laundering crimes, has a separate AML department that includes a contact person for the MLCU who coordinates with other departments within the ministry. The Ministry of Interior's AML department works closely with the MLCU during investigations. It has established its own database to record all the information received, including STRs, cases, and treaties. The Administrative Control Authority has specific responsibility for investigating cases involving the public sector or public funds. It also has a close working relationship with the MLCU. The third law enforcement entity, the National Security Agency, plays a more limited role in the investigation of money laundering cases, where the predicate offense threatens national security.

The CBE's Bank Supervision Unit shares responsibility with the MLCU for regulating banks and financial institutions and ensuring compliance with AML law. Under the AML law, banks are required to keep all records for five years, and numbered or anonymous financial accounts are prohibited. The CBE also requires banks to maintain internal systems enabling them to comply with the AML law and has issued an instruction to banks requiring them to examine unusual, including large, transactions. In addition, banks are required to submit quarterly reports showing compliance with respect to their

AML responsibilities. Improving the quality of the Supervision Department at the CBE has been a main tenant of the Bank reform effort. Reporting of suspicious transactions is compulsory by all banks and nonbank financial institutions.

Regulatory and supervisory authorities, including the CBE and MLCU undertake periodic on-site and off-site compliance assessments of all banks operating in Egypt. In the case of violations, banks are notified of corrective measures to be undertaken with a deadline for making the necessary changes. Compliance is ascertained via follow-up visits. 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 CBE also monitors bureaux de change and money transmission companies for foreign exchange control purposes, giving special attention to accounts with transactions above certain limits. The 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.

The Egyptian Insurance Supervisory Authority (EISA) supervises insurance companies and controls 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 and accountants are not currently subject to AML controls. Prime Ministerial decree of 2008 added precious metal dealers and real estate brokers to the list of entities covered under the purview of the AML law.

Several recent laws and regulations govern the transportation of cash into the country. Law 88 of 2003 established the threshold for declaring foreign currency at borders to the equivalent of \$10,000. The 2008 amendments added securities and commercial negotiable papers to the list of items that had to be declared if the value exceeds the equivalent of \$10,000. The declaration requirement covers travelers leaving as well as entering the country. The 2008 amendments and accompanying executive regulations stipulate that the Customs Authority must enforce the law relating to cross-border movement of money. Enforcement of this provision is not consistent. The Customs Authority also signed an agreement with the MLCU to share information on currency declarations. Over the last few years there have been reports that Hamas officials repeatedly crossed the Egypt-Gaza border with millions of dollars in smuggled cash. Egyptian Customs Authorities at the Gaza Border must pass all reports of foreign currency declarations at the border to the MLCU, and also alert the European Union border guards of individuals crossing the border with large amounts of cash. Authorities state that terrorist attacks of the past several years have given extra impetus to law enforcement agencies to thoroughly scrutinize currency imports/exports.

Egypt is not an offshore financial center. Offshore banks, international business companies, and other forms of exempt or shell companies are not permitted in the country. Egypt has 9 public free zones, 250 private free zones, and one Special Economic Zone (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 established by GAFI decree and are usually limited to a single project such as mixing, repackaging, assembling and/or manufacturing for re-export. The SEZs allow firms operating in them to import capital equipment, raw

materials, and intermediate goods duty-free and to operate tax-free. There is no indication that the zones are being used for trade-based money laundering schemes or for financing of terrorism.

The Law on Civil Associations and Establishments (Law No. 84 of 2002) 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. The Ministry of Social Solidarity, with assistance from the Central Bank, monitors 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 (Article 208aa) authorizes seizure and confiscation of assets related to predicate crimes, including terrorism. All assets are subject to seizure, including moveable and immoveable property, rights and businesses. Assets can only be seized with an order from the Public Prosecutor, and the agency responsible for seizing the assets depends on the predicate crime. Typically, the CBE seizes cash and the Ministry of Justice seizes real assets. Confiscated assets are turned over to the Ministry of Finance, and the executive regulations of the AML law allow for sharing of confiscated assets with other governments. The Public Prosecutor's office is currently engaged in negotiations to enhance cooperation with other governments on asset seizure and confiscation.

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, the National Security Agency, and the MLCU. The same agencies sit on a National Committee for International Cooperation in Combating Terrorism, which was established in 1998.

The GOE has made efforts to replace its emergency law, which has been in force since 1981, with anti-terror legislation. However, in 2008, the emergency law was extended again for another two years. It is unclear when the new anti-terror law will be brought before parliament and if it will include specific measures against terrorist financing.

The GOE and the United States 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 United Kingdom, Romania, Zimbabwe, Peru, Canada, and Russia. The MLCU is responsible for circulating to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267, 1373, the United Nations Sanctions Committee's consolidated list, and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224. The 2008 Prime Ministerial decree describes these responsibilities clearly. The MLCU is also charged with taking the legal measures to freeze the said actions. No known assets were identified, frozen, seized, or forfeited in 2008.

Egypt is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Egypt was scheduled to undergo a Mutual Evaluation assessment with MENAFATF; however, it will be replaced by the World Bank's Financial Sector Assessment Programs (FSAP) that was conducted in late 2008. Egypt 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 quality of the Government of Egypt's anti-money laundering and terrorist finance regime will be based upon obtaining successful prosecutions and convictions. Egypt's regime continues to improve, but there are several areas that need improvement, particularly enhancement of investigative capacity dealing with financial crimes. Egypt should consider ways of improving the MLCU's feedback on

STRs to reporting institutions. It should improve its enforcement of cross-border currency controls, specifically allowing for seizure of suspicious cross-border currency transfers. 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

The Government of El Salvador did not make any significant advances in 2008 to improve its ability to detect, investigate, and prosecute money laundering and financial crimes. The financial intelligence unit (FIU), the Unidad de Inteligencia Financiera, appears to be under used, and lacks institutional direction and investigative capacity. Only seven money laundering cases were brought to trial in 2008, and none resulted in any convictions. The government did request extradition from the United States of two high profile individuals in 2008.

Located on the Pacific coast of the Central American isthmus, El Salvador has one of the largest and most developed banking systems in Central America. The 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. Through August of 2008, approximately \$2.6 billion in remittances were sent to El Salvador through the financial system. This is a decrease of approximately \$900,000 from the previous year's total of \$3.5 billion. The quality of additional remittances to El Salvador via other methods such as visiting relatives, regular mail and alternative remittance systems is not known. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for immigration inspection free movement of the citizens of these countries across their respective borders. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime.

Most money laundering is conducted by international criminal organizations. These organizations use bank and wire transfers from the United States to disguise criminal revenues as legitimate remittances to El Salvador. The false remittances are collected and transferred to other financial institutions until sufficiently laundered for use by the source of the criminal enterprise, usually a narcotics trafficking organization.

Decree 498 of the 1998 "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 established the FIU within the Attorney General's office. The FIU has been operational since January 2000. The National Civilian Police (PNC) and the Central Bank also have their own anti-money laundering units.

Under Decree 498, financial institutions must identify their customers, maintain records for a minimum of five years, train personnel in identification of money and asset laundering, establish internal auditing procedures, and report all suspicious transactions and transactions that exceed approximately \$57,000 to the FIU. Entities obligated to comply with these requirements include banks, finance companies, exchange houses, stock exchanges and exchange brokers, commodity exchanges, insurance companies, credit card companies, casinos, dealers in precious metals and stones, real estate agents, travel agencies, the postal service, construction companies, and the hotel industry. The law includes a safe harbor provision to protect all persons who report transactions and cooperate with law enforcement authorities, and also contains banker negligence provisions that make individual bankers responsible for money laundering at their institutions. Bank secrecy laws do not apply to money laundering investigations.

In 2008, the FIU identified 215 suspicious banking transactions, and categorized 667 cash transactions as possible instances of money laundering and/or financial crime. The FIU opened 19 formal investigations of suspected money laundering. The Attorney General's office brought seven money laundering cases to trial, but did not obtain any convictions. The FIU froze a total of \$716,905 in funds suspected of being related to money laundering. In 2008, the Government of El Salvador (GOES) formally requested extradition of a former National Legislative Assembly Deputy facing public corruption and money laundering charges who had fled to the United States and was later apprehended in Anaheim, California and held on immigration charges. The GOES has also requested extradition of a fugitive financier apprehended in Miami, Florida who is wanted on charges of defrauding Salvadoran investors in a case dating back to 2005.

The GOES investigates 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 investigative capabilities. The FIU has reportedly attempted 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 \$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 2008, the GOES confiscated \$859,621 in undeclared cash from travelers transiting Comalapa International Airport and other international land border crossings adjacent to Honduras and Guatemala. Of that total, \$360,000 was seized as a result of joint interdiction operations at the airport by El Salvador Customs authorities and U.S. Immigration and Customs Enforcement (ICE) in furtherance of Operation Firewall, an ICE comprehensive law enforcement effort into the interdiction and investigation of global bulk cash smuggling.

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. No legal mechanism exists 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 2008, the GOES froze \$716,905 in bank deposits related to money laundering and financial crime investigations.

The GOES passed counterterrorism legislation, Decree 108, in September 2006. Decree 108 further defines acts of terrorism and establishes tougher penalties for the execution of those acts. Article 29 of Decree 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) were included in an early draft but 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 FIU to sign agreements to share or provide information to other countries. The FIU is also legally authorized to access the databases of public or private entities. The GOES has cooperated with foreign governments in financial investigations related to narcotics, money laundering, terrorism, 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), a FATF-style regional body. The FIU has been a member of the Egmont Group since 2000. The GOES is party to the UN 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 should strengthen its ability to investigate and prosecute financial crime and improve its mechanisms for seizing and sharing assets. The GOES should ensure the passage of the civil asset 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 and enact legislation requiring supervision of nongovernmental organizations to comport with international counterterrorism financing norms. The GOES should also ensure that sufficient resources are provided to the 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 obligated 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 \$525,000). 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 \$1,050,000). The legal procedure for criminal conspiracy applies to money laundering crimes.

On August 4, 2008, the Parliament passed a law containing a provision allowing the government to transpose the European Union's (EU) Third Anti-Money Laundering Directive via government order (ordonnance). No such order had been published as of December 2008. In January 2009, the European Commission made the decision to refer France to the European Court of Justice over non-implementation of the Directive, which requires members to update their anti-money laundering (AML) regimes to comport with the most up-to-date standards, particularly with regard to regulation and terrorism financing.

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 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 (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.

TRACFIN is responsible for analyzing 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 12,481 STRs in 2007. The banking sector submits approximately 81 percent of STRs. The FIU referred 410 cases to the judicial authorities in 2007. In 2006, French courts convicted 126 individuals for money laundering, aggravated money laundering and laundering of narcotics-trafficking proceeds.

In addition to STRs, French law requires two other types of reports 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. As with STRs, there is no threshold limit for such reporting. Entities must also file reports when a financial entity acting in an asset management capacity, or on behalf of another party acting in an asset management capacity carries out a transaction on a third party's behalf, when legal or beneficial owners are unknown. 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 any list of noncooperative countries or territories developed by the Financial Action Task Force (FATF).

Law No. 96-392 of 1996 institutes 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.

Since 1986, French counterterrorism legislation has provided for the prosecution of those involved in terrorist financing under the offense of complicity in the act of terrorism. To strengthen this provision, in 2001, France enacted a terrorist financing offense (Article 421-2-2 of the Penal Code) that follows the definition set forth in the UN Convention for the Suppression of the Financing of Terrorism and can result in ten years' imprisonment and a fine of 225,000 euros (approximately \$303,750). In 2007, TRACFIN referred 17 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 GOF moved to strengthen France's anti-terrorism legal arsenal with the Act of 23 January 2006 (the Act), which entered into force by presidential decree in April 2007. This act 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 those belonging to companies directly or indirectly controlled by these individuals. Authorities can freeze accounts and financial assets through both administrative and judicial measures. By granting explicit national authority to freeze assets, the Act closes a potential loophole concerning the freezing of a citizen's assets as opposed to a resident EU-member citizen's assets. Under the new legislation, France also created a national terrorist list, which allows for the implementation of UNSCR 1373 concerning terrorism.

French authorities have moved rapidly to identify and freeze financial assets of organizations associated with al-Qaida and the Taliban under UNSCR 1267. The GOF takes actions against other terrorist groups through the EU-wide Working Party on implementation of Common Position 2001/931/CFSP on the application of specific measures to combat terrorism (931 Working Party), which replaces the previous informal EU "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 counterterrorist 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 32 foreign FIUs. In 2007, TRACFIN filed 882 criminal intelligence requests and responded to 883 from counterparts under these agreements.

France is a member of the 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), both FATF-style regional bodies. France is a party to the 1988 UN Drug Convention; the UN Convention against Transnational Organized Crime; the UN Convention for the Suppression of the Financing of Terrorism; and the UN Convention against Corruption.

The Government of France has established a comprehensive AML 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 the promulgating regulations for compliance with the Third Money Laundering Directive are fully effective, and the supervisory authorities are well-equipped to handle all of their pertinent duties. The GOF should enact a compulsory written cash declaration regime at its

airports and borders to ensure that travelers entering and exiting France 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. Among other provisions, the measures mandate suspicious activity reporting by a variety of entities, including notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys.

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 \$20,250). 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 financial intelligence unit (FIU) as well as to the State Attorney (Staatsanwaltschaft).

In August 2008, new legislation entered into force that contains further provisions on customer due diligence and other internal risk-management measures to prevent money laundering and terrorist financing. The new regulations 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). Suitable control structures ensure that proper, accurate and current information is available about the contracting party, to ensure transparency. The new law also expands reporting requirements to encompass transactions that support the financing of terrorism. A European Union (EU) regulation on wire transfers (EC 1781/2006) entered into force on January 1, 2007.

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.

As of June 15, 2007, travelers entering Germany from a non-EU country or traveling to a non-EU country with 10,000 euros (approximately \$13,500) 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, its source, its intended purpose, and the identities of the owner and 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 (approximately \$1,345,000).

In May 2008, a 29-year old student attempted to depart Frankfurt International Airport with 8.7 million euros (approximately \$11,750,000) in currency in his suitcases. The money, consisting of 50 and 100 euro notes, was confiscated and the State Prosecutor opened an investigation.

In September 2008, Germany participated in a multi-national customs cash smuggling operation that included most of the EU as well as a number of North African nations. Frankfurt-based representatives of the Department of Homeland Security Immigration and Customs Enforcement assisted in the coordination of the operation by providing real-time intelligence support to the German command center. During this week-long operation, 800 German customs agents stopped cars along the border in the direction of Switzerland and Liechtenstein. On roads, at airports, and on trains, a total of 13,000 persons and 22,000 pieces of luggage were inspected. In this operation, 181 cases of money smuggling were discovered and 5.5 million euros (approximately \$7,425,000) was seized.

Germany has established a single, centralized, federal 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, combines 30 specialists in banking and financial transactions from the BKA and Federal Customs Authority to investigate money laundering cases.

Information for 2008 was unavailable, but in 2007, obligated entities filed 9,080 suspicious transaction reports (STRs) pursuant to the Money Laundering Act. According to the FIU's 2007 annual report, the 9,080 STRs generated 3,933 indications of potential criminal offenses. In comparison, the 10,051 STRs filed in 2006 generated 2,789 indications of criminal violations. The majority of the STRs with potential criminal indications, 3,248 of the 3,933 or 83 percent, cited fraud, including "phishing" and the use of "financial agents", as possible criminal offenses 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 2007, approximately 59 percent of the persons cited in German STRs were German nationals. Of the 41 percent of the STRs that referenced non-German nationals, suspects with Turkish citizenship comprised the greatest proportion followed by Russian, Polish, Kazakh, Iranian, Italian, and Ukrainian nationals. The 2007 statistics on STRs concerning transfers of assets to and from foreign countries displayed a number of trends. As in 2006, Russia and the Ukraine remained the top two destinations for asset transfers that generated STRs in 2007. On STRs reporting transfers of assets from foreign countries to Germany, Russia is the most frequently cited source nation followed by the U.S., Kazakhstan, the United Kingdom, and Switzerland.

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.

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 closes loopholes that had permitted members of foreign terrorist organizations to engage in fundraising in Germany (e.g., through charitable organizations). Subsequently, Germany increased its law enforcement efforts to prevent misuse of charitable entities. Germany has used its Vereinggesetz, 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. 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 financial institutions. A court can order the freezing of nonfinancial assets. Germany has 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 931 Working Party 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. The German government has mutual legal assistance treaties (MLATs) with numerous countries. The FRG exchanges law enforcement information with the United States through bilateral law enforcement agreements and informal mechanisms, and the United States and German authorities have conducted joint investigations. The U.S. and FRG signed a MLAT 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. The approval process for these instruments, as well as the underlying U.S.-EU Agreements, continues and entry into force is expected in the near future. German authorities cooperate with U.S. authorities to trace and seize assets to the full extent allowed under German laws.

In March 2008, German authorities arrested a 24-year old Estonian at the request of the United States as he was transiting Frankfurt International Airport. The subject is charged with illegally accessing the computer systems of a national restaurant chain and stealing credit and debit card numbers from that system with total losses that could exceed \$150,000,000. The subject was subsequently returned to the U.S.

German law currently does not permit the sharing of forfeited assets with other countries. Legislation implementing the EU Council Framework Decision 2006/783/JHA, on the application of the principle of mutual recognition of confiscation orders, is expected to enter into force by mid 2009. This legislation will allow for assets to be shared with other EU member states. The new legislation will also make it possible for Germany to share confiscated assets with non-EU member states on a case-by-case basis.

Germany is a member of the Financial Action Task Force, and the FIU is a member of the Egmont Group. Germany is 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. 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 financing. 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 931 Working Party process 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 as it develops, its financial sector is becoming more important regionally. Most of the money laundering in Ghana involves narcotics or public corruption. Ghana is a significant transshipment point for cocaine and heroin transiting from South America to Europe. Police suspect that criminals use nonbank financial institutions, such as foreign exchange bureaus, to launder the proceeds of narcotics trafficking. Criminals also launder 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 financial crimes, such as "advance fee" or 419 fraud letters (known as Sakawa in Ghana) and stolen credit and ATM cards originating in Ghana continues to increase.

Informal financial 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. A small percentage of the informal economy uses the banking sector. Black market activity in smuggled goods is a concern because some traders smuggle goods to evade tax and import counterfeit goods. 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 these companies produce garments and processed foods. The Ghana Free Zone Board and the immigration and customs authorities monitor these companies. Immigration and customs officials do not think 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, the Bank of Ghana. The government is promoting efforts to model Ghana's financial system on that of the regional financial hub of Mauritius. To this end, the GOG passed the Banking (Amendment) Act, 2007 Act 738, on June

18, 2007. The law establishes a provision for international banking 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 bank to operate as an offshore bank. The Bank of Ghana is in the process of drafting regulations for offshore banks. A Financial Services bill, which will provide for Ghana's nonbank financial services, is before parliament and expected to be passed by the end of December 2008. To reduce duplication in processes and enhance information exchange, the law will establish a Financial Services Authority, which will absorb the functions of the National Insurance Commission and the Securities Exchange Commission. Ghana will then have two regulators for the financial services sector: the Bank of Ghana will be responsible for all banking and depository institutions, and the Financial Service Authority will handle all other financial services providers. The bill mandates that the two institutions establish a National Financial Services Coordination Committee to facilitate information exchange.

In January 2008 the Parliament passed Ghana's Anti-Money Laundering (AML) law. Accompanying regulations to the law have also been passed. The law identifies institutions subject to reporting and disclosure requirements; outlines the role of supervisory authorities; details preventive measures against money laundering; establishes customer identification and record keeping requirements; and institutes rules for required suspicious transaction reporting. Ghana's bank secrecy laws permit 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 banking sector lacks a strong regulatory framework to prevent money laundering and ensure suspicious transaction reporting, although entities recognize the importance of such a framework. Local banks follow "know your customer" rules. 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 permit 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. Ghana has no effective system to obtain data on an individual's dealings with all the banks in Ghana.

The GOG established a National Coordinating Committee on July 16, 2008, comprised of approximately fifteen government departments and associations from obliged sectors. This body aims to implement a more efficient and cooperative response by the government and the private sector to prevent money laundering, terrorist financing, and other financial crimes in Ghana. The Committee has met several times since its inception.

Ghana has a cross-border currency reporting requirement. However, Ghanaian authorities have difficulty monitoring cross-border movement of currency. In a 2008 operation, the national security office detected that millions of dollars in repatriated foreign currencies has been entering Ghana through the Togo-Aflao border. An individual transports money from Ghana across the border undeclared and then returns through the same border, but declares the money on the Foreign Exchange Declaration Form. This maneuver allows the individual to take the money out of Ghana legally. In a bid to curb this, the Bank of Ghana issued a directive effective October 20, 2008, stating that the highest sum of money permitted to be carried by an individual arriving in the country is \$10,000 or its equivalent. However, the Bank of Ghana's instructions include a number of options and circumstances that to conflict with the stated \$10,000 limit, and has reportedly resulted in some confusion regarding the allowable amount for cross-border transportation vis-à-vis bank transfer.

The AML law calls for the establishment of a Financial Intelligence Unit (FIU), which will be called the Financial Intelligence Centre (FIC), and overseen by the National Security Council. The FIU will receive and analyze financial information, suspicious transaction reporting and intelligence, and disseminate an information package to law enforcement authorities for investigation. The FIU will have the authority to obtain information from other government regulatory authorities and from private sector financial institutions. The FIU has not yet been formed, although its site has been selected and offices are undergoing renovation. Ghana plans to fund the FIU through government grants and donations. The GOG is currently recruiting staff, some of whom will be current coordinating committee officers trained in money laundering and terrorist financing issues. In August 2008, the GOG arrested a flight attendant and two accomplices for attempting to launder £59,870 (approx. \$90,121). The case is currently under prosecution. No arrests or prosecutions related to terrorist finance occurred in 2008.

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 from 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. Upon passage, 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.

In the past year, Ghana has criminalized the financing of terrorism, as required by United Nations Security Council Resolution 1373. On July 18, 2008, Parliament passed the Anti-Terrorism Bill, which came before Parliament in 2005. The law 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 law imposes a term of imprisonment between seven and twenty-five years for any offense under the law. The Bank of Ghana 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 provide 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 a basis 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 was scheduled to undergo its mutual evaluation in 2008, but after submitting its mutual evaluation questionnaire, requested that the date of the on-site assessment be moved from October 2008 to April 2009. 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."

The GOG should move swiftly to implement the AML Law, and should expand the list of predicate crimes to comply with international standards. The GOG should 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 terrorist financing activities. 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 law. Additionally, the GOG should institute a beneficial ownership identification requirement and require that the true names of all onshore and offshore entities and their beneficial owners be 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 (UK). A November 2006 referendum resulted in constitutional reforms transferring powers exercised by the UK 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 Europeans with property in southern Spain. All of these factors 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 covers all crimes. The Gibraltar Criminal Justice Ordinance to Combat Money Laundering, which relates 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. Gibraltar extended the Criminal Justice Act to include nonfinancial sectors. The laws mandate reporting of suspicious transactions by any obligated entity or individual. The DOO covers 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.

Criminal conduct is defined as any activity, either committed in Gibraltar or elsewhere, which if it had been conducted in Gibraltar would be indictable. This includes tax evasion, as the committal of such an offence would normally also include the committal of other indictable offences. The laws cover money laundering offenses related to acquisition, possession or use of property representing proceeds of criminal conduct, concealing or transferring proceeds of criminal conduct, tipping-off, and assisting others to retain the benefit of criminal conduct.

Authorities issued comprehensive anti-money laundering 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, controlled activities, life insurance companies, currency exchangers/bureaux de change, and money transmission/remittance offices.

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.

Gibraltar established the Financial Services Commission (FSC), a unified regulatory and supervisory authority for financial services, under the FSC Ordinance (FSCO) 1989. Required by statute to match the supervisory standards of the UK, 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 insurance business; and the Financial Services (Collective Investment Schemes) Ordinance that provide for the licensing and supervision of investment business.

Legislation requires all businesses to establish the beneficial owner of any company or asset 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), which became effective in May 2007, repeals and replaces the Financial Services Commission Act of 1989. This legislation modernizes and restructures the FSC. One of the most significant changes arising from the FSCA is in respect to the appointment of members of the Commission, who are 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 also received expanded statutory functions. The FSC 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 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.

In 1996, Gibraltar established the Gibraltar Coordinating Center for Criminal Intelligence and Drugs (GCID) to receive, analyze, and disseminate financial information and reports filed by obligated 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 receives approximately 100 STRs per year.

Gibraltar's 2001 Terrorism (United Nations Measures) (Overseas Territories) Order criminalizes terrorist financing. 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). Among the terrorism-related offenses are: raising funds for terrorism, the use and possession of money or other property for terrorism, arranging funds for terrorism, and arrangement for the retention or control of terrorist property.

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 European Union 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. Gibraltar has brought its laws into conformity with the obligations of states parties to the 1988 UN Drug Convention. On November 27, 2007, the UK Government extended to the Bailiwick the UN Convention against Transnational Organized Crime.

The Government of Gibraltar should continue its efforts to implement a comprehensive anti-money laundering/counterterrorist 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 assessments 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 three 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, serious fraud or theft, illicit gambling activities, and large scale tax evasion. While the government has made the pursuit of tax evasion a centerpiece of its economic reform agenda, there are few indications these reforms are having an impact. 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 the 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. Criminal organizations from southeastern Europe and the Balkan region execute a large percentage of crime generating illicit funds. The widespread use of cash facilitates a gray economy as well as tax evasion. Due to the gray economy, it is difficult to determine the amount of smuggled goods in the country. Currency transactions involving international narcotics-trafficking proceeds do not appear to include significant amounts of U.S. currency.

Greece has three free trade zones, located at the ports of Piraeus, Thessalonica, and Heraklion, where foreign goods may be imported without payment of customs duties or other taxes if they are subsequently transhipped or re-exported. There is no information regarding whether criminals use these zones in trade-based money laundering (TBML) or in terrorist financing schemes.

Greek authorities maintain that Greece is not an offshore financial center. Law 3427/2005, which makes reference to domestic and foreign companies, officially replaced Greek law 89/1967, which provided for the establishment of offshore entities. Under Law 3427, foreign and domestic companies may provide specific services to enterprises not established in Greece. These companies must employ at least 4 employees and have at least 100,000 euros (\$130,594) in annual operating expenses in Greece. These entities must apply for a special license with the Ministry of Economy and Finance (MoEF) and, once the license is granted, file an application with the Directorate of Foreign Investments in the MoEF, the regulatory authority for companies covered under Law 3427/2005. They do not receive a tax exemption and must comply with anti-money laundering and counterterrorist financing (AML/CTF) law. Pursuant to Article 10 of Law 3691/2008, the MoEF will need to obtain and catalog additional registry information in order to comply with AML/CTF law.

Shipping companies, known for their complex corporate and ownership structures, and which reportedly can be used to hide the identity of the beneficial owner, are not governed by Law 3427, but rather by Laws 27/1975 and 378/1968. Although companies must keep a receipts and expenses book, they have no obligation to publish financial statements. These firms frequently fall under the authority of non-Greek jurisdictions and often operate through a large number of intermediaries, potentially serving as a vehicle for money laundering. Greek law allows banking authorities to check these companies' transactions, but authorities need the cooperation of other jurisdictions for audits to be effective.

Greek law does not provide for nominee directors or trustees in Greek companies. Previous laws had abolished bearer shares for banks and a limited number of other types of companies. The AML/CTF regime prohibits credit and financial institutions from allowing secret, anonymous, or number-identified accounts, anonymous passbooks, accounts in fictitious names, or accounts without the full names and identifying information of holders. The Government of Greece (GOG) maintains that various transparency laws mandate registered 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. Regional registries keep this information in a paper format. 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.

The BOG maintains that alternative or informal remittance systems are illegal and do not exist in Greece, and it has no plans to introduce initiatives for their regulation. Nonprofit organizations fall within the purview of the Special Control Service (the tax police or YPEE) and the Ministry of Foreign Affairs. However, the GOG has not viewed charitable organizations as vulnerable to terrorist financing or money laundering and has not actively monitored such entities for these crimes. Each nonprofit organization must have a tax identification number, so their tax information is accessible by the financial intelligence unit (FIU). Despite these measures, these entities do not fall under AML/CTF regulation and are not supervised for AML/CTF compliance. The Ministry of Foreign Affairs plans to review the sector, and by the end of 2009, consider legislation to achieve transparency in the activities of nonprofits.

The June 2007 Financial Action Task Force (FATF) mutual evaluation report (MER) of Greece indicated that legal requirements in place to combat money laundering and terrorist financing did not meet international standards. The report articulated concerns about the overall effectiveness of the AML/CTF system, including inadequate customer identification programs and legal systems to prevent money laundering and terrorist financing, and a lack of adequate preventive measures and regulatory oversight.

Greece has had laws criminalizing terrorism, organized crime, money laundering and corruption since July 2002; however, the various laws did not include all categories of offenses, and the laws were poorly drafted, making enforcement difficult. After the adoption of the 2007 MER, the GOG passed new laws and implemented measures to enhance the effectiveness of its AML/CTF system. On August 5, 2008, Greece passed Law 3691/2008 that clearly defines money laundering and includes all offenses punishable by a minimum penalty of more than six months imprisonment. The law makes a money laundering conviction possible without a conviction for a predicate offense and extends the definition of illicit proceeds to include any type or value of property involved. It also removes tax confidentiality restrictions for purposes of AML/CTF reporting. Conviction for a money laundering offense carries a punishment of up to 10 years imprisonment and a fine of up to 1 million euros (\$1.31 million). Law 3691/2008 mandates a risk-based approach for all financial institutions, now inclusive of bureaux de change and money remitters, with enhanced due diligence for some clients and politically exposed persons. The law also mandates identification of beneficial owners, defined as

individuals who own or control 25 percent plus one share of a legal entity. Under Act 25779/2006, the Bank of Greece (BOG) has applied these provisions to all financial institutions under its supervision.

Greece has three key authorities that supervise and monitor the financial sector: the Banking Supervision Department of the BOG, and the Hellenic Capital Market Commission (HCMC), and Private Insurance Supervision Commission (PISC), (both of which fall under the MoEF). All three entities have extensive supervisory programs and internal departments focused on AML/CTF and staffed with auditors, examiners, financial analysts, and lawyers. These authorities issue regulations, guidelines and circulars, and conduct on-site and off-site audits for AML compliance, special audits as needed, and outreach and training for compliance officers and stakeholders. The GOG gives the three supervisory entities resources and authorities to monitor, supervise and enforce the regulations.

The BOG, Greece's central bank supervises banks, bureaux de change, and money transmitters. The BOG conducts on-site examinations at least once every two years and off-site or special examinations as needed of entities under its supervision, including Greek banks located in other countries. The BOG hired additional examiners in 2008, and BOG staff attended specialized AML/CTF seminars.

The HCMC monitors compliance with the provisions of the capital market law, and as such supervises brokerage firms, investment firms, mutual fund management companies, portfolio investment companies, real estate investment trusts, financial intermediation firms, clearing houses and their administrators (e.g., the Athens stock market), and investor indemnity and transaction security schemes (e.g., the Common Guarantee Fund and the Supplementary Fund). The HCMC's AML/CTF unit includes three auditors who have received specialized AML/CTF training. HCMC can draw upon additional expertise as needed from the MoEF.

The PISC, created in January 2008, regulates and supervises the private insurance sector. Its AML/CTF supervision consists of two financial analysts and one lawyer, and can tap other PISC staff. The PISC has requested that each of its obliged entities submit their AML/CTF compliance procedures. PISC began evaluating these and conducting compliance audits at the end of 2008.

According to Article 6 of the new AML/CTF law, all designated nonfinancial businesses and professions (DNFBPs) and all trust and company service providers are subject to the AML/CTF law and have a competent authority. These competent authorities, together with the FIU, are responsible for providing AML/CTF guidance and feedback to entities under their competency in order to ensure that these entities are aware of and comply with their obligations under Law 3691/2008. The General Directorate of Tax Audits of the MoEF has, under the law, established a new unit to regulate and supervise entities under its control, including dealers in high value goods, pawnbrokers, and venture capital firms. The Gambling Control Commission established by Law 3229/2004 oversees casinos and other entities engaged in gambling or betting, including casinos operating on ships flying the Greek flag. Authorities have targeted the gaming industry to restrain money launderers from using Greece's nine casinos to launder illicit funds; however, up until now, there has been little regulatory oversight of the gaming industry.

Supervised institutions must send to their competent authority a description of the internal control and communications procedures they have implemented to prevent money laundering and terrorist financing. Banks must also undergo internal audits. Bureaux de change must send the BOG a monthly report on their daily purchases and sales of foreign currency. According to the FATF follow-up report, the reorganization of the BOG's AML/CTF supervision department should have a significant impact on the quality of targeted supervision carried out in bureaux de change and money remittance companies, and the new AML/CTF law and previous legislation is now applicable to these entities.

Under Law 3148, the BOG has direct scrutiny and control over transactions by credit institutions and entities involved in providing services for funds transfers, including electronic transfers. The BOG

issues operating licenses after assessing the institutions, their management, and their capacity to ensure the transparency of transactions.

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 (\$19,591). Banks must obtain specific documents from both natural and legal persons. Article 13 of Law 3691 includes requirements on collecting beneficial ownership information and measures relating to CDD requirements. Credit institutions must obtain identification documents when changing money, for all transactions exceeding 500 euros (\$653). 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. Banks suspecting illegal activity may take measures to gather more information on the identification of the person involved in the transaction, but, reportedly, in the past they have not done so.

Greek law requires every financial institution to appoint a compliance officer to whom all other branches or officers must report suspicious transactions. Both banks and nonbank financial institutions must submit suspicious transaction reports (STRs), though in practice, reportedly, the latter rarely do so. Obligations to report and to furnish all relevant information to prosecutorial authorities also apply to government employees involved in auditing, including employees of the BOG, the MoEF, the HCMC, and the PISC. In 2007, the FIU formalized the standard information required on STRs. Safe harbor provisions protect individuals reporting violations of AML laws and statutes.

Greece has adopted banker negligence laws under which individual bankers face liability if their institutions do not comply with AML/CTF laws and provisions, or do not file STRs. The new AML/CTF law provides the BOG with the authority to levy financial penalties that authorities believe are effective, proportionate and dissuasive. Financial sanctions include fines of up to 3 million or 500,000 euros (\$3.92 million or \$653,193) per legal entity or individual, respectively. The BOG planned to issue a directive to clarify and enhance transparency in the sanctions regime. The BOG may ask for the removal of the Internal Audit, Compliance or Risk Management Unit chiefs as well as any member of a Board of Directors if any has failed to achieve effective compliance. In the first five months of 2008, the BOG fined banks under its supervision a total of 805,000 euros (\$3.1 million) for AML/CTF compliance violations. While the HCMC does not have data on fines levied in 2008, the amount in 2007 totaled 3.8 million euros (\$4.97 million). As a new supervisor, the PISC has not yet implemented a fine structure; however, under the new law, it has the authority to do so.

Article 7 of Law 3691/2008 restructured the Greek FIU in order to try to address shortcomings described in the MER and increase the FIU's effectiveness. The revamped FIU, renamed the Commission for Combating Money Laundering and Terrorist Finance, began operations in September 2008. Although operationally independent, the FIU falls administratively within the Ministry of Finance and Economy. The Supreme Judicial Court appoints the FIU President, who presides over an FIU Board chosen from different ministries by the Ministers of Justice and Economy and Finance, and his alternate. The private sector no longer has a participatory role. This 8-member, part-time, Board coordinates with the competent authorities and the MoEF as Central Coordination Authority. The new law guarantees the FIU financial resources to fulfill its functions via an annex to the state budget. This also provides the FIU independence not granted previously.

To address staffing shortages, the new head of the FIU is hiring new staff. At the end of 2008, the FIU has 26 staff, comprised of police, financial analysts and IT experts seconded from other ministries. When fully staffed, the FIU will have 35 employees. The President of the FIU can also draw upon or other agencies as needed. The FATF follow-up opined that the number of substantive staff still appears insufficient to carry out the wide range of FIU functions.

The Greek FIU receives and processes all STRs. For each STR received, the FIU can access public and private files and demand information from financial, administrative, and law enforcement networks, notably YPEE and the police. The new AML/CTF law amends the bank secrecy law to allow the Greek FIU to receive classified, confidential, and secret information from banks. Although the FIU recently established a database to track STR submissions, it is reportedly insufficient to meet the FIU's needs, as the FIU still lacks modern technological elements. For example, STRs are hand delivered to the FIU on paper. The FIU's new leadership has designated a sophisticated STR database as an urgent priority, the MoEF has given assurance that funding is forthcoming, and a new database could be functioning by the end of 2009.

Greek authorities indicate that in 2008 the number of STRs increased and that the FIU expected to receive more than 2,600 reports total for the year. According to the follow-up report, due to longstanding problems, only about 1,100 STRs have been input into the FIU's system, resulting in a backlog of about 1,400. According to the FIU, as each new STR comes in, it will be analyzed in a timely manner. If the FIU considers an STR to warrant further investigation, it forwards the case to YPEE. When it decides there is enough information to commence prosecution, it forwards the case to the Public Prosecutor. Although the FIU has the authority to impose heavy penalties on those who fail to report suspicious transactions, it has not done so in the past.

YPEE falls under the direct supervision of the MoEF and has formal investigative authority over cases that, broadly defined, involve smuggling and high-value tax evasion. The FIU is responsible for preparing money laundering cases on behalf of the Public Prosecutor's Office, and works with YPEE to investigate cases that warrant further action. YPEE has its own in-house prosecutor to facilitate confidentiality and speed of action.

In the past, Greek authorities have not frequently prosecuted money laundering cases independent of the predicate offense, and according to the MER, limited data indicates a low rate of convictions on money laundering prosecutions. According to the GOG, since July 2007, a special team of prosecutors has focused on money laundering and terrorist financing issues, handling the majority of cases. The government has also increased financial crimes training for these prosecutors and judges. Despite these measures, there are still shortcomings. The Greek judicial system has one court handling all judicial activity related to money laundering and terrorist financing. Prosecutorial authorities lack an effective system to track money laundering prosecution statistics. The Ministry of Justice has yet to compile statistics related to arrests or prosecutions for money laundering or terrorist financing offenses, despite requests by the FIU and Greek Bar Association to do so. Under the new AML/CTF law, the services of the Ministry of Justice must ensure the collection, registry, and processing of financial crime data. The government has indicated it intends to develop systems to keep statistics.

Law 3691/2008 provides for confiscation of direct and indirect proceeds of a crime, and empowers the FIU to freeze direct and indirect assets of persons involved in money laundering cases. In addition, Greek authorities can now freeze assets in urgent money laundering and terrorist financing cases without first having to open a criminal investigation.

In addition, the new law establishes sanctions of up to 3 million euros (\$3.99 million) for failing to freeze assets and funds. The GOG has indicated that the FIU will develop guidance for the financial and DNFBP sectors in the immediate future. Under the new law, an investigating judge or the judicial council can freeze assets temporarily with the consent of the Public Prosecutor. In addition, the FIU President or a Board member can temporarily freeze assets and notify the Public Prosecutor afterwards in order to conduct a further investigation. The new law provides for the seizure of assets upon conviction for a money laundering offense, fines of up to 2 million euros (\$2.66 million) and a jail term of up to twenty years.

The YPEE has established a mechanism for identifying, tracing, freezing, seizing, and forfeiting assets of narcotics-related 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. Official forfeiture requires a court order but not a conviction. 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. The GOG must only demonstrate that it was used in furtherance of narcotics trafficking. Even legitimate businesses can be seized if they have laundered narcotics money.

Under Law 3691/2008, Greece has created a Strategic Committee to set national AML/CTF strategy and a Consultative Forum to ensure coordination with the private sector; and designated the MoEF as Central Coordination Authority to assess overall effectiveness.

Law 3691/2008 stipulates that terrorism financing is both a stand-alone offense and a predicate offense for money laundering. An amendment of the penal code extends the scope of terrorist financing to include individual terrorist acts and individual terrorists. The new law does not require that a terrorist act actually occur or that funding be used to finance a particular act, only that funds be used to finance terrorist organizations or groups, or individual terrorists or terrorist acts. Conviction for a terrorist financing offense carries a punishment of at least 10 years imprisonment and a fine of up to 2 million euros (\$2.61 million). In the past, the Government of Greece had not provided guidance to obliged institutions on freezing assets without delay and has not monitored compliance with requests. There had been no sanctions for failure to follow freezing requests, and the traditional process for freezing or confiscating funds was lengthy. The new AML/CTF law authorizes the Minister of Economy and Finance to issue a ministerial decision for the freezing of assets of persons or entities suspected of terrorist financing, including those designated on the United Nations Security Council Resolution (UNSCR) 1267 Sanctions Committee consolidated list. The BOG has circulated to all financial institutions under its supervisory jurisdiction the list of individuals and entities on the UNSCR 1267 list, and regularly circulates updated lists as well as information related to financial provisions of UNSCRs related to Iran, the U.S. Treasury's Office of Foreign Asset Control (OFAC) lists, and U.S. Executive Order lists.

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 2007 MER highlighted a lack of cooperation between Greek national and international authorities.

Greece is a party to the 1988 UN Drug Convention, the UN Convention Against Corruption, and the UN Convention for the Suppression of the Financing of Terrorism. Greece has signed, but not yet ratified the UN Convention against Transnational Organized Crime. Greece is a member of the FATF. Its FIU is a member of the Egmont Group.

The Government of Greece made many significant improvements to its AML/CTF regime in 2008, the results and implementation of which remain to be seen. In order to further enhance the effectiveness of its AML/CTF regime, Greece should continue to improve its FIU by making available further resources to deal with the STR backlog, as well as investigations, asset freezing and other actions the Commission is obligated to take. Greece should ensure that the FIU gets the necessary funding and training to develop an improved data management system capable of meeting the needs of the FIU on input, cross compare, and generally conduct a full analysis and possible investigation of all cases related to money laundering and terrorist financing. This includes improving its technical standards

and capabilities so that analysts can effectively use its database. These technological upgrades should allow Greek authorities to implement a system to track statistics on money laundering prosecutions, convictions, and sentences, as well as asset freezes and forfeitures. In addition, Greece should dedicate additional resources to the investigation and prosecution of ML cases, and increase specialization and training on AML/CTF for law enforcement and judicial authorities

Greece should issue clear guidance to supervised entities on the sanctions associated with breaches of and noncompliance with requirements under the new AML/CTF law. Authorities should ensure adequate regulation and supervision of lawyers, notaries, and nonprofits. Greece should issue clear guidance to financial institutions and DNFBPs on freezing assets; improve their asset freezing capabilities, and develop a clear and effective system for identifying and freezing terrorist assets. Greece should publicize its system for appealing assets frozen in accordance with its UN obligations. Greece should also ensure uniform enforcement of its cross-border currency reporting requirements and take further steps to deter the smuggling of currency across its borders; and explicitly abolish company-issued bearer shares. Greece also should ensure that companies operating within its free trade zones are subject to the same AML/CTF requirements and gatekeeper and due diligence provisions as in other sectors and bring charitable and nonprofit organizations under the AML/CTF regime. Finally, Greece 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 November 2008, Grenada's domestic financial sector is comprised of 26 registered domestic insurance companies, 12 credit unions, and five money remitters. Grenada has one trust company and 1,580 international business companies (IBCs), the same number as 2007, a significant, if unexplained, decrease from the 6,000 IBCs reported in 2006. There is one International Betting Company licensed to conduct business in Grenada, but no casinos or Internet gaming sites in operation. There are no free trade zones in Grenada, although the Government of Grenada (GOG) has indicated it may create one in the future. The GOG has repealed its economic citizenship legislation. In 2008, the GOG announced plans to redevelop an offshore financial sector. Grenada's previous offshore regime collapsed after a multimillion-dollar fraud scheme and its 2001 listing as a Non-Cooperative Country or Territory (NCCT) by the Financial Action Task Force (FATF). After enacting money laundering legislation and regulations in accordance with international standards, Grenada was removed from the NCCT list in 2003.

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 company directors and beneficial owners of all shares. Failure to maintain records may result in a penalty of \$11,500 and possible revocation of the registered agent's license. There is no legal barrier to disclosure of client and ownership information by domestic and offshore services companies to bank supervisors and law enforcement authorities.

The Money Laundering Prevention Act (MLPA), enacted in 1999, and the Proceeds of Crime Act No. 3 (POCA) 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 and weapons trafficking, kidnapping, extortion, corruption, terrorism and its financing, and fraud. According to the POCA, no conviction on a predicate offense is required to prove that certain goods are the proceeds of

crime, or to subsequently convict a person for laundering those proceeds. The POCA establishes a penalty of 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.

The Grenada Authority for the Regulation of Financial Institutions (GARFIN) became operational in 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.

Established under the MLPA, the Supervisory Authority supervises the anti-money laundering/counterterrorist financing compliance of banks and nonbank financial institutions (including money remitters, stock exchange, insurance, casinos, precious gem dealers, real estate intermediaries, lawyers, notaries, and accountants). These institutions are required to know, record, and report the identity of customers engaging in significant transactions, those 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.

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 among government agencies, particularly between Customs and the FIU.

In June 2001, the GOG established a police-style financial intelligence unit (FIU). The FIU is charged with receiving and analyzing 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 2008, the FIU received 40 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 women served one year in prison and were deported.

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. No assets were seized in 2008. The approximate amount seized in 2007 was \$62,000, with approximately \$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 a party to any bilateral or multilateral agreements to enhance asset tracing, freezing, and seizure. However, the GOG works actively with other governments to ensure traces, freezes, and seizures take place, if and when necessary, regardless of the status of existing agreements.

The GOG criminalizes 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 included on the UN 1267 Sanctions Committee's consolidated list. There has been no known evidence of terrorist financing in Grenada. It is suspected 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 and 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, a FATF-style regional body, and is scheduled to undergo a mutual evaluation in 2009. 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 Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Grenada is not a party to the UN Convention against Corruption.

Although the Government of Grenada has strengthened the regulation and oversight of its financial sector, it will need to remain alert to potential abuses and steadfastly implement the laws and regulations it has adopted. The GOG should adopt its pending forfeiture and confiscation bills and establish mechanisms to identify and regulate alternative remittance systems. It should also establish large currency transaction reporting requirements governing financial institutions and border declarations. To improve the conduct of money laundering investigations, the FIU should improve coordination with other law enforcement bodies. The GOG should take advantage of opportunities for law enforcement and customs authorities to initiate money laundering investigations targeted on regional smuggling. To strengthen its legal framework against money laundering, Grenada should move expeditiously to become a party to the UN Convention against Corruption and should not redevelop its offshore financial sector.

Guatemala

Guatemala is a major transit country for illegal narcotics from South America and precursor chemicals from Europe and Asia. 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 and foreign criminal activities. Mexican drug traffickers are increasing both their presence in the country and violent clashes with Guatemalan gangs. GOG officials also believe that cash couriers, offshore accounts, and wire transfers are used to launder funds, which are subsequently invested in real estate, small farms, capital goods, large commercial projects, and shell companies, or are otherwise transferred through the financial system. Guatemala continues to be a placement destination for bulk cash and lacks both legal resources and the expertise necessary to aggressively combat financial crime. Over the past year and a half, it is estimated that at least \$60 million in drug-related proceeds have either been brought to or generated in Guatemala City. In 2008, approximately \$4.32 billion in both formal and informal remittances were sent to Guatemala; a 4.6 percent increase over the total of \$4.13 billion in 2007. Remittances sent from abroad account for approximately nine percent of Guatemala's gross domestic product. The vulnerabilities of historically weak law enforcement and judicial regimes, corruption, and increasing organized crime activity, contribute to a favorable climate for significant money laundering in Guatemala.

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 21 commercial banks; nine offshore banks, all of which are affiliated, as required by law, with a domestic financial group (including credit card, insurance, finance, commercial banking, leasing, and related subsidiaries); two licensed money exchangers; 26 money remitters, including wire remitters and remittance-targeting courier services; 17 insurance companies; 16 financial societies; 15 bonded warehouses; 244 savings and loan cooperatives; 11 credit card issuers; nine leasing entities; 11 financial guarantors; and one check-clearing entity operated 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 Ministry of Economy reviews and approves applications for companies to open facilities in free trade zones and confirms their business operations meet legal requirements.

The offshore financial sector initially offered a way to circumvent currency controls and other costly financial regulations. However, financial sector liberalization largely removed incentives for legitimate businesses to conduct offshore operations. All offshore institutions are currently subject to the same requirements as onshore institutions and are regulated by the SIB. In June 2002, Guatemala enacted the Banks and Financial Groups Law (No. 19-2002), which placed offshore banks under the oversight of the SIB. The law requires offshore banks that belong to a Guatemalan financial group 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 conducting financial intermediation activities in another jurisdiction. Banks authorized by other jurisdictions may do business in Guatemala under certain limited conditions.

Pursuant to a 2003 resolution of the Monetary Board, an offshore bank can be authorized, only if the financial group to which it belongs has been previously authorized. 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, 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 \$4.32 billion in 2008 remittance flows (97.7 percent from the U.S.) 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 (97 percent U. S. based) of transfers equal to or over an amount to be determined by implementing regulations that will be in place by 2009. Increasing financial sector competition should continue to expand services and bring more people into the formal banking sector, helping to further isolate 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. Banks and financial institutions can lose their banking licenses; and the institutions, directors, and other employees may face criminal charges if they are found guilty of failure to prevent money laundering. This law also applies to 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 \$10,000 at the ports 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. Approximately \$4.1 million has been seized at the airports, as of October 2008—suggesting that proceeds from illicit activity are regularly hand-carried over Guatemalan borders. However, apart from a cursory check of a self-reporting customs form and random searches, there is little monitoring of compliance at the airport. Compliance is not regularly monitored at land borders. Further complicating compliance is the Central American Four Agreement, which allows free movement of the citizens of Guatemala, Honduras, Nicaragua, and El Salvador across their respective borders.

In addition to the requirements of Decree 67-2001, the Guatemalan Monetary Board’s Resolution JM-191, which approved the “Regulation to Prevent and Detect the Laundering of Assets” (RPDLA), established 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 and privately held companies, however, may issue bearer shares to their partners and stockholders thereby protecting the identity of the owners from public disclosure. However, Guatemalan law prohibits the issuance of bearer shares 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 regard 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 2008 had a staff of 44. 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 October 2008, the IVE imposed over \$125,000 in administrative penalties for institutional failure to comply with anti-money laundering regulations. As of October 2008, approximately \$70,000 in assessed fines was pending final resolution.

In 2008, the IVE underwent an internal reorganization to improve its efficiency and coordination with the Public Ministry and courts. Four new sections were created, the first of which focuses on risk evaluation and prevention through examination of rules, working with banks, and strengthening the reporting of suspicious transactions. The second unit centers on investigating suspicious transactions. The third unit focuses on coordinating directly with the Public Ministry and courts to ensure they have all of the information required as well as provide the IVE with a means to track the status of cases. The fourth unit focuses on analyzing money laundering trends and best practices.

Since its inception, the IVE has received approximately 2,595 suspicious transaction reports (STRs), 293 from January to October 2008, from the 419 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 but the AML Unit may request the Attorney General authorize the transfer of a case to another prosecutor given the nature of the crime. The IVE also assists the Public Ministry by providing information upon request for other cases the prosecutors are investigating.

The AML Unit in the Public Ministry 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 eight law enforcement officers and investigators. Both the prosecutors and investigators receive yearly ad hoc training in various investigative and legal issues. The IVE referred 12 complaints and two reports to the AML Unit as of October 2008. The Public Ministry’s AML Unit initiated 47 cases as of January 2007, one of which was transferred to another prosecutor for investigation and prosecution due to the nature of the particular crime. Twenty-four money laundering prosecutions have been concluded, 23 of which resulted in convictions. In several cases, assets have been frozen. The cases were made possible by information supplied by cooperating financial institutions. No reports or cases of terrorist financing were reported in 2008 by the IVE.

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’s AML Prosecutor’s Office, and Ministry of Government’s National Civil Police. Together they work on investigating financial crimes, building evidence and bringing cases to prosecution. In 2008, the

task force was working on four major money laundering investigations and a number of significant drug-related cases.

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 only 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 all forfeited currency remains under the jurisdiction of the Supreme Court of Justice. 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 2008, the Public Ministry reported \$3.4 million in seized cash. 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 2006, Guatemala passed an Anti-Organized Crime Law. Under the law, the use of undercover operations, controlled deliveries, and wire taps is permitted to investigate many forms of organized crime activity, including money laundering crimes. The Anti-Organized Crime Law also provides the possibility for a summary procedure to forfeit the seized assets and allows both civil and criminal forfeiture. Implementing regulations have been enacted, however, the Public Ministry and National Civil Police have not yet set up the units to execute undercover operations, controlled deliveries and wire intercepts.

Guatemala has made significant progress in the implementation of the Financial Action Task Force (FATF) Special Recommendations I, II and V on Terrorist Financing since its last Mutual Evaluation in 2005 by the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body. 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 counterterrorist financing legislation also clarified 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 (UN) Security Council Resolution 1373. The GOG has fully cooperated with U.S. efforts to track terrorist financing funds and distributes the UN 1267 sanctions committee’s consolidated list of entities linked to Usama Bin Ladin, al Qaida and the Taliban to Guatemalan financial institutions.

Guatemala is a party to the UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. 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. 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 counterterrorist financing regime; however, Guatemala should eliminate the use of bearer shares and regulate offshore gaming and casino establishments. The GOG should also continue efforts to improve enforcement of existing regulations, establish units to execute operations authorized in the Anti-Organized Crime Law, and

pursue much needed reforms in the law enforcement and justice systems. Cooperation between the IVE and the Public Ministry has improved in recent years, and several investigations have led to prosecutions. Guatemala should increase its capacity to successfully investigate and prosecute money laundering cases. Additionally, the GOG should create an asset forfeiture fund and a centralized agency to manage and dispose of seized and forfeited assets to law enforcement agencies that will provide the Government with the resources necessary in the fight against money laundering, terrorist financing, and other financial crimes. In addition, the GOG should enhance its pursuit of confiscation and forfeiture of the proceeds of arms smuggling, human trafficking, corruption, and other organized criminal activities, and should enact domestic laws permitting international sharing of confiscated assets.

Guernsey

The Bailiwick of Guernsey (the Bailiwick) encompasses a number of the Channel Islands (Guernsey, Alderney, Sark, and Herm). As a Crown Dependency of the United Kingdom (UK), it relies on the UK 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 criminal justice matters for all of the islands in the Bailiwick. Guernsey is a sophisticated financial center and, as such, 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 48 licensed 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 approximately 714 international insurance companies and 829 collective investment funds. There are also approximately 18 bureaux de change, ten of which are part of a licensed bank. Bureaux de change and other money service providers must register with the FSC.

Guernsey has a comprehensive legal framework to anti-money laundering and counterterrorist financing. The original 1999 anti-money laundering law creates a system of suspicious transaction reporting, including suspicion of tax evasion. Suspicious transaction reports (STRs) are sent to the Financial Intelligence Service (FIS), Guernsey's financial intelligence unit (FIU). Guernsey further honed its anti-money laundering/counterterrorist 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. In 2007, the FSC issued companion guidance entitled "Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing" which replaces 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 obtain verified identification information for any person transferring funds electronically.

Guernsey authorities approved further measures to strengthen the existing AML/CTF regime with the passage of numerous legislation, regulations, and ordinances in 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 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 FSC conducts regular on-site inspections and analyzes the accounts of all regulated institutions.

As mandated in the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999, as amended, the FSC has a public register of money service providers, including money brokerage firms, money changers, and any business that facilitates or transmits money or value through an informal money or value transfer system or network. Not all financial services businesses are licensed under the Proceeds of Crime Law, as amended. Businesses not licensed under the above legislation must be registered under the Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008, as amended. This legislation creates a public register of nonregulated financial services businesses which the FSC maintains on its website. Applications for registration must be made to the FSC. The FSC has no obligation to make any enquiries concerning an application for registration or the continued registration of any nonregulated financial services business, unless there is a notice regarding the grounds whereby it could refuse or revoke an application or registration of such a business.

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.

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 which comes from STR filings. In 2007, the FIS received 539 STRs.

An IMF assessment is scheduled to take place in Guernsey in late 2009. The assessment will cover banking, insurance and investment sector supervisory legislation and practice, together with AML/CTF legislation and its implementation.

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.

Through the Bailiwick narcotics trafficking, money laundering, and terrorism laws, enforcement of foreign restraint and confiscation orders apply to those foreign countries designated by the UK.

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.

Upon its extension to the Bailiwick in 2002, Guernsey enacted the necessary legislation to implement the 1988 UN Drug Convention. The Bailiwick has requested the UK Government seek the extension to the Bailiwick of the UN 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 is a member of the Egmont Group and represents the jurisdiction within The Camden Assets Recovery Inter-Agency Network (CARIN), an informal network of EU member state contacts convened to work on asset recovery.

Guernsey should continue to amend its legislation to meet international AML/CTF standards and should ensure complete implementation of its new 2008 legislation. It should integrate civil forfeiture into its legal framework. Guernsey should also take steps to ensure the obliged entities uphold their legal obligations, and the regulatory authorities have the tools they need to provide supervisory functions, especially with regard to nonfinancial businesses and professions not currently regulated. Guernsey should likewise fully implement UNSCRs 1267 and 1373 and ensure all obliged entities receive the UN 1267 Sanctions Committee's consolidated list of entities and individuals.

Guinea-Bissau

Guinea-Bissau is not a regional financial center. Increased drug trafficking and the prospect of oil production, increase its vulnerability to money laundering and financial crime. Drug traffickers

transiting between Latin America and Europe have increased their use of the country. Guinea-Bissau is often 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 the construction of luxury homes, hotels and businesses, and the proliferation of expensive vehicles, stand 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 legal basis for Guinea-Bissau's anti-money laundering/counterterrorist financing (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 West African Economic and Monetary Union (WAEMU or UEMOA), 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 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 implement Know Your Customer (KYC) measures and to record and report the identity of any person who engages in significant transactions, including the recording of large currency transactions. Obligated 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.

According to the law, 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 from professional sanctions for providing information to the FIU in good faith. The law also criminalizes 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. However, the legislation does not comply with all Financial Action Task Force (FATF) recommendations concerning politically-exposed persons (PEPs), and lacks certain compliance provisions for nonfinancial institutions. 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. Reportedly, banks are reluctant to file suspicious transaction reports (STRs) because of the fear of "tipping off" by an allegedly indiscrete judiciary. The bank's solicitation of an asset list from its client could also amount to "tipping off" the subject. The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the eight countries in the WAEMU, 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. All three banks operating in the country report that they have AML compliance programs in place

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. Although the current AML legislation obliges NGOs and nonprofits, including charities, to file STRs, the current regulatory regime is unknown.

The 2004 Uniform Law provides for the establishment of an FIU, and the country issued a Directive in 2006 to establish its FIU. 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 STRs and, when 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. The FIU, when operational, will have the authority to share information with any other FIU in the WAEMU/UEMOA countries.

The Judicial Police and prosecutors investigate money laundering as well as terrorist financing. Two Judicial Police officers are currently undergoing training for investigations of money laundering and terrorist financing, and were expected to complete their training in January 2009. The Attorney General's office houses a small unit to investigate corruption and economic crimes. In November 2007, the Government of Guinea-Bissau's (GOGB) Audit Office created a commission to investigate illegal acquisition of wealth by present and former government officials. However, a lack of training and capacity, endemic corruption and a 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. Despite the country's legal obligation as a WAEMU member state to fully implement the Uniform Law, Judicial Police officials have opined that the Uniform Law is unwieldy and inappropriate for Guinea-Bissau's environment. In 2008, no financial institutions reported any suspicious transactions, nor did authorities initiate any money laundering investigations.

Under Guinea-Bissau's law, money from assets seized in the course of a counternarcotics investigation should be applied to further counternarcotics efforts. However, the inability to agree upon which governmental department should be the beneficiary of the seized assets has resulted in the funds going to the state treasury. An inter-ministerial proposal to credit all drug-related seized assets to the Judicial Police was pending at the end of 2008.

The WAEMU/UEMOA Uniform Law does not deal with terrorist financing. Article 203, Title VI of Guinea-Bissau's penal code criminalizes terrorist financing. However, it has 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 counterterrorist financing (CTF) legislation. Member states must enact a law against terrorist financing, which will likely be a Uniform Law similar in form and obligation to 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. The FATF-style regional body to which Guinea-Bissau belongs, the African Anti-Money Laundering Inter-governmental Group (GIABA), has drafted a uniform law, which it has recommended to its member states for adoption.

The Ministry of Finance and the BCEAO circulate the UN 1267 Sanctions Committee consolidated list to commercial financial institutions. The WAEMU/UEMOA Council of Ministers has issued a directive requiring banks to freeze assets of entities designated by the Sanctions Committee. To date, no institution has identified assets relating to terrorist entities.

Multilateral ECOWAS treaties deal with extradition and legal assistance. 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, and 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 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. The GOGB should ensure that the sectors covered by its AML law have implementing regulations and competent 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 a terrorist financing law. 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 Convention for the Suppression of the Financing of Terrorism, and the UN Conventions against Corruption and Transnational Organized Crime.

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 (principally cocaine) and firearms, as well as to corruption and fraud. Guyana has a large informal economy that is vulnerable to money laundering. The Government of Guyana (GOG) made no arrests or prosecutions for money laundering in 2008. Guyana currently has inadequate legal and enforcement mechanisms to combat money laundering, lacks enabling legislation to combat terrorist financing, and its financial intelligence unit (FIU) does not meet the membership requirements to join the Egmont Group.

Under the Money Laundering Prevention Act (MLPA) of 2000, money laundering is an autonomous crime. Although not dependent on the successful prosecution of a predicate crime, the MLPA narrowly defines money laundering as involving the proceeds of certain "prescribed offences," including blackmail, bribery, counterfeiting, drug trafficking and related offenses, false accounting, forgery, fraud, illegal deposit-taking, robbery involving more than \$20,000, thefts involving more than \$20,000, and insider trading. The MLPA does not cover the financing of terrorism or "all serious crimes" in its list of prescribed offenses. Banks, offshore banks, finance companies, currency exchange houses, insurance companies, money transmission services, factoring companies, leasing companies, trust companies, and securities and loan brokers are required to report suspicious transactions to the FIU, and records of suspicious transaction reports (STRs) must be kept for six years. Lawyers, casinos, notaries, and accountants are among those entities exempt from financial regulatory control.

Undeclared or misdeclared cross-border movement of currency exceeding \$10,000 is a customs violation, subject to a \$250,000 fine and six months in prison. Notably, such offenses are reported to the Customs Administration, but not to Guyana's FIU and other law enforcement bodies.

The Organization of American States reports that the GOG received 15 STRs in 2004, 53 in 2005, and 110 in 2006. GOG has reportedly not released statistics on the number of STRs received in 2007 or 2008 by the FIU, despite the suggestion that the FIU should make these statistics available to relevant authorities as recommended by the Financial Action Task Force (FATF). 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. 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. The FIU has also been staffed by only one person. These limitations collectively stifle the analytical and

investigative capabilities of the FIU and law enforcement agencies. As a result of these weaknesses, there has been no money laundering prosecutions or convictions to date.

To augment the tools available to the GOG's anti-money laundering authorities, in 2007 the FIU drafted legislation entitled the Anti-Money Laundering and Countering the Financing of Terrorism Bill. 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, and remains in committee debate at the conclusion of 2008. Its passage in the near future is uncertain.

The GOG and the Bank of Guyana continue to assist U.S. efforts to combat terrorist financing by working toward 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 UN 1988 Drug Convention and the UN Convention against Transnational Organized Crime. On April 16, 2008, Guyana acceded to 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, but is a party to the Inter-American Convention on Mutual Legal Assistance.

The Government of Guyana should pass the draft legislation on money laundering and terrorist financing that is currently before the Parliament. Enactment of this legislation would extend preventive measures to a wider range of reporting entities, including casinos and designated nonfinancial businesses and professions (DNFBPs). 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 counterterrorist 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.

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. Haiti is a major drug-transit country with money laundering activity linked to the drug trade and to kidnapping. Rampant corruption of public officials also generates illicit proceeds. Money laundering and other financial crimes are facilitated through banks and casinos, as well as through foreign currency 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. Haiti's geo-strategic position, lack of an efficient judiciary system, uncontrolled borders, weak police force (about one police officer per 1,000 civilians), and corruption throughout the public sector exacerbate the favorable environment for money laundering.

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 government of President Rene Preval has 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 impacted the Government's initiatives and slowed its ability to modernize its regulatory and legal framework.

Since 2001, Haiti has used the Law on Money Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses (AMLL) as its primary anti-money laundering legislation. The AMLL 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 AMLL regulations were amended in 2008 and require financial institutions to establish money laundering prevention programs and to verify the identity of customers who open accounts or conduct transactions that exceed 400,000 Gourde (HTG) (approximately \$10,000). It also requires exchange brokers and money remitters compile information on the source of funds exceeding 120,000 HTG (approximately \$3,000) or its equivalent in foreign currency. Many financial institutions, such as microfinance institutions, lotteries and insurance companies can be used as money laundering channels, since they are not regulated by any financial law. A draft banking law, before Parliament, will address this regulatory gap.

In 2002, Haiti formed a National Committee to Fight Money Laundering (CNLBA) under the supervision of the Ministry of Justice and Public Security. 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, the Unité Centrale de Renseignements Financiers (UCREF), 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 34 employees, including five analysts. In 2008, reforms were undertaken to strengthen the institution. Institutions, including banks, credit unions, exchange brokers, insurance companies, lawyers, accountants, and casinos, are now required to report to the UCREF transactions involving funds that may be derived from a crime, as well as transactions that exceed 400,000 HTG (approximately \$10,000) for which banks and currency exchangers must file a cash transaction report (CTR). Money transfer companies, given the high risk associated with them, have to file CTRs for all transactions amounting to at least 120,000 HTG (approximately \$3,000). Failure to report such transactions is punishable by more than three years' imprisonment and a fine of 20 million HTG (approximately \$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. Money launderers get around financial restrictions by

opening several bank accounts for less than 400,000 HTG per person (the threshold set by the AMLL) without rousing suspicion.

Although the government has publicly committed to combat corruption, the court system has been largely dysfunctional. None of the investigations initiated under the interim government have led to prosecutions. Implementation of the AMLL has been supported through the restructuring of UCREF, establishing it as a financial intelligence gathering body and through the reassignment of all criminal investigative responsibilities to the Bureau of Financial and Economic Affairs (BAFE), a component of the Haitian National Police (HNP) Office of Judicial Police (DCPJ), which has resulted in stalled cases moving forward. The BAFE includes, in addition to police officers (all of whom have received training in financial investigation techniques), two judges of instruction (“investigating magistrates”) and two prosecutors. Trial judges with specialized financial knowledge have been identified to receive financial cases. The BAFE and UCREF have become engaged in providing evidence to support prosecutions in the United States. The UCREF and the BAFE are currently assisting the United States in at least three major investigations. The BAFE completed 44 financial investigations, of which eight have been submitted to the judicial authorities for prosecution.

The AMLL contains provisions for the seizure and forfeiture of assets; however, the government cannot seize and declare the assets forfeited until there is a conviction. The GOH has expanded the legal interpretation of conviction to include convictions obtained in foreign jurisdictions. In December 2008, the U.S. Securities Exchange Commission (SEC) halted the trading of an investment club run by a Haitian individual who targeted the Haitian community in South Florida and defrauded these investors of approximately \$23.4 million. In the fourth quarter of 2008 the BAFE and UCREF, with U.S. Drug Enforcement Administration assistance, began seizing properties in Haiti belonging to drug traffickers incarcerated in the United States for use or disposal by the GOH. In 2008, 18 properties valued at over 21 million dollars, including residences, businesses and bank accounts, were seized and forfeited to the GOH based on U.S. convictions and another 20 properties are the subject of this new initiative.

Although the AMLL provides grounds for seizure it does not contain procedures to handle the management and proceeds of seized assets. The CONALD (National Drug Control Commission) is the agency responsible for managing seized and forfeited assets and is in the process of developing the infrastructure to maintain assets until they are disposed of following forfeiture. This change will empower the government to benefit from forfeited assets and their proceeds.

Flights to Panama City, Panama, remain the main identifiable mode of transportation for money couriers. Cash that is routinely transported to Haiti from Haitians and relatives in the United States in the form of remittances represented over 20 percent of Haiti’s gross domestic product in 2007, according to the Central Bank. Remittances flows through official channels to Haiti were estimated at \$1.18 billion in fiscal year 2007. 2008 statistics are not yet available. There is low confidence in the efforts of Haitian customs and narcotics personnel to interdict outbound funds concealed on the persons of travelers. Suspicions that clandestine fees are collected to facilitate the couriers continuing without arrest appear to be well-founded. Interdicted persons 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 (between \$30,000 and \$100,000) to purchase clothing and other items to be sold upon their return to Haiti, a common practice in the informal economic sectors. Suspected drug flights from Venezuela and boat shipments from Jamaica continue to operate with impunity.

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 2008. 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 finalizing a draft bill for a national strategy to combat corruption, including requirements for asset declaration by public sector employees and a code of ethics for the civil service. ULCC will submit the national anticorruption law to Parliament for consideration in the coming months. A new Customs Code bill, which includes the designation of customs fraud as a money laundering offense, has been submitted to the Haitian Parliament.

Haiti has yet to pass legislation criminalizing the financing of terrorism, although counterterrorist financing legislation is being drafted with USG assistance. Haiti 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 AMLL 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 yet 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, and the UN Convention against Corruption. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. In September 2007, the World Bank conducted an assessment of the GOH that serves as a CFATF mutual evaluation. The UCREF is not a member of the Egmont Group of financial intelligence units but has memoranda of understanding (MOUs) with the FIUs of the Dominican Republic, Panama, Guatemala and Honduras.

Despite political instability, the Government of Haiti is making progress on addressing deficiencies in its anti-money laundering and counterterrorist 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. He is actively seeking technical assistance and cooperation with countries in the region to reinforce Haiti's institutional capacity to fight financial crime.

The Government of Haiti should finalize its draft legislation on terrorist financing to criminalize the financing of terrorism and become a party to the UN Convention for the Suppression of the Financing of Terrorism. Haiti should also ratify the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. The GOH should move to enact the draft pieces of legislation pertaining to anticorruption and the new Customs Code bill. Haiti should further reinforce the capacity of the Haitian justice system to prosecute financial crimes; update the criminal code, reform the civil tax code and criminalize tax evasion as part of the country's anticorruption measures. Other 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, as has occurred with the recent asset seizures. Finally, initiatives are needed to enhance the UCREF's capacity to provide timely and accurate reports on suspicious financial activities and meet the Egmont Group membership standards.

Honduras

Honduras is not an important regional or offshore financial center. Money laundering in Honduras stems primarily from significant narcotics trafficking, particularly cocaine, throughout the region. Human smuggling of illegal immigrants into the United States also constitutes a growing source of laundered funds. Laundered proceeds typically pass directly through the formal banking system, but remittance companies, currency exchange houses and automobile and real estate front companies may be increasing. High remittance inflows, which reached more than \$2.6 billion, or 20 percent of gross domestic product in 2008, as well as smuggling of contraband goods, may also generate funds that are

laundered through the banking system. Honduras however, does not appear to be experiencing an increase in financial crimes such as bank fraud. 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. Some illicit funds may also be laundered through the construction sector. The country's is vulnerable to the cross-border movement of contraband and illicit proceeds of crime as the citizens of Honduras, Guatemala, El Salvador, and Nicaragua, are permitted immigration inspection-free movement across their respective borders under the Central American Four Agreement, and there is no requirement for reporting border declarations and seizures to the financial intelligence unit. There is still a lack of adequate implementation and enforcement. These factors, combined with the vulnerabilities of a lack of resources for investigations and analysis, corruption within the law enforcement and judicial sectors, contribute to a favorable climate for significant money laundering in Honduras.

There is not a significant black market for smuggled goods, although there is some smuggling of items such as firearms, gasoline, illegally caught lobster and cigarettes. Though there are a growing number of free trade zones with special tax and customs benefits, there is no specific evidence Honduran free trade zone companies are being used in trade-based money-laundering schemes or by financiers of terrorism.

The Government of Honduras enacted its first money laundering legislation (Decree 202-97) enacted in December 1997. It came into force in early 1998 and criminalized the laundering of narcotics related proceeds. That legislation has evolved significantly since then. 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 supersedes the original money laundering laws established in 1998 by strengthening the legal framework and making available investigative and prosecutorial tools. The same decree 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 decree 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 \$10,000 or its equivalent. As of 2008 a supplementary reporting form had not been implemented for individuals carrying more than \$10,000, due to an unresolved disagreement between the two institutions over responsibility for record keeping. The discussion over the form revealed other weaknesses in cash smuggling enforcement. These include the lack of law enforcement authority for customs agents, and the fact that nondeclaration of more than \$10,000 or the equivalent is not a distinct crime, although it is enough to make an individual a suspect. In 2008, ICE and Honduran Customs authorities conducted joint interdiction operations at Toncontin International Airport in Tegucigalpa, focusing on identifying individuals who failed to declare currency in excess of \$10,000. The operations resulted in the seizure of over \$55,000.

Decree No. 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. According to the decree, 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. 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. However, there is no implementation of AML requirements within the gaming industry.

Decree No. 129-2004 (Financial Systems Law) eliminates any legal 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 bank executives have alleged that their personal security is put at risk if the information they report leads to the prosecution of money launderers.

Congress passed legislation in early 2008 that brings the Government of Honduras (GOH) closer to international legal standards for control of illicit financing, including money laundering and terrorist financing. Major amendments to the money laundering law clarify responsibilities for monitoring nonfinancial entities and a new chapter added to the penal code criminalizes terrorist financing. The amendments to the money laundering law gives the UIF oversight for collecting all suspicious transactions reports from banks, and expands the scope of entities required to report suspicious transactions to the UIF beyond the financial scope of the CNBS. Such entities include real estate agents, used car dealerships, 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 also for analyzing and presenting to prosecutors cases deemed appropriate for prosecution.

The Public Ministry (Attorney General's Office and police all suffer from inadequate funding, limited capacity, and a lack of personnel and training.) Prosecutors expend the bulk of their limited resources focusing on high-profile crimes related to money laundering, such as narcotics trafficking, trafficking in persons, and cash smuggling. The UIF does not have direct access to law enforcement information in making its analyses, and does not have sufficient operational independence as prosecutors dictate to the UIF which cases to analyze based on suspicious transaction reports. The prosecutor charged with coordination with the UIF rarely visits his counterparts and is no longer working closely with the Office for Management of Seized Assets (OABI.) The number of convictions in 2008 was the lowest since 2003, the first full year that money laundering was a distinct crime in Honduras. In only two separate cases, seven individuals were found guilty of money laundering crimes, and one was absolved. Between 2003 and 2008, a total of 47 individuals were convicted in 32 separate cases. Only two of 54 ongoing investigations in 2007 originated from atypical financial reports.

Lack of coordination at all levels is a key area preventing a higher success rate in investigations and prosecutions. At the ministry level, the Interagency Commission for the Prevention of Money Laundering and Financing of Terrorism (CIPLAFT) was created in 2004 but never got off the ground. The current President of the CNBS does not believe he should be in charge of the CIPLAFT as specified by Presidential Decree, and as such has not convened any meetings. He told the U.S. Embassy in mid-2008 of his intention to propose another ministry take responsibility for the CIPLAFT, but has neither specified which ministry nor formally requested a change to his responsibilities. Although Decree 45-2002 requires that a public prosecutor be assigned to the UIF, the Special Prosecutor for Money Laundering personally acts as coordinator and contact is sporadic and personality-driven. Response times for information sharing between the UIF and the seized assets unit initially improved after a 2006 agreement between the Public Ministry, CNBS, and the UIF to prioritize money laundering cases. However, information sharing has stagnated in the last two years and has a backlog of about a year. In theory, the agreement should have streamlined the number of cases for potential prosecution and allowed many cases to be officially closed. The low number of convictions this year suggests otherwise. 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 growing slower this year due to global economic downturn, but still constitute about 20 percent of GDP and will likely top \$2.6 billion in 2008. There has been no evidence to date linking these remittances to the financing of terrorism. The director of the UIF admits that remittances are extremely vulnerable to money laundering, but says Honduras lacks a formal tracking system to measure the extent of proceeds being laundered through formal and informal cross-border financial transfers. The remittance regulations in the new money laundering amendment now require remittance dealers not registered at the CNBS to report suspicious transactions. Once implementing regulations are put in place, the new amendment should give the UIF oversight capacity to properly investigate remittance companies. The CNBS securities superintendent has drafted the implementing regulations. The U.S. Internal Revenue Service (IRS) and Financial Crimes Enforcement Network (FinCEN), which serves as the U.S. financial intelligence unit, have provided comments and the implementing regulations should be activated within the first few months of 2009.

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 the 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 is charged with distributing funds to various law enforcement units and nongovernmental organizations (NGOs). According to the Public Ministry, up to 50 percent of the proceeds gained by auctioning or selling seized goods go to the unit that performed the seizure. An additional 25 percent of the proceeds go to institutions involved in crime prevention and rehabilitation of criminals and the balance goes to OABI's support budget. In reality, equitable sharing of seized monies has been a continuing problem, and appears at times to be controlled by political influence. Police entities involved in the original investigations rarely see an equitable share of the assets seized and investigators often must ride public buses to conduct investigations. In some cases, entities that have nothing to do with the investigation receive an unjustified portion of the funds.

The OABI is a poorly administered organization, and is constrained by a lack of coordination with public prosecutors who must bring cases to trial before seized assets can be distributed or auctioned. The public prosecutor has said it is no longer working with OABI because of disputes over final forfeiture of assets and disbursement of monies from auctioned assets or bulk cash seizures. 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 and high protection and maintenance fees. With new management and guidelines in place, and the new witness protection law that passed in 2008 which allows the unit to hold all seized assets, OABI could expand its role significantly. Police and prosecutors complain the witness protection law cannot be enforced without the necessary funding.

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. Equally ambiguous is the ability of the prosecutor's office to seize individual or business assets based on "unexplained enrichment." Though a recent World Bank report on Honduran compliance with international standards criticized the practice and pointed out that no such legislation exists elsewhere, the prosecutor's office insists it must act on ambiguous information at times.

Under the Criminal Procedure Code, when goods or monies 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. This places financial pressure on OABI, which is responsible for maintaining assets at high expense while prosecutors investigate and build cases.

As of December 2008, the total value of assets seized since Decree 45-2002 came into effect was approximately \$5.9 million, including \$4.6 million in tangible assets such as cars, houses, and boats. The total for 2008 barely increased in comparison to 2007 because there has been little to no movement in existing cases and few seizures this year. \$750,000 collected from the sale of an abandoned plane in 2007, probably related to narcotics, was used to purchase several cars for public prosecutors and police investigators. 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 was amended in April 2008, and now designates both terrorist financing and asset transfer related to terrorism as crimes. This is a major step to bring Honduras into accordance with the Financial Action Task Force (FATF) Forty-Nine recommendations. The crime of terrorist financing now carries a 20 to 30 year prison sentence, along with a fine of up to \$265,000.

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 United States investigations and requests for information pursuant to the 1988 United Nations Drug Convention. No specific written agreement exists between the U.S. 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, the Dominican Republic, Costa Rica, Bolivia, Haiti, Argentina, Saint Vincent and The Grenadines, St. Kitts and Nevis, Belize, and the Cayman Islands. The UIF has reported that bilateral cooperation and information sharing is good across the board.

Honduras is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. 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), a FATF-style regional body. In 2005, the UIF became a member of the Egmont Group.

The World Bank Financial Sector Assessment Program (FSAP) completed an assessment of Honduran compliance with international money laundering standards in February 2008. The report describes and analyzes anti-money laundering and counterterrorist financing measures, sets out Honduras' levels of compliance with the FATF Forty-Nine Recommendations. The draft report recognizes that Honduras is close to compliance with a large number of international legislation and norms, but criticizes lack of

implementation and enforcement, and a “systematic lack of coordination” between key players. In addition, the report noted that GOH does not require sufficient transparency with regard to the beneficial ownership of legal persons. The UIF will respond to the report on behalf of the Government of Honduras at the CFATF, Plenary meeting in Trinidad and Tobago in May 2009.

The Government of Honduras (GOH) made progress in 2008 by criminalizing terrorist financing and increasing the legal scope of financial entities to be monitored by the UIF. The GOH should ensure that these improvements to money laundering regulations are implemented, enforced, and coordinated in order to bring its anti-money laundering and counterterrorist 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. The GOH should also resolve any ambiguity regarding the seizure of businesses used for criminal purposes and suspicious enrichment of individuals, and should repeal provisions which allow for a waiver of criminal liability for first time legal person offenders. The Government of Honduras should pay special attention to the need for stronger coordination between entities which is the single largest factor inhibiting the fight against money laundering.

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.

Hong Kong is a free port. As such, there is no significant black market for smuggled goods. According to Hong Kong law enforcement authorities, there is no evidence to suggest smuggling activities in Hong Kong are funded by narcotics proceeds.

Hong Kong has investigated and prosecuted very few money laundering cases involving fund movements outside the formal banking sector. The formal banking sector appears to be the primary means by which criminals attempt to launder funds in Hong Kong. Over the past four years, reported financial crimes have increased. Hong Kong police reported 4,758 (2006) and 4,745 (2007) cases of Deception; Business Fraud cases totaled 34 (2006) and 27 (2007); Forgery and Coinage cases reported totaled 1,149 (2006) and 1,195 (2007). Hong Kong does not keep separate statistics on cases involving U.S. currency. The government expects the current economic downturn to lead to increased financial crime and is tightening its supervision of the banking system.

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 Hong Kong Monetary Authority (HKMA) regulates banks. The Office of Commissioner of Insurance (OCI) and the Securities and Futures Commission (SFC) regulate insurance and securities firms, respectively. All three impose licensing requirements and screen business applicants. There are no legal casinos or Internet gambling sites in Hong Kong.

In Hong Kong, it is not uncommon to use solicitors and accountants, acting as company formation agents, to set up shell or nominee entities to conceal ownership of accounts and assets. Many of the

more than 500,000 international business companies (IBCs) registered in Hong Kong are established with nominee directors; and many are owned by other IBCs registered in the British Virgin Islands. However, all companies are required to file certain information on an annual basis with the Companies Registry, including annual accounts, details of registered offices, directors, the company secretary, charges, a register of members and debenture holders (depending on the category of companies to which a company belongs). In addition, these companies are subject to additional regulatory controls if they engage in certain business activities. For example, if a company carries out banking/securities/insurance business, it must conduct customer due diligence on all corporate entities and trust arrangements, in particular, identifying their beneficial owners for the purpose of complying with the AML/CTF requirements of the HKMA, SFC, and/or OCI. The AML/CTF guidelines published by these three regulators require companies to have procedures in place to monitor the identity of all principal shareholders, directors, account signatories and the beneficial owner of the corporate customer. Bearer shares are not permitted for companies registered in Hong Kong.

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 two ordinances provide for the tracing, restraint and confiscation of proceeds derived from drug trafficking and other serious crimes. The legislation also criminalizes the act of dealing with property while knowing or having reasonable grounds to believe that such property represents proceeds of drug trafficking and other indictable offenses. 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). Hong Kong enacted the United Nations (Anti-Terrorism Measures) Ordinance (UNATMO) (Cap. 575) in 2002 to criminalize terrorism and terrorist financing. UNATMO was amended in 2004 to allow Hong Kong to freeze the nonfund property of terrorists and terrorist organizations.

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). There is no minimum threshold that compels reporting. 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. No laws in Hong Kong contain secrecy provisions that prohibit authorized institutions from disclosing client and ownership information to the HKMA and the law enforcement agencies.

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 HKMA is responsible for supervising and examining compliance of financial institutions that are authorized under Hong Kong's Banking Ordinance. The 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 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. An HKMA directive 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 couriering 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.

Designated Non-Financial Businesses and Professions as defined by FATF (i.e. lawyers, accountants, estate agents, trust and company service providers and dealers in precious stones and metals) are not subject to specific statutory AML/CTF requirements. However, under the DTROP, the OSCO and the UNATMO, suspicious transaction reporting requirements are applicable to all persons. Lawyers, accountants, practitioners in nonfinancial institutions, dealers in precious stones and precious metals are all obliged by law, as are all persons, to make a suspicious transaction report to the JFIU if they come across any property known or suspected to be proceeds of drug trafficking, crimes, or terrorism. Under the DTROP, the OSCO and the UNATMO, all persons are required to report his/her knowledge or suspicion of crime proceeds or terrorist property; failure to report such suspicion or knowledge is a criminal offense. The reporting requirement exists irrespective of the value of the proceeds or property, and the circumstances by which the person comes across such knowledge or suspicion.

In addition, the professional bodies or regulators of Hong Kong lawyers, accountants, estate agents, trust and company service providers have issued AML/CTF guidelines and encourage their members to comply. During 2008, the Narcotics Division of the Hong Kong Security Bureau and the JFIU have conducted regular outreach and capacity building programs for these sectors including seminars, guidelines, leaflets and Announcements in the Public Interest on television and radio.

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 to 20,000 RMB (approximately \$3000) 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.

Despite Hong Kong’s efforts to encourage capital shifts to the banking industry, Chinese capital controls continue to encourage entities in both Hong Kong and Mainland China to use underground financial systems to avoid Chinese 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 (approximately \$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 indicated 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. While Chinese police action in late 2007 appears to have dealt a blow to underground banking systems, the lack of strong Hong Kong government oversight of moneychangers and remittance agents was highlighted in the FATF/APG Mutual Evaluation Report, published in June 2008. The global economic slowdown and a dramatic drop in Hong Kong housing

and equity prices are likely to have contributed as much to declining crossborder flows as to stricter enforcement on the part of the Chinese and Hong Kong authorities.

To facilitate effective processing of suspicious transaction reports, the Joint Financial Investigation Unit (JFIU), staffed by the HKP and Customs and Excise Department, has been in operation since 1989. It collects and processes suspicious transaction reports, analyzes the information contained therein, and disseminates the reports to the appropriate law enforcement units for further investigation. The JFIU also conducts research on money laundering 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.

The Hong Kong JFIU is housed in a separate, secure area in the Narcotics Bureau within the Police Headquarters Complex. It is treated as a separate unit and acts independently from other police units in order to preserve its autonomy and independence. While the JFIU is considered a separate and distinct unit, it does not have any independent or devolved budget. Day-to-day operating costs are met from the budgets of the Police and Customs and Excise Departments. JFIU receives disclosures, conducts analysis on them, and in suitable cases distributes them to investigation units. JFIU can distribute cases to all Hong Kong law enforcement agencies, similar overseas bodies and in certain circumstances regulatory bodies in Hong Kong.

The JFIU has direct access to the records and databases maintained within the Police and Customs and Excise Departments. It also has direct access to the databases of the Transport Department, the Companies Registry and the Land Registry. Access to records maintained by other government agencies can be granted upon JFIU's written request and in the case of the tax authority, a court order. Financial institutions are obligated to provide the JFIU with any information relating to a suspicious transaction that it has reported. However, the JFIU does not have access to the databases of financial institutions. If more detailed information is required in respect of suspicious transaction reports, the financial institution must be formally subpoenaed. Section 12(6) of the UNATMO and Sections 25A (9) of both the DTROP and the OSCO allow for the dissemination of information to domestic and foreign agencies to combat crime and terrorism. Hong Kong legislation does not require JFIU to enter into MOUs with overseas counterparts for the purpose of information exchange. Up to the end of October 2008, the JFIU had received 12,560 STRs in 2008, of which 2,101 had been referred to law enforcement agencies for further investigation. 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.

The Hong Kong Police have a number of dedicated units responsible for investigating financial crime. The Commercial Crime Bureau and Narcotics Bureau are the primary units responsible for investigating money laundering and terrorist financing cases. Serious Crimes Squads in Police Districts are responsible for investigating less serious financial crimes. Resources and training are adequate for their current mission. The Independent Commission Against Corruption (ICAC) investigates money laundering cases related to corruption while the Financial Investigation Group (FIG) of the Customs and Excise Department is responsible for money laundering investigations related to drug trafficking and organized crime.

As of the end of September 2008, Hong Kong law enforcement agencies had prosecuted 267 persons for financial crimes. However, the HKP has not reported any financially significant cases during 2008. Hong Kong Customs and Excise reported two arrests and one prosecution for money laundering since January 1, 2008.

Under the DTROP and the 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.

Hong Kong normally confiscates crime proceeds only after conviction in a court of law. However, the court may allow property seized on being imported into Hong Kong to be forfeited, if it is satisfied that such property is related to drug trafficking. The court may, on an application by the Secretary for Justice, order the forfeiture of terrorist property. An order may be made under either of these provisions independent of any criminal proceedings with which the property concerned is connected. The civil standard of proof applies in these proceedings. There are provisions under DTROP and OSCO to trace, seize and freeze assets without undue delay. The system for freezing and forfeiture of terrorist property is provided for under the UNATMO.

The year-end running balance for assets frozen and seized and the accumulative amounts of assets forfeited with reference to narcotics-related (DTROP) and criminal-related (OSCO) offenses for the past five years are provided below. There is a progressive increase in the confiscation for criminal-related offenses, reflecting additional efforts made by Hong Kong law enforcement agencies. No terrorist-related assets have been frozen, seized, and/or forfeited. Banks and other financial institutions cooperate with law enforcement efforts to seize or freeze bank accounts. According to JFIU figures as of September 30, 2008, the value of assets under restraint (pending confiscation proceedings) was \$306.42 million, and the value of assets under a court confiscation order but not yet paid to the government was \$10.07 million. JFIU also reported that, as of September 30, 2008, \$58.44 million had been confiscated and paid to the government since the enactment of DTRoP and OSCO. The value of assets under restraint (pending confiscation proceedings) for 2007 was \$265.44 million. The value of assets under a court confiscation order but not yet paid to the government was \$10.96 million in 2007. The value of assets confiscated and paid to the government in 2007 was \$56.18 million. No figures were available for 2008. Hong Kong has shared confiscated assets with the United States.

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. There has been no legislation to comport with special Recommendation Nine on cash couriers.

To help deal with anti-money laundering (AML) issues from a practical perspective and reflect business needs, the Hong Kong Monetary Authority (HKMA) established an Industry Working Group on AML. Three subgroups have been established to share experiences and consider the way forward on issues such as politically exposed persons (PEPs), 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. However, Hong Kong's 2008 FATF/APG Mutual Evaluation pointed to lack of sufficient oversight of informal financial entities, including remittance agents and money changers. Hong Kong authorities are expected to submit a proposal in early 2009 to increase supervision of these entities.

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 SFC and the 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 Laundering 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. There are no special provisions in Hong Kong law to monitor the financial activities of charitable or nonprofit agencies.

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 report, which was discussed at FATF's June 2008 Plenary meeting, praised Hong Kong's AML and CTR regime but identified a lack of oversight for remittance agents and money changers, and the designated nonfinancial business and professions such as accountants and lawyers, the lack of statutory backing for customer due diligence and record keeping requirements for financial institutions, and gaps in Hong Kong's legal framework to fully implement the United Nations Terrorist Financing Convention. Hong Kong is required to submit a report on its progress toward addressing these deficiencies in June 2010. Hong Kong plans to conduct a comprehensive review of its legal and regulatory regime and introduce specific measures to improve its ability to prevent, detect, investigate, enforce and prosecute money laundering and terrorist financing activities. The initial phase of the review will focus on the AML/CTF regulatory regime for the financial services sectors. Consultation with the concerned sectors is expected to follow publication of concrete proposals early in 2009. To ensure that the AML/CTF measures do not conflict with policies to promote Hong Kong as an international financial centre, the Financial Services and the Treasury Bureau has taken over from the Security Bureau the overall coordinating role for AML/CTF policies within the Administration, beginning in October 2008.

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.

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 MLAs with 25 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. Apart from exchange of intelligence and other information permissible at the law enforcement level, documentary evidence may also be provided pursuant to money laundering and terrorist financing investigations or proceedings pursuant to requests made under the operative agreement with the United States on mutual legal assistance. Hong Kong provides similar assistance to jurisdictions that have operative bilateral or multilateral agreements with United States or on the basis of reciprocity under the MLAA.

In 2008, Hong Kong Customs conducted two successful joint operations with the U.S. Drug Enforcement Agency (USDEA) and U.S. Immigration and Customs Enforcement (USICE). For the joint operation with DEA, crime proceeds of approximately HKD 8 million held by the key member of a drug-related money-laundering syndicate was restrained under the MLAA in Hong Kong in August 2008. The arrested person was eventually extradited to the United States in October 2008. For the joint operation with USICE, a subject from Taiwan was successfully extradited to the United State in August 2008. ICAC has responded to a Letter of Request regarding a corruption case involving a principal official of the Macau SAR for the production of bank records.

The Government of Hong Kong should further strengthen its anti-money laundering/counterterrorist financing regime by requiring more stringent customer due diligence and record keeping requirements for financial institutions; mandating more suspicious transaction reporting by lawyers and accountants, as well as by business establishments, such as auto dealerships, real estate companies, and jewelry stores ;establishing threshold reporting requirements for currency transactions; and putting into place "structuring" provisions to counterevasion efforts. . Hong Kong should institute mandatory oversight for remittance agents and money changers, and the designated nonfinancial business and professions such as accountants and lawyers. It should also establish mandatory cross-border currency reporting requirements and address trade-based money laundering, as well as monitor the financial activities of charitable or nonprofit agencies. . Hong Kong should also take steps to stop the use of "shell" companies, IBCs, and other mechanisms that conceal the beneficial ownership of accounts by more closely regulating corporate formation agents.

Hungary

Because of Hungary's advantageous and pivotal location in central Europe, a cash-based economy, and a well-developed financial services industry, money laundering in Hungary is related to a variety of criminal activities, including illicit narcotics-trafficking, prostitution, trafficking in persons, and organized crime. Criminal organizations (especially those from Russia and Ukraine) have become

well-established in Hungary. Several factors contribute to the prevalence of organized crime in Hungary. First, Hungary shares borders with seven other countries and is within the borders of the European Union (EU), thereby making it one of the largest markets for organized criminal activity. Second, as a transshipment country, Hungary's most vulnerable borders are the non-EU eastern and southern ones, such as those with Ukraine (cigarette and human trafficking) and Serbia (drug and arms trafficking), as well as Romania (human trafficking and prostitution). Finally, compared to other countries in the region, Hungary has a well-developed transportation system, facilitating the operation of criminal enterprises. Other prevalent economic and financial crimes include official corruption, tax evasion, real estate fraud, and identity theft (copying/theft of bankcards). Money laundering reportedly has not increased in recent years though there have been some isolated, albeit well-publicized, cases.

The Government of Hungary (GOH) has worked continuously to improve its anti-money laundering/counterterrorist financing (AML/CTF) enforcement regime and to implement the Financial Action Task Force (FATF) Forty Recommendations and the Nine Special Recommendations on Terrorist Financing.

A provision on the money laundering offense [Section 303 of the Hungarian Criminal Code (HCC) as amended by Act XXVII of 2007 (Act XXVII)] enlarges the scope of the money laundering offense to cover the transfer of proceeds to a third party even if it is carried out through a nonbanking or nonfinancial transaction. Act XXVII also addresses problems that have occurred within 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 suspicious transaction report (STRs) that are reportedly of low quality. Act XXVII 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.

The Government of Hungary (GOH) bans offshore financial centers, including casinos, by Act CXII of 1996 on Credit Institutions (Act CXII). 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 bans the use of any indigenous alternative remittance systems that bypass, in whole or in part, financial institutions. The GOH has prohibited the use of anonymous savings booklets since 2001. Act CXX of 2001 eliminates bearer shares and requires that all such shares be transferred to identifiable shares. All shares now are 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 12 billion HUF (approximately \$60,200,000) for 2.82 million owners, corresponding to an average account size of 4,250 HUF (approximately \$21). 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.

Hungary re-codified its original anti-money laundering (AML) legislation, Act XV of 2003 on the Prevention and Impeding of Money Laundering. The implementing regulations entered into force in August 2006. These measures ensure uniform implementation with regard to the definition of "politically exposed persons" (PEPs), the technical criteria for simplified customer due diligence (CDD) 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). The AML/CTF Act was published on

November 28, 2007, and entered into force on December 15, 2007. The AML/CTF Act establishes the legislative framework for preventing and combating terrorist financing and complies with international AML standards and requirements. The AML/CTF Act expands the scope of covered entities to cover the following professions: financial services, investment services, the insurance industry, commodity exchange services, postal money orders and transfers, real estate agents, auditors, accountants, tax advisors, casinos, jewelry merchants, 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 CDD and establishes detailed rules, including simplified as well as enhanced CDD for low- or high-risk customers or business relationships, and appropriate procedures to determine whether a person is a PEP. The AML/CTF Act also addresses originator information accompanying transfers of funds. The Act contains provisions on internal training and communication procedures, detailing special protocols for lawyers and notaries. Safe harbor provisions protect individuals executing their AML/CTF reporting obligations.

Obligated entities must send a 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 the effectiveness of the AML/CTF measures can be evaluated.

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 the banks' internal control mechanisms as well as to supervision by the Hungarian Financial Supervisory Authority (HFSA). 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 HUF (approximately \$2,500), whether in a single transaction or derived from consecutive separate transactions. Exchange booths must file STRs for suspicious transactions in any amount.

Act No. XLVIII of 2007 states the Hungarian customs authorities should record the declarations of travelers entering or leaving the European Community with cash totaling or exceeding 10,000 euros (approximately \$13,500) 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 FIU.

Hungary's financial regulatory body, the 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. In certain cases, DNFBP supervisory functions are performed by self-regulatory bodies: the Hungarian Bar Association with respect to lawyers, the Hungarian Association of Notaries Public with respect to notaries public, and the Chamber of Hungarian Auditors and Auditing Activities with respect to auditors. The Hungarian Trade Licensing Office is the supervisory authority with respect to natural and legal persons trading in goods and allowing cash payments above the amount of 3.6 million forints (approximately \$18,000).

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. The HFSA established a standing AML/CTF working group that includes representatives of financial institutions and their associations.

Hungary's FIU, the Central Criminal Investigation Bureau (CCIB) was originally established in 1995 as a unit under the Hungarian National Police (HNP) where it was named the National Bureau of Investigation's Anti-Money Laundering Department (ORFK). A January 2008 amendment to Act XIX

of 1998 on the Hungarian Criminal Procedure transfers the authority to investigate money laundering crimes and noncompliance with AML/CTF laws from the HNP to the HCFG. As a result, the ORFK was transferred from the HNP to the HCFG and renamed the CCIB. The FIU no longer performs investigations on its own. STR data is forwarded to the HNP for investigation. This organizational restructuring of the FIU has caused substantial change in its daily operations, due primarily to a large turnover in personnel. In 2008, many senior officials (including the FIU head) and analysts were replaced by newer, less experienced staff from the HCFG. In addition, the Hungarian FIU's Egmont membership was temporarily suspended for three months in early 2008 pending review of the FIU's new operational status. Despite these events, the FIU is currently operating smoothly and exchanging information with counterpart Egmont FIUs.

The FIU serves as the national center for receiving and analyzing STRs and other information regarding potential money laundering or terrorist financing. It is also responsible for disseminating that information to the competent authorities. STR reporting is scheduled to become electronic by the end of 2008, and will include software for risk analysis and statistical data processing. In 2006, the FIU received 9,999 STRs, and opened 193 cases based upon STRs received. From January 1, 2007 until December 15, 2007, the FIU received 9,475 STRs, opened 40 cases, and confiscated 971,681,352 HUF (approximately \$5,500,000). Between January 1 and November 27, 2008, the FIU received 9,512 STRs. During this same period, the CCIB opened 12 new criminal money laundering investigations, seized proceeds in the amount of 4,580,479 euro (approximately \$6,100,000), and froze a total of 7,037,877 euro (approximately \$9,400,000) in proceeds in bank accounts. The FIU also supported 97 ongoing criminal investigations.

The HFSA and other supervisory bodies have started to provide increased outreach and guidance to financial institutions on their reporting obligations. The FIU provides AML/CTF training for the employees of financial institutions and other obliged entities, especially savings banks, in order to improve the quality of STRs filed.

Sections 151-156 of the Hungarian Code of Criminal Procedure, Act 19 of 1998, contain provisions on asset forfeiture. Under these provisions, assets used to commit crimes, that pose a danger to public safety, or that 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. In case of suspicious transactions, the FIU freezes the assets and informs the bank whether it will pursue an investigation. In domestic cases, the FIU has 24 hours to inform the bank of its intentions. For nondomestic transactions, the timeframe is extended to 48 hours. 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. An Asset Recovery Unit will soon be established within the HNP Financial Crimes Division. This change will require an amendment to Decree III of 2008 on Jurisdiction of Investigative Authority, and Act CXXX of 2003 on Cooperation between EU Member States in Criminal Matters.

Act IV of 1978, Article 261, criminalizes terrorist acts. Hungary criminalizes 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 Section 9 of Act XXVII, states that any person sponsoring activities of a terrorist or a terrorist group by collecting funds or providing material assets or any other support or facilitation faces five to ten years imprisonment. The GOH distributes the updates of the UN designated terrorist lists to obligated entities (2007 Act 108). Additionally, supervised institutions and the general public can 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 Executive Order 13224 on the HFSA homepage. Act CLXXX of 2007

establishes the legal framework for freezing assets/funds related to terrorist financing. According to the Act, the FIU examines whether the certain persons and entities subject to the EU's economic and financial restrictive measures have funds or economic resources in Hungary. 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.

The GOH is a member of Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), and Hungary's FIU is a member of the Egmont Group. Hungary is a party to the UN 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 significant progress regarding international communication. Despite its progress, the Government of Hungary 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, which recent conferences organized by the Prosecution Office have been promoting. The police and FIU should have the option to extend their 24-hour time limit for the freezing of assets. The capacity and knowledge of employees of financial institutions and other obliged entities must be raised to improve the quality of STRs filed, in particular those which may be related to terrorist financing. The GOH also should take steps to strengthen its anti-terrorist financing laws.

India

India's emerging role in regional financial transactions, its large system of informal cross-border money flows, large underground economy, widespread use of hawala, and historically disadvantageous tax administration all contribute to the country's vulnerability to money laundering activities. While most money laundering in India aims to facilitate widespread tax avoidance, criminal activity contributes substantially. 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. The 2008 terrorist attacks in Mumbai intensified concerns about terrorist financing in India.

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 whose deep roots in South Asia make it popular among all strata of Indian society, not only immigrant workers. The hawala system can provide the same remittance service as a bank with little or no documentation, at lower rates and with faster delivery, while providing anonymity and security for its customers. Hawala can also be used to avoid currency or capital flow restrictions and to avoid government scrutiny in financial transactions.

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.

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 countervaluation—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.

The Government of India (GOI) neither regulates hawala dealers nor requires them to register with the government. The Reserve Bank of India (RBI), India’s central bank, argues that hawala dealers cannot be regulated since they operate illegally and therefore cannot be registered, easily monitored, and regulated. Indian analysts also note that hawala operators are often protected by politicians and corrupt officials.

According to Indian observers, funds transferred through the hawala market are equal to between 30 to 40 percent of the formal market. The RBI estimates that remittances to India sent through legal, formal channels in 2007-2008 amounted to \$42.6 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. According to estimates by the World Bank, in 2007, India overtook China and Mexico to become the top country for remittance inflows.

The Indian government has expanded its regulation of the formal 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 (NRIs) are permitted to receive cash payments up to the equivalent of \$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 nonbank money transfer operations like currency exchange kiosks and wire transfer services.

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. All Indian states have implemented the national VAT mandate.

In the aftermath of the September 11 terrorist attacks in the United States, in January 2003 India joined the global community in addressing concerns about money laundering and terrorist finance by implementing the Prevention of Money Laundering Act (PMLA). 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 that are listed in a schedule to the Act. However, the Financial Action Task Force (FATF), an international standard setting body on combating illicit finance, recommends a much larger group of predicate offenses, including organized crime, fraud, smuggling, and insider trading. The FATF has also recommended that India lower the monetary threshold for activity to be considered a crime. Penalties for offenses under the PMLA include imprisonment for three to seven years and fines as high as the equivalent of \$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 the equivalent of \$20,000 and keep a record of all transactions dating back 10 years. All banks and finance companies must report monthly to the FIU a list of all cash transactions (single or linked) of over \$20,000 and its equivalent in foreign currencies. All the private banks and most of the larger public banks have also implemented appropriate software to create alerts when the transactions are inconsistent with risk categorization and updated profile of customers. Indian outlets of wire transfer services and casinos have also been ordered to report their transactions every month. Individual cash transactions below the equivalent of \$1,000 need not be reported.

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 passed the Prevention of Terrorism Act (POTA), which criminalized 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.

In October 2008, the Indian Supreme Court ordered lower courts to abide by the decisions of the POTA Central Review Committee. In a May 2005 decision, the Committee recommended that POTA charges be dropped against 131 people accused of setting on fire a train car at the Godhra railway station in the State of Gujarat on February 27, 2002. The incident killed 59 people and sparked widespread communal riots in Gujarat. The Supreme Court October 2008 order may allow the Godhra accused, as well as several POTA detainees in other states, to receive bail

As part of the PMLA mandate, India's financial intelligence unit (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 three years, the FIU has become fully operational and disseminates report analysis to law enforcement and intelligence agencies to investigate and prevent money laundering and curb financial crimes. The FIU consists of a staff of forty-three officers, headed by an Indian Administrative Service Director of equal rank to a Joint Secretary in the GOI ministries. The FIU has been active in providing relevant financial analysis and money laundering investigative training to its staff members as well as bank officials so that suspicious transaction reports (STRs) are carefully reviewed and efficiently processed.

According to the FIU's Annual Report, which covers March 2007-2008, the FIU received more than 2,733 STRs, of which about 1,396 were shared with relevant law enforcement and intelligence 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 the 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 the 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 Director has authority to levy penalties on reporting entities for noncompliance to the provisions of the PMLA.

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. The FIU maintains regular contact with government departments that receive information about STRs, including the Central Board of Direct Taxes, Enforcement Directorate, Narcotics Control Bureau, and intelligence agencies.

In June 2007, India's FIU was admitted as a member of the Egmont Group. Admission into the Egmont Group is seen by the Indian government as a major step forward by India to join the international community in its fight against money laundering and terrorist financing. The FIU has signed some bilateral MOUs (including with Brazil, Mauritius, and the Philippines) to further facilitate and expedite financial intelligence information sharing. In FY 2007-08, the FIU received requests for information from foreign FIUs for 39 cases and requested information from foreign FIUs in 13 cases.

Under the MOF, the Enforcement Directorate is responsible for investigations and prosecutions of money laundering cases. In 2007-2008, 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. 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 with aspirations that in a two-year probationary period it will adopt FATF core recommendations towards gaining full membership. These recommendations focus on meeting international standards for the criminalization of money laundering, customer due diligence, record-keeping, suspicious transaction reporting, criminalization of terrorist financing, and suspicious transaction reporting relating to terrorist financing. 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 and transition them from observer to full member within this international body. In October 2008, the GOI tabled a bill in Parliament to amend the PMLA. Under the proposed new legislation, insider trading and market manipulation will be treated as a laundering offence and warrant stricter punishment. Offences related to human trafficking, smuggling of migrants, counterfeiting, piracy, environmental crimes, and over-invoicing and under-invoicing under the Customs Act will also be punishable under the PMLA. Credit card payment gateways such as Visa and Mastercard, money changers, money transfer service providers like Western Union, and casinos will also be subject to India's money laundering legislation and face mandatory reporting obligations. Fraud and theft offences have been included as scheduled offences under the PMLA if committed with cross-border implications. The draft legislation also empowers the Enforcement Directorate to "search premises immediately after the offence is committed." The bill also enables the GOI to return the confiscated property to the requesting country in order to implement the provisions of the United Nation's Convention against Corruption. While these amendments to the PMLA broaden the scope of predicate offences and criminalize terrorist financing, the legislation falls short of certain FATF recommendations, including retaining a high value threshold on many of the offenses, unless they are cross-border offenses.

The financial services sector is supervised and regulated by the Reserve Bank of India, the Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority (IRDA). SEBI, IRDA, 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. Notably, there is no requirement that SEBI-regulated entities screen collected KYC data, under the presumption that in any noncash transaction, Indian banks have already screened the parties or, if coming from abroad, they have registered with SEBI as a foreign institutional investor.

Prompted by the RBI's 2002 notice to commercial banks to adopt due diligence rules, most 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 exposed persons (PEPs) who reside outside of India and identify the source of these funds before accepting deposits of more than \$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 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. No shell bank exists in India nor is permitted to operate under Indian laws. The RBI guidelines impose an obligation on the banks that, as far as reasonably possible, their respondent banks do not offer services to shell institutions.

The financial institutions that operate overseas branches or subsidiaries have been advised to implement the more rigorous anti-money laundering standard—either the Indian law or the host country obligations. Companies are registered under the provisions of the Companies Act and are regulated by the Registrar of Companies. India does not allow bearer shares. Listed companies are subjected to further regulations/restrictions by stock exchanges and supervision of the SEBI. Stock exchanges and other intermediaries are required to comply with the provisions of the PMLA and the rules in respect of client companies.

India does not have an offshore financial center but does license offshore banking units (OBUs). These OBUs are required to be predominantly owned by individuals of Indian nationality or origin resident outside India. The OBUs include overseas companies, partnership firms, societies, and other corporate bodies. OBUs must be audited to confirm that ownership by a nonresident Indian is not less than 60 percent. These entities are susceptible to money laundering activities, in part because of a lack of stringent monitoring of transactions in which they are involved. Finally, OBUs must be audited financially; however, the auditing firm is not required to obtain government approval.

To prevent the abuse of charities for money laundering or terrorism finance, the Foreign Contributions Regulation Act of 1976 requires any nongovernmental entity to register or request permission from the MHA before receiving foreign donations. The government requires registered entities to submit annual reports documenting foreign contributions and their use.

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 counterterrorist 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 Indian government is now considering a proposal to replace the FCRA with the Foreign Contribution Regulation (FCR) Bill of 2006 to regulate existing laws governing contributions from abroad and check the use of foreign funds for subversive activities by terrorist and anti-national organizations. The FCR Bill was introduced in Parliament in December 2006 and then referred to the Parliamentary Standing Committee on Home Affairs for further debate. The bill provides for closer government monitoring, additional registration requirements, and expands the classification of individuals banned from accepting any foreign contribution. Meanwhile, the Parliamentary Standing Committee has recently indicated that the legislation should be amended to define the term "foreign source" more clearly in relation to Indian companies that have more than 50 percent foreign holding. The committee also suggested that companies with foreign holdings over 50 percent should be excluded from the purview of the term in the proposed law.

The UNSCR 1267 Sanctions Committee's consolidated list is routinely circulated to all financial institutions by the RBI, as are other terrorist watch lists adopted by the UN. Prior to the terrorist attacks in Mumbai during late November 2008, India lacked both an adequate legal authority and enforcement mechanism for freezing the funds of terrorist entities. In response to the attacks, India's parliament in December 2008 enacted an amendment to the UAPA containing provisions to address these deficiencies, including an explicit authority to freeze the funds of terrorist entities designated under UNSCR 1373. However, it is too soon to assess the implementation of this amendment and the impact it will have on India's ability to combat terrorism finance.

The GOI is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. It is a signatory to, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. India has signed and ratified a number of mutual legal assistance treaties with many countries, including the United States.

The Government of India should pass the PMLA amendments in Parliament in order to strengthen its AML/CTF regime and to work towards full membership in the FATF. Further steps in tax reform will also assist in negating the popularity of hawala and in reducing money laundering, fraud, and financial crimes. India should become a party to the UN Conventions against Transnational Organized Crime and Corruption. Also, India should pass the Foreign Contribution Regulation Bill for regulating nongovernmental 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 gaps in financial system regulation, a cash-based economy, a lack of effective law enforcement, and the increasingly sophisticated tactics of major indigenous terrorist groups, such as Jemaah Islamiya, and their financiers from abroad. 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 goods, illegal logging, and

corruption. Indonesia also has a long history of smuggling, a practice facilitated by thousands of miles of un-patrolled coastline, weak law enforcement and poor customs infrastructure. The proceeds of illicit activities are easily moved offshore and repatriated as required for commercial and personal needs. Indonesia is emerging from a period marked by weak rule of law and extreme levels of corruption. Corruption remains a very significant issue for all aspects of Indonesian society and a challenge for anti-money laundering and counter terrorism finance (AML/CTF) implementation.

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 (AML) 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 address the Financial Action Task Force's (FATF's) concerns about the money laundering situation in the country. 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 a suspicious transactions report (STR) to three days or less after the discovery of an indication of a suspicious transaction.

However, the amendment contains a number of significant deficiencies. The direct and indirect provision of funds to a terrorist organization is not comprehensively covered and there is no clear legal obligation to report STRs related to terrorist financing. In addition, since passage, the ML offence has not yet been used to pursue the proceeds of a wide range of predicate offences. This ineffective implementation is in part due to the narrow scope of the ML offence, as well as the Indonesian government's continuing use of alternative indictments and enforcement capacity issues. 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 (RP) (approximately \$85,340).

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 Government of Indonesia (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 and has not yet passed. The amendment 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.

On April 17, 2007, Indonesia adopted a National Strategy 2007-2011 for the prevention and eradication of money laundering. The GOI held two National Coordination Committee meetings in December 2007 and May 2008 to coordinate implementation of the national strategy.

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 reports directly to the President. The core FIU functions outlined in Article 26 of their anti-money laundering law states that PPATK shall receive, analyze, evaluate and disseminate currency and suspicious financial transaction reports to law enforcement agencies, provide advice and assistance to relevant authorities, and issue publications. In addition, PPATK prepares and offers recommendations to provide direction for national policy in the area of prevention and eradication of money laundering and other serious crimes.

As of December 31, 2008, the PPATK had received a total of 23,056 STRs from banks and nonbank financial institutions. Approximately 11,000 of these STRs were received during 2008. The agency also reported that it had received over 6.3 million cash transaction reports (CTRs) from banks, moneychangers, rural banks, insurance companies, and securities companies. PPATK has submitted a total of 612 cases to various law enforcement agencies based on their analysis of 1,215 STRs.

A number of deficiencies in Indonesia's AML law have resulted in weak customer due diligence (CDD) standards for Indonesian financial institutions. These institutions have no explicit requirement to perform diligence when money laundering or terrorism finance is suspected and there is also no clear provision in the law to prohibit the continuing operation of anonymous accounts. Requirements for confirming whether a person acting on behalf of a legal person is so authorized are also not set out in current laws or regulations.

The 2008 Asia Pacific Group (APG) mutual evaluation of Indonesia notes that since 2004, there have been 176 money laundering investigations, investigations, 19 prosecutions and 11 convictions. Most of the prosecuted money laundering cases have been limited to the proceeds of corruption or fraud. There are few investigations and prosecutions of money laundering cases in parallel with predicate offences. Sentences included imprisonment of up to six to eight years and fines up to IDR 500 million (approximately \$42,600).

The Indonesian National Police (POLRI) is the competent authority for investigating money laundering and terrorist finance offenses, while POLRI, the Corruption Eradication Commission (KPK), Customs and various other agencies are responsible for predicate offences. The POLRI, as a matter of priority, has trained a significant number of its officers for AML/CTV. However, given the size of the country and the money laundering and terror finance threat level, POLRI lacks capacity to proactively initiate investigations. Although the POLRI has successfully arrested over 400 terrorists in recent years, the agency has not investigated terrorist financing related to those cases.

The Transnational Crime Coordination Center reports that the POLRI conducted 133 inquiries in 2008 (through September) of financial crimes that have money laundering as an element. PPATK reports there has been one case that has resulted in successful prosecution in 2008. The case, brought in central Jakarta court in January 2008, involved money laundering and banking fraud and included three defendants. The defendants collected funds from customers without a license and were suspected of laundering the fraudulent proceeds. They received sentences ranging from 8-12 years imprisonment and individual fines of Rp 10 billion (approximately \$852,700).

The PPATK actively pursues broader cooperation with relevant GOI agencies. The PPATK has signed a total of 22 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—Financial Institutions (BAPEPAM-LK), 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 Commission, 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, the Province of Aceh, the Commodity Futures Trading Supervisory Agency, Elections Supervisory Body, Banking University Perbanas Surabaya, University of Surabaya, and Gajah Mada University .

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. Financial institutions and their employees are provided with necessary "safe harbor" provisions for reporting STRs.

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. Bank Indonesia Regulation No. 5/23/PBI/2003 extended their KYC principles to rural 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. Similar regulations for nonbank financial institutions have also been implemented. The decree of the head of the Capital Market and Financial Institutions Supervisory Agency No. KEP-313/BL/2007, dated August 28, 2007, amended Regulation No. V.D.10 to strengthen KYC principles.

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 Rp (approximately \$9,370) 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 than 100 million Rp in cash (approximately \$8,524) 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 end-October 2008, the PPATK has received more than 2,764 cross border of cash reports from Customs. The reports were derived from airports in Jakarta and

Denpasar, the seaports of Batam and Tanjung Balai Karimun, Bandung, Batam, Denpasar, Medan and Dumai. Despite these reports, detection and investigative capacity remain weak. As of July 2007, 20 investigations were initiated from cross-border reports. 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. Banking legislation pending with the Indonesian House of Representatives would allow BI to take freezing action on its own authority. BI officials expect this legislation to be approved in 2009. 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. Indonesia has a draft asset forfeiture bill, which, if enacted, would give a wide range of powers to investigating officials to identify and trace property.

The PPATK significantly supports the KPK with financial intelligence information. In December 2004 the newly elected President of Indonesia signed a Presidential Instruction to all agencies to intensify efforts in combating corruption in line with their respective functions and roles. The instruction also dictates the establishment of a national Plan of Action combating corruption for the years 2004 through to 2009. The Plan contains three components; namely preventive measures, repressive measures, and monitoring and evaluation, and is seen by the Indonesian authorities as a sustainable and transparent approach to combating corruption in an integrated and coordinated fashion. Indonesia is ranked 126 of 180 countries in Transparency International's 2008 Corruption Perception Index.

Comprehensive figures for assets frozen, seized and/or forfeited are not compiled in a central location. The Corruption Eradication Commission reports that it seized, froze or confiscated assets in corruption-related cases in the amount of 404 billion Rp (approximately \$34.5 million) in 2008, through October 31. This compares to assets of 45 billion Rp (approximately \$3.8 million) in 2007 and 12.7 billion (approximately \$1.1 million) Rp in 2006.

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). Members have been chosen in 2008 for a new Witness and Victim Protection Body, established by this law. Indonesia's AML Law and Government Implementing Regulation No. 57/2003 also provide protection to whistleblowers and witnesses. An additional implementing regulation, No. 44/2008, issued May 2008, addressed provision of compensation, restitution and assistance to witnesses and victims. Despite this progress, the lack of an independent budget or dedicated facilities has hampered the newly established body from fulfilling its mandate.

The October 18, 2002 emergency counterterrorism regulation, the Government Regulation in Lieu of Law of the Republic of Indonesia (Perpu), No. 1 of 2002 on Eradication of Terrorism, criminalizes terrorism and provides the legal basis for the GOI to act against terrorists, including the tracking and freezing of assets. The Perpu provides a minimum of three years and a maximum of 15 years imprisonment for anyone who is convicted of intentionally providing or collecting funds that are knowingly used in part or in whole for acts of terrorism. 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 PPATK issued Decision No. Kep. 13/1.02.2/PPATK/02/08, dated February 4, 2008, regarding Guidelines on Identification of Suspicious Financial Transactions related to Terrorism Financing for Financial Service Providers. Indonesia's commitment to overcoming terrorism is evidenced by its success in apprehending terrorists, with 423 arrests and 367 convictions of terrorists in recent years.

There is very weak transparency and governance in the Non Profit Organization (NPO) sector and few measures in place to prevent and detect the abuse of NPOs possibly involved in terror finance. According to the Asia Pacific Group 2008 mutual evaluation, "There is no effective regulation, oversight or supervision of NPOs in Indonesia, either by government agencies or by self regulatory bodies within the NPO sector. Efforts to implement some regulatory controls over the sector have been ineffective. Although the PPATK has reached out to the NPO sector to raise awareness of terror finance risks, NPO regulators have not taken up issues of transparency, good governance and compliance with laws and regulations." Indonesia also has yet to complete a review of its domestic NPO sector, as requested by the APG.

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. This is an urgently needed development, as large scale unregulated informal remittance channels continue to operate without adequate registration, oversight, and investigations. BI issued circular letter 8/32/DASB on December 20, 2006, requiring registration of nonbank money remitters since January 1, 2007. BI intends to issue another circular in 2008 that will replace this registration system with a licensing system, effective January 1, 2009. Currently 13 nonbank money remitters have registered with BI, and several others have pending registration applications. 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 PPATK issued Decision no. KEP-47/1.02/PPATK/06/2008, dated June 2, 2008, regarding Guidelines on the Identification of High Risk Products, Customers, Business and Countries for Financial Service Providers. The GOI has initiated a dialogue with charities and nonprofit entities to enhance regulation and oversight of those sectors.

BI also issued the following provisions concerning money changers to improve implementation of Recommendation 5 on Customer Due Diligence and Record Keeping: BI Regulation No. 9/11/PBI/2007, dated September 5, 2007; BI Circular Letter No. 9/23/DPM, dated October 8, 2007, concerning the permit procedure, implementation of KYC principles, supervision, reporting and imposition of sanctions for nonbank money changers; BI Circular Letter No. 9/36/DPND, dated December 19, 2007, concerning the permit and reporting procedures for banks which perform business activity as money changers; and BI Circular Letter No. 9/38/DPBPR, dated December 28, 2007, concerning the permit and reporting procedure for rural banks and sharia rural banks which perform business activity as money changers. PPATK and BI carried out an authorized money changer awareness campaign during the second half of 2007 and the first half of 2008, in collaboration with the Millennium Challenge Corporation Threshold Program and USAID.

BI has effective legal powers and policies in place to ensure that shell banks are not permitted, although there is no explicit legislative prohibition on establishing a shell bank in Indonesia. The bank licensing procedures followed by BI effectively precludes establishment of a shell bank and BI Regulation 3/10/PBI/2003 as amended by 5/21/PBI/2002 provides that banks in Indonesia are required to refuse to open an account and/or conduct transactions with any prospective customer incorporated as a shell bank.

Bearer shares appear to remain a feature of the Indonesian financial system, as the law previously permitted both bearer and registered shares. The new Limited Liability Company Law (Law 40/2007), August 16, 2007, prohibits bearer shares. This provision, in conjunction with the new Investment Law, prevents parties from making nominee arrangements. Complete implementing regulations have not yet been issued for the new law and the process for removing bearer shares from the system is not clear. Previously issued bearer shares appear to remain valid.

The GOI has established special economic zones to attract both foreign and domestic investment. In 2007, the House of Representatives approved establishment of free trade zones (FTZs) in the Batam, Bintan and Karimun islands. The GOI established a Batam- Bintan- Karimun Free Trade Zone Council and has made preparations for the implementation of free trade zone regulations. Batam Island, located just south of Singapore, has long been a bonded zone in which investment incentives have been offered to foreign and domestic companies. In 2007, 973 domestic companies, foreign companies and joint ventures had invested more than \$1 billion in the zone. Numerous Indonesian authorities perform supervision over firms located in the special economic zones (the Investment Coordinating Board, the Ministry of Laws and Human Rights, the Ministry of Manpower, the Ministry of Finance). Supervision includes confirming identities of investors. In Batam, other authorities exercising supervision include the Batam Industrial Development Authority and the Municipality of Batam. The GOI is currently in the process of drafting regulations providing wider authority for Customs & Excise officials to regulate the flow of goods through the new Batam FTZ, given the FTZ's vulnerability to smuggling.

Indonesia is an active member of the Asia/Pacific Group on Money Laundering (APG), and in 2008 served as the co-chair. The APG conducted its second mutual evaluation of Indonesia in November 2007 and the report was 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 27 MOUs, 25 of which were 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 Indonesia 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. Indonesia is a party to the UN 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.

The Government of Indonesia has made progress in constructing an AML regime. However, despite the continuing threat of terrorism in the country and numerous arrests related to terrorism, efforts to combat terrorist financing have been weak and should be strengthened. Sustained public awareness campaigns, new bank and financial institution disclosure requirements, and the PPATK's support for Indonesia's first credible anticorruption drive has led to increased public awareness of financial crimes. Increased prosecution of high-profile corruption cases in 2008 was an important advance in the GOI's efforts to eradicate pervasive corruption. Further investment in human and technical capacity and greater interagency cooperation are needed to develop a truly effective anti-money laundering regime. Authorities should ensure that the PPATK is able to have access, directly or indirectly, to required financial, administrative and law enforcement information on a timely basis. Indonesian police and customs authorities should be encouraged to initiate money laundering investigations at the "street level" and not be dependent on financial intelligence filed with the PPATK. Law enforcement agencies should systematically investigate money laundering in parallel with their investigations of predicate offenses. The highest levels of GOI leadership should continue to demonstrate strong support for strengthening Indonesia's anti-money laundering regime. For example, Indonesia has not established comprehensive controls or oversight over the provision of wire transfers. This is a significant shortcoming in preventative measures for the financial system. Indonesia's cross-border currency declarations should also cover bearer negotiable instruments. Considerably more enforcement is needed to protect Indonesia's extraordinarily long and porous borders. Indonesia should establish clear legal mechanisms and administrative or judicial processes to trace and freeze assets of entities included on the UNSCR 1267 Consolidated List and to implement its obligations under UNSCR 1373. 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, but does have a large free trade zone on Kish Island. Iran's economy is marked by a bloated and inefficient state sector and over-reliance on the petroleum industry. Large oil and gas reserves provide 85 percent of government revenue, and state-centered policies have caused major distortions in the economy. A combination of price controls and subsidies continue to weigh down the economy, and, along with widespread corruption, have undermined the potential for private sector-led growth. High oil prices in recent years have enabled Iran to amass nearly \$70 billion in foreign exchange reserves, but the economy only experienced moderate growth during this period and is vulnerable to a sustained drop in the value of oil.

After the Iranian Revolution of 1979, the Government of Iran (GOI) nationalized the country's banks. Today, Iran's state-owned banks include Bank Refah, Bank Melli Iran, Bank Saderat, Bank Tejarat, Bank Mellat, Bank Sepah, Bank Kargoshaee, Export Development Bank of Iran, and Post Bank of Iran, as well as three specialized institutions, Bank Keshavrzi, Bank Maskan and Bank of Industry and Mines. Iran has established an international banking network, with many large state-owned banks establishing foreign branches in Europe, the Middle East, and Asia. 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.

In 1984, the Department of State designated Iran as a state sponsor of international terrorism. Iran continues to provide resources and guidance to multiple terrorist organizations and has worked to thwart stability in Iraq. Hamas, Hizballah, and the Palestinian Islamic Jihad (PIJ) maintain representative offices in Tehran in part to help coordinate Iranian financing and training.

On October 11, 2007, the FATF released a statement of concern that "Iran's lack of a comprehensive anti-money laundering/counterterrorist finance regime represents a significant vulnerability within the international financial system." The FATF has subsequently issued three additional statements, the most recent of which was released on October 16, 2008. The statement expressed concerns that Iran's failure to "to address the risk of terrorist financing continues to pose a serious threat to the integrity of the international financial system" and urged all jurisdictions to "strengthen preventive measures to protect their financial sectors."

In a number of cases, Iran has used its state-owned banks to channel funds to terrorist organizations. For example, between 2001 and 2006, Bank Saderat transferred \$50 million from the Central Bank of Iran through Bank Saderat's subsidiary in London to its branch in Beirut for the benefit of Hizballah fronts that support acts of violence. Hizballah also used Bank Saderat to send funds to other terrorist organizations, including Hamas, which itself had substantial assets deposited in Bank Saderat as of early 2005.

Elements of Iran's Islamic Revolutionary Guard Corps (IRGC) have been directly involved in the planning and support of terrorist acts throughout the world, including in the Middle East, Europe and Central Asia, and Latin America. The IRGC-Qods Force, which has been designated by the U.S. Department of the Treasury under Executive Order 13224 for providing material support to the Taliban and other terrorist groups, is the Iranian regime's primary mechanism for cultivating and supporting terrorist and militant groups abroad. Qods Force-supported groups include: Lebanese Hizballah; Palestinian terrorists; certain Iraqi Shi'a militant groups; and Islamic militants in Afghanistan and elsewhere. The Qods Force is especially active in the Levant, providing Lebanese Hizballah with funding, weapons and training. It has a long history of supporting Hizballah's military, paramilitary and terrorist activities, and provides Hizballah with more than \$100 to \$200 million in funding each year. The Qods Force continues to provide the Taliban in Afghanistan with limited weapons, funding, logistics and training in support of anti-U.S. and anti-coalition activities.

Iran's defiance of the international community over its nuclear program and the role of Iranian banks in facilitating proliferation activity have also led to a number of international multilateral actions on Iran's financial sector. Since July 2006, the United Nations Security Council (UNSC) has passed five related resolutions, three of which call for financial restrictions on Iran.

Numerous countries around the world have restricted their financial and business dealings with Iran in response to both the UNSC measures on Iran's nuclear development and proliferation activities, as well as the FATF statements on Iran's lack of adequate AML/CTF controls. Many of the world's leading financial institutions have essentially stopped dealing with Iranian banks, in any currency, and Iranian companies and businesses are facing increased difficulty in obtaining letters of credit.

In addition, some jurisdictions, including the United States, the European Union (EU), and Australia have adopted preventive measures beyond the UNSCRs and FATF statements towards safeguarding against illicit finance threats from Iran. The U.S. Department of the Treasury has designated four Iranian banks (Banks Sepah, Melli, Mellat, and the Export Development Bank of Iran) under Executive Order (E.O.) 13382 for supporting proliferation. An additional bank, Iran's Bank Saderat, was designated by Treasury under E.O. 13224 for providing financial services to the terrorist groups Hizballah, Hamas, and PIJ. Treasury's Financial Crimes Enforcement Network (FinCEN) in both October 2007 and March 2008 issued advisories on the risk to the international financial system posed by Iranian financial institutions, as warned by the FATF. Most recently, in November 2008, Treasury revoked the license authorizing "U-turn" transfers involving Iran, thus terminating Iran's ability to access the U.S. financial system indirectly via non-Iranian foreign banks.

The EU in June 2008 imposed sanctions on Bank Melli (Iran's largest bank) that froze its Europe-based assets and prevented it from doing business in EU states. The EU also imposed a heightened financial monitoring requirement on all transactions involving Bank Saderat. On October 15, 2008, Australia announced sanctions on Banks Melli and Saderat that similarly prevented both banks from doing business with Australian entities.

It has been a standard practice for Iranian financial institutions to conceal their identity to evade detection when conducting transactions. For example, Bank Sepah has requested that its name be removed from transactions in order to make it more difficult for intermediary financial institutions to determine the true parties to a transaction. In addition, when Iranian assets were targeted in Europe, branches of Iranian state-owned banks in Europe took steps to disguise ownership of assets on their books in order to protect assets from future actions. The Central Bank of Iran (CBI), the sole Iranian entity that regulates all Iranian banks, has not only engaged in deceptive practices itself—such as asking for its name to be removed from transactions—but has also encouraged such practices among Iran's state-owned banks. Further, between January and March 2008, the Central Bank of Iran handled tens of millions of dollars in transactions to and from the accounts of U.S. and UN-designated banks held at the CBI.

Illicit finance threats stemming from Iran are not limited to Iran's use of the international financial system, but are also prevalent inside the jurisdiction, itself. Iran has a large underground economy, spurred by restrictive taxation, widespread smuggling, currency exchange controls, capital flight, and a large Iranian expatriate community. The World Bank reports that about 19 percent of Iran's GDP pertains to unofficial economic activities. Reportedly, a prominent Iranian banking official estimates that money laundering encompasses an estimated 20 percent of Iran's economy. Other reports have found that approximately \$12 billion is laundered annually via smuggling commodities in Iran and another \$6 billion laundered by international criminal networks.

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 Iran's import-export market as well as 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 entrepreneurship, as the bonyads enjoy favored status, including exemption from taxes, the granting of favorable exchange rates, and lack of accounting oversight by the Iranian government.

On October 25, 2007, the United States designated Iran's Revolutionary Guards Corps (IRGC—the armed guardian of Iran's theocracy) as a proliferator of weapons of mass destruction, and the elite

Qods Force 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 141 out of 180 countries listed in Transparency International's 2008 Corruption Perception Index. Despite some limited attempts at reforming bonyads and other entities, there has been little transparency or substantive progress.

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. This 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 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. Reportedly, Iranian investments in Dubai may be in excess of U.S. \$350 billion.

A new Iranian money laundering law was approved by the Islamic Parliament on January 22, 2008 and the Guardian Council on February 6, 2008. The law creates a High Council on Anti-Money Laundering chaired by the Minister of Economic Affairs and Finance. Membership in the High Council includes the Ministers of Commerce, Intelligence, Interior, and the Governor of the Central Bank of Iran. The High Council would serve to coordinate and collect information and evidence concerning money laundering offenses, but an operational Financial Intelligence Unit (FIU)—High Council or otherwise—has yet to be established. Nonetheless, the new anti-money laundering law falls significantly short of meeting international standards, particularly with respect to the lack of a corresponding effort to address the risk of terrorism finance emanating from Iran.

According to reports, any individual or business engaging in transfers or transactions of foreign currency into or out of Iran must abide by Central Bank of Iran regulations, including registration and licensing. The regulations and circulars address money transfer businesses, including hawaladars; however, Iran's merchant community makes active use of hawala and moneylenders. Counter valuation in hawala transactions is often accomplished via trade, thus trade-based money laundering is likely a prevalent form of money laundering. Many hawaladars and traditional bazaari are linked directly to the regional hawala hub in Dubai. Over 400,000 Iranians reside in Dubai, with approximately 7,500 Iranian-owned companies based there.

Iran 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. Iran is not a signatory to the UN Convention for the Suppression of the Financing of Terrorism.

The Government of Iran has engaged with the FATF and should vigorously pursue the implementation of a viable anti-money laundering and terrorist finance regime, including effective legislation and proper regulations that adhere to international standards and seeks to address the risk of terrorism

finance emanating from Iran. Above all, the GOI should cease its financial and material support of terrorist organizations and terrorism, as well as its abuse of the international financial system to facilitate proliferation. 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 anticorruption law with strict penalties and enforcement, applying it equally to figures with close ties to the government, ruling class, business leaders, and the clerical communities. Iran should become a party to the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN Convention for the Suppression of the Financing of Terrorism.

Iraq

Iraq's economy is primarily cash-based, and there is little data available on the extent of money laundering in the country. Smuggling is endemic, involving consumer goods, cigarettes, and petroleum products. Bulk cash smuggling, counterfeit currency, trafficking in persons, and intellectual property rights violations are also major problems. There is a large market in Iraq for stolen automobiles from Europe and the United States. Ransoms from kidnappings and extortion cost Iraqi citizens millions of dollars each year, and the funds are often used to finance terrorist networks. Trade-based money laundering, customs fraud, and value transfer are found in the underground economy. Hawala networks, both licensed and unlicensed, are widely used for legitimate and illegitimate purposes. There is little regulation and supervision of the formal and informal financial sectors, resulting in weak internal private sector controls. Under its Stand-by Arrangement with the International Monetary Fund, the Central Bank of Iraq (CBI) has completed half of the necessary prudential regulations and is to finalize the remainder, including anti-money laundering regulations.

Oil production is the main source of revenue for the Iraqi government, but theft and diversion of oil products to the black market are pervasive. In 2006, the World Bank and the Iraqi Ministry of Oil's Office of Inspector General estimated that the Iraqi government loses tens of millions of dollars each year to the smuggling or diversion of refined oil products. In 2006 the State Department estimated that up to 10 percent of the refined petroleum products produced in Iraq are diverted to the black market or smuggled out of Iraq and sold for a profit. At one point in 2007 the diversion of refined petroleum products produced at the Baiji Oil Refinery was so prevalent that the Pentagon estimated that up to 70 percent of the fuel processed there was lost to the black market. It's believed that the funds generated by this criminal activity, possibly as much as \$2 billion a year, went toward payments to corrupt officials, funding insurgent activities, and other criminal activities. Consequently, the Iraqi Army, supported by Coalition Forces, began "Operation Honest Hands" on February 12, 2007, and assumed control of security at the Baiji oil refinery complex. Within a few months of the start of the operation, the number of daily tanker loads recorded as shipped by the refinery increased from 20 to 200 per day. Nonetheless, the Baiji Oil Refinery remains a significant money laundering and terrorist financing threat.

Fraudulent investment schemes are also on the rise in Iraq. For example, in 2008 there was an investment scam in the Basra area that netted the perpetrator tens of millions of dollars in a "Ponzi" scheme involving a fake investment company promising investors huge returns of between 200 to 300 percent every six months. When the scheme collapsed, the owner of the investment company fled Iraq with the remaining money.

Corruption is pervasive and impacts all facets of Iraqi society, government, and institutions. The high level of corruption in Iraq poses threats to the developing Iraqi financial system as it facilitates money laundering and the financing of terrorism. Transparency International's 2008 International Corruption Perception index ranked Iraq as 178 out of 180 countries surveyed, demonstrating no change from the previous year. However, Iraq is taking demonstrable steps to combat corruption, including acceding to the UN Convention Against Corruption, ratifying the Extractive Industries Transparency Initiative,

and removing corrupt or incompetent Inspectors General from their positions. Iraq does not have a Mutual Legal Assistance Treaty with the United States and U.S. law enforcement agencies indicate that cooperation with Iraqi counterparts had been somewhat sporadic but is increasing.

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.

CPA Order No. 93, the “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 regarding financial transactions. The law also criminalizes money laundering, financing crime (including the financing of terrorism), and structuring cash 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 also required to verify the identity of non-account holders performing a transaction or series of transactions whose value is equal to or greater than five million Iraqi dinars (approximately \$4,250). Beneficial owners must be identified upon account opening and for transactions exceeding ten million Iraqi dinars (approximately \$8,500). Records must be maintained by financial institutions for a period of 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. Reports of suspicious transactions are to be completed for any transaction over four million Iraqi dinars (approximately \$3,400) that are 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 or which has no apparent business or other lawful purpose. The “tipping off” of customers by bank employees where a transaction has generated a report of suspicious transaction is prohibited. Bank employees are protected from liability for cooperating with the government. Willful violations of the reporting requirement may result in fines or imprisonment.

CPA Order No. 94, the “Banking Law of 2004,” gives the CBI the authority 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, Sulaymaniyah, Mosul, and Basra.

The CBI headquarters in Baghdad also houses Iraq’s financial intelligence unit, the Money Laundering Reporting Office (MLRO). The MLRO is responsible for the collection and analysis of suspicious transactions and forwards the results of their analysis to law enforcement authorities. The MLRO’s primary Iraqi law enforcement contact is with the Ministry of Interior’s Financial Crimes Unit. The CBI branches are responsible for the licensing and examining of public and private banks, and the licensing of money exchangers and money transmitters. The CBI is required to conduct examinations of public banks every six months and private banks every three months. Order No. 94 gives the CBI administrative enforcement authority including the removal of institution management and revocation of bank licenses. While the banks ostensibly provide traditional banking services such as lending to

the community, in practice they collect funds and send the excess reserves to the CBI in Baghdad where they receive, as of late 2008, a 15 percent return on the deposits. There is no time limit for funds to be held in the CBI for accrual of interest. Outside of this relationship, there is poor communication between the CBI and Iraq's public and private banks, particularly with respect to money laundering, terrorist financing, and other potential risks. The formal financial sector continues to develop. Approximately 33 private banks and seven state-owned banks are operating in Iraq. The state-owned banks still control a majority of the banking sector.

The CBI is still experiencing challenges with communications between its various offices. Efforts are underway to modernize the banking technology utilized by the CBI, but the effort has borne little fruit to date. In particular there is a lack of an adequate electronic payment and wire transfer systems. Electronic payment systems are being introduced in Iraq, including payment of pensions by a "Smart Card" (embedded microchip) and electronic transfers by private banks, but these programs are at an early stage. There is little institutional knowledge in the CBI regarding implementing Iraq's anti-money laundering/countering the financing of terrorism (AML/CTF) legislation and combating systemic money laundering and terrorist finance threats. In addition, the economy is still largely cash-based. The CBI faces lingering societal distrust of banks by the Iraqi people based on their experiences during the Saddam Hussein regime.

Bulk cash smuggling is a significant problem in Iraq. The CBI is considering issuance of regulations to require currency transaction reports be filed for the cross-border transfer of currency in amounts exceeding 15 million Iraqi dinars (approximately \$12,750). Neither Iraqis nor foreigners are permitted to carry more than \$10,000 in U.S. currency when exiting Iraq. Overseas currency speculation regarding the new Iraqi dinar is widespread often involving fraudulent schemes. It is illegal under Iraqi law to export dinars. Another vulnerability to Iraq's AML/CTF regime is that money exchangers and money transmitters, including hawaladars, are largely unregulated. Because of the efficiency and easy access of the money exchange business and money transmitters, most people in Iraq use these businesses to conduct international business. Some conventional banks can take weeks or months to conduct simple funds transfers while similar international transactions can be done rapidly and efficiently through the informal money exchange and transfer services. Although money exchangers and transmitters are required to be licensed by the CBI, the level of supervision and enforcement is minimal. Money exchangers are not subject to the same level of supervision as banks nor are they required to report suspicious transactions to the CBI. The level of training on AML/CTF given by the CBI to managers and operators of money exchanges and money transmitter businesses is inadequate. The MLRO, in its present form, is unable to provide adequate training and guidance on AML/CTF issues to the banking institutions it oversees, let alone the money transmitter or money exchange businesses in Iraq. Because the MLRO is part of the CBI, it also suffers from the same shortcomings as the CBI regarding communication with the CBI branches outside of Baghdad and the private banks. Furthermore, the MLRO has no criminal investigative authority.

The MLRO, which was formed in mid-2006, is weak and requires significant funding, support and training in order to adequately monitor the formal and informal financial systems in Iraq. The MLRO is understaffed with only 29 personnel, who have rudimentary accounting capabilities and computer skills. Additionally, the MLRO's computer equipment is outdated and access to the internet and the appropriate software is inadequate. The MLRO receives little support from the Iraqi law enforcement agencies. Although, the MLRO is empowered to exchange information with other Iraqi and foreign government agencies, those contacts are limited. All financial institutions in Iraq are required to report suspicious financial transactions, including potential money laundering and terrorist financing, but only a few reports have been submitted since the MLRO's establishment.

The predicate offenses for the crime of money laundering 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 dinars (approximately \$34,000) 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 dinars (approximately \$17,500) or two years imprisonment or both and structuring transactions to avoid reporting requirements of up to 10 million dinars (approximately \$8,500) or one year imprisonment or both. No arrests or prosecutions for crimes covered under the AMLA have been reported.

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 property traceable to the property, or any property gained as a result of such an offense, without prejudging the rights of bona fide third parties. The courts can order confiscation of property, but 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 ongoing and if the defendant is acquitted, the government returns the money it acquired from the sale of the goods to the defendant. While the case is ongoing, 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 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 hinders the government's ability to identify and freeze assets linked to illicit activities.

Iraq has four free trade zones: the Basra/Khor al-Zubair seaport; Ninewa/Falafel area; Sulaymaniyah; and al-Qaim, located in western Al Anbar province. Under the Free Trade Zone (FZ) Authority Law, goods imported or exported from the FZ are generally exempt from all taxes and duties, unless the goods are to be imported for use in 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 the foundation and construction phases. Value transfer via trade goods is a significant problem in Iraq and the surrounding region

The CBI distributes the UN 1267 Sanction Committee's consolidated list of suspected terrorist organizations to the various banks under its supervision as mandated by the AMLA. However, no asset seizures or any other information pertaining to the names on this list has been reported. Currently there is no legislation in Iraq that allows the GOI to freeze and confiscate terrorist assets without delay under civil proceedings. This represents a significant shortfall in the GOI's AML/CTF regime and in the international standards set by the Financial Action Task Force (FATF)

Iraq became a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) in September 2005. However, neither representatives from the MLRO nor the CBI have attended a MENAFATF plenary meeting or its training workshops since 2007. Iraq also has not yet undergone a mutual evaluation of its compliance with the FATF standards. Iraq is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. It is not a party to the UN Convention for the Suppression of the Financing of Terrorism.

The Government of Iraq has the foundation needed to support the fight against terrorist financing and money laundering, but needs to implement existing legislation, bolster the relevant agencies in Iraq's AML/CTF regime, and issue or establish the proper regulations and legislation related to combating systemic money laundering and terrorist financing threats in Iraq. The CBI should be particularly cautious about granting licenses to banks from jurisdictions of concern; the MLRO needs proper training, equipment, and direction; the Iraqi financial sector needs to adopt and use AML/CTF

standards and best practices; the GOI should pass legislation that allows Iraq to freeze and confiscate terrorist assets; Iraq needs to participate fully in the MENAFATF by attending its plenary meetings, taking advantage of its training opportunities and implementing the FATF's international standards; Iraqi law enforcement and the judiciary need to enhance their ability to soundly interpret, apply, and enforce the legal principles of the AMLA and therefore better conduct investigations; Iraqi law enforcement, border authorities, and customs service should continue to strengthen border enforcement and identify and pursue smuggling, trade-based money laundering, and terrorist financing networks; and, the GOI should make a concerted effort to combat the corruption that hinders development and impedes an effective anti-money laundering and counterterrorist financing regime. Iraq should become a party to the UN Convention for the Suppression of the Financing of Terrorism.

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. Ireland estimates that up to 80 percent of suspicious reports filed may involve tax violations.

The Government of Ireland (GOI) established the Shannon Free Zone 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 criminals use the Shannon Free Zone 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 2008, 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, to Ireland's financial intelligence unit (FIU), and to the Revenue (Tax) Department, as required by law. Reporting entities must submit the STR before the suspicious transaction is finalized. There are no 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. A conviction on charges of money laundering carries a maximum penalty of 14 years in prison and an unlimited fine. 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 (\$17,000). These requirements do not extend to existing customers prior to May 1995 except in cases where authorities suspect that money laundering or another financial crime is involved.

The Corporate Law 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 2007, the ODCE secured the conviction of 28 company directors and other individuals for breaching various requirements of the Company Act. An additional 14 company officers were disqualified from eligibility for a lead position in companies for periods ranging from one to 12 years.

Since June 15, 2007, Ireland has required travelers transporting more than 10,000 euros (\$13,000) 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 has access to these reports as well. The ability to travel between Ireland and the U.K. without a passport poses a unique challenge for Irish law enforcement officials

As of November 2008, the European Commission had referred Ireland to the European Court of Justice for non-implementation of the Third EU Money Laundering Directive. The Government of Ireland (GOI) is likely to implement new legislation to address current shortcomings in customer due diligence, the identification of beneficial owners, politically exposed persons, and the designation of trusts. The Financial Action Task Force (FATF) conducted a mutual evaluation of Ireland in 2005. The mutual evaluation report (MER), published in 2006, acknowledged that although Ireland achieved a high standing in AML legal structures and international cooperation, 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 technically complied with the FATF Recommendations, it had limited technical and human resources to manage and evaluate STRs effectively. In 2007, the FIU received 11,145 STRs. Authorities convicted five people of money laundering and charged 11 others. Information regarding the number of STRs received in 2008 is not yet available. The lengthiest penalty applied for a money laundering conviction to date has been six years.

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 (\$17,000) 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. In 2007, the authorities executed 16 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 2007, CAB obtained interim and disposal orders on assets valued at approximately 10.7 million euros (\$14 million). The CAB has the authority to cooperate with agencies in other jurisdictions, strengthening 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. 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 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 2008, 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 \$6,400.

A mutual legal assistance treaty (MLAT) between Ireland and the U.S. was signed in 2001. The United States and Ireland have also signed instruments to supplement and update that treaty as part of a sequence of bilateral agreements that the United States is concluding with all EU Member States. As of November 2008, the GOI had enacted legislation to bring the U.S.-EU MLAT and the U.S.-Ireland MLAT into force. Routine authorizations enabling notes to be exchanged still need to be executed; upon completion, the MLATs will enter fully into force.

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 Government of Ireland should enact legislation to prohibit the establishment of "shell" companies and give law enforcement a stronger role in identifying the true beneficial owners of shell companies as well as of trusts in the course of investigations. Irish authorities should increase the technical and human resources provided to the FIU to manage and evaluate STRs effectively. Ireland 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. Ireland should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Isle of Man

Isle of Man (IOM) is a British crown dependency, and while it has its own parliament, government, and laws, the United Kingdom (UK) remains constitutionally responsible for its defense and international representation. Offshore banking, manufacturing, and tourism are key sectors of the economy. The government offers incentives to high-technology companies and financial institutions to locate on the island. 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 UK. Identity theft and Internet abuse are growing segments of financial crime activity. The U.S. dollar is the most common currency used for criminal activity in the IOM.

As of December 31, 2008, there were 40 Banking, Building Society and Class 1 deposit taking license holders; 81 Investment Business and Class 2 investment business license holders; 61 Managers of Collective Investment Schemes and Class 3 services to collective investment schemes license holders; 204 Corporate Service Provider and Class 4 corporate services license holders; and 131 Trust Service Providers and Class 5 trust services license holders.

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 leads to the creation of the Anti-Money Laundering Code, which came into force in December 1998. The Anti-Money Laundering Code was subsequently replaced by the Criminal Justice (Money Laundering) Code 2007, enacted in September 2007. In December 2008, the Criminal Justice (Money Laundering) Code 2008 (the Code) came into force. The Code revokes and replaces the Anti-Money Laundering Code 2007 and contains anti-money laundering (AML) provisions in line with the Financial Action Task Force's (FATF) Forty-Nine Recommendations.

The Code requires obligated entities to implement anti-money laundering/counterterrorist financing (AML/CTF) policies, procedures, and practices. 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 the filing of a suspicious transaction report (STR); and safe harbor provisions in the law protect reporting individuals when they file an STR. Failure to report suspicions of money laundering for all predicate crimes is a criminal offense. 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 1865. Statutory documents filed by IOM companies can now be searched and purchased online through the FSC's website. In 2008, both the IPA and the FSC introduced revised regulations and guidance notes for their respective areas of supervision.

The FSC has been undertaking a review of the AML/CTF regulations for its license holders as part of the Consolidation and Review of Regulatory Legislation (CAROL) Project. The output of CAROL has been a number of new acts and secondary legislation, which came into force on August 1, 2008. These changes revise the regulatory landscape for all financial services entities and activities regulated by the FSC, essentially all entities and activities other than those relating to insurance and pensions. The new Financial Services Rule Book 2008 details the requirements relating to AML/CTF with further guidance being found in the Anti-Money Laundering and Countering the Financing of Terrorism

Handbook. The main thrust of the Rule Book and Handbook has been to further develop the provisions relating to a risk-based approach to customer due diligence and to politically exposed persons (PEPs) in line with developments elsewhere around the globe.

The Insurance (Anti-Money Laundering) Regulations 2008 and the accompanying Guidance Notes on Anti-Money Laundering and Preventing of Terrorist Financing—for Insurers (Long Term Business) were produced by the IPA in the early part of 2008, and came into effect on September 1, 2008. The Regulations and Guidance Notes are derived from the previous Anti-Money Laundering Standards but also incorporate provisions relating to a more risk-based approach to customer due diligence and to dealing with PEPs.

The Isle of Man Law Society has produced the Guidance Notes 2008, which came into force on August 1, 2008. The Guidance Notes provide guidance to the legal profession on compliance with the Code. Following the implementation of the Code and the adoption of the Guidance Notes 2008, the position of advocates when they undertake relevant business is analogous to that applicable to solicitors in England and Wales.

Money service businesses (MSBs) not already regulated by the FSC or IPA must register with Customs and Excise. In December 2007, the FSC issued a Consultative Paper on the Proposed Regulation of MSBs, including electronic money (e-money) providers. This document assists the Island in meeting the standards set by the FATF Recommendations.

The Online Gambling Regulation Act 2001 and an accompanying AML (Online Gambling) Code 2002 are supplemented by AML guidance notes issued by the Gambling Supervision Commission (GSC), a regulatory body which provides guidance on the prevention of money laundering in the online gaming sector. The GSC was transferred from the Department of Home Affairs to the Treasury in 2007. In January, 2009, the Treasury is planning to introduce the new Gaming Control Bill to the Parliament. The Bill is primarily intended to make the GSC a Statutory Board, placing it on a level similar to the other regulatory bodies of the Treasury. The Bill also expands the constitution, status and authority of the GSC, and amends a number of minor issues that have arisen from application of the existing gaming legislative framework.

The Financial Services Act 2008 received Royal Assent in July 2008 and came into force on August 1, 2008. It was accompanied by consolidated secondary legislation and a new Rule Book. Transitional provisions allow existing license holders to continue carrying out regulated activities under their current licenses until January 1, 2009, at which time new licenses will be issued and the new Rule Book will fully apply. However, the new AML rules contained in the new Rule Book apply to all license holders beginning on August 1, 2008. The Act offers the Government ample flexibility to allow the regulations to be updated and improved in an ever changing economic environment. One of the significant improvements made to the regime provides for a new intermediate power to be granted to the FSC to formally warn a director or controller who is required to be fit and proper, but whose actions are questionable. This power would be appropriate where a formal sanction is warranted; stopping short of a “not fit and proper” direction, for example, where there is insufficient evidence to make such a direction. The Act also extends the FSC’s powers in regard to investigation, inspection and power to require information, to include, in controlled circumstances, requests made by other regulators.

The new Act and Regulations have been the subjects of much consultation between the FSC and license holders, reflecting the Government’s objective to ensure that any new rules are workable and represent a practical balance between regulatory constraints and the freedom required in order to promote business growth.

The Isle of Man’s financial intelligence unit (FIU), the Financial Crime Unit (FCU), was formed in April 2000 under the Department of Home Affairs and evolved from the police Fraud Squad. The FIU

consists of personnel from Police and Customs with support personnel such as analysts and accountants provided by the Government Civil Service. The FCU is the national center for receiving, analyzing and disseminating STRs and other relevant intelligence. Annual statistics on STR information are published in the report of the Chief Constable of the Isle of Man. In 2006, the FIU received 1,651 STRs, down from 2,265 in 2005 and 2,315 in 2004. In 2007, the number continued to decline, to 1,561 STRs, 59 percent of which came from banks and an additional 21 percent from insurance service providers. The FCU has direct access on a real time basis to a wide range of intelligence databases, both nationally and internationally. Typologies and trends are fed back to the industry through lectures and presentations given by the FCU and in joint presentations and seminars with regulators.

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 new Proceeds of Crime Act 2008 came into force on October 1, 2008. The Act allows the recovery of property which is or represents property obtained through unlawful conduct, or which is intended to be used in unlawful conduct. It also provides for confiscation orders in relation to persons who benefit from criminal conduct and for restraint orders to prohibit dealing with property. Among others, the Act contains provisions concerning money laundering and the importation and exportation of cash; plus, provisions to give effect to overseas requests and orders related to property found or believed to be obtained through criminal conduct.

The Prevention of Terrorism Act 1990 makes 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 makes the failure to report suspicious transactions relating to money intended to finance terrorism an offense. All other UN and European Union 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.

All charities operating within the IOM are registered and supervised by the Charities Commission. In May 2008, the Chief Secretary's Office published a consultation paper, "Charities and other Non-Profit Organizations," which was an invitation to comment on options for the registration, regulation and monitoring of such bodies to prevent their possible use in the financing of terrorism. There is no suggestion that nonprofit organizations in the Isle of Man are being used for such purposes. The IOM government reviewed the regulation of this type of organization to ensure the Island's system is not vulnerable to abuse in future by international elements.

In 2008, the International Monetary Fund (IMF) examined the regulation and supervision of the IOM's financial sector. This represented the most comprehensive review of the Island's regulatory and AML/CTF framework to date. The results of the assessment are due to be published in 2009.

The FSC continues to work with the Crown Dependencies Guernsey and Jersey to develop a coordinated strategy on money laundering, and to ensure maximum compliance with the FATF Recommendations.

Although not a member of the FATF, the Island fully endorses the FATF 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 is a member of the Egmont Group.

The IOM cooperates with international AML 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, 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.

As part of its continuing program of developing closer economic and taxation co-operation with other countries, the Isle of Man concluded agreements with the Government of Australia on January 29, 2009. The two agreements are: a tax information exchange agreement based on the Organization for Economic Co-operation and Development (OECD) model; and an agreement addressing the allocation of taxing rights over certain income of individuals and the establishment of a mutual agreement procedure in respect to transfer pricing adjustments. Previously, the IOM signed tax information exchange agreements (TIEAs) with each member of the Nordic Council and the United States, where it has established protocols with the Internal Revenue Service (IRS) to ensure that information exchange requests are handled smoothly.

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 Isle of Man has had AML/CTF legislation in place for well over a decade. The new regulatory regime consolidates and simplifies the old regime and provides a transparent and user-friendly regulatory environment, further promoting the Isle of Man as a leading offshore market. The IOM should act on the 2007 Consultative paper containing the MSB/e-money regulation proposals and implement those most effective. Isle of Man officials should continue to support and educate the local financial sector to help it combat current trends in money laundering and terrorist financing. The IOM should ensure that obliged entities understand and respond to their new and revised responsibilities. The authorities also should continue to work with international AML/CTF authorities to deter financial crime and the financing of terrorism and terrorists.

Israel

Israel has a 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 markets of the United States and Europe, and to a lesser extent with the Far East. There has been no significant change in the Israeli anti-money laundering and combating of terrorism financing (AML/CTF) law for 2008 and the Israeli National Police (INP) reports no indication of an increase in financial crime relative to previous years. A 2008 report by MONEYVAL, a FATF-style regional body, states that the overall threat of money laundering and terrorist financing in Israel is "considerable," with more than \$5 billion in illicit proceeds generated through illegal drugs, gambling, extortion, fraud, and human trafficking. Criminal groups in Israel with ties to the former Soviet Union, United States, and European Union often utilize a maze of offshore shell companies and bearer shares to obscure beneficial owners. Recent studies conducted by the INP Research Department estimate illegal gambling profits at over \$2 billion per year and domestic narcotics profits at \$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 enforcement activity. Black market penetration in Israel remains low

and is comparable in scale to that of western, industrialized nations. While there have been some reports of trade-based money laundering, Israeli enforcement capacity is adequate to keep the problem to minimum levels. With the exception of a few isolated incidents involving the sales of drugs in the United States by Israeli organized crime, Israel's illicit drug trade is domestically focused and has little to no connection with illegal drug sales in the United States. 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 AML 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. 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 Registrar of Companies.

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 methods of reporting to the Customs Authority (an agency 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 \$20,500). 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 \$52,000), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of NIS 101,000 (approximately \$26,000), or five times the amount that was not declared, may be imposed by the Committee for Imposition of Financial Sanctions. In May 2008, Agents from U.S. Immigration and Customs Enforcement (ICE) and officers from U.S. Customs and Border Protection (CBP) conducted joint bulk currency interdiction operations with Israeli law enforcement counterparts in Israel and at U.S. airports as part of the Department of Homeland Security's (DHS) "Hands Across the World" initiative. The coordinated law enforcement effort resulted in an arrest and two seizures in the United States and 14 seizures in Israel. The combined seizures totaled nearly \$500,000 in cash, negotiable checks, gold and diamonds. In 2003, the Government of Israel (GOI) lowered the threshold for reporting cash transaction reports (CTRs) to NIS 50,000 (approximately \$12,800), lowered the document retention threshold to NIS 10,000 (approximately \$2,570), 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.

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 (approximately \$154,000). According to MONEVAL, there are exemptions that allow intermediaries such as accountants, attorneys and rabbis to not disclose who their clients are if transactions are less than the equivalent of \$69,000 in one day.

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, 2007 and was submitted to committee for review. Having been approved by the Constitution, Law and Justice Committee, the bill is ready to be brought again before the plenum of the Knesset (legislative body) for the second and third readings. If it passes it will bring the AML regime within the precious stones sector in line with international standards. The amendment defines "dealers in precious stones" as those merchants whose annual transactions reach NIS 50,000 (approximately \$12,800). 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 December 2004, the Israeli Parliament adopted the prohibition on terrorist financing law 5765-2004, which further modernized and enhanced 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 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 \$1,280) 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. Banks are required to file suspicious transaction reports with the IMPA and their adherence to the Banking Order is adequately regulated by the Banking Supervision Department at the Bank of Israel, the Central Bank. The Bank of Israel is adequately staffed and trained and has fined Israeli commercial banks in the past for failing to report suspicious data as required by law.

In October 2006, the U.S. Department of Treasury, the Federal Deposit Insurance Corporation, and the New York State Banking Department penalized Israel Discount Bank \$12 million to settle charges that its AML procedures were lax. The action was specifically related to the transfer of billions of dollars of illicit funds from Brazil to Israel Discount Bank's New York offices. In December, 2008 the Bank of Israel also ordered that Israel Discount Bank pay nearly \$1 million in fines over the institution's poor money laundering controls.

In 2008, Israel finished implementing all but one mandate of Cabinet Decision 4618, passed on January 1, 2006. Yet to be established is an academy for interdisciplinary enforcement studies; however, an interagency "fusion center" and six interagency task forces for pursuing financial crimes are now fully operational. The regulation explicitly instructs the INP and the Israeli Security Agency, known as 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). The IMPA reports that about NIS 4.6 million (\$1.2 million) was forfeited or collected in penalties related to illicit narcotics-related actions.

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 committee instructed the Israeli National Security Council (NSC) to develop a procedure to incorporate foreign designations into Israel's regime for domestic designations. In this new procedure, the National Security Council legal counsel has responsibility for referring foreign designations to the committee for adoption under Israeli law. As of late 2008, the procedure remains under review for final approval by all of the Israeli Security Services. After vetting through these agencies, the NSC will submit the procedure to the Knesset Law Committee for final approval. Once in effect, the NSC 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. Thereafter identifying information for the terrorist entity will 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 Shin Bet 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.

Through regulation of the Ministry of Finance, the PMLL prohibits any unlicensed money changers or providers of currency services. Among other definitions, the PMLL defines a provider of currency as one who receives financial assets in one state in exchange for making available financial assets in another state. This definition has broad scope and therefore restricts hawala, hundi, or alternative remittance systems. A person engaging in provision of currency services without proper registration is liable to one year imprisonment or a fine of NIS 600,000 (approximately \$154,300). Israel's Law of Non-Profit Organizations allows for the creation of "Public Welfare" organizations, known as *amitot* in Hebrew. Israel acknowledges that these entities can be used as conduits for the financing of terrorism or other illicit activity and therefore it rigorously regulates the sector. The Registrar of Trusts is charged with oversight of *amitot* and maintains the power to demand clarification of financial statements, investigation, closure and can petition the court to liquidate such organizations that it believes violate the law. Furthermore, the Registrar of Trusts is empowered to turn over such information as it deems appropriate to enable law-enforcement to conduct criminal investigations. The IMPA reports that approximately 700 extensive audits of high-income *amitot* are carried out annually.

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. The INP reports no indications of an overall increase in financial crime relative to previous years. Total criminal assets seized by the INP in 2008 were reportedly \$3.2 million. This is a sharp decrease from previous years. In 2008, IMPA reported approximately 100 arrests and ten prosecutions relating to money laundering and/or terrorist financing. In 2008, IMPA received 17,152 suspicious transaction reports. During this period IMPA disseminated 529 intelligence reports to law enforcement agencies and to foreign FIUs. For 2008, the IMPA reports that about NIS 7.7 million (\$2 million) was frozen or forfeited in AML/CTF-related actions

Israel has a Mutual Legal Assistance Treaty with the United States, 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. Israel provides assistance in sharing information related to terrorist financing cases.

Israel is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. Israel has signed but not yet ratified the UN Convention against Corruption. The IMPA is a member of the Egmont Group, and Israel has been an active observer in MONEYVAL since 2006. 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.

The Government of Israel has developed an AML/CTF financial regulatory sector and enforcement capacity that compares with advanced, industrialized nations. Israel remains deficient, however, in regulating its diamond trade, intermediaries such as accountants and lawyers, other nonbank sectors, and fully incorporating UNSC 1267 designations into its domestic regime due primarily to political uncertainty in the Knesset, which have prevented timely implementation. Authorities should be vigilant in ensuring draft legislation and proposed measures are approved by final act of the Knesset following the establishment of a new government in 2009. Israel should continue its aggressive investigation of money laundering activity associated with organized criminal groups. Israel should ratify the UN Convention against Corruption.

Italy

Italy is not an offshore financial center. Italy is part of the Euro area and is fully integrated into the European Union (EU) single market for financial services. Money laundering is a concern because of the prevalence of homegrown organized crime groups as well as criminal organizations from abroad, especially from Albania, Bulgaria, China, Israel, Romania and Russia.

The heavy involvement of organized crime groups in narcotics-trafficking complicates narcotics-related anti-money laundering (AML) activities because of the sophistication of the laundering methods used by these groups. Italy is both a consumer country and a major transit point for heroin coming from South Asia through the Balkans en route to Western/Central Europe and, to a lesser extent, the United States. Italian and ethnic Albanian criminal organizations work together to funnel drugs to Italy and, in many cases, on to third countries. Additional important trafficking groups include other Balkan organized crime entities, as well as Nigerian, Colombian, and other South American trafficking groups.

In addition to the narcotics trade, laundered money originates from myriad criminal activities, such as alien smuggling, contraband cigarette smuggling, counterfeit goods, extortion, human trafficking, and usury. Financial crimes not directly linked to money laundering, such as credit card fraud, Internet fraud, and phishing have increased over the past year.

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 export of undeclared or illicitly obtained currency—primarily U.S. dollars and euros—for laundering in offshore companies. There is a substantial black market for smuggled goods in the country, but it is not believed to be funded significantly by narcotics proceeds. Italy's underground economy is an estimated 20-27 percent of Italian GDP, totaling about 309 to 417 billion euros (approximately \$417,150,000,000 to \$562,950,000,000), though a substantial fraction of this total is related to tax evasion of otherwise legitimate commerce.

Legislative decree 109 of 2007 provides for the permanent establishment of the Financial Security Committee (FSC), originally created in 2001. The FSC's activities include prevention of money laundering and terrorist financing, and implementing international economic sanctions. The Committee is chaired by the Director General of the Treasury. Other FSC members include the Ministries of Foreign Affairs, Home Affairs, and Justice; the Bank of Italy; the Unita' di Informazione Finanziaria (UIF), Italy's financial intelligence unit (FIU); CONSOB, Italy's securities market regulator; the Guardia di Finanza or Financial Police (GdF); the Carabinieri (paramilitary police); the National Anti-Mafia Directorate (DNA); and the Anti-mafia Administration or Direzione Investigativa Antimafia (DIA). The Committee has far-reaching powers that include waiving provisions of the Official Secrecy Act to obtain information from all government ministries. Legislative decree 109 also empowers the FSC to submit proposals to the competent UN or EU authorities on the listing or de-listing of individuals or entities subject to restrictions on financial transactions and/or asset freezes.

Italy's anti-money laundering and counterterrorist financing (AML/CTF) regime 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. It should be noted that Italian law does not allow someone to be prosecuted for laundering the proceeds of crimes they themselves committed. This reflects Italian concern with possible double jeopardy. In other words, a person can only be prosecuted for laundering the proceeds of crimes committed by other persons. The law protects bankers and others with respect to their cooperation with law enforcement entities.

Legislative decree 231 of 2007 broadens the range of predicate offenses for money laundering and requires covered entities to report self-money laundering to the UIF through STRs. The decree also enhances penalties for the transfer of property when the subject knows the property was derived from criminal activity, as well as the concealment or disguise of the true origin of any property.

The Ministry of Economy and Finance is in charge of general policy making and coordination in the AML/CTF arena. It also has sanctioning powers related to specific AML requirements (e.g., record keeping requirements and cash transaction limitations). In 2007, 1,676 administrative proceedings were settled by ministerial decrees, resulting in fines and penalties of 16.4 million euros (approximately \$22,140,000). Since the introduction of AML laws in 1991, approximately 27,880 administrative proceedings have been settled, with sanctions imposed to date totaling about 98 million euros (approximately \$132,300,000).

Italy has strict laws on the control of currency deposits in banks. Banks must identify their customers and record any transaction that exceeds 15,000 euros (approximately \$20,250). Bank of Italy mandatory guidelines require the reporting of all suspicious transactions, with special attention paid to cash anomalies. Italian law prohibits the use of cash or negotiable bearer instruments for transferring money in amounts in excess of 12,500 euros (approximately \$16,900), except in transactions performed by banks, e-money institutions (which issue electronic money over the Internet for e-commerce) and the postal service.

Legislative decree 231 of 2007 reviews the customer due diligence (CDD) requirements, following a risk-based approach, and indicates those cases where enhanced or simplified CDD applies. Obligated entities now must obtain senior management approval before establishing a business relationship with a politically exposed person (PEP) and must take adequate measures to establish the source of funds involved in any transaction with a PEP. Legislative Decree 231 introduces the notion of a beneficial owner, which refers to the natural person who ultimately owns or controls an account and/or the person on whose behalf a transaction is being conducted. It also includes those persons who exercise effective control over a legal person or arrangement. Banks and other financial institutions must identify the beneficial owners of accounts they open and be able to track the transactions they conduct. Anonymous accounts are prohibited, as are bearer passbooks with a balance exceeding 12,500 euros (approximately \$16,900). Italy prohibits financial institutions from entering into correspondent banking relationships with shell banks or with a bank known to permit its accounts to be used by a shell bank.

Banks and other financial institutions are required to maintain records necessary to reconstruct significant transactions for ten years. This includes 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 in standardized customer databases. A "banker negligence" law makes individual bankers responsible if their institutions launder money. The legal responsibility to submit STRs is not exclusive to bankers, though the Italian judiciary metes out more severe punishment to bankers for noncompliance. Financial institutions are required to maintain a centralized electronic AML database for all transactions (including wire transfers) over 15,000 euros (approximately \$20,250) and to submit this

data monthly to the UIF. The data is aggregated by class of transaction, and any reference to customers is removed. The UIF analyzes the data and can request specific transaction details if warranted.

To deter nontraditional money laundering, the Government of Italy (GOI) enacted a decree in 2004 to broaden the category of institutions and professionals subject to AML 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 necessary implementing regulations for the designated nonbank financial businesses and professions (DNFBPs) came into force in April 2006 (Ministerial Decrees no. 141, 142 and 143 of 3.02.2006). Italy now has comprehensive internal auditing and training requirements for its broadly-defined financial sector. However, implementation of AML/CTF measures by nonbank financial institutions lags behind that of financial institutions, as evidenced by the continuing relatively low number of STRs filed by DNFBPs. The issue of client confidentiality for attorneys remains unresolved so compliance with AML/CTF provisions is uneven in that sector.

Italy has addressed the problem of international transportation of illegal-source currency and monetary instruments by applying the 10,000 euro-equivalent (approximately \$13,500) reporting requirement to cross-border transport of domestic and foreign currencies and negotiable bearer instruments. Italy has a declaration system, rather than disclosure, and the fines for failure to declare a cross-border transaction or transport of funds may be up to 40 percent of the amount beyond the threshold.

Responsibility for ensuring compliance with AML/CTF varies by sector. The Bank of Italy supervises banks both on-site and off-site, as well as nonbank financial intermediaries. The Ministry of Justice exercises general oversight of some DNFBPs (e.g., attorneys, accountants, and notaries) though day-to-day supervision is provided by professional organizations. The Ministry of Interior is responsible for other nonfinancial businesses and professions (e.g., casinos, entities engaged in the custody and transportation of cash and other valuables, real estate agents, and collection agencies). ISVAP (Institute for Insurance Industry Oversight) monitors the insurance industry. In 2007, ISVAP performed 19 inspections of insurance entities, an increase of 72 percent over the previous year. In May 2008, the Bank of Italy conducted its first cycle of on-site AML inspections of bank branches located in high risk areas. The Bank of Italy completed 319 such inspections through October of 2008, and plans to expand the program nationwide in 2009.

On January 1, 2008, the UIF replaced the Ufficio Italiano dei Cambi (UIC) as Italy's FIU. The UIF is an autonomous entity within the Bank of Italy with approximately 90 employees. The UIF performs advisory functions on AML/CTF legislation. It also proposes and updates indicators of anomalous activity and analyzes financial information. The UIF has access to the banks' customer databases and does not require a court order to compel supervised institutions to provide details on regulated transactions. It submits its financial analyses on STRs to law enforcement agencies, including the DIA and GdF, for further investigation and/or prosecution. The UIF received 11,994 STRs in 2007 from credit and financial institutions, and 6,664 in the first half of 2008. In 2007 the UIF sent 11,513 money laundering reports to law enforcement authorities for further investigation. Through the first half of 2008 the equivalent figure was 5,823. STRs resulted in 217 cases of judicial follow up in 2007, and 56 cases in the first half of 2008. The UIF received only 216 STRs from DNFBPs in 2007, and 54 through June 2008. In 2007, the FIU received 335 STRs related to terrorist financing, of which 211 were forwarded to law enforcement for further investigation. Through June 30, 2008, the UIF had received 146 terrorist financing-related STRs. The UIF may provisionally suspend for five days suspected money laundering or terrorist financing transactions, rather than the 48 hour period to which the UIC was restricted.

A special currency branch of the GdF is the law enforcement agency with primary jurisdiction for conducting financial investigations. Investigators from the GdF and other law enforcement agencies

must obtain a court order prior to being granted access to bank records or databases. In 2007, the GdF carried out 341 AML inspections, which resulted in 47 administrative violations, as well as 362 criminal violations and 618 legally reported subjects (analogous to being advised one is the target of an investigation). In 2007, there were also 1,225 AML/CTF inspections related to money transfers, which resulted in 866 legally reported subjects and 14 arrests.

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. 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, with judicial concurrence. Funds from asset forfeitures are entered into the general state accounts. Italy shares assets with member states of the Council of Europe. Currently, assets can be shared bilaterally only if agreement is reached on a case-specific basis. Legislative decree 109 of 2007 gives the Agenzia del Demanio (State Property Agency) the responsibility to manage frozen terrorist-related assets, in addition to its previous responsibility for sequestered criminal assets.

The financing of terrorist activity has been a criminal offense since 2001, with prison terms of between seven and 15 years. Financial institutions, including DNFBPs, are required to report suspicious activity related to terrorist financing. Italy currently has frozen \$6,238,186 in assets in 29 accounts, belonging to persons designated terrorists under UNSCRs 1333, 1390 and 1373. The GOI cooperates fully with efforts by the United States to trace and seize assets. The UIF disseminates the EU, UN, and U.S. Government lists of terrorist groups and individuals to financial institutions. Following the UIF's provisional suspension for five days of suspected money laundering or terrorist financing transactions, the courts must act to freeze or seize the assets. Under Italian law and EU regulation, financial and economic assets linked to terrorists designated by the EU can be directly frozen by the financial intermediary holding them. Assets can be seized through a criminal sequestration order.

Italy does not regulate charities per se. Primarily for tax purposes, in 1997, Italy created a category of "not-for-profit organizations of social utility" (ONLUS). Such organizations can be associations, foundations or fundraising committees. To be classified as an ONLUS, the organization must register with the Finance Ministry and prepare an annual report. There are currently 19,000 registered entities in the ONLUS category. Established in 2000, the ONLUS Agency issues guidelines and drafts legislation for the nonprofit sector, alerts other authorities of violations of existing obligations, and confirms de-listings from the ONLUS registry. The ONLUS Agency cooperates with the Finance Ministry in reviewing the ONLUS classification conditions. 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 there is a low risk of terrorist financing in the Italian nonprofit sector.

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, they are used by Italy-based drug-trafficking organizations to transfer narcotics proceeds.

As a member of the Egmont Group, Italy's UIF shares information on suspicious financial transactions with other countries' FIUs. To date Italy has never refused a request for assistance in providing information to another nation's FIU. In 2007, Italy responded to 448 requests for information from foreign FIUs, resulting in 990 reported persons. Italy has a number of bilateral agreements with foreign governments in the areas of investigative cooperation on narcotics-trafficking and organized

crime. The United States and Italy have signed a customs assistance agreement, as well as extradition and mutual legal assistance treaties. Both in response to requests under the mutual legal assistance treaty (MLAT) and on an informal basis, Italy provides the United States records related to narcotics-trafficking, terrorism and terrorist financing investigations and proceedings. Italy also cooperates closely with U.S. law enforcement agencies and other governments investigating illicit financing related to these and other serious crimes. In May 2006, the U.S. and GOI 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 and brought into force, the new U.S./Italy bilateral treaty will allow for greater mutual assistance in the seizure and forfeiture of assets as well as the sharing of those forfeited assets. As of November 2008, Italy has not ratified this treaty.

Italy is a member of the Financial Action Task Force (FATF) and held the FATF presidency from 1997 to 1998. Italy is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, and UN Convention against Transnational Organized Crime. Italy has signed, but not yet ratified, the UN Convention against Corruption.

The Government of Italy appears committed to the fight against money laundering and terrorist financing, both domestically and internationally. 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 and should clarify attorney/client privilege. Italy should take steps to allow for civil in rem forfeiture of criminal proceeds. Italy should add car dealerships to the list of entities required to submit STRs, as they are notably absent. 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. Italy also should ensure its new regulations on PEPs are enforced, to prevent money laundering and counter corruption. The GOI should ratify both the UN Convention against Corruption and the bilateral instrument on Mutual Legal Assistance. Finally, Italy should continue its active participation in multilateral fora dedicated to the global fight against money laundering and terrorist financing and its assistance to jurisdictions with nascent or developing AML/CTF regimes.

Jamaica

Jamaica is the foremost producer and exporter of marijuana in the Caribbean, and an active transit route 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. The majority of funds being laundered in Jamaica are from drug traffickers and organized crime groups, which need to legitimize both profits from overseas criminal activity as well as domestic fraud and extortion schemes. Proceeds from drug trafficking and other criminal activity are used to acquire tangible assets and are moved back into legitimate markets through unregulated investments and hidden in remittance flows. Public corruption, particularly in the Customs Service, provides opportunities for trade-based money laundering. The Government of Jamaica (GOJ) continues to advance its plans to turn Kingston into an offshore financial center, and to license high-end casino gaming. If actuated Jamaica's vulnerability to money laundering will markedly increase.

To date, Jamaica has not been considered a major money laundering country. Jamaican banking authorities currently 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. The GOJ does not encourage or facilitate money laundering. However, as evidenced by the collapse of several Ponzi fraud schemes in 2008, and several other incidents, it is clear that Jamaica is not exempt from the use by many criminals of offshore banks to

launder funds from crimes with a nexus to the United States and European countries, often with an objective of various types of tax fraud. In 2008, the former junior energy minister, and two co-defendants were indicted on money laundering, fraud and corruption charges. Also, in July 2008 four individuals were charged in connection with a large lottery scam. Due to scrutiny by banking regulators, Jamaican financial instruments are considered an unattractive mechanism for laundering money. Bulk cash smuggling of U.S. currency occurs, and funds are exchanged at a steep discount by street-side vendors. Despite efforts by the Customs Service and Tax Administration to clamp down on internal corruption, there is a significant black market for smuggled goods, which is due to tax evasion. 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. In August 2008, the GOJ announced plans to license high-end casino gaming at large (1000+ room) resorts. Before these casinos open for business the GOJ must improve the regulatory capacity of its Gaming Commission to prevent criminal elements from exploiting these cash intensive businesses. Currently, casinos and other cash businesses have not been designated as subject to anti-money laundering and terrorist financing regulations. The Ministry of National Security should make this a priority.

In 2007, The GOJ passed into law the Proceeds of Crime Act (POCA), The POCA allows for both criminal and civil forfeiture and 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. Police and Customs continue to use the Dangerous Drug Act rather than POCA to seize and forfeit (post-conviction) criminal assets. Also, there has been little, if any, use of the civil forfeiture regime enacted as part of the POCA, which is regrettable in that the law could serve as a model for forfeiture actions in other Caribbean countries. Training of investigators and prosecutors in utilizing these laws should be a priority. Jamaica initiated prosecution of its first human trafficking case in 2008.

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 \$15,000. Money transfer or remittance companies have a reporting threshold of \$5,000, while for exchange bureaus the threshold is \$8,000. The Customs Service has a reporting threshold of \$10,000. However, data collected by Customs is not shared regularly with either the Ministry of Finance Financial Investigation Division (FID) or Tax Authorities. 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. 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, but it is unclear how its investigative responsibilities for financial crimes are shared with the Financial Crimes Unit of the FID. There is not a basis for the sharing of such information with foreign authorities, since Jamaica's FIU is not a member of the Egmont Group.

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. STRs and CTRs are collected manually. There were 177 referrals to the Jamaica Constabulary Force Financial Investigative Unit. 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 (FATF).

Jamaica's central bank, the Bank of Jamaica, supervises the financial sector for compliance with anti-money laundering and counterterrorist financing provisions. In 2008 two major unregulated investment schemes, estimated to involve assets of up to \$800 million, collapsed and there was an upsurge in advanced fee and lottery scams, which defrauded U.S. victims of more than \$25 million. Although the POCA permits the Minister of Finance to add nonbanking institutions to the list of obligated reporting entities, the GOJ chose to wait out a lengthy court decision and did not take aggressive action to bring these nonbank institutions under its regulatory control and there are indications that these schemes were vehicles for money laundering. As a result, by the time the government moved against the institutions, the Ponzi schemes were close to collapsing. In 2008, there was an increase in the occurrence of financial crimes; however, there was not a commensurate increase in the investigation of these crimes by the FID.

Although not implicated in the theft of funds from the FID evidence vault, in early 2008, the Minister of Finance removed the FID Director and two of the FID's most experienced investigators. Since that time, the FID, which was already facing human and financial operating resource challenges, has been under reconstruction. 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 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 remains stalled.

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. Since POCA's inception there have been four convictions for money laundering offenses and more than \$1.1 million seized.

Under the POCA, forfeited assets return to the consolidated Fund. 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 Act does contemplate that forfeited assets should be distributed equally among the Ministry of National Security, the Ministry of Finance, and the Ministry of Justice. Plans to establish an Assets Recovery Agency (ARA) within the FID to manage seized and forfeited assets remain unfulfilled.

The Terrorism Prevention Act (TPA) of 2005 criminalizes the financing of terrorism, consistent with United Nations (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. Amendments to the TPA to bring nonprofit organizations and charities within the coverage of TPA are pending, and should be passed.

The Government of Jamaica appointed an action-oriented Commissioner of Customs in 2008 who has worked to control trade based money laundering, tax evasion, and corruption.

Jamaica and the United States have a Mutual Legal Assistance Treaty (MLAT) that entered into force in 1995, as well as an agreement for the sharing of forfeited assets, which became effective in 2001. In July 2008, Norris Nembhard, a designated foreign narcotics kingpin under the Foreign Narcotics Kingpin Act was extradited to the United States and the National Commercial Bank was charged with violations of the Money Laundering Act involving \$27 million of Nembhard's drug proceeds. Jamaica is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Jamaica is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body, 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 should move to improve regulatory and oversight capacities before establishing an offshore financial center and licensing high-end casino gaming. The GOJ should ensure the swift passage of the FID Act to qualify the FIU to meet the international standards for membership in the Egmont group and exchange information with other FIUs. Without a strong FID, with staff vetted to international standards, the GOJ will continue to have only limited success in attacking and dismantling organized crime through the seizure and civil forfeiture of criminal assets. In addition, the GOJ must provide the FID with strong, politically independent leadership and grant its Director the adequate resources needed to enable the FID to vet, hire, and train an appropriate number of staff 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.

Japan

Japan is the world's second largest economy. 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. In general, the domestic crime rate is very low in Japan and the police are well aware of the money laundering (ML) schemes used in Japan. According to the National Police Agency (NPA), most of the narcotics consumed are smuggled in from overseas and often distributed by criminal organizations, including the Boryokudan, commonly known in the English-speaking world as "yakuza." U.S. law enforcement investigations periodically show a link between drug-related money laundering activities in the U.S. and bank accounts in Japan. In 2006, organized crime groups were involved in around 40 percent of the money laundering cases. The major sources of illicit proceeds include prostitution, illicit gambling and "loan-sharking." Recently, remittance frauds have been discovered, some of them also involve organized crime groups.

Financial fraud schemes are increasing in Japan. There are four major types of fraud: i) "Ore-ore fraud" where phone calls are made to victims by swindlers pretending to be a relative, police officer, or practicing attorney under the pretext that they immediately need money to pay for something such as an automobile accident, and convince victims to transfer the money to a certain savings account; ii) fictitious billing fraud uses postal services or the Internet to send documents or e-mails demanding money and valuables based on fictitious bills, by which the general public is sometimes persuaded to

transfer money to designated accounts; iii) loan-guarantee fraud is a method of fraud where a letter supposedly meant as a proposal is sent to the victim, persuading the victim to transfer money to designated accounts under the pretext of a guarantee deposit for loans and iv) refund fraud where swindlers pretending to be tax officers instruct people on the procedure for tax refunds and have victims use ATMs to transfer money to designated accounts.

In 2008 Japan underwent its third comprehensive FATF Mutual Evaluation of its implementation of the 40 plus 9 recommendations. Japan's FATF review concluded that Japan was fully compliant with only four recommendations, with notably deficient performances on recommendations specific to financial institutions. According to the FATF mutual evaluation report, some of the deficiencies include a failure to meet international standards on customer due diligence, politically exposed persons, correspondent banking, new technologies, designated nonfinancial businesses and professions, internal controls and audits, and beneficial ownership disclosures. While noting Japan's good faith efforts, among FATF's fundamental conclusions is that "more training and investigatory resources are needed for AML/CTF law enforcement authorities."

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 suspicious transaction reports (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 these limitations and have been successfully laundering drug proceeds. The FATF review notes, "The number of prosecutions regarding money laundering cases remains low, especially in light of the problems related to drug consumption and organized crime organizations located in Japan. The low number of conviction in money laundering cases, including prosecutions of legal persons, has a negative effect on the overall effectiveness of the criminalization of money laundering."

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 was submitted to the Diet for approval in October 2005, and would expand the predicate offenses for money laundering from approximately 200 offenses to nearly 350 offenses, with almost all offenses punishable by imprisonment.

On March 29, 2007, Japan's government enacted the "Law for Prevention of Transfer of Criminal Proceeds." The legislation, designed to bring Japan into closer compliance with the FATF 40 plus 9 recommendations, marked significant changes in Japan's anti-money laundering landscape. In addition to the financial institutions previously regulated, effective March 1, 2008, the new statute expands the types of nonfinancial businesses and professions under the law's purview to include real estate agents, private mail box agencies, dealers of precious metals and stones; and certain types of trust and company service providers. Covered entities 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 law delegates CDD rulemaking to Japan Federation Bar Association, which drafted and now enforces “Rules Regarding the Verification of Clients’ Identity and Record-Keeping.” In its evaluation, FATF characterized these “Rules” as allowing for exemptions from CDD obligations that were “unclear” and could be “interpreted as exempting a large number of transactions from CDD.”

Japan’s Financial Services Agency (FSA) supervises all financial institutions. 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.

In a high-profile 2006 court case, 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 \$1,120). The CDD requirements of the Prevention of the Transfer of Criminal Proceeds Act, which require financial institutions to verify customer identification data for natural and legal persons, effectively prohibit the opening of anonymous accounts or account in fictitious names. 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.

The customer due diligence framework does not fully address the issue of authorized persons, representatives and beneficiaries or of beneficial ownership. There is no requirement for financial institutions to gather information on the purpose and intended nature of the business relationship or to conduct ongoing due diligence on these relationships. And since Japan is not implementing an AML/CTF risk-based approach, there are no provisions that mandate enhanced due diligence for higher-risk customers, business relationships and transactions or authorize simplified due diligence.

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). The JAFIC has 41 personnel under the supervision of the Director General of Organized Crime Department and Councilor for Prevention of Money Laundering.

JAFIC receives an increasing number of STRs (approximately 99,000 in 2005, 114,000 in 2006 and more than 158,000 in 2007). It undertakes a primary analysis that involves automatic cross-matching between the STR data and other information in its databases, and then circulates approximately 60 percent of the STRs received to law enforcement agencies, including the police, public prosecutors, customs, coast guard, and the SESC (Securities and Exchange Surveillance Commission) within the FSA. The FATF Mutual Evaluation noted that the FIU needed to improve its analytic capacity and tactical and strategic analysis of STRs, using appropriate analytic tools. Reportedly, an in-depth

analysis involving the development of a comprehensive intelligence file derived from STR and including cross-matching police, administrative and open source databases, is undertaken on an increasing number of STRs. JAFIC has good access to law enforcement and other information. JAFIC receives STRs from financial institutions and specified business operators including Shinkin banks (cooperative regional financial institutions serving small and medium enterprises and local residents), insurance companies, securities companies, trust companies, financial leasing companies, credit card companies, money and currency exchangers. Since March 2008, a new electronic reporting system has been implemented which permits STRs to be sent directly to the FIU.

The main law enforcement bodies involved are the Prefectural Police and the Public Prosecutor's Office. Both are responsible for AML/CTF investigations and, according to the FATF evaluation, have adequate powers.

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 \$11,235) or its equivalent in foreign currency, to customs authorities. Failure to submit a report, or submitting one that is false or fraudulent, can result in a fine of up to 200,000 yen (approximately \$2,250) or six months' imprisonment. The declaration requirement applies only to carriage by an individual, not to other forms of physical cross border movement of currency and bearer instruments. Moreover, few resources are devoted to enforcement of cross-border currency declaration requirements. FATF underscored this ongoing area of concern, concluding, "Customs only focuses on smuggling and trafficking control and does not have AML/CTF enforcement capabilities. As a consequence, no report on cross-border currencies movements has been made to JAFIC."

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, criminalized terrorism and terrorist financing, added terrorist financing to the list of predicate offenses for money laundering, and provided for the freezing of terrorism-related assets. The terrorism finance offense does not cover collection of funds by nonterrorists, nor does it criminalize the indirect collection or provision of funds. The law has not yet been applied, and it is unclear whether its wording covers collecting or providing funds for any purpose other than committing terrorist acts, such as to support terrorist organizations or individual terrorists. In addition, the offense is limited to "funds" and does not cover other financial and nonfinancial assets.

Terrorist financing risks in the Non-Profit Organization (NPO) sector are relatively low in Japan. According to the FATF mutual evaluation, NPOs are subject to a high degree of transparency and public accountability for their operations and there is a generally comprehensive regime of licensing, registration or oversight. While there is a wide range of national, regional and activity-specific regulators for NPOs, coordination between regulators and investigation agencies is generally effective. However, Japan has not yet conducted any specific outreach to the NPO sector to raise awareness about risks of abuse for terrorist financing and relevant AML/CTF preventive measures.

Japan has established a comprehensive mechanism to confiscate, freeze and seize the proceeds of crime; however the regime does not appear to be fully and effectively implemented. As to the freezing of terrorist assets, a system based on a licensing system prior to carrying out certain transactions has been implemented under the Foreign Exchange Act. This system does not cover domestic funds that are not intended to leave Japan, but does cover transactions in foreign currency, or with a nonresident in Japan, as well as overseas transactions. It does not allow for freezing without delay in the absence of an attempted transaction, so that financial institutions are not required to screen their customer

database and freeze designated funds or assets. For transactions in domestic currency within Japan that do not involve a nonresident, Japan can freeze terrorist funds under the Act on the Punishment of Financing of Offences of Public Intimidation and the Act on the Punishment of Organized Crime. However, this mechanism also reaches only funds, not other kinds of assets, and does not allow Japan to freeze terrorist assets without delay.

After September 11, 2001, Japan has regularly designated for asset freezing all the suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, and have also designated a number of entities and persons of other countries listed under UNSCR 1373. However, the FATF determined that the limitations of Japan's asset freezing system, described above, result in "gaps in the implementation of the UNSCRs 1267, 1373 and successor resolutions." Japan is a party to the UN Convention for the Suppression of the Financing of Terrorism.

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.

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 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 but is not a party to the UN Convention against Corruption or to the UN Convention against Transnational Organized Crime. Ratification of the latter 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 and the Asia/Pacific Group against Money Laundering. The JAFIC is a member of the Egmont Group.

The Government of Japan has many legal tools and programs in place to successfully detect, investigate, and combat money laundering and terror finance. However, the number of investigations, prosecutions, and convictions for money laundering remain low in relation to the amount of illicit drugs consumed and other predicate offenses. To strengthen its AML/CTF regime, Japan should make serious efforts to follow the comprehensive recommendations in the 2008 FATF mutual evaluation. Increased emphasis should be given to combating underground financial networks that are not subject to financial transparency safeguards. Since Japan is a major trading power and the misuse of trade is often the facilitator in alternative remittance systems, underground finance, 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 (UK), it relies on the UK 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. Political corruption and suspicious activity related to financial re-structuring of infrastructure industries such as oil, gas and transportation are emerging trends. Money laundering mostly occurs within Jersey's banking system, investment companies, and local trust companies.

The financial services industry is a key sector and provides 60 percent of Jersey's gross domestic product. It consists of 51 banks; 1,452 funds; trust companies; money services businesses (MSBs); and insurance companies, 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. Alternate remittance systems do not appear to be prevalent in Jersey.

In October 2008, the International Monetary Fund (IMF) assessed Jersey's anti-money laundering /counterterrorist financing (AML/CTF) regime as well as the banking, insurance and securities sectors; the results are expected to be published in 2009. In anticipation of the assessment, Jersey took numerous steps to enhance its AML/CTF regime to bring it into greater compliance with the Financial Action Task Force (FATF) standards through issuance of consultation and position papers; enactment of new primary and secondary legislation, key amendments, orders, and regulations; and outreach to regulated entities.

The AML/CTF Strategy Group was established in Jersey in 2007 to provide a forum for the Jersey agencies represented on the group to liaise, discuss and develop coordinated strategies and policies to enhance Jersey's capability to prevent and detect financial crime and terrorist financing. The Strategy Group is chaired by the Chief Executive of the States, and the financial Services Commission (FSC) provides the secretariat for the group. The group comprises officers from the following government departments and agencies: the Chief Minister's Department, the Economic Development Department, the Law Officers' Department, the Joint Financial Crimes Unit, the Police Force, the Customs and Immigration Service, the FSC, and the Shadow Gambling Commission.

Jersey's main anti-money laundering (AML) laws are the Drug Trafficking Offenses (Jersey) Law 1988, which criminalizes money laundering related to narcotics trafficking; and the Proceeds of Crime (Jersey) Law 1999 (POCL), which extends the predicate offenses for money laundering to all offenses punishable by at least one year in prison. Both laws were amended in 2008 to enhance various provisions, including those regarding the failure to report knowledge or suspicion of money laundering and the enforcement of external confiscation orders. Also, the Money Laundering (Jersey) Order 2008, issued pursuant to the POCL, contains detailed provisions addressing several preventive measures, including customer due diligence measures and recordkeeping and reporting requirements. Additionally, in September 2008, the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 came into force and provides for one or more supervisory bodies to be tasked with monitoring, and ensuring AML/CTF compliance by lawyers, accountants, estate agents and high-value goods dealers who take cash payments of more than 15,000 euros (approximately \$20,250) per transaction or linked transactions, or their sterling equivalent.

The Corruption (Jersey) Law 2005 came into force in February 2007. Certain definitions contained in 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 as those in the ESD and have elected to implement the withholding tax option (also known as the “retention tax option”) within the Crown Dependencies.

The Jersey Economic Development Department is the government body responsible for administering the law, and regulating, supervising, promoting, and developing Jersey’s finance industry. The FSC is the financial services regulator. The FSC formed a dedicated AML Unit to lead Jersey’s operational AML/CTF strategy. The AML Unit is responsible for monitoring compliance with legislation and Codes of Practice by MSBs such as bureaux de change, check cashers, and money transmitters; lawyers; accountants; estate agents; high-value goods dealers; and nonprofit organizations. The AML Unit also supports the FSC’s Supervision Divisions, which are responsible for oversight of businesses supervised by the FSC with the exception of MSBs. 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.

Approximately 33,000 Jersey companies have registered with the Registrar of Companies, the Director General of the FSC. In addition to public filing requirements relating to shareholders, the FSC requires each company to provide the FSC with details of the ultimate individual beneficial owner of each Jersey-registered company. The Registrar keeps the information in confidence.

Following 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.

Financial institutions must report suspicious transactions under the narcotics trafficking, terrorism, and AML laws. There is no threshold for filing a suspicious activity report (SAR), 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 ten years after completion of business.

The Joint Financial Crimes Unit (JFCU), Jersey’s financial intelligence unit (FIU), includes Jersey Police and Customs officers. The FIU is responsible for receiving, investigating, and disseminating SARs. In 2007, the JFCU received 1,517 SARs, the majority of which were received from banks, although a growing number are submitted by fund managers. Approximately 25 percent of the SARs filed result in further police investigations. Reports filed in the first six months of 2007 indicate a 32 percent increase in the number of SARs 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 held more than 2.5 million pounds (approximately \$4,900,000) 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 2007, the JFCU received 687 requests for assistance from counterparts in other jurisdictions.

The JFCU, in conjunction with the Attorney Generals Office, traces, seizes and freezes 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. Assets may be frozen for an indefinite period. Frozen assets are confiscated by the Attorney General’s 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 and education initiatives, and to assist law enforcement in the fight against drug-trafficking. Only limited civil forfeiture is allowed in relation to cash proceeds of drug-trafficking located at the ports.

Jersey criminalizes money laundering related to terrorist activity through the Prevention of Terrorism (Jersey) Law 1996. The Terrorism (Jersey) Law 2002, which entered into force in January 2003, and was amended in 2008, enhances the powers of the 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, nor any other government's lists, although the FSC website has links to various websites that contain such. In addition, the Chief Minister's Department website includes a page for international sanctions that includes links to the UN and U.K. consolidated lists, the latter of which includes all of the persons listed in the UN consolidated list, as well as EU and UK designations. Jersey expects its institutions to gather information on designated entities from these or other Internet websites, and other public sources. Jersey authorities have instituted sanction orders freezing accounts of individuals connected with terrorist activity.

In August 2008, the Non-Profit Organizations (Jersey) Law of 2008 came into force. The law provides for the registration and monitoring of nonprofit organizations by the FSC and is specifically designed to prevent and combat the misuse of nonprofit organizations by terrorists. The FSC plans to do further work with the sector to include issuing publications, conducting training, and coordinating with relevant organizations such as the Association of Jersey Charities.

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. The FSC has reached agreements on information exchange with securities regulators in Germany, France, and the United States; and 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 signed a memorandum of understanding with the 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. The FSC should ensure the AML Unit has enough resources to function effectively, and to provide outreach and guidance to the sectors it regulates, especially the newest entities required to file reports. The FSC should distribute the UN lists of designated terrorists and terrorist organizations to the obliged entities and not expect the entities to stay current through their own Internet research.

Jordan

Jordan is not a regional or offshore financial center and is not considered a major venue for international criminal activity. Jordan does have a well developed financial sector with significant banking relationships in the Middle-East. Jordan's long and remote desert borders and nexus to Iraq, Syria, and the West Bank make it susceptible to the smuggling of bulk cash, fuel, narcotics, cigarettes, and counterfeit goods and contraband, although there is insufficient information available from the Government of Jordan (GOJ) to quantify these crimes.

Jordan boasts a thriving "import-export" community of brokers, traders, and entrepreneurs that regionally are involved with value transfer via trade and customs fraud. Illicit narcotics, psychotropic substances, and chemical precursors are not known to be major components of criminality in Jordan. There are some indications of use of Jordan for money laundering of illicit funds derived from narcotics activity in the U.S. and possibly Europe via bulk cash smuggling for criminal elements

involving Jordanians in those areas. However, it is thought that the major sources of illicit funds in Jordan are most likely to be related to customs fraud, tax fraud and intellectual property rights (IPR) violations due to Jordan's dependence on imports and its limited natural resources and manufacturing base. A wide array of pirated or counterfeit goods is for sale on the streets of Jordan. One phenomenon that surfaced during 2008 was the use of gold in lieu of cash for movement of liquid assets. The scheme involves persons crossing into Jordan at land and seaports, making an admission of trying to enter multi-kilo quantities of gold to inspecting customs authorities, paying a fine and then re-exporting the gold at the entry point thus creating a declaration document to lend legitimacy to the movement of the high-value precious metal.

Inquiries and assessments conducted during 2008 reveal that Jordan is vulnerable to trade-based money laundering, bulk cash smuggling, and alternate remittance systems. Data on the prevalence of these activities was not available for two reasons: recognition of these methodologies in Jordan is relatively new; and it is a common practice in Jordan for individuals and businesses of all types to first contact the General Intelligence Directorate if suspicions of certain crimes surface. Offenses that the populace perceives as crimes relating to national security fall into that category. Money laundering and terrorist financing are categorized in this way. Details of these cases are rarely published or revealed. In 2008, there was an increase in securities-related financial crimes due to the discovery of a number of major Ponzi schemes in which thousands of investors lost investments. By year's end there were over 50,000 complaints filed relating to these schemes. Although the GOJ has revealed no indicators of the use of hawala or other alternative remittance systems, Jordan's sizeable foreign worker population and Jordanian enclaves in the U.S., Europe, and Arabian Gulf countries, and are thought to use this form of cash transfer methodology to move legal and illicit funds both out of and into Jordan.

In August 2001, the Central Bank of Jordan (CBJ), which regulates Jordan's 27 banks as well as its financial institutions, including money services businesses, issued anti-money laundering regulations designed to meet some of the FATF 40 Recommendations on Money Laundering. Subsequently, money laundering has been considered an "unlawful activity" subject to criminal prosecution. Jordan's banking laws prohibit registration of offshore banks or shell companies. In 2002, money laundering was criminalized related to insurance operations.

On July 17, 2007, Jordan enacted Law No. 46 for the Year 2007—the Anti Money Laundering Law (AML) that criminalizes money laundering. The AML Law does not cover financing of terrorism, but it criminalizes money laundering and stipulates as predicate offenses to that crime all felony crimes 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 criminal penalty in the country in which it occurs. Felony crimes are those for which a penalty of three years or more of incarceration is attached. With this approach, several of the 20 crimes recommended by the FATF for inclusion in AML legislation do not meet the penalty level for major crimes and therefore are excluded as predicate offenses for money laundering under Jordan's current AML Law. The most noteworthy of these are: financing of terrorism, smuggling, extortion, intellectual property rights violations, sexual exploitation of children, trafficking in persons, trafficking in stolen property, and environmental crimes. 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. The AML Law provides immunity against confidentiality sanctions for obligated entities that report suspicious transactions based on the AML Law. The effectiveness of the AML Law remains untested as there have been no prosecutions for money laundering based on either the CBJ regulations or the AML Law.

The AML law created the National Committee on Anti-Money Laundering (NCAML) as well as the Anti-Money Laundering Unit (AMLU) as Jordan's financial intelligence unit. The NCAML is chaired by the Governor of the Central Bank of Jordan and has as members: a Deputy Governor of the Central Bank named by the CBJ Governor 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 NCAML is responsible for: formulating general AML policy, supervising the implementation of tasks of the AMLU, facilitating and coordinating exchange of information related to money laundering, participating in international fora, proposing necessary regulations for implementation of the AML Law, coordinating and assigning competent parties to generate statistical reports related to the AML program of the GOJ, and approving and adopting a budget for the AMLU.

The Ministries of Justice, Interior, Finance, and Social Development, as well as the Insurance Commission, Controller General of Companies, and Jordan 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 comprehensive anti-money laundering/countering the financing of terrorism (AML/CTF) approach is undertaken in keeping with international standards and best practices. Of the regulatory entities of the GOJ, the Central Bank of Jordan, the Jordan Securities Commission, and the Insurance Commission of Jordan are best staffed and trained to conduct compliance investigations. These entities have issued implementing instructions to the regulated entities under their purview concerning AML/CTF requirements, which have the force of law. The extent of the use of the formal financial system for money laundering or terrorist financing is difficult to measure due to the lack of reporting data available that clearly identifies these offenses. Since the AML Law is still relatively new, some agencies of these cabinet level entities lack coordination in the overall AML/CTF effort in Jordan.

The CBJ has a well developed bank supervision department whose procedures, until the recent past, focused almost exclusively on safety and soundness. However, the CBJ did instruct 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 AML Law requires obligated entities to: undertake due diligence in identifying customers; refrain from dealing with anonymous persons or shell banks; report any suspicious transaction to the AMLU; and comply with instructions issued by competent regulatory parties to implement provisions of the law. The CBJ drafted an AML/CTF dedicated bank examination manual in 2008, but had not officially adopted it by the end of the year.

Financial institutions are required under the AML Law to report all suspicious transactions whether the transaction was completed or not via suspicious transaction reports (STRs) sent to the AMLU. Entities required to report suspicious transactions include: banks, foreign exchange companies, money transfer companies, stock brokerages, insurance companies, credit companies, and any company whose articles of association state that its activities include debt collection and payment services, leasing services, investment and financial asset management companies, real estate trading and development entities, and companies 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.

GOJ officials report that financial institutions have been filing suspicious transaction reports and cooperate with prosecutors' requests for information related to narcotics trafficking and terrorism cases. Most reporting is done by banking institutions which have well-developed AML compliance programs. During 2008, only a few STRs came from all the other types of obligated entities. There were no arrests or convictions for money laundering or terrorist financing in Jordan in 2008. The standard for forwarding STRs is a potential problem in the existing law and will require significant outreach resources to educate obligated entities. The banking, securities, and insurance sectors are the best regulated obligated entities and those that have been best educated regarding recognizing indicators of money laundering and terrorist financing, but there is still much to be done with the other obligated sectors. The money services business (MSB) sector is the riskiest obligated sector and lacks sufficient regulatory oversight and verification of compliance with reporting suspicious transactions of the AML Law. Real estate businesses and precious metals and stones dealers are also under-regulated and are generally unknowledgeable of their responsibilities to report suspicious transactions. Charitable associations, although not specified as obligated entities, occupy another troublesome sector, which requires better regulatory supervision and oversight. There are over 1,000 nonprofit organizations registered in Jordan, the majority of which are charitable organizations. Oversight responsibility for these rests with the Ministry of Social Development, which is understaffed and incapable of verifying the financial activities of all of the organizations. A new Associations Law is currently in the legislative process; however, its provisions to safeguard against abuse for money laundering and terrorist financing may be insufficient.

The AMLU was formed immediately upon passage and enactment of the AML Law. The financial intelligence unit is designated by law as an independent entity within the organizational structure of the Central Bank of Jordan. It is also physically located in and operationally funded for 2009 by the CBJ. The AMLU also uses the CBJ server and database for all information technology needs. The AMLU was staffed with the same personnel that made up the CBJ's Suspicious Transaction Follow-Up Unit, in existence for several years, and is composed of a director, an outreach officer, one attorney, and one analyst. Since the enactment of the AML Law, there has been no increase in staffing of the AMLU. A comprehensive FIU development plan was informally adopted for the AMLU prior to the implementation of the AML Law. However, follow-through on this plan has been stymied due to administrative hurdles. In order for the AMLU to be fully staffed, funded, and functional, by-laws governing its administration must be approved by the NCAML, submitted to the GOJ Cabinet, and published in Jordan's Official Gazette. The NCAML did not approve the by-laws until September 2008 at which time they were forwarded to the GOJ Cabinet for ratification and implementing procedures. By the end of 2008, the AMLU by-laws had not been ratified by the Cabinet. Until the AMLU by-laws are published in the Official Gazette, the personnel assigned to the AMLU remain employees of the CBJ seconded to the AMLU and no additional personnel may be hired. Plans to second additional analysts to the AMLU from other GOJ agencies have not materialized. Due to the absence of legally established administrative by-laws, the AMLU director seeks the approval of the Governor or Vice-Governor of the CBJ for administrative decisions. These conditions have raised questions concerning AMLU independence and freedom from political influence as an FIU. Although the AMLU has made overtures to sponsoring countries stating its desire to become a member of the Egmont Group of Financial Intelligence Units, it is unlikely that it can gain membership until 2011 at the earliest.

The AMLU is organized on a general administrative FIU model and is responsible for receiving STRs from the obligated entities designated in the AML Law, analyzing them, requesting additional information related to the reported activity and forwarding the information to the prosecutor general for further action if there is sufficient cause to believe the transaction is related to money laundering or other financial crime activity. The AMLU does not have criminal investigative and/or direct regulatory responsibility, but it is authorized to require any information needed from obligated entities stipulated in the AML Law considered necessary for the performance of its duties if the needed information is

related to information already received by the AMLU. Involvement of the AMLU in assisting criminal investigations is dependent on the will of public prosecutors to use it. It is authorized to request and coordinate with judicial parties, regulatory and supervisory authorities, and security (law enforcement) authorities. Suspicious transactions identified as potentially related to terrorist financing are outside of the AMLU's purview.

At the end of 2008, the AMLU continued to work toward establishment of formal ties through memoranda of understanding with competent GOJ authorities possessing the necessary databases and records pertinent to pursuing financial intelligence analysis and money laundering investigations. The AMLU received approximately 160 STRs in 2008 of which five were forwarded to prosecutors for further action. Only two of those indicated the possibility of money laundering. No prosecutions for money laundering have occurred in Jordan since the enactment of the 2007 AML law. Due to lack of knowledge of the AML law, uncertainty about the role of the AMLU with its limited personnel and functional capability, few prosecutors have considered using the AMLU to assist in criminal prosecutions or to charge financial crime violators with money laundering.

One significant challenge facing the GOJ is determining how law enforcement entities are tasked to conduct financial investigations relating to money laundering and terrorist financing. Since the AML law was only implemented in July 2007, law enforcement agencies and public prosecutors are still deliberating the issue. There is no specific GOJ agency designated as the lead entity for investigating financial crimes. Although the AMLU is required by law to forward findings developed from STRs to the public prosecutors of the Ministry of Justice, prosecutors of the State Security court also investigate and prosecute financial crimes, particularly those that deal with national security. In Jordan, a civil law country, prosecutors lead all criminal investigations. Investigative field work needed by prosecutors for criminal investigations is shared between several GOJ law enforcement agencies dependent on the predicate offense generating money laundering activity: the Public Security Department (PSD—national police service), the General Intelligence Directorate (GID—both a criminal investigative agency and intelligence service; investigation of all terrorist activity falls to the GID), and the Directorate of Military Security (DMS) of the Jordan Armed Forces. Jordan Customs also conducts criminal investigations and has its own prosecutors, but penalties for customs violations fall below the level of a major crime (penalty in excess of three years). Nearly all customs violations including commercial fraud are decided as administrative cases and seldom accrue criminal penalties including incarceration. The concept of forwarding large monetary value customs fraud cases to public prosecutors for criminal investigation and prosecution has not taken root in Jordan's legal system. This anomaly leaves the possibility of forfeiture of proceeds of customs related criminal activity to the Kingdom totally unexploited.

Notwithstanding the lack of emphasis on pursuing money laundering or terrorist financing investigations, the GOJ has welcomed training to learn how to do so. During 2008, approximately 250 criminal investigators, prosecutors, financial sector regulators and customs officials were trained in recognizing money laundering and terrorist financing typologies. Of those 250, approximately 154 criminal investigators, prosecutors, judges, and customs officers were trained in using financial investigative techniques in investigations. In each training event, AMLU personnel assisted in training participants on the function of the AMLU and FIUs in general.

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 Special Economic Zone (ASEZ). All six list their investment activities as "industrial, commercial, service, and tourist." 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. With the exception of ASEZ, 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. The Aqaba Special Economic Zone is controlled by a ministerial level authority. The Aqaba Special Economic Zone Authority (ASEZA) encompasses all of the port city of Aqaba and is bounded by Saudi Arabia on the south, Israel on the west and is a short ferry ride across the Gulf of Aqaba (Red Sea) to Egypt. ASEZA has its own customs authority, which operates separately from Jordan Customs and processes all merchandise and commodities destined for businesses in the zone. It also processes all passengers entering the zone. Jordan Customs processes all shipments of goods in transit to areas outside the zone. Awareness of the methodologies and threat of trade-based money laundering and bulk cash smuggling is lacking on the part of both ASEZA Customs and Jordan Customs. However, both entities have taken steps to improve inspection and control procedures to detect these crimes. Thus far there have been no criminal cases involving the free trade zones of Jordan that indicate they were used for trade-based money laundering or bulk cash smuggling.

The 2007 AML law requires reporting of inbound cross-border movement of money if the value exceeds a threshold amount set by the NCAML. The threshold amount was set by the NCAML at 10,000 Jordanian Dinars (approximately \$14,200). However, the threshold amount has not been officially established or transmitted to border control authorities for enforcement. The law also provides for the creation of cross-border currency and monetary instruments declaration forms, and although a multi-agency committee has worked on the creation of the form since the passage of the AML Law, it was not in publication by the end of 2008. The declaration requirement applies only to the entry of money into the Kingdom and not exiting. Jordan Customs is responsible for archiving the declaration forms once implemented. By the end of 2008, no mechanism had been set up to either enforce the cross border declaration requirements of the AML Law. 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. Collaboration on mutual money laundering related customs cases has been sparse and has been limited mostly to minimal intelligence sharing. The AML Law authorizes Customs “to seize or restrain” undeclared money crossing the border and report it to the AMLU which will decide whether the money should be returned or the case referred to the judiciary. In all known cases of detention of undeclared funds discovered during customs processing, the money has been returned to the importer.

Seizure and forfeiture of assets related to criminal activity including money laundering and terrorist financing are authorized under a combination of statutes principal of which are: the Penal Code, the Economic Crimes Law, the Anti Money Laundering Law, the Narcotics and Psychotropic Substances Law and the Prevention of Terrorism Act of 2006. Jordan’s Anti-drugs Law allows the courts to seize proceeds and instrumentalities of crime derived from acts proscribed by the law. The Economic Crimes Law gives both prosecutors and the courts the authority to seize from any person proceeds generated by criminal activity 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. GOJ officials claim that Jordan’s cornucopia of seizure laws is sufficient to accomplish the purposes of FATF Recommendation 3 regarding authority to “confiscate property laundered, proceeds from money laundering or predicate offences, instrumentalities used in or intended for use in the commission of these offences, or property of corresponding value . . .” These statutes concentrate primarily on the proceeds of crime and not the means or instrumentalities used to commit a predicate offense to money laundering or the financing of terrorism. The multi-statute approach to freezing, confiscating or seizing of assets makes it unclear as to whether investigators may specifically trace and seize assets related to criminal activity. The GOJ has been advised by both Council of Europe and U.S. Government advisors that since this position is untested, it would be better to amend current or draft new legislation which clearly complies with FATF Recommendation 3. The GOJ publishes no statistics related to freezing, seizing, forfeiting, or confiscating the proceeds or instrumentalities of crime, and it is believed that there is no tracking

mechanism for such since there is not a statutory provision for an asset forfeiture fund or civil forfeiture in Jordan.

An October 8, 2001 revision to the Penal Code criminalized terrorist activities and the financing of terrorist acts. The Prevention of Terrorism Act of 2006 also prohibits the financing of terrorist acts. However, Jordan has no legislation that prohibits financing of terrorist organizations or groups. Guidelines issued by the CBJ 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 in order to facilitate investigations.

Jordan 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 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. The GOJ received a MENAFATF Mutual Evaluation in July 2008. The report of that evaluation will not become public until the MENAFATF plenary session in spring 2009, but it is anticipated that a multitude of deficiencies will be detailed.

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. There was no indication in 2008 that these provisions of the AML Law have been used by the GOJ.

In light of identified statutory and procedural deficiencies, 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. Sufficient time has passed since the implementation of the AML Law for the GOJ to have accomplished numerous steps in its FIU implementation plan, but there has been little advancement in the AML/CTF regime. Many of the steps in the FIU implementation plan require action or approval of the NCAML which has not steadily moved forward in addressing the necessary requirements needed for compliance with the FATF 40+9 recommendations. In spite of numerous criminal cases involving large financial value, no prosecutions of money laundering have occurred since the passage of the AML Law. GOJ prosecutorial, law enforcement and customs entities 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. These entities should also request the NCAML and the GOJ Cabinet to move ahead aggressively in approving the AMLU by-laws so that this unit can assume its vital role in assisting criminal investigations. Jordan should also establish and implement a viable asset forfeiture regime, Charitable and nonprofit organizations should have better supervision and oversight. Per FATF Special Recommendation IX, Jordan's cross-border currency reporting should include outbound declarations. Jordan should become a party to the UN Convention against Transnational Organized Crime and should draft, pass and implement legislation which meets international standards concerning the financing of terrorism as it is committed to do by virtue of its membership in the United Nations and in MENAFATF. The AML Law should be amended to include as predicate offenses to money laundering all crimes indicated by the FATF Forty Recommendations as well as any offense or act that causes a loss of revenue to the Kingdom in excess of 10,000 Jordanian Dinars (approximately

\$14,200). Many offenses that generate large illicit sums that are currently outside of the reach of the AML Law's definition of money laundering could be targeted. This would improve the financial sector in Jordan thus helping the Kingdom to comport with international standards.

Kenya

Kenya is developing into a major money laundering country with an undetermined amount of narcotics proceeds laundered—the effect of increasing drug abuse especially in Coast Province and Nairobi. Kenya's use as a transit point for international drug traffickers is increasing. 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 authorities acknowledge that they are sold in Kenya. There is a black market for smuggled goods in Kenya. Many entities in Kenya are involved in exporting and importing goods, including nonprofit entities. Kenya has no offshore banking or Free Trade Zones.

As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has large formal and informal sectors. Annual remittances from expatriate Kenyans are estimated at \$570 million to \$1 billion. Residents of Kenya, including foreigners, also transfer money into and out of Kenya. Nairobi's Eastleigh Estate has become an informal remittance hub for the Somali diaspora, transmitting millions of dollars every day from Europe, Canada and the U.S. to points throughout Somalia. Although banks, wire services and other formal channels execute funds transfers, there are also thriving, informal networks of hawala and other alternative remittance systems using cash-based, unreported transfers that the Government of Kenya (GOK) cannot track. Expatriates, in particular the large Somali refugee population, primarily use hawala to send and receive remittances internationally.

The GOK has not passed a law that explicitly outlaws money laundering and creates a financial intelligence unit (FIU). The most recent legislation regarding drugs is the Criminal Procedure Code (Amendment) Bill passed in Parliament on December 16, 2008 which seeks to strengthen the definition of "drug-related offense" However, this bill does not address the criminalization of proceeds from the sale of illegal drugs and by the end of 2008, had not yet been signed into law by the President.

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 had a conviction for the laundering of proceeds from narcotics trafficking. The GOK has cobbled together a series of laws and guidance, 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 that it uses to fight money laundering. However, 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 (STRs). Section 42 of the bill requires institutions to monitor all transactions, pay attention to unusual patterns of transactions, and report any suspicious transaction. Over and above this, the reporting institution must file reports of all cash transactions

exceeding the equivalent of U.S. \$10,000 in any currency. 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 a number of 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 GOK tabled the bill in Parliament in November 2007, but Parliament never took the bill up, and it lapsed when Parliament recessed in December. The government republished and resubmitted the bill during the Tenth Parliament in 2008. This time, the bill made it through the second reading, one step from final passage, before it stalled. New parliamentary standing orders will enable this legislation to proceed from the point where parliament left it when the Eleventh Parliament reconvenes in 2009.

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 had been reported by the end of 2008. Under the regulations, banks must maintain records of transactions over \$100,000 and international transfers over \$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 STRs 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 2002 court ruling that penalized a commercial bank for disclosing information to the CBK in response to a court order made banks wary of reporting suspicious transactions. 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.

There are 95 foreign exchange bureaus under GOK supervision. The Central Bank of Kenya Act (Cap 491) regulates foreign exchange bureaus, which are authorized dealers of currency. The CBK subsequently recognized that several bureaus violated portions of 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 foreign exchange 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.

A reported 800 registered, international nongovernmental organizations (NGOs) manage over \$1 billion annually. International organizations operating in the conflict areas of the region—Southern Sudan, Somalia, Burundi and DRC—keep their money in Kenyan banks. 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 do not comply 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.

Kenya has little in the way of cross-border currency controls. GOK regulations require that any amount of cash above \$5,000 be disclosed at the point of entry or exit for record-keeping purposes only, but this provision is rarely enforced, 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 \$10,000, and on cumulative daily foreign exchange inflows and outflows above \$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, showing 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. 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. Charterhouse Bank also violated the Banking Act and the CBK's Prudential Guidelines by not properly maintaining records for foreign currency transactions. Available evidence made clear that the bank management had, on a large scale, consistently evaded and ignored normal internal controls by allowing many irregular activities to occur. 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, which were missing basic details such as the customer's name, address, ID photo, or signature cards. 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, and understood AML controls. The Ministry did not renew the bank's license to operate once it expired.

There are strong indications that other Kenyan banks are involved in similar activities. Reportedly, Kenya's financial system may be laundering over \$100 million each year. The GOK did not report any money laundering-related arrests, prosecutions, or convictions for 2007 or 2008. 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.

Laws related to the seizure and forfeiture of drug trafficking-related assets are weak and disjointed. With the exception of intercepted drugs and narcotics, seizures of assets are rare. Kenya has no regulations to freeze or seize criminal or terrorist accounts. 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.

Kenya has not criminalized the financing of terrorism as required by the United Nations Security Council Resolution (UNSCR) 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 revised the controversial text, but Muslim and human rights groups remained concerned that 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. Following expressions of concern about the legislation from some Muslim members of Parliament, the bill, now renamed the Prevention of Organized Crime Bill, was not resubmitted to Parliament in 2008. The government has advised that the bill has been withdrawn for further consultations.

The CBK does not circulate the list of individuals and entities on the UN 1267 Sanctions Committee's consolidated list or the United States Office of Foreign Assets Control (OFAC) list of specially designated nationals to financial institutions. Instead, the CBK uses its bank inspection process to search for names of designated individuals and entities on the OFAC list. The CBK and the GOK have no authority to seize or freeze accounts without a court warrant. Kenya has no law specifically authorizing the seizure of the financial assets of terrorists.

Kenya is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Kenya is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body, and holds the Presidency for the administrative year of August 2008-August 2009. Kenya has an informal arrangement with the United States for the exchange of information relating to narcotics, terrorist financing, and other serious crime investigations, and has cooperated with the United States and the United Kingdom in such situations. Kenya ranks 147 out of 180 countries on the 2008 Transparency International Corruption Perceptions Index.

The Government of Kenya should pass and enact the proposed Proceeds of Crime and Anti-Money Laundering bill, and create an FIU. The GOK should criminalize the financing of terrorism and pass a law authorizing the government to seize the financial assets of terrorists. Kenyan authorities should take steps to ensure that NGOs, suspect charities and nonprofit organizations follow internationally recognized transparency standards and file complete and accurate annual reports. 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 its customs authorities should exert control over 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 patented pharmaceuticals such as Viagra and Cialis. 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 other illegal activities, including activities related to counterfeiting, through a number of front companies. The illegal revenue provides desperately needed foreign 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 a "consistent policy to prohibit money laundering." However, the law is significantly deficient in most important respects, and reportedly 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 "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." 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 in 2007. It is not a party to the UN Convention against Transnational Organized Crime or the UN Convention against Corruption. It has signed, but not ratified, the UN Convention for the Suppression of the Financing of Terrorism. North Korea is not a participant in any FATF-style regional body.

On October 11, 2008 the United States Government formally removed North Korea from the U.S. list of state sponsors of terrorism. The DPRK should develop a viable anti-money laundering/counterterrorist financing regime that comports with international standards.

Korea, Republic of

The Republic of Korea (ROK) is not considered an attractive location for international financial crimes or terrorist financing. 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 vulnerability. 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.

The South Korean government has been a willing partner in the fight against financial crime, and has pursued international agreements toward that end. Forty kinds of serious crimes are predicate offenses in Korea—two crimes under the Act on Special Cases Concerning the Prevention of Illegal Trafficking in Narcotics (1993) and 38 additional kinds of crimes under Proceeds of Crime Act (POCA), which was enacted in 2001 to broaden Korea's anti-money laundering regime by criminalizing the laundering of proceeds from additional offenses, including economic crimes, bribery, organized crime, and illegal capital flight. In addition, the concealment and disguise of property owned legally for the purpose of tax evasion, illegal refunds, customs evasion or smuggling is considered to be money laundering for the purposes of reporting of suspicious transaction reports (STRs) to KoFIU. The POCA provides for imprisonment and/or a fine for anyone receiving, disguising, or disposing of criminal funds, and also provides for confiscation and forfeiture of illegal proceeds. Financial institutions are required to report transactions known to be connected to narcotics trafficking to the Public Prosecutor's Office.

In Korea, financial institutions are required to conduct customer due diligence (CDD) under the Act on Real Name Financial Transactions and Guarantee of Secrecy ("Real Name Financial Transaction Act") (effective 1993) and the Financial Transaction Reports Act (effective January 2006), as amended (effective December 22, 2008). The Real Name Financial Transaction Act effectively prohibits anonymous accounts and accounts in obviously fictitious names and requires financial

institutions to identify and verify the identify of their customers, while the Financial Transaction Reports Act requires financial institutions to conduct CDD and to report suspicious transactions to the Korea Financial Intelligence Unit (KoFIU).

The Financial Transaction Reports Act also requires financial institutions to file suspicious transaction reports (STRs) with the Korea Financial Intelligence Unit (KoFIU). A cash transaction reports (CTR) system was implemented in January 2006. The initial threshold of KRW 50 million (U.S. \$43,067) was lowered to KRW 30 million (U.S. \$25,840) in January 2008 and will be further reduced to KRW 20 million (U.S. \$17,227) in January 2010. The STR system was strengthened in 2004 with the introduction of a new online electronic reporting system and the lowering of the mandatory STR threshold from 50 to 20 million won. Reporting entities may file STRs for transactions below this threshold.

Money laundering controls are applied to banking and nonbank financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings banks, finance companies, credit unions, credit cooperatives, trust companies, and securities companies. To strengthen Korea's AML/CTF regime, the Financial Transaction Reporting Act was amended in December 2007 (effective December 22, 2008) to establish risk-based enhanced CDD requirements; criminalize terrorist financing and establish STR obligations regarding terrorist financing; and impose AML/CTF obligations on designated nonfinancial businesses and professionals. CDD requires financial institutions to identify and verify customer identification data, including address and telephone numbers when opening an account or conducting occasional transactions of 20 million won or more. After the December 22, 2008 effective date of the Financial Transaction Reports Act amendments, KoFIU plans to expand the obligation to intermediaries, such as lawyers, accountants, or broker/dealers, not previously covered by Korea's money laundering controls. Any traveler entering Korea carrying more than \$10,000 (or the equivalent in other foreign currency) is required to report the currency to the Korea Customs Service.

KoFIU was established in 2001 pursuant to the Financial Transaction Reports Act and its Presidential Enforcement Decree within the Ministry of Finance and Economy (MOFE), but was transferred in February 2008 to the Financial Services Commission (FSC). It is comprised of experts from various agencies, including the Ministry of Strategy and Finance, the Justice Ministry, the Financial Services Commission, the Bank of Korea, the National Tax Service, the National Police Agency, and the Korea Customs Service, and its independence and autonomy are guaranteed by law. It analyzes suspicious transaction reports (STRs) and currency transaction reports (CTRs), and forwards information deemed to require further investigation to appropriate law enforcement and other agencies, including the Public Prosecutor's Office (PPO); the National Police Agency; National Tax Service; Korea Customs Service; Financial Services Commission (FSC); and the National Election Commission. KoFIU also exchanges information with foreign FIUs.

In addition to receiving, analyzing and disseminating STRs and CTRs, KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions, and is responsible for 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 between domestic illegal activities and international terrorist activity. In 2007, KoFIU upgraded its anti-money-laundering monitoring system by introducing the Korea Financial Intelligence System, based on scoring and data mining methods. KoFIU also encourages financial institutions, including small-scale credit unions and cooperatives, to adopt a risk-based due diligence system, focusing on types of customers and transactions, by offering those institutions training programs, and conducts education and training on financial institutions' AML/CTF obligations.

Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won. The Real Name Financial Transaction and Guarantee of Secrecy Act 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.

South Korea joined the international community's fight against terrorism finance through enactment of the Prohibition of Financing for Offenses of Public Intimidation Act in December 2007. The Act took effect in December 2008 and is intended to implement the UN Convention for the Suppression of the Financing of Terrorism, to which South Korea has been a party since 2004. Under the Act, funds for public intimidation offenses are identified as, "any funds or assets collected, provided, delivered, or kept for use in any of the following acts committed with the intention to intimidate the public or to interfere with the exercise of rights of a national, local, or foreign government." An amendment expanding the ROKG's ability to confiscate funds related to terrorism was also submitted to the National Assembly in November 2008. The amendment adds the Prohibition act to the list of laws covered under POCA. As a result, the ROKG will not only be able to confiscate the direct proceeds of terrorism but also funds and assets (e.g. stocks and bonds) derived from those proceeds.

South Korea's Financial Services Commission may designate an individual or a group when it is necessary to prevent offenses in order to implement a generally accepted international law or an international treaty Korea is a party to, or when prevention contributes to international efforts to maintain global peace and security. The new CTF legislation is subject to the same excessively high thresholds that apply to reporting all types of suspicious activity, and also lacks requirements to identify actual beneficiaries of transactions. It is unclear whether it criminalizes the sole raising of terrorist funds.

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. KoFIU 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. No listed terrorist-related accounts have been reported in Korea. However, since 2003, Korea has detained or deported more than 70 people suspected of having ties to international terrorist networks.

Korean government authorities continue to investigate the underground "hawala" system, used primarily to send illegal remittances abroad by South Korea's approximately 30,000 documented foreign workers 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 \$1.84 billion) in 2003, 1,917 cases totaling 3.66 trillion Won (approximately \$3.2 billion) in 2004, 1,901 cases worth 3.56 trillion Won (approximately \$3.47 billion) in 2005, and 1,924 cases totaling 2.7 trillion Won (approximately \$2.8 billion) in 2006. A similar report by the Korea Customs Service is not available for 2008. However, according to statistics provided by the Customs Service, there were 2,364 cases in 2007 totaling 2.39 trillion Won (approximately \$2.57 billion) and 1,890 cases totaling 2.7 trillion Won (approximately \$2.51 billion) from January through October 2008. Through 2004, the majority of early underground remittance cases related to the U.S. Between 2005 and June 2007, the bulk of cases involved China

(35.4 percent, approximately \$2.87 billion), followed by Japan (34.9 percent, approximately \$2.83 billion) and the U.S. (18 percent, \$1.46 billion). Through the first ten months of 2008, China's portion of underground remittance cases remained largest (47.6 percent, approximately \$1.72 billion), followed by Japan (18.6 percent, approximately \$27.4 million), and the U.S. (8.3 percent, approximately \$158.3 million). Although Japan accounted for more than twice as many cases as the U.S., its transactions amounted to only 17 percent of the dollar value of U.S. cases.

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 bank account tracking teams in 2004 to serve 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 2008, there were 1,191 counterfeit bills found by South Korean banks worth \$224,000. The 2008 dollar amount represents a 79 percent decrease from the same period in 2007. 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 reportedly 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 has been incorporated into the FEZs.

Korea is a party to the 1988 UN Drug Convention, the UN Convention for Suppression of the Financing of Terrorism in December and the UN Convention against Corruption, but is not a party to the UN Convention against Transnational Organized Crime. Korea is an active member of the Asia/Pacific Group on Money Laundering (APG) and its FIU 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 36 countries. Korea became an observer to the Financial Action Task Force (FATF) in July 2006 and is working to complete the accession process and obtain full membership.

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 eliminate 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. The ROKG efforts will become

increasingly important due to the continued growth and greater integration of Korea's financial sector into the world economy. The ROKG should become a party to the UN Convention against Transnational Organized Crime.

Kuwait

Despite its geographic location in the Gulf region, money laundering is not believed to be a significant problem in Kuwait. Illicit funds reportedly are generated largely as revenues from drug and alcohol smuggling into the country and the sale of counterfeit goods. The potential for the financing of terrorism through the misuse of charities continues to be a major concern.

Kuwait has ten private local commercial banks, including three Islamic banks; the Kuwait Finance House (KFH), Boubyan Islamic Bank, and Kuwait International Bank, all of which provide conventional banking services comparable to Western-style commercial banks. Kuwait also has one specialized bank, Industrial Bank of Kuwait, a government-owned bank that provides medium and long-term financing. On June 11, 2008 the Central Bank of Kuwait (CBK) authorized the Bank of Kuwait and the Middle East (BKME) to become an Islamic bank, which will increase the number of Islamic banks in Kuwait to four. The Commercial Bank of Kuwait has filed an application to convert to an Islamic bank. Legislation to launch another Islamic bank is pending in Parliament. The bank will be approximately 50 percent owned by the Government of Kuwait (GOK). These additions demonstrate the rapid growth of Islamic banking in Kuwait.

The Kuwaiti banking sector opened to foreign competition under Kuwait's 2001 Foreign Direct Investment Law, which enabled foreigners to own up to 49 percent of existing or newly formed Kuwaiti banks, subject to approval by the CBK. In January 2004, the National Assembly gave final approval to a bill permitting 100 percent foreign ownership of banks. However, foreign-owned banks which are restricted to opening only one branch can only offer investment banking services and are prohibited from competing in the retail banking sector. In August 2004, BNP Paribas was the first foreign bank granted a license to operate in Kuwait, followed by HSBC in October 2005, Citibank in late 2006, Abu Dhabi National Bank and Qatar National Bank in 2007, and Doha Bank in 2008. Gulf Bank, Kuwait's second largest lender, sought assistance from the Central Bank of Kuwait in October 2008 after a client defaulted on approximately \$1.4 billion of liabilities related to euro-dollar derivatives contracts. On November 20, Gulf Bank announced a recapitalization plan, giving priority to existing shareholders, but with the government controlled Kuwait Investment Authority serving as buyer of last resort. The crisis at Gulf Bank prompted the Parliament to enact legislation guaranteeing all deposits in all banks operating in Kuwait. CBK recently approved an additional three foreign banks to open branches in Kuwait, Al-Mashreq Bank, Al-Rajhi Bank and Bank of Muscat.

On March 10, 2002, the Emir of Kuwait (Head of State) signed Law No. 35, which criminalized money laundering. Law No. 35 does not specifically cite terrorist financing as a crime. The law stipulates that banks and financial institutions may not keep or open anonymous accounts or accounts in fictitious or symbolic names, and that banks must require proper identification of both regular and occasional clients. The law also requires banks to keep all records of transactions and customer identification information for a minimum of five years, conduct anti-money laundering and terrorist financing training to all levels of employees, and establish proper internal control systems.

Law No. 35 requires banks to file suspicious transactions reports (STRs) to the Office of Public Prosecution (OPP), which in turn will refer reports of suspicious transactions 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 criminalized under Law No. 35, although cash reporting requirements are not uniformly enforced at ports of entry (except at Kuwait International Airport and Al-Abdali Border Exit). 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 \$10,900) 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. There has only been one case of currency smuggling reported in 2008, which has not gone to court. The case reportedly involved smuggling of counterfeit U.S. dollar bills, Euros and GCC currencies.

The National Committee for Anti-Money Laundering and the Combating of Terrorist Financing is responsible for administering Kuwait's anti-money laundering/combating terrorist financing (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 the Central Bank.

The National Committee is mandated with 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; following up on domestic, regional, and international developments and making needed recommendations; setting up appropriate channels of communication with regional and international institutions and organizations; and representing Kuwait in domestic, regional, and international meetings and conferences. In addition, the Chairman is entrusted with issuing regulations and procedures that he deems appropriate for the Committee's duties, responsibilities, and organization of its activities.

Kuwait, however, has been unable to implement fully its current anti-money laundering law due in part to structural inconsistencies within the law itself. Kuwait's Financial Intelligence Unit (FIU) is not an independent body in accordance with the current international standards, but rather is under the direct supervision of the Central Bank of Kuwait. In addition, vague delineations of the roles and responsibilities of the government entities involved continue to hinder the overall effectiveness of Kuwait's anti-money laundering regime. Cognizant of these shortcomings, the National Committee drafted a revision of Law No. 35 that would bring Kuwait into compliance with international standards, and would criminalize terrorist financing. According to Kuwaiti officials, the draft law was referred to the Council of Ministers on August 18, 2008 and is still pending cabinet approval and submission to Kuwait's National Assembly for ratification.

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 terrorism finance, including the establishment of internal units to oversee compliance with relevant regulations (Article 14 and 15); and the requirement to report to the Central Bank all cash transactions in excess of approximately \$10,000 (Article 20). In addition, the Central Bank distributed detailed instructions and guidelines to help bank employees identify suspicious transactions. At the Central Bank's instructions, banks are no longer required to block assets for 48

hours on suspected accounts in an effort to avoid “tipping off” suspected accountholders. The CBK, upon notification from the Ministry of Foreign Affairs (MFA), issues circulars to units subject to supervision requiring them to freeze the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee’s consolidated list. Financial entities are instructed to freeze any such assets immediately and for an indefinite period of time, pending further instructions from the Central Bank, which in turn receives its designation guidance from the MFA.

On June 23, 2003, the CBK issued Resolution No. 1/191/2003, establishing the Kuwaiti Financial Inquiries Unit (KFIU) within the Central Bank, which would act as Kuwait’s FIU. The KFIU is comprised of seven part-time CBK staff and headed by the Central Bank Governor. The responsibilities of the FIU are to receive and analyze reports of suspected money laundering activities from the OPP, establish a database of suspicious transactions, conduct anti-money laundering training and carry out domestic and international exchanges of information in cooperation with the OPP. Although the Unit should act as the country’s financial intelligence unit, Law No. 35/2002 did not mandate the KFIU to act as the central or sole unit for the receipt, analysis, and dissemination of STRs; Banks in Kuwait are required to file STRs with the OPP, rather than directly with the FIU. However, based on an MOU with the Central Bank, STRs are referred from the OPP to the FIU for financial 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 have to be addressed by amending the law, which was revised by the National Committee in 2006 and is currently under governmental review. The KFIU is not a member of the Egmont Group.

There are about 148 money exchange businesses (MEBs) operating in Kuwait that are authorized to exchange foreign currency only. None of these MEBs are formal financial institutions, and therefore are under the supervision of the Ministry of Commerce and Industry (MOCI) rather than the Central Bank. The 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. MOCI is working to 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. Businesses that are found to be in violation of the provisions of Law No. 35/2002 receive an official warning from MOCI for the first offense. The second and third violations result in closure for two weeks and one month respectively. The fourth violation results in revocation of the license and closure of the business. Reportedly, 14 exchange houses were closed in 2007-2008 for violating MOCI’s instructions, and two cases were 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 new 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 according to Kuwaiti law. The DCO mandates the certification of charities' financial activities by external auditors, and limits the ability to transfer funds abroad only to select charities approved by MOSAL. There are currently 10 charities approved by MOSAL. MOSAL also requires all transfers of funds abroad to be made between authorized charity officials. MFA reportedly monitors all transactions funneled to charities abroad. 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 monthly database of all transactions conducted by charities. Despite these restrictions, in June 2008, the U.S. Department of the Treasury designated the Kuwait-based Revival of Islamic Heritage Society (RIHS) for providing financial and material support to al Qaida and al Qaida affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya and for providing financial support for acts of terrorism.

Unauthorized public donations, including Zakat (alms) collections in mosques, are also prohibited except during the Islamic holy month of Ramadan. The donations are supervised by MOSAL. In 2005, the MOSAL introduced a pilot program requiring charities to raise donations through the sale of government-provided coupons during Ramadan. MOSAL continued this program in 2006 and in 2007 implemented the collection of donations through a voucher system and electronic bank transfers. The GOK plans to encourage the electronic collection of charitable funds using a combination of electronic kiosks, hand-held collection machines, and text messaging are being reviewed by the Legal Committee at the Cabinet Council and expected to be approved soon. Such devices would generate an electronic record of the funds collected, which will then be subject to MOSAL supervision.

Kuwait is a member of the Gulf Cooperation Council (GCC), which is itself a member of the Financial Action Task Force (FATF). In addition, it is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Kuwait has played an active role in the MENAFATF, particularly through its participation in drafting regulations and guidelines pertaining to charities oversight and cash couriers.

Kuwait is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. It is not a party to the UN Convention for the Suppression of the Financing of Terrorism. Kuwait and the United States do not have a mutual legal assistance agreement.

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 its overseas operations; develop an independent FIU that meets international standards including the sharing of information with foreign FIUs; and improve international information sharing, as well as sharing between the government and financial institutions. More interagency cooperation and coordination between the Kuwaiti Financial Intelligence Unit and other concerned parties could yield significant improvements in proactive investigations and international information exchange. The Kuwaiti Financial Inquiries Unit should be able to independently share financial information with its foreign counterparts, and receive, analyze and disseminate suspicious transaction reports without obtaining prior authorization from the Office of the Public Prosecutor. Pursuant to FATF Special Recommendation IX, Kuwait should implement and enforce a uniform cash declaration policy for inbound and outbound travelers for all its ports. There are minimal money laundering investigations and prosecutions in Kuwait. Similar to many other countries in the Gulf, Kuwait primarily relies too heavily on STRs to initiate money laundering investigations. Rather, Kuwaiti law enforcement and customs authorities should be more active in identifying suspect behavior that could be indicative of money laundering during their routine investigations of predicate offenses. Enhanced training for most sectors involved in Kuwait's anti-money laundering efforts is required. Kuwait should become a party to the UN 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, or perhaps in China.

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” banking is not permitted. In 2008 three new private commercial banks became operational, including the ANZV Bank, an Australian-Lao joint venture arising from Australia-based ANZ’s purchase of the Vientiane Commercial Bank. The small scale and poor financial condition of Lao banks may make them more likely 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-Mukdahhan (Thailand) 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 Namtha 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. At least two other major new casinos are under construction as 2008, one in the northern province of Bokeo (Chinese financed) and one in the southern province of Savannakhet (Macao financed). There are reports that more casinos are on the way. 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 anti-money laundering measures are included in at least two separate decrees. The penal code contains a provision adopted in November 2005 (Article 64) that criminalizes money laundering and provides sentencing guidelines. On March 27, 2006, the Prime Minister 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, but it is much easier to change than a law passed by the National Assembly. However, the decrees don’t have the same legal effect as provisions in the penal code. One Annex of the decree lists predicate offences for money laundering in relation to all crimes with a prison sentence of a year or more. In addition, the decree specifically lists the following predicate offences as serious offences with respect to money laundering: 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 still considering drafting an AML law in order to create a comprehensive AML regime in line with the international standards established 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 \$1,700-\$5,800), 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 coordinated list.

The Anti-Money Laundering Intelligence Unit (AMLIU) was formally established as a unit within the Bank of Laos on May 14, 2007, replacing the previous ad hoc Pre-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.” This Action Plan was finalized by the AMLIU in 2008. Furthermore, the Bank of Lao established a national fourteen member AML Working Group in 2008, composed of representatives of key GOL ministries and agencies, including Ministry of Defense, Ministry of Finance, Ministry of Public Security, Ministry of Industry and Commerce, Prime Minister’s Office, Office of the Supreme Peoples’ Court and the Government Inspection Committee, to improve communications and coordination on AML issues within Laos. It is currently beginning a process to set up a National Coordinating Committee that will provide a mechanism for coordination and policy development at a senior level within government. The AMLIU, which has a staff of eight, acts as an FIU and supervises financial institutions for their compliance with anti-money laundering decrees and regulations. The AMLIU has no criminal investigative responsibilities, nor does it have any agreements with other FIUs. It does not yet have the technology to store and analyze financial reports or to provide for electronic reporting by banks. 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. The AMLIU followed up with the commercial banks in 2008 with a series of meetings to review these regulations. Banks are required to report suspicious transactions (STRs), of which 10 were reported in 2008, although there were no 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, and 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. The decree on AML requires any transaction over \$10,000 to be reported by banks and others to AMLIU but in practice no large cash reporting is taking place due to the lack of technology. Reporting officers are protected against any suit or action related to the reporting process. While the 2006 decree on ant-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 and cash reporting 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. However, the 10 STRs received by the AMLIU in 2008 represent a modest beginning. On September 16 2008 the BOL issued Guideline No. 02/BOL on ‘AML Procedures and Operational Controls of Reporting Institutions under Supervision of the Bank of Lao’ to give clarity to banks and other reporting institutions on their responsibilities and obligations on prevention of money laundering.

Lao law restricts the export of the national currency, the kip, limiting residents and nonresidents to 5,000,000 kip per trip (approximately \$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 \$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 provides for application of deterring measures, including freezing and confiscation of assets subject to appropriate laws and regulations specifically. The authority is broadly worded. It is not clear which government authority has responsibility for asset seizures, although indications are that the Prosecutor's Office would take the lead. The GOL 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 were reported in 2008. 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. However, the new "Law on Drugs and Article 146 of the Penal Code" promulgated in early 2008 does now allow for the seizure of assets from drug traffickers (Article 35) but the procedures for actually selling such assets and accounting for the funds have yet to be developed or implemented. Currently, most such 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 Lao 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 and became a party to the UN Convention for the Suppression of Financing of Terrorism in September. 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 Group on Money Laundering. (APG) during the July, 2007 annual plenary in Perth, Australia and attended the 2008 plenary in Bali, Indonesia.

In order to comport with international standards, the GOL should enact comprehensive anti-money laundering/counterterrorist 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, strengthening of the nascent financial intelligence unit, an increase in the number and type of obligated entities, a prohibition against "tipping off", safe harbor provisions for those reporting suspicious financial transactions to the FIU, criminal penalties for opening or operating false name accounts and for structuring cash transactions to avoid the cash reporting threshold. Guidance to all reporting entities and the issuance of AML policy, procedure, and operational controls for banks should be issued and the GOL should encourage further development of domestic AML coordination mechanisms. The GOL should also fully implement the UN Convention on Transnational Organized Crime and become a party to 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 and corruption, but also include to a lesser degree counterfeiting, 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. Reportedly, Russian organized crime is active in Latvia, and authorities believe that a portion of domestically obtained criminal proceeds derives from organized crime. 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 have determined that some U.S. criminal elements utilize the Latvian financial sector to launder narcotics proceeds. 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 other banks in the region and assert that alleged criminal activity is moving to places where it is easier 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.

In 2004, the Government of Latvia (GOL) criminalized money laundering for all crimes listed in the Criminal Law of the Latvian Republic. Latvia's new anti-money laundering (AML) law, The Law on Prevention of Money Laundering and Terrorist Financing, has been in force since August 2008 and Latvia updated the acts relevant to enforcement at the end of 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, lottery and gambling organizers and sectors listed in the European Commission directive. Other sectors not specifically indicated in this law also have a duty to comply with the requirements of AML in reporting unusual or suspicious transactions, and are also subject to legal remedies. The new law introduces a risk-based approach: 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 states that obliged entities must identify all clients, both long term and those who wish to carry out individual transactions. The identification requirement includes compulsory identification of customers who pay cash for transactions of 15,000 euros (approximately \$18,800) or more.

The law requires obliged entities to gather customer identification and institutes record keeping requirements. Entities must retain 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 and unusual transactions must be reported immediately. Obligated entities must also file an unusual activity report using the indicator list provided by the FIU if there appears to be laundering or attempted laundering of the proceeds from crime or terrorist financing.

Obligated entities must also report cash transactions. This requirement applies regardless of size or number of transactions. Depending on the situation and the business, the reporting threshold may vary from 1000 lats to 40,000 lats (approximately \$2000-\$80,000). Entities subject to the law have the ability to freeze accounts if they suspect money laundering or terrorist financing. If they find the activity of an account questionable, they may close the account on their own initiative. Negligent money laundering is illegal in Latvia and authorities can prosecute. Deliberately providing false information about a beneficial owner to a credit or financial institution is also illegal.

By establishing a framework to improve the flow of information, the new AML law removes many procedural hurdles that had stymied law enforcement agencies responsible for investigating and prosecuting financial crimes. The FIU can now share information directly with Latvian law

enforcement agencies instead of submitting it through the Prosecutor General's office. The law also authorizes the Latvian FIU to exchange information with any government.

The Council for Development of the Financial Sector (formerly the Anti-money Laundering Council) is the coordinator of AML and counterterrorist financing (CTF) issues on the state level. The Prime Minister chairs this body and it continued to meet during 2008.

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 \$12,500) in cash or monetary instruments between Latvia and any non-European Union (EU) member state, 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 exempt from any declaration requirement. Latvian government agencies share these declarations amongst themselves.

Banks may not 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 identify and verify the customer, establish the identity of the beneficial owner of a company, determine the reason for the opening of the account, define the expected transactions and monitor transactions as they are made. Sanctions levied against banks for noncompliance reach fines up to 100,000 lats (approximately \$175,000). 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 number and size of the nonresident accounts continues to represent a significant AML/CTF vulnerability given the inherent problems associated with establishing accounts based on non-face-to-face relationships. According to the FCMC, as of June 2008 nonresident deposits amounted to approximately \$10 billion, or just under 45 percent of total deposits in Latvia.

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 (part of OMX NASDAQ), and the insurance sector, which includes insurance companies, reinsurance companies and insurance intermediaries. The FCMC conducts regular audits of credit institutions. It also levies financial sanctions on 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 whether it has received corresponding suspicious transactions reports (STRs) when suspicious transactions occur between Latvian banks.

The "Regulations for Enhanced Customer Due Diligence," in force since August 2008, define when financial institutions must perform enhanced customer due diligence, the performance procedure for and the minimum extent of enhanced customer due diligence at the beginning of or during a business relationship, the categories of risk, the special measures of enhanced due diligence, and the performance procedure as it applies to customer transactions. If a customer does not meet minimum standards, a bank must terminate its relationship with that customer within 45 days of the determination. Banks must also identify customers who have no account or relationship with the bank, but wish to make transactions. The FCMC has the authority to share information with Latvian law enforcement agencies and receive data regarding potential financial crime patterns uncovered by police or prosecutors.

The Gambling and Lotteries Law outlines gaming and lottery organizers' rights and obligations in relation to preventing money laundering. Organizers have certain restrictions and must submit suspicious or unusual transaction reports to the FIU. They also must perform other AML activities as required by Latvian law. The Lottery and Gaming Supervisory Inspection Commission is currently updating Suspicious Activity Report (SAR) indicator guidelines for organizers based on technology and product changes in the gaming industry. The mutual evaluation report of Latvia (MER) conducted

by the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the International Monetary Fund and adopted by the MONEYVAL plenary in 2006, found compliance with 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 and actively participated in the creation of the new AML law. The ALCB has adopted regulations entitled "Prevention of Money Laundering" as guidance, as well as a "Declaration on Taking Aggressive Action against Money Laundering," which all Latvian banks signed in 2004. 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 \$1,800) per day. In 2008, the ALCB Council approved an "Action Plan to Enhance Transparency of Offshore Customers Serviced by Banks in Latvia." In addition to acting as an industry representative to government and regulator, the ALCB organizes regular education courses on AML/CTF issues for bank employees. Since 2005, 476 professionals from banks, insurance companies, leasing companies, the Latvian Post Office, business school and finance and auditing companies have been trained in Basic, Advanced or Expert certificate courses, which include a five-day extensive training program followed by an examination.

The Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity, known as the Control Service, is Latvia's FIU. Although the Control Service is part of the Latvian Prosecutor General's Office, which monitors it, its budget is separate. The Control Service is responsible for coordination, application and assessment of Latvia's AML policy and overall effectiveness. Latvia's FIU received over 34,000 reports in 2007. During the first 10 months of 2008 the Control Service received nearly 29,000 reports of suspicious and unusual financial transactions, and sent 117 cases, encompassing more than 2100 financial transactions, to law enforcement authorities.

Through the new AML law Latvia has addressed concerns described by the MER, in particular a concern regarding over-reliance on lists of either examples of suspicious transactions or indicators for unusual transactions for STR filing, as opposed to examination of actual transactions. The new AML law mandates reporting on unusual transactions and that this reporting must be analyzed by the FIU. The law does not define a list of indicators for identifying suspicious activities or filing Suspicious Activity Reports (SARs), and authorities explain the types of suspicious transactions through training. These institutions file SARs based on their analysis and findings.

Latvia has taken steps to ensure effective implementation of the new AML law by providing training to explain the intent and details 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 five such trainings in 2008.

The Control Service conducts a preliminary analysis of the suspicious and unusual reports. It may then forward the information to law enforcement authorities that investigate money laundering and other criminal cases. The Control Service can disseminate case information to a specialized Anti-Money Laundering Investigation Unit of the Economic Police within the State Police, as well as 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.

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 information with other FIUs and has cooperation agreements on information exchange with FIUs in eighteen countries. The Control Service is a member of the Egmont Group of financial intelligence units. The FIU has the power to suspend debit operations in an account if it believes that any crime,

including terrorist financing or money laundering, has been attempted or committed. If a bank exercises its right to refrain from executing a transaction and reports this to the FIU, it is then the FIU's decision whether to freeze the assets for 60 days or to allow the transaction to proceed. If the FIU issues a freezing order, it must forward the case to law enforcement or the Prosecutor's Office within 10 business days.

In 2007 the Latvian FIU issued 94 freezing orders for the total amount of 6,5 million lats (approximately \$11.4 million). In the first 10 months of 2008 the FIU issued 75 orders to freeze assets, with a total of over 1.5 million lats (approximately \$2.6 million). Latvia's FIU reports that cooperation from the banking community in tracing and freezing 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 2008, the courts returned 9 decisions, leading to the seizure of more than \$7 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 2007, the Prosecutor General's Office received 27 money laundering cases for the prosecution of 53 individuals. The court examined twelve cases, and convicted 20 individuals, four of whom received sentences that included jail time. During the first 10 months of 2008 the Prosecutor's Office received 12 money laundering cases for the prosecution of 17 individuals, and 11 money laundering cases were examined by the court resulting in the sentencing of 18 people, five of whom were sentenced to prison.

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 accounts and funds of persons included on one of the terrorist lists for up to six months. The Control Service can also freeze accounts if it suspects terrorist financing. The AML law authorizes the Control Service to freeze the funds of persons designated on one of the terrorist lists for up to six months. If there is a case of possible terrorism financing, but the entity in question is not on one of the lists, the FIU can freeze funds for 45 days, which is the same interval as allowed for other crimes.

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.

In April 2005, the United States outlined concerns in a Notices of Proposed Rulemaking against two Latvian banks, under Section 311 of the USA PATRIOT Act. Both banks were found to lack adequate AML/CTF controls and were used by criminal elements to facilitate money laundering, particularly through shell companies. However, the FCMC pursued strong measures to clean up the banking

system. In August 2006, the United States rescinded the Proposed Notice of Rulemaking for one of the banks, but issued a final rule imposing a special measure against the second bank, 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 some 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 Convention for the Suppression of the Financing of Terrorism and eleven other multilateral counterterrorism conventions. Latvia is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. A Mutual Legal Assistance Treaty (MLAT) has been in force between the United States and Latvia since 1999. Latvia is a member of MONEYVAL, a FATF-style regional body. In December 2007, MONEYVAL approved Latvia's progress report, which addressed shortcomings identified in the MER, and outlined Latvia's plan to attain full compliance with the FATF Recommendations.

Despite the legislative and regulatory improvements, Latvia still faces significant money laundering threats tied to corruption, organized crime and nonresident account holders. 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 continue to actively implement and vigorously enforce the new AML law. It is also vital that competent authorities be provided adequate resources and staffing to carry out their duties under the new AML law. Latvia should continue to strengthen its risk-based approach to AML/CTF and take steps to further enhance the preventative aspects of its AML/CTF regime, including ensuring effective implementation of 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 also should work toward increasing its authorities' ability and effectiveness in aggressively prosecuting and convicting those involved in financial crimes.

Lebanon

Lebanon is a financial hub for banking activities in the Middle East and eastern Mediterranean and has one of the more sophisticated banking sectors in the region. The banking sector continues to record an increase in deposits and as of late 2008, there were 66 banks (50 commercial banks, 12 investment banks, and four Islamic banks) operating in Lebanon with total deposits of \$76 billion. Banque du Liban, the Central Bank of Lebanon (CBL), regulates all financial institutions and money exchange houses.

Lebanon faces significant money laundering and terrorist financing vulnerabilities. For example, Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by banking sources to reach \$5 to \$5.5 billion yearly. It has been reported that a number of these family ties are involved in underground finance and trade-based money laundering (TBML). Laundered criminal proceeds come primarily from domestic criminal activity and organized crime. In May 2007, for example, members of the terrorist group Fatah Al-Islam stole \$150,000 from a BankMed branch in the northern city of Tripoli just before launching an attack against the Lebanese Armed Forces (LAF) surrounding the Nahr El-Bared refugee camp. There is some smuggling of cigarettes and pirated software, but the sale of these goods does not generate large amounts of funds that are then laundered through the formal banking system. There is a black market for stolen cars,

counterfeit goods and pirated software, CDs, and DVDs. The domestic illicit narcotics trade is not a principal source of money laundering proceeds.

In 2001, Lebanon enacted its anti-money laundering (AML) legislation, Law No. 318. This legislation 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 \$13,315). 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, etc.) and real estate to report suspicious transactions. These companies are also required to ascertain the client's identity and address and retain records for a minimum of five years.

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. The Central Bank regulates private couriers who transport currency. Money service businesses, such as Western Union and Money Gram, must be 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 activity reporting requirements.

Law No. 318 also established Lebanon's financial intelligence unit (FIU), the Special Investigation Commission (SIC). The SIC is an independent entity with judicial status that receives reports of suspicious transactions, investigates money laundering operations, monitors compliance of banks and other financial institutions, and issues financial advisories pursuant to the provisions of Law No. 318. The SIC serves as the key element of Lebanon's anti-money laundering/countering the finance of terrorism (AML/CTF) regime and is the only entity with the authority to lift bank secrecy for administrative and judicial agencies. It is also the administrative body through which foreign FIU requests for assistance are processed. The SIC joined the Egmont Group of FIUs in 2003.

Although offshore banking, trust and insurance companies are not permitted in Lebanon, the government enacted Law No. 19 on September 5, 2008, expanding existing provisions regarding activities of offshore companies and transactions committed outside Lebanon or in the Lebanese Customs Free Zone. 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 maintains a special register, containing all relevant information about offshore companies.

There are two free trade zones (FTZ) operating in Lebanon: the Port of Beirut and the Port of Tripoli. FTZs fall under the supervision of the Customs Authority. Exporters moving goods into and out of the free zones submit a detailed manifest to Customs. Customs is required to inform the SIC on suspected TBML or terrorist financing, however, high-levels of corruption within Customs create vulnerabilities for TBML and other threats. Companies using the FTZ 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, presenting a significant cash-smuggling vulnerability.

However, since January 2003, Customs staff checks travelers randomly and notifies the SIC upon discovery of unspecified large amounts of cash.

In February 2004, Lebanon passed Law No. 645 requiring diamond traders to seek proper certification of origin for imported diamonds, and 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 participate in the Kimberley Process in September 2005. Prior to this legislation, Lebanon had passed a decree in August 2003 prohibiting imports of rough diamonds from countries that are not participants in the Kimberley Process. Nonetheless, there have been consistent reports that some Lebanese diamond brokers in Africa are engaged in the laundering of diamonds—the most condensed form of physical wealth in the world. The Kimberley Process office in Lebanon notes, however, that according to the Kimberley Process procedure, diamond dealers must submit an application to MOET in order to import or export rough diamonds. The Beirut International Airport is the sole entry point for rough diamonds, and the Kimberley Process office at the Beirut International Airport monitors and physically checks the quantities of rough diamonds imported, ensuring that importers have a Kimberley Process certification issued by the country of origin. This office 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 did not have a 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. As of late 2008, no additional cases of illegal diamond trade were reported. However, existing 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, Australia, and parts of Latin America. They often work as brokers and traders, some of which network via family ties and are involved with underground finance and TBML. 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, some expatriate Lebanese brokers are actively involved in the trade of counterfeit goods in the tri-border region of South America, where the borders of Argentina, Brazil and Paraguay intersect, and the smuggling and laundering of diamonds in Africa. There are also reports that some in the Lebanese expatriate business community willingly or unwillingly give “charitable donations” to representatives of Hizballah, a U.S. designated foreign terrorist organization based in Lebanon.

Since its inception, the SIC has been active in providing support to international criminal case referrals. From January through October 2008, the SIC investigated 153 cases involving allegations of money laundering, terrorism, and terrorist financing activities. Out of the 153 cases, three of them were related to terrorist financing, and the SIC froze the accounts of eleven individuals totaling approximately \$38,000. Additionally, bank secrecy regulations were lifted in 48 instances, and eight cases were transmitted by the SIC to the general state prosecutor for further investigation. As of October 2008, two cases were transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported 15 cases to the SIC, three of which were related to embezzlement and counterfeiting charges, one to fraud, another to terrorism, two to drugs, and one to organized crime. However, as of late 2008 there has not been any money laundering convictions.

Throughout 2003, Lebanon adopted additional measures to strengthen efforts to combat money laundering and terrorist financing through a variety of ways, including the establishment of AML units in customs and the police. According to the SIC, inter-agency cooperation with other Lebanese law enforcement units, including customs, police, and the office of the general state prosecutor has increased. In 2005, a SIC Remote Access Communication system was created 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. By late 2008, continued cooperation led to the

transfer of over 75 suspicious transactions reports (STRs) to the SIC, allowing it to initiate several investigations based on the information.

In 2003, Lebanon also adopted 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. Such definition does not apply to Hizballah, which is considered a legitimate political party—represented by members of Parliament and a Cabinet minister—and resistance organization in Lebanon. The widespread view of Hizballah as a legitimate resistance organization, and thus not subject to Lebanese anti-terror financing laws, poses terrorist financing threats.

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 expanded the definition of Article 316 of the Penal Code on terrorist financing, which stipulates that any person who voluntarily, either directly or indirectly, finances or contributes to terrorist organizations or terrorist acts is punishable by imprisonment with hard labor for a period not less than three years and not more than seven years, and 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, allowing for the confiscation of assets determined to be related to or proceeding from money laundering or terrorist financing. Both vehicles helped to transport illegal goods, such as drugs, as well as legitimate businesses established from illegal proceeds are also subject to seizure under Law 318. Forfeitures are then transferred to the Lebanese Treasury.

The SIC circulates the names of suspected terrorists individuals 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, and by the European Union under their relevant authorities to all financial institutions. As of early November 2008, the SIC signed nineteen memoranda of understanding with counterpart FIUs concerning international cooperation. Lebanon does not have a mutual legal assistance agreement with the United States.

In September 2007 the Lebanese Cabinet established a National Committee to suppress the financing of terrorism, chaired by the Ministry of Interior. The Cabinet expanded membership of The National Committee for coordinating AML policies to include representatives from the Ministries of Justice, Finance, Interior, Foreign Affairs, Economy, and a representative from the Beirut Stock Exchange. On October 8, 2008, the Parliament approved Law 32, which expanded the scope of investigators' field of inquiry, granting them greater authority to include funds originating from corruption activities into money laundering cases.

Lebanon is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) and is scheduled to undergo its first MENAFATF Mutual Evaluation. Lebanon is a party to the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. On October 8, 2008, the Parliament agreed that Lebanon would adhere to standards of the UN Convention against Corruption, although it is not currently a party to that instrument. Lebanon is not a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Lebanon should encourage more efficient cooperation between financial investigators and other relevant agencies such as customs, police, and internal security forces. There should be more emphasis on linking predicate offenses to money laundering and not an over-reliance on suspicious transaction reports filed by financial institutions to initiate investigations. 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 TBML. Although the number of suspicious transaction reports filed and subsequent money laundering investigations coordinated by the SIC have steadily increased, prosecutions and convictions are still lacking. The end of the Syrian military occupation in April 2005 and the gradual decline of Syrian influence over the economy (both licit and illicit), security services, and political life in Lebanon may present an opportunity for the GOL to further strengthen its efforts against money laundering, corruption, and terrorist financing. The GOL should pass legislation to mandate and enforce cross-border currency reporting, upholding FATF Special Recommendation IX. Finally, the GOL should become a party to the UN International Convention for the Suppression of Terrorist Financing and to the UN Convention against Corruption.

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 significantly contribute 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. 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 15 banks, three nonbank financial companies, 16 public investment companies, and a number of insurance and reinsurance companies. The three largest banks control 90 percent of the market. Liechtenstein's 389 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.

Liechtenstein's anti-money laundering/counterterrorist financing (AML/CTF) regime was evaluated in 2007 by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. The evaluation notes that fiscal offenses, including serious and organized fiscal fraud, are not predicate offenses for money laundering in Liechtenstein. The report also recommends Liechtenstein provide for criminal liability for corporate entities. Additional, as yet uncorrected, items are noted throughout this report. Liechtenstein remains on an Organization for Economic Cooperation and Development (OECD) list of "noncooperative" countries in terms of provision of tax information.

Narcotics-related money laundering has been a criminal offense in Liechtenstein since 1993. Under Article 165 of the Criminal Code, money laundering is punishable by imprisonment of up to five years or a fine of up to 360,000 Swiss francs (approximately \$322,250). Under Article 278a, a member of a criminal organization is subject to a punishment of up to ten years imprisonment. In principle, violations of the Due Diligence Act are punished with imprisonment of up to six months or a fine of up to 360,000 Swiss francs (approximately \$322,250). The Office of the Prosecutor and the Court of Justice are responsible for investigating these offenses. The National Police also maintains a special unit for combating economic crimes.

Liechtenstein enacted its first general anti-money laundering (AML) legislation in 1996. Although this law applies 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, the Government of Liechtenstein (GOL) took legislative and administrative steps to improve its AML regime.

Since 2000, far-reaching legislative reforms have been undertaken in the course of strengthening and modernizing the financial center, such as the creation of the financial intelligence unit (FIU) in 2001 and the Financial Market Authority (FMA) in 2005. Other key reforms include the total revision of and subsequent amendments to the Mutual Legal Assistance Act (2000 and 2006); several amendments to the Insurance Supervision Act (2002 and 2005); the counterterrorism package (2003); the total revision of the Due Diligence Act (2004) and the Investment Undertakings Act (2005); the creation of an Asset Management Act (2005) and a Market Abuse Act (2006); several amendments to the Narcotics Act (2006); key changes to the Banking Act (2006 and 2007); and the total revision of the Securities Prospectus Act (2007) and the Pension Funds Act.

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 FATF Forty-Nine Recommendations in the areas of customer identification, suspicious transaction reporting, and record keeping. Liechtenstein has established an overall risk-based approach that requires financial institutions to build and keep up to date a profile for each long-term customer. The DDA prohibits banks and postal institutions from engaging in business relationships with shell banks and from maintaining bearer-payable passbooks, accounts, and deposits.

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." However, the 2007 MONEYVAL mutual evaluation identifies Liechtenstein's rules on "tipping off" the subject of a suspicious transaction report (STR) as inadequate. Filers of STRs are prohibited from "tipping off" only for a period of 20 days. The report also recommends the STR requirement encompass attempted occasional transactions.

On June 23, 2008, the GOL announced it would implement legislation requiring that money transfers above 25,000 Swiss francs (approximately \$17,900) include information on the identity of the sender, including his or her name, address, and account number. The proposed measures will ensure that this information will be immediately available to appropriate law enforcement authorities. The information will assist them in detecting, investigating, and prosecuting money launderers, terrorist financiers, and other criminals.

The 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 FIU, the Office of the Prosecutor, and the police.

Liechtenstein's FIU, the Einheit fuer Finanzinformationen (EFFI), receives, analyzes and disseminates STRs relating to money laundering and terrorist financing. The EFFI has access to various governmental databases. However, EFFI cannot seek additional financial information unrelated to filed STRs. In 2007, the EFFI received 207 STRs, a 27 percent increase compared to the 163 STRs in 2006. Banks submitted 130 STRs, professional trustees submitted 64, lawyers six, investment companies three, and the Postal Service one. Three STRs were submitted by Liechtenstein authorities and the FMA. Three percent of the subjects of STRs were U.S. nationals. In 2007, the FIU received

140 inquiries from 24 FIUs and sent 127 inquiries to 24 FIUs. Information regarding the number of STRs received in 2008 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. However, the 2007 MONEYVAL evaluation of Liechtenstein notes the number of investigations triggered by the FIU is low. The report also notes Liechtenstein's tendency to transfer cases to the authorities of the jurisdiction where the offense occurred keeps the judiciary from developing its own experience and jurisprudence in money laundering matters. There have been only two prosecutions in Liechtenstein for autonomous money laundering and no convictions.

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 253a of the Code of Criminal Procedure provides for the sharing of confiscated assets. Liechtenstein has not adopted the 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 UNSCRs 1267 and 1333. The GOL can freeze the accounts of individuals and entities that are designated pursuant to these UNSCRs, and as of 2007, had blocked approximately \$150,000 worth of terrorist assets under the 1267 regime. The GOL has not, however, established a national terrorist list, and therefore lacks measures to freeze and manage assets suspected of belonging to suspected terrorists that are not on a UN list. The GOL updates its implementing ordinances regularly.

The GOL is reviewing the Criminal Code to further expand the list of predicate offenses, including terrorist financing activities. The revision is expected to implement the following articles to the Criminal Code: draft Article 278b will allow punishment of leaders of a terrorist group with five to fifteen years imprisonment, and members or financial supporters of a terrorist group with imprisonment of one to ten years; draft Article 278c will list terrorist offenses; and draft Article 278d will address terrorist financing. There have been no terrorist financing cases yet.

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 with nine FIUs, and seven others are under negotiation.

Liechtenstein is a member of MONEYVAL, and EFFI is a member of the Egmont Group. The GOL is a party to the UN Convention for the Suppression of the Financing of Terrorism. On March 9, 2007, Liechtenstein acceded to the 1988 UN Drug Convention, and on February 20, 2008, it ratified the UN Convention against Transnational Organized Crime. Liechtenstein is not a party to the UN Convention against Corruption.

While the Government of Liechtenstein has made progress in addressing the shortcomings in its AML regime, it should continue to build upon the foundation of its evolving AML/CTF regime. The GOL should prohibit the issuance and use of corporate bearer shares and establish the criminal liability of corporate entities. Liechtenstein also should expand its list of predicate offenses to ensure all appropriate crimes are addressed, as well as prohibit "tipping off"—a practice that permits account holders to transfer funds in question and mitigates thorough investigation by law enforcement and the possibility of criminal prosecution. The FIU should have access to additional financial information

related to STRs. Liechtenstein also should consider creating a national terrorist list, which would allow for the implementation of UNSCRs that do not include a list, such as UNSCR 1373. 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 ratify the UN Convention against Corruption.

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 \$2,400,000,000,000 in domiciled assets, Luxembourg is the second largest mutual fund investment center in the world, after the United States. As of October 2008, 154 registered banks existed, with a collective balance sheet total reaching approximately \$1,300,000,000,000. In addition, as of September 2008, a total of 3,322 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached over approximately \$2,400,000,000,000 operated from Luxembourg or traded on the Luxembourg stock exchange. Luxembourg has approximately 15,000 holding companies, 95 insurance companies, and 260 reinsurance companies. According to the latest figures available (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 (Société d'investissement en capital à risqué, or "SICAR").

The Government of Luxembourg (GOL) has enacted laws and adopted practices that help prevent the abuse of its bank secrecy laws and has implemented a comprehensive legal and supervisory AML regime. The Law of July 7, 1989, updated in 1998 and 2004, serves as Luxembourg's primary anti-money laundering (AML) and counterterrorist financing (CTF) law, criminalizing the laundering of proceeds for an extensive list of predicate offenses, including narcotics-trafficking. The laws provide customer identification, recordkeeping, and STR 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 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 (approximately \$20,250). 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 ensure adequate internal organization and employee training, and must cooperate with authorities.

A new law, issued on July 17, 2008, contains further provisions on customer due diligence and other internal risk management measures to prevent money laundering and terrorist financing. This legislation also requires that proper, accurate, and current information be available about the contracting party to ensure transparency. This law widens the scope of predicate offenses and sets

forth minimum sentencing guidelines for money laundering offenses to comport with the Financial Action Task Force (FATF) recommendations.

Although Luxembourg is well known for its strict banking secrecy laws, these laws do not apply in investigations and prosecutions of money laundering and other crimes. 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 a competent authority, with sanctions for noncompliance varying from 1,250 to 1,250,000 euros (approximately \$1,700 to \$1,687,500) to, potentially, forfeiture of the professional license. Luxembourg's regulatory authorities believe these fines to be stiff enough so as to encourage strict compliance.

The Financial Supervision Commission, Commission de Surveillance du Secteur Financier (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" (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. As of October 31, 2008, a total of 260 PSFs operate in Luxembourg.

The Luxembourg Central Bank oversees the payment and securities settlement system, and the Insurance Commissioner's Office, Commissariat aux Assurances, (CAA), under the Ministry of Finance, is the regulatory authority for the insurance sector.

SICAR entities are covered by a law adopted in July 2007. Adopted at the same time was a law regulating markets dealing in financial instruments. Two grand-ducal regulations augment the law. The first outlines organizational requirements and rules of conduct in the financial sector; and the second establishes the need to keep an official listing for financial instruments.

Under the direction of the Ministry of the Treasury, the CSSF has established the Anti-Money Laundering Steering Committee, Comité de Pilotage Anti-Blanchiment (COPILAB), composed of supervisory and law enforcement authorities, the FIU, and financial industry representatives. The committee meets monthly to develop a common public-private approach to strengthen Luxembourg's AML regime.

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. Companies must maintain a registered office in Luxembourg. Authorities perform background checks on all applicants and a government registry publicly lists company directors. Nominee (anonymous) directors are not permitted.

Luxembourg permits bearer shares. Officials contend that bearer shares do not pose a money laundering concern because KYC laws require banks to know the identities of beneficial owners.

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 four 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 2008, obliged institutions filed a total of 901 STRs, compared to a total of 811 in 2007. This increase of STRs is mainly due to the establishment of PayPal in Luxembourg in July 2007. So far in 2008, 238 STRs have been submitted by PayPal. The banking sector submits the largest volume of STRs. STRs submitted by the fund investment sector remain rare despite the general economic evolution of that sector. In 2007, 225 information requests were received from foreign authorities, compared to 180 in 2006. Since 85 percent of the subjects of STRs reside abroad, the efficiency of Luxembourg's AML system heavily depends on the international cooperation between FIUs and between judicial authorities. The 2008 statistics on the number of U.S. residents referenced in STRs are not available yet. Among the individuals referenced in STRs in 2007, 67 resided in the U.S. Of the 343 cases of suspicious activity in 2007, 32 percent related to organized crime (including terrorist financing) and eight percent involved suspected narcotics-related money laundering.

The GOL prosecuted three money laundering cases in 2006 and four in 2007. In May 2006, two individuals were convicted of laundering narcotics-trafficking proceeds and received sentences of 72 months and 12 months of imprisonment. 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 closed this legal vulnerability with Bill 5756, which expands the list of predicate offenses. Also in November 2006, a Dutch lawyer representing a convicted drug trafficker was acquitted of attempted money laundering charges, but an appellate court overturned the acquittal in May 2007. The defendant appealed his conviction to Luxembourg's Supreme Court, which handed down a suspended sentence of four years and a 10,000 euro (approximately \$13,500) fine. The money was confiscated by the Luxembourg authorities.

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 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. The banking community generally cooperates with enforcement efforts to trace funds and seize or freeze bank accounts. 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. The GOL 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 agreed in early December 2005, to take into account five principles with regard to 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. 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 UNSCR 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 both the UN and EU designation processes. 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 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 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 (MLAT) requests from the U.S. Government (USG) and in return requested USG assistance in three cases. Dialogue and other bilateral proceedings between Luxembourg and the United States have been extensive. Upon request from the USG, 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 USG and the GOL 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 USG signed with the EU 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, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. On May 12, 2008, Luxembourg ratified the UN Convention against Transnational Organized Crime.

Luxembourg is a member of the FATF, and the Luxembourg FIU is a member of the Egmont Group. Luxembourg and the United States have had a 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.

However, the scarce number of financial crime cases is of concern, particularly for a country that has such a large financial sector. The GOL 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 the FIU receives. The GOL should pass legislation creating the authority for it to independently designate those who finance terrorism as it would be well served to have such authority. The GOL also should enact legislation to address the continued use of bearer

shares. The GOL should continue its efforts to assist jurisdictions with nascent or immature AML/CTF regimes.

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, and a rapidly expanding economy based on gambling and tourism create an environment that can be exploited for money laundering purposes. Macau's limited institutional capacity is a particular concern. The Macau Special Administrative Region (MSAR) is a gateway to China, and can be used as a transit point to remit funds and criminal proceeds to and from China. Further, Macau's economy is heavily dependent on gaming. The gaming sector continues to be a significant vulnerability. However, Macau is not a significant offshore financial center.

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. Crimes that occur in Macau include financial fraud, bribery, embezzlement, organized crime, counterfeiting, and drug-related crimes. However, 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.

The gaming sector and related tourism are critical parts of Macau's economy. Taxes from gaming in the first eleven months of 2008 increased by 38 percent from the same period in 2007 and comprised 77 percent of government revenue in the first eleven months of 2008. Gaming revenue in the first nine months of 2008 exceeded the 2007 total and account for well over 60 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 31 casinos, the three concession holders: Sociedade de Jogos de Macau (SJM), Galaxy and Wynn, and three sub-concession holders: Las Vegas Sands, MGM and PBL/Melco.

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 are 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 in Macau 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.

Macau has taken steps over the past four years to improve its regulatory structure and institutional capacity to tackle money laundering. On March 23, 2006, the Macau Special Administrative Region Government (MSARG) 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 interim establishment of a financial intelligence unit (FIU) for a term of three years, which began operation 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.

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 MSARG, 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 STRs in Macau and to undertake subsequent investigations. In 2006, the newly established 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.

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 outside normal judicial proceedings to fully implement UNSCRs 1267 and 1373. 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 MSARG 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 2008.

The Macau legislature passed a counterterrorism 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 counterterrorist 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. On March 30, 2006, the MSARG passed additional counterterrorism legislation aimed at strengthening measures to counterterrorist 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.

A Macau Monetary Authority official serves as the head of the FIU. The FIU has been expanding since its inception and now consists of more than ten staff, including members seconded from the Insurance Bureau, Monetary Authority and Judicial police. The FIU will continue to hire additional staff in 2009. The FIU works with the Macau Judicial Police on investigation of 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 three-year authorization for the FIU expires in 2009. FIU officials have assured the U.S. government that the organization will not be disbanded at the end of the current authorization. The government says it is planning to submit legislation institutionalizing the FIU in 2009. Alternatively, the organization could be authorized for an additional three years.

Increased attention to financial crimes in Macau since the events of September 11, 2001, has led to a general increase in the number of STRs; however, the number of STRs remains relatively low when compared others in the region. 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. Figures for 2008 were unavailable. 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 through 2007, the Macau Public Prosecutions office received 23 suspected cases of money laundering from the FIU. Of these, 14 were referred for investigation by the Judicial Police or the Commission Against Corruption. Figures for 2008 were unavailable. Between 2005 and 2007, the Judicial Police referred three money laundering cases to the Public Prosecutions office. The MSARG has not shared information on the disposition of these cases.

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 \$62,500. In 2003, the Monetary Authority of Macau (AMCM) examined all moneychangers and remittance companies to determine their compliance with these regulations. The AMCM, in coordination with the IMF, updated its bank inspection manuals to strengthen anti-money laundering provisions. The AMCM inspects banks every two years, including their adherence to anti-money laundering regulations.

Former Secretary for Public Works and Transportation, Ao Man Long, was arrested December 2006 and charged with taking bribes and engaging in irregular financial activities, including corruption, money laundering, and abuse of power. The Macau Commission Against Corruption (CAC) reported that Ao had received bribes from real estate and construction companies in excess of \$23 million in return for contracts and approvals in 20 public works projects. Ao, assisted by family members and others, used shell companies in Hong Kong and the British Virgin Islands to launder money. On January 30, 2008, Ao was convicted on 40 counts of bribe taking, 13 counts of money laundering, one count of holding assets from unknown sources and one count of incorrect declaration of assets. He was sentenced to 27 years in prison and U.S. \$31.5 million of his assets were seized, including assets not directly linked to his corruption and money laundering cases. Ao's wife, Chan Meng-leng was sentenced in absentia to 23 years in jail. His father (Ao Vong-kong), younger brother (Ao Man-fu) and

sister-in-law (Chan Wa-choi) were convicted of 6-14 counts of money laundering, and were sentenced to 10-18 years. Three Macau businessmen were also convicted of bribery in connection with the case. The businessmen and Ao's family have appealed their convictions, Ao Man Long has not. The cooperation of the Hong Kong authorities was instrumental in the investigation of the case.

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 U.S. \$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 Renminbi (RMB) 20,000 (approximately \$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 formal 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, mainland China, Portugal, Japan, Korea, and Sri Lanka.

The Monetary Authority of Macau cooperates 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.

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 Macau 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 Macau 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. Those restrictions remain in place.

In December 2006, the Asia Pacific Group (APG) and Offshore Group of Banking Supervisors (OGBS) conducted a joint Mutual Evaluation of anti-money laundering and combating financing of terrorism measures in place in Macau. The Mutual Evaluation Report stated that Macau was noncompliant with FATF Special Recommendation IX, and encouraged Macau to enact measures 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 was also rated as 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 specific ability to freeze terrorist funds; failure to establish an independent and permanent FIU; the lack of requirements for financial institutions to verify the identify the beneficial owners of transactions made by third parties, 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 and enforcing regulations to prevent money laundering in casinos, especially regulations to improve oversight of VIP rooms. The MSAR should, 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 MSARG and the private sector in combating money laundering. Macau should institutionalize its Financial Intelligence Unit by making it a permanent, statutory body. Macau should pursue membership in the Egmont Group, and, in the meantime, ensure the FIU meets Egmont Group standards for information sharing. Macau should devote additional resources to compiling data on financial crimes, including money laundering and terrorist financing, and make that information available to appropriate partners. 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 a growing regional financial center vulnerable to money laundering. Malaysia has developed an anti-money laundering and counterterrorist finance (AML/CTF) framework based on the country's Anti-Money Laundering and Anti-Terrorism Financing Act (AMLATFA). Malaysia's long porous land and sea borders and its 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, which among others, include heroin, amphetamine type substances and ketamine. Other sources of illegal proceeds include corruption, theft, fraud, smuggling, forgery, and illegal gambling. Money laundering techniques include the use of front companies, purchasing high value goods and real property, investment in capital markets, and the use of money changers. Smuggling of goods subject to high tariffs is a source of illicit funds. Malaysia still has a significant informal remittance sector; however, Bank Negara Malaysia (BNM), the Central Bank, actively promotes the migration of informal remittance channels to the formal channels.

Malaysia's National Coordination Committee to Counter Money Laundering (NCC), comprised of members from 15 government agencies, is responsible for the development of the national AML/CTF program, including the coordination of national-wide AML/CTF efforts.

In February 2007, the Asia/Pacific Group on Money Laundering (APG) conducted its second Mutual Evaluation on Malaysia. The evaluation was based on all FATF recommendations. Malaysia's AML/CTF regime was found to be in compliance with the majority of the FATF's Forty Plus Nine Recommendations. Malaysia was found "noncompliant" with Special Recommendation on Terrorist Financing IX on cash couriers—a serious deficiency in view of Malaysia's long and porous borders. In addition, the evaluation identified a number of deficiencies specific to Malaysia's offshore banking center on the island of Labuan, including insufficient resources committed to AML/CTF compliance and constraints on the powers of Labuan's financial authority to both access and share bank customer information.

Subsequent to the second mutual evaluation, the NCC established a task force comprised of the Royal Malaysian Customs, Immigration Department, Home Ministry, and Bank Negara Malaysia to develop and implement national policies and measures to address physical cross-border transportation of currency and bearer negotiable instruments in line with Special Recommendation IX. This initiative is intended to improve Malaysia's relatively lax customs inspection at ports of entry, particularly along the east coast of Sabah in Borneo where extensive coastlines increase its vulnerability to smuggling, including cash smuggling.

The AMLATFA provides for the establishment of a financial intelligence unit (FIU) in Malaysia. The FIU was established in 2001 within the Central Bank. The FIU is tasked with receiving and analyzing information and sharing financial intelligence with the appropriate enforcement agencies for further investigation. The FIU cooperates with other relevant agencies to identify and investigate suspicious transactions. A comprehensive supervisory framework has been implemented to supervise financial institutions' compliance with the AMLATFA and its subsidiary legislation and relevant guidelines. Currently, BNM maintains 365 examiners who supervise the financial institutions under its purview.

Under the AMLATFA, reporting institutions cover a wide range of institutions, including financial institutions from the conventional, Islamic, and offshore sectors, offshore listing sponsors and trading agents, stock brokers, futures brokers, unit trust management companies, fund managers, futures fund managers, money lenders and pawnbrokers, nonbank remittance service providers, nonbank affiliated charge and credit card issuers, insurance financial advisers, e-money issuers and leasing and factoring businesses, as well as nonfinancial businesses and professions including lawyers, notaries public, accountants, company secretaries, licensed casinos, licensed gaming outlets, registered estate agents, trust companies and dealers in precious metals and precious stones.

These reporting institutions are subject to strict customer due diligence (CDD) rules under the AMLATFA. Every transaction, regardless of its size, is recorded. Reporting institutions must maintain records for at least six years and promptly report any suspicious transactions to the FIU, regardless of the amount of transaction. In addition, a cash threshold reporting (CTR) requirement above RM 50,000 (approximately \$14,000) was imposed upon banking institutions. FIU officials indicate that they receive regular reports from the AMLATFA reporting institutions. Reporting individuals and their institutions are protected by statute with respect to their reporting and 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 suspicious transactions reporting, currency transactions reporting, or in relation to criminal investigations.

Despite these robust CDD and reporting requirements, the APG 2007 mutual evaluation assessed Malaysia as only "partially compliant" on Special Recommendation IV covering the obligation to report suspicions of terrorist financing. Malaysia has introduced but not yet enacted amendments to the AMLATFA to address this deficiency.

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 AMLATFA, 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 supervision and examination by the respective supervisory authorities or the FIU. Malaysia has implemented a comprehensive supervisory framework to supervise reporting institutions' compliance with the AMLATFA and its subsidiary legislation as well as the relevant guidelines. Currently, BNM maintains a large pool of examiners who are involved in the supervision of the financial institutions under the purview of BNM, including branches and subsidiaries located in Labuan, Malaysia's offshore financial services center.

Malaysia's growing Islamic finance sector is subject to the same regulatory requirements and supervision to combat financial crime as the conventional banks. As of end September 2008, in terms of market share, the assets of the Islamic banking system constitute 16.6 percent of the total banking assets, up from 12 percent in mid-2007.

In 1998, Malaysia imposed foreign exchange controls that restricted the flow of the local currency from Malaysia. Malaysia progressively liberalized the exchange control policy while pursuing measures to combat AML/CTF effectively. Most recently, rules were amended on October 1, 2007 to require an individual form to be completed for each transfer above RM 200,000 (approximately \$56,000). In addition, banks are obligated to record the amount and purpose of transactions ranging between the equivalent of \$2,800 and \$56,000.

BNM monitors and assesses remittance service providers (RSPs) to facilitate accessible and inexpensive remittance service in an effort to promote the use of these formal channels. Liberalizations and approvals enacted since 2002 have resulted in the establishment of 30 RSPs with more than 800 branches throughout Malaysia. RSPs are subject to the AML/CTF requirements under the AMLATFA and are under the supervision of BNM. The APG's most recent mutual evaluation of Malaysia in 2007 reported that Malaysia features large scale, unregulated remittance channels and that the jurisdiction requires a strategy to support channeling remittances into formal channels. Due to this and other concerns regarding limited implementation of CDD and record keeping requirements for RSPs, the APG assessed Malaysia as "partially compliant" with Special Recommendation VI on alternative remittances.

While Malaysia's offshore financial center on the island of Labuan has different regulations for the establishment and operation of offshore businesses, it is subject to the same AML/CTF laws as those

governing onshore financial service providers. Malaysia's Labuan Offshore Financial Services Authority (LOFSA) is under the authority of the Ministry of Finance and licenses offshore banks, trust companies, and insurance companies and performs background checks before granting an offshore license. LOFSA is responsible for ensuring AML/CTF compliance on Labuan. However, the APG's 2007 mutual evaluation of Malaysia reported that the LOFSA has devoted insufficient resources to this mission.

Labuan's 59 offshore banks (including 10 investment banks), insurance companies, trust companies, trading agents, and listing sponsors are subject to all AML/CTF requirements, including the filing of suspicious transaction reports under the AMLATFA. Through LOFSA, Malaysia is a member of the Offshore Group of Banking Supervisors and works closely with BNM. The financial institutions operating in Labuan are generally among the largest international banks and insurers. Nominee (anonymous) directors are not permitted for offshore banks or for trust or insurance companies. As of October 2008, Labuan has 6,802 registered offshore companies. 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 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. According to the 2007 MER, LOFSA has only one AML/CTF compliance officer—a fact that may explain why the number of STRs that are reported by LOFSA's banks and trust companies are negligible.

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 17 FIZs and 17 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 FIZ 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. The 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.

Malaysia made its first money laundering arrest in 2004. As of October 2008, the Attorney General's Chambers had prosecuted 62 money laundering cases, involving a total of 2,392 charges with a cumulative total of RM 744.98 million (\$225.7 million). These money laundering cases include self-laundering cases where the criminals who committed the predicate offences dealt/launched the proceeds themselves. Out of the 62 cases, there have been four convictions. Most of the other cases are ongoing. In 2008, there were enforcement actions by Bank Negara Malaysia which resulted in advisories to the public to be cautious of investment schemes promoted on the internet, through phone calls or through seminars conducted by individuals or companies that are not licensed or authorized to accept deposits or to conduct foreign currency dealings.

In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Act (MACMA), and in July 2006 concluded a Mutual Legal Assistance Treaty (MLAT) with the United States. The treaty

came into force in January, 2009. 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. 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.

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. In 2007, the GOM improved the relevant legislation, enabling it to comprehensively freeze assets under the UNSRs 1267 and 1373. The Home Ministry has the authority to declare, by way of order published in the Gazette, terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list as designated entities whose properties are to be frozen. To ensure immediate action to freeze assets of designated entities/individuals, the FIU disseminates electronically an updated UN consolidated list as well as orders or circulars to financial institutions. At the same time, the FIU 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 \$76,400. In 2008, an investigation in Canada tracked about \$1.6 million from Canada to an account at a Malaysian-incorporated bank in Kuala Lumpur. The account facilitated the transfer of funds to the Liberation Tigers of Tamil Eelam (LTTE), a designated foreign terrorist organization.

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.

In March 2007, at the initiation of the NCC, Malaysia enacted amendments to five different pieces of legislation: the AMLA (now known as the AMLATFA), the Penal Code, the Subordinate Courts Act, the Courts of Judicature Act, and the Criminal Procedure Code. Predicate offenses for money laundering were expanded from 219 to 223. Moreover, the amendments impose penalties for terrorist acts, allow for the forfeiture of terrorist-related assets, allows 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. This enabled Malaysia to accede to the UN Convention for the Suppression of the Financing of Terrorism. To date, Malaysia has not initiated prosecution of any terrorist suspects or supporters using these amended laws, but instead has continued to use the Internal Security Act which allows for detention without trial. Malaysia is also a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

The GOM has rules regulating charities and other nonprofit entities. The Registrar of Societies (ROS) is the principal government official who supervises and controls charitable organizations registered as societies, while those registered as companies limited by guarantee fall under the oversight of the Companies Commission of Malaysia, with input from the Inland Revenue Board. The Registrar mandates that every registered society of a charitable nature submits its annual returns, including its financial statements. Should activities deemed suspicious be found, the Registrar may revoke the nonprofit organization's (NPO) registration or file a suspicious transaction report. Registering an NPO as a society 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 a “company limited by guarantee,” a quick and inexpensive process requiring capital of approximately 60 cents and audited financial statements

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, increasing transparency and oversight to help prevent the abuse of charitable giving. Non-Muslims also are allowed a similar tax credit for donations to charitable organizations approved under the Income Tax Act.

The Government of Malaysia continues to enhance its cooperation on a regional, multilateral, and international basis. BNM has signed memoranda of understanding (MOUs) on the sharing of financial intelligence with the FIUs of Australia, Indonesia, Thailand, the Philippines, China, the United Kingdom, United States, Japan, Republic of Korea, Sweden, Chile, Sri Lanka, Brunei, Peru, Bangladesh, Canada, and India.

Malaysia is an active member of the Asia/Pacific Group (APG) on Money Laundering, a regional body designed along the lines of the Financial Action Task Force (FATF). As a member of the APG Donor & Provider Group for Technical Assistance Malaysia works with the World Bank, International Monetary Fund, Asian Development Bank, United Nation Counter-Terrorism Committee Executive Directorate, United Nations Office on Drugs and Crime, the Australian FIU (AUSTRAC), and others to provide technical assistance programs in various ASEAN member countries. Currently, Malaysia is working with the United States to help develop an effective FIU in Afghanistan.

In July 2006, Malaysia was selected as the co-chair of the APG Implementation Issues Working Group (IIWG), which is mandated to provide strategic support to members in implementing FATF Forty Plus Nine Recommendations. As a co-chair, Malaysia has helped develop the Strategic Implementation Planning Framework, which aims to provide post-mutual evaluation implementation assistance to jurisdictions.

Since being accepted as an Egmont Group member in 2003, the FIU in has been elected as the Asia Chair for the Egmont Committee for two consecutive terms (2006-2008 and 2008-2010). In this regard, Malaysia participates as co-sponsor for a number of jurisdictions applying for Egmont Group membership as well as representing the Egmont Group in a number of meetings organized by the APG.

The Government of Malaysia should continue its involvement in AML/CTF matters on a regional, multilateral, and international basis. In addition, Malaysia should improve AML/CTF oversight in Labuan and endow LOFSA with sufficient resources to carry out adequate supervision, particularly over its banks, IBCs, and trust companies. Given that cash smuggling is a major method used by terrorist financiers to move money in support of their activities, as a priority matter, the task force established under the NCC should continue its efforts to develop and implement national policies and measures to address physical cross border transportation of currency and bearer negotiable instruments in line with the FATF Special Recommendation IX on bulk cash smuggling. BNM also should continue its efforts to encourage the use of formal rather than informal remittances which are not subject to AML/CTF controls and may pose vulnerabilities for 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. More effort should be made in identifying, investigating, and prosecuting terror financing.

Mexico

Mexico is a major drug-producing and drug-transit country and is also one of the major conduits for proceeds from illegal drug sales leaving the United States. Proceeds from 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 persons, and other crimes. The smuggling of bulk shipments of U.S. currency into Mexico and the repatriation of the cash into the United States via couriers, armored vehicles, and wire transfers remain favored methods for laundering drug proceeds. In addition, criminal organizations have established networks with criminal groups based in other countries to facilitate and develop new methods to launder illicit funds.

Investigation of money laundering activities involving the cross-border smuggling of bulk currency derived from drug transactions remains a challenge for U.S. law enforcement officials. 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 legitimate remittances. 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 \$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 cambios (licensed foreign exchange offices) and centros cambiarios (unlicensed foreign exchange offices), to facilitate bulk cash smuggling.

Corruption is also of concern: in the last year, various Mexican government officials have come under investigation for alleged corruption and money laundering activities. The Government of Mexico (GOM) took on internal corruption in 2008 and launched a "cleaning operation" aimed at ending corruption inside its enforcement agencies, including the Office of the Attorney General—Special Unit for Organized Crime (PGR-SIEDO), the Secretariat for Public Security (SPP), the Federal Preventive Police (PFP), and the Federal Investigative Agency (AFI). In November 2008, PGR agents apprehended the former Deputy Attorney General of SIEDO. To date, eight enforcement agents from PFP and PGR have been apprehended and accused of leaking confidential information to drug cartels.

In January 2008, the International Monetary Fund (IMF) conducted a mutual evaluation of Mexico on behalf of the Financial Action Task Force (FATF). The evaluation noted improvements to the GOM's AML/CTF regime and identified deficiencies, including a lack of criminal liability for legal persons and a lack of investigations for money laundering and cross-border cash smuggling.

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 valued at \$10,000 or greater. Customs authorities send these reports to the financial intelligence unit (FIU) and cover a wide range of monetary instruments including bank drafts. 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 \$60 million in bulk currency shipments leaving Mexico City's international airport since 2002. As of November 2008, bulk-cash seizures amount to \$53 billion.

Currently, there are 46 banks including 6 development banks and 71 foreign financial representative offices operating in Mexico, as well as 95 insurance companies, 479 investment companies, 155 credit unions, and 24 casas de cambio. The number of casas de cambio will likely decline due to actions the Mexican authorities have taken against those with serious AML/CTF violations and the closure of correspondent accounts in the United States. Commercial banks, foreign exchange companies, and general commercial establishments may offer money exchange services. The Ministry of the Interior (SEGOB) issues temporary licenses for national lotteries, casinos, horse races, and sport pools, but these operations as well as lawyers, accountants, real estate agents, dealers of precious metals and stones, and couriers are currently not subject to anti-money laundering reporting requirements.

Although the underground economy is estimated to account for 20-40 percent of Mexico's gross domestic product, the informality of that economy is considered to be much less significant with regard to money laundering than the criminally-driven segments of the economy.

From 2000 to 2007, inbound remittances grew from \$6.6 billion to \$24 billion a year. However, remittances have declined by 3.7 percent from January through September 2008 compared with the same period in 2007. 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 his/her *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. In 2007, electronic transfers accounted for 95 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) as 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. 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. Money laundering is punishable by imprisonment of five to fifteen years and a fine. Penalties increase when a government official in charge of the prevention, investigation, or prosecution of money laundering commits the offense. 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 offense for money laundering. 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.

Four supervisory agencies are responsible for the compliance with AML/CTF requirements. For AML/CTF purposes, there are four main supervisory agencies: the National Banking and Securities Commission (CNBV), the National Insurance and Bonds Commission (CNSF), the National Retirement Savings System Commission (CONSAR), and the Tax Administration Service (SAT). The CNBV regulates and supervises banks, limited scope financial companies, securities brokerage firms, foreign exchange firms, and mutual funds and subscribes to a risk-based approach to supervision. The CNBV also has the remit to impose administrative sanctions for noncompliance, revoke licenses, and conduct on-site inspections and off-site monitoring of regulated entities. The SAT supervises *centros cambiarios* (nonlicensed foreign exchange retail centers), money remitters, and unregulated *sofomes* (multiple purpose financial companies). 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 \$10,000 to the SAT, which shares the information with the FIU. According to the SAT, there are 882 registered money transmitters and 4380 unlicensed *centros cambiarios*. In 2006, nonprofit organizations were made subject to reporting requirements for donations greater than \$10,000.

The Ministry of Finance, through the Banking, Securities and Savings Unit (UBVA), is responsible for issuing regulations and criteria to interpret anti-money laundering (AML) 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, and centros cambiarios to conduct customer due diligence. The regulations impose customer identification requirements on a range of categories of clients which includes legal persons, individuals, beneficiary owner information and specific provisions for nationals and foreigners. Regulations require enhanced due diligence for higher-risk customers including politically exposed persons. Banks also require identification of occasional customers performing transactions equivalent to or exceeding \$500 in value, so that banks can aggregate the transactions daily to prevent circumvention of cash transaction reports (CTRs) and suspicious transaction reports (STRs) filing requirements. Institutions must maintain records of transactions for a period of ten years. Financial institutions have also implemented programs for screening new employees and verifying the character and qualifications of their board members and high-ranking officers. These institutions have also implemented regular training for their employees on money laundering. With regard to wire transfers, financial institutions are required to obtain originator information. However, the threshold for identification of occasional customers is \$3,000 and does not include the obligation to aggregate lower transactions for a single customer over a period of time. No guidelines have been issued to assist financial institutions with meeting this obligation. In addition, money remitters are not subject to wire transfer regulations.

The UBVA drafted a multifaceted reform which is under review by the Improvement Regulatory Commission (COFEMER), and observers expect approval in early 2009. The reform, when effective, will harmonize the rules and standards between larger banks and other smaller financial institutions such as credit unions, centros cambiarios, and sofoles (limited purpose lending companies) undergoing deregulation and transitioning to sofomes. Sofomes can be subject to or exempt from regulation depending upon their financial activities. The CNBV will supervise the regulated sofomes that maintain a financial relationship with credit institutions and controlling companies of financial groups, and the SAT will supervise the unregulated sofomes. There are currently 13 regulated sofomes and 634 unregulated sofomes. There are no AML/CTF regulations and supervision has not commenced for these institutions as of yet.

The UBVA draft reform also includes regulations for prepaid cards and travelers checks. The government will provide banks and other financial entities the authority to exchange information among themselves regarding money laundering and terrorist financing without violating bank secrecy provisions. The new regulations will require entities to provide more details, such as complete address and other relevant information in the reports submitted to the FIU. The implementing rules will also include a specific definition between “user” (for remittances, casas de cambio, and centros cambiarios) and “customer” (a person who signs a contract or has a bank account).

When implemented, the reform will reduce the threshold to identify a user of cash operations, travelers checks or prepaid cards from \$3,000 to \$500. For operations larger than \$3,000, the reform will require foreign exchange houses, centros cambiarios, and money transmitters to create a complete file of the user. Financial institutions will need to monitor and identify operations in pesos using a threshold of 300,000 pesos (approximately \$21,600) for individuals and 500,000 pesos (approximately \$36,000) for companies; formerly, institutions conducted such monitoring exclusively in dollars. To improve the detection of money laundering, financial entities will have 30 days to report fractioned operations exceeding \$10,000. The reform will also enable Mexico to identify those sectors that do not comply with money laundering preventive measures.

In 2004, the Ministry of the Treasury (SHCP) reorganized and renamed its financial intelligence unit (FIU), the Unidad de Inteligencia Financiera (UIF). The UIF has approximately 70 staff, but officials expect this number to increase to 150 next year. Forensic accountants, lawyers, and analysts comprise the majority of FIU staff. Regulated entities must report to the UIF any suspicious transactions, currency transactions over \$10,000 (except for centros cambiarios, which are subject to a \$3,000

threshold), and transactions involving employees of financial institutions who engage in suspicious activity.

The UIF is responsible for receiving, analyzing, and disseminating STRs and CTRs, as well as reports on the cross-border movements of currency. In 2008, UIF received 36,934 STRs and 6,513,147 CTRs. Following the analysis of the reports, the UIF sends reports that are deemed to merit further investigation, and have been approved by the SHCP's legal counsel, to the PGR. The UIF sends an average of 60 cases per month 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. From 2004 through 2007, 17 criminals have been convicted of money laundering, and \$4.5 billion have been seized by the PGR's financial crimes unit. The UIF also reviews all crimes linked to Mexico's financial system and examines the financial activities of public officials. In 2007 and 2008, U.S. authorities observed a significant increase in the number of complex money laundering investigations by SIEDO, with support from the UIF and in coordination with U.S. officials. The number of investigations rose from 152 in 2004 to 198 as of October 2008. In 2007, 85 of 112 apprehension orders corresponded to money laundering operations.

The PGR's special financial crimes unit is understaffed. The lack of personnel—including more field investigators, prosecutors, and auditors—monetary resources, a comprehensive and modern database, technological equipment, as well as the vulnerability of its facilities undermine the unit's efforts. Of the estimated \$25 billion circulating illegally in the banking system, the PGR is only able to attack one percent of this amount. During the past three months the unit was able to seize between \$60 and \$70 million. So far, efforts have targeted only key states, such as Tamaulipas, Sinaloa, Nuevo Leon, Mexico City, and Jalisco, but the PGR believes there is reason to refocus on other regions such as the southern states of Quintana Roo and Yucatan, where authorities have detected large movements of illicit resources.

In 2006, the UIF signed Memoranda of Understanding (MOUs) with the Economy Secretariat and the Mexican immigration authorities that provides 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 (CON SAR).

At the end of 2008, the GOM enacted legislation to reorganize Mexico's law enforcement agencies that attempts to create synergy among the different levels of local, state, and federal law enforcement agencies to combat drug cartels and other organized crime groups. The law will create a National Public Safety Council (to provide assistance to victims of crime, bolster law enforcement institutions, and evaluate the effectiveness of public safety programs) and a National Intelligence Center.

Agencies involved in AML/CTF efforts are currently drafting an AML/CTF National Strategy, anticipated to be issued in 2009. The Strategy will outline Mexico's AML/CTF short and long range objectives and the strategies that the GOM will implement to meet them. It will also establish an interagency coordination group which will examine emerging money laundering trends and identify and propose legal and regulatory measures to mitigate gaps. In August 2008, the GOM approved an Integral Strategy Against Organized Crime. The strategy focuses on the isolation, neutralization, and ultimate disbandment of organized crime through the abolition of their operational, logistical, commercial and financial networks.

There have been a number of noteworthy cases in 2008. In the beginning of 2008, the U.S. Government froze funds belonging to the Mexican money exchange house Casa de Cambio Puebla as part of a money laundering case filed in U.S. District Court in Miami against Venezuelan national

Pedro Jose Benavides Natera, who participated in a complex money laundering scheme. Criminals used clean funds to purchase high-performance turbo-prop aircraft for drug smuggling operations. Drug proceeds from Venezuela were sent to Casa de Cambio Puebla where cooperating individuals sent the funds on to the U.S., into buffer accounts, operated by individuals who served as fronts for Venezuelan drug traffickers. The buffer account holders then transferred funds to aircraft brokers for the purchase of aircraft. The criminals then cancelled the aircraft registrations and had the aircraft shipped to front men in Venezuela.

In October 2008, at a mansion in Desierto de los Leones near Mexico City, PGR and PFP apprehended 15 major drug dealers and money launderers, 11 of them Colombians, with links to the Beltran Leyva brothers. The leader of the group, Teodoro Mauricio aka “El Gaviota”, is under investigation for money laundering and narcotics trafficking. These apprehensions are part of an ongoing investigation initiated in 2005 of a group of Colombian traffickers in Mexico linked to the Cali-based Norte Valle Cartel.

In November 2008, SIEDO arrested Jaime Gonzalez Duran, aka “The Hummer”, one of the most wanted criminals in Mexico and allegedly one of the leaders and founders of the criminal group “Los Zetas” (considered to be the armed branch of the Gulf Cartel). Gonzalez was apprehended in Reynosa, Tamaulipas where he had smuggled drugs into the U.S., on organized crime, drug smuggling, money laundering, and possession of weapons charges.

Mexico has asset forfeiture laws and provisions for seizing assets abroad derived from criminal activity, and U.S. requests to Mexico for the seizure, forfeiture, and repatriation of criminal assets have occasionally met with success. 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. However, 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*). The legislation would provide for seizing and forfeiting assets used by organized criminals in executing drug trafficking, money laundering, kidnapping, car robbery, embezzlement, and trafficking of persons. Currently, these assets remain untouched by enforcement authorities and the state even when criminals are convicted and sentenced to prison. The legislation would permit specialized judges to authorize an asset forfeiture procedure independently of the criminal process being followed against an alleged criminal, and before a final ruling or conviction. Prosecutors from the Attorney General’s Office would have access to financial, tax, and real estate information through the CNBV, SAT, and notaries. For assets marked for seizure and forfeiture located abroad, Mexico would request international legal assistance under international treaties and reciprocal cooperation mechanisms. The law would also include sanctions against individuals leasing or renting an asset or property to organized crime with the knowledge that it will be used to commit illegal acts.

Senators amended a Presidential proposal to prevent corruption and abuse of power by PGR prosecutors. In addition to that proposal, there are also Senatorial initiatives. One proposes that forfeited assets be included in a fund to prevent and pursue felonies and organized crime. The Service for the Administration of Forfeited Assets would allocate resources to the corresponding authorities and to cover damages to the victims. The three major political parties are discussing the initiatives with the intention of achieving consensus and approving the law in early 2009. Mexico City’s local congress drafted a similar *extincion de dominio* law, which was approved at the end of November 2008.

In 2007, Mexico criminalized terrorist financing, with punishments of up to 40 years in prison. The 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 law also imposes sanctions against an individual or individuals who conceal a

terrorist or a person who threatens to commit a terrorist act. The UBVA distributes the list of individuals and entities that have been included in the UN 1267 Sanction Committee's consolidated list to other government agencies and to financial institutions through the CNBV. 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 its law enforcement authorities regularly meet in bilateral law enforcement working groups with their U.S. counterparts. 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 party to the 1988 UN Drug Convention; the UN Convention against Transnational Organized Crime; the UN Convention against Corruption; and the UN Convention for the Suppression of the Financing of Terrorism. Mexico is a member of the FATF and the Financial Action Task Force for South America (GAFISUD), a FATF-style regional body, of which Mexico currently holds the presidency. In addition to its membership in the FATF and GAFISUD, Mexico participates in another FATF-style regional body, the Caribbean Financial Action Task Force (CFATF), as a cooperating and supporting nation. The UIF is a member of the Egmont Group of Financial Intelligence Units.

The Government of Mexico (GOM) has made fighting money laundering and drug trafficking one of its top priorities, and has made substantial progress in combating these crimes over the course of 2008. However, Mexico continues to face challenges with respect to its anti-money laundering and counterterrorist financing regime, particularly with its ability to prosecute and convict money launderers. The GOM should amend its legislation to ensure that legal persons can be held criminally liable for money laundering and terrorism financing. Mexico should also amend its terrorist financing legislation to fully comport with the UN Convention for the Suppression of Terrorist Financing; and enact legislation and procedures to freeze terrorist assets of those designated by the UN Al-Qaida and Taliban Sanctions Committee. To create a more effective regime, Mexico should fully implement and improve its mechanisms for asset forfeiture, control the bulk smuggling of currency across its borders, monitor remittance systems for possible exploitation, improve the regulation and supervision of money transmitters, unlicensed currency exchange centers, centros de cambiarios and gambling centers, and extend AML/CTF requirements to designated nonfinancial businesses and professions.

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. Though unrecognized, Transnistria is a de facto independent region located along the Dniester River between Moldova and Ukraine. Transnistrian authorities do not submit to GOM financial controls and maintain an independent banking system not licensed by the National Bank of Moldova (NBM). Moldovan per capita incomes are the lowest in Europe. Criminal proceeds laundered in Moldova derive primarily from tax evasion, contraband smuggling, foreign criminal activity, and, to a lesser extent, domestic criminal activity and corruption. Human trafficking also may be a source of proceeds laundered in Moldova. 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, Turkey and Israel, among others.

Money laundering has occurred in the banking system and through exchange houses in Moldova; and in the offshore financial centers and throughout the region in Transnistria. The amount of money laundering occurring via alternative remittance systems reportedly is 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. Criminal cases in 2008 involved the forgery and 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, transferred to Moldovan institutions, and then moved to other countries.

Moldova is not considered an offshore financial center. The Moldovan financial system has 16 banks, including five banks fully or majority-owned by foreigners, 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 prohibited. Internet gaming sites 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. Currently six casinos, two national lottery companies and four sport gambling facilities are licensed and legally operating.

Moldova currently has six free trade zones (FTZs), some of which are infrequently used. Goods from abroad are imported to the FTZs and resold without payment of customs duties to the country of origin or to Moldova. The goods are then exported to other countries with documentation indicating Moldovan origin. According to Moldova's financial intelligence unit (FIU), the Service for Preventing and Combating Money Laundering and Terrorism Financing (SPCSB), through September 30, 2008, no reports have been filed alleging the FTZs have been used in trade-based money laundering schemes or for terrorist financing. A GOM agency, the Free Trade Zone Administration (FTZA), supervises the FTZs. Companies operating in FTZs also are 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 under Article 243 of the Moldovan Criminal Code and under the Law on Preventing and Combating Money Laundering and Terrorism No.190-XVI, (the AML/CTF Law), 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 (approximately \$1,000 to \$1,900) 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.

In early 2007, the President proposed draft amendments to the tax code and other financial regulations aimed at "liberalizing the economy." On April 27, the Parliament adopted tax-code amendments intended to regulate Moldova's informal economy, forgive tax debts and stimulate investments. Of particular concern was a capital-amnesty provision allowing individuals and legal entities to legalize previously undeclared cash and noncash assets, including real estate and stocks. Additionally, those taking advantage of the amnesty would be under no obligation to declare the origins of their declared assets. The law also stipulates that transaction information can not be shared with the CCECC or the Moldovan Tax Inspectorate. Most worrisome, the legislation exempts declared assets from Moldova's fiscal, customs and existing 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 includes amendments to the

capital-amnesty law. The amendment closes loopholes in the capital-amnesty law, eliminating explicitly the exemption of amnesty-related transactions from Moldova's anti-money laundering laws. A week later, Parliament separately adopted the new AML/CTF Law. Since the passage of these laws, GOM authorities have issued numerous regulations, decisions, and laws that are related to the tax-amnesty/capital-legalization law and the AML/CTF Law. On August 15, 2007, the NBM 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 AML/CTF Law 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.

The CCECC, which has the authority to investigate money laundering and terrorist financing, supervises and examines all banks and nonbanking financial institutions for compliance with anti-money laundering/counterterrorist financing (AML/CTF) laws and regulations. Under the AML/CTF Law, the NBM supervises banks, exchange houses, and representatives of foreign banks. A July 2007 amendment to Law No. 192, on the Securities Commission, merges into one agency, the National Commission on Financial Markets (NCFM), 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. 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 carry out activities in the following fields: the 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 gaming facilities.

Banks, exchange houses, stock brokerages, casinos, insurance companies, lawyers, notaries, accountants, lotteries, and institutions organizing or displaying lotteries are required to 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 \$50,000) must be reported to the FIU. The AML/CTF Law also requires financial institutions to maintain records and documentation (including business correspondence) of accounts and account holders for a period of at least seven years after the termination of business relations or the closing of the account.

The SPCSB, Moldova's FIU, is a quasi-independent unit within the CCECC. Decree No. 111 of September 15, 2003, establishes the SPCSB as a law enforcement style FIU, with multiple responsibilities, including the collection, administration, and analysis of transaction reports. It also conducts criminal investigations and has regulatory authority to develop draft laws. During 2008, the FIU's staff increased by five additional employees, expanding the staff to 19 inspectors. The director of the FIU reports the unit is now better staffed, with 25 employees being an eventual long-term staffing goal. FIU staff went through extensive training in 2008. Although housed within the CCECC building, a secure 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. Since the FIU has become a member of the Egmont Group, the CCECC has allotted additional funds

for upgrading and enhancing FIU facilities as well as for training its staff. While the CCECC budget covers the base 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.

In an attempt to strengthen the capacities of Moldova's FIU, the European Commission and the Council of Europe have been working extensively with the CCECC and the Moldovan FIU. The project, which began in August 2006, is a three year program which has as its specific objective the strengthening of Moldova's anticorruption and AML/CTF regime.

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 (PGO), the Ministry of Interior (MOI) and the Customs Service. The Security and Intelligence Service (SIS) investigates terrorist financing. The FIU has formed a task force with the PGO, the MOI, the Customs Service, the NBM, the NCFM, the SIS, and the Ministry of Information Development to share information and discuss investigations. The FIU has signed interagency agreements with other agencies and ministries with databases to exchange information. In 2008, the FIU reported it has been granted access to almost all governmental databases and information systems. In 2008, the FIU improved existing mechanisms on exchange of information at the national and international levels.

In the first nine months of 2008, the FIU received reports on approximately five million financial transactions, of which 16,000 were considered suspicious, a substantial but unexplained decrease from the nine million total reports and the 165,199 suspicious reports in 2007. Also, the total number of suspicious transactions is misleading, since GOM officials categorize all transactions involving Transnistria as suspicious. The FIU indicated ten percent—12 percent of the 16,000 suspicious transactions concern Transnistria.

In 2008, the FIU initiated six criminal cases related to financial fraud; none of these cases carried direct money laundering charges. The FIU identified two major types of criminal activity in 2006 and 2007: in the first instance, criminals used financial transactions that appeared to be legitimate to launder criminal proceeds; and, in the second instance, criminals used the FTZs to create illegal profits by reducing the value of imported goods. In the first nine months of 2008, the FIU imposed fines and sanctions totaling \$300,000. The FIU reports there were no arrests of individuals for money laundering violations during the first nine months of 2008. 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. In 2008, the FIU and CCECC had made no arrests nor pursued any prosecutions involving terrorist financing. Based on the volume of reports received by the FIU, the number of arrests and prosecutions appears to be very low. No explanation was provided for the lack of prosecutions and convictions.

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 they are transporting when that amount exceeds 10,000 euros (approximately \$13,500). If the amount of outbound currency is more than 10,000 euros (approximately \$13,500), the carrier of the currency has 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 and a special permission for outbound cash currency transportation issued by a duly authorized bank or the NBM. The Customs Service operates a special database that includes all declarations which is shared 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 goods 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 PGO 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. However, the initiative has not progressed in 2008, likely because both executive and legislative branches have other higher priorities on their agendas.

To the extent of their jurisdictions, the FIU, CCECC, Tax Inspectorate, Customs Service, prosecutor's offices and Bailiff's offices are responsible for tracing, seizing and freezing assets. Assets seized by law enforcement are incorporated into the state budget, not a separate fund. In the first nine months of 2008, the FIU issued decisions freezing and seizing assets totaling MDL 3 million (approximately \$300,000).

The banking community generally cooperates with enforcement efforts by 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, defining it 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 terrorist-related financial operations. This statute is separate from the AML/CTF Law, which contains other relevant provisions.

In 2008, the CCECC issued a decree on actions to be taken to enforce the provisions of the AML/CTF Law. The CCECC decree lists entities worthy of particular focus, given possible money laundering or terrorist financing concerns. These entities include 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. To date, the Moldovan authorities have not frozen, seized, or forfeited assets related to terrorism or 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 \$24,700,000 Threshold Country Program with the Millennium Challenge Corporation that focuses on anticorruption 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 109 out of 180 countries in Transparency International's 2008 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 the FIUs of Albania, Belarus, Bulgaria,

Croatia, Estonia, Georgia, Indonesia, Korea, Lebanon, Lithuania, Macedonia, Netherlands, Romania, Russia, and Ukraine. Moldova has signed an agreement with Commonwealth of Independent States (CIS) member states for the exchange of information on criminal matters, including money laundering.

Moldova is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. On May 20, 2008, the FIU became a member of the Egmont Group. In 2004, the CCECC was accepted as an observer at the Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force-style regional body (FSRB). Moldova is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FSRB. Moldova underwent an evaluation by MONEYVAL in 2007. The evaluation was largely unfavorable. Moldova is scheduled to undergo its next MONEYVAL evaluation in 2010.

The Government of Moldova should continue to enhance its existing AML/CTF regime. The GOM should ensure the FIU, law enforcement agencies and prosecutors have sufficient resources, capacity, 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, including clarifying if unwitting third parties are subject to the forfeiture provisions. Border and anti-smuggling enforcement should be considered as top priorities in light of the potentially destabilizing effects of continued international organized criminal activity. 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 allegedly have laundered money in Monaco. Reportedly, the Principality does not face 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 "noncooperative" countries in terms of provision of tax information.

Monaco has a population of approximately 32,000, of whom 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 \$102,800,000,000). Approximately 85 percent of the banking customers are nonresident. 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.

The Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body, conducted an evaluation of the Monegasque anti-money laundering and counterterrorist financing (AML/CTF) system in 2007. That report identifies a variety of problems with the Monegasque approach, notably with respect to customer due diligence, designated nonfinancial businesses and professions, and the scope of suspicious transaction reporting. These items remain subject to comment.

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.

Prior approval is required to engage in any economic activity in Monaco, regardless of its nature. The Monegasque authorities issue approvals based on the type of business to be engaged in, the location, and the length of time authorized. This approval is personal and may not be re-assigned. Any change in the terms requires the issuance of a new approval.

Monaco’s 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.

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 AML/CTF policy and program implementation.

Banking laws do not allow anonymous accounts, but the Government of Monaco (GOM) 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.

Monaco’s AML 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 transaction reporting (STR) 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 Contrôle sur les Circuits Financiers (SICCFIN), receives STRs, analyzes them, and forwards them to the prosecutor when they relate to drug-trafficking, organized crime, terrorism, terrorist organizations, or the funding thereof. A 2007 Sovereign Order allows SICCFIN to propose legal or regulatory changes in the areas of money laundering, terrorist financing, and corruption. SICCFIN also supervises the implementation of AML legislation. Under Article 4 of Law 1.162, SICCFIN may suspend a transaction for 12 hours and advise the judicial authorities to investigate. In 2006, SICCFIN received 395 STRs. In 2007, SICCFIN

received 381 STRs, about 55 percent of which were submitted by banks and other financial institutions. SICCFIN received 66 requests for financial information from other FIUs in 2007.

Investigations and prosecutions are handled by the two-officer Money Laundering Unit (Unité de Lutte au Blanchiment) within the police. The Organized Crime Group (Groupe de Répression 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, resulting 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 \$17,000,000) in value as of year-end 2006. Monaco and the United States signed an asset sharing agreement in March 2007.

In July and August 2002, the GOM passed Act 1.253 and promulgated two Sovereign Orders intended to implement UNSCR 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 Convention for the Suppression of the Financing of Terrorism. In 2006, Monaco further amended domestic law to implement these obligations. Monaco has not, however, conducted any TF investigations or prosecutions to date.

Monaco has also enacted domestic measures providing a legal basis for the freezing of terrorist funds. While the legal framework, to a certain extent, provides for the imposition of international sanctions and penalties under criminal law in the event of noncompliance, the mechanism does not apply to persons, groups, or entities within the EU. Monaco also lacks specific mechanisms for examining and acting on freezing procedures initiated by other countries.

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.

In November 2008, the GOM hosted a joint meeting of the FATF and MONEYVAL to discuss money laundering and terrorist financing typologies. Monaco characterized this conference as part of the "pro-active policy" implemented over the last few years to combat these activities.

Monaco 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. SICCFIN has signed information exchange agreements with over 20 foreign FIUs.

Monaco is a member of MONEYVAL, and SICCFIN is a member of the Egmont Group. Monaco 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. 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 AML and confiscation regimes by fully applying its AML/CTF reporting, customer identification, and record keeping requirements to all trustees and gaming houses. More broadly, the GOM should extend AML/CTF regulations to cover designated nonfinancial businesses and professions. SICCFIN should have the authority to forward reports and disseminate information to law enforcement and foreign FIUs 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 2008 World Drug Report by the United Nations Office on Drugs and Crime (UNODC), Morocco remains the world's principal producer and exporter of cannabis resin. Credible estimates of Morocco's informal financial sector range between 17 and 40 percent of GDP. In 2007, remittances from Moroccans living abroad increased by 15 percent over their level in 2006, and totaled more than \$7 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 planned establishment of a Financial Intelligence Unit, expected to become operational in Rabat in early 2009. 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. While the Moroccan banking sector is a regional leader, only three in ten Moroccans use banks. The sector consists of 16 banks, five government-owned specialized financial institutions, approximately 30 credit agencies, and 12 leasing companies. The monetary authorities in Morocco are the Ministry of Economy and 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 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. The Bank al-Maghrib and the Ministry of Economy and Finance embarked on a major campaign to publicize the law in 2007, but delays in promulgating the decrees to implement the legislation meant that the Financial Intelligence Unit (FIU) did not become operational in 2008. The government has set a new goal of January 2009 for establishment of the FIU. There were no prosecutions for money laundering in Morocco in 2008.

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 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. 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 Convention for the Suppression of Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. 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. Although Morocco criminalized terror finance (TF) in 2003, according to MENAFATF, “the Moroccan definition of TF is narrow, since it does not criminalize the act of using funds by a terrorist organization or by a terrorist.”

The Government of Morocco should continue to implement anti-money laundering/counterterrorist 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 enhance their ability to recognize money laundering methodologies, including trade-based laundering and informal value transfer systems.

The Netherlands

The Netherlands is a major financial center and consequently an attractive venue for laundering funds generated from illicit activities. These activities are often related to the sale of cocaine, cannabis, or synthetic and designer drugs (such as ecstasy). Several Dutch financial institutions engage in international business transactions involving large amounts of United States currency. However, there are no indications that significant amounts of U.S. dollar transactions conducted by financial institutions in the Netherlands stem from illicit activity. Financial fraud is believed to generate a considerable portion of domestic money laundering and there is evidence of trade-based money laundering. 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 the border areas with Germany and Belgium to keep smuggling to a minimum. Reportedly, money laundering amounts to 18.5 billion euros (approximately \$25,000,000,000) annually, equivalent to three percent of 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 only needs to prove that the proceeds "apparently" originated from a crime. This application of the law was confirmed by a Dutch Supreme Court case in 2004. Self-laundering also is covered.

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 \$55,400), while "liable acts" of money laundering (by people who do not know first-hand of the criminal nature of the money's origin 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 \$55,400). Habitual money launderers may be punished with a maximum imprisonment of six years and a maximum fine of 45,000 euros (approximately \$55,400); and those convicted also may have their professional licenses revoked. In addition to criminal prosecution for money laundering offenses, money laundering suspects also can 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.

In June 2008, the Netherlands Court of Audit (Algemene Rekenkamer, similar to the U.S. General Accountability Office) published its investigation of the GON's policy for combating money laundering and terrorist financing. The report criticizes the Ministries of Interior, Finance, and Justice for: lack of information sharing among them; too little use of asset seizure powers; limited financial crime expertise and capacity within law enforcement; and light supervision of notaries, lawyers, and accountants. The ministries agreed in large part with these conclusions and are taking steps to address them.

The GON's 2008 "National Threat Assessment on Organized Crime," submitted to Parliament in November 2008, concludes that the Netherlands is attractive to money launderers, particularly through real estate investments. The GON is preparing to exert stricter control on the property sector. A new strategy in 2009 should see tax authorities, financial investigators, and police collaborate more closely on this type of fraud.

The Netherlands has comprehensive anti-money laundering (AML) legislation. The new Prevention of Money Laundering and Financing of Terrorism Act (WWFT) came into force on August 1, 2008. The law incorporates the previous separate acts on identification and reporting (the Services Identification Act and the Disclosure Act). The new law institutes a more risk-based approach. Institutions assess the risk associated with certain clients, products, and transactions. Under the new legislation, institutions also are obliged to verify the identity of a transaction's ultimate beneficial owners.

Banks, bureaux de change, casinos, 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, other providers of trust-related services, life insurance companies, securities firms, stock brokers, and credit card companies in the Netherlands are required to report cash transactions over certain thresholds (varying from 2,000 to 25,000 euros or approximately \$2,700 to \$34,000), as well as any less substantial transaction that appears unusual (applying a broader standard than "suspicious") to the Netherlands' financial intelligence unit (FIU-NL).

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 (UTR) 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 Dutch legislation 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.

The GON has developed a policy program to combat serious types of crimes—specifically financial-economic crime, cybercrime and organized crime. The financial-economic crime category includes fraud, money laundering and corruption. The GON intends to implement an extensive package of measures to reinforce existing procedures to combat all aspects of financial crime.

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 subject to the reporting and identification requirements, 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 \$2,700) must be reported to FIU-NL. Sharing of information by Dutch supervisors does not require formal agreements or memoranda of understanding (MOUs).

The FIU-NL is a hybrid administrative-law enforcement unit that in 2006 combined the original administrative FIU, Meldpunt Ongebruikelijke Transacties, or Office for the Disclosure of Unusual Transactions (MOT), with its police counterpart, the Office of Operational Support of the National Public Prosecutor (BLOM). When MOT and BLOM merged, the resulting entity was integrated within the National Police (KLPD). The FIU-NL not only provides an administrative function that receives, analyzes, and disseminates the UTRs and currency transaction reports filed by banks, financial institutions and other reporting entities; 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.

Obligated entities that fail to file reports with FIU-NL can be sanctioned 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 \$44,100), depending on the size of the entity. The Dutch Tax Administration supervises commercial dealers; the Bureau Financieel Toezicht or Office for Financial Oversight (BFT) supervises notaries, lawyers, real estate agents, and accountants; the 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 \$15,200), or penalize individuals failing to report with prison terms of up to two years. Under the Services Identification Act, now incorporated in the WWFT, 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.

Virtually every UTR that is registered by FIU-NL is received electronically through its secure website. The total number of suspicious transactions increased 32 percent from 2006 to 2007. According to FIU-NL, the number of transactions possibly involving terrorist financing doubled from 2006 to 2007. In 2006, FIU-NL received 172,865 UTRs and forwarded 34,531 STRs to the criminal investigative services, totaling over 0.9 billion euros (approximately \$1,215,000,000). In 2007, FIU-NL received 214,040 UTRs and forwarded 45,656 STRs. In 2007, the STRs totaled approximately 1.1 billion euros (approximately \$1,480,000,000). The average amount per suspicious transaction dropped from 26,870

euros (approximately \$36,275) in 2006 to 24,000 euros (approximately \$32,400) in 2007. This decrease was a direct result of greater use of subjective indicators by reporting institutions. Unusual transaction reports filed on the basis of subjective indicators usually involve smaller amounts than reports filed on the basis of objective indicators. In 2006, 89 percent of UTRs were in euros, eight percent in other European currencies, and three percent involved U.S. dollars.

The number of reports related to money transfers increased in 2007 for the third consecutive year. Money transfer bureaus account for 90 percent of the total volume of suspicious transactions, but only nine percent of the value. The largest number of outgoing suspicious money flows went to Suriname (5,368 money transfers). The greatest total value of suspicious money transfers went to Turkey, over 9 million euros (approximately \$12,150,000).

It is noteworthy that most incoming money transfers to the Netherlands are in amounts greater than 2,000 euros (approximately \$2,700) except for the money transfers from the United States. Seventy percent of unusual reports of money transfers originating from the United States are lower than the 2,000 euro (approximately \$2,700) reporting threshold.

The retention period for suspicious transactions is ten years. To facilitate the forwarding of STRs, FIU-NL has an electronic network called Intranet Suspicious Transactions (IST). Fully automated matches of data from the police databases are included with the UTR data 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-NL 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. FIU-NL provides the AML division of Europol with STRs, and Europol applies the same analysis tools as the FIU.

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 firms facilitated quick transfers of property ownership and received cash payments above the reporting threshold and failed to report. BFT investigators found 124 suspicious cases in 2007 where notaries refused to disclose transactions, and 192 such cases in 2006. In the face of mounting criticism, notary firms are becoming more willing to reveal privileged attorney-client information.

In June 2007, the Netherlands implemented EU regulation 1889/2005 which requires natural persons to declare when they enter or depart the EU carrying 10,000 euros (approximately \$13,500) or more in cash. The declarations must be made to Customs. The Dutch Tax and Customs Administration makes all these declarations available to FIU-NL. In 2007, 77 percent of the 770 reported declarations concerned the import of cash and 23 percent the export of cash. Fifty-nine percent of import declarations involved euros and 31 percent U.S. dollars. Fifty-seven percent of export declarations involved euros and 37 percent U.S. dollars. Other declarations involved 32 different currencies.

The Dutch use specially trained dogs at ports and airports to identify cash smugglers. In 2006, these trained dogs found four million euros (approximately \$5,400,000) in passenger luggage at Schiphol airport. In February 2008, Dutch authorities arrested three people at Schiphol airport as they attempted to smuggle 630,000 euros (approximately \$850,500) out of the Netherlands. In 2008, the Fiscal Information and Investigation Service—Economic Investigation Service (FIOD-ECD) directed operations against trade-based schemes. U.S. law enforcement agencies in the Netherlands have coordinated with Dutch authorities on a trade-based fraud case.

In 2006, the Public Prosecution Office served a summons to suspects of money laundering offenses in 593 cases. Three hundred sixty-nine cases resulted in money-laundering convictions, 36 cases resulted in acquittals, 68 cases were settled with the Public Prosecution Office, 92 cases were dismissed and the others are still pending in court. In 2007, the Public Prosecution Office served a summons to

suspects of money laundering offenses in 756 cases. One hundred ninety-six cases resulted in money-laundering convictions, 17 cases resulted in acquittals, 15 cases were settled with the Public Prosecution Office, 70 cases were dismissed and over 400 are still pending in court.

The Netherlands Court of Audit reported in June 2008 that 63 percent of money laundering cases referred to the Office of Public Prosecution resulted in a conviction. One money laundering acquittal in 2008 drew particular attention. In March, an appeals court overturned the 2006 convictions of the former chief executive officer and chief financial officer of bankrupt airline Air Holland. The two had been accused of laundering proceeds from cocaine sales.

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. The regular Public Prosecutor’s offices are in charge of cases in which under 100,000 euros (approximately \$135,000) in assets are seized; BOOM is in charge of cases in which over 100,000 euros (approximately \$135,000) in assets are seized. 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 2007 amounted to 23.6 million euros (approximately \$31,860,000). Although the total amount remained low, this was a substantial increase over the 17.0 million euros (approximately \$22,950,000) seized in 2006 and 17.5 million euros (approximately \$23,625,000) in 2005. The United States and the GON 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 practice, Dutch public prosecutors move to seize assets in only a small proportion of money laundering cases. This is due to a shortage of trained financial investigators and a compartmentalized approach where the financial analysts and operational drug investigation teams often do not act in unison. Increasing seizures of criminal assets is a priority. In 2009, the GON will submit new legislation to make asset forfeiture more robust. The aim is to strengthen the authorities’ ability to seize assets after a confiscation measure has been imposed in a case. The police and Public Prosecutor will be allowed to use broader investigative techniques with a court’s consent. The GON also intends to take additional measures to make asset forfeiture more efficient. Competent authorities will receive more powers and resources. BOOM is already expanding. In the near future BOOM will also function

as the point of contact for international cases concerning confiscation and seizure, thereby enhancing the sharing of information and best practices.

Terrorist financing is a crime in the Netherlands. In August 2004, the Act on Terrorist Crimes became effective. The Act makes conspiracy to commit a terrorist act a criminal offense. 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 1977 "Sanction Provision for the Duty to Report on Terrorism," (Sanctions Law 1977) was amended in June 2002 to implement European Union (EU) Regulation 2580/2001. UNSCR 1373 is implemented through Council Regulation 2580/01; listing is through the EU-wide 931 Working Party that replaced the previous informal EU "clearinghouse" with more formal mechanisms. The Netherlands does not require a collective EU decision to identify, freeze, and seize 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 as soon as possible after action on the EU level. In one case, the entity was included in the UN 1267 list and thus included in the EU list; in two others, the Netherlands successfully nominated the entity/individual for inclusion in the autonomous EU list.

The ministerial decree that provides authority to the Netherlands to identify, freeze, and seize terrorist finance assets also requires financial institutions to report to FIU-NL all attempted or completed transactions 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 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. In the Netherlands, Sanctions Law 1977 also addresses this requirement parallel to the regulation.

The 2004 Act on Terrorist Offenses introduces 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.

UTRs filed 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 also must 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 operation, 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. Following a series of legal and technical delays, the GON will introduce the new system in January 2010.

Certain groups of immigrants use informal banks to send money to their relatives in their countries of origin. 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 FIOD/ECD indicates the number of informal banks and hawaladars in the Netherlands is rising. The GON has implemented improved procedures for tracing and prosecuting unlicensed informal or hawala-type activity, with the Dutch Central Bank, FIOD/ECD, the interagency Financial Expertise Center, and the Police playing coordinating and central roles. Approximately 20 to 30 hawaladars are registered in the Netherlands as money service bureaus. Despite these efforts to constrict illegal hawala activity, Dutch officials estimate that substantial sums of money still flow through illegal operations. In Amsterdam, a special police unit investigates underground banks. These investigations have resulted in the disruption of several large money laundering operations.

The United States enjoys strong cooperation with the Netherlands in fighting international crime, including money laundering. A mutual legal assistance treaty (MLAT) between the Netherlands and the United States has been in force since 1983. The Netherlands also has ratified the bilateral implementing instruments for the U.S.-EU MLAT and extradition treaties. The U.S.-EU MLAT is expected to come into force in 2009. One provision included in the U.S.-EU legal assistance agreement will facilitate the exchange of information on bank accounts. The Dutch Ministry of Justice and the Dutch National Police work together with U.S. law enforcement authorities in the Netherlands on operational money laundering initiatives. Although U.S. requests for operational assistance via the mutual legal assistance treaty often are not approved in a timely manner, Dutch officials indicate their Justice Ministry may be able to “streamline” certain aspects of the approval process.

The GON is a member of the Financial Action Task Force (FATF) and the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body (FSRB). The Netherlands was a founding member of the CARIN asset-recovery network, and participates in the Caribbean Financial Action Task Force, a FSRB, as a Cooperating and Supporting Nation. The FIU-NL is a member of the Egmont Group. The Netherlands is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime.

The Government of the Netherlands should continue its shift to the risk-based approach throughout its regulatory and anti-money laundering/counterterrorist financing (AML/CTF) regime. The GON should devote more resources toward getting better data and a better understanding of alternative remittance systems in the Netherlands, and channel more investigative resources toward tracing these systems. The GON should focus on confiscation of criminal assets, stronger supervision of notaries and other nonbank facilitators of money laundering, and better coordination across ministries. The Netherlands should take steps to increase the expertise within its enforcement authorities to handle more serious and complex cases. Additionally, the GON should continue its active participation in international AML/CTF fora and its assistance to jurisdictions with nascent or developing AML/CTF regimes.

Netherlands Antilles

The Netherlands Antilles is considered a regional financial center and a transshipment point for drugs from South America bound for the United States and Europe. The Netherlands Antilles is comprised of the islands of Curacao, Bonaire, Dutch Saint Maarten, Saba, and Saint Eustatius. Though a part of

the Kingdom of the Netherlands, the Netherlands Antilles has semi- autonomous control over its internal affairs. The Kingdom retains authority over defense, foreign affairs, final judicial review, human rights and good governance. 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. Money laundering is primarily related to proceeds from illegal narcotics. Money laundering organizations can take advantage of banking secrecy and use off-shore banking and incorporation systems, economic zone areas, and resort/casino complexes to place, layer and launder drug proceeds. The GONA Ministry of Finance is considering the feasibility of developing an Islamic finance sector in an effort to remain a top international financial center. A significant offshore sector and loosely regulated free trade zones, as well as narcotics trafficking and a lack of border control between Saint 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 bank, 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, and four professional reinsurance companies.

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 non-operator member licensed Internet gaming companies.

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. Structuring or "smurfing" is a relatively common occurrence in the Netherlands Antilles, but does not represent high-level money laundering activity, which is accomplished almost exclusively through wire transfers between the Netherlands and the Netherlands Antilles.

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 and established the Financial Integrity Unit to monitor corporate governance and market behavior.

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 (MOTNA) established under the Ministry of Finance in 1997 pursuant to Article 2 of the National Ordinance Reporting Unusual Transactions. Obligated entities are also required to report all transactions over NAF 250,000 (approximately \$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 the legislation will be passed in 2009, and MOT NA will be designated as the Supervisory Authority for this sector.

The National Ordinance Obligation to Report Cross-Frontier Money Transportations requires, as of May 2002, everyone entering or leaving one of the island territories of the Netherlands Antilles to report the transport of NAF 20,000 (approximately \$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 exceeding NAF 20,000. The declaration must include origin and destination. Violators may be fined up to NAF 250,000 (approximately \$142,000) and/or face one year in prison. All cash declaration and smuggling reports are entered into the customs' database and are sent to the financial intelligence unit (FIU) and entered into its database.

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) and renamed these areas Economic Zones (e-zones.) It is no longer necessary for goods to be physically present within the 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. Trade based money laundering from one of two e-zones in the Netherlands Antilles is a well known and preferred method of laundering in the region. Bulk cash smuggling is a continuing problem due to the close proximity of the Netherlands Antilles to Venezuela and Colombia. There have been limited seizures of several thousand dollar increments throughout the past year which intelligence reflects were en route to South America or inbound to one of the e-zone facilities. Law enforcement intervention is very difficult due to host nation laws that apply to the e-zones and tend to exclude law enforcement efforts inside the zone. "Know your customer" practices, while widely publicized by law enforcement, are not required by any statute or rule of business. In many cases, establishing a front company to carry out these endeavors is practiced. These zones are minimally regulated; however, administrators and businesses in the zones have indicated an interest in receiving guidance on detecting unusual transactions. There is not a significant black market for smuggled goods.

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. 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.

In 2008, the GONA issued the National Ordinance on the Penalization of Terrorism, Terrorism Financing and Money Laundering (O.G. 2008, no. 46) which became effective as of June 2008. A financial institution that carries out a transaction, knowing that the funds or property involved are owned or controlled by terrorist or terrorist organizations, or that the transaction is linked to, or likely to be used in, terrorist activity, is committing a criminal offense. Such an offense may exist regardless

of whether the assets involved in the transaction were the proceeds of criminal activity or were derived from lawful activity but intended for use in support of terrorism. In June 2008, the GONA approved an amendment to the Penal Code to cover terrorism and the funding of terrorist activities related to money laundering. The penalty is four to 20 years imprisonment and a maximum fine of \$600,000.

MOT NA is an administrative FIU with no criminal investigative responsibilities. The FIU collects and analyzes data, has access to all records and databases of all governmental entities with law enforcement powers, refers all transactions suspected of being related to money laundering and/or terrorist financing to the Central Police and Prosecutor, prepares reports on money laundering trends and renders annual reports and strategies to the Ministers of Finance and Justice. MOT NA annually receives approximately between 11,000-12,000 suspicious transaction reports (statistics for 2008 were not available). 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 Government of the Netherlands plans to provide technical support to the MOT NA to improve their analytical capabilities with regard to terrorist financing.

Netherlands Antilles' law allows the exchange of information between the MOT NA and foreign FIUs by means of memoranda of understanding (MOU) 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 Kingdom of the Netherlands (KON) 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 KON 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.-KON 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). In November 2009, the Netherlands Antilles will assume the chair of CFATF. 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. The Netherlands Antilles should continue its focus on increasing regulation and supervision of the offshore sector and free trade zones, as well as pursuing money laundering investigations and prosecutions. The GONA should ensure that anti-money laundering regulations and reporting requirements are extended to designated nonfinancial businesses and professions. The Netherlands Antilles should work to fully develop its capacity to investigate and prosecute money laundering and terrorist financing cases.

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 Europe. There is evidence that the narcotics trade is increasingly linked to arms trafficking. This situation, combined with weak rule of law, judicial corruption, the politicization of the public prosecutor's office and the Supreme Court, as well as insufficient funding for law enforcement institutions, makes Nicaragua's financial system an attractive jurisdiction for money laundering. Nicaragua's location—with access to both the Atlantic and the Pacific Oceans, porous border crossings to its north (Honduras) and south (Costa Rica), and a sparsely inhabited and underdeveloped Atlantic Coast area—makes it an area heavily used by transnational organized crime groups, including human and drug trafficking organizations. 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. Additionally, the continued politicization of the Nicaraguan judicial system and the willingness of the current administration to use the financial regulatory system as a tool to attack political adversaries seriously undermine the integrity of the anti-money laundering and overall law-enforcement regimes in Nicaragua.

The Government of Nicaragua (GON) does not permit direct offshore banking operations, but it does permit such operations through nationally chartered entities. Bank and company bearer shares are permitted. Nicaragua has a substantial gambling industry that remains largely unregulated. Two competing casino regulation bills are currently in the National Assembly; the main difference between the bills is whether the existing tax authority will have regulatory power or whether an independent institution will be established for that purpose. The Nicaraguan government has shown little interest in either of these bills, both of which are languishing in the National Assembly. The tax authority, however, has successfully implemented regulations to tax the casino industry. There are no Internet gaming sites in Nicaragua.

There is a sizeable international component to Nicaragua's financial sector. A number of foreign institutions have recently bought significant shares of Nicaraguan financial institutions, including GE Consumer Finance and HSBC, which purchased Banistmo, a Panamanian bank, and now operates as HSBC in Nicaragua. Most large Nicaraguan banks already maintain correspondence relationships with Panamanian institutions. In 2008, Citibank finalized the purchase of Banco Uno, a retail bank with a large consumer credit unit. The recent completion of several Free Trade Agreements (FTAs)—including the Central America-Dominican Republic-United States FTA (CAFTA-DR), as well as bilateral FTAs with Taiwan, Mexico, the Dominican Republic, and Panama—also suggests growing involvement of Nicaraguan financial institutions with international partners and clients.

As of February 2008, a total of 121 companies operated in 32 designated free trade zones (FTZs), or "industrial parks" as they are called in Nicaragua, employing 89,000 workers and generating exports of \$1.1 billion. The National Free Trade Zone Commission (CNZF), a government agency, regulates all FTZs and the companies located in them. The Nicaraguan Customs Agency also monitors all FTZ imports and exports. Reportedly, 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.

A new criminal code came into force in June 2008; this new code aims to bring Nicaragua's anti-money laundering and counterterrorist financing regime into greater compliance with international standards set by the Financial Action Task Force (FATF). The new code criminalizes terrorist financing, bulk cash smuggling, and money laundering beyond drug-related offenses; expands legal

protection for the financial sector; and defines crimes against the banking and financial system. While passage of the new criminal code is a positive move forward for the GON, it will likely take a longer period of time before all aspects of the penal code are implemented in a uniform manner in the Nicaraguan justice system. Further, the new code reduces the penalty for money laundering to a recommended maximum sentence of five years.

While adoption of the new criminal code demonstrates a commitment to thwart the financing of terrorism, money laundering, and other financial crimes, other factors—including 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's lack of an FIU also fundamentally limits the extent to which the GON can effectively combat money laundering and other financial crimes. However, in 2008, the GON investigated four money laundering cases—three through the Attorney General's Office and one through the Office of the Prosecutor General. Also, in 2008 the National Prosecutor's Office prosecuted three cases of cash smuggling involving a total of \$195,610.

Law 285 (posted in 1999) requires all financial institutions under the supervision of the Superintendent of Banks and Other Financial Institutions (SIBOIF), including stock exchanges and insurance companies, to report cash deposits over \$10,000 and suspicious transactions to the SIBOIF and to keep records for five years. The SIBOIF then forwards reports to the Commission of Financial Analysis (CAF). All financial institutions not supervised by SIBOIF, including attorneys, notaries, accountants, and real estate agents, are required to report suspicious transactions directly to the CAF. All persons entering or leaving Nicaragua are also required to declare the transportation of currency in excess of \$10,000 or its equivalent in foreign currency. However, cash smuggling is only considered a customs violation under Nicaraguan law. 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. Similarly, officers in financial institutions charged with reporting suspicious transactions to the SIBOIF are not legally protected 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 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. But 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 at 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. In 2008, the Caribbean Financial Action Task Force (CFATF) visited Nicaragua to assess the GON's anti-money laundering regime, with a specific focus on the activities of the CAF. CFATF is scheduled to release this assessment by summer 2009.

The NNP's Economic 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 own Economic Crimes Unit to work in tandem with the NNP. The unit has been conducting investigations into money laundering and drug related crimes since March 2007 and has worked closely with the offices of both the Attorney General and the Prosecutor General.

During 2008, Embassy Managua continued to support Nicaraguan National Assembly efforts to enact legislation creating an independent FIU. These efforts included bringing a delegation of Nicaraguan legislators, law enforcement officials, and economic policy experts to participate in anti-money laundering meetings and consultations with regional FIU representatives on the possibility of creating a Nicaraguan FIU. Nicaraguan legislators have expressed a strong and continuing commitment to ensure that the FIU legislation will create an independent unit compliant with Egmont Group standards, with an additional focus on incorporating regulatory safeguards against political tampering with the proposed new unit.

Through five SIBOIF administrative decrees, the GON also has the authority to identify, freeze, and seize terrorist-related assets, but has not 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 that may be indicative of money laundering. The NNP is currently investigating possible instances of money laundering involving cash remittances from Europe.

An emerging issue of concern is the current administration's politically motivated accusations that international and Nicaraguan NGOs, particularly those involved in pro-democracy activities, are complicit in money laundering schemes. Despite the lack of formal criminal charges, the Prosecutor's Office has worked with the NNP to raid and seize the financial records of several pro-democracy and civil society NGOs. Administration officials specifically pointed to the assignment of sub-grants by certain NGOs to other organizations as evidence of possible money laundering activity. Under the current Nicaraguan penal code, however, an activity can only be considered money laundering if the original source of funding is illicit or unknown. As the NGOs in question receive their funding in a transparent manner from donor governments and other established international groups, many observers argue that this attempt to apply money laundering statutes to the groups is an illegitimate application of the law.

There are more than 300 microfinance institutions (MFI) in Nicaragua, serving more than 300,000 clients and handling at least \$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 into formal banks. While the five MFIs that are now formal banks are regulated by the SIBOIF, 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 criminal code. Any crimes committed fall under the jurisdiction of the NNP's Economic Crimes Unit and the National Prosecutor's Office.

Nicaragua is a party to the 1988 UN 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). is the only country in Central America, and one of few countries in the Americas, that does not have a functional FIU. Due to continued corruption

in the Nicaraguan judiciary, the United States ceased direct assistance to the Nicaraguan Supreme Court.

The GON has made some progress in its efforts to combat financial crime by expanding the predicate offenses for money laundering beyond narcotics trafficking and criminalizing terrorist financing. The GON should continue recent progress by taking the necessary steps to fully implement the new criminal code. Nicaragua should also redouble its efforts to create an effective FIU; this would enable it to share financial information with other FIUs globally. Nicaragua should also develop a more effective method of cooperating and exchanging information with foreign law enforcement agencies. The GON should take steps to immobilize all bearer shares and prohibit further issuance. The GON would also benefit from concentrating its financial crime investigation efforts on entities and institutions that are known to be involved in criminal behavior, and should halt its political interference in the operations of the financial regulatory and law enforcement agencies, as well as with NGOs for which there is no evidence laundering money. These actions, coupled with increased enforcement of existing legislation and implementing regulations, would significantly strengthen the country's anti-money laundering and counterterrorist financing regime, and could help bring Nicaragua closer to compliance with relevant international anti-money laundering and counterterrorist financing standards and controls.

Nigeria

Nigeria is a major drug trans-shipment point and a significant center for criminal financial activity. Individuals and criminal organizations have taken advantage of the country's location, porous borders, weak laws, systemic corruption, lack of enforcement, and poor socioeconomic conditions to launder the proceeds of crime. Proceeds from drug trafficking, illegal oil bunkering, bribery and embezzlement, contraband smuggling, theft, and financial crimes such as bank fraud, real estate fraud, and identity theft constitute major sources of illicit proceeds in Nigeria. Advance fee fraud, as also known 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. Money laundering in Nigeria takes many forms, including investment in real estate; wire transfers to offshore banks; political party financing; deposit in foreign bank accounts; use of professional services, such as lawyers, accountants, and investment advisers; and cash smuggling. Nigerian criminal enterprises are adept at devising ways to subvert international and domestic law enforcement efforts and evade detection. Recent dismissal and reassignment of experienced financial crimes law enforcement personnel call into question government commitment to combating financial crime and corruption in Nigeria, which continues to be plagued by these crimes.

In December 2002, Nigeria passed an amendment to the 1995 Money Laundering Act extending the scope of the law to cover proceeds from predicate offenses other than narcotics trafficking. In 2004, the National Assembly repealed the 1995 Money Laundering Act as amended and passed the Money Laundering (Prohibition) Act, which applies to the proceeds of all financial crimes. Nigeria also passed an amendment to the 1991 Banking and Other Financial Institutions (BOFI) Act expanding coverage 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. A 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. Violation of the Act carries a penalty of up to life imprisonment. Amendments to the 2004 EFCC Act gave the EFCC the authority to investigate and prosecute money laundering, expanded the number of EFCC board members, enabled EFCC police members to bear arms, and banned interim court appeals that hinder the trial court process.

Nigeria also employs the 1995 Foreign Exchange (Monetary and Miscellaneous Provisions) Act. This legislation enhanced the CBN's power under the BOFI to deny bank licenses and freeze suspicious accounts. It also strengthened financial institutions by requiring more stringent monitoring 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 houses, 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 (FMC) designates as a money laundering risk. Nigeria has no bank secrecy laws that prevent the disclosure of client and ownership information by domestic financial services companies to bank regulatory and law enforcement authorities.

In May 2006, the Financial Action Task Force visited Nigeria to conduct an evaluation of the revisions made to the government's anti-money laundering (AML) regime. The FATF recognized that the Government of Nigeria (GON) had remedied the major deficiencies in its AML regime and removed Nigeria from its noncooperative countries and territories (NCCT) list. In 2008, the Intergovernmental Task Force against Money Laundering in West Africa (GIABA), conducted, discussed and adopted Nigeria's mutual evaluation.

According to the mutual evaluation report (MER), significant legal gaps exist in Nigeria's AML/CTF regime. In addition, Nigerian authorities have not issued clear guidance to financial institutions, resulting in deficiencies related to customer due diligence, beneficial ownership, record keeping, and reporting requirements. The MER also noted that the FIU's powers under the EFCC are ambiguous, and its statistics on suspicious transaction reports (STRs) and currency transaction reports (CTRs) are inconsistent.

The primary institutions dealing with money laundering and financial crimes are the EFCC, the Nigerian Financial Intelligence Unit (NFIU), the Independent Corrupt Practices Commission (ICPC), and Special Control Unit against Money Laundering (SCUML). The NFIU, established in 2005, derives its powers from the Money Laundering (Prohibition) Act of 2004 and the EFCC Act. 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. The Money Laundering (Prohibitions) Act, Section 6, requires STRs to be submitted by financial institutions and designated nonfinancial businesses and professions, and gives the NFIU the authority to receive them. 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. The NFIU has access to records and databases of all government and financial institutions, and it has entered into memoranda of understandings (MOUs) on information sharing with several other FIUs. The NFIU is a member of the Egmont Group.

Since its inception in April 2004, the EFCC has held the mandate and the capacity to effectively investigate and prosecute financial crimes, including money laundering and terrorist financing. The EFCC also coordinates agencies' efforts in pursuing financial crime investigations. 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.

The EFCC previously succeeded in investigating and prosecuting financial crime. Its assault on high-level corruption resulted in the agency receiving the support of the international community as well as the ire of corrupt officials. The EFCC has put forth efforts to enact new laws and to conduct a vigorous public enlightenment campaign, resulting in prosecutions for crimes such as bank fraud and counterfeiting. 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 government officials. Some EFCC members have been killed for their efforts to expose and enforce the laws against corruption and financial crime.

In its first 5 years of existence, the EFCC successfully prosecuted 121 cases involving advanced fee fraud (“419”) scams, seized over \$5 billion in cash and property, and repatriated over \$4.6 million to U.S. entities. From October 2007 through September 2008, the EFCC reported 3 money laundering convictions, with 9 pending cases against politically exposed persons and other pending cases related to fraud against U.S. entities. It also reported 87 “419” convictions during that period. The EFCC facilitated the return of fraud proceeds totaling \$1.6 million by a prominent Nigerian bank to U.S. entities.

However, in 2008, the EFCC faced significant challenges in fulfilling its mandate to fight financial crimes and money laundering. Senior leadership changes (including the heads of both the EFCC and the NFIU) and the reassignment of key personnel have raised serious concerns about the agency’s current capacity and direction. Many of the reassigned personnel had spent years developing substantial skills and experience in investigating and prosecuting money laundering and financial crimes. New personnel reportedly have little experience in conducting the type of rigorous investigations required for complex financial crimes. These developments have cast doubt on the Government’s commitment to fight financial crime as well as corruption.

In addition to the EFCC, the National Drug Law Enforcement Agency (NDLEA), the ICPC, and the Criminal Investigation Department of the Nigeria Police Force (NPF/CID) have the authority to investigate financial crimes. Many observers, however, believe that the Nigerian Police Force is incapable of handling financial crimes because of corruption and poor institutional capacity.

The Corrupt Practices and Other Related Offences Act established the ICPC in June 2000. The ICPC is primarily charged with receiving and investigating reports of corruption among Nigeria’s large government sector work force and prosecuting offenders where necessary. However, according to its chairman, ICPC’s focus has been public information campaigns, not investigations and prosecutions. The agency is independent but effectively lacks support from other government structures and is insufficiently funded. ICPC has anticorruption and transparency units (ACTU) in almost every Federal agency to deal with official misconduct and malfeasance by public servants. If an ACTU determines that there has been criminal behavior, it refers the case to ICPC for prosecution. The ACTUs and the ICPC investigators and prosecutors are under-trained and the agency has been increasingly relying on private lawyers to try cases under contract. The ICPC has recorded 15 convictions in the 8 years it has been operating.

Due to Nigeria’s primarily cash-based economy, 90 percent of money laundering activity reportedly takes place in the informal sector. 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 businesses and professions outside of the formal financial sector thought to pose a money laundering risk. Oversight by the Ministry of Commerce, however, has reportedly not been rigorous or effective. Consequently the EFCC decided to fund SCUML and second some of its employees to that agency in an effort to rapidly improve investigative and enforcement capacity. In addition, the EFCC facilitated the inauguration of a Designated Non-Financial Institution (DNFI) Advisory Council which serves as

a formal platform for partnership between SCUML as the regulator and the heads of the DNFI Self Regulatory Organizations (SROs), including some Civil Society Organizations (CSOs). The EFCC and SCUML have collaborated on efforts to strengthen the Chief Compliance Officers Forum, which EFCC/NFIU facilitated.

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 cooperates with law enforcement to trace funds and seize or freeze bank accounts.

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 to draft legislation to address this deficiency.

Nigeria has attempted to criminalize the financing of terrorism through Section 15 of the EFCC Act. The EFCC has authority under the Act to identify, freeze, seize, and forfeit terrorist finance-related assets; however, implementation of the existing framework has revealed some practical challenges. The EFCC Act does not provide a comprehensive framework for criminalizing and pursuing the full range of terrorist financing as defined by international standards. The Act does not criminalize terrorist financing, nor does it reference terrorist financing as a predicate offence for money laundering. A comprehensive bill for the prevention of terrorism is currently before the National Assembly. If passed, it would be Nigeria's first autonomous anti-terrorism law.

The CBN circular (BSD/13/2006) from August 2006 requires all financial institutions to forward STRs where the suspicious and unusual transactions include potential financing of terrorism to the FIU. Nigerian financial institutions periodically receive the UNSCR 1267 Sanctions Committee's consolidated list and have detected one case of terrorist financing within the banking system. Prosecution of that case is currently pending.

Nigeria is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Nigeria ranked 121 out of 180 countries in Transparency International's 2008 Corruption Perceptions Index, moving up from 147 in 2007.

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 information exchange relating to money laundering with South Africa, the United Kingdom, and all Commonwealth and Economic Community of West African States (ECOWAS) countries. Nigeria is a member of GIABA, a FATF-style regional body.

The Government of Nigeria (GON) should ensure the autonomy and independence of the EFCC and NFIU from political pressure. In particular, EFCC needs to produce more effective results through prosecutions and enforcement actions in financial crimes and corruption investigations. The GON should also strengthen SCUML's authority to supervise designated nonfinancial businesses and professions. 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 re-invigorate its anticorruption program and support the EFCC, as well as the ICPC, in their mandates to investigate and prosecute corrupt government officials and individuals. The GON should consider establishing a special court with specific jurisdiction and trained judges to handle financial crimes. Nigeria should enact a law providing for nonconviction-based forfeiture, ensure full implementation of its AML regime, and promote respect for the rule of law. Nigerian authorities should work toward a regime capable of thwarting money laundering and terrorist financing; and work toward full compliance with all relevant international standards, eliminating its remaining AML shortcomings. Authorities should work toward the passage of the comprehensive anti-terrorism bill in the National Assembly. The GON should continue to engage with the FATF, GIABA and other international organizations.

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-hundi, 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 through 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. Some 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 (SBP) required all hawala operators ("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 hawala countervaluation 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 \$6.45 billion in fiscal years 2007-08. At least four moneychangers, including a CEO of a leading foreign exchange company, were arrested on November 8, 2008 by Pakistan's Federal Investigation Agency (FIA) for smuggling and illegal cross border transfer of foreign exchange. According to FIA sources, a case was registered against the moneychangers under the Foreign

Exchange Regulations Act of 1947, which does not specify severe penalties for such crimes. FIA sources estimate that foreign exchange sent out of the country could be in the millions of dollars.

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. In fiscal year 2007-2008, no cases of trade-based money laundering were reported.

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 counterterrorist 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, 2007 former President Musharraf signed an AML Ordinance to implement the long-awaited AML bill. While creating this ordinance averted suspension of membership in the APG, Pakistan still has considerable work ahead to meet international standards, especially the core Financial Action Task Force (FATF) recommendations related to the criminalization of money laundering and suspicious transaction reporting.

Some of the weaknesses identified in the 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. Additionally, the reporting structure of the Financial Monitoring Unit may affect its independence and effectiveness.

The AML Ordinance established a National Executive Committee (NEC), which is charged with coordinating Pakistan's AML/CTF efforts. The NEC is made up of representatives from the Ministries of Finance, Interior, Foreign Affairs, and Law as well as the SBP, the Securities and Exchange Commission of Pakistan (SECP), and the Financial Monitoring Unit. The NEC established a sub committee to review and recommend changes to the AML Ordinance. In anticipation of an APG mutual evaluation scheduled for early 2009, the GOP has reportedly revised the AML Ordinance to bring it into compliance with the FATF standards. The Cabinet has approved the revised ordinance and the GOP now plans to present it to the Parliament for approval; however the text of the Ordinance has not been made public.

In 2008 the FATF issued two statements concerning Pakistan's AML/CTF regime. On February 28, 2008 the FATF acknowledged Pakistan's progress in adopting AML legislation but advised financial

institutions to be aware of the remaining deficiencies in Pakistan's AML/CTF system, which constitute vulnerability in the international financial system. On October 16, 2008, the FATF issued a second statement reaffirming its position.

The AML Ordinance formally established a Financial Monitoring Unit (FMU) as Pakistan's financial intelligence unit (FIU), within the SBP to receive, analyze, and disseminate suspicious transaction reports. 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 lacks a central repository for the reporting of suspicious transaction reports and the absence of provisions to protect institutions from liability for reporting, very few suspicious transactions have been reported or analyzed. From July 2007 through June 2008, 130 suspicious transactions were reported to the State Bank by various banks and seven were referred to law enforcement agencies for investigation. The FMU has 15 staff members.

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)—re-designated as the "Directorate General, Intelligence & Investigations" (FBR)—all oversee Pakistan's financial enforcement efforts. The FIU has also established a Special Investigation Group to investigate terrorism and terrorism financing. 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 present government has formed a committee to review the NAB ordinance (and the continuing viability of the NAB itself); however, the review process is still incomplete. The NAB, FIA, ANF and Customs have the ability to seize assets, whereas the SBP 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 improve the reporting requirements for the financial sector to reduce its susceptibility to money laundering and terrorist financing. The SBP and the 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 SBP 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. However, there is no designated AML/CTF supervisor for designated nonfinancial businesses and professions.

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. 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.

Pakistan has issued freezing orders for terrorists' funds and property in accordance with UN Security Council Resolutions 1267 and 1373. The SBP circulates to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list. Since 2001, a total of PKR 752 million (approximately \$9.6 million) has been frozen under UN Security Council Resolutions 1267 and 1373. However, there have been some deficiencies concerning the timeliness and thoroughness of the asset freezing. There are sometimes delays in the transmission of information about asset freezing to relevant agencies such as the Finance Ministry and the SBP, which reduces the effectiveness of the implementation of these resolutions. The State Bank, however, maintains that as soon as it receives the information about these resolutions, it instructs banks to freeze these assets.

The Bank's most recent freeze orders have involved Jamatt ud Dawa (JUD), the organization connected with the November 2008 Mumbai attacks. The JUD is a reinvention of the Lashkar-e-Taiba (LeT), which originally was designated as a terrorist organization by the United States in December 2001, was banned by Pakistan in January 2002, and added to the UNSCR 1267 list in 2005. The reinvention as JUD was a specific effort by the group to avoid sanctions, but in December 2008, the UNSC added additional JUD aliases to its 1267 list, listed four members of LeT to its 1267 list for targeted sanctions and added aliases for Al Rashid and Al Akhtar Trusts, which raise funds for LeT. JUD continues to use LeT's vast network of mosques, hospitals, clinics, madrassas and fundraising offices throughout Pakistan to raise money and recruit on behalf of LET

A Charities Registration Act has been under consideration by the Ministry of Welfare for some time. It was sent to the Economic Affairs Division of the Ministry of Finance, which returned the draft text with their comments to the Ministry of Social Welfare. The Ministry of Social Welfare will now 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 organizations. 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 engage 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 SBP legally allows individuals to carry up to \$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. Therefore, Pakistan is only partially in compliance with FATF's Special Recommendation IX, as they have no declaration or disclosure system for incoming currency. Officials are able to ask anyone entering Pakistan if they are bringing in any currency. There are joint counters at international airports staffed by the SBP and Customs to monitor the transportation of foreign currency. As a result of cash courier training, their efforts to stop and seize the illicit cross-border movement of cash have increased. For example, during 2008 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. Pakistan has signed but not ratified the UN Convention against Transnational Crime, and is not a party to the UN Convention for the Suppression of the Financing of Terrorism. Pakistan does not have a mutual legal assistance treaty with the United States. Pakistan is ranked 134 of 180 countries monitored in Transparency International's 2008 Corruption Perception Index.

Although the Government of Pakistan adopted a long-awaited AML Ordinance by presidential decree after years of delay and stall tactics, the ordinance does not meet international standards. Proposed revisions to the AML Ordinance designed to incorporate APG recommendations and correct deficiencies have now been put forward by the government, but the precise content and effect of those revisions remains closely held by the government, and is as of yet unknown. The Pakistani parliament must still pass the revised ordinance. Pakistan's Financial Monitoring Unit (FMU) needs to be strengthened and should be given operational autonomy rather than be subject to the supervision and control of the General Committee, which is 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. Regular suspicious-transaction reporting, to include those that deal with terror financing, must become institutionalized as a banking practice, and the FMU must develop collection and analytical capacity. Pakistani law enforcement should not, however, become dependent on these reports to initiate investigations; 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 charitable organizations 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 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 19,907 (more than 3,500 of which are foreign guest workers) and per capita GDP of approximately \$8,412 (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 believe that drug trafficking, human trafficking, and prostitution is 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 report of the mutual evaluation (MER) of Palau, conducted in 2008 jointly by the IMF and the Asia/Pacific Group on Money Laundering (APG) of which Palau has been a member since 2002, noted that deficiencies that the amended MLPCA does not cover the AML/CTF preventive measures in a satisfactory manner. Significant deficiencies remain in the areas of customer due diligence (CDD), record keeping, monitoring of transactions, and supervision. The Financial Institutions Commission (FIC) is the AML/CTF supervisor, but it does not have the resources to ensure AML/CTF compliance nor to issue any regulations. The designated nonfinancial businesses and professions (DNFBPs) operating in Palau are not covered by the MLPCA. The MER also noted that amended MLPCA did not increase the number of predicate crimes for money laundering to include the minimum 20 predicate crimes prescribed by the Financial Action Task Force (FATF). The Pacific Anti-Money Laundering Program's (PALP) Legal Mentor will continue to assist Palau in addressing legal and regulatory deficiencies relating to Palau's anti-money laundering regime.

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 defines 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 the Attorney General 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.

In October 2008, the Office of the Attorney General charged a Palauan and Taiwan businessmen for violations of foreign investment law, tax law, and money laundering. The Taiwan businessman operated three businesses listed under the name of his Palauan partner. Investigation into the records and confiscated receipts from the three companies suggest that income was grossly underreported over several years. A judge has issued an order to freeze bank accounts of the Taiwan businessman. The judge also ordered that no capital shall be removed and no financial transaction to be conducted.

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. Palau has an Anti-Money Laundering Working Group 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. However, the operations of the government's Financial Intelligence Unit (FIU) has been severely restricted by a lack of dedicated human resources and no dedicated budget. In December 2008, the Palauan government agreed to allocate a budget for a full time Director of the FIU. The FIU, will still be under the FIC, 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. To accomplish this with the limited manpower available a multi-agency SAR review team was organized with the assistance of the PALP mentor to jointly review information collected by the FIU to identify and initiate investigations. The multi-agency approach has enabled the FIU to function given its limitations of manpower and funding and has fostered information sharing and joint investigations between the relevant law enforcement agencies. Another impediment to enforcement is the lack of implementing regulations to ensure compliance with the amended MLPCA. Regulations have been drafted to address these deficiencies identified in the MER and are expected to be passed in 2009.

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 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 Disclosure Act, drafted by the Palau Anti-Money Laundering Working Group, to the legislature. The bill, intended to strengthen the FIC, was signed into law in May 2007. The law mandates a written declaration with the Division of Customs for \$10,000 or more in cash or negotiable instruments that is transported in or out of the country. An administrative penalty of 5 percent of the amount of the currency transported may be assessed for failure to file a declaration; the civil penalty against any person shall not exceed twice the amount of the currency being illegally transported. Penalties for entities shall equal two times the fines specified for natural persons. Entities found guilty of three or more offenses within a five-year period may be banned from business activities for a minimum of five years, or ordered to close permanently; such judgments will be publicized in the press. The Cash Courier Disclosure Act included an amendment for the Attorney General to bring civil suit against entities or persons who attempt to or engage in banking business, the brokerage or dealing of securities, without a valid license from the FIC. A person who commits the offense shall be penalized at least \$25,000; corporate entities are fined an amount equal to two times the fine for a natural person, or the amount of gross profit realized by the entity for the two years prior to the offense, whichever is greater. Such entities may be banned from business activities for a minimum of five years, or ordered to close permanently, such judgment to be publicized in the press. The PALP Law Enforcement resident mentor has trained and worked with Palau Customs, Police and Airport Security to identify potential bulk cash smugglers and the methods they employ. Since the passage of the Cash Courier Disclosure Act, Palau Customs/Security have identified and made six separate bulk cash currency seizures of nearly \$100,000 at the airport in 2008.

Palau is a party to the UN Convention for the Suppression of the Financing of Terrorism. The Counter-Terrorism Act of 2007 (CTA) 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. However, the 2008 MER stated that Palau's legislation does not adequately address provisional measures of seizing of evidence and property and the freezing of capital and financial transactions related to the financing of terrorism. Palau is not a party to the 1988 UN Drug Convention, the UN Convention against Corruption, or the UN Convention against Transnational Organized Crime.

Under Palau law, 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: a fine not to exceed U.S. \$10,000; a temporary ban on operations for up to 2 years; or 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, to ensure that it can fulfill its mission. The GOP should extend its excellent monitoring of airport to all its border points of entry and exit to protect against the smuggling of bulk cash, narcotics and other contraband and should implement all aspects of the legal reforms already in place. Palau should also address the deficiencies noted in its recent mutual evaluation report to ensure that it continues to make progress in developing a viable anti-money laundering/counterterrorist financing regime that comports with

international standards. Palau should also become a party to the 1988 UN Drug Convention, the UN Convention against Corruption and the UN Convention against Transnational Organized Crime

Panama

Panama is an important regional financial center and has had one of the fastest growing economies in the Western Hemisphere over the past 15 years. GDP growth was 11 percent in 2007, 9.2 percent in 2008, and projected by the United Nations to be 4.5 percent in 2009. However, the very factors that have contributed to Panama's economic growth and sophistication in the banking and commercial sectors—the large number of offshore banks and shell companies, the presence of the world's second-largest free trade zone, the spectacular growth in ports and maritime industries, and the use of the U.S. dollar as the official currency—also provide an effective infrastructure for significant money laundering activity. The majority of money laundering activity in Panama is narcotics-related or the result of transshipment or smuggled, pirated, and counterfeit goods through Panama's major free trade zone, the Colon Free zone (CFZ). The funds generated from illegal activity are susceptible to being laundered through a wide variety of methods, including the Panamanian banking system, Panamanian casinos, bulk cash shipments, pre-paid telephone cards, debit cards, insurance companies, real estate projects and agents, and merchandise. Panama's vulnerability to money laundering is exacerbated by the government's lack of adequate enforcement, personnel, and resources devoted to anti-money laundering and combating the financing of terrorism (AML/CTF), as well as the sheer volume of economic transactions, a significant portion of which is in cash).

Panama's economic and geographic proximity to drug-related activity from Colombia, Venezuela, and Mexico, as well as weak capacity within the Government of Panama (GOP), makes Panama a natural location for money laundering. The principal source of laundered money is derived from the sale in the United States and Europe of cocaine produced in Colombia. Panama's land border with Colombia is approximately 60 miles of unguarded dense jungle. Sea and air law enforcement of its borders is often ineffective.

Panama, particularly in the CFZ, also suffers from substantial transshipment of smuggled or pirated goods, including counterfeit apparel, pharmaceuticals, and pirated DVDs. In 2008 alone, the CFZ imported and exported over \$18 billion in goods and the CFZ is the world's second largest free trade zone after Hong Kong. The CFZ currently has over 2,786 businesses, 25 bank branches (including money center banks such as Citibank and HSBC), employs approximately 29,100 people, and continues to expand. The large volume of international business within the CFZ provides a possible environment for money laundering by individuals raising or moving funds on behalf of terrorist groups. Exacerbating the vulnerabilities of the CFZ is a legal staff of only three attorneys to oversee transshipment, smuggling of goods, counterfeit products and intellectual property violations issues.

The CFZ offers a unique set of advantages that promote business activities, including exemption from Panamanian taxes and the associated financial controls; serving as a one-stop shop for importing, financing, and shipping goods; serving as a showroom for East Asian goods; providing rapid transfer of goods with three ports along with a road, railroad, and canal to ports and airports on the Pacific; and offering cheap financing in a large financial sector that uses U.S. dollars. Criminal merchants and customers are able to use these legitimate advantages to facilitate money laundering activities. Highlighting the challenges of enforcement in the face of large trade volumes is the case of Ricardo Traad, the former Administrator of Panamanian Maritime Service (akin to the U.S. Coast Guard), who was arrested in 2007 for, among other things, money laundering and narcotics trafficking. In addition to the CFZ, Panama also had fifteen export processing zones at the end of 2007 and the ports of Panama handle over four million twenty-foot equivalent units (TEUs) of container traffic per year.

Panama is an offshore financial center that includes offshore banks and various forms of shell companies that have been used by a wide range of criminal groups globally for money laundering. The

Panamanian Superintendent of Banks licenses offshore banks and the Public Registry facilitates the formation of offshore corporations. Business licenses may be obtained through a newly created online system. The Superintendent of Banks requires a list of a bank's shareholders as part of the licensing process. The onshore and offshore registration of corporations is also handled by the Public Registry.

As of September 2008, Panama had 90 commercial banks, two official banks, 15 local banks of general license, 28 foreign banks of general license, 33 banks of international license, and 14 representative offices. Of the 90 commercial banks in Panama, 73 are specifically either non-Panamanian or are designed to service offshore clients. Approximately 46,178 and 40,825 new offshore corporations were registered in Panama during 2007 and through October 2008, respectively. Panama also has a thriving financial and legal services industry directed at providing offshore tax planning, estate planning, and trust organization services. Panama does not tax individuals or companies on non-Panamanian sources of income and maintains neither exchange controls nor restrictions on capital flows. Further, there is no requirement to disclose the beneficial owners of any corporation or trust. Bearer shares are permitted for corporations, and nominee directors and trustees are allowed by law. Panama regulates gaming activities in-country, but does not regulate Internet gaming sites.

Panama's construction sector, which is growing at double-digit rates, is an emerging industry of concern for money laundering. It has been fueled by a booming domestic economy along with an influx of foreigners, particularly Colombians, Venezuelans, North Americans, and Europeans. The construction sector in Panama often pays employees and suppliers in cash, which increases its attractiveness to money launderers. For instance, the developer of one residential project (Resort Paraiso Las Perlas on Isla Chaperera in the Gulf of Panama), Jose Nelson Urrego Cardenas, was arrested in 2007 on drug money laundering charges. The slowdown in the Panamanian construction sector due to the global slowdown indicates, however, that the construction sector may be primarily based upon legitimate commerce.

Panama has a comprehensive legal framework to detect, prevent, and combat money laundering and terrorist financing, and provides excellent cooperation with U.S. law enforcement agencies in combating drug trafficking, money laundering and financial crimes. The GOP identified the combating of money laundering as one of five goals in its five-year National Drug Control Strategy, issued in 2002, and commits the GOP to devoting \$ 2.3 million to anti-money laundering projects, the largest being institutional development of the GOP's financial intelligence unit (FIU), the Unidad de Análisis Financiero (UAF).

Money laundering is a criminal offense in Panama. Law 14 (Article 284) of May 17, 2007, 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 14 establishes a five to 12 year prison sentence, plus possible fines. Additionally, the Panamanian Legislative Assembly approved the Financial Crimes Bill (Law No. 45 of June 4, 2003), establishing criminal penalties of up to ten years in prison and fines of up to \$1 million for financial crimes that undermine public trust in the banking system, the financial services sector, or the stock market. The legislation criminalizes a wide range of activities related to financial intermediation, including illicit transfers of monies, accounting fraud, insider trading, and the submission of fraudulent data to supervisory authorities. Law No. 1 of 2004 also adds crimes against intellectual property as a predicate offense for money laundering.

Panama's Law 16 of 1982, Article 389, and Law 50 of 2003, Article 264, both criminalize the financing of terrorism as contemplated by UN Security Council Resolution 1373. Decree No. 22 of June 2003, gave the "Presidential High Level Commission against Narcotics Related Money Laundering" responsibility for combating terrorist financing. Law No. 50 of July 2003 criminalizes

terrorist financing and gives the UAF responsibility for prevention of this crime. By means of Law No. 22 of May 2002, the GOP adopted the UN Convention for the Suppression of the Financing of Terrorism. Panama also circulates to its financial institutions the list of individuals and entities included on the UN 1267 Sanctions Committee consolidated list.

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.

Under Panamanian law and regulations, financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) must adhere to “know your customer” (KYC) practices for identification of customers, exercise of due diligence, and retention of transaction records. Executive Decree No. 52 of April 30, 2008, referred to as the “New Banking Law,” states that banks and other supervised entities are obliged to establish policies, procedures, and controls on the prevention of money laundering, terrorist financing, and related crimes. Financial institutions must also examine every cash (or cash equivalent) transaction in excess of \$10,000 or a series of transactions that in the aggregate exceed \$10,000 in any given week, as well as any transaction, regardless of its amount, that could be related to money laundering activity.

The Superintendent of Banks supervises and examines financial institutions for compliance with anti-money laundering and combating the financing laws and regulations, including for compliance with KYC policies on banks and other supervised entities. There are no differing regulations governing onshore and offshore corporations. Panamanian trust companies are required to identify to the Superintendent of Banks the beneficial owners of trusts. Panamanian law provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities.

Financial institutions must report currency transactions in excess of \$10,000 and suspicious financial transactions to the UAF. Panamanian law protects reporting individuals (banks and others) from civil and criminal suits with respect to providing information required by law. Casinos, CFZ businesses through the CFZ Administration, pawnshops, the national lottery, real estate agencies and developers, and insurance and reinsurance companies also report to the UAF currency transactions that exceed \$10,000. Financial institutions are prohibited from informing their client or third parties that they have transmitted any information regarding such transactions to the UAF. Panamanian law requires all financial institutions to maintain for five years records concerning their anti-money laundering procedures, including information regarding their customers and any information derived as part of the KYC regulations or suspicious transactions reports relating to customer identification.

AML/CTF controls are applied to numerous nonbanking financial institutions in Panama. Article 248 of 2000 requires indigenous alternative remittance systems, such as hawala operations, to adhere to the reporting requirement for cash transactions. 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. Executive Decree 524 promulgated on October 31, 2005 (amended by Executive Decree 627 of 2006), establishes a procedure to regulate, supervise and control nongovernmental organizations, including charities. The preamble to Executive Decree 524 mentions Law 50 of 2003 and the need to regulate such organizations 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.

The Panamanian Autonomous Cooperative Institute supervises savings and loan cooperatives. It 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. The commission carries out various training sessions and workshops for its personnel and related entities. The National Lottery of Public Welfare

supervises activity related to the sale of lottery tickets and payments of winnings. The Gaming Commission supervises casinos, horse tracks and other establishments dedicated to betting and games of chance. The Superintendence of Insurance supervises insurance companies, reinsurance companies, and insurance brokers. The CFZ Administration supervises the companies and activity within the CFZ and has actively sought to address CFZ vulnerabilities to illicit behavior, such as money laundering. The CFZ Administration mandates the training of representatives of all CFZ businesses in money laundering and counterterrorist financing laws. Noncompliance with these laws can result in fines of up to \$1 million. The CFZ Administration also issues a procedures manual for all CFZ businesses, outlining their responsibilities regarding the prevention of money laundering.

The GOP established the UAF in 1995. The UAF is the agency responsible for receiving and analyzing financial data and transactions received from financial and other institutions (public or private), including reports of suspicious activity which may be related to money laundering or terrorist financing. The UAF falls under the jurisdiction of the GOP's Council for Security and National Defense within the Ministry of the Presidency. Among its stated purposes is preventing the laundering of funds derived from narcotics trafficking, but it does not have criminal investigative responsibilities. The UAF's staff is comprised of personnel specialized in finance, law, and data processing. UAF personnel also participate with regulators drafting legislation.

The UAF has no online access to information of financial institutions unless such information is requested in writing. The only exception is with the Asociación Panameña de Crédito—(APC—the Panamanian Credit Association) for credit records. There is a formal mechanism in place to share information domestically. UAF has online access with other GOP entities such as the public registry, traffic department, electoral tribunal, and immigration movements as well as Customs travelers' declarations. 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 FIUs from other countries, including the U.S. Financial Crimes Enforcement Network (FinCEN). The UAF also has online access to financial information with foreign analogs through the Egmont Secure Web.

Other UAF duties include maintaining statistics on the movement of cash within the country believed to be related to money laundering or terrorist financing, sharing information with the FIUs of other countries, and assisting the Attorney General's and Bank Superintendent's offices with their investigations relating to money laundering and terrorist financing. The UAF also works with other GOP agencies to identify new methods of money laundering and participates in the training of financial and nonfinancial sector employees in detecting and preventing money laundering. During 2008, the UAF trained 1,128 individuals from 31 institutions, including the Gaming Board, the Bar Association, the Ministry of Commerce, the Judicial Branch, credit unions, banks, remittances houses, insurance companies and CFZ businesses.

The UAF consists of approximately 20 to 25 employees. During 2007, the UAF reinforced the analysis department with 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 lacks adequate resources. After the UAF reviews the cash transaction reports (CTRs) and suspicious transaction reports (STRs) and gathers 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 Directorate of Judicial Investigations (similar in function to the U.S. Federal Bureau of Investigation) provides expert assistance to the prosecutors. The UAF routinely transfers cases to the financial investigations unit of the Directorate of Judicial Investigations.

Panamanian Customs continued a program at Tocumen International Airport to deter currency smuggling by seizing and forfeiting all undeclared funds in excess of \$10,000 from arriving passengers. However, the entry of Customs currency declaration information into the UAF database has yet to occur, although discussed since 2002. In 2008, ICE and Customs authorities in Panama conducted joint interdiction operations in furtherance of ICE's Operation Firewall. Operation Firewall is a comprehensive law enforcement effort focusing on the interdiction and investigation of bulk cash being smuggled around the world. The operations, conducted at Tocumen International Airport, resulted in twelve currency seizures totaling over \$670,000.

From January to October 2008, the UAF investigated 1071 STRs (792 from banks, 242 from remittances houses, one from casinos, 14 from credit unions, 11 from financial institutions, three from government, and eight from stocks brokerages). As of July 2008, 151 of these reports were sent to the Attorney General's Office for further action and 104 were found with no merit. The UAF carried out 167 information requests through the Egmont Group and 151 judicial assistances through June 2008. Data on the total amount of cash transactions for 2008 are not yet available; however, the number and amount of cash transactions are expected to be at record levels due to high GDP and CFZ growth rates. Through October 2008, the UAF received 317,665 CTRs and the total cash amount reported during the first ten months of 2008 was approximately \$8.3 billion.

Through October 2008, the Financial Fraud Prosecutor's office investigated 332 cases related to financial crimes. These included credit card fraud (261), bankruptcy (7), money laundering (4) and financial crimes (60). During the same time period the Special Drug Prosecutor Office reported 79 drug-related to money laundering arrests, as opposed to 48 through all of 2006.

Panamanian Law 38 of August 10, 2007, 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. Panamanian law provides for criminal forfeiture, but not civil forfeiture.

Responsibility for tracing, seizing and freezing assets lies principally with the Drug Prosecutor's Office of the Attorney General's Office. There are two offices in Panama province, one in each of the other provinces and one delegate in Darien province. The GOP typically enforces seizure and forfeiture laws fully in drug trafficking and money laundering cases. The banking sector is required by law to cooperate with the seizure and freezing of assets, and generally cooperates with law enforcement.

Although Panama does not have an independent national system or mechanism for freezing terrorist assets other than its current legislation, the Government of Panama does have dedicated financial crime positions to work these issues. Panama has not enacted any law for sharing seized assets with other governments. The Panama Public Force (PPF) and the judicial system have limited resources to deter terrorists, due to insufficient personnel and lack of expertise in handling complex international investigations. On January 18, 2003, the GOP entered into a border security cooperation agreement with Colombia, and also increased funds to the PPF to help secure the frontier.

Panama is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Panama is a signatory to 11 of the UN terrorism conventions and protocols. Panama is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD), and is a member of the Caribbean Financial Action Task Force (CFATF). Panama is also a member of the Offshore Group of Banking Supervisors, and the UAF is a

member of the Egmont Group. Panama has hosted international conferences on money laundering. On August 9-10, 2007, the First International Congress on Handling Fraud and Corruption in the hemisphere was held in Panama which also included discussions on money laundering detection and prevention. The Banking Association/UAF/and other GOP entities organized the XII Hemispheric Congress on Prevention of Money Laundering and Combating the Financing of Terrorism August 2008

Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. In March 2007, USG and GOP agencies cooperated in the largest maritime cocaine seizure known to have ever occurred. The seized vessel contained approximately 20 tons of cocaine, with an estimated market value of approximately \$500 million. Authorities stopped the vessel "Gatun" off the Pacific coast of Panama.

Panama is involved in several other AML/CTF efforts. With support from the Inter-American Development Bank (IDB), the Government of Panama (GOP) is implementing a "Program for the Improvement of the Transparency and Integrity of the Financial System." The Program is targeted, through enhanced communication and information flow, training programs, and technology, at strengthening the capabilities of government institutions responsible for preventing and combating financial crimes and terrorist financing activities. Overall, 1,500 employees from 14 institutions have benefited from this training, including representatives of the private sector, stock markets, credit unions, bank compliance officials, and others. In addition, with the help of this program, Panama has launched an educational campaign to prevent money laundering and terrorist financing. The program began in 2002 and is intended to raise citizens' awareness of these crimes.

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 Nine Special Recommendations on Terrorist Financing.

The GOP should continue its commendable efforts to enhance Panama's ability to prevent, detect, investigate, and prosecute financial crimes, including money laundering and terrorist financing. . The staff of the UAF, CFZ Administration, and GOP law enforcement entities should improve the level of enforcement, personnel, and resources devoted to AML/CTF, including successful prosecution of AML/CTF cases. As a member of CFATF, the GOP is committed to adhere to all FATF Recommendations, as well as those relating to the transparency of beneficial owners of all companies, including international business companies (IBCS). The issuance of bearer shares are of concern and the GOP should take adequate steps (such as immobilization) to assure that these instruments are not used for money laundering. The GOP should also enable the UAF and law enforcement users of the Public Registry's website to search by company officers names. The GOP should continue to implement transparency promoting computer systems that shine a light on CFZ commercial and financial transactions. Additionally, the GOP should devote more resources to ensuring that its CFZ does not serve to enable trade-based money laundering.

Paraguay

Paraguay is a principal money laundering center and major drug transit country involving the banking and nonbanking financial sectors. A multi-billion dollar contraband trade occurs in the border region shared with Argentina and Brazil, called the Tri-Border Area, and facilitates much of the money laundering in Paraguay. While the Government of Paraguay (GOP) suspects that proceeds from narcotics trafficking are often laundered in the country, it is difficult to determine what percentage of the total amount of laundered funds is generated from narcotics sales. Weak controls in the financial sector, open borders, bearer shares, casinos, a plethora of exchange houses, lax or non-enforcement of

cross border transportation of currency and negotiable instruments, and minimal enforcement activity for financial crimes allow money launderers, possible terrorist financiers, and transnational criminal syndicates 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 underground or "informal" economy. The area is well known for arms and narcotics trafficking and violations of intellectual property rights—and the illicit proceeds from these crimes are a source of laundered funds. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, 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 former government officials have been accused of involvement in the smuggling of contraband or pirated goods. Although there are ongoing criminal investigations, to date there have been few convictions for 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 also 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. While offshore banking in Paraguay is illegal, bearer shares are permitted—exposing the country to money laundering risk. A 2008 International Monetary Fund review of the GOP's anti-money laundering controls noted that a significant portion of corporations issue bearer shares and that no measures are in place to ensure that such entities are not being misused for money laundering. 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 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. By law, exchange houses need to register with the Central Bank. The Central Bank has the authority to intervene, close, and seize the assets of illegal exchange houses, and the Attorney General's office has the responsibility to enforce anti-money laundering laws. However, it is estimated that in CDE alone there are more than 100 illegal exchange houses. Unregistered exchange houses are highly susceptible to money laundering activity, and in CDE they are associated with laundering funds from illicit activity.

In July 2008, President Duarte Frutos signed a new penal code that includes enhanced legislation on money laundering. 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 new code also allows the state to charge financial sector officials who negligently permit money laundering to occur. Implementation of the new penal code is expected for mid-2009 to allow time for judge and prosecutor training.

Another bill amending Paraguay's criminal procedure code is expected in 2009. The proposed amendments to the criminal procedure code would move Paraguay toward 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, lengthen statutes of limitation, and allow for confrontation and cross examination of witnesses.

Paraguay does not have laws that criminalize terrorist financing or would provide authorities to freeze, seize, or forfeit assets related to the financing of terrorism. Efforts to include such statutes in the new penal code failed. The Ministry of Industry and Commerce's (MIC) Secretariat to Combat Money Laundering (SEPRELAD) is working on a revised draft of the anti-terrorism finance bill to present to Congress in early 2009. The Egmont Group notified Paraguay about the need to comply with its international commitments regarding anti-terrorism finance legislation. If Paraguay does not show reasonable progress in enacting anti-terrorism finance legislation it could face suspension from the Egmont Group in 2009, which could then be followed ultimately by expulsion.

Other challenges slow Paraguay's progress in combating money laundering. 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 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. Now that the new anti-money laundering legislation has been passed as part of the new penal code, it is critical to Paraguay's future prosecutorial successes that judges and prosecutors enhance their knowledge regarding the successful prosecution and adjudication of money laundering cases.

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 customs declaration forms issued by airlines at the time of entry into Paraguay. Persons transporting \$10,000 into or out of Paraguay are required to file a customs report, but these reports are 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 illicit proceeds both from within and outside of Paraguay into the U.S. banking system.

Most high-priced goods are paid for in U.S. dollars, and cross-border bulk cash smuggling is a major concern. Large sums of dollars generated from normal commercial activity and suspected illicit commercial activity are transported physically from Paraguay through Uruguay and Brazil 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, however, 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 SEPRELAD. 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.

The government of Paraguay made significant efforts to strengthen SEPRELAD. Former Central Bank president Gabriel Gonzalez managed SEPRELAD until early August 2008. Director Gonzalez's efforts improved SEPRELAD's response time and operational structure, eliminating the backlog of suspicious activity reports (SARs). He also hired and trained additional UAF staff, strengthening the unit's analytical capacity. President Fernando Lugo's new administration designated in mid-August

Oscar Boidanich, a banking supervision and anti-money laundering veteran from the Central Bank, as SEPRELAD's new Director. Director Boidanich has worked to improve the quality of reported information in the SARs, and streamlined the information exchange processes with reporting institutions. In three months, SEPRELAD processed 276 SARs and sent 22 cases to the Attorney General's office, which represents a 20 percent increase over the same period in previous years.

SEPRELAD is hampered by a lack of effective inter-agency cooperation, as there is no formal mechanism for sharing sensitive information. Pursuant to a money-laundering vulnerability assessment performed in mid-2008 by the South America Financial Action Task Force (GAFISUD) and the International Monetary Fund (IMF), Director Boidanich is seeking to modify SEPRELAD's organizational structure to make it an independent secretariat with administrative and logistical support from the Central Bank with the aim of improving information-sharing mechanisms among the government's law enforcement agencies. 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 seeking to strengthen its relationships with international counterpart financial intelligence units. Though Paraguay had long been in arrears with GAFISUD, it fully paid its outstanding dues in early 2008 and included the annual payment into its future budget requests. 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.

Paraguay submitted a proposal for a second phase of the Millennium Challenge Corporation's Threshold Program to address corruption problems of impunity and informality, both of which hamper law enforcement efforts and contribute to money laundering. The Ministry of Industry and Commerce's Specialized Technical Unit (UTE), working in close coordination with the Attorney General's Trademarks and Intellectual Property Unit, seized \$55 million worth of pirated goods during the first ten months of 2008. In cooperation with the U.S. Department of Homeland Security's Immigration and Customs Enforcement (ICE), the GOP continues to operate 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

Under current laws, enforcement agencies in Paraguay have limited authority to seize or forfeit assets of suspected money launderers. In most cases, assets seized or forfeited are limited to transport vehicles, such as planes and cars, and normally do not include bank accounts. However, law enforcement authorities may not auction off these assets until a defendant is convicted. At best, they 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, Paraguay's 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 law enforcement agencies have no authority to freeze, seize, or forfeit assets related to the financing of terrorism, which is not a criminal offense under Paraguayan law. The current law also does not provide any measures for thwarting the misuse of charitable or nonprofit entities that could be used as conduits for the financing of terrorism. However, the Ministry of Foreign Affairs provides the Central Bank and other government entities with the names of suspected terrorists on the UNSCR 1267 Sanctions Committee list.

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 Hezbollah leadership. The 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 disagrees 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 processed 40 money laundering cases, 15 of which resulted in convictions. These cases reinforce the fact that convictions are possible, although difficult, under the current legal framework.

Paraguay and the United States do not have a mutual legal assistance agreement; however, Paraguay is a party to the Inter-American Convention on Mutual Legal Assistance in Criminal Matters. Paraguay is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. Paraguay is a member of the "3 Plus 1" Security Group with the United States and the Tri-Border Area countries. Paraguay is a member of GAFISUD, and SEPRELAD is a member of the Egmont Group.

The GOP took a number of positive steps in 2008 to combat money laundering, particularly with the passage of the new penal code and the money laundering convictions. However, it should continue to pursue other initiatives to increase its effectiveness in combating money laundering and terrorist financing. The GOP should enact legislation and issue regulations that comport with all international standards relating to its poorly regulated financial sector, and that enable law enforcement authorities to more effectively investigate and prosecute money laundering and terrorist financing cases. Paraguay should take steps to ensure that the penal and procedural code reforms are expeditiously 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 it should take steps as quickly as possible to ensure that comprehensive counterterrorism and counterterrorist financing legislation is introduced and adopted. It should also take the necessary steps to ensure that its TTU is comprised of vetted employees from all relevant agencies, including SEPRELAD. Further reforms in the selection of, and accountability by, judges, prosecutors and public defenders are needed, as are 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. Additionally, Paraguay should reform its asset forfeiture regime, including the management of seized and forfeited assets.

Peru

Peru is not a major regional financial center, nor is it an offshore financial center. 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 approximately two billion dollars annually, which is approximately 1.6 percent of Peru's gross domestic product. As a result, money laundering is believed to occur on a significant scale to integrate these illegal proceeds into the Peruvian economy. The most common methods of money laundering in Peru involve real estate sales, business investments, and high interest loans. Other vulnerabilities to money laundering include Peru's cash-based and heavily-dollarized economy, pervasive corruption, and the lack of effective regulatory supervision of nonfinancial businesses and professions, such as casinos and informal remittance and wire transfer services.

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, the Government of Peru (GOP) maintains no restrictions 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. According to Peru's financial intelligence unit (FIU), the Unidad de Inteligencia Financiera (UIF), approximately 37 percent of 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. Most recently, the Peruvian National Police Anti-Drug Directorate (DIRANDRO) arrested the Mayor of Pucallpa and 13 others on charges of money laundering drug trafficking proceeds through commercial enterprises. The nearly year-long investigation conducted by the police was assisted with reports from the UIF showing imbalances in the Mayor's business earnings. The Mayor owns a number of businesses in the region, which are now under asset seizure proceedings. The Mayor was formally indicted in October. Also, 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 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. In December 2007, Supreme Decree No. 085 created the National Office for Anti-Corruption (ONA). An anticorruption czar was appointed to a term of three years. In August 2008, however, the government closed the National Office for Anti-Corruption and transferred its responsibilities to the Comptroller's office.

Law 27.765 of 2002 criminalizes money laundering in Peru and 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. There does not have to be a conviction relating to the predicate offense. Rather, it must only be established that the predicate offense occurred and that the proceeds of crime from that offense were laundered. The law's brevity and lack of implementing regulations, however, limits its effectiveness in obtaining convictions.

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 impose a three to six year sentence for failure to file suspicious transaction reports.

Law 29009, enacted in April 2007, granted temporarily to the Executive branch the power to legislate in the areas of illegal drug trafficking, money laundering, terrorism, kidnapping, extortion, and organized crime. The Executive branch enacted eleven legislative decrees prior to the law's expiration in July 2007 that strengthened the capacity of the National Police, the Public Ministry, and Executive branch to combat organized 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, 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.

Additionally, terrorism has not yet been specifically and fully established as a crime under Peruvian legislation in a manner that would conform to international standards. 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.

The UIF began operations in June 2003 and now has approximately 60 employees. 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. Currently, obligated entities must hand-deliver STRs to the UIF. However, the UIF is in the transition from paper submission to automation of STR filing. Automation is supposed to be ready during the first quarter of 2009, and obligated entities will be required to implement it within three months. The UIF received 1,554 STRs in 2007 and 2,379 in 2008.

Obligated entities must also maintain reports on large cash transactions. Individual cash transactions exceeding \$10,000 or transactions totaling \$50,000 in one month must be maintained in internal databases for a minimum of five years and made available to the UIF upon request. Nonfinancial institutions, such as exchange houses, casinos, lotteries or others, must report individual transactions over \$1,000 or monthly transactions over \$5,000. Individuals or entities transporting more than \$10,000 in currency or monetary instruments into or out of Peru must file reports with the customs agency, and the UIF may have access to those reports upon request. Any cash transactions that appear suspicious must be reported to the UIF and the UIF is authorized to sanction persons and entities for failure to report suspicious transactions or large cash transactions, or the transportation of currency or monetary instruments. These reporting requirements, however, are not being strictly enforced by the responsible GOP entities.

The UIF does not automatically receive currency 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 a STR and determines that the STR warrants further analysis, it contacts the covered entity that filed the report for additional background information—including any CTRs that may have been filed—and/or the customs agency to determine if the subject of the STR had reported the transportation of currency or monetary instruments. Some requests for reports of transactions over \$10,000—such as 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 to 30 days is required to lift the bank secrecy restrictions. The Superintendent of Banks and Insurance (SBS) has the authority to request protected information under the bank secrecy provisions. However, it is not clear with the incorporation of the UIF under the SBS, whether the Superintendent may legally provide this information directly to the UIF. 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 expands 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 SBS (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, 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, as is the case with notaries and money exchange houses. 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, and other factors), 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 SBS only regulates money remittances that are done through special fund-transfer businesses (ETFs) that do more than 680,000 soles (approximately \$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. The UIF sent 123 suspected cases stemming from STRs to the Public Ministry for investigation in 2008. To date, there has not been a money laundering conviction in Peru. Convictions tend to be for lesser offenses such as tax evasion.

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 DINANDRO 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.

Peru is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN Convention for the Suppression of Financing Terrorism. The GOP is a member of the Organization of American States and participates in the Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group. Peru also is a member of the Financial Action Task Force for South America (GAFISUD) and underwent its third GAFISUD mutual evaluation in July 2008. The UIF is a member of the Egmont Group of financial intelligence units. Although an extradition treaty between the United States and the GOP entered into force in 2003, there is no mutual legal assistance treaty or agreement between the two countries.

Although recent efforts to combat corruption and the issuance of Executive Order 25.475, which punishes terrorism-related collaboration, is a welcome step forward, the GOP nevertheless faces several notable challenges to strengthen its anti-money laundering and counterterrorist financing regime and ultimately conform to international standards. Peru should pass legislation that criminalizes terrorist financing as well as legislation that allows for administrative and judicial blocking of terrorist assets. Bank secrecy should be lifted to allow the UIF to have access to certain CTRs in a timely fashion. 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. Peru would benefit from expanded supervision and regulation of financial institutions and designated nonfinancial businesses and professions, and the GOP should permit Peru's UIF to work directly with law enforcement agencies. Anti-corruption efforts in Peru should also be a priority. In addressing these issues, the GOP would 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 is over \$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 Regulation for the AMLA in April 2002. The AMLA, as amended, criminalizes money laundering, an offense defined as a crime whereby the proceeds of an unlawful activity are transacted thereby making them appear to have originated from legitimate sources. It imposes penalties that include a term of imprisonment of up to 14 years and a fine no less than 3,000,000 pesos (approximately \$63,400) but no more than twice the value of proceeds or property involved in the offense. The Act also imposes customer identification, customer due diligence, record keeping, and reporting requirements on banks, trusts, and other institutions regulated by the Bangko Sentral ng Pilipinas (BSP) or Central Bank, as well as insurance companies, and other entities under the supervision or regulation of the Insurance Commission, 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 cash equivalent monetary instrument) from 4,000,000 pesos to 500,000 pesos (approximately \$85,000 to \$10,600); expanded financial institution reporting requirements to include the reporting of suspicious transactions regardless of amount; authorized the Central Bank to examine any particular deposit or investment with any bank or nonbank financial institution in the course of a period or special examination (in accordance with the rules of examination of the Central Bank); ensure 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 Insurance Commission, and the Chairman of the Securities and Exchange Commission. By law, the AMLC 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 issued 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 2008, the AMLC had received more than 17,915 suspicious transactions reports (STRs), and 133,367,756 CTRs. The AMLC is a member of the Egmont Group.

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 assisting the Office of the Solicitor General in the handling of civil forfeiture cases. AMLC has the ability to institute civil actions for forfeiture of monetary instruments or property involved in any unlawful activity defined in the AMLA, as amended. No prior criminal charge or conviction for an unlawful activity or money laundering offense is necessary for a commencement of an action or resolution of a petition for civil forfeiture. To freeze assets allegedly connected to money laundering, the AMLC must establish probable cause that the funds relate to an unlawful activity enumerated in the Act. The Court of Appeals then may freeze a bank account for 20 days. Through the end of 2007, funds amounting to almost 1.4 billion Philippine pesos (approximately \$30 million) have been frozen by the AMLC, including funds frozen at the request of the UN Security Council, the United States, and other foreign governments. It has also received 66 official requests for anti-terrorism action, many concerning groups on the UNSCR 1267 Sanction Committee's consolidated list.

The AMLC is required to secure a court order to examine bank records related to the unlawful activities enumerated in the AMLA, as amended, except in instances where the unlawful activity is a serious offense such as kidnapping for ransom, drugs and terrorism-related activities.

A Supreme Court of the Philippine's decision to suspend certain inquiries into suspicious transactions will have significant adverse consequences for Philippines law enforcement in extending international cooperation to its partners. As it stands, the AMLC will have to prematurely divulge to account holders the fact of the investigation and the basis for inspecting the bank records. This will result in providing criminals both with an advance notice of proceedings and progress of the investigation, and as well as the identities of persons cooperating with law enforcement. Aside from jeopardizing the investigation by tipping them off, it will also afford the criminal an opportunity to do shelter assets making the tracing of the funds virtually impossible.

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.

In December 2005, the Supreme Court issued the Rule of Procedure in Cases of Civil Forfeiture, Asset Preservation and Freezing of Monetary Instrument, Property, or Proceeds Representing, Involving, or Relating to an Unlawful Activity or Money Laundering Offense under the AMLA, as amended. The Rule also contains 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 the 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, as amended, covered institutions and their officers and employees, shall not be deemed to have violated Republic Act No. 1405, as amended (Law on Secrecy of Bank Deposits); Republic Act No. 6426, as amended; Republic Act No. 8791 and other similar laws, when reporting covered or suspicious transactions. Further, no administrative, criminal or civil proceedings shall lie against any person for having made a covered or suspicious transaction report in the regular performance of his duties and in good faith.

Covered institutions must maintain and store records of transactions for a period of five years from the dates of transactions. With respect to closed accounts, the records on customer identification, account files and business correspondence shall be preserved and safely stored for at least five years from the dates when they were closed.

The AMLC and the supervising authorities such as the Central Bank, Securities and Exchange Commission and the Insurance Commission monitor compliance with the AMLA provisions by banks and other financial institutions identified as covered institutions. They have mechanisms in place to ensure that the financial community is adhering to reporting and other AMLA requirements. To enhance on-going monitoring and reporting of covered and possible suspicious transactions, the BSP issued Circular No. 495 dated 20 September 2005 which requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system which, at a minimum, shall detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under Sections 3(b) and 3(b-1), respectively, of the AMLA, as amended.

The AMLC continues to work to bring the numerous foreign exchange offices in the country under its purview. The BSP issued Circular No. 471 dated 24 January 2005 to bring the registration and operations of foreign exchange dealers and remittance agents under the jurisdiction and authority of the BSP and to subject them to the AMLA, as amended. To obtain a license, one of the requirements is that dealers must attend an AML/CTF training course conducted by the AMLC. As of the beginning of 2008, only 4,144 of the estimated 15,000 exchange dealers and remittance agents have registered. There are still several sectors operating outside of AMLC control.

Although the AMLA specifically covers exchange houses, insurance companies, and securities brokers, it does not cover designated nonfinancial business and professions except trust companies. The AMLC requires automobile dealers and vendors of construction equipment, which are emerging money laundering methodologies, to report suspicious transactions to the AMLC.

On 15 March 2007 the Central Bank issued Circular No. 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 institutions. This was later amended by Circular No. 608 issued by the BSP on 20 June 2008, relaxing the customer identification requirement to be imposed by banks and other institutions under BSP supervision or regulation. Currently, one identification card issued by an official authority as defined in BSP Circular No. 608, is sufficient.

Casinos are regulated by the Philippine Amusement and Gaming Corporation (PAGCOR) pursuant to P.D. No. 1869. The Cagayan Economic Zone Authority (CEZA) is likewise granted by Republic Act No. 7922 the authority to license casinos. Both PAGCOR and CEZA are under the supervision of the Office of the President (OP). The OP, in its letter dated 10 December 2007, advised the AMLC that a legislative amendment is required as the law did not define casinos as covered institutions.

There is an increasing recognition that the 15 casinos nationwide offer abundant opportunity for money laundering, especially with many of these casinos catering to international clientele arriving by 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. 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. PAGCOR has agreed to voluntarily submit reports on suspicious activities of casino operators or its patrons.

As of March 2008, there are 76,512 nonstock, nonprofit organizations (NPOs) registered with the Securities and Exchange Commission (SEC). These NPOs do not fall under the requirements of the AMLA, as amended. 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 registrations, operations, and audit of foundations. In July 2007, the AMLC initiated the organization of a Technical Working Group (TWG) on the Non-Profit Organization, which conducted a survey on the NPO sector. There are regular meetings among NPOs providing for a venue to discuss measures for the effective prevention of money laundering and terrorist financing within the NPO environment.

There are seven offshore banking units (OBUs), which account for less than three percent (3 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 certification to operate from the Central Bank subject to relatively stringent standards that 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.

Despite the efforts of 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 that an individual or entity can bring or take out of the country, any amount in excess of the equivalent of \$10,000 of cash or negotiable instruments must be declared upon arrival or departure. However, based on the actual amount of foreign currency exchanged and expended, authorities realize 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 (OFW). In 2007, the amount of remitted funds exceeded \$14 billion or approximately 11 percent of the 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 an alternative remittance system such as hawala or an unofficial “door-to-door” delivery 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 encouraged banks to set up offices in remitting countries and facilities for fund remittances, especially in the United States, to help reduce the expense of remitting funds. OFWs also use informal value transfer systems.

The Philippines is a member of the Asia/Pacific Group on Money Laundering (APG). The APG conducted a comprehensive peer review of AMLC in September 2008 and subsequently provided 45-pages of recommendations for improvement. Prominent APG concerns include the exclusion of PAGCOR from the scope of current anti-money laundering legislation, and 2008 court rulings that expanded the scope of bank privacy laws to an extent that inhibits investigations of fraud and corruption. The Philippine legislature is now considering an amendment to the Anti-Money Laundering Act of 2001 to address these issues.

A mutual legal assistance treaty between the Philippines and the United States has been in force since 1996. The Philippines is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption and the UN Convention for the Suppression of the Financing of Terrorism. The Philippines is listed 141 out of 180 countries surveyed by Transparency International’s 2008 International Corruption Perception Index.

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 actions by other foreign governments. In 2007, the GOP enacted an anti-terrorism law that defines and criminalizes terrorism. The Human Security Act which went into effect on July 15, 2007 criminalizes terrorism and conspiracy to commit terrorism; penalizes an offender on the basis of participation; empowers Philippine law enforcement to use special investigative techniques; allows inquiries into bank accounts; authorizes freezes and forfeitures of terrorist related funds and assets; and creates an Anti-Terrorism Council comprised of cabinet members and support agencies.

While there is no crime of terrorist financing a person who finances the commission of terrorism may be prosecuted, not as a financier of terrorism but as a terrorist either as a principal by inducement pursuant to Article 17 of the Revised Penal Code or as an accomplice pursuant to Section 5 of the Human Security Act

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 Government of the Philippines had made in remedying the deficiencies that resulted in its being placed on the list in 2001.

Since 2005, the Government of the Philippines (GOP) has continued to make progress enhancing and implementing its amended anti-money laundering regime. 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. To become a more effective FIU, the AMLC should expeditiously revise its structure and separate its analysts and investigators into separate divisions. The GOP should enact comprehensive legislation regarding freezing and forfeiture of assets that would empower the AMLC to issue administrative freezing orders to avoid funds being withdrawn before a court order is issued. The GOP does have a civil asset forfeiture regime; however, the asset forfeiture fund should allow 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. The 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. In addition, law enforcement should be able to scrutinize financial records as an investigative measure on an ex parte basis when notice to the account holder might prejudice the ability of the government to successfully prosecute the money laundering or forfeiture case, including enabling a suspected criminal to take action to secrete or transfer assets.

Poland

Poland lies directly along one of the main routes between the former Soviet Union republics and Western Europe used by narcotics-traffickers and organized crime groups. According to Polish Government estimates, narcotics trafficking, organized crime activity, auto theft, smuggling, extortion, counterfeiting, burglary, and other crimes generate criminal proceeds in the range of \$3,000,000,000 to \$5,000,000,000 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 laundered proceeds. With regard to economic crime, the largest volume of illegal income is connected with lost customs duties and taxes. Money laundering through trade in scrap metal and recyclable material is a growing trend. It is also believed that some money laundered in Poland originates in Russia or other countries of the former Soviet Union. The GOP estimates the unregistered or gray economy, used primarily for tax evasion, may be as high as 13 percent of Poland's \$620,000,000,000 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 were licensed 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 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 and into the Schengen zone in December 2007 has 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.

In 2006, the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body, conducted its third round mutual evaluation of Poland. The report shows Poland to be noncompliant with international standards regarding customer due diligence (CDD). Polish legislation still lacks many important provisions regarding customer identification procedures when starting a business relationship, verification of identification data, and ongoing or enhanced CDD. There is no prohibition on the opening of an account when satisfactory CDD cannot be

completed. Nor is there a requirement to terminate a customer relationship when the financial institution cannot complete CDD.

As of June 2008, the European Commission (EC) was pursuing an infringement action against Poland for failing to adopt and implement the Third EU Anti-Money Laundering Directive into national law by the mandated deadline. In January 2009, the EC made the decision to refer Poland to the European Court of Justice over its non-implementation of this Directive, which requires members to update their AML regimes to comport with the most up-to-date standards, particularly with regard to regulation and terrorism financing.

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. Although Poland's definition of money laundering is largely compliant with international standards, it still lacks some important components. For instance, some of the legislative provisions need further clarification regarding certain elements (conversion, acquisition, possession, and use) of money laundering. In addition, more emphasis is needed on third party laundering and clarifying the evidence required to establish the underlying predicate criminal offense.

Poland's anti-money laundering (AML) regime begins in November 1992, when the President of the National Bank of Poland issues 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 improve its operational effectiveness, increases penalties for money laundering and contains safe harbor provisions that exempt financial institution employees from normal restrictions on the disclosure of confidential banking information. Parliament further amended the law to broaden the definition of money laundering to include assets originating from illegal or undisclosed sources. Several additional amendments to the 2000 money laundering law 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.

The law requires casinos to report the purchase of chips worth 1,000 euros (approximately \$1,350) or more. In addition to requiring that obligated entities notify the financial intelligence unit (FIU) of all transactions exceeding 15,000 euros (approximately \$20,250), covered institutions also must file suspicious transaction reports (STRs), regardless of the size of the transaction. Polish law also requires financial institutions to put internal AML procedures into effect, a process overseen by the FIU.

The Polish Bar mounted a challenge against certain provisions of the legislation, and submitted a motion to the Constitutional Tribunal to determine the consistency of various regulations with ten articles of the Polish Constitution. On July 2, 2007, the Constitutional Tribunal issued a ruling that lawyers are allowed to refrain from notifying the relevant authorities of suspicious transactions when they provide legal assistance to and determine the legal status of a client.

The “Act on Counteracting Money Laundering and Terrorism Financing” underwent numerous revisions in 2008. The draft legislation has been submitted to Parliament, and it is expected to become law in early 2009. The legislation will enhance existing AML legislation.

As of June 15, 2007, travelers entering Poland from a non-EU country or traveling to a non-EU country with 10,000 euros (approximately \$13,500) or more must declare their cash or monetary instruments in writing. Poland’s customs law requires travelers to complete and present a customs and currency declaration if they are transporting more than the threshold amount 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, and airport controls in March 2008.

The 2000 AML law provides for the creation of a FIU, the Department of Financial Information (DFI), within the Ministry of Finance, to collect and analyze large cash and suspicious transactions and perform regulatory work. The vast majority of required notifications to the DFI 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 analysis of the large number of reports sent to the DFI is a challenge for the understaffed FIU. To help improve the FIU’s efficiency, the DFI continues to work on a specialized IT program that will support complex data analysis and improve the FIU’s ability to handle the increasing number of reports it receives.

In 2007, the DFI received a total of 18,115 STRs. The number of STRs submitted by cooperative entities rose to 648, an increase of 22 percent from the previous year; 69 percent of these came from the Agricultural Property Agency and from fiscal offices. Altogether, the DFI analyzed 10,776 STRs.

As a result of its analysis, in 2007, the DFI initiated 1,358 analytical proceedings connected with suspicious financial transactions. The proceedings generally concerned illegal or fictitious trade in fuels and/or scrap metal (165), trade in funds originating from fraud and/or obtained under false pretenses (122), trade in funds originating from unauthorized access to bank accounts (14), transactions by nonresidents (46), and transfers of money related to fictitious invoicing, real-estate funds, and securities. The DFI demanded the suspension of just one transaction for PLN 230,000 (approximately \$79,000) and the freezing of 97 accounts worth an estimated PLN 30 million (approximately \$10,300,000). The DFI also froze 58 accounts on its own initiative worth an estimated PLN 7.1 million (approximately \$2,400,000).

Altogether, the DFI submitted 190 notifications to the Public Prosecutor’s Office under Article 299 of the Criminal Code, representing an estimated PLN 775 million (approximately \$337,000,000) in transactions. Of these, 116 resulted in initial investigative proceedings. In 2007, 176 of the 296 money laundering cases initiated by the Public Prosecutor’s Office were based on information received from the DFI. The cases resulted in 82 indictments against 288 persons. The courts returned 36 guilty verdicts and convicted 55 individuals on charges of money laundering. The total value of all seized property was approximately PLN 40.5 million (approximately \$14,000,000).

In addition to the Prosecutor’s Office, the DFI also cooperates with several domestic law enforcement agencies, including the Central Investigative Bureau (CBS), a police unit; the Internal Security Agency (ABW), which investigates the most serious money laundering cases; and the Central Anti-Corruption Office (CBA). Coordination and information exchange between the DFI and law enforcement entities has improved, especially with regard to the suspicious transaction information the DFI forwards to the National Prosecutor’s Office. The DFI and the National Prosecutor’s Office have signed a cooperation agreement calling for the creation of a computer-based system to facilitate information exchange between the two institutions. Work on the development of this new system is currently underway.

In 2006, DFI conducted an assessment of the effectiveness of Poland's AML reporting system. According to the DFI'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 DFI notifications; and inadequate use of the DFI by the full range of domestic agencies in Poland (76 percent of all queries to the DFI were from the Prosecutor's office).

The DFI now conducts all training online via e-learning, which is available to all obligated institutions and cooperative entities. In 2007, 2,074 representatives from obligated institutions and 116 employees of cooperative institutions participated in the electronic learning course, a two-week course consisting of nine lessons. The course finishes with an online test and certificate of completion.

The DFI exchanges information with its foreign counterparts. The United States, United Kingdom, Ukraine, Russia, Cyprus, and Belgium are among its most active information-sharing partners. In 2007, DFI sent official information requests to foreign FIUs on 175 cases concerning 308 national and foreign entities suspected of money laundering. Foreign FIUs sent 111 information requests concerning 460 national and foreign entities to the DFI.

The DFI 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 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 DFI reportedly desire more aggressive asset forfeiture regulations. However, lingering political sensitivities reportedly hamper approval of stringent asset seizure laws.

Poland is not compliant with international standards with regard to the criminalization of terrorist financing. 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. Under current provisions, it is unclear how Poland could directly prosecute the funding of a terrorist or terrorist organization; it is only addressed through conspiracy or aiding and abetting terrorism. No terrorist financing prosecutions have yet been undertaken or cases brought before the court. The Ministry of Justice 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 counterterrorist operations within the National Police, which coordinates and supervises regional counterterrorism units and trains local police in counterterrorism measures. In 2008, the Polish Ministry of Interior and Administration created a national Anti-Terrorist Center (CAT), which became operational in October 2008. CAT is a 20-person team, responsible for coordinating efforts of the police, the army, and the Civil Security Services. They are to secure Poland's borders and prevent terrorism in the country. The CAT has the authority to immediately mobilize police forces and the army. 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 Executive Order 13224, and the names designated by the EU under its relevant authorities. All obligated institutions must verify their customers are not included on the watch list. In the event a covered institution discovers a possible terrorist link, the DFI has the right to suspend suspicious transactions and accounts. In 2007, the DFI worked on seven terrorist financing cases involving 77 subjects. Upon completion of its analysis, the DFI forwarded 14 reports to the ABW for further analysis. The cases related to

transactions involving large amounts of cash being sent to Poland as well as numerous noncash transfers involving terrorist groups or parties from a country supporting terrorism.

A Mutual Legal Assistance Treaty (MLAT) between the United States and Poland came into force in 1999. In addition, Poland has signed bilateral MLATs with Sweden, Finland, Ukraine, Lithuania, Latvia, Estonia, Germany, Greece, and Hungary. Polish law requires the DFI to have memoranda of understanding (MOUs) with other international competent authorities before it can participate in information exchanges. The DFI has been diligent in executing MOUs with its counterparts in other countries, including two in 2007 (Albania and Montenegro) and one in 2008 (Mexico), for a total of 39 MOUs. The MOU between the Polish FIU and the U.S. FIU was signed in fall 2003.

Poland is a member of MONEYVAL. The DFI 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 DFI and its counterparts in other EU states takes place via FIU.NET or the Egmont Secure Web system. Poland is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

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 FATF standards. Most significantly, Poland must criminalize terrorist financing. The GOP should review and clarify its definition of money laundering to bring it in line with international standards. 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. Poland should ensure promulgating regulations for compliance with the Third Money Laundering Directive are fully effective. The GOP should promote additional capacity building in the private sector and continue to improve communication and coordination between the DFI and relevant law enforcement agencies. The Code of Criminal Procedure also should be amended to specifically allow the use of special investigative measures in money laundering investigations, which would assist law enforcement in its efforts to 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 the majority of money laundered in Portugal is narcotics-related. Currency exchanges, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has a comprehensive anti-money laundering and counterterrorist financing (AML/CTF) regime that criminalizes the laundering of proceeds of serious offenses, including terrorism, arms trafficking, kidnapping, and corruption. Article 11 of Law 59/2007, dated September 4, 2007, defines money laundering, expands the list of crimes related to money laundering, and makes legal entities criminally accountable. In April 2008, Portugal enacted Law 25/2008, which made a series of enhancements to the AML/CTF system.

The three principal regulatory agencies for supervision of the financial sector in Portugal are the BoP, the Portuguese Insurance Institute, and the Portuguese Securities Market Commission. Law 11/2004 broadened the GOP's AML regime. Law 11/2004 mandates suspicious transaction reporting by credit institutions, investment companies, life insurance companies, traders in high-value goods (e.g., precious stones, aircraft), and numerous other entities. Portugal employs an all-crimes approach to the predicate offense. "Tipping off" is prohibited and obliged entities making disclosures in good faith enjoy liability protection. Law 49/2008 consolidated criminal investigative responsibilities for money

laundering and terrorist finance under the Judicial Police's authority to facilitate more centralized investigations.

If an obliged entity has knowledge of a transaction likely to be related to a money laundering offense, it must inform the GOP, which may order the entity not to complete the transaction. If stopping the transaction is impossible or potentially detrimental to law enforcement efforts, the government also may allow the transaction to proceed but require the entity to provide complete transaction details.

All financial institutions must identify their customers, maintain records for a minimum of ten years, and demand written proof from customers regarding the origins and beneficiaries of transactions that exceed 12,500 euros (approximately \$16,533). Nonfinancial sectors 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. Law 25/2008 of April 2008 included new enhanced due diligence requirements for entities dealing with politically exposed persons (PEPs).

Decree-Law 295/2003 of November 2003 sets out reporting requirements for the cross-border transportation of cash, nonmanufactured gold, and certain negotiable financial instruments, such as travelers' checks. When a person travels across the Portuguese border with more than 12,500 euros worth of such assets, the traveler must declare the assets to Portuguese customs officials. With Decree-Law 61/2007, Portugal requires all individuals to declare currency valued at 10,000 euros (approximately \$14,600) or greater when entering or exiting Portugal from outside the European Community. The law also requires that authorities gather and exchange information at the national and international levels.

The 2006 Financial Action Task Force (FATF) mutual evaluation report (MER) noted that Portugal's mechanism for determining beneficial ownership does not fully comply with FATF standards. The National Registry of Legal Persons does not include all information to reveal the beneficial owners of legal persons. Instructions and regulatory standards set forth by the Bank of Portugal (BoP) and the Portuguese Insurance Institute (ISP) house the requirements for obliged entities to identify beneficial owners, as opposed to being stipulated by law. The Securities Market Commission (CMVM) regulations also do not explicitly comply with requirements regarding the identification of the beneficial owners of legal persons.

The November 2003 law also revised and tightened the legal framework for gold and foreign currency exchange transactions, subjecting them to a reporting requirement for transactions exceeding 12,500 Euros (approximately \$16,533). Beyond the requirements to report large transactions, foreign exchange bureaus have no special requirements to report suspicious transactions. The law does, however, give the GOP the authority to investigate suspicious transactions without notifying targets of the investigation.

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. Tax authorities may lift secrecy rules without authorization from the target of an investigation. The concept behind these rules is mainly to help the GOP investigate tax evasion, but authorities may use them to facilitate enforcement of other financial crimes as well.

The Portuguese Securities Market Commission issued Regulation 7/2005, entering into force on January 1, 2006, requiring financial intermediaries to submit detailed annual Control and Supervision Reports to the Commission by June 30 of the following year. Regulation 2/2006 entered into force on May 26, 2006. These Regulations amended and updated Regulation 12/2000 on Financial Intermediaries.

The Gambling Inspectorate General, the Economic Activities Inspectorate General, the Registries and Notaries General Directorate, the National Association for Certified Public Accountants and the Association for Assistant Accountants, the Bar Association, and the Chamber of Solicitors monitor

and enforce the reporting requirements of designated nonfinancial businesses and professions, including casinos, realtors, dealers in precious metals and stones, accountants, notaries, statutory auditors, registry officials, attorneys and solicitors. Although Internet gaming is widely available, accessing Internet gaming sites is illegal in Portugal and there are no known casinos or gaming websites whose Internet service providers are headquartered in Portugal.

Decree-Law 304/2002 of December 13, 2002, established Portugal's financial intelligence unit (FIU), known as Unidade de Informação Financeira (UIF), or the Financial Information Unit. It operates independently as a department of the Portuguese Judicial Police (Polícia Judiciária). The 28 persons comprising UIF are responsible for gathering, centralizing, processing, and publishing information pertaining to investigations of money laundering, tax crimes, and with Law 25/2008, terrorist financing. It also facilitates cooperation and coordination with other judicial and supervising authorities but has no regulatory authority in the area of AML/CTF issues. In 2007, the UIF received 724 STRs. The FIU also received over 15,000 other reports, primarily from the General Inspectorate for Gaming. At the international level, the UIF coordinates with other FIUs.

Between 2002 and 2005, sixteen persons were convicted of money laundering receiving penalties ranging from one year to eight and one-half years' imprisonment. During 2007, Portuguese authorities pursued 95 investigations and 25 prosecutions, and obtained four convictions for money laundering. During the first six months of 2008, Portugal saw 46 investigations, 26 prosecutions, and 14 convictions for money laundering.

Portuguese laws provide for the confiscation of assets connected to money laundering and authorize the Judicial Police to trace illicitly obtained assets (including those passing through casinos and lotteries), even if the predicate offense occurs outside of Portugal. Police may request files of individuals under investigation and, with a court order, can obtain and use audio and videotape as evidence in court. The law allows the Public Prosecutor to request a lien on the assets of individuals under prosecution in order to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering. Between January and September of 2007, the UIF seized or confiscated approximately 32.4 million euros (approximately U.S. \$47.3 million).

Law 5/2002 partially shifted the burden of proof in cases of criminal asset forfeiture from the government to the defendant; an individual must prove that he or she did not obtain the assets in question as a result of criminal activity. According to the 2006 FATF MER, however, a defendant must show a legitimate source of the assets only after conviction. The law defines criminal assets as those owned by an individual at the time of indictment and thereafter. The law also presumes that assets transferred by an individual to a third party within the previous five years still belong to the individual in question, unless proven otherwise. In drug-related cases, Portugal has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

Law 52/2003 defines terrorist acts and organizations and criminalizes the transfer of funds related to the commission of terrorist acts. It also addresses the criminal liability of legal persons for terrorism financing. However, the legislation does not extend customer due diligence requirements to suspected association with terrorism financing. And while the broadly worded law covers both illicit and licit funds that support a terrorist act or organization, it does not extend coverage to the provision of funds to an individual terrorist. Portugal has created a Terrorist Financing Task Force that includes the Ministries of Finance and Justice, the Judicial Police, the Security and Intelligence Service, the Bank of Portugal, and the Portuguese Insurance Institution. Names of individuals and entities included on the United Nations Security Council Resolution 1267 Committee's consolidated list, or that the United States or EU have linked to terrorism, are passed to private sector entities through the BoP, the Stock Exchange Commission, and the Portuguese Insurance Institution. In practice, however, the actual seizure of assets would only occur once the EU's clearinghouse process agrees to the EU-wide seizure of assets of terrorists and terrorist-linked groups. Although Portugal does not have an administrative

procedure to freeze assets independently of the relevant EU directive, judicial procedure exists for the Public Prosecutor to open a special inquiry and to freeze assets at the request of a foreign country. To date, no significant assets have been identified or seized. The FATF MER refers to “deficiencies in scope and time” relating to the freezing of terrorism-related funds.

The Madeira International Business Center (MIBC) has a free trade zone, an international shipping register, offshore banking, trusts, holding companies, stock corporations, and private limited companies. The latter two business groups, similar to international business corporations, account for approximately 6,500 companies registered in Madeira. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks are currently licensed to operate within the MIBC. The Madeira Development Company supervises offshore banks. There is no indication that the MIBC has been used for money laundering or terrorist financing.

Companies can also take advantage of Portugal’s double taxation agreements. Decree-Law 10/94 permits existing banks and insurance companies to establish offshore branches. Companies submit applications to the BoP for notification or authorization. The law allows establishment of “external branches” that conduct operations exclusively with nonresidents or other Madeiran offshore entities, and “international branches” that conduct both offshore and domestic business. Although Madeira has some local autonomy, Portuguese and EU legislative rules regulate its offshore sector, and the competent oversight authorities supervise it. Exchange of information agreements contained in double taxation treaties allow for the disclosure of information relating to narcotics or weapons trafficking. Laws prohibit bearer shares.

Portugal is a member of the FATF. Portugal is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Portugal’s FIU is a member of the Egmont Group. According to the FATF MER, Portugal has undertaken many mutual legal assistance obligations, especially with regard to identification, seizure and confiscation of assets.

The Government of Portugal has implemented a comprehensive and effective regime to combat money laundering and spent the last decade honing its ability to investigate and prosecute money laundering cases, and extending its reach to terrorist financing. Legislative measures have consolidated the anti-money laundering legal framework, imposing on financial and nonfinancial institutions obligations to prevent the use of the financial system for the purpose of money laundering. The GOP continued to implement these measures in 2008 to effectively combat money laundering and terrorist financing. The GOP should work to correct identified deficiencies in its asset freezing and forfeiture regime, improve its mechanisms to determine beneficial owners, and amend the terrorism financing law to make it applicable to individuals.

Qatar

Supported by energy-driven double-digit economic growth in recent years, Qatar is an increasingly important banking and financial services center in the Gulf. Despite the growth of the banking sector and increasing options for financial services, Qatar still has a cash-intensive economy. Traditionally, Qatar has had a low rate of general and financial crime, although crime rates have increased in recent years and the financial sector’s expansion could make it an increasingly appealing target for criminals. Moreover, there are several trends which make Qatar increasingly vulnerable to money laundering including: the large number of expatriate laborers who send remittances to their home countries; the growth in trade; liberalization and growth in the real estate sector; increase in the price of precious metals; uneven corporate oversight; and, an apparent lack of financial crimes enforcement.

Qatar is a member of the Middle East and North Africa Financial Action Task Force (MENA-FATF). In mid-2008, the International Monetary Fund (IMF) released a detailed assessment report on Qatar’s

anti-money laundering / counterterrorist finance (AML/CTF) regime. The report was adopted by both MENA-FATF and the FATF.

Compared against FATF's 40 recommendations on money laundering the report found Qatar compliant on two, largely compliant on eight, partially compliant on twenty, and noncompliant on ten. For the nine special recommendations on terrorist finance, the IMF team judged Qatar as partially compliant with two, largely compliant with one, and noncompliant on six.

The Government of Qatar (GOQ) welcomed the IMF assessment and stated that it is "acutely aware of the risks attendant on a rapidly growing financial sector." The government also signaled its intention to continue developing an AML/CTF framework that is in high-level compliance with the FATF 40 plus 9 recommendations. Qatari authorities are currently drafting a new AML/CTF law and regulatory measures, implementing further supervisory measures, and creating a central committee on training to implement a comprehensive training program for all financial institutions and authorities with AML/CTF responsibilities.

The Qatar Central Bank (QCB) exercises primary regulatory authority over the financial sector. There are 18 licensed banks, including three Islamic banks and a specialized bank—the Qatar Industrial Development Bank. Qatar has 20 exchange houses, three investment companies and two commercial finance companies. Unlike most business sectors in Qatar, the Qatar Financial Center (QFC) allows major international financial institutions and corporations to set up offices with 100 percent foreign ownership. There are currently 96 firms authorized to operate in the QFC, representing a spectrum of banks, investment companies, insurance houses, and related professional services. QFC firms are limited to providing services to wholesale clients, except for insurance companies that can provide services to both wholesale and retail clients. The QFC has a separate, independent regulatory authority, the QFC Regulatory Authority. The QFC regulatory regime uses international standards. There are plans underway to create a unified regulatory authority for the country, though it remains unclear when the necessary legislation and oversight board will be in place, and also how Gulf Cooperation Council plans for a unified currency and central banking system by 2010 will affect Qatar's regulatory plans.

Qatar's anti-money laundering and counterterrorist financing (AML/CTF) legal framework is based on Law (28) of 2002 which criminalized money laundering as amended by Decree Law (21) 2003 and Law (3) of 2004 on Combating Terrorism which criminalizes terrorist financing in a limited way. The laws' effectiveness has yet to be tested, as there have been no prosecutions for money laundering or terrorist financing crimes since enactment. Authorities have investigated terrorist activity in Qatar but no measures were taken to investigate their funding. Khalifa Muhammad Turki al-Subaiy, a Qatar-based terrorist financier and facilitator, was convicted in January 2008 in absentia by the Bahraini High Criminal Court for financing terrorism and other related charges. He was subsequently arrested in Qatar where he served his six-month prison sentence from March-September 2008. On October 10, 2008, al-Subaiy was added to the UN 1267 Committee list of individuals subject to targeted sanctions.

According to Article 28 of the Anti-Money Laundering Law, money laundering offenses involve the acquisition, holding, disposing of, managing, keeping, exchanging, depositing, investing, transferring, or converting of funds from illegal proceeds. The AML law imposes fines and penalties of imprisonment of five to seven years. The AML law expands 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 Public Prosecutor within three days of any action taken. The Public Prosecutor may renew or nullify the freeze order for a period of up to three months. The AML law explicitly provides for both personal and corporate liability for money laundering. The AML 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 GOQ to extradite convicted criminals in accordance with international or bilateral treaties.

According to the IMF evaluation, Qatar's AML law is only partially compliant with the FATF 40 plus 9 recommendations as the effectiveness is not evidenced, it does not cover acts conducted with a view to conceal the true nature, location, disposition, movement or ownership or rights with respect to proceeds, it does not cover required predicate offenses, and it does not give authorities jurisdiction over predicate offenses that were entirely committed in another country, even if there is dual criminality.

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. In April 2008 it issued modifications to its AML rulebook to strengthen some measures, including requiring firms to consider making a suspicious activity report if a customer fails to undergo due diligence. The revised rules also required intensified monitoring of QFC subsidiaries or branches that may be operating in other jurisdictions.

The Anti-Money Laundering Law established an interagency committee to oversee and coordinate money laundering combating efforts. The National Anti-Money Laundering and Terrorism Financing Committee is chaired by the Deputy Governor of the QCB and includes members from the Qatar Central Bank, financial intelligence unit (FIU), Ministries of Interior, Labor and Social Affairs, Business and Trade, Finance, Justice, Customs and Ports Authority and the State Security Bureau.

In February 2004, the 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 Counterterrorism Committee 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 IMF assessment found that overall the dissemination process is too limited and infrequent to be fully effective.

In October 2004, the GOQ established a financial intelligence unit 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 with the different regulatory agencies in Qatar. For example, the FIU 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 counterterrorist finance policies and procedures.

The Qatari FIU became a member of the Egmont Group in 2005. The IMF assessment found the QFIU "largely compliant" but found problems with the legal basis for establishing the FIU, poor quality of STR analysis, insufficient staff, no guidance on filing STRs issued by the FIU, inadequate protection of information and facility, and no periodic review of the AML-CTF system's effectiveness. Additionally, there is no obligation in legislation for suspicious transactions related to terrorist financing to be reported.

In December 2004, the QCB installed a central reporting system. The FIU uses this system to monitor suspicious transactions reports and analyze trends. 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. The IMF found that preventive measures for financial institutions in the domestic sector fall short of addressing a vast majority of international customer due diligence standards. For example, the current obligations do not prohibit the opening of anonymous accounts or accounts in fictitious names. Hawala transactions are prohibited by law in Qatar, though informal remittance systems do exist and the largely undocumented nature of these networks makes it difficult to judge prospective money laundering activity.

Qatar's domestic supervisory authorities, with the exception of the insurance supervisor, were judged by the IMF to possess adequate authority and powers to supervise financial institutions and ensure compliance with AML/CTF laws and regulations. The team found, however, that in practice AML/CTF inspections were inadequate, and none of the authorities had ever imposed sanctions on the institutions they supervise for noncompliance. In mid-2008, the Central Bank created an AML/CTF unit to oversee the local banking sector and liaise with compliance officers to ensure regulations were being implemented. The IMF reported that the QFC legal and regulatory framework for AML/CTF appears to be in line with the FATF standard, though the center's recent establishment and limited number of firms made it difficult for assessors to evaluate the effectiveness of the framework.

Regarding Iran-related terrorism and proliferation transactions, the Central Bank ordered financial institutions to freeze any assets of entities listed in UNSCRs 1737, 1747, and 1803, and prohibits them from carrying out any transactions with listed entities. However, Iran's Bank Saderat—an entity of concern in UNSCR 1803—was allowed to open a second branch in Doha in June 2008.

Law No. 13 from 2004 established The Qatar Authority for Charitable Activities (QACA), which monitors all charitable activity in and outside of Qatar. Only officially registered organizations can collect and disperse money for charitable purposes. There are five officially registered charities in Qatar: Qatar Charity, the Sheikh Eid Bin Mohammad Al Thani Charitable Association, the Qatari Red Crescent, the Jassim Bin Jaber Bin Mohammad Al Thani Charitable Association, and Reach Out to Asia (ROTA). Two additional charities are in the process of being registered. The Secretary General of the Authority approves all international fund transfers by the charities. The Authority reports to the cabinet via 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. The IMF assessment found that domestic measures to prevent abuse of nonprofits go beyond FATF recommendations, and the QACA appears to ensure effective implementation of the requirements in place.

Overseas charitable activities must be undertaken in collaboration with a nongovernmental organization (NGO) that is legally registered in the receiving country. The Authority has a seven-

member team that travels to project sites to evaluate projects and audit their finances. 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 18 of the law provides penalties of up to a year in prison, a fine of 50,000 Qatari riyals (approximately \$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. The Ministry of Islamic Endowments (Awqaf) collects Islamic charitable contributions (zakat) through official collection points and administers disbursement of funds to the needy.

Qatar separates the authorities in charge of investigations and the legal authorities in charge of the judgment of criminal offenses. Qatar has designated a number of competent authorities to investigate and prosecute money laundering and terrorist financing offenses. The authorities in charge of AML/CTF investigations operate independently. Investigations are mainly the responsibility of four separate authorities: 1) the Economic Crimes Prevention Division (ECPD) within the Ministry of Interior (MOI); 2) the Public Prosecutor’s Office (PPO); 3) the State Security Bureau (SSB); and 4) the Customs. The competent authorities are able to obtain documents and information for use in investigations, prosecutions, and related actions. However, the various agencies do not appear to be sufficiently structured, funded, and resourced to effectively carry out their functions. There is a lack of AML/CTF investigations, prosecutions, and convictions.

Qatar does not have mandatory cross-border currency reporting requirements. In suspicious cases, Customs officials are given authority to 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 IMF judged that the current system is neither implemented nor effective.

The GOQ is a party to the 1988 UN Drug Convention. The Cabinet has approved Qatar’s accession to the UN Convention for the Suppression of the Financing of Terrorism and the government is finalizing necessary documentation to formally accede to the convention. Qatar is not a party to the UN Convention against Corruption. The Amir approved Qatar’s accession to the UN Convention against Transnational Organized Crime and Qatar’s permanent delegation to the United Nations will submit the approval document to the UN Secretary General.

The Government of Qatar should continue to implement AML/CTF policies and procedures that adhere to world standards, particularly the recommendations of the IMF review of Qatar. Per FATF Special Recommendation nine, Qatar should initiate and enforce in-bound and out-bound cross-border currency reporting requirements. The GOQ should enhance training for law enforcement, prosecutors, and customs authorities so that they can 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 Convention for the Suppression of the Financing of Terrorism and 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 by transnational organized criminal elements. As such, the nation is vulnerable to financial activities associated with such crimes, including money laundering. 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 rates of cybercrime and online credit card fraud in the world. Recent studies have found Romanian servers to be the second largest source (13 percent) of cybercrime transactions worldwide. Although a majority of their victims reside in the United States, Romanian cyber-criminals are increasingly targeting victims elsewhere in Europe as well as in Romania itself.

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 authorities coupled with corruption in several neighboring Eastern European countries also facilitates money laundering.

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 \$13,500). In 2008, this threshold is increased to 15,000 euros (approximately \$20,250) by Government of Romania (GOR) Emergency Ordinance 53/2008. The list of entities covered by Law No. 21/99 includes banks, nonbank financial institutions, attorneys, accountants, and notaries. 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 laws, regulatory supervision of this sector is weak and not as rigorous as that imposed on banks. Romania also has criminalized tipping off. Romanian law permits the disclosure of client and ownership information to bank supervisors and law enforcement authorities. Safe harbor provisions protect banking officials when they cooperate with law enforcement. In 2003, Romania instituted an anticorruption plan and passed a law criminalizing organized crime.

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 incoming and outgoing wire transfers by requiring banks to include information about the originator's name, address, and account. It also strengthens correspondent banking practices by requiring banks to undertake proper due diligence measures before entering into international correspondent relations, and prohibiting them 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. Despite these enhancements to existing regulations, Romania is still deficient in implementing customer due diligence (CDD) requirements, as noted during the 2007 mutual evaluation by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. Romanian law still has no explicit definition of beneficial ownership. In addition, the requirement to take reasonable measures to verify the identity of the beneficial owner, as required by international standards, has not yet been adequately implemented.

In 2005, Romania modified its money laundering legislation with Law 230/2005. This law provides a uniform approach to combating and preventing money laundering and terrorist financing. The modified law establishes a suspicious transaction reporting (STR) requirement for transactions linked to terrorist financing. The reporting requirement, however, is incomplete in its current form, and needs to be further developed in order to fully comply with FATF standards.

In 2006, Romania made further changes to its laws. These changes increase fines to match the inflation rate, allow the use of undercover investigators, and permit the submission of reports from the financial intelligence unit (FIU) to the General Prosecutor's Office (GPO) in an unclassified manner. The changes also provide for confiscation of goods used in or resulting from money laundering activities, and increase the length of time that bank accounts may be frozen from ten days to one month.

The GOR passed two new laws in 2008. The new legislation amends Law 656/2002 to provide stricter definitions for “real end-user,” “transactions that seem to be inter-connected,” “fictitious bank,” and the “external transfer” concept. The laws also clarify the process whereby the FIU issues feedback to reporting entities, includes simplified and supplementary KYC measures, and contains prohibitions on operating anonymous accounts or conducting business relations with a fictitious bank. Finally, the new legislation clarifies that the BNR is the competent supervisory authority for all credit/lending institutions in terms of reporting, while the FIU has this authority for any other entity carrying out money transfers. The law also establishes new requirements for monthly reporting by the National Customs Authority to the FIU of all available data regarding cross-border cash declarations. The FIU’s Governing Board has issued regulations implementing KYC standards for nonfinancial reporting entities (casinos, notaries, real estate brokers). These norms bring previously unsupervised entities under supervision for compliance with AML regulations. In addition to the FIU, Romanian state institutions, including the BNR and the National Securities Commission have been quick to apply these new laws by issuing implementing regulations.

Romania’s FIU, the National Office for the Prevention and Control of Money Laundering, was established in 1999. All obliged entities must submit their currency transaction reports (CTRs) and 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 also is 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 supervisory authorities, an increase from the 109 inspections for the same period in 2006.

To further its attempt to enhance supervision of entities that are not formally supervised for AML compliance by another agency, the FIU’s Governing Board issued a decision in January 2008, outlining procedures for carrying out its supervisory authorities over nonfinancial reporting entities such as casinos, real estate brokers, and nongovernmental organizations (NGOs). Using these new procedures, the FIU, in the first nine months of 2008, conducted off-site supervision inspections of 1,329 firms in the gaming industry, 990 real estate brokers, and 3,282 NGOs. During this same time period, the FIU conducted on-site inspections of 167 other reporting entities, of which 112 were penalized with fines totaling RON 235,000 (approximately \$81,000). An additional 128 warnings were issued. Out of the 167 on-site inspections, 127 were carried out solely by the FIU, three jointly with the BNR, and 37 jointly with the Financial Guard.

During the first nine months of 2008, the FIU received 61,372 CTRs, a substantial increase from the 10,747 CTRs received in the first ten months of 2007. During the same period in 2008, the FIU received 1,452 STRs, down from 1,542 reports during the same period in 2007, and 2,218 STRs in 2006. The FIU received 6,402 reports of cross-border transfers during the first nine months of 2008, compared with 6,511 reports during the same period in 2007. The majority of these reports were submitted by credit institutions, casinos, public notaries, and money transfer agencies. Financial investment institutions, nonbanking financial institutions, fiscal consultants, insurance and re-insurance companies, real estate brokerage firms, individual and corporate retailers, NGOs, and lawyers were among other entities also submitting reports. Also during the first nine months of 2008, the FIU received 352 notifications concerning suspicions of money laundering and terrorist financing from agencies as varied as the BNR, the Insurance Supervision Commission, the Ministry of Economy and Finance, and the Financial Guard.

After reviewing and analyzing the submitted reports, the FIU forwards its findings to the appropriate government agency for follow-up investigation. During the first nine months of 2008, the FIU completed 965 cases: 496 (489 money laundering/seven terrorist financing) of those cases were forwarded.

Since its establishment, the FIU has faced numerous political and operational challenges, including low staffing levels as well as criminal charges of corruption against a former FIU official. The FIU also has been criticized by the GPO for forwarding poor quality reports to prosecutors. Consequently, coordination between the FIU and law enforcement has often suffered. In its 2007 evaluation of Romania, MONEYVAL cites the existence of a backlog of STRs still needing analysis. Despite these setbacks, the FIU is working to improve its operations and is currently seeking to place an emphasis on quality rather than quantity when analyzing suspicious transactions. The FIU believes the number of indictments and eventual convictions will increase over time as a greater emphasis is placed on the quality of reports produced as opposed to the quantity of reports forwarded to the GPO. The FIU has improved the timeliness and quality of its analysis and case reporting. However, investigations have resulted in only a handful of successful prosecutions to date.

Throughout 2008, the FIU has sought to bolster cooperation with the GPO, as well as the BNR, National Anti-Drug Agency, Ministry of Interior, National Magistracy Institute, and Ministry of Foreign Affairs. In July 2008, the FIU organized a national conference to highlight Romania's full harmonization with European Union (EU) legislation. In addition, the FIU is partnering with the EU through a PHARE (Poland-Hungary Assistance for Reconstruction of the Economy) project. This project has several components: development of a secured IT data transfer system; establishment of a case management system; purchase of accredited hardware and software; and creation of a system for data recovery in case of disasters. The FIU is also working on another AML development program with Poland through an EU Twinning project.

Efforts to prosecute cases have been hampered by the lack of specialization and technical knowledge of financial crimes within the judiciary. Despite a low number of convictions, coordination between law enforcement and the justice system continues to improve. In the first nine months of 2008, the Directorate for the Investigation of Organized Crime and Terrorism Offenses (DIICOT), a division of the GPO, indicted 41 defendants in five cases involving money laundering. Funds and goods totaling 50 million Euros (approximately \$65,500,000) have been seized or frozen. Of the 41 indicted, eight defendants have been placed under preventive arrest. During the first nine months of 2008, DIICOT opened criminal investigations on 112 files 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 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 GPO, the BNR, and the FIU. The GOR also has 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 BNR, has been cooperative in seeking to identify and freeze terrorist assets. Emergency Ordinance 159, passed in late 2001, includes provisions for preventing the use of the financial and banking system to finance terrorist attacks and sets forth the parameters for the government to combat such use. The GOR Emergency Ordinance 153 strengthens the government's ability to carry out its obligations under UNSCR 1373, including the identification, freezing, and seizure of terrorist funds or assets. Legislative changes in 2005 extend 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 GPO, 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 BNR receives lists of individuals and terrorist organizations provided by the United States, the UNSCR 1267 Sanctions Committee, and the EU, and it circulates these to banks and financial institutions. The law on terrorism provides for the forfeiture of assets used by 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 Trans-border 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 counterterrorist 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 the GOR is a member of MONEYVAL. The most recent MONEYVAL mutual evaluation of Romania, conducted in May 2007, was adopted at the group's plenary in July 2008. Its final report, published in October 2008, concludes that Romania made significant progress since its previous evaluation in 2003. Taking into account the report recommendations, Romanian institutions with specific duties will carry out an action plan to implement the recommendations, with results to be discussed by MONEYVAL in 2009.

A Mutual Legal Assistance Treaty 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, the UN Convention against Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism. The FIU has signed 42 bilateral memoranda of understanding with Egmont Group member FIUs. Romania's FIU shares information internationally and is a member of the FIU.Net network. In the first nine months of 2008, Romania's FIU sent 328 data requests to FIUs abroad and received 83 similar requests from external FIU partners. Romania's FIU received 15 data requests from abroad regarding suspicions of terrorist financing. However, no actual operations suspected of terrorist financing have been identified.

While Romania's AML legislation and regulations will soon be compliant with many FATF Recommendations, implementation has moved at a slower pace. With the conclusion of the Romanian

capital account liberalization in 2006, the risk of money laundering through nonbank entities has been on the rise. The Government of Romania should continue its efforts to ensure that nonbank financial institutions are adequately supervised. Additionally, the knowledge level of the sector should be increased regarding its reporting and record keeping responsibilities and the identification of suspicious transactions. The GOR should continue to improve communication between reporting and monitoring entities, as well as between prosecutors and the FIU. The GPO 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. The GOR should enact and implement legislation to subject NGOs and charitable organizations to reporting requirements.

Russia

As the world's geographically largest country, Russia has worked towards creating a liberal market economy. Although it is a regional financial center, its financial system does not attract a significant number of depositors. However, due to rapid economic growth in various sectors, the number of depositors has been increasing steadily. Experts believe that most of the illicit funds flowing through Russia derive from domestic criminal activity, including evasion of tax and customs duties, fraud, public corruption, and smuggling. Russian authorities recently described more than 120 money laundering typologies used in Russia, including account fraud, front companies and identity fraud, multiple transactions through a network of off-shore firms, back-to-back loans, and disguising illegal proceeds as gains of gambling activities. Criminals invest and launder their proceeds in real estate and security instruments, or use them to buy luxury consumer goods. Criminal elements from Russia and neighboring countries continue to use Russia's financial system to launder money because of their familiarity with the language, culture, and economic system. Despite making progress in combating financial crimes, Russia remains vulnerable to such activities because of its vast natural resource wealth and associated large-scale financial transactions, the pervasiveness of organized crime, the heavy direct and indirect role of the state in the economy, and an admitted high level of corruption. Other vulnerabilities include porous borders, Russia's role as a geographic gateway to Europe and Asia, a weak banking system that attracts little public confidence, and under-funding of regulatory and law enforcement agencies, which contributes to both corruption and lack of regulatory and law enforcement capacity. Russia's financial intelligence unit (FIU) estimates that Russian citizens may have laundered as much as U.S. \$370 billion in 2008.

The Russian Federation has a legislative and regulatory framework in place to pursue and prosecute financial crimes, including money laundering and terrorist financing. Russia's anti-money laundering and counterterrorist financing (AML/CTF) regime underwent a joint evaluation by the Financial Action Task Force (FATF) and two of the FATF-style regional bodies, the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG) and the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in the fourth quarter of 2007. The three plenary bodies adopted the mutual evaluation report (MER) in June and July 2008.

Russia takes an "all crimes" approach to money laundering predicate offenses, and criminalizes money laundering by articles 174 of the Criminal Code (CC) (money laundering), 174.1 CC (self-laundering) and 175 CC (acquisition of property obtained by crime). The elements in these provisions are consistent with the requirements of the Vienna and Palermo Conventions. According to the 2008 MER, Russia is largely compliant with the FATF recommendations on criminalization of money laundering and has progressively improved implementation of its AML regime. Russia has criminalized self-laundering and the acquisition of property obtained by crime. The maximum

criminal penalty for natural persons convicted of money laundering or financing terrorism is 10 years in prison in addition to applicable fines

Although legal persons are not subject to criminal liability, Russian law provides for corporate and administrative liability for legal persons.

Various regulatory bodies ensure compliance with Russia's AML/CTF laws. The Central Bank of Russia (CBR) supervises credit institutions; the Federal Insurance Supervision Service (FISS) oversees the insurance sector and the Federal Service for Financial Markets (FSFM) regulates entities managing nongovernmental pension and investment funds, as well as professional participants in the securities sector. The Assay Chamber (under the Ministry of Finance) supervises entities engaged in trade in precious metals and stones. The Federal Financial Monitoring Service (FFMS, also known as Rosfinmonitoring) regulates real estate and leasing companies, pawnshops, payment acceptance and money transfer services, and participants in the gaming industry. The Federal Service of Supervision in the sphere of Mass Communications, Communications and Protections of Cultural Heritage, also known as Roscommunication or ROSCOM, is the supervisory body for Russia Post, including the Russia Post's compliance with the AML/CTF Law. The Federal Registration Service (ROSREG) is responsible for registration of real estate ownership (land registry), political parties and public associations (and other related state registers) and other legal entities, except for commercial entities that register with the Federal Tax Service (FTS). The FTS exercises supervision over currency operations and lotteries under the authority of the Ministry of Finance (MoF). While the supervision carried out by the Bank of Russia is thorough and effective, the MER indicated that the authorities do not adequately inspect the securities and insurance sectors, nor do supervisors have adequate sanctions powers to correct compliance shortcomings.

The legal framework for customer due diligence is set out in a variety of legal documents. The AML Law (Law 115-FZ), introduced in 2001, obliges banking and nonbanking financial institutions to monitor and report certain types of transactions, maintain records, and identify their beneficiary 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 nongovernmental pension funds. Other obliged entities include real estate agents, lawyers and notaries, and persons rendering legal or accounting services that involve certain transactions. The law also requires banks to identify customers before providing natural or legal persons with financial services. However, while banks are explicitly prohibited from opening anonymous accounts, there is no specific provision that prohibits them from maintaining existing accounts under fictitious names. The CBR has issued guidelines regarding AML practices within credit institutions, including "know your customer" (KYC) and bank due diligence programs. Banks must obtain information regarding individuals, legal entities and the beneficial owners of corporate entities and retain it for a minimum of five years from the date of the termination of the business relationship. Banks must also adopt internal compliance rules and procedures and appoint compliance officers. According to the MER, record keeping requirements are generally comprehensive and are largely compliant with FATF recommendations. Particular areas of concern involve the uneven approach among financial institutions to identification of the beneficial owner and inconsistent requirements in performing ongoing due diligence.

Except for attempted transactions by occasional customers, financial institutions must report all suspicious transactions relating to money laundering. Financial institutions are also required to file a Suspicious Transaction Report (STR) if there is a suspicion of financing of terrorism. In addition, financial institutions are required to report certain large value transactions (equal to or exceeding RUB 600,000) to the FIU. Financial institutions that fail to meet large value or suspicious transaction reporting requirements face possible license revocation or liquidation through civil proceedings. 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 \$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 \$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 annually.

Under Order 1317-U, Russian financial institutions must inform the CBR when it establishes correspondent relationships with nonresident banks 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 and may not open branches. The CBR must authorize the establishment of a subsidiary operation, and these subsidiaries must be subject to domestic Russian supervisory authorities. Russian banks must 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, but Russia has not taken legal steps to provide supervisors the power to prevent criminals from controlling financial institutions.

Article 8 of Law 115-FZ provided for the 2001 establishment of Rosfinmonitoring. As the FIU, it is the cornerstone of the country's AML/CTF regime. It is the central policy coordinating body for AML/CTF issues, as well as the designated authority for collecting, processing, analyzing and disseminating STRs and other AML/CTF-related reports. Established as an independent government authority in 2001, Rosfinmonitoring moved directly under the Office of the Prime Minister in September 2007. It enjoys full operational autonomy.

Rosfinmonitoring has the authority to gather information regarding the activities of reporting entities. Nearly all financial institutions submit reports to the FIU via encrypted software provided by Rosfinmonitoring. The FIU maintains the national AML/CTF database that contains more than 14 million reports. Rosfinmonitoring receives approximately 30,000 transaction reports daily. It provides information and analysis to the appropriate law enforcement authorities for further investigation, including 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 Rosfinmonitoring 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.

Rosfinmonitoring has regional offices in all federal districts, with headquarters located in Moscow. Its headquarters has established a sophisticated information technology infrastructure that enables the regional offices to analyze STRs, use the national AML database and submit cases for dissemination to headquarters. The FIU demands high professional standards of its employees, and uses internal

control systems to protect information from unauthorized access by the staff. The only shortcoming detected by the FATF evaluation team was a high number of staff vacancies, especially in the analytical and supervisory departments. The regional offices also coordinate the efforts of the CBR and other supervisory agencies to implement AML/CTF regulations.

Between January 1 and the end of October 2008, the Interior Ministry registered 7,816 crimes involving money laundering. Interior Ministry official reports show that 5,802 of the cases went to trial. Both Rosfinmonitoring and MVD report that the number of STRs for the year roughly equaled those of 2007 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. As of December 1, 2008, the CBR revoked the licenses of 25 banks for failing to observe banking regulations. Of these, 20 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. Since January 1, 2007, Russia has been using two instruments for confiscations: the Code of Criminal Procedure (CCP) Article 81, and the Criminal Code (CC) Articles 104.1 and 104.2. Both articles 81 and 104.1 provide for the confiscation of instruments, equipment or other means of committing an offense or intended to be used to commit a crime.

Russia criminalized terrorist financing in article 205.1 CC27, which targets any support or contribution to terrorist activity, including the financing of terrorism. The terrorist financing offense covers the provision and collection (“raising”) of funds. Russia's treatment of the criminalization of terrorist financing comports with international law, with the exception of its failure to cover the theft of nuclear material, as required by UN Convention.

Russia has established a system for freezing terrorist assets to comply with United Nations Security Council Resolutions (UNSCRs) 1267 and 1373 and subsequent resolutions. Russia maintains both a domestic and international terrorist list. Supervisors disseminate these lists of designated terrorist entities to all reporting institutions, and authorities freeze all assets of terrorists or terrorist organizations listed in UNSCR 1267, as well as all assets belonging to persons and organizations owned or controlled by them. Assets of UN-listed (international) terrorists remain frozen until there is a de-listing by the UN. Russian authorities also identify and designate entities and individuals in accordance with AML/CTF law and regulations, and include them on the Russian domestic list. Designation on the domestic terrorist list subjects a listed entity to a temporary asset freeze. 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. Rosfinmonitoring may extend the freeze by an additional five days. A court order is required to extend the freeze beyond seven days.

Rosfinmonitoring 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. At the

request of the General Prosecutor's Office, the Russian Supreme Court has, to date, authorized an official list of 17 terrorist organizations. Russia also relies on bilateral agreements to designate entities mutually determined to be involved in extremist or terrorist activity.

In accordance with international agreements, Russia recognizes rulings of foreign courts relating to the confiscation of proceeds from crime within its territory and can transfer the confiscated proceeds of crime to the foreign state whose court issued the confiscation order.

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 have differing opinions regarding 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.

Russia is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Russia is a member of the FATF, MONEYVAL, and EAG, which it also co-founded. The EAG Secretariat is located in Moscow. Rosfinmonitoring 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 in the region. The ITMCFM also conducts research on AML/CTF issues and provides direct technical assistance to EAG members. As Chair of the EAG, Russia's FIU continues to play a strong leadership role in the region. Rosfinmonitoring is a member of the Egmont Group and has signed cooperation agreements with the FIUs of 24 countries, including the United States.

Through aggressive enactment and implementation of comprehensive AML/CTF legislation, the Government of Russia (GOR) 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. Although Russia is increasing its money laundering prosecutions, considering the acknowledged level of organized crime and corruption in the country, Russia should continue to aggressively pursue this offense. To prevent endemic corruption and deficiencies in the business environment from undermining Russia's efforts to establish a well-functioning anti-money laundering and counterterrorism finance regime, Russia should examine and implement measures to bring down the high levels of corruption in both the public and private sectors and increase transparency in the financial sector. Russia has an incomplete legal framework with regard to politically exposed persons (PEPs), and authorities should strengthen it by addressing the shortcomings and pursuing effective implementation as soon as possible. Russia should criminalize insider trading and market manipulation. Where AML/CTF awareness is low, primarily outside the formal financial sector, authorities should issue guidance for filing STRs, in particular STRs related to terrorist financing. Russia should also improve federal oversight of shell companies and scrutinize more closely those banks that do not carry out traditional banking activities. Russia should commit adequate resources to its regulatory and law enforcement entities to enable them to fulfill their responsibilities. The GOR should also ensure that its institutions have the resources, both human and financial, to implement the law. 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 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 (MLPA) presently under the auspices of the Governor of the Central Bank. The FIU receives and analyzes 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) was established in 2007, which meets quarterly, under the new Act to advise or make recommendations to the MLPA. The task force consists of heads from the Central Bank, Attorney General, Police Force, Samoa International Finance Authority (SIFA), Ministry of the Prime Minister and FIU. More importantly, the MLPTF is tasked to ensure close liaison and cooperation and coordination between various GOS departments and corporations. In ensuring this, the task force established a Memorandum of Understanding (MOU) between the FIU and all members of the Task Force with respect to formal exchange and sharing of relevant information to counter money laundering offenses and terrorist financing activities. In 2003, the GOS 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.

Further, 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 FIU.

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 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 27,039 international business corporations (IBCs) four 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 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. In August 2004, Samoa hosted the annual plenary of the Pacific Islands Forum. Samoa has not signed the 1988 UN Drug Convention or the UN Convention against Transnational Organized Crime. However, Samoa became a party to the UN International Convention for the Suppression of the Financing of

Terrorism in 2002. The FIU and the Ministry of Foreign Affairs and Trade do issue and provide to all financial institutions governed under the Money Laundering Prevention Act 2007, an update list concerning Al-Qaida and the Taliban, and Associated Individuals and Entities in pursuant to the United Nations Security Council Resolution 1267. Financial institutions are required to check their records of customers, names and accounts and to take immediate actions to freeze or confiscate funds and promptly advise the FIU.

The 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/counterterrorist 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 Financial Action Task Force'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

The Kingdom of Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. However, there is no indication that narcotics-related money laundering currently is vulnerability in the country. Saudi Arabia is neither a major center within the region for financial crimes nor an offshore financial center. Saudi officials acknowledge difficulty in following the money trail due to the preference for cash transactions in the country. Money laundering and terrorist financing are known to originate from Saudi criminal enterprises, private individuals, and Saudi-based charities. There is an absence of official criminal statistics, but reportedly, there was no significant increase in financial crimes during 2008. It is believed the proceeds of crime from stolen cars and counterfeit goods are substantial. All eleven commercial banks in Saudi Arabia operate as standard "Western-style" financial institutions and are under the supervision of the central bank, the Saudi Arabian Monetary Agency (SAMA). In 2003, Saudi Arabia approved a new Anti-Money Laundering Law that 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; adopts 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.

In May 2003, SAMA issued updated anti-money laundering and counterterrorist finance guidelines for the Saudi banking system in accordance with the Financial Action Task Force's (FATF) 40 Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing. The guidelines require that banks have mechanisms to monitor all types of "Specially Designated Nationals" as listed by SAMA; that fund transfer systems be capable of detecting specially designated nationals; that banks strictly adhere to SAMA circulars on opening accounts and dealing with charity and donation collection; and that 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 (approximately \$26,700) 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. There is money laundering training for bank employees, prosecutors, judges, customs officers and other government officials. Financial institutions in Saudi Arabia are required to maintain records of significant transactions in order to respond quickly to government requests. Anti-money laundering and countering the financing of terrorism (AML/CTF) controls are applied to nonbank financial institutions and designated nonfinancial businesses and professions.

In 2005, the Government of Saudi Arabia (GOSA) 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 (STRs) 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 FIU performs analytical duties relating to financial crimes and also has law-enforcement and regulatory responsibilities. The FIU has access to databases of other government and financial institution entities. Statistics for suspicious transaction reporting and other forms of financial intelligence are not available. The SAFIU is not a member of the Egmont Group.

Hawala and money service businesses outside banks and licensed money changers 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 required to clearly identify themselves. In 2005, 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 June 2007 the GOSA enacted stricter regulations on the cross-border movement of money, precious metals, and jewels. Money and gold in excess of 60,000 Saudi riyals (approximately \$16,000) must be declared upon entry and exit from the country using official Customs forms. However, the implementation and effectiveness of these procedures remains in question. Cash declarations as well as smuggling reports are entered into a database; however, this information currently is not shared with other governments.

The new 2007 regulations also stipulate that whoever is convicted of money laundering will be imprisoned for up to ten years and fined up to five million Saudi riyals (approximately \$1,333,300). The regulations also state, "Whoever funds terrorists or terror organizations is considered to be committing a crime of money laundering."

Saudi individual 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, known as The 9/11 Commission, found no evidence that either the Saudi Government, as an institution, or senior Saudi Government officials individually, funded al-Qaida.

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, commonly known as 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 late 2008, the proposal was still under review by a committee of Saudi officials; however, the GOSA stated that the Commission should be fully functional by the end of 2009. 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. In addition to domestic charities are larger Saudi-based entities referred to "multilateral organizations" that engage in a range of domestic and international charitable and educational activities. These organizations, such as the International Islamic Relief Organization and the World Assembly of Muslim Youth, largely operate outside of the strict Saudi restrictions covering domestic charities. 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, from making cash contributions, and making money transfers outside of Saudi Arabia.

In June 2008 the U.S. Department of the Treasury designated the Al Haramain Islamic Foundation (AHF), including its headquarters in Saudi Arabia, for having provided financial and material support to al-Qaida. Previously, the GOSA joined the United States in designating several branch offices of AHF and, due to actions by Saudi authorities, AHF had largely been precluded from operating in its own name. Despite these efforts, AHF leadership attempted to reconstitute the operations of the organization, and parts of the organization continued to operate. AHF is one of the world's largest Wahhabi affiliated Islamic charities. AHG has long been aligned with many of the activities of the Muslim Brotherhood, with chapters in Western Europe, the Balkans, the United States, and Canada.

SAMA is responsible for the tracing, freezing, and seizing of assets related to financial crimes. The banking community cooperates with SAMA regarding the tracing of funds as well as seizing and freezing of bank accounts. Existing laws on asset seizure and forfeiture are enforced by SAMA; however, there are currently no laws that allow the sharing of seized assets with other governments. The GOSA has been partially complaint 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.

There are no free trade zones for manufacturing, although there are bonded transit areas for the trans-shipment of goods not entering the country.

Saudi Arabia participates in the activities of the FATF through its membership in the Gulf Cooperation Council (GCC), and as a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Saudi Arabia will be undergoing a second FATF mutual evaluation in February 2009. Saudi Arabia is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism. Saudi Arabia has signed but not ratified the UN Convention against Corruption.

The Government of Saudi Arabia is taking steps towards enforcing its anti-money laundering/counterterrorist finance laws, regulations, and guidelines. However, Saudi Arabia continues to be a significant jurisdictional source for terrorist financing worldwide. The GOSA continues to take aggressive action to target direct threats to the Kingdom, but could do more to target Saudi-based support for extremism outside of Saudi's borders. Saudi authorities should hold terrorist financiers publicly accountable through prosecutions and full implementation of UNSC obligations. The GOSA also needs to take concrete steps to establish a charities oversight mechanism that also oversees "multilateral organizations" and enhances its oversight and control of Saudi entities 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. Saudi Arabia should become a party to 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. In 2008, authorities discovered significant amounts of irregular and inappropriate budget expenditure. Also of concern are criminal figures who launder and invest their personal 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 trafficking in persons involving Pakistanis.

Dakar's active real estate market is largely financed by cash. Property ownership and transfer are not transparent. The building boom and high property prices suggest that there is an increasing amount of funds with uncertain origin circulating in Senegal. The growing presence of hawala or other informal cash transfer networks and the increasing number of used imported vehicles also suggest the existence of both money laundering and illicit cash couriers. 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 \$550 and \$800 million per year in funds repatriated by networks of Senegalese traders and vendors abroad. Other areas of concern include the transportation of cash, gold and gems through Senegal's airport and across its porous borders, and 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 undertaken a publicity campaign to encourage the populace to use the formal banking system. Western Union, Money Gram and Money Express are associated with banks and compete with Senegal's widespread informal remittance systems, including hawala networks and cash couriers. Small-scale, unregulated and unlicensed currency exchange operations are 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 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 l'UEMOA), including Senegal, and uses the CFA franc currency. The Commission Bancaire (CB), the BCEAO division responsible for bank inspections, is based in Abidjan. The CB supervises and regulates banks within the WAEMU, but 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. Nonresidents on entry must declare any currency they are transporting from outside the "zone franc" greater than one million CFA (approximately \$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 \$1,000 and 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 \$4,000. All declarations must be in writing. There is no publicity regarding currency declaration requirements at major points of entry. Customs authorities are primarily concerned with the importation of dutiable goods. Other authorities with different mandates, and which do not implement currency controls, patrol land border crossings

The legal basis for Senegal's anti-money laundering/counterterrorist financing (AML/CTF) framework is "la Loi Uniforme Relative a la Lutte Contre le Blanchiment de Capitaux" 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 was the first country to have the AML legal framework in place. Senegal has an "all crimes" approach to money laundering. Self launderers may be prosecuted and the law does not require 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 legislation lacks certain compliance provisions for nonfinancial institutions. The Uniform AML law requires banks and other financial institutions to know their customers and record and report the identity of any individual or entity 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 \$10,000) for a single individual account and 20 to 50 million CFA (approximately \$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 Financieres (CENTIF), Senegal's financial intelligence unit (FIU) became operational in August 2005. The FIU currently has a staff of 28, 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 raise the awareness of the threat of money laundering in Senegal. CENTIF has provided outreach and training for obliged entities to familiarize themselves with the legal 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 information or financial intelligence to law enforcement. In 2008, CENTIF received 58 suspicious transaction reports (STRs), mostly from banks, and referred 30 cases, which include transactions from both Senegalese and foreigners, to the Prosecutor General. In turn, the Prosecutor General passed 10 cases directly to the investigating judge. No cases have been concluded, although authorities have made commitments to pursue judicial actions. Official statistics regarding the prosecution of financial crimes are unavailable. There has been only one known conviction for money laundering since 2005, which 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 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 regarding seizure and confiscation, which it hopes that all of its member states will enact.

The BCEAO has released a Directive against Terrorist Financing that advises member states that they must enact a law against terrorist financing; the BCEAO law is a Uniform Law to be adopted by all WAEMU/l'UEMOA members in a manner similar to that of the AML law. Like the AML law, the terrorist financing law is a penal law, and each national assembly must enact enabling legislation to adopt it. In 2008, Senegal's Council of Ministers approved this l'UEMOA/WAEMU CTF uniform law, and it currently awaits adoption by the National Assembly. Reportedly, when the law is placed on the agenda, it should pass quickly; however, the Assembly has not yet put it on the agenda. The CENTIF hoped to have the law passed prior to its February presentation to the Egmont Group regarding its application for membership.

Although Senegal has not passed a law criminalizing the financing of terrorism, it amended its penal code 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/l'UEMOA, obliging member states to pass domestic CTF legislation. The BCEAO and the FIU circulate the UN 1267 Sanctions Committee consolidated list to commercial financial institutions. To date, Senegalese authorities have not identified any designated entities. The l'UEMOA/WAEMU 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 l'UEMOA/WAEMU FIUs. All WAEMUs countries have FIUs, except Guinea Bissau. 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 the basis of reciprocity and shares information with the FIUs belonging to the Egmont Group without the requirement of a MOU. 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 on international anti-crime operations with INTERPOL, Spanish, and Italian authorities.

Senegal is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the 1999 UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Corruption. Senegal is a member of GIABA and underwent

a mutual evaluation by that body. GIABA discussed and adopted the mutual evaluation report in May 2008.

The Government of Senegal should continue to work with its partners in GIABA, l'UEMOA/WAEMU and ECOWAS to develop a comprehensive anti-money laundering and counterterrorist 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 continue to battle corruption and increase the frequency, transparency, and effectiveness of financial reviews and audits of financial institutions. Senegal should lead its regional partners in the fight against AML/CTF 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 to 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. Corruption and organized crime also continue to be significant problems in Serbia. 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, in the form of over- and under-invoicing, is commonly used to launder money. There are reports the purchase of some private and state-owned companies was linked to money laundering activity.

A significant volume of money flows to Cyprus, reportedly as 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. Banks in Macedonia, Hungary, Switzerland, Austria and China have emerged as destinations for laundered funds.

There are 34 banks in Serbia. Twenty are foreign majority owned, six are majority owned by domestic legal entities and eight are state majority owned. Foreign majority ownership accounts for approximately 75 percent of total bank assets in Serbia. There is no provision in the banking law that allows the establishment of offshore banks, shell companies or trusts. Reportedly, there is no official evidence of any alternative remittance systems operating in the country; however, there is anecdotal evidence. Nor is there evidence of financial institutions engaging in currency transactions involving international narcotics-trafficking proceeds. Serbia has three designated, operating free trade zones established to attract investment by providing tax-free areas to companies. These companies are subject to the same supervision as other businesses in the country.

In September 2005, Serbia codified an expanded definition of money laundering in Article 231 of the Penal Code. This legislation gives police and prosecutors more flexibility to pursue money laundering charges, as the law broadens the scope of money laundering and aims to conform to international standards. The penalty for money laundering is a maximum of ten years imprisonment. Under this law

and attendant procedure, money laundering falls into the serious crime category and permits the use of Mutual Legal Assistance (MLA) procedures to obtain information from abroad.

On November 28, 2005, Serbia adopted a revised anti-money laundering law (AMLL), replacing the July 2002 Law on the Prevention of Money Laundering. The revised AMLL expands the number of entities required to collect certain information and file currency transaction reports (CTRs) with the financial intelligence unit (FIU) for all cash transactions over EUR 15,000 (approximately \$20,250), or the dinar equivalent. Suspicious transactions in any amount must be reported to the FIU. The law also expands those sectors subject to reporting and record keeping requirements. Banks, attorneys, auditors, tax advisors and accountants, currency exchanges, insurance companies, casinos, securities brokers, dealers in high value goods, real estate agencies and travel agents are required to comply with the AMLL provisions. Required records must be maintained for five years. These entities are protected with respect to their cooperation with law enforcement entities. In addition to reporting to the FIU, the AMLL also requires obligated entities and individuals to monitor customers' accounts when they suspect money laundering. 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 facilitate the transfer of funds out of the country. This law was enacted in part to counter the perceived problem of import-export fraud and trade-based money laundering. According to the law, residents and nonresidents are obliged to declare to customs authorities all currency (foreign or dinars), or securities in amounts exceeding EUR 5,000 (approximately \$6,750) being transported across the border.

Among the pending legislative initiatives necessary for Serbia to be fully compliant with international standards is the GOS Anti Money Laundering and Terrorism Financing Bill, extending financial reporting requirements to terrorist financing and expanding all current AMLL requirements to nonbank financial institutions. In September 2008, the GOS proposed this bill to the Parliament.

In September 2008, the GOS adopted the National Strategy Against Money Laundering and Terrorist Financing. The Strategy sets out specific goals and objectives in legislation, operational matters and training.

In October 2008, the Parliament enacted a new Anti-Corruption Agency Law that, among other provisions, establishes an anticorruption agency and sets reporting and political party funding requirements. At the same time, it also enacted the Law on the Amendments and the Addenda of the Law on Financing Political Parties, improving the reporting obligations and procedure.

Also in October 2008, the Parliament of Serbia adopted the Law on Criminal Liability of Legal Entities, providing for criminal liability of legal persons for money laundering and terrorist financing.

The National Bank of Serbia (NBS) has supervisory authority over banks, currency exchanges, insurance and leasing companies. The NBS has issued regulations requiring banks to have compliance and know-your-customer (KYC) programs in place and to identify the beneficial owners of new accounts. In June 2006, the NBS expanded its customer identification and record keeping rules by adopting new regulations mandating enhanced due diligence procedures for certain high risk customers and politically exposed persons. Similar regulations have been adopted for insurance companies. The Law on Banks includes a provision allowing the NBS to revoke a bank's license for activities related to, among other things, money laundering and terrorist financing. To date, the NBS has not used this revocation authority. The legal framework is in place, but the NBS is still building the capacities needed for effective anti-money laundering (AML) compliance supervision through training and staff development.

The Securities Commission (SC) supervises broker-dealers and investment funds. The Law on Investment Funds and the Law on Securities and Other Financial Instruments Market, both enacted in

2006, provide the SC with the authority to “examine” the source of investment capital during licensing procedures. The SC is also charged with monitoring its obligors’ compliance with the AML laws. Regulations to implement this authority are being developed.

In 2004, a new law was enacted that revises gaming rules, and the Administration for Games of Chance was established on January 1, 2005. The law rescinds all outstanding gaming establishment licenses and requires existing casinos to reapply for new licenses. It also sets a maximum of ten casino licenses for issuance. As of the end of 2008, only two casinos had been issued new licenses. Yet, casinos continue to operate all over the country in apparent violation of the new law. The gaming supervisory authority has not been provided with adequate resources (five of the ten authorized staff), and the political will to enforce the law is weak.

Since the GOS introduced a value-added tax (VAT) in 2005, several criminal schemes have been investigated. Serbia’s Tax Administration lacks the audit and investigative capacity and resources to adequately investigate the large number of suspicious transactions that are forwarded by Serbia’s FIU. In addition, current tax law sets a low threshold for auditing purposes and has increased the burden on the Tax Administration. This creates a situation where criminals can spend and invest illegal proceeds freely with little fear of challenge by the tax authorities or other law enforcement agencies.

The Administration for the Prevention of Money Laundering serves as Serbia’s FIU with the status of an administrative body under the Ministry of Finance. The FIU has its own line item operating budget. The FIU has filled 24 of its 35 authorized positions. In accordance with the AMLL, the FIU developed listings of suspicious activity red flags for banks, currency exchange offices, insurance companies, securities brokers and leasing companies. The FIU has the authority to freeze transactions for a maximum of 72 hours and to order the monitoring of an account for up to three months following a freezing order. The FIU has signed memoranda of understanding (MOU) on the exchange of information with the NBS, Customs and the Tax Administration.

The FIU received 2,034 suspicious transaction reports (STRs) in 2007 and 2,087 through November 5, 2008. Virtually all of the STRs received by the FIU have been filed by commercial banks. Currency exchange offices have filed only seven STRs, all prior to 2004. The FIU opened 46 cases in 2007 and 31 through November 5, 2008. Prosecutors’ offices have assigned AML liaison officers to ensure information sharing with the FIU.

A total of six criminal charges were submitted for money laundering violations in 2007. In late 2008, the public prosecutor’s office reports 66 persons suspected of money laundering, with 33 requests for investigation and 27 issued and pending indictments. To date, there have been three convictions. In October 2008, Serbian police arrested an organized group of 25 people who are suspected of laundering money through phantom and unregistered companies. The group is suspected to have earned over 3 million euro (approximately \$4,050,000) in money laundering operations over the last two years.

Despite its attempts to gain law enforcement authority, Serbian Customs has not succeeded in doing this to date. Although Customs has investigative and intelligence functions, investigations for all cases to be prosecuted are turned over to the MOI. In addition, Serbian capability to monitor Danube traffic remains minimal.

The difficulty of convicting a suspect of money laundering without a conviction for the predicate crime and the unwillingness of the courts to accept circumstantial evidence to support money laundering or tax evasion charges is hampering law enforcement and prosecutors in following the movement and investment of illegal proceeds and effectively using the AML laws. The most common predicate crime is “abuse of office.” The Suppression of Organized Crime Service (SOCS) of the Ministry of Interior houses an Anti-Money Laundering Section to better focus financial investigations.

In August 2005, the GOS established the Permanent Coordinating Group (PCG), an interagency working group originally tasked with developing a plan to implement the recommendations of the Financial Action Task Force-style regional body MONEYVAL's second-round evaluation conducted in October 2003. The PCG includes representatives from the FIU, Tax Administration, Customs Authority, Ministries of Interior and Justice, the Supreme Court, State Prosecutor's Office, the Securities Commission, and the NBS. Subgroups have been tasked with drafting amendments to the AMLL and with estimating the budget necessary to effectively implement the proposed new anti-money laundering/counterterrorist financing law when it is enacted. The PCG and the working groups meet intermittently as required for completing specific tasks. Most recently, the group has been meeting to develop guidance for supervisory bodies and financial institutions to help them implement a risk-based approach to anti-money laundering/counterterrorist financing. The government still needs better, more consistent interagency coordination to improve information sharing, record keeping and statistics.

In October 2008, the Parliament adopted its first ever Asset Forfeiture Law, stipulating the agencies in charge of detection of the proceeds of crime, process of seizure and the management of seized assets. This law also changes the burden of proof, making a convicted criminal be responsible for proving the legal origin of his assets. It also provides for international cooperation. Under the law, assets derived from criminal activity or suspected of involvement in terrorist financing can be seized upon conviction for an offense. The law defines the conditions, procedure and management of the seized criminal proceeds.

The FIU is charged with enforcing the UNSCR 1267 provisions regarding suspected terrorist lists. A draft law on terrorist financing, now pending Parliamentary approval, will apply all provisions of the 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. 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 Gendarmerie, in the Ministry of Interior, are the law enforcement bodies responsible for planning and conducting the most complex anti-terrorism operations. SOCS cooperates and shares information with its counterpart agencies in countries bordering Serbia. Although Serbia has criminalized terrorist financing, the freezing, seizing and confiscation of terrorists' assets in accordance with UN Security Council resolutions still lacks a legal basis, pending enactment of the draft legislation.

Serbia has no laws governing its cooperation with other governments related to narcotics, terrorism, or terrorist financing. Bases for cooperation include participation in Interpol, bilateral and multi-lateral cooperation agreements, and agreements concerning international legal assistance. There are no laws governing the sharing of confiscated assets with other countries, nor is any legislation under consideration.

Serbia does not have a mutual legal assistance arrangement with the United States, but information exchange via a letter rogatory is standard. The 1902 extradition treaty between the Republic of Serbia and the United States remains in force. The treaty allows the Serbian government to extradite non-Serbs to the United States. The GOS has bilateral agreements on mutual legal assistance with 31 countries. The GOS is an active member of MONEYVAL, and Serbia is scheduled for a mutual evaluation by MONEYVAL in 2009. The FIU is a member of the Egmont Group and actively participates in information exchanges with counterpart FIUs, including FinCEN. The Serbian FIU has also signed information sharing MOUs with Macedonia, Romania, Belgium, Slovenia, Montenegro, Albania, Georgia, Ukraine, Bulgaria, Croatia, and Bosnia and Herzegovina. 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 the UN Convention for the Suppression of

the Financing of Terrorism, although domestic implementation procedures do not provide the framework for full application.

The Government of Serbia should continue to work toward eliminating the abuses of office and culture of corruption that enable money laundering and financial crimes. The Parliament of Serbia should enact its pending legislative initiatives, including the Government Bill on Anti Money Laundering and Terrorism Financing, extending financial reporting requirements to suspected terrorist financing. The GOS should adopt regulations and bylaws to implement all reporting and record keeping requirements of the current AMLL applicable to covered nonbank financial institutions. The GOS should enforce regulations pertaining to money service businesses and obligated nonfinancial businesses and professions. The supervisory scheme should be completed, and implementing regulations should be binding for the securities sector. The National Bank and other supervisory bodies as well as investigative agencies, prosecutors and judges need enhanced capability and additional resources. The gaming laws should be fully enforced and the supervisory authority provided with adequate resources and authority. 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. Serbia should take steps to ensure Customs has the authority and resources to investigate pertinent cases leading to prosecutions and to effectively police its Danube border.

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 January 2008, there were 43,456 registered international business companies (IBCs) and 211 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 the activities, which are mainly geared towards exports, of the Seychelles International Trade Zone,

In addition to IBCs and trusts, Seychelles permits offshore insurance companies, mutual funds, and offshore banking. In November 2006, under the Mutual Funds Act, the Securities Act and the Insurance Act, the GOS established the Non-Bank Financial Services Authority to regulate these sectors. Three offshore insurance companies have been licensed: one for captive insurance and two for general insurance. Seychelles has two offshore banks: Barclays Bank (Offshore Unit) and BMI Offshore Bank. BMI Offshore Bank is a joint venture between the Bahrain-based BMI Bank and the locally incorporated Nouvobanq, the largest bank in Seychelles. 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 an attempt to build on the success of the financial services sector and to maintain investors' confidence, the 1995 Securities Act and the 1997 Mutual Funds Act were amended in 2007 and 2008 respectively. The 2007 Securities Act aims at instilling confidence in investors by licensing and regulating all securities-related activities and by providing internationally accepted guidelines to which

participants must adhere. The Act establishes fines against insider trading, price rigging, market manipulation, and fraudulent transactions. The Act also establishes the Seychelles Stock Exchange, which will be regulated by the Securities and Financial Markets Division of the Central Bank. The 2008 Mutual and Hedge Funds Act extends the authorities' power to obtain periodical audits, enter and search premises of licensed operators, and ensure that activities conform to international standards.

In June 2008, the Central Bank of Seychelles issued guidelines (The Fit and Proper Guidelines) outlining relevant licensing criteria under the Securities Act, the Insurance Act and the Mutual Funds Act.

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 May 2006, the Anti-Money Laundering Act 2006 came into force. This legislation replaced the 1996 AMLA and addresses many of the deficiencies previously cited by a 2004 IMF assessment. The 2006 AMLA applies the same money laundering controls, including the obligation to submit suspicious transaction reports (STRs), to the same entities as the 1996 law, but also applies to nonbank financial institutions, such as exchange houses, stock brokerages, insurance agencies, lawyers, notaries, accountants, and estate agents. Offshore banks are specifically addressed by the 2006 AMLA. The gaming sector is also obliged to file STRs. Although Internet gaming is an obligated sector, no offshore casinos or Internet gaming sites are licensed to operate in Seychelles and the law does not explicitly state that offshore gaming is covered in an identical manner. 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. \$6,250), or, in the case of cash transactions, rupees 50,000 (approximately U.S. \$3,125), 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. \$3,125); and in other cases "as may be prescribed."

Under the 2006 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. Of 68 investigations to date, eleven were closed due to lack of evidence. In three cases, the suspects had left Seychelles, and in three others the suspects had died. The remaining 51 cases were still pending investigation as of December 2008. There have been no arrests or prosecutions for money laundering or terrorist financing since 1998.

In July 2008, the Anti-Money Laundering (Amendment) Bill was introduced in the National Assembly. The proposed amendment provides for an expanded definition of the crime of money laundering, which provides for offenses committed outside of Seychelles. It also provides for a civil standard of proof to determine the connection between the predicate offense and the money laundering

offense. In specified circumstances, the suspect must prove that assets were obtained legally; otherwise, authorities will presume the assets were derived from criminal conduct.

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. There is no cross-border currency-reporting requirement.

The Financial Intelligence Unit (FIU) was established within the Central Bank of Seychelles under Section 16 of the 2006 AMLA. The FIU is the focal point for receiving and analyzing reports of transactions suspected to be related to money laundering or the financing of terrorism, and disseminating the analysis to the appropriate law enforcement and supervisory agencies in Seychelles. To support these core functions, the FIU is authorized to collect pertinent information and request additional information from reporting entities, law enforcement and supervisory bodies. 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. In 2007 the FIU updated a set of guidelines on anti-money laundering/counterterrorist financing (AML/CTF), 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 may 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 and 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, as needed, the disposition of assets. If the target violates the order, he or she becomes subject to financial penalties. Law enforcement may seize property subject to this order to prevent it from being disposed of or moved contrary to the order. The Court is also 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 assets related to terrorist financing. The 2006 AMLA broadened the legal AML requirements, applying the law 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 to another jurisdiction 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.

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.

The Government of Seychelles is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. Seychelles underwent a mutual evaluation conducted by ESAAMLG in November 2006. This exercise entailed a review of Seychelles' AML/CTF regime and covered their legal, financial and law enforcement framework and implementation. The ESAAMLG plenary adopted the report at its August 2008 plenary session. Due to the delay in the report, and the number of changes that the Seychelles has undergone since 2006, the plenary agreed to allow Seychelles to attach a narrative of Seychelles' AML/CTF improvements since the on-site evaluation.

Seychelles should expand its anti-money laundering efforts by prohibiting bearer shares and clarifying its law regarding the complete identification of beneficial owners. The GOS should also amend the AMLA to state explicitly that all offshore activity is regulated 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 developing a currency-reporting requirement for border entry. Seychelles should participate more actively in ESAAMLG, and address the remaining shortcomings as outlined in the mutual evaluation report.

Sierra Leone

Sierra Leone has a cash-based economy and is not a regional financial center. Government of Sierra Leone (GOSL) officials hypothesize 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. Drug smuggling is also a problem in Sierra Leone, as evidenced by the seizure of a plane in July 2008, carrying cocaine worth \$54 million at an airport outside Freetown. Real estate and car dealerships are also sectors vulnerable to money laundering activities. Loose oversight of financial institutions, weak regulations, pervasive corruption, and a widespread informal money-exchange and remittance system contribute to an atmosphere conducive to money laundering. Authorities attempted in 2008 to strengthen oversight and regulatory frameworks, including in the mushrooming financial sector,

The President signed the Anti-Money Laundering Act (AMLA) in July 2005. The AMLA incorporates international standards, mandating suspicious activity reporting, setting safe harbor provisions, requiring know your customer (KYC) procedures and identification of beneficial owner, as well as mandating five-year record-keeping. There is a currency reporting requirement for deposits larger than 25 million leones (approximately \$8,330) and no minimum for suspicious transaction reporting. The law requires that international financial transfers over \$10,000 go through formal financial institution channels. The AMLA calls for cross-border currency reporting requirements for cash or securities in excess of \$10,000. The law designates the Governor of the Bank of Sierra Leone as the national Anti-Money Laundering Authority.

The AMLA applies to Sierra Leone's financial sector institutions, including depository and credit institutions, money transmission and remittance service businesses, insurance brokers, investment banks, securities and stock brokerage houses, and currency exchange houses. In 2008, the Bank of Sierra Leone held a stakeholder conference, which all local banks attended, to establish guidelines for money laundering prevention. The law is also applicable to 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. The FIU's role is to receive and analyze financial information and intelligence, including suspicious transaction reports (STRs), and disseminate information regarding potential cases to law enforcement agencies for investigation. The AMLA charges the Central Intelligence Security Unit (CISU) and the Attorney General's Office with investigating reports made by the FIU, but CISU cannot undertake a complete investigations or effect arrests. The Attorney General's Office has neither investigative nor arrest powers in its mandate. Though, in theory, the Sierra Leone Police (SLP), National Revenue Authority, or Anti-Corruption Commission could be tasked by either entity with investigating reported money laundering crimes, it is not clear if this happens in practice. Limited resources hamper law enforcement efforts in all arenas. Lack of training on this subject is also a considerable hindrance to prosecutions. No financial institutions provided a suspicious transaction report this year; nor have there been any prosecutions under the AMLA in 2008. 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 the basis for mutual assistance and international cooperation.

Sierra Leone is a member of the Groupe Intergouvernemental d'Action contre le Blanchiment d'Argent en Afrique de l'Ouest (GIABA), a Financial Action Task Force-style regional body (FSRB) and is obliged to uphold and proliferate the AML/CTF standards instituted by that body. Sierra Leone's mutual evaluation was adopted by the GIABA plenary in June 2007. The evaluation, which was conducted by the World Bank on GIABA's behalf, noted particular areas of concern. These concerns included substantive shortcomings in the AMLA; the lack of implementation of the AMLA, in particular the failure to establish an operational FIU; limited financial sector supervision by the Bank of Sierra Leone (BSL) of AML/CTF preventive measures; and the lack of institutional mechanisms for the implementation of UNSCRs 1267 and 1373.

The GOSL is currently reviewing the AMLA with stakeholders, and has drafted an amended law for passage in 2009. The proposed revision includes provisions criminalizing the financing of terrorism. The revised law would also assign an appropriate law enforcement agency, such as the Sierra Leone Police (SLP), primary responsibility for money laundering and terrorism financing investigations, and increase the penalties for money laundering. The World Bank and GIABA have both provided input on the revision process to ensure that the law will meet international standards and guidelines.

Sierra Leone is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Sierra Leone is a party to the UN Convention against Corruption.

Although the Government of Sierra Leone is aware that attention and action are required in this area and has enacted anti-money laundering legislation, it remains to be effectively implemented. Proposed revisions to the law should correct deficiencies in the original act, and include provisions for combating the financing of terrorism. Authorities should ensure that the revised law is harmonized with other relevant legislation, including the revised Anti-Corruption Act (2008), National Drug Control Act (2008), and Anti-Terrorism Act. The GOSL should ensure its penalties for counterterrorist financing are significant. The GOSL should also ensure the regular distribution to financial institutions of the UNSCR 1267 Sanctions Committee's consolidated list, and implement and enforce provisions for immediate freezing of assets based on the list.

The GOSL should increase the level of awareness and understanding of money laundering issues and allocate the necessary human, technical, and financial resources to implement such a program. Sierra Leone's FIU should work to build capacity by increasing its resources and striving to organize itself

and perform according to international standards. Sierra Leone should continue its efforts to counter the smuggling of diamonds and narcotics, and regulate sectors in which money laundering is known or thought to be pervasive. Sierra Leone should continue to take steps to combat corruption at all levels of commerce and government. The GOSL needs to ratify the UN Convention against Transnational Organized Crime.

Singapore

As a significant international financial and investment center and, in particular, as a major offshore financial center, Singapore is vulnerable to 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. There are terror finance risks. The authorities have taken action against Jemaah Islamiyah and its members and have identified and frozen terrorist assets held in Singapore. Structural gaps remain in financial regulations that may hamper efforts to control these crimes. Financial crimes enforcement needs strengthening. 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 counterterrorist financing (CTF).

In September 2007, FATF conducted its Mutual Evaluation of Singapore's AML/CTF regime. The FATF published its findings in February 2008 that Singapore was compliant or largely compliant with most of the FATF Recommendations. The mutual evaluation report noted that, although Singapore's "institutional efforts to improve feedback to financial institutions, enhance supervisory oversight and step up training has resulted in a significant overall strengthening of Singapore's AML/CTF regime, there are remaining concerns about effectiveness of the money laundering offence and the new cross-border declaration system, the requirements applicable to designated nonfinancial businesses and professions (DNFBPs), and the availability of beneficial ownership information in relation to legal persons and arrangements." The Government of Singapore (GOS) intends to address some of the shortcomings by paying more attention to the DNFBPs that are susceptible to money laundering risk. The review of the DNFBPs will include the issuing of AML regulations for casino operators and junket promoters.

Singapore's Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act (CDSA) has undergone many revisions, with the latest occurring in February 2008. The key amendments added several 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, rigging commodities and securities markets, transnational organized crime, maritime offences, pyramid selling, importation and exportation of radioactive materials/irradiating apparatus, customs offences, falsification or use of false Singapore passports under the Passports Act and terrorist bombings under the Terrorism (Suppression of Bombings) Act 2007. 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.

The Financial Investigation Branch (FIB), located within the Financial Investigation Division of CAD, is the lead money laundering enforcement agency within the Singapore Police Force (SPFC). The work of the FIB is complemented by its sister unit in the SPF, the Proceeds of Crime Unit (PCU). The Central Narcotics Bureau (CNB) is also authorized to investigate ML offences, and has established its own specialist investigative unit (the FIT) to investigate money laundering offences that are related to drug trafficking. Officers of the FIB, PCU and the SPF are empowered to exercise comprehensive

investigative powers, including powers of search, and seizure of evidence in relation to money laundering, terrorist finance, or related predicate offenses. According to the FATF Mutual evaluation, the enforcement regime for investigating money laundering has not been effectively implemented, as is illustrated by the low number of money laundering investigations (approximately 46 as of mid 2007).

Singapore has a sizeable offshore financial sector. As of November 2008, there were 114 commercial banks in operation, including six local and 26 foreign-owned full banks, 40 offshore banks, and 42 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 32 percent between 2006 and 2007 to Singapore \$1.173 trillion (approximately \$814 billion), according to MAS.

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 recently revised 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, 2007. 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. In 2007, Singapore increased the maximum penalty for financial institutions that fail to comply with AML/CTF regulations from Singapore \$100,000 (approximately \$67,000) to Singapore \$1 million (\$670,000). 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 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 DNFBPs. 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 \$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, under the Common Gaming Houses Act. Payment service providers in Singapore could be prosecuted for an offence when they knowingly provide services that assist an Internet gambling website. Therefore, banks in Singapore have the ability to block credit card payments to Internet casinos with the assistance of credit card companies. Real estate agents, dealers in precious metals and stones, accountants, and trust service providers (other than trust companies) and company service providers do not have AML/CTF obligations with regard to customer due diligence and record keeping.

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, Singapore requires in-bound and out-bound travelers to report cash and bearer-negotiable instruments in excess of Singapore \$30,000 (approximately \$20,000), in accordance with FATF Special Recommendation Nine. Violators are subject to a fine of up to Singapore \$50,000 (approximately \$33,000) 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, Mexico and the United Kingdom. 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 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 870,000 foreign guest workers are the main users of alternative remittance systems. As of November 2008, there were 372 moneychangers and 86 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 \$65,000). 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 approximately 1900 registered charities as at end 2007. 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 \$670,000), 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 27 permits in 2007 and 66 permits as of November 2008 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 September 2008, the government introduced an amendment to the Terrorism (Suppression of Financing) Act to allow the government to respond to requests for extradition even in the absence of an extradition treaty for all terrorism financing offences.

In November 2000, Singapore and the United States signed the Agreement Concerning the Investigation of Drug Trafficking Offenses and Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking (Drug Designation Agreement or DDA). This was the first agreement concluded pursuant to the MACMA. The DDA, which came into force in early 2001, facilitates the exchange of banking and corporate information on drug money laundering suspects and targets, including access to bank records. It also entails reciprocal honoring of seizure/forfeiture warrants. This agreement applies only to narcotics cases, and does not cover non-narcotics related money laundering, terrorist financing, or financial fraud.

In May 2003, Singapore issued a regulation pursuant to the MACMA and the Terrorism Act that enables the government to provide legal assistance to the United States and the United Kingdom in matters related to 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 Convention for the Suppression of the Financing of Terrorism, Singapore is also a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized

Crime. It has signed, but not 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 government should also act quickly to rectify the weaknesses identified in the FATF Mutual Evaluation Report to strengthen its AML/CTF enforcement abilities. 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 also strictly enforce border controls and give greater attention to trade-based money laundering. Singapore should become a party to the UN Convention against Corruption.

Slovak Republic

Slovakia's geographic, economic, and legal environment with respect to money laundering are not atypical of a changing central European economy. Its geographical location makes it a transit country for trafficking in drugs, people, and a variety of commodities. The statistics on money laundering cases investigated by Slovak law enforcement authorities since 2004 indicate the most frequent predicate offense for money laundering is motor vehicle theft. According to data from reporting entities, in 2007, the most commonly reported forms of suspicious activity were Internet fraud involving funds originating in the United States; phishing involving funds originating in Germany, Switzerland, the United Kingdom and the United States; use of tax havens and offshore companies for transfers of funds; and trafficking in nonferrous metals and investment gold.

The Penal Code criminalizes money laundering through Section 233 (legalization of income from criminal activity), which depending on the circumstances of the crime, calls for sentences of two to 20 years' imprisonment. The Penal Code also criminalizes other criminal offenses such as creating, contriving to create, or supporting a terrorist group (Section 297) as well as the offense of terrorism (Section 419). One area lacking in the Slovak Penal Code or in an autonomous law is the criminal liability of legal persons.

The Penal Code (Act No. 300/2005 Coll., as amended) and the Code of Criminal Procedure (Act No. 301/20005 Coll., as amended), effective since January 2006, introduce several changes to the criminal legislation. These changes result in stricter sentences for most criminal offenses and seek to make criminal procedure more efficient in order to ensure a more effective protection of the rights and interests of legal and natural persons. Slovak legislation does not specifically list the predicate offenses for money laundering. The criminal offense of money laundering can be prosecuted if criminal prosecution is already pending for a predicate criminal offense.

The Code of Criminal Procedure provides law enforcement and judicial authorities effective instruments that can be used to combat money laundering, such as seizure of cash (Section 95) or of registered securities (Section 96). The Code also makes it possible to secure the claims of injured parties (Section 50) and to hand down sentences involving the property of sentenced persons, such as forfeiture of property (Section 428).

Slovakia's anti-money laundering (AML) legislation has evolved substantially since 1994 when it adopted its first AML law, Act No. 249/1994 Coll. Since 1994, Act No. 249/1994 Coll. has undergone two revisions, first in 2000, and most recently in 2008. The 2008 changes became effective in September and were codified as Act No. 297/2008 Coll., "On the Protection Against Legalization of Income from Criminal Activity and Protection Against the Financing of Terrorism." The 2008 law

defines basic notions such as “legalization” (Section 2), “terrorist financing” (Section 3), and “unusual transaction” (Section 4). It also includes more precise definitions of “reporting entities” (Section 5) and “politically exposed person” (Section 6); and contains separate provisions on lawyers and notaries (Section 22); and auditors, accountants and tax advisors (Section 23). With regard to safe harbour provisions, the 2008 law includes enhanced protection from threats by third parties or by persons involved in unusual transactions for employees who report unusual transactions. The law also introduces the possibility of exchanging information on unusual transactions between reporting entities and obligates reporting entities to prepare anti-money laundering/counterterrorist financing (AML/CTF) compliance programs, setting out mandatory components of such programs. The 2008 law also enumerates for reporting entities certain unusual transactions relating to money laundering and terrorist financing.

Act No. 297/2008 Coll. sets out the detailed conditions for performing customer due diligence (Section 10), simplified due diligence (Section 11) and enhanced due diligence (Section 12). Reporting entities have a duty to perform customer due diligence that includes, in particular, client identification and verification as well as identification of the beneficial owner in the case of legal persons or property associations. For corporations, it includes the identification of ownership and management structure if the customer enters into a business relationship, envisages or performs an unusual transaction irrespective of its value, or performs an occasional transaction with a value of at least EUR 15,000 (approximately \$20,250) outside of a business relationship, regardless of whether the transaction is carried out as a single transaction or as several consecutive transactions which are or could be linked. The law uses a risk-based approach to specify customer due diligence obligations, including exemptions from due diligence obligations, and enhanced due diligence for “higher-risk customers.” Reporting entities are entitled to ask customers to provide information and documents necessary for due diligence purposes. The 2008 law also provides the basis for exemption of financial activities conducted on an occasional or very limited basis.

Reporting entities are obliged to give special attention to business relationships and transactions with persons from or in countries that do not apply, or insufficiently apply, the Financial Action Task Force (FATF) Recommendations, and to perform enhanced customer diligence in such cases. Under Act No. 297/2008 Coll., reporting entities must meet this obligation in the case of cross-border correspondent banking relationships with credit institutions from non-European Union (EU) member states by obtaining information from publicly accessible sources about the respondent credit institution.

As a result of 2001 amendments to the Slovak Civil Code, the Government of Slovakia (GOS) ordered all banks to stop offering 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 non-interest bearing grace period. The GOS confiscated all account balances 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.

The Slovak Republic adopted Regulation 1781/2006 of the European Parliament and of the Council of November 15, 2006, to require that wire transfer originator data accompany transfers of funds.

The Slovak Financial Intelligence Unit (SFIU) was established in 1996 and is currently within the structure of the Police Corps Presidium’s Bureau for Combating Organized Crime (BCOC). The BCOC deals with all forms of organized crime, including drugs, money laundering, and human trafficking. The BCOC has four regional sections (Bratislava, West, Center, and East). The SFIU is the fifth section of the BCOC, with nation-wide authority. The SFIU has four departments: the Unusual Transactions Department, the Obligated Entities Supervision Department, the International Cooperation Department, and the Property Checks Department. The SFIU, as the organization responsible for

combating money laundering and terrorist financing within the meaning of Act No. 297/2008 Coll., receives and evaluates suspicious transaction reports (STRs), gathers additional information, and refers cases of suspected money laundering to regional financial police departments, other law enforcement authorities or tax administrators, as appropriate.

The Obligated Entities Supervision Department of the SFIU is the only supervisory body vested with the authority to assess the AML/CTF compliance of covered entities, including designated nonfinancial businesses and professions (DNFBPs). In case of noncompliance, the SFIU imposes fines or initiates the withdrawal of the authorization to perform entrepreneurial or other gainful activity. In an effort to promote effective application of Act No. 297/2008 Coll., the SFIU is providing training stressing the importance of strengthening internal compliance programs to reporting entities through associations and professional organizations. According to the SFIU, there are approximately 100,000 reporting entities in Slovakia. In 2007, the Department carried out 45 checks on reporting entities and imposed total fines of SKK 1,080,000 (approximately \$48,000). In the first half of 2008, the Department conducted 28 checks of reporting entities and imposed fines totaling SKK 325,000 (approximately \$14,400). Only banks and insurance agencies are submitting reports on a regular basis, with the securities sectors submitting reports irregularly. In 2006, the SFIU received one report from an exchange office. Sporadic compliance by DNFBPs was observed in 2007, with three reports received from tax advisors, two from lawyers, and one from a real estate agency. As of November 24, 2008, the SFIU received two reports from executors, five from notaries, and one from an auditor. No reports have yet been received from a casino.

In 2006, the SFIU received 1,571 STRs totaling SKK 22,120,760 (approximately \$983,000). Based on these reports, 26 cases were referred to law enforcement authorities, 108 to regional financial police departments, 438 to tax administrators, and 84 to financial intelligence units (FIUs) abroad.

In 2007, the SFIU received 1,943 STRs totaling SKK 18,913,584 (approximately \$840,000). Based on these reports, 12 cases were referred to law enforcement authorities, 194 to regional financial police departments or other specialized departments, 582 to tax administrators, and 125 to foreign FIUs.

As of October 29, 2008, the SFIU received 1,814 STRs totaling SKK 21,535,397 (approximately \$957,000). Based on these reports, nine cases were referred to law enforcement authorities, 248 to regional financial police departments or other specialized departments, 399 to tax administrators, and 161 to foreign FIUs.

According to statistical overviews published by the General Prosecution Office of the Slovak Republic, six persons were subject to criminal proceedings in Slovakia in 2006 for the offense of money laundering pursuant to Section 233; only one of these individuals has been convicted. In 2007, criminal proceedings were conducted against six persons, one of whom was convicted. Statistics for 2008 are not yet available. Measures adopted at the SFIU level through the President of the Police Force seek to increase the transparency and degree of detail of statistical data gathered by the Police Force, incorporating into the criminal file data obtained as feedback from prosecution authorities and courts. It is anticipated these measures will effectively implement Act No. 297/2008 Coll., which obliges the Police Force to keep aggregate statistics on the number of persons sentenced for money laundering and on the value of seized, forfeited or confiscated assets.

Reporting entities have a duty to halt the execution of unusual transactions for a maximum of 48 hours either on the basis of their own finding or upon written request from the SFIU. If the investigation confirms the suspicion of a criminal offense, the SFIU refers the matter to the relevant law enforcement authority; in such cases, the reporting entity has a duty to halt the execution of the transaction for another 24 hours. Reporting of an unusual transaction does not exempt the reporting entity from its obligation to report the suspected criminal offense to law enforcement authorities. Should any damage be caused as a result of reporting or halting an unusual transaction, damage compensation is paid by the state.

Slovak law mandates forfeiture of the proceeds of crime. It does not, however, allow for forfeiture from third-party beneficiaries. The Office of the Public Prosecutor 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. Effective January 1, 2006, Act No. 650/2005 Coll. gives Slovakian authorities the power to execute a seizure order on property within the territory of the Slovak Republic even if the order was issued by a judicial authority of another member state of the EU.

The Law on Proving the Origin of Property came into force on September 1, 2005. According to this law, an undocumented increase in property exceeding an amount 200 times the minimum monthly wage must be scrutinized. The police must investigate allegations of illegally acquired property and report their findings to the Office of the Public Prosecutor, which may then order the property confiscated. The law was challenged in Parliament on the grounds that its retroactivity and shifting of the burden of proof to the suspect are in conflict with the Constitution of the Slovak Republic. The Constitutional Court suspended application of the law on October 6, 2005. On September 3, 2008, the Constitutional Court issued a finding which determined the law is not in conformity with the Constitution of the Slovak Republic. The National Council of the Slovak Republic has a six-month time limit to repeal the law; alternatively, it may adopt a new law replacing the existing one. The existing law will automatically become null and void if neither of these measures is taken.

The Penal Code does not yet define terrorist financing, *per se*, as an autonomous criminal offense. Section 3 of Act No. 297/2008 Coll. defines the financing of terrorism as the supply or collection of funds with the intent to use them or with the knowledge of the intent to use them in the commission of the criminal offense of creating, contriving to create or supporting a terrorist group, or the criminal offense of terrorism, or other criminal offenses referred to in Section 3(1)(b) of the law.

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 included on 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. Reporting entities are responsible for checking the website and reporting any matches they find. In the event a reporting entity were to identify a terrorism-related account, the SFIU could suspend any related financial transaction for up to 48 hours, and then gather evidence to freeze the account and seize assets.

The reporting obligation regarding terrorist financing is laid down in Act No. 297/2008 Coll. Although the SFIU has not received any STRs with the specific suspicion of terrorist financing, the SFIU assessed the reports received in the period of 2006–2008 for possible links to terrorist organizations or suspicions of terrorist financing, and referred the relevant information to the Department for Combating Terrorism within the BCOC. The SFIU searched mainly for transfers of funds involving persons or companies originating or having a seat in areas with a high risk of links to terrorist organizations. In 2006, the SFIU referred information on 14 cases; in 2007, 27 cases; and through August 2008, ten cases.

The SFIU is a member of the Egmont Group. The SFIU has signed nine memoranda of understanding (with Slovenia, Canada, Belgium, Czech Republic, Poland, Monaco, Australia, Ukraine and Albania), two cooperation protocols (with Czech Republic and Ukraine) and two cooperation agreements (with Russia and Romania). Slovak law does not, however, require that the SFIU sign a memorandum of understanding to be able to fully cooperate with FIUs in other countries.

Slovakia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body. The third round mutual evaluation report by MONEYVAL was adopted in September 2006, and

Slovakia is scheduled to undergo its fourth round mutual evaluation in 2009. 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 Convention for the Suppression of the Financing of Terrorism.

While the Government of Slovakia has made progress over the past year, several areas of its AML/CTF regime still require further work. The competent authorities should ensure the wording of Section 252 of the Penal Code clearly defines the property and proceeds of crime. Slovakia should also provide capacity enhancing materials to DNFBPs and improve supervision of these entities to ensure they meet their obligations under the law. Slovakia should implement formal AML/CTF supervision of currency 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. The GOS should provide adequate resources to ensure 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. Authorities should adopt 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 beneficial owners. The Slovak government should proactively provide the lists of individuals linked with terrorism by the UN, the EU, and the United States to reporting entities, and thus, introduce stricter procedures for combating terrorist financing. The GOS also should codify reporting obligations for nonprofit organizations and charities. Competent authorities should amend the Penal Code to criminalize terrorist financing.

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 vulnerable target for transnational and domestic crime syndicates. The largest quantity of illicit proceeds laundered in the country are proceeds from the narcotics trade. Proceeds from fraud, theft, corruption, currency speculation, illicit dealings, theft of precious metals and diamonds, small arms, human trafficking, stolen cars, and smuggling are also laundered. Most criminal organizations are also involved in legitimate business operations. There is a significant black market for smuggled and stolen goods. In addition to South African criminal organizations, observers note the operations of Nigerian, Pakistani, Andean and Indian drug traffickers, Chinese triads, Taiwanese groups, Lebanese trading syndicates, and the Russian mafia. The fact that a high number of international crime groups operate in South Africa and a lack of money laundering prosecutions reported indicate that South Africa remains vulnerable to all-source money laundering.

South Africa is not an offshore financial center, nor does it have free trade zones. It does, however, operate Industrial Development Zones (IDZs). Imports and exports that are involved in manufacturing or processing in the zones are duty-free, provided that the finished product is exported. South Africa maintains IDZs in Port Elizabeth, East London, Richards Bay, and Johannesburg International Airport. The South African Revenue Service (SARS) monitors the customs control of these zones.

SARS requires all visitors carrying cash to declare the amount upon arrival in South Africa. All South African citizens and residents leaving the country with cash must declare amounts in excess of 175,000 rand (\$17,500) for individuals, or 250,000 rand (\$25,000) for families. Although South Africa has not explicitly criminalized bulk cash smuggling, failing to declare currency carries a penalty. Smuggling and reportedly lax border enforcement pose major vulnerabilities for South Africa.

The Proceeds of Crime Act (No. 76 of 1996) originally criminalized money laundering for all serious crimes. South Africa replaced this act with 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 contains “safe harbor” provisions. Violation of this act carries a fine of up to 100 million rand (\$10 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. Both the Prevention of Organized Crime Act and the FICA contain criminal and civil forfeiture provisions. Regulators include the South African Reserve Bank and the Financial Services Board. Regulated businesses include banks, life insurance companies, foreign exchange dealers, casinos, and real estate agents. Additional amendments to the FICA became law on August 27, 2008. The amendments strengthen the ability of regulators to supervise private sector compliance with FICA mandates and obligations. They also enhance the financial intelligence unit’s (FIU) power to oversee overall FICA compliance and coordinate with regulators. The amendments strengthen the power of the FIU and regulators to conduct inspections, request information, and impose financial administrative sanctions. In addition to the FIU, South Africa has a Money Laundering Advisory Council (MLAC) to advise the Minister of Finance on policies and measures to combat money laundering.

Conforming to the money laundering regime has been expensive for banks, which have re-registered customers, given AML training to employees, expanded their internal compliance offices, and taken other steps to comply with the law. Many banks state that the reporting requirements hamper their efforts to attract new customers. For example, if customers have never traveled outside the country, they may not have supporting documentation (driver’s license or passport) to properly satisfy the due diligence requirements. Retroactive due diligence requirements mean those account holders who do not present identifying documents in person risk having their accounts frozen. After the September 2006 implementation of the requirements, financial institutions blocked transactions with accounts owned by still-unidentified persons. In part due to the stricter banking requirements, but also because of the cash-driven nature of the South African economy, South Africans, particularly the Muslim and Indian communities, often use alternative remittance systems that bypass the formal financial sector. Hawala networks in South Africa have direct ties to both South Asia and the Middle East. Currently, South Africa does not require alternative remittance providers or participants to report cash transactions within the country.

Regulations require suspicious transaction reports to be sent to the South African FIU, called the Financial Intelligence Centre (FIC). The FIC, in operation since 2003, gathers and analyzes financial intelligence for law enforcement authorities to use in pursuit of money laundering and other financial crimes, and acts as a centralized repository of information and statistics on money laundering. It also coordinates policy and anti-money laundering efforts. If the FIC has reasonable grounds to suspect that a transaction involves the proceeds of criminal activities, it forwards the transactional information to the investigative and prosecutorial authorities. When there is a suspicion of terrorist financing, the FIC will forward the relevant information to the National Intelligence Agency. There are no bank secrecy laws in effect that prevent the disclosure of ownership information to bank supervisors and law enforcement authorities.

From March 2007 through March 2008, the FIC received 24,580 suspicious transaction reports (STRs), an increase of fifteen percent from the previous year’s 21,466 STRs. Ninety-one percent of the reports came from financial institutions, with the remainder generated by casinos, coin dealers, accountants, attorneys, and other reporting entities. The FIC referred 999 STRs, with transactions valued at more than 2.03 billion rand (\$200 million), to law enforcement and/or intelligence agencies for further investigation. The FIC and banking officials report that the quality of the STRs is steadily improving, as bank personnel receive AML training and as institutions install and refine AML software and other detection systems. Between 2007 and 2008, the FIC joined regulators in conducting

212 on-site anti-money laundering/counterterrorist financing (AML/CTF) compliance reviews of casinos, foreign exchange dealers, insurance companies, and other institutions. The FIC also conducted 27 independent compliance reviews.

Information is not available on the number of STRs resulting in criminal investigations. However, the number of money laundering and terrorist finance investigations, prosecutions, and convictions is reportedly very low. The corruption case filed against ANC President Jacob Zuma in December 2006 included money-laundering charges, but a High Court dismissed the indictment in September 2008 because of procedural flaws unrelated to the money-laundering charges. The case is now under appeal. In February 2008, Graham Maddock, the financial director of scandal-plagued Fidentia Group, pled guilty to, inter alia, money-laundering charges and violations of the FICA, marking the first successful prosecution of a FICA violation. While progress has been made regarding criminal enforcement of AML/CTF violations, the low number of cases prosecuted suggests possible problems in reporting, analysis, and investigations. Many investigators and prosecutors appear to focus on predicate offenses, which indicates they may lack familiarity 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 requires financial institutions to report suspected terrorist activity to the FIC. The Act also applies to charitable and nonprofit organizations operating in South Africa. The FIC distributes the list of individuals and entities included on the United Nations (UN) 1267 Sanctions Committee's consolidated list.

South Africa cooperates 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 (litigation regarding the status of the extradition treaty is now before the South African Constitutional Court). In June 2003, South Africa became the first African nation to be admitted into the Financial Action Task Force (FATF), and held the FATF Presidency for the period June 2005-June 2006. At the end of 2008, South Africa underwent a mutual evaluation which is scheduled for discussion and adoption by that body in 2009. South Africa is also a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The FIC is a member of the Egmont Group. South Africa is a party to the 1988 UN Drug Convention, the UN 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 IX, including the establishment of controls for cross-border currency movements. South Africa should increase steps to bolster border enforcement and examine trade-based money laundering. It should also regulate and investigate the country's alternative remittance systems, and further examine their use and vulnerability to exploitation by money launderers and terrorist financiers. Authorities should ensure that FIC analysts and law enforcement look beyond 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 to determine if money laundering has occurred. South Africa should also continue to enforce AML regulations within the casino industry. It should fully implement the new law 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 Afghan

hashish entering from Morocco, cocaine entering from Latin America, 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. Passengers 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 once-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. In the past year however, Spain's tax authority has cracked down on fraudulent activity involving these large bank notes and as a result the number of 500 euro notes has decreased to October 2006 levels of 110 million euros (approximately \$148,500,000).

Throughout 2008, Spanish authorities conducted numerous anti-money laundering (AML) and counterterrorist financing (CTF) operations that resulted in arrests. On June 10, Spanish authorities arrested eight Algerian nationals reportedly linked to terrorist financing activities of al-Qaida in the Islamic Maghreb (AQIM). These arrests were made under "Operation Submarine", an operation which led to other arrests throughout the year of Algerian nationals linked to the same cell. On June 17, Spanish authorities dismantled an international criminal organization accused of money laundering and cocaine smuggling operations, arresting 21 individuals including nationals of Spain, Colombia, Peru, and Romania. On September 19, Spanish national police arrested nine people in the northern Basque region suspected of participating in a money laundering ring, sending to Latin America more than 32 million euros (approximately \$43,200,000) since 2006.

The Financial Action Task Force (FATF) 2006 Mutual Evaluation Report (MER) noted shortcomings in the areas of customer due diligence, beneficial ownership of legal persons, and the use of bearer shares which have yet to be completely corrected.

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. Offshore casinos and Internet gaming sites are forbidden, but online casinos often run from servers located outside of Spanish territory. In this instance, regulation can only occur through mutual judicial assistance or international agreements.

Although there was little AML/CTF legislative activity in 2008, the Government of Spain (GOS) has passed and enacted legislation designed to help eliminate and prosecute financial crimes. 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 require a prison sentence greater than three years. Amendments to the code, which took effect in 2004, make 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 a crime 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 50,000 euros (approximately \$67,500). The law also requires the declaration and reporting of internal transfers of funds greater than 100,000 euros (approximately \$135,000). Individuals traveling internationally are required to report the importation or exportation of currency greater than 10,000 euros (approximately \$13,500). Foreign exchange and money remittance entities must report transactions above 5,000 euros (approximately \$6,750). Authorities also require the reporting of transactions exceeding 50,000 euros (approximately \$67,500) 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.

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, pension fund managers, collective investment schemes, 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, stones, antiques and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos.

The financial sector is required to identify customers, keep records of transactions, and report suspicious transactions. Spanish financial institutions are required by law to maintain fiscal information for five years and mercantile records for six years. Financial institutions are required to monitor transactions and report anything they deem unusual or potentially problematic. 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 50,000 euros (approximately \$67,500).

Article 4 of Law 19/1993 and Article 15 of Royal Decree (RD) 925/1995 contain safe harbor provisions. Financial institutions and their staffs 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).

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 FATF MER cited the requirements to determine the beneficial owner as "inadequate."

Law 19/1993 and RD 925/1995 establish 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 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 supports the work of the Commission for the Prevention of Money Laundering (CPBC or "Commission") which coordinates policy in the fight against money laundering in Spain. The Commission is an interdepartmental body chaired by the Second Vice President and Minister for Economic Affairs, with participation from the heads of agencies involved in the prevention of money laundering. These agencies 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. Within the Ministry of Economy and Finance, the Sub Directorate General of Inspection and Control of Movements (Sub Directorate General) serves as the Commission's Secretariat as well as Spain's FATF representative office. The Sub Directorate General is responsible for preparing draft rules and regulations and implementing financial sanctions in accordance with Law 19/1993.

The Bank of Spain is responsible for appointing SEPBLAC's director, raising concerns regarding the FIU's independence. Additionally, the FIU's supervisory capabilities continue to be hampered by its limited resources. In SEPBLAC's annual report, the organization acknowledged these weaknesses 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 2007, SEPBLAC received 2,783 STRs, up from 2,251 in 2006. SEPBLAC received 590 requests for information from other FIUs in 2007 and made 193 requests to Egmont members.

Any member of the Commission may request an investigation. However, at certain stages of the investigative process, obtaining account files can be time-consuming. The National Police and Anticorruption Police informed the FATF 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.

The Sub Directorate General has the responsibility 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.

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.

A judge may impose provisional measures concerning seizures related to 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. European Union (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 (FSRBs), 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. The GOS 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. According to media reports, the estimated amount of money ETA successfully extorts is upwards of 900,000 euros (approximately \$1,215,000) annually. 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 financing activity; and alternative remittance system transfers.

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 obliges covered countries such as Spain to execute UNSCR 1373. 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. Law 12/2003,

when implemented, will give the GOS the ability to freeze funds without going through the traditional judicial procedures, which some consider inefficient and burdensome, and will allow the GOS more latitude to freeze any type of financial flow so as to prevent the funds from being used to commit terrorist acts. However, the current GOS Administration has not enacted implementing regulations, and it appears there is no political will to do so. As with all EU 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 (approximately \$106). No assets associated with entities listed by the UN 1267 Sanctions Committee were reported to be in Spain in 2008.

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 and a cooperating and supporting nation to the Caribbean Financial Action Task Force. Spain is a major provider of AML/CTF assistance in Latin America. SEPBLAC is a member of the Egmont Group and currently chairs the Outreach Committee Working Group. Spain participates in the FIU.Net project for information exchange among European FIUs.

Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups. In 2008, 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 12 joint DEA and Spanish National Police drug raid which resulted in the seizure of 1,400 kilos of cocaine and the arrest of six Colombian and Venezuelan nationals. In September 2007, Spanish police arrested two Pakistani men who were indicted in the U.S. on money laundering charges following a joint counterterrorism investigation with the Federal Bureau of Investigation. The investigation found evidence that more than 1 million euros (approximately \$1,400,000) flowed from the drug trade and other criminal actions to terrorist groups. In September 2008, Agents from U.S. Immigration and Customs Enforcement (ICE) and officers from U.S. Customs and Border Protection (CBP) conducted a seven day joint bulk currency interdiction operation with Spanish Customs authorities. The operation, Hands Across the World (HAW), is an initiative targeting Bulk Cash Smuggling (BCS) worldwide. HAW was developed to fight BCS via real time intelligence sharing (including cash seizure/declaration data) between international law enforcement partners. The operation resulted in 13 seizures of U.S. and foreign currency totaling over \$900,000.

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 more than 25 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 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 Government of Spain should review the resources available for industry supervision, and ensure that SEPBLAC has the independence and resources it needs to effectively

discharge the duties entrusted to it. The GOS should work to close the loopholes in the areas of customer due diligence, beneficial ownership of legal persons, and the continued use of bearer shares. Spain should also work to implement Law 12/2003, which will greatly enhance Spain's capacity to combat terrorist financing. The GOS should clarify whether its laws allow civil asset forfeiture. Spain should maintain and disseminate statistics on investigations, prosecutions and convictions, including the amounts and values of assets frozen or confiscated. Spain should continue its efforts to actively participate in international fora and to assist jurisdictions with nascent or developing AML/CTF regimes.

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 \$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 ranging from \$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 (AML), counterterrorist financing (CTF), 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 2008, Nevis has one offshore bank, 109 licensed insurance companies, 13,257 international business companies (IBCs), 4,495 limited liability companies (LLCs), 1,001 international trusts, 70 multiform foundations (used for estate planning, charity financing, and special investment holding arrangements), and 40 registered agents. Figures from 2007 indicate St. Kitts has 1,592 exempt companies and foundations, nine exempt partnerships, 23 exempt trusts, 70 captive insurance companies, five trust service providers, 28 corporate service providers, and four licensed Internet gaming companies. 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 as well as the certificate's 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 but is only available to the regulator and other authorized persons.

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 Proceeds of Crime Act No. 16 of 2000 (POCA) criminalizes money laundering for serious offenses (defined to include more than drug offenses), and imposes penalties ranging from imprisonment to monetary fines. The POCA 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 was amended in April 2008 to include dealers in precious stones and metal in the list of regulated businesses for purposes of anti-money laundering/counterterrorist financing (AML/CTF). The POCA was amended in July 2008 to make money laundering an extraditable offence. The Money Services Business Bill 2008 seeks to provide for the licensing and regulation of the business of the transmission of money or monetary value in any form, which includes check cashing; currency exchange; and the issuance, sale or redemption of money orders or traveler's checks as well as the business of operating as an agent or franchise holder of any of these businesses.

The St. Kitts and Nevis Gaming Board is responsible for ensuring compliance by 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 AML examinations. Nevis seeks to consolidate its regulatory regime to a single unit, which would regulate all financial services businesses in Nevis, as of January 2009. 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 FSC has issued guidance notes on the prevention of money laundering, pursuant to the Anti-Money Laundering Regulations 2001. Regulations require financial institutions to identify their customers, maintain a record of transactions for up to five years, report suspicious transactions, and establish AML training programs. In July 2008, the GOSKN issued amended Anti-Money Laundering Regulations and Guidance Notes. The Regulations and Guidance Notes update and apply a risk-based approach to regulation and guidance, to include CTF measures; identification procedures for one-off transactions; and enhanced due diligence. A person who fails to comply with the requirements of these Regulations or Guidance Notes is liable on summary conviction to a fine not exceeding \$50,000. In the case of a continuing offense, an additional fine of \$5,000 per day is applicable for each day the infringement continues after such conviction.

The Financial Intelligence Unit Act No. 15 of 2000 (FIUA) authorizes 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. AML regulations and the FIUA provide protection to reporting entities and employees, officers, owners, or representatives who forward SARs to the FIU. Tipping off is prohibited. 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 2008, the FIU received 352 SARs (triple the amount in 2007) with 98 referred to law enforcement for appropriate action. The FIU attributes this increase to efforts to increase awareness and educate entities of their reporting obligations. 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 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 Anti-Terrorism Act No. 21 of 2002 (ATA) provides the FIU and Director of Public Prosecutions 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.

The ATA criminalizes terrorist financing and implements various UN conventions against terrorism. The GOSKN circulates to its financial institutions the names of individuals and entities 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.

The GOSKN has drafted the Non-Governmental Organization Bill and has had a first reading in the National Assembly. The main objective of the Bill is to regulate the operation of nongovernmental organizations (NGOs), including charities, and to stipulate that the registration of a NGO shall be refused if the entity or its proposed directors are involved or materially concerned in fraud, organized crime, money laundering or terrorist activities. The Bill also sets reporting standards intended to act as a monitoring mechanism for NGOs. It is anticipated the Bill will be passed before the end of 2008. All monies and proceeds from the sale of property forfeited or confiscated are placed in the fund to be used for AML activities in both St. Kitts and Nevis. Between 2001 and 2006, the GOSKN froze approximately \$2,000,000 in assets, of which \$1,000,000 was forfeited. No assets were seized in 2007 or 2008. In 2008, \$154,000 was forfeited.

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force-style regional body, and underwent a mutual evaluation in 2008, the results of which are still pending. The mutual evaluation report will be presented at the CFATF Plenary in May 2009. 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. St. Kitts and Nevis 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. St. Kitts and Nevis is not a party to the UN Convention against Corruption.

A Mutual Legal Assistance Treaty (MLAT) between the St. Kitts and Nevis and the United States entered into force in 2000. Past requests from the United States under the MLAT have not always been treated with appropriate responsiveness. . More recently, relations have improved, and there are efforts by the Director of Public Prosecutions office to remedy the previous deficiencies in the system. As a result of a refusal on the part of the GOSKN to remit over \$1,000,000 in securities fraud proceeds arising out of a prosecution in the Southern District of California, the U.S. filed an action against the U.S. correspondent account of the Bank of Nevis under the USA PATRIOT Act in 2008. Recently, a judge in Nevis recognized the U.S. court-appointed SEC Receiver as an appropriate entity to receive

the fraud proceeds from the Bank of Nevis, and, as a result, as long as there is not a reversal of that decision, the U.S. action may be settled.

Bank secrecy laws, the allowance of anonymous accounts, and the lack of transparency of beneficial ownership of legal entities makes Nevis, in particular, a haven for criminals to conceal their proceeds. To address remaining vulnerabilities, St. Kitts and Nevis should devote sufficient resources to effectively implement its AML/CTF regime, giving particular attention to its offshore financial sector. It is also vital that St. Kitts and Nevis determine the exact number of Internet gaming companies present on the islands and provide the necessary oversight of these entities. As part of operating an offshore financial center, the Government of St. Kitts and Nevis needs to provide adequate resources and capacity to law enforcement agencies to effectively investigate money laundering cases. The GOSKN should provide for close supervision of its economic citizenship programs or else consider their discontinuance. Additionally, Nevis should expand its supervision program to credit unions, local insurance companies, and money transfer agencies. If it has not already done so, the GOSKN should enact its pending Money Services Business Bill 2008, to provide for licensing and supervision of money services businesses. To strengthen its legal framework against money laundering, St. Kitts and Nevis should move expeditiously to 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 sources for laundered funds in St. Lucia.

Currently, St. Lucia has six offshore banks, 2,851 international business companies (IBCs), nine mutual funds, 29 international insurance companies, 66 trust companies, three mutual fund administrators, 15 registered agents, five registered trustees (service providers), and 30 domestic financial institutions. The number of IBCs reflects a 49 percent increase since 2006, though no information on the number of IBCs has been reported for 2008. 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 supersedes 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 and firearms trafficking, abduction, blackmail, counterfeiting, extortion, forgery, corruption, fraud, prostitution, trafficking in persons, tax evasion, terrorism, gambling, illegal deposit taking and robbery. The MLPA mandates suspicious transaction reporting requirements and imposes record keeping requirements. In addition, the MLPA imposes a duty on financial institutions to take reasonable measures to establish the identity of customers, and requires accounts to be maintained in the true name of the holder. It also requires an institution to take reasonable measures to identify the underlying beneficial owner when an agent, trustee or nominee operates an account. These obligations apply to domestic and offshore financial institutions, including banks, building societies, financial services providers, 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 a 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, among others, 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, and the Comptroller of Inland Revenue. The GOSL has implemented administrative procedures for an integrated regulatory unit to supervise the currently regulated onshore and offshore financial institutions; 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 also is 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 2008, the FIU received 56 STRs, 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 2008.

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 also can be seized. The legislation also applies to legitimate businesses if used to launder drug money, support terrorist activity, or if otherwise used in a crime. There is no legislation for civil forfeiture or sharing of narcotics assets. If the individual or business is not charged, then assets must be released within seven days. In 2008, \$50,000 was frozen, while \$350,000 was frozen in previous years.

The GOSL has not criminalized terrorist financing. However, St. Lucia circulates to financial institutions lists 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 Executive Order 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; has signed, but not yet ratified, the UN Convention against Transnational Organized Crime; and is not a party to the UN 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, a Financial Action Task Force-style regional body, whose recent mutual evaluation report was made available in November 2008. The GOSL is also a member of 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.

The Government of St. Lucia should move expeditiously to criminalize terrorist financing. It also should enhance and implement its anti-money laundering legislation and programs by regulating money remitters, considering the adoption of civil forfeiture legislation and ensuring that its FIU meets the Egmont Group standards. Efforts to increase transparency within the island's offshore financial services sector should be continued. St. Lucia should also criminalize self-laundering and implement risk-based assessment procedures as well as consider requirements for reporting large monetary transactions to the FIU. The GOSL should intensify its efforts to investigate, prosecute, and sentence money launderers and those involved in other financial crimes, and should permit extradition in cases of money laundering and terrorist financing. St. Lucia should use its asset seizure and forfeiture regimes, and provide for asset sharing with other governments. Saint Lucia should become a party to the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

St. Vincent and the Grenadines

St. Vincent and the Grenadines (SVG) remains vulnerable to money laundering and other financial crimes as a result of drug-trafficking and its offshore financial 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 domestic and offshore banks 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, nine insurance companies, ten credit unions, and two money remitters. The offshore sector includes six offshore banks, 8,498 international business corporations (IBCs), 13 offshore insurance companies, nine mutual funds, 19 registered agents, and 138 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 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 a customer that is in the possession of a license.

The Proceeds of Crime and Money Laundering (Prevention) Act 2001 (PCMLPA) 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 offenses approach and to extend 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.

The Eastern Caribbean Central Bank (ECCB) supervises SVG's domestic banks. The International Banks (Amendment) Act No. 30 of 2002 provides 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. However, in March 2008, an amendment to the International Bank Act was passed in Parliament. The amendment reduces the involvement of the ECCB in the supervision of the offshore banking sector. 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.

Customers are required to complete a source of funds declaration for any cash transaction over 10,000 East Caribbean dollars (XCD) (approximately \$3,700). It is not mandatory to report other noncash transactions exceeding 10,000 XCD (approximately \$3,700). Incoming travelers are required to declare currency over 10,000 XCD (approximately \$3,700) on a customs declaration form, reintroduced in 2003.

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 2008, the FIU received 425 suspicious activity reports for the year, almost triple that of 2007. In December 2008, a suspect was arrested and charged under the Proceeds of Crime and Money Laundering Act. The charges relate to \$1,700,000 which, in whole or in part, directly represent his proceeds of criminal conduct discovered within a harbor in St. Vincent on board a yacht owned by the suspect. Two other individuals, the operators of the vessel, were charged in April 2008, when the funds were discovered. The suspect's arrest is a major milestone for law enforcement in St. Vincent, as the first arrest under the Act.

The FIU is the main entity responsible for supervising and examining financial institutions for compliance with anti-money laundering and counterterrorist financing (AML/CTF) laws and regulations. The function is also performed by the IFSA and the ECCB. Money laundering controls also apply to nonbanking financial institutions and intermediaries, which the FIU monitors for compliance. Reporting entities that are fully cooperative with the FIU are protected by law. 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 the forfeiture provisions 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 2008, approximately \$1,158,000 in assets and \$729,000 in cash was frozen or seized. Of this amount, approximately \$23,000 was forfeited.

In 2006, the GOSVG enacted the United Nations (Anti-Terrorism Measures) (Amendment) Act 2006, Act. No.13 (UNATMA). The UNATMA criminalizes terrorist financing and imposes a legal obligation on financial institutions and relevant businesses 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), a Financial Action Task Force-style regional body, the GOSVG was scheduled to undergo its second mutual evaluation in early 2008, but this was postponed. It is anticipated the evaluation will occur in 2009. 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. St. Vincent and the Grenadines is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. St. Vincent and the Grenadines has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. St. Vincent and the Grenadines is not a party to the UN Convention against Corruption.

The Government of St. Vincent and the Grenadines has strengthened its AML/CTF regime through legislation and the establishment of an effective FIU. The GOSVG should continue to ensure this legislation is fully implemented, and the FIU has access to all necessary information. The GOSVG should insist 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 AML/CTF operations and investigations. To ensure timely and effective information sharing, the GOSVG would be well served by computerization of its record keeping systems. Passage of civil forfeiture legislation and broader use of special investigative techniques should be pursued to strengthen the government's anti-money laundering efforts. St. Vincent and the Grenadines 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 cocaine to the United States, Europe, and Africa. Domestic drug trafficking organizations and organized crime, with links to international groups, 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, the purchase and sale of real estate, 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 region of the country. Suriname has a significant informal economy, the majority of which is not linked to money laundering proceeds. Offshore banks and shell companies are not permitted in Suriname.

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 Central Bank of Suriname (CBS) is the sole monitoring authority for commercial banks; in that capacity the CBS supervises and examines financial institutions for compliance with anti money laundering legislation. The CBS is adequately staffed and trained for this purpose. Banking and nonbanking institutions are also required to report suspicious transactions to the Financial Intelligence Unit (FIU), which is under the authority of the Attorney General's Office.

Suriname's legislation requires that service providers confirm the identities of individual or corporate clients before completing requested services, and retain photocopies of identity documents and all other relevant documents pertaining to national and international transactions for a period of seven years.

Financial institutions are required to report suspicious transactions. 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.

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.

Suriname's money laundering legislation provides for the establishment of the FIU. The FIU is an administrative body that performs analytical duties. Its responsibilities entail requesting, analyzing, and reporting to the Attorney General's Office information on unusual transactions or unusual transaction patterns that may constitute money laundering. If necessary, the FIU may request access to the records of other government entities. Bureaucracy and the lack of financial and human resources have made it difficult for the FIU to perform. Although the law requires financial institutions, nonbank financial institutions, and natural legal persons who provide financial services to report unusual transactions to the FIU, only approximately 130 entities in Suriname are registered with the FIU and have received information regarding Suriname's money laundering legislation. The FIU continues to have difficulty registering providers in certain sectors, and authorities reported that not all of Suriname's jewelers, notaries, credit unions, "cambios," casinos, or car dealers are aware of or in compliance with the requirements of the money laundering legislation. Furthermore, authorities expressed concern that service providers such as accountants, lawyers, and real estate brokers, are increasingly being hired by money launderers and should receive training in order to recognize and prevent money laundering. The only entities in full compliance with the law are the banking sector and the money-transfer offices. The FIU is not adequately staffed to both monitor unusual transactions and conduct outreach activities to ensure that all sectors are aware of and in compliance with the law to report unusual transactions. The number of unusual transaction reports reported to the FIU in 2008 was not available but government officials stated that there had been an approximate 20 percent increase in the number of reports in 2008 as compared to reports in 2007. The number of these reports that were investigated by law enforcement agencies was not available.

The Police Fraud Department and the Special Investigative Techniques section (BOT) of the Police Force are responsible for investigating financial crimes. 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.

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 also 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. Through the year, four new judges (two permanent and two substitutes) were sworn in; it remains to be seen if the expansion of the judges' corps will partially redress the problem.

There were two arrests and one prosecution for money laundering. In March 2008, two suspects were arrested on charges of money laundering after they were arrested carrying approximately U.S. \$ 190,600. One of the suspects was still under prosecution at year's end, while the other, a government employee, was released without court charges and returned to his official duties.

In August 2008, a man originating from Sierra Leone, but residing in Suriname, was arrested for attempting to travel on a stolen passport. After his arrest, investigations led to seizure of his bank statements, which contained "thousands of U.S. dollars." The suspect could not properly explain the source of these funds. The Attorney General's Office was preparing charges against the suspect at year's end.

The appeal on the case involving De Surinaamse Bank President Siegmund Proeve, former Bank President Edward Muller, Procurement Officer Patrick Bhagwandin, and Canadian Dorsett Group staffer Jeffrey Clague continued in 2008. In August 2007, Proeve and Muller had been 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. Bagwandin was sentenced to a conditional three-month imprisonment, and Clague was sentenced to six months. The bank was fined U.S. \$358,000. In October 2008, the Appeals Court reversed the ruling on Clague because he had not been properly served. The court is scheduled on December 15 to hand down a decision on whether or not Clague was legally required to submit capital lease documentation for the money transfers. The prosecution has asked the court to fine the DSB Bank 100,000 SRD (U.S. \$35,714) and sentence Proeve and Muller to 12 months imprisonment.

The trial involving former Minister of Trade and Industry, Siegfried Gilds, continued at year's end. Gilds, who resigned his position after the Attorney General announced he was under investigation for laundering money and membership in a criminal organization, is alleged to have laundered close to \$1.27 million between 2003 and 2005.

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.

Suriname does have legislation that allows the authorities to freeze assets of those suspected of money laundering. The Police Fraud Department and the Special Investigative Techniques section (BOT) of the Police Force are responsible for investigating financial crimes and seizing assets. Assets may be confiscated pending the outcome of the trial, but cannot be liquidated until after the court's final verdict.

The government has not criminalized the financing of terrorism as required by the UN International Convention for the Suppression of the Financing of Terrorism, UN Security Council Resolution 1373, and FATF Special Recommendation Number 9. 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. The government has not adopted laws or regulations that allow for the exchange of records with the United States on investigations and proceedings related to terrorism and terrorist financing.

Suriname does not recognize indigenous alternative remittance systems. There are no known cases of charitable or nonprofit entities serving as conduits for financing terrorism in Suriname.

Statutory requirements limit the international transportation of currency and monetary instruments; amounts in excess of U.S. \$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 Immigration Police. The Central Bank of Suriname also requires that all transactions in excess of U.S. \$10,000 be reported. The GOS has not taken any strong action against cross-border cash smuggling and the extent of this smuggling is unknown. There is little publicly posted information at the borders or at the international airport on the requirement to report the transport of currency or monetary instruments in excess of U.S. \$10,000. There is no database of cash declaration or smuggling reports.

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. There has been some cooperation with the United States on civil cases under U.S. jurisdiction. 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. 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.

Suriname is 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. Suriname is a party to the UN Convention against Transnational Organized Crime but not a party to the UN Convention against Corruption. Draft legislation to become a party to the UN 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 Government of Suriname should pass legislation to criminalize terrorist financing. Recent convictions have demonstrated the ability and willingness of the GOS 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. Suriname should become a party to the UN Convention against Corruption and to the UN Convention for the Suppression of the Financing of Terrorism, and pass the necessary laws to conform to its obligations under the 1988 UN Drug Convention.

Switzerland

Switzerland is a major international financial center. Reporting indicates that criminals attempt to launder illegal proceeds in Switzerland from a wide range of criminal 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. The country's central geographic location; relative political, social, and monetary stability; the range and sophistication of financial services it provides; and its long tradition of bank secrecy—first codified in 1934—not only contribute to Switzerland's success as a major international financial center, but also expose Switzerland to potential money laundering activity.

Given the size of the Swiss banking industry in the overall economy (with 330 banks and a large number of nonbank financial intermediaries comprising 11.8 percent of GDP, 5.9 percent of total employment, and 11.4 percent of total domestic revenues), Swiss authorities are aware of the vulnerabilities and have taken steps to mitigate them. For example, Switzerland automatically waives its bank secrecy laws in cases of suspected money laundering and fraud. Thus, while reference to Swiss bank accounts was once frequent in fraud and corruption cases linked to foreign government officials and heads-of-state, such cases are less common today. Swiss banks routinely screen the accounts of politically exposed persons (PEPs) for indications of illicit money transfers, making use of specialized computer software programs to monitor for suspicious activities. Examples of public figures that have been the subject of Swiss money laundering allegations or investigations include a former Kyrgyz Republic President, a former Russian Minister of Atomic Energy, the Nigerian dictator Sani Abacha, former Pakistani Prime Minister Benazir Bhutto, and former Haitian President Jean-Claude Duvalier. These individuals used Swiss bank accounts under the names of related family members to move national assets to Switzerland for personal use.

Switzerland's banking industry offers the same account services for both residents and nonresidents. Many Swiss 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. However, 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. All financial intermediaries must verify the identity of the beneficial owner of the stock company and must know any change regarding

the beneficial owner. Stock companies may issue bearer shares, but limited liability companies may not.

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. Export laws on strategic goods, war material, and medicinal products, as well as laws relating to anti-money laundering prohibitions, all apply.

Switzerland has no legal reporting requirement for cash imported into or exported out of the country. Because there are no laws meeting the international standards for declaration of currency and monetary instruments, Swiss authorities cannot effectively initiate bulk cash investigations.

Switzerland ranks third in the highly profitable global artwork trading market, exporting \$1.8 billion of artwork in 2007—an increase of 41percent over the previous year. Because of the size of the Swiss art market, organized crime groups have attempted in the past 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 \$576 million worth of works of art in 2007. This sum represents 31 percent of total artwork imports. 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.

Switzerland has comprehensive anti-money laundering (AML) legislation in place, criminalizing money laundering and making banks and other financial intermediaries subject to strict know-your-customer (KYC) and reporting requirements. 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. The fact that not all predicate crimes are covered under the money laundering laws increases the vulnerability of Switzerland's financial sector to criminal exploitation. In June 2007 the Swiss government submitted a draft bill to Parliament extending the scope of the Money Laundering Act to address shortcomings identified in the Financial Action Task Force (FATF) mutual evaluation report (MER) for Switzerland. The adoption of AML regulations planned for 2009 will make these crimes predicate offenses.

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 either directly supervised by Money Laundering Control Authority (MLCA) of the Federal Finance Department or by an accredited self-regulatory organization (SRO), which the entity must join. SROs are 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 revised its AML regulations in 2002, and they became effective in 2003. These regulations, aimed at the banking and securities industries, codify a risk-based approach to suspicious transactions and client identification and install a global know-your-customer risk management program for all banks, including those with branches and subsidiaries abroad.

Consistent with this approach, financial intermediaries must conduct additional due diligence in the case of higher-risk business relationships. The regulations require increased due diligence in the cases of politically exposed persons (PEPs), 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, 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." However, the MER states that Switzerland lacks specific provisions requiring intermediary financial institutions to keep the necessary information on the ordering customer.

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 market by combining the activities of three existing watchdog groups. The Federal Financial Market Supervisory Authority (FINMA) groups together the regulatory work of the Federal Banking Commission, the Federal Office of Private Insurance and the Money Laundering Control Authority. The FINMA became operational in January 2009, and will investigate suspected cases of money laundering and corruption.

Other types of designated nonfinancial businesses and professions (DNFBPs) required to report suspicious transactions to the Swiss FIU include attorneys, commodities and precious metals traders, asset managers and investment advisers, distributors of investment funds, securities traders, and credit card companies.

The Money Laundering Reporting Office (MROS), part of the Federal Office of Police (FedPol), is Switzerland's FIU and functions as a relay and filtration point between financial intermediaries and other law enforcement agencies. According to the Money Laundering Act, MROS receives, processes, and analyzes STRs, and disseminates them to law enforcement agencies. MROS cannot obtain additional information from reporting entities after receiving an STR. As an administrative FIU, MROS does not have any investigative powers of its own. From an operational standpoint, Swiss authorities claim that MROS has reached full capability, and that its experienced and efficient team has been able to keep average processing time to 2.5 days per STR.

MROS received 795 STRs in 2007, the most it has received since 2004. MROS forwarded seventy-nine percent of these STRs to law enforcement. The banking sector saw a 37 percent increase in the number of STRs submitted by its institutions. Of the total number of STRs, banks submitted 62 percent of STRs, followed by payment services with 29 percent of STR submissions, and money transmitters with 20 percent. The proportion of STRs that money transmitters submitted in 2007 was half of that of previous years. According to Swiss authorities, one reason for the decrease in STRs from money transmitters was Swiss authorities' success interdicting various scams. While the DNFBP sectors submitted more STRs in 2007 than in 2006, their impact on the total reporting volume is relatively minor.

As was the case in the previous year, "fraud" was by far the most frequently suspected predicate offence (33 percent). In 2007, 6 STRs were related to terrorist finance, slightly fewer than the 8 STRs reported in 2006. After careful scrutiny, MROS forwarded only three of the six STRs to the Federal Prosecutor's Office, which later found that these also did not merit the initiation of criminal proceedings.

MROS has drawn criticism from fellow Egmont Group members that claim that MROS does not meet Egmont's definition that an FIU must have a formal legal basis to process STRs related to terrorist financing. However, Swiss law already refers to the MROS as a national reporting office for all

matters relating to the fight against terrorist financing. Because the Egmont Group still requires a formal legal basis for the MROS to meet all of the prerequisites for membership, Switzerland must amend Article 9-1 of the Anti-Money Laundering Act as proposed in the Federal Council's draft bill. If the procedure fails, the Swiss Justice Minister warned Parliament in October, the Egmont Group could suspend or cancel MROS' membership by April 2009.

Under the 2002 Efficiency Bill, the Swiss Attorney General has authority to prosecute crimes addressed by Article 340 of the Swiss Penal Code, which covers money laundering offenses. 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. Additional legislation increased the personnel and financing of the criminal police section of the Federal Police Office, which led to prosecutors' increased effectiveness pursuing organized crime, money laundering and corruption.

Switzerland has implemented legislation for identifying, tracing, freezing, seizing, and forfeiting assets. If financial institutions believe that assets derive from criminal activity, they must freeze the assets 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 large amounts of seized assets with the United States and other governments.

Switzerland has returned a total of \$1.6 billion in illegal PEP assets to home countries. Most prominently, Switzerland returned \$684 million in assets deposited by Ferdinand Marcos to the Philippines and \$700 million in assets deposited by Sani Abacha to Nigeria. Historically, Switzerland has required court rulings in both Switzerland and the PEP's home country before returning the assets, but in Abacha's case, Switzerland returned the assets without a judgment from Nigeria. The Swiss government has indicated that two PEP cases, that of \$6 million in assets deposited by Jean-Claude Duvalier of Haiti, and \$8 million deposited by Mobutu Sese Seko of Congo, have been pending since 1986 and 1997, respectively. In October, Switzerland asked the Democratic Republic of Congo to provide judicial cooperation so that the money would not be returned to the Mobutu family.

The Swiss government has found it difficult occasionally to repatriate stolen financial assets to their countries of origin. Swiss authorities recognize the difficulties involved in obtaining court rulings from states without efficiently functioning judicial systems and point out that countries often fail to file legal assistance requests with Switzerland, or that internal politics of the requesting country has disrupted the legal proceedings. Switzerland is also considering how to work with countries which are unable, due to insufficient funds, to cooperate with the Swiss system of judicial review.

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 regarding suspicious bank accounts in Switzerland. Six percent of the 1,510 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.

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. However, the Swiss Penal Code currently criminalizes the financing of an act of criminal violence, not the financing of an individual, independent of a particular act.

Swiss authorities regularly request that banks and nonbank financial intermediaries check their records and accounts against lists of persons and entities with links to terrorism. The entities must report accounts of these individuals and entities to the Ministry of Justice as suspicious. Along with the U.S. and UN lists, the Swiss Economic and Finance Ministries have drawn up their own list of individuals and entities they believe to be connected with international terrorism or its financing.

Swiss authorities have thus far blocked about 48 accounts totaling SFr. 25.5 million (approximately \$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 \$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. As of October 2008, The State Secretariat for Economic Affairs (SECO) advised that 35 bank accounts totaling Sfr. 20 million (approximately \$17,363,000) relating to Al-Qaeda and the Taliban remained frozen.

The last major investigation undertaken by the Federal Attorney General's Office on terrorism financing targeting the OFAC-listed Saudi Sheikh Yassin Kadi ended up as a defeat for Switzerland. In December 2007, authorities made the decision to abandon the prosecution, six years and two months after they began investigating the Saudi businessman whom the United States accused of supporting Al-Qaeda. As a result, the Swiss Attorney General is expected to unfreeze some 20 million francs (approximately \$17,363,000) in several Swiss bank accounts.

Swiss authorities cooperate with counterpart bodies from other countries. Switzerland has a mutual legal assistance treaty in place with the United States, and Swiss law allows authorities to furnish information to U.S. regulatory agencies, provided it is kept confidential and used for law enforcement purposes. Switzerland is a member of the Financial Action Task Force (FATF), and its FIU is a member of the Egmont Group.

Switzerland is a party to the UN Convention for the Suppression of the Financing of Terrorism, the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. Switzerland has signed but not ratified the UN Convention against Corruption.

The Government of Switzerland (GOS) has been trying 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 Swiss strategy is to avert large risks by addressing 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 should address the shortcomings identified in the FATF MER, including deficiencies in correspondent banking regulations and beneficial owner identification requirements. Switzerland should pass the enhanced regulations as planned, which will increase the number of predicate offenses for money laundering. Switzerland should enact and implement cross-border currency reporting requirements. Switzerland should also ratify the United Nations Convention against Corruption. The GOS should outlaw bearer shares completely, and implement effective AML legislation and rules that monitor and regulate money service businesses and the DNFBP sectors, including ensuring that the competent authorities have the resources to conduct outreach and complete their regulatory missions. Switzerland should ensure that FINMA has the proper resources to execute its work. Switzerland should also continue to explore measures regarding, and its work assisting, countries needing assistance for legal cooperation.

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 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 significant 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 state-owned 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.

In May 2004, the U.S. Department of the 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 reports related to CBS's vulnerability to exploitation by criminal and/or terrorist enterprises, and 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. In April 2006, the U.S. 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. These prohibitions also apply to foreign intermediary banks that have correspondent relationships with U.S. financial institutions and with CBS or its subsidiary.

The Government of Syria (GOS) began taking steps to develop a limited 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 seven private, traditional banks in Syria, including Bank of Syria and Overseas (BSOM), Banque BEMO Saudi Fransi (French), the International Bank for Trade and Finance, Bank Audi, the Arab Bank, Byblos Bank, and Syria Gulf Bank. Four more traditional, private banks—the Bank of Jordan, the Orient Bank, Fransa Bank and Qatar National Bank—have obtained the necessary licenses and are expected to begin operations in Syria in 2009. In May 2005 a new law was enacted to allow for the establishment of Islamic banking. Al-Sham Islamic Bank began operations in August 2007. Additionally, Syria International Islamic Bank (IIB) opened its doors in September 2008. Al-Baraka Islamic Bank was also officially licensed in 2007.

By mid-2008, the Syrian banking sector reported assets totaling \$34.3 billion and held deposits totaling \$19.9 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.

There are eight free trade zones in Syria, which are serviced mostly by subsidiaries of Lebanese banks, including Bank du Liban et d'Autre Mer, Banque Europeenne Pour le Moyen-Orient Sal, Bank of Beirut and Arab Countries, Bank Societee Generale, Fransa Bank, Societee du Banques Arabes, and Basra International Bank. In December 2007, the Central Bank of Syria ordered that these banks either cease operations or begin operating as branches of domestic (Syrian) banks within a period of six months. The Central Bank claimed that the move was necessary to standardize operating regulations for all banks across Syria. All free zone banks complied and operate as majority Syrian-owned subsidiaries of their parent banks. Four additional public free zones are planned for the cities of Homs, Dayr al Zur, Idleb, and the Port of Tartous. The Al-Ya'rubiye free zone in al-Hasakeh province, near the northeastern Syrian-Iraqi border, was officially inaugurated in December 2007.

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 preferential trade agreement with Syria. China's free zone in Adra, however, was officially inaugurated in July 2008 and is expected to provide roughly 200 Chinese companies with a regional gateway for their goods. 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. The importation and distribution of counterfeit goods are a concern. There are also continuing reports of Syrians using the free zones to import and export arms and other goods in violation of USG sanctions under the Syrian Accountability and Lebanese Sovereignty Restoration Act of 2003.

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, which 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 counterterrorist financing (AML/CTF) regulations, the GOS passed Decree 33 in May 2005, which criminalized the act of terrorist financing and strengthened the Commission empowering 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. However, the 2006 Middle East and North Africa Financial Action Task Force (MENAFATF) Mutual Evaluation rated the FIU as partially compliant, citing the lack of outreach to financial institutions and banks regarding the reporting of suspicious transaction reports, issues with budgetary independence, weak information protection controls, and overall efficiency.

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 set by the FATF. 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. Terrorist financing is not considered a predicate offense for money laundering crime or otherwise punishable under Decree 33. The act of terrorist financing criminalized by Decree 33 also fails to cover the intention that funds should be used or the knowledge that funds are to be used, in full or in part, by a terrorist organization or an individual terrorist in accordance with international standards.

Under Decree 33, banks and nonfinancial institutions are required to file reports with the Commission for transactions over the equivalent of \$10,000, as well as suspicious transaction reports (STRs) regardless of amount. However, there is no obligation for financial institutions to report STRs related to terrorist financing or attempts to conduct suspicious transactions. Institutions 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 three 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 financial investigations, 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.

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 of imprisonment 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. It has taken action to freeze the assets of designated individuals, but has not frozen the assets of any Syrian citizens in 2008.

In 2008, the Commission investigated 137 cases involving suspicious transactions, 18 of which were forwarded by foreign jurisdictions. Twenty of these cases were referred to the criminal court system for prosecution. Over the past four years, the Commission has investigated 493 cases and referred 78 of them to the criminal court system. To date, all criminal cases remain 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 2008, and hopes to expand to 30 by the end of 2009. Nevertheless, a lack of local expertise—further undermined by a lack of political will—continues to impede effective implementation of existing AML/CTF regulations in Syria.

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. 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. (The GOS admits that it does not know the amount of money that 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. In 2006, the GOS passed a Moneychangers Law requiring that moneychangers be licensed. However, there were significant delays in the issuance of implementation instructions. To date, 25 moneychangers have applied for licensing, and just ten are now 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, 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. The regional smuggling of stolen cars, counterfeit goods and cigarettes are also areas of concern. 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 in AML/CTF within the General Directorate of Customs. Customs also 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 are unknown. These shortfalls pose terrorist financing and money laundering vulnerabilities through trade-based money laundering and cash-based smuggling.

The Syrian FIU is a member of the Egmont Group of FIUs. In 2008, the Commission signed cooperation agreements and memoranda of understanding with the FIUs of Turkey and the Ukraine. These memoranda covered money laundering and terrorism financing. Syria is a member of the MENAFATF.

Syria and the United States do not have a mutual legal assistance agreement in place. Syria is a party to the 1988 UN Drug Convention and 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, both the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Syria is ranked 147 out of 180 countries on Transparency International's 2008 Corruption Perception Index.

While the Government of 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 an 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 continue to be vulnerable to money laundering and terrorist financing. To build confidence in

Syria's intentions, the Central Bank should be granted independence and supervisory authority over the entire sector. To enhance the implementation of Syria's AML/CTF legislation and private sector internal controls, the GOS should strengthen and train its FIU and should also grant it a degree of independence. Additionally, Syria should continue to modify its AML/CTF legislation and enabling regulations so that they adhere to international 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 mechanism still does not exist. Syria's shortfalls in its anti-terrorist financing controls poses grave threats given that U.S. designated foreign terrorist organizations, including HAMAS, Palestinian Islamic Jihad (PIJ), the Popular Front for the Liberation of Palestine (PLFP), and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), among others, all have offices in Damascus and operate within Syria's borders. Syria's provision of safe haven for these groups poses significant terrorist financing risks to both the Syrian and regional financial sectors. It remains doubtful that the GOS has the political will to punish terrorist financing 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. Syria 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. Taiwan's location astride international shipping lanes makes it vulnerable to transnational crimes, such as narcotics trafficking, trade fraud, and smuggling. There has traditionally been a 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. In November 2008 China and Taiwan reached an agreement to facilitate direct remittances across the Taiwan Strait. Taiwan will now allow direct remittances from China as of February 16, 2009. For remittances to China, Taiwan is allowing a growing number of postal savings outlets to provide this service. 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, 2007, and 2008. 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 receives, analyzes, and disseminates 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. \$29,600). The Asia/Pacific Group on Money conducted a mutual evaluation of Taiwan in 2007. Following the recommendation of the mutual evaluation report (MER), in November

2008 the Financial Supervisory Commission changed the requirements to include transactions in excess of NT\$500,000 (\$14,800) to be reported. These amounts are comparable to levels for Singapore and Hong Kong. In 2007, the MLPC received 1,190,753 currency transaction reports. The 2003 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, essentially all entities that may be involved in currency exchange. 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, the Ministry of Transportation and Communication, and the Ministry of Finance to include also the Financial Supervisory Commission (established in July 2004), the Ministry of Economic Affairs, the Council of Agriculture (supervising a new agriculture bank and the credit departments of farmers' and fishermen'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. Following the MER recommendations the MCLA was again amended in June 2008 to include embezzlement from business firms in the list of major crimes subject to money laundering regulation.

Taiwan established 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 \$290,000) or at least a one-year sentence is up to NT \$500,000 (approximately \$14,800). The reward for information on a case with a fine of between NT \$2 million and \$10 million (approximately \$58,000 and \$290,000) or less than a one-year sentence is up to NT \$200,000 (approximately \$5,900).

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 (approximately \$29,600) is five business days. Banks are barred from informing customers ("tipping off") that a STR has been filed. Reports of suspicious transactions must be submitted to the MLPC within 10 business days. In 2007, the MLPC received 1,741 STRs and 31 of them resulted in prosecutions based on the MLCA. Of these 31 cases, nineteen are related to financial crimes, four to corruption, one to narcotics, and seven to other miscellaneous crimes. This represents a significant drop from prior years due to a change in the MLCA in mid 2007, which called for only cases involving amounts in excess of NT\$ 1 million (approximately \$29,600) to be handled under the MLCA. The rest are handled under other laws. A total number of 1,190, 755 Cash Transaction reports (CTRS) were filed by financial institutions in 2007. Additionally, as recommended in the MER, the threshold for occasional cash transactions that triggers a Customer Due Diligence (CDD) obligation

and CTR obligation was lowered from NT\$1 million (approximately \$29,600) to NT\$ 500,000 (approximately \$ 14,800)

As recommended in the MER, Taiwan Customs was required to start reporting foreign currencies and negotiable securities, including bearer shares, carried by passengers in excess of U.S. \$10,000. The number of such cases reported to the MLPC in 2007 was 5,157, including 2,654 outbound involving NT\$6,928.4 million (U.S. \$210 million) and 2,503 inbound involving NT\$6,460 million (U.S. \$196 million). Customs also became a member of the Customs Asia Pacific Enforcement Reporting System and has signed MOUs with counterparts in the U.S., Australia, and the Philippines for sharing customs information.

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 presented 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. \$6,060 to \$30,300) 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 who makes any single cash or electronic remittance above NT \$30,000 (approximately U.S. \$ 890).

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 2008, Taiwan hosted 31 local branches of foreign banks, one trust and investment company, and 63 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 31 cases involving money laundering in 2007, compared with 689 cases involving financial crimes in 2006. Among the 31 cases, nineteen involved unregistered stock trading, credit card theft, currency counterfeiting or fraud. Among the twelve other money laundering cases, four 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 (approximately \$148,000) were covered under the MLCA, while the rest were handled in accordance with other laws. The number of indicted subjects in 2007 was 122 persons. Figures are not yet available for 2008.

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 \$1,780), U.S. \$10,000 in foreign currency, 20,000 Chinese Yuan (approximately \$2,930), or gold worth more than \$20,000. When foreign currency in excess of NT \$500,000 (approximately \$14,800) is transferred into or out of Taiwan via the Taiwan banking system, the transfer must be reported 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 \$5 million for an individual resident or \$50 million for a corporate entity. Those who transfer funds over NT \$30,000 (approximately \$890) 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.

Prior INCSR reports indicated that a “Counter-Terrorism Action Law” had been pending with the Legislative Yuan since 2003 which would explicitly designate the financing of terrorism as a major crime and give law enforcement agencies broad powers to seize suspected terrorist assets without a criminal case. In emergencies, they could also freeze assets for up to three days without a court order. The current administration, which came into office in 2008, has put forward new legislation which would provide less sweeping police powers. Financing of terrorist activities in Taiwan is already a criminal offense under Taiwan law, but the draft law would extend the law to explicitly criminalize financing and money laundering in support of such activities overseas.

Although Taiwan does not criminalize terrorist financing as an autonomous offense, 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 a permit from the Central Bank, are authorized to act on the behalf of foreign workers 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 a bank guarantee for the involved funds. 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 39 foreign labor employment brokers as of October 2008. 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.

Authorities in Taiwan do not believe that charitable and nonprofit organizations in Taiwan are being used as conduits for financing terrorism. Such organizations are required to register with the government and, like any other individual or corporate entity, are checked against a 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. Every three years the MOI assigns public accountants to audit the financial statements and also has management specialists assess the overall operations of nationally-chartered 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 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 thirteen shipping and logistics companies listed in the Kaohsiung Free Trade Zone, 21 logistics companies in Taichung Free Trade Zone, five logistics and shipping companies in Keelung Free Trade Zone, two logistics companies in Taipei Free Trade Zone, and ten logistics and shipping companies and 24 manufacturers in Taoyuan Air Cargo Free Trade Zone. Shipments through these FTZs in 2007 surged 289 percent to NT\$ 59.9 billion (approximately \$1.7 billion), and the value of shipments in the first nine months of 2008 was NT\$ 86.6 billion (\$2.57 billion). While these increases are in indeed sizeable, this accounts for only 0.65 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 inventory 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 stipulate that—in accordance with treaties or international agreements—Taiwan's Ministry of Justice shall share seized assets with foreign official agencies, private institutions, or international parties that provide Taiwan with assistance in investigations or enforcement. Assets of drug traffickers, including instruments of crime and intangible property, can be seized along with legitimate businesses used to launder money. The injured parties can be compensated with seized assets. Between January 2007- June 2008, drug-related seizures totaled NT \$18,300,000 (approximately \$543,150)—a dramatic increase from the NT \$1,100,000 (approximately \$32,650) the previous year. 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, therefore, 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, but it has agreed unilaterally to abide by its provisions. Taiwan is a founding member of the Asia/Pacific Group on Money Laundering (APG). The MLPC is a member of the Egmont Group of financial intelligence units.

Taiwan continues to improve and implement an anti-money laundering regime that largely comports with international standards. Taiwan should pass legislation currently before the Legislative Yuan to criminalize terrorism and terrorist financing as an autonomous crime. It should exert more authority over its nonprofit organizations. The MLCA amendments of 2003, 2007, and 2008 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 abolish all shell companies and prohibit new shell companies of any type from being established. Taiwan should enhance implementation of legislation regarding alternate remittance systems and Taiwan law enforcement should enhance investigations of underground finance and its links to trade fraud and trade-based money laundering.

Tanzania

While not an important regional financial center, Tanzania is vulnerable to money laundering. Tanzania's location at the crossroads of southern, central and eastern Africa leave it particularly vulnerable to activities that generate illicit revenue, such as smuggling, and the trafficking of narcotics, arms, and humans. The likely sources of illicit funds are Asia and the Middle East and, to a lesser extent, Europe. Such transactions rarely include significant amounts of U.S. currency. Money laundering is more likely to occur in the informal financial sector and in nonfinancial sectors than in the undeveloped formal sector. Real estate and used car businesses appear to be vulnerable trade industries involved in money laundering. Criminals use front companies, including hawaladars and bureaux de change, to launder funds. The use of front companies to launder money is especially common 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.

There are no indications that Tanzania's two free trade zones are being used in trade-based money laundering schemes or by financiers of terrorism. The Anti-Money Laundering Act, 2006 (AML Act) criminalizes cross-border cash smuggling.

The AML Act created a financial intelligence unit (FIU) as an extra-ministerial department of the Ministry of Finance. The government published implementing regulations 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 comprised of a Commissioner, an analyst, an information technology expert, and two support staff. Current plans call for the recruitment of three additional staff members. The FIU has established an office, but has not begun analyzing suspicious transactions. It has applied for membership in the Egmont Group.

The AML Act and regulations apply to all "reporting persons", which includes 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. Reporting persons must obtain detailed information from all customers, maintain specific identification procedures, and report suspicious and unusual transactions to the FIU within 24 hours of the transaction. The AML Act governs all serious crimes, including those relating to both narcotics and terrorism. The FIU has developed a sensitization and outreach program to ensure that obliged institutions are aware of their reporting requirements under the AML Act. The FIU held two sensitization workshops targeting Tanzania's insurance and banking communities in July 2008.

The 2002 Prevention of Terrorism Act criminalizes terrorist financing. It requires all financial institutions to inform the government each quarter of a calendar year of any assets or transactions that may be associated with a terrorist group. However, 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 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 by the end of 2008, no assets had been frozen under this provision. 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. There are no specific laws allowing Tanzania to exchange records with the U.S. on narcotics transactions or narcotics-related money laundering.

Tanzania is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body, and the Secretariat is located in Dar-Es-Salaam. ESAAMLG conducted a mutual evaluation of Tanzania in November 2008, which is scheduled for discussion and adoption in 2009. Tanzania is a party to the 1988 UN Drug Convention; the UN Convention for the Suppression of the Financing of Terrorism; the UN Convention Against Corruption; and the UN Convention against Transnational Organized Crime. In 2008, Tanzania was listed as 102 of 180 countries in Transparency International's Corruption Perceptions Index.

The Government of Tanzania (GOT) has made improvements in its compliance with international AML standards. The GOT should focus its efforts on practical implementation of the AML Act, including dedicating the resources necessary to build an effective FIU. The FIU should continue its efforts to hire additional staff to ensure that financial institutions are adequately supervised, to inform them of their reporting and record-keeping responsibilities, and to train the financial sector to identify suspicious transactions. Authorities should ensure that the Prevention of Terrorism Act comports with international standards and that the GOT implements all provisions in the law. The GOT should also improve its cross-border cash declaration regime. Tanzania should examine vulnerabilities that it has not yet addressed, in particular the inherent vulnerabilities of alternative remittance systems and trade, and any additional weaknesses posed by less-regulated Zanzibar.

Thailand

Thailand is a centrally located, developed Southeast Asian country surrounded by economically less vibrant neighbors along an extremely porous border. Thailand is vulnerable to money laundering from its own underground economy as well as many categories of cross-border crime, including illicit narcotics and other contraband smuggling. The Thai black market includes a wide range of pirated and smuggled goods, from counterfeit medicines to luxury automobiles. Money launderers and traffickers use banks, as well as nonbank financial institutions and businesses to move the profits of narcotics trafficking and other criminal enterprises. The amount of opium and heroin produced in the Golden Triangle region of Burma, Laos and Thailand has decreased over the past decade as enforcement has escalated and drug traffickers have shifted to importing and distributing methamphetamine tablets as the main drug of choice for domestic Thai consumption. Thailand is a significant destination and source country for international migrant smuggling and trafficking in persons, a production and distribution center for counterfeit consumer goods and, increasingly, a center for the production and sale of fraudulent travel documents. Illegal gambling, underground lotteries, and prostitution are all problems. Underground finance and remittance systems are used to launder illicit proceeds.

Thailand's anti-money laundering legislation, the 1999 Anti-Money Laundering Act (AMLA) and subsequent amendments, criminalize money laundering for the following nine offenses: narcotics trafficking, trafficking in women or children for sexual purposes, fraud, financial institution fraud, public corruption, customs evasion and extortion, public fraud and blackmail, terrorist activity, and illegal gambling. It also criminalizes organizing, without prior permission, otherwise licit gambling activities that include more than 100 players, or involve money in excess of bt10 million (approximately \$287,000). In 2003, a Royal Thai Government (RTG) decree under constitutional

authority established terrorism as a criminal offense, and in April 2004, the parliament endorsed that decree as a legal act.

Despite the inclusion of a new predicate offense, 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.

In November 2007, the National Legislative Assembly (NLA) of the then military government (October 2006—January 2008) approved an amendment that gave law enforcement officers power to tackle seven additional offenses by freezing assets of organizations or individuals suspected of gaining from abuse of natural resources, foreign exchange, share sales, gambling, arms sales, fraudulent bidding on state projects and excise tax fraud. Although a positive step, the list remains deficient under international standards as it excludes, among other crimes, migrant smuggling, counterfeiting, and intellectual property rights offenses.

The AMLA also created the Anti-Money Laundering Office (AMLO), which among other functions serves as Thailand’s financial intelligence unit (FIU). AMLO 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 and following criticisms that AMLO had been politicized, AMLO was designated as an independent agency under the Minister of Justice. As mandated by the AMLA, AMLO analyzes reports of suspicious and large transactions and is responsible for investigating money laundering cases for civil forfeiture, as well as for the custody and disposal of seized and forfeited property. In addition, AMLO is also tasked with providing training to the public and private sectors concerning the AMLA. AMLO has received 47,216 suspicious transaction reports and has disseminated 148 reports within AMLO and to other agencies.

Under the amendments to the AMLA promulgated in February 2008, an anti-money laundering fund was created to help implement supporting activities and enhance cooperation with other domestic and international jurisdictions. The AMLA also established the Anti-Money Laundering Board, comprised of ministerial-level officials and agency heads. This body serves as a periodic advisory board meeting to set national policy on money laundering issues, to propose relevant ministerial regulations, and to monitor and evaluate enforcement of the AMLA. The law also created the transaction committee, to which the AML board appoints individuals from the following independent entities: the judiciary, the court of justice, the auditor general, the national human rights committee, and the attorney committee. A chairman of the committee is elected among the designated committee members while the Secretary General of AMLO serves as the committee secretary. The committee operates within AMLO to review and approve disclosure requests to financial institutions and government related agencies, as well as asset restraint and seizure requests. Under the amended AMLA, the committee has the power to arrest individuals who commit a predicate offense in order to record his/her statement as preliminary evidence before transferring the person to a police investigator. This must be done within 24 hours. The amended AMLA also gives the committee authority to watchdog the independence and neutrality of the AMLO.

AMLO, the Bank of Thailand (BOT), the Securities and Exchange Commission and the Department of Special Investigation are responsible for investigating financial crimes. During 2007, AMLO prosecuted 83 civil asset forfeiture cases and seized financial assets in the amount of Bt 134.4 million (approximately \$3.9 million). The Ministry of Justice houses the Department of Special Investigations (DSI), a criminal Investigative agency separate from the Royal Thai Police (RTP). DSI has responsibility for investigating money laundering (as distinct from civil asset forfeiture actions carried

out by AMLO), and for many of the money laundering predicates defined by the AMLA, including terrorism. The DSI, AMLO, and the RTP all have authority to identify, freeze, and/or forfeit terrorist finance related assets. However, the RTP's skills with regard to white-collar crime of all descriptions remains very low, while DSI has yet to measure up to its mandate and remains in need of considerable capacity building.

AMLO shares information with other Thai law enforcement agencies. For example, it has a memorandum of understanding with Royal Thai Customs which requires the agency to share information and evidence of smuggling and customs evasion involving goods or cash that exceed Bt 1 million (approximately \$29,000).

The AMLA requires customer identification, record keeping, and the reporting of large and suspicious transactions, as well as providing for the civil forfeiture of property involved in a money laundering offenses. Under the requirement, financial institutions are required to keep customer identification and specific transaction records for a period of five years from the date an account was closed, or from the date a final transaction occurred, whichever is longer. Individuals and institutions cooperating with law enforcement entities can be protected from liability. In October 2008, the cabinet proposed to the parliament that the range of businesses which have to follow the reporting/identification requirements be broadened to include jewelry and gold shops, automobiles, rental/purchase of businesses or car dealers, real-estate agents/brokers, and antiques shops. In August 2008, the Bank of Thailand re-issued notification to financial institutions (Thai and foreign commercial banks, finance companies and asset management companies) to adopt "know your customer" (KYC) and customer due diligence (CDD) procedures in order to be in line with international best practices under the FATF recommendations on anti-money laundering and combating the financing of terrorism (AML/CTF). While there is no immediate penalty for noncompliance, the Thai central bank takes note of those institutions that do not comply when making decisions regarding them.

Thailand does not have stand-alone secrecy laws. However, the new Consolidated Financial Act in 2008 has a provision providing for bank secrecy to prevent disclosure of client financial information. The new act includes some exceptions, including investigation by a financial regulator and any memorandum for understanding committed with other domestic and overseas regulatory agencies on financial institutions or financial transaction. Therefore, financial institutions must disclose their client and ownership information to AMLO upon demand.

The Bank of Thailand, Securities and Exchange Commission (SEC), and AMLO are empowered to supervise and examine financial Institutions for compliance with anti-money laundering/counterterrorist financial laws and regulations. In an effort to eliminate impediments on the power to examine the financial transactions of private individuals, the BOT has amended existing financial laws by introducing the new Financial Institutions Business Act (FIBA) which combines two financial Institution acts (the commercial banking act B.E. 2505 (ad 1962) and The Act on the Undertaking of Finance Business, Securities Business and Credit Fancier Business, B.E. 2522 (ad 1979). The new FIBA became effective on August 3, 2008. The BOT has been working closely with AMLO to train officers in conducting compliance audits. Further, AMLO intends to establish on-site and off-site audit teams with assistance from the BOT. The main purpose is to provide consultation to institutions that face difficulty in complying with Thai legislation and regulation. No penalties are imposed even when mistaken practices are discovered. Such visits are also intended to help financial institutions become accustomed to the operation of these joint responsibilities of both the AMLO and the BOT.

Anti-money laundering controls are also enforced by other Royal Thai government regulatory agencies; including the Office of the Insurance Commission, an independent body under the Ministry of Finance which was created in 2007 from the old Department of Insurance under the Ministry of Commerce. Financial institutions that are required to report suspicious activities are broadly defined

by the new AMLA as any business or juristic person undertaking banking or nonbanking business, including finance and mortgage finance (“credit financier”) businesses, securities firms, insurance businesses, saving cooperative companies, and asset management companies. Land registration offices are also required to report any transaction involving property of bt5 million (approximately \$143,000) or greater, or a cash payment of bt2 million (approximately \$57,000) or greater, for the purchase of real property but only when a financial institution is not involved in the transaction.

The exchange control act of B.E. 2485 (1942), amended in 1984, states that unlimited amounts of foreign currencies may be brought into Thailand. However, the Ministry of Finance issued a regulation effective October 28, 2007 which requires any person who brings foreign currencies in excess of the equivalent of \$20,000 into or out of the country to make a declaration with Thai customs, which in turn reports to the Ministry of Finance. In July 2008, the Bank of Thailand notified all financial Institutions of their reporting obligations under the new regulation

Over the course of 2007 and 2008 the Ministry of Finance and the Bank of Thailand agreed in general to relax regulations on capital movement in order to increase flexibility for Thai businesses in managing their foreign currency needs. Pursuant to that goal any person who obtains foreign currency through the exchange of Thai baht, or by borrowing from financial institutions, can now deposit such currency in Thai financial institutions in amounts up to \$1 million for individuals and \$100 million for juristic persons. The new regulation also increases the limit for remittances in foreign currencies, up to \$1 million per year by Thai residents to overseas destinations (the limit can be up to \$5 million per year for purchasing property overseas). There is no restriction on the amount of Thai currency (baht) that may be brought into the country. A person traveling to Thailand’s bordering countries, including Vietnam, is allowed to take Thai baht with them up to bt500,000 (approximately \$14,300). To all other countries they may take up to bt50,000 (approximately \$1,430) without authorization.

Thailand is not an offshore financial center nor does it host offshore banks, shell companies, or trusts. Licenses were first granted to Thai and foreign financial institutions to establish Bangkok International Banking Facilities (BIBFs) in March 1993. However after the United Nations Drug Control Program and the World Bank listed BIBFs as potentially vulnerable to money laundering activities, the Thai government called in BIBF licenses during 2006, citing the BOT’s “one presence” policy requiring all financial institutions to upgrade their status to full banks, branches, or subsidiaries, or else exit the market. In October 2006 the last BIBF license was returned to the Bank of Thailand and currently none are operating in the country.

The stock exchange of Thailand requires securities dealers to have “know your customer” procedures, although the set does not check anti-money laundering compliance during its reviews. The Office of Insurance Commission 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 the supervision of credit cooperatives, which are required under the cooperatives act to register with the CPD. Currently 6,117 cooperatives are registered with 1,263 thrift and credit cooperatives engaged in financial business. Thrift and credit cooperatives receive deposits and provide loans to members and come under the definition of a financial institution. As with the securities and insurance sectors, no anti-money laundering compliance mechanisms are in place. Thai authorities have recognized these issues and the expressed the need to address them.

Financial institutions (such as banks, finance companies, savings cooperatives, etc.), land registration offices, and investment advisors or persons who act as solicitors for investors are required to report significant cash, property, and suspicious transactions. Reporting requirements for most financial transaction (including purchases of securities and insurance) exceeding bt2 million (approximately \$57,000), and property transactions exceeding bt5 million (approximately \$143,600), have been in place since October 2000.

Thailand acknowledges the existence of alternative remittance systems that circumvent financial institutions. There is a general provision in the AMLA that makes it a crime to transfer or receive a transfer from the proceeds of specified criminal offenses, including terrorism. Remittance and money transfer agents, including informal remittance businesses, require a license from the Ministry of Finance, which must be renewed annually. Guidelines issued by the Ministry of Finance and the BOT in 2004 provide for onsite inspections of money changers and money transfer agents by the BOT before licenses may be granted. The BOT also consults with AMLO on the applicant's possible criminal history and AML record. Both moneychangers and remittance agents are required to report suspicious financial transactions to AMLO. Licensed agents are subject to monthly transaction reporting on every transaction and are subject to a five year record maintenance requirements well as to onsite inspections. There are approximately 558 authorized moneychangers and 1,202 remittance agents in Thailand.

Money changers frequently act as illegal remittance agents. In 2004 the Bank of Thailand limited the amount money changers may sell to an individual customer at a maximum of \$5,000. Customers must present a passport or other travel document as identification. There is no limit on buying foreign currencies, nor is there an overall annual transaction volume or amount limit. For remittance agents, the BOT limits the daily maximum amount of foreign currency that may be sold to an individual customer to the equivalent of \$2,000, and requires a customer to present supporting documents indicating the reason for the transfer. There is no limit on receiving foreign currencies from persons overseas or on payment in baht to recipients in Thailand.

Money and property derived from commission of a predicate offense, from aiding or abetting the commission of a predicate offense, or derived from the sale, distribution, transfer, or returns of such money or assets may be seized under section 3 of the AMLA. AMLO, through the transaction committee, is responsible for tracing, freezing, and seizing assets. 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 cooperates with AMLO's efforts to trace funds and seize or freeze bank accounts. BOT does not have regulations that give it explicit authorization to control charitable donations, but works with AMLO to monitor these transactions under the Exchange Control Act of 1942.

In October 2007 the Thai prime minister endorsed a cabinet decision to abolish an incentive system that had gone into effect three years earlier under the "Office of Prime Minister's Regulation on Payment of Incentives and Rewards in Proceedings against Assets under the Anti-Money Laundering Act." Under this now-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. The United States and 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 United States additionally halted training and other assistance to AMLO while the rewards practice remained in place. The 2007 order contains a controversial grandfather clause which allows reward payments to continue in cases already approved before the effective termination date of the system.

Thailand is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. It has signed, but not ratified the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. The Royal Thai Government (RTG) has issued instructions to all authorities to comply with UNSCR 1267; including freezing funds or financial resources belonging to suspected terrorists and terrorist organizations listed by UN 1267 Sanctions Committee. To date, Thailand has not identified, frozen, or seized any assets linked to individuals or entities included on the UNSCR 1267 Sanctions Committees' consolidated list. However, AMLO has identified suspicious transaction reports derived from financial institutions and

has initiated cases that they believed may have involved terrorist activities using nongovernmental or nonprofit organizations as a front.

Thailand has mutual legal assistance treaties (MLATS) with 10 countries, including the United States, and is party to the regional ASEAN Mutual Legal Assistance Agreement. AMLO has Memoranda of Understanding (MOU) on money laundering cooperation with 35 other financial intelligence units. It also actively exchanges information with nations with which it has not entered into an MOU, including the United States, Singapore, and Canada. In 2008, AMLO responded to 62 requests for information from foreign FIUs. Thailand cooperates with United States and other nation's law enforcement authorities on a range of money laundering and illicit narcotics related investigations. Thailand is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body, and the Egmont Group.

During the past several years, the Royal Thai Government has shown its commitment to the adoption of AML/CTF international best practices. While many improvements have already been identified and adopted by Thai agencies, there are still important pending actions including the passage of key bills, regulations, or measures which will help augment the current AML/CTF regime in Thailand. Nonbank financial institutions and businesses such as gold shops, jewelry stores and car dealers should be subject to suspicious transaction reporting requirement without regard to a monetary threshold. The insurance and securities sectors should institute AML compliance programs. Besides onsite consultation, AMLO should also undertake audits of financial institutions to ensure compliance with requirements of AMLA and AMLO regulations. Until the RTG provides a viable mechanism for all of its financial institutions to be examined for compliance with the AMLA, Thailand's anti-money laundering regime will not fully comport with international standards. In addition, the RTG should develop and implement anti-money laundering regulations for exchange businesses and should take additional measures to address the vulnerabilities presented by alternative remittance systems. The Royal Thai Government should become a party to the UN convention against Transnational Organized and to the UN Convention against Corruption.

Trinidad and Tobago

Trinidad and Tobago (T&T) has a well-developed and modern banking sector that makes it an increasingly significant regional financial center. Currently, the country does not offer offshore banking, and the government is working to launch an international financial center. Drug-trafficking, illegal arms sales and fraud continue to be the most prevalent sources of laundered funds. The authorities consider illicit drug-trafficking to be the primary predicate offense with regard to money laundering. Criminal assets laundered in T&T are primarily derived from domestic criminal activity as well as from the activity of nationals involved in crime abroad. While there is no significant black market for smuggled goods in T&T, drug money continues to support the importation of illegal arms at a rate that is suspected to be growing. According to information from financial institutions and legal analysts, financial crimes in general are increasing, particularly those involving the use of fraudulent checks, wire transfers, and related instruments in the banking sector. T&T's financial institutions are not known to engage in currency transactions involving international drug-trafficking proceeds that significantly affect the United States. There is no indication the government itself or government officials encourage, facilitate or engage in money laundering.

Despite the increasing number of crimes and the desire to become an international financial center, the Government of Trinidad & Tobago (GOTT) has made no significant improvement to its anti-money laundering (AML) regime since late 2005, when a mutual evaluation conducted by the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body, found T&T noncompliant with most FATF Recommendations and in full compliance with only one.

There are six free trade zones (FTZs) in Trinidad and Tobago where exporting of services and manufactured products, and re-exportation of manufactured products take place. There is no evidence the FTZs are involved in money laundering schemes, and companies operating in the FTZs are required to submit tax returns quarterly and audited financial statements yearly. Companies must present proof of legitimacy and are subject to background checks prior to being allowed to operate in the FTZs.

The Proceeds of Crime Act of 2000 (POCA) defines money laundering and related crimes as serious offenses. The POCA requires financial institutions to actively report suspicious transactions and to maintain records necessary to reconstruct transactions for a number of years. Secrecy laws are limited to standard client confidentiality provisions. There are no measures for sharing of information between financial institutions due to a lack of legislation. Any existing requirements promoting correspondent banking are only applicable to those financial institutions supervised by the Central Bank of Trinidad & Tobago (CBTT). Under the POCA, any officer who aids and abets the money laundering activities of an institution can be convicted of money laundering. Additionally, the POCA protects individuals who cooperate in money laundering law enforcement investigations. The POCA also enables the courts to seize the proceeds of all serious crimes. However, for money laundering offenses, the POCA only recognizes property as being the proceeds of crime when a person has been convicted of a predicate offense. To date, only one property has been seized under the Act.

The CBTT has set AML guidelines, including due diligence provisions that apply to all financial institutions subject to the 1993 Financial Institutions Act. These include banks, finance companies, leasing corporations, merchant banks, mortgage institutions, unit trusts, financial services businesses and financial intermediaries. Credit unions are not subject to the CBTT's regulation; legislation to correct this flaw has been under consideration for several years. In 2004, the CBTT updated its guidelines, setting new minimum standards for compliance with existing regulations that incorporate the basic tenets of the FATF Forty Recommendations and the Nine Special Recommendations. However, continuing deficiencies preclude satisfactory customer due diligence in practice.

There is no indication the GOTT has adopted a risk-based approach to combating money laundering and terrorist financing at the national level. According to the CFATF, no risk assessment has been done to identify and measure vulnerability in the country. The CBTT does use a risk assessment approach with regard to its supervisory functions in evaluating individual institutions. It also has advised its supervised institutions to implement risk-based systems with regard to money laundering issues.

GOTT customs regulations require that currency or monetary instruments totaling more than approximately \$10,000 be declared upon entering or leaving the country. GOTT Customs may restrain cash for 96 hours, longer with judicial approval, pending the determination of their source. The Financial Investigations Unit (FIU), housed in the Ministry of National Security, maintains a database of these transactions and analyzes them for evidence of money laundering.

For the period of January—September 2008, GOTT officials reported 417 financial investigations stemming from 13,632 suspicious activity reports. The GOTT received 20 foreign intelligence requests and 101 requests from local institutions. Full year data is not available. Enforcement of suspicious activity reporting remains weak. Most designated institutions have never submitted a report to the authorities, either through lack of suspicious activity or lack of awareness of the requirement. In 2004, the GOTT established a Tax Fraud Investigations unit within its Inland Revenue Division to address tax evasion and nonreported or underreported income that may be derived from money laundering activities.

A 2004 investigation of fraud indicated that during the bidding for and construction of the new Piarco airport, a number of individuals may have committed wire fraud and bank fraud from 1996 to 2001. As a result, in August 2006, two Trinidadian businessmen, other businessmen and two Trinidadian

companies were indicted by a U.S. grand jury for a money laundering conspiracy. At year end 2008, the courts continue to hear this case and related corruption charges against others.

The GOTT has a number of pieces of legislation in place that allows it to trace, freeze, and seize assets, including intangible assets such as bank accounts. Authorities also may seize legitimate businesses if they are used to launder drug money. However, the GOTT can only restrain assets through due process at the level of the High Court—it cannot freeze assets “without undue delay,” or on a police investigation warrant. The law only allows for forfeiture of assets in criminal cases, not in civil cases. The GOTT does not have legislation that specifically authorizes the sharing of forfeited assets with other countries, but has done so in the past on a case-by-case basis through bilateral agreements. In 2008, no assets were restrained or confiscated by the High Courts.

Legal loopholes exist that allow traffickers and supporters or financiers of terrorists or terrorist organizations to shield their assets. These include the absence of regulations to prohibit the establishment of shell banks, the ability of attorneys to operate accounts in their clients’ names, the absence of suspicious transaction reporting requirements for attorneys and accountants, and legal rules that prevent courts from confiscating assets received after a defendant’s sentencing.

The GOTT enacted its Anti-Terrorism Act in September 2005. The GOTT is developing regulations to implement this act, specifically with regard to monitoring financial activities, including alternative remittance systems or donations to suspect organizations. The GOTT has circulated to its financial institutions the names of individuals and entities linked to Usama Bin Laden, al-Qaida, or the Taliban included on the UN 1267 Sanctions Committee’s consolidated list. The GOTT has also circulated the United States’ list of Specially Designated Global Terrorists and other similar EU lists. There has not yet been any identified evidence of terrorist financing in T&T.

In 1999, a Mutual Legal Assistance Treaty (MLAT) with the United States entered into force, and in 2000, the United States and GOTT signed a joint statement on law enforcement cooperation. This statement pledges, in part, to expand cooperation on the detection and prosecution of money laundering and related criminal activities. While there is no institutionalized procedure in place with the USG for the exchange of crime and terrorism-related information, the GOTT has cooperated regularly with the USG and other governments’ law enforcement agencies on issues involving illegal drug-trafficking, terrorism, terrorist financing and other crime investigations.

Trinidad and Tobago is a party to the 1988 UN Drug Convention, the UN Convention against Corruption, and the UN Convention against Transnational Organized Crime. It has not yet signed the UN Convention for the Suppression of the Financing of Terrorism, although this convention is referenced in the Anti-Terrorism Act. Trinidad and Tobago is a member of the CFATF, which is headquartered in Port of Spain. Trinidad and Tobago 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 major concern in Trinidad and Tobago is a lack of comprehensive anti-money laundering/counterterrorist financing (AML/CTF) legislation, including necessary enforcement regulations. The existing laws are not in accordance with international standards and are ineffective in that there have been no AML convictions in six years. Currently, there are three proposed pieces of legislation, the POCA Amendment, the FIU Act, and the Financial Obligations Regulations, that should address many of the FATF Recommendations. Nevertheless, due to T&T’s legislation process, no significant advance in passing and implementing these laws was realized in 2008. T&T should enact the pending legislation and amend existing legislation, as necessary to bring it in line with international standards. In addition, the Government of Trinidad and Tobago should take steps to address the insufficiency of customer due diligence practices. The GOTT should ensure a comprehensive AML/CTF framework compliant with FATF Recommendations is in place before

launching its proposed international financial center. Trinidad and Tobago should move expeditiously to become a party to the UN Convention for the Suppression of the Financing of Terrorism

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 is only one source of the total funds laundered in Turkey. Other significant sources of laundered funds include invoice fraud and tax evasion, and to a lesser extent, smuggling, counterfeit goods, forgery, robbery, and kidnapping. Terrorist financing and terrorist organizations with suspected involvement in narcotics-trafficking and other illicit activities are also present in Turkey. Money laundering takes place in banks, nonbank financial institutions, and the underground economy. Informed observers estimate as much as 40 to 50 percent of the economic activity is derived from unregistered businesses. Money laundering methods in Turkey include: the large-scale 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. 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.

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. In October 2008, as a measure against the global liquidity crunch, the Government submitted a draft bill to the Parliament seeking to encourage the transfer back to Turkey of funds held in off-shore accounts as of October 1, 2008. There has been some concern that this legislation will result in the relaxation of some anti money laundering and counterterrorist financing (AML/CTF) measures, however, GOT officials say this proposal will provide a one-time amnesty for a limited period only for tax evasion and export invoice fraud, but no other offenses.

Alternative remittance systems are illegal in Turkey, and only banks and authorized money transfer companies are permitted to transfer funds. Trade-based money laundering, fraud, and underground value transfer systems also are 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.

Turkey first criminalizes money laundering through the Law on Prevention of Money Laundering (Law 4208 of November 19, 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, plus asset forfeiture provisions. The Council of Ministers subsequently passed a set of regulations that require the filing of suspicious transaction reports (STRs), know-your-customer (KYC) provisions, and bank maintenance of transaction records for five years.

Prior to the enactment of a new Criminal Code (Law 5237 of June 1, 2005), Turkey's anti-money laundering (AML) law contained a list of specific predicate offenses. The present code defines money laundering predicate offenses as all offenses for which the punishment is imprisonment for one year or more. In 2006, the GOT enacted additional anti-money laundering legislation, the Prevention of Laundering Proceeds of Crime Law of October 18, 2006 (Law 5549), a new criminal law, and a new criminal procedures law.

Under a 2007 Ministry of Finance (MOF) banking regulation circular, all banks and regulated financial institutions, 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 checking accounts, or cashing checks. The circular also requires exchange offices to sign contracts with their clients. The MOF 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. According to Article 5 of the anti-money laundering law, 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 privacy protection. Despite the increase in information collected for new accounts and transactions, customer due diligence (CDD) and other preventive measures have not yet been fully implemented, and Turkey has not adopted a risk-based regulatory approach. 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 the 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.

Turkey does not have foreign exchange restrictions. With limited exceptions, banks and special finance institutions must inform authorities within 30 days about transfers abroad exceeding \$50,000 (approximately 77,500 new Turkish liras) or its equivalent in foreign currency notes (including transfers from foreign exchange deposits). Travelers may take up to \$5,000 (approximately 7,750 new Turkish liras) or its equivalent in foreign currency notes out of the country. Turkey does have cross-border currency reporting requirements, and the law gives Customs officials the authority to sequester valuables of travelers who make false or misleading declarations and impose fines for such declarations.

MASAK was established as part of the MOF by the 1996 AML law and became operational in 1997. As Turkey's Financial Intelligence Unit (FIU), MASAK receives, analyzes, and refers STRs for investigation. MASAK has three functions: regulatory, financial intelligence, and investigative. MASAK plays a pivotal role between the financial and law enforcement communities.

The laws explicitly provide safe harbor protection to the filers of STRs. The laws also cover a range of entities subject to reporting requirements, to include several designated nonfinancial 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, most STRs continue to be submitted by banks.

The number of STRs filed has been relatively low, even taking into consideration the fact that many commercial transactions are conducted in cash. In 2007, 2,946 STRs were filed, of which 144 were linked to terrorist financing activities. Submissions in 2007 were more than double the 1,140 filed in 2006. The safe harbor provision is one reason for this increase. In 2005 and 2004, the levels of STR filings were 352 and 288, respectively. Despite the increase in filings of STRs, these numbers still represent a very low level of overall reporting, given the relatively large size and high level of development of the Turkish financial sector. STR reporting by nonbank entities is increasing but is still a small fraction of STRs. In 2007, there were 40 STRs from brokerage houses and three STRs from insurance companies.

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 representatives of MASAK, the MOF, the Capital Markets Board, and the Central Bank. The aim of this council is to improve coordination among the agencies to combat financial crimes and support the work of MASAK. MASAK is working on improving its automation to be able to access banks' and other financial institutions' data bases, in order to accelerate the review process and to enable it to refer cases more quickly to prosecutors.

The law gives MASAK the authority to instruct a number of inspection bodies (such as bank examiners, financial inspectors, or 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 January 2007, a regulation on money laundering crime was enacted enhancing MASAK's authority to combat these crimes. In 2007, MASAK increased its efforts to train specialists in law enforcement units and judicial authorities on money-laundering and terrorist financing, with a goal to increase the number of money laundering and terrorist financing of prosecutions.

According to MASAK statistics, as of December 31, 2007 it had pursued 2,274 money laundering investigations since its 1996 inception. Between 2003 and 2007, there were 1,424 money laundering files, of which 338 were referred for further investigation with evidence of predicate offense, but only ten cases resulted in convictions. Moreover, all of the convictions are reportedly under appeal. There is a lack of specialization and understanding of AML/CTF provisions among relevant authorities, which has contributed to the high number of acquittals in money laundering cases. As of December 31, 2007, 47.4 percent of the cases referred to prosecutors were narcotics related. In 2007, the GOT opened 22 money laundering cases, of which five resulted in a conviction.

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, but not administrative, forfeiture. Article 7 of the AML 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) after conviction. The law allows for the confiscation of the instrumentalities of money laundering and the equivalent value of direct proceeds that could not be seized. In addition to the AML law, Articles 54 and 55 of the Criminal Code provide for post-conviction seizure and confiscation of the proceeds of crimes. The defendant, however, must own the property subject to forfeiture. Legitimate businesses can be seized if used to launder drug money or support terrorist activity, or are related to other criminal proceeds. Property or its value that is confiscated is transferred to the Treasury.

The GOT enforces existing drug-related asset seizure 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 AML 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 Prosecutor's 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 shared seized assets in one narcotics case.

Financing of terrorism is criminalized for the first time in July 2006 by Law 5532, which amends the existing Anti-Terror Law (3713). Law 5549 includes significant provisions to prevent money laundering and terrorist financing. However, deficiencies in the scope and detail of the terrorist

financing offense are noted in the 2007 FATF evaluation. Specifically, the law's coverage currently is limited to acts committed by members of organizations against the Turkish Republic by force and violence using terror, intimidation, oppression or threat. This means the collection, donation and movement of funds by terrorist organizations would not be prohibited if the funds could not be linked to a specific domestic terrorist act. Because the law also does not include a requirement for reporting suspicious transactions related to terrorist financing, the GOT issued a General Communiqué of Suspicious Transaction Reporting Regarding Terrorist Financing, which entered into force in November 2007. Turkey issued additional regulations to combat terrorist financing in January 2008, within the context of the money laundering legislation adopted in 2006. The regulation entered into force in April 2008.

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 laws exist with provisions that can be used to punish the financing of terrorism. These 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 uses or threatens violence to influence public services; media; proceedings of bids, concessions, and licenses; or to gain votes.

Although 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, Turkey has not taken sufficient steps to implement 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 regarding 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 it regulates. It also requires 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.

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. A series of appeals and conflicting rulings by various courts prolonged the application of these provisions until 2007, but eventually the courts upheld the first application of the freezing authority. The assets of two listed individuals continue to be frozen under the 1267 designations. Changes in 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. According to MASAK statistics, no assets linked to terrorist organizations or terrorist activities were frozen in 2007.

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 FATF. Since 1998, MASAK has been a member of the Egmont Group. Turkey is a party to the 1988 UN Drug Convention, the UN Convention for Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

While AML legislation has been strengthened and expanded from what previously existed, many provisions have not been tested, prosecution and convictions remain low, and penalties for money laundering offenses remain insufficient. Moreover, there appears to be an over-reliance on STRs to initiate money laundering investigations. To better investigate and prosecute such cases, law enforcement and judicial authorities should enhance their capacity on AML/CTF issues. Law enforcement and Customs authorities should be able to follow 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 ask for expert help from the Turkish National Police or prosecution offices to fulfill its mandate to investigate promptly preliminary indications of money laundering. The GOT also should regulate and investigate remittance networks to thwart their potential misuse by terrorist organizations or their supporters. The GOT should fully implement the provisions of UNSCRs 1267 and 1373, and should consider expanding its narrow legal definition of terrorism. The GOT must 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. The GOT should improve supervision and regulation of DNFBPs covered by the 2006 legislation.

Turks and Caicos

The Turks and Caicos Islands (TCI) is an overseas territory of the United Kingdom (UK) comprised of over 40 different islands and forms the southeastern end of the Bahamas archipelago. The country's geographic location has made it a transshipment point for narcotics traffickers. The TCI is vulnerable to money laundering due to its significant offshore financial services sector, drug trafficking and notable deficiencies in its anti-money laundering and counterterrorist financing regime. Perceptions of public corruption continue. Based upon a recommendation of the UK Overseas Territories Report, TCI established a commission of inquiry in July 2008 to probe public corruption by TCI's past and present members of the House of Assembly. In addition, the UK is sending two administrators to provide direction and management of all government funds in the territory.

The TCI's well developed financial and designated nonfinancial sectors are comprised of approximately eight banks; seven money remitters, one casino, 67 real estate agents, ten jewelers, 35 lawyers, 26 accountants, 41 corporate service providers, 19 professional trustees, and 2,500 insurance companies. As of July 2007, 14,746 "exempt companies" or International Business Companies (IBCs) were of record with the Companies Registry. IBCs are permitted to issue bearer shares. 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. IBCs are required to keep a register of its members and to file a list of members and the shares held by each member with the Companies Register annually. 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. As such, TCI remains something of a "tax haven" for foreign criminals seeking to evade domestic tax reporting requirements.

The Financial Services Commission (FSC) licenses and supervises banks, money transmitters, mutual funds and funds administrators, investment dealers, trust companies, insurance companies and agents,

and company service providers. It also licenses IBCs and acts as the Company Registry for the TCI. The FSC conducts on-site and off-site examinations to determine compliance with TCI laws and regulations and has the ability to issue sanctions for noncompliance. The FSC subscribes to a risk based approach, and regulations and guidelines require financial institutions to adopt a risk based approach to their internal controls and procedures. 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 preserved under the Financial Services Commission Ordinance 2007. It reports directly to the Governor, as well as to the Minister of Finance.

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 also establishes a Money Laundering Reporting Authority (MLRA) to receive, analyze and disseminate financial disclosures such as suspicious activity reports (SARs). The Proceeds of Crime Ordinance 2007 (POCO) consolidates pre-existing provisions and updates legislation related to money laundering. The POCO criminalizes money laundering; provides for the confiscation of the proceeds of crime; permits civil forfeiture; enhances the powers of the MLRA; requires financial institutions to report suspicious activity to the MLRA; and gives the Supreme Court the power to make a number of orders to assist the police in money laundering investigations.

Chaired by the Attorney General, the MLRA is also comprised of the Collector of Customs, the Managing Director of the FSC and the Head of the Financial Crimes Unit (FCU), the Commissioner of Police, and the Superintendent of the Criminal Investigation Department. The Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police is the designated financial intelligence unit (FIU) of the Turks and Caicos and as such manages the responsibilities of the MLRA. The FCU is comprised of five officers. In addition to receiving, analyzing, and investigating SARs, the FCU is also responsible for investigating large cash seizures, local drug traffickers and other serious financial crimes. For 2007, the FCU received 25 SARs (no statistics were available for 2008). The FCU is authorized to disclose information it receives to domestic law enforcement and foreign governments and does not require a memorandum of understanding (MOU) in order to exchange information. The FCI should have more operational independence, provide more guidance and feedback to financial institutions, and release periodic reports on its statistics.

The POCO, the Anti-Money Laundering Regulations (AMLR) (revisions) 2007 and the Anti-Money Laundering and Prevention of Terrorist Financing Code (the Code) 2007 impose obligations on the regulated financial sector to put in place and implement procedures to prevent money laundering. The AMLR place additional requirements on the financial sector such as identification of customers, mandates retention of records, training of staff on money laundering prevention and detection, and development of internal procedures to ensure proper reporting of suspicious transactions. The POCO and the AMLR also apply and impose obligations on certain other relevant businesses specified in the AMLR including dealers in high value goods, dealers in precious metals and stones, real estate agents, casinos, accountant and lawyers. The Code, as guidance, applies to regulated entities licensed and regulated by the FSC and to designated nonfinancial businesses and professions. The Money Transmitters Services Bill was introduced to Parliament and is expected to be passed in 2009. This legislation will fully bring money transmitters under the TCI’s anti-money laundering (AML) and counterterrorist financing (CTF) regime.

The AMLR prohibits regulated financial institutions from having a correspondent relationship with shell banks. The Code covers customer due diligence (CDD) requirements and requires financial institutions to pay attention to unusual and large transactions. However, the requirement to conduct CDD on customers carrying out occasional wire transfers is not covered by the AMLR and the Code. Furthermore, the AMLR does not address enhanced due diligence, as there is no requirement to take additional steps in high risk scenarios such as transactions involving politically exposed persons. The Code stipulates that records must be kept for five years; however, requirements to maintain adequate

records are not clearly specified in enforceable legislation and regulations. Therefore, record retention is essentially done on a voluntary basis. Anonymous accounts are permitted.

The POCO provides for criminal and civil asset forfeiture. The Court and prosecutorial authorities are able to make confiscation and forfeiture orders once a person has been convicted of an indictable offense and proven that they have benefited from criminal conduct. Civil forfeiture does not require an individual to be convicted of an offense. The POCO also provides for production and freeze orders to identify, trace, and restrain assets where a money laundering investigation has been initiated or where money laundering proceedings have begun. However, TCI has no domestic provisions for coordinating restraint and confiscation actions with other countries, and no provisions for sharing of confiscated assets, although it does cooperate informally with other countries in confiscation matters.

Travelers entering or leaving the TCI with more than \$10,000 must make a declaration to Customs officials. There is no provision for the restraint of cash by Customs Officers when a false declaration is made. An MOU between Customs and the Police (which includes the FCU) permits the exchange of seizure information.

As a UK territory, the TCI is subject to the United Kingdom Terrorism (United Nations Measure) (Overseas Territories) Order 2001, al-Qaida and Taliban (United Nations Measure) (Overseas Territories) Order 2002, and the Anti-Terrorism (Financial and Other Measures) (Overseas Territories) Order 2002. Financial institutions are required to file quarterly reports indicating whether or not they are in possession of terrorist property. AML/CTF requirements do not apply to charities and nonprofit organizations. To date, the FCU has not received any SARs related to terrorism financing.

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. However TCI should implement domestic provisions which allow for the enforcement of foreign restraining and confiscation orders, and the sharing of assets confiscated as a result of such cooperation.

The 1988 UN Drug Convention applies to the TCI by extension. The FIU became a member of the Egmont Group in 2008. 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 TCI is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body and underwent a mutual evaluation that was finalized in December 2008. The evaluation noted improvements to the TCI's AML/CTF regime, as well as significant deficiencies including the following: The TCI needs to define and make arrangements to circulate designated terrorist lists to financial institutions and provide guidance to meet necessary obligations in this regard; the Code does not address guidelines for reporting entities in relation to their obligation to freeze terrorist assets; except for trust and company service providers, there is not effective AML/CTF framework in place for designated nonfinancial businesses and professionals; there are no requirements for financial institutions to perform enhanced due diligence for higher risk categories of customer, business relationships or transactions; there are no measures in place to cover domestic, cross-border, and nonroutine wire transfers; the FCU does not produce any reports or provide information regarding their activities or trends and typologies; and the FCU has not provided guidance to financial institutions and other reporting entities regarding the reporting of STRs.

In March 2008, the United Kingdom published *The Foreign and Commonwealth Office: Managing Risk in the Overseas Territories*. In terms of AML/CTF, the Foreign and Commonwealth Office indicated that regulatory standards in most Territories are not up to those of the Crown Dependencies

of Jersey, Guernsey, and the Isle of Man) and that a lack of capacity has reduced the ability of Territories to investigate and prosecute money laundering. The report particularly noted that capacity limitations in the offshore financial sector have limited Territories' ability to investigate suspicious activity reports, and, in the case of the TCI resources are inadequate to keep up with increasingly sophisticated international standards and products in offshore financial services. The report noted that only the Cayman Islands has, so far achieved successful prosecutions of local participants for offshore money laundering offenses. There has not been any money laundering convictions in TCI since 2002.

The Government of the Turks and Caicos Islands with one of the largest and most developed offshore sectors should correct all the deficiencies noted in the CFATF mutual evaluation to be in full accordance with international standards; extend existing regulations to all sectors, bringing all obligated entities under the supervision of a regulatory body, enhance customer due diligence requirements to close existing loopholes, clearly specifying requirements to maintain adequate records in enforceable legislation and regulations, and bolster its on-site supervision program. The TCI should expand efforts to cooperate with foreign law enforcement and administrative authorities. The FCU should conduct awareness training that includes providing guidance on the procedures for reporting STRs including reporting timeframes. The TCI should work to fully develop its capacity to investigate and prosecute money laundering and terrorist financing cases. And the TCI should 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, and trafficking in persons, drugs and arms continue to be sources of laundered funds in Ukraine. As of November 1, 2008, Ukraine has 184 licensed banks, two of which are state-owned. There are no offshore financial centers or facilities under Ukraine's jurisdiction.

In January 2001, the Government of Ukraine (GOU) enacted the "Act on Banks and Banking Activities," which introduces 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 establishes the State Commission on Regulation of Financial Services Markets (SCFM), 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 noncooperating countries and territories (NCCT) in September 2001. Following substantial efforts to adopt appropriate legislation and institute an enforcement regime, FATF removed Ukraine from all monitoring in 2006. The Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body (FSRB), conducted a third-round evaluation of Ukraine in September 2008, with a report due for release in March 2009.

The Criminal Code of Ukraine has separate provisions criminalizing drug-related and nondrug-related money laundering. Amendments to the Code adopted in January 2003 include willful blindness

provisions and expand the scope of predicate crimes for money laundering to include any action punishable under the Criminal Code with imprisonment of three years or more, excluding certain specified actions.

On November 28, 2002, the President signed into law Ukrainian Law No. 249-IV, an AML package entitled “On Prevention and Counteraction of the Legalization (Laundering) of the Proceeds from Crime” (the Basic AML Law). The Basic AML Law establishes a two-tiered system of financial monitoring consisting of initial financial monitoring (i.e., obligated entities that carry out financial transactions) and state financial monitoring (i.e., government agencies charged with regulation and supervision of the financial institutions). Overall regulatory authority is vested in the SCFM, in accordance with Article 4 of the Basic AML law.

To correct deficiencies in the Basic AML Law, legislation enacted in February 2003 requires banks and other financial service providers to implement AML compliance programs, conduct due diligence to identify beneficial account owners prior to opening an account or conducting certain transactions, report suspicious transactions to the SCFM and maintain records on suspicious transactions and the people carrying them out for a period of five years. The legislation includes a “safe harbor” provision that protects reporting institutions from liability for cooperating with law enforcement agencies. 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 laws in order to bring Ukraine’s regime into compliance with FATF’s revised Forty plus Nine recommendations. The Rada, or Parliament, twice rejected the government’s draft in 2005. The government subsequently 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. The redrafted law passed in the second reading in June 2007, but was ultimately derailed by the lengthy political crisis of 2007.

In 2008, a new Parliament reintroduced the draft law, now entitled “On Amending Some Legislative Acts of Ukraine on Prevention to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing.” On September 25, 2008, Parliament adopted the draft on the first reading. The main thrust of this new draft law is to broaden the types of entities and professionals that are subject to financial monitoring. The draft law will add lawyers and law firms, real estate firms, auditors, notaries, traders in precious metals, post offices (which can make money transfers), companies running lotteries, consulting companies and some other professionals to the list of obligated entities. The law will impose an affirmative obligation to report transactions that could be used for terrorist financing. The monitoring and regulation would be performed by the SCFM, along with the Ministries of Finance, Justice, Economy, and Transportation & Communication. The draft also provides some new mechanisms for stopping certain transactions believed to be tied to money laundering. The head of the SCFM claims the draft law is consistent with the 2003 FATF Forty plus Nine Recommendations. However, the law contains provisions that, while not formally in violation of FATF recommendations, do not fully address corruption issues. For example, the provision on financial monitoring of “politically exposed persons” applies only to international/foreign political persons and not to Ukrainian officials. The American Chamber of Commerce in Ukraine also has voiced concerns about the draft to Ukrainian authorities, arguing that it would greatly increase the authority of the SCFM without protecting the rights of the institutions subject to monitoring, and impose requirements on entities that are beyond the ability of such entities to fulfill.

It is unknown whether this session of the Rada will address the above draft law. It is not yet on Parliament’s official agenda.

In 2004, authorities reduced the monetary threshold for compulsory financial monitoring from Ukrainian hryvnias (UAH) 300,000 (approximately \$40,000) for cashless payments and UAH 100,000

(approximately \$13,333) for cash payments, to UAH 80,000 (approximately \$10,666) 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 by law. Any transaction suspected of being connected to terrorist activity must be reported to the appropriate authorities immediately.

Beginning in August 2005, as a result of amendments to the “Resolution on the Adoption of Instructions Regarding Movement of Currency, Precious Metals, Payment Documents, and Other Banking Documents over the Customs Border of Ukraine,” travelers must declare cross-border transportation of cash sums exceeding \$3,000, and name the origin of funds exceeding \$10,000. Cash smuggling is substantial in Ukraine, although it is reportedly more related to unauthorized capital flight than to criminal proceeds or terrorist funding.

In 2005, the GOU sought to combat smuggling and corruption by reducing import duties, introducing new procedures for the Customs Service, and implementing transparent procedures for the privatization of state enterprises. Ukraine’s 2005 budget eliminated the tax and customs duty privileges available in 11 Special Economic Zones (SEZs) and nine Priority Development Territories (PDTs) that operated within Ukraine, which had been associated with rampant evasion of customs duties and taxes. In late 2006, the government registered with the Parliament a draft law to restore tax and customs privileges for businesses operating in the SEZs. Additionally, a new draft Tax Code, also registered in Parliament, envisages tax and customs privileges for the zones. These drafts have remained in Parliament for some time, but have not been acted upon. Although legislation implementing this policy decision has not yet passed the Parliament, the GOU asserts the draft legislation includes provisions to avoid past problems associated with the zones.

Earlier AML laws are amended by Law 3163-IV, enacted in January 2006. Under the new law, the entities obligated to conduct initial financial monitoring must be able to provide proof they are fulfilling all Know Your Customer (KYC) identification requirements. The law also grants state agencies enhanced authority to exchange information internationally, improves rules on bank organization, and implements 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.

The SCFM, Ukraine’s FIU, was established on December 10, 2001 by the Presidential Decree “Concerning the Establishment of a Financial Monitoring Department.” The SCFM became operational on June 12, 2003. At that time, the SCFM was an independent authority administratively subordinate to the Ministry of Finance and the sole agency authorized to receive and analyze financial information from financial institutions. Effective January 1, 2005, Ukraine’s Rada granted the SCFM the status of a central executive agency, subordinate to the Cabinet of Ministers rather than to the Ministry of Finance. The November 28, 2002 law “On Money Laundering Prevention,” specifically states the SCFM is to operate free from political influences. However, a draft law “On the Opposition,” which was submitted to the Parliament in early 2007, specifies that the parliamentary opposition could assign persons to certain leadership jobs in a number of state agencies, including the SCFM. Specifically, the draft law reserves the jobs of the director and two of the four deputy directors for nomination by the political opposition in the Parliament. Parliament adopted the draft in the first reading in 2007, but took no action on the draft in 2008. The law, if enacted, could free the FIU from the undue influence of one political party but could also contradict the November 2002, Law on Money Laundering Prevention by bringing the political process into play when making appointments to the affected positions. The director of the SCFM was replaced in February 2008, shortly after a new government came to power, but observers in Ukraine did not conclude that step was primarily politically motivated.

As of December 1, 2008, the SCFM has 25 local branches in Ukraine's regions. The SCFM is an administrative agency with no investigative or arrest authority. It is authorized to collect suspicious transaction reports (STRs) and analyze suspicious transactions, including those related to terrorist financing, and to transfer financial intelligence information to competent law enforcement authorities for investigation. The SCFM identifies possible cases for investigation by the Ministry of Interior, Tax Agency, State Security Agency and Prosecutor General's Office (PGO). The SCFM has processed, analyzed, and developed cases reportedly to the point of establishing the equivalent of probable cause prior to referral to law enforcement. The SCFM also has the authority to approve interagency agreements and exchange intelligence on financial transactions involving money laundering or terrorist financing with other FIUs. As of December 2008, the SCFM has signed memoranda of understanding (MOUs) with the FIUs of forty countries. It has become a regional leader with regard to the volume of case information exchanged with counterpart FIUs.

In 2007, the SCFM received 264,688 transaction reports, which include STRs and automatic threshold reports. The majority of these were submitted by banks. The SCFM designated approximately 25 percent of these for "active research" and sent 520 separate cases to law enforcement agencies. Of these cases, the SCFM referred 47 to the PGO, 169 to the State Tax Administration, 145 to the Ministry for Internal Affairs, and 159 to the State Security Service of Ukraine. As a result of subsequent investigation of these cases, law enforcement agencies initiated 271 formal criminal investigations (a 65 percent increase over the previous year), and submitted indictments in 40 of those cases (a five-fold increase). Between 2003 and 2007, 596 formal criminal investigations were opened, and indictments submitted in 60 of these cases. Convictions have been obtained in 28 of these cases. Although the reporting system is effective and the SCFM has generated a substantial number of cases, it did not lead to a significant number of convictions until 2007. From 2003-2006 there were convictions in only three cases, while in 2007, the number of cases jumped to 25.

Many observers believe the low prosecution and conviction rates are caused by reluctance at the PGO to follow up on the cases referred by the SCFM and by a lack of prosecutorial specialization. Local prosecutors may close money laundering investigations and cases prematurely or arbitrarily, possibly because of lack of sufficient manpower or resources, corruption, a weak understanding of money laundering crimes, or a belief that other types of crimes should take priority over money laundering.

Ukraine has been working with the European Commission and Council of Europe to increase its capacity to fight money laundering and terrorist financing since 2003. The ongoing Council of Europe project, which runs through April 2009, is focused on three areas: getting Ukraine's legislative framework up to international standards; enhancing the human capacities of key institutions and agencies; and developing the organizational and technical infrastructure of the system.

Ukraine has a general asset forfeiture regime, but this is largely an inappropriate and ineffective relic of Soviet-era legislation. Article 59 of the Ukrainian Criminal Code provides for the mandatory seizure of all or a part of the property of any person convicted for grave or particularly grave offenses, as defined in the code, regardless of whether this property bore any relation to the crime of conviction. With respect to money laundering, Article 209 allows for the forfeiture of criminally obtained money and other property. However, Ukraine lacks any functional regime for locating or seizing forfeitable assets. In particular, Ukraine lacks legislation allowing in rem forfeiture or the seizure of corporate assets, has no specialized asset forfeiture prosecutors or officials, and lacks any entity to administer forfeited assets. The GOU has drafted legislation aimed at improving the asset forfeiture regime and bringing it into compliance with international standards. The draft law has been completed by the Ministry of Justice, and is currently awaiting approval by the Cabinet of Ministers, for submission to Parliament.

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 provides the SCFM with unobstructed access to the databases of 12 ministries and agencies, including the Ministry of Internal Affairs, Ministry of Economy, Ministry of Finance, 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. The system became fully operational in December 2006. The SCFM leadership states it has unfettered access to all relevant information in the data bases of the aforementioned agencies.

The SCFM acknowledges the existence and use of alternative remittance systems in Ukraine, and its personnel have attended seminars and exchanged information about such systems. 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.

Law 3163-IV, which entered into force on January 1, 2006, enhances Ukraine's ability to exchange information internationally and places greater obligations on banks to combat terrorist financing. This law requires banks to adopt procedures to screen parties to all transactions using a SCFM-issued list of beneficiaries of, or parties to, terrorist financing. Banks must freeze assets for two days and immediately inform the FIU and law enforcement bodies whenever a party to a transaction appears on the list. The FIU can extend the freeze to five days. Banks developed their screening capabilities subsequent to implementation of the law. On October 25, 2006, the Cabinet of Ministers approved the SCFM's list, drawn from three sources: the United Nations 1267 Sanctions Committee's consolidated list; information from the Ukrainian Security Service on individuals and entities suspected of violating article 258 of the Ukrainian Criminal Code concerning terrorism; and the lists compiled by those countries that have bilateral agreements with Ukraine on mutual recognition of terrorist designations. On September 21, 2006, the Rada enacted revisions to Article 258 of the Criminal Code, adding Article 258-4 which explicitly criminalizes terrorist financing. The revised text mandates imprisonment from three to eight years for financing, material provision, or provision of arms with the aim of supporting terrorism. The revisions also amend the criminal procedure code to empower the State Security Service (SBU) with primary responsibility for investigating terrorist financing.

The GOU has cooperated with U.S. efforts to track and freeze the financial assets of terrorists and terrorist organizations. The NBU, the SCFM, the Securities Exchange Commission, the State Tax Administration, the SBU, and the Ministries of Finance, Internal Affairs, and Foreign Affairs are informed about the U.S. designation of suspected terrorists and terrorist organizations under Executive Order 13224 and other U.S. authorities. Through their regulatory agencies, banks and nonbank financial services also receive these U.S. designations and are instructed to report any transactions involving designated individuals or entities.

The U.S.-Ukraine Treaty on Mutual Legal Assistance in Criminal Matters was signed in 1998 and entered into force in February 2001. A bilateral Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, which provides for the exchange of information in administrative, civil, and criminal matters, is also in force.

Ukraine is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Ukraine has signed, but not yet ratified, the UN Convention against Corruption. Ukraine is a member of MONEYVAL and also an observer and technical assistance donor to the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), another FSRB. The SCFM is a member of the Egmont Group. It hosted working level meetings of the Egmont Group in Ukraine in October 2007.

Ukraine has strengthened and clarified its legislation and, with the SCFM, the NBU, and other actors in the financial and legal sectors, the Government of Ukraine has established a comprehensive AML regime. However, Ukraine's ability to implement this regime through consistent successful criminal prosecutions has yet to be proven. Ukraine should carefully review its pending draft laws to ensure they are in accordance not only with the language, but with the intent of international standards, and will not compromise the integrity of the FIU or any other supervisory bodies. Once such a review has been completed Ukraine should adopt the draft laws to bring noncovered entities within the scope of the anti-money laundering/counterterrorist financing laws. The GOU also should consider carefully the consequences of reestablishing tax and customs privileges that have been abused in the past. The GOU should take steps to improve implementation of its anti-money laundering/counterterrorist financing regime. The PGO should address the deficiencies of that office, such as a lack of specialization and limited professional experience with money laundering. Law enforcement agencies should give higher priority to investigating and prosecuting money laundering cases. Both law enforcement officers and the judiciary need a better understanding of the theoretical and practical aspects of investigating and prosecuting money laundering cases. Ukraine also should ratify the UN Convention against Corruption, and more aggressively address public corruption by investigating, prosecuting and convicting corrupt public officials.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Gulf region. Dubai, in particular, is a major international banking and trading center. Although the financial sector is modern and progressive, the UAE remains a largely cash-based society. The country also has a growing offshore financial free zone. The UAE's robust economic development, political stability, and liberal business environment have attracted a massive influx of people, goods, and capital, which may leave the country susceptible to possible money laundering activities. The UAE is 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; longstanding trade relations with Iran; its expanding trade ties with the countries of the former Soviet Union; and lagging relative transparency in its corporate environment.

The potential for money laundering is exacerbated by the large number of resident expatriates (roughly 80—85 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, and the misuse of the international gold and diamond trade.

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 counterterrorist 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 \$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 \$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 \$545 and for all non-account holder bank transactions over \$10,900. The regulation delineates the procedures to be followed for the identification of natural and juridical persons, the types of documents to be presented, and rules on what customer records must be maintained on file at the institution. Other provisions of Regulation 24/2000 call for customer records to be maintained for a minimum of five years and further require that they be periodically updated as long as the account is open. In 2008, the UAE Central Bank issued a circular instructing banks and exchange houses to obtain certain identity and transaction information for all cash exchange transactions over \$545 and outlining additional procedures for bank transfers in excess of \$953. 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. In 2008, the UAE Ministry of Justice issued two circulars instructing lawyers and federal court clerks to report to the UAE Anti-Money Laundering and Suspicious Case Unit (the financial intelligence unit) any commercial or financial agreements suspected of links to terrorism, terrorist finance or terrorist organizations.

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 states 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; the law is currently under amendment. With regard to the UAE’s UNSCR 1737 and 1747 commitments, the UAE Central Bank has ordered banks and other financial institutions to freeze accounts or deposits of designated entities. It also has 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. 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. The 2008 MENAFATF Mutual Evaluation of the UAE noted that STR reporting requirements warranted additional clarity with regard to the level of suspicion of money laundering activity needed to require filing a report with the FIU. The result was that, as of 2006, the latest year for which the Central Bank would supply figures, less than 500 STRs were filed by a relatively small number of core banks. The mutual evaluation team considered this number low for the UAE’s level of financial activity.

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 plus 9 recommendations. In August 2008, the UAE Central Bank Governor announced that the UAE had implemented 80 percent of the measures demanded by IMF.

It is unclear how many money laundering prosecutions have taken place in the UAE in 2008. However, there were two high profile money laundering cases in the UAE during the 2006/2007 timeframe and another major case in 2008. In November 2007, 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. In June 2008, the Dubai Attorney General referred a Dutch and an Arab national to the Dubai Court of Misdemeanors for allegedly laundering 60 million dirhams (approximately \$16.33 million) in drug trafficking proceeds through two front companies in Dubai. It should be noted that the investigations related to many of the high profile money laundering cases

have been carried out by the small Anti Money Laundering Unit of the Dubai Police rather than by the AMLSCU.

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 \$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 lack of transparency to law enforcement and regulators and the highly resilient nature of the system. In 2003, the Central Bank issued new regulations to help improve the oversight of hawala, including registration of hawala brokers (hawaladars). The new regulations required hawaladars to 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 April 2008, the Central Bank had registered 265 hawaladars, with an additional 104 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 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.

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 the equivalent \$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 Emirate of Ras Al Khaimah as interest spreads in the lucrative business. The UAE has been a participant in 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. Prior to January 1, 2003, the DMCC circulated a sample UAE certificate to all KP participant states and embarked on a public relations campaign to familiarize the then estimated 50 diamond traders operating in Dubai with the new KP requirements. There are more than 300 firms involved in diamond trading in Dubai. 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 that do not have the proper certificates.

In October 2008, Dubai International Airport customs officials detained an African woman who had uncut diamonds valued at over \$ 1 million concealed on her body. 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 Working Group of 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 UN Group of Experts on Cote d'Ivoire 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.

In May 2008, the UAE and Russia signed an executive plan for enforcement of the Anti-Crime Cooperation Agreement, which was inked between the two countries in September 2007. The plan called for cooperation and information exchange in the fields of counterterrorism, prevention of organized crimes, money laundering, financial crimes, crimes associated with transport, smuggling of drugs and other forms of dangerous crimes.

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 2008, with a slump later in the year due to the global economic downturn. The sector 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 supervises and regulates a total of 299 entities: 232 authorized firms, 49 ancillary services providers, 16 registered auditors and 2 markets. 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 30 suspicious transaction reports issued from firms operating in the DIFC (seven in 2008). 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 the equivalent of \$15,000), non-Authorized Service Providers, lawyers, accountants, auditors, and non-DFSA 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. In January 2008, DFSA issued a notice to authorized firms, authorized market institutions, and ancillary service providers highlighting 2007 FATF guidance on financial prohibitions with respect to Iran.

The DFSA has undertaken a campaign to reach out to other international regulatory authorities to facilitate information sharing. As of November 2008, the DFSA has MOUs with 41 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.

In September 2008, the IMF issued a 250-page report on the UAE's anti-laundering efforts. While the UAE was among the first Arab countries to enforce anti-laundering legislation, the report stated that the UAE's laws need to be amended to block loopholes, cope with changes and match international standards. The IMF also recommended the UAE increase human and material resources, given the rapid expansion in the country's free zones and an influx of foreign capital into these zones. Following publication of the report, the UAE Federal Customs Authority (FCA) acknowledged that more needs to be done to standardize customs laws and enforcement across UAE to curb money laundering and that the agency is working to comply with IMF recommendations.

The UAE 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 UAE is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF).

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 countervaluation 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. Moreover, per observations in the 2008 MENAFATF mutual evaluation of the UAE, the absence of meaningful statistics across all sectors is a significant hindrance to the assessment of the effectiveness of the AML/CTF program. 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.

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, 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 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 and debit card fraud and the purchasing of high-value assets to disguise illegally obtained money. In 2007, total card fraud losses increased by 25 percent to £535 million (approximately \$936,250,000). However, over the past three years losses on mainstream card transactions have fallen by 67 percent, due largely to the use of the chip and PIN system. Counterfeit card fraud increased overall by 46 percent to £144.3 million (approximately \$252,530,000) in 2007,

primarily due to criminals copying British cards and using them in countries which do not yet have the chip and PIN system. The main area of credit card fraud to rise in 2007 was card-not-present (CNP) fraud, which increased by 37 percent in 2007, compared to 2006. However, the number of people and retailers offering online and telephone shopping have also hugely increased in the same period.

Criminal proceeds are mostly generated in the large metropolitan areas by drug-traffickers and other domestic criminals. 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. Additionally, according to a Home Office estimate published by the Serious Organized Crime Agency (SOCA), the markets for illegal goods and services as well as criminal abuse of legitimate markets in the UK generate about £15 billion (approximately \$26,250,000,000) in revenue per annum for organized crime. 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. Traffickers make extensive use of money service businesses (MSBs), cash smuggling, and alternative remittance systems to remove cash from the UK. Because dealers in the UK generally collect cash, most traffickers are left with excess small currency, usually £10 notes. This has led to the creation of 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. Cash can be smuggled via courier, freight or post, and moved through the various points of exit from the UK. Heroin proceeds from the UK are often laundered through Dubai en route to traffickers in Pakistan and Turkey. Cocaine proceeds are frequently repatriated to South America via Jamaica and Panama.

Narcotics-related money laundering has been a criminal offense in the UK since 1986. The laundering of proceeds from other serious crimes is criminalized by subsequent legislation. The Proceeds of Crime Act 2002 (POCA) creates 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 expands 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 and requirements for internal reporting procedures and training.

The Fraud Act 2006, which took effect on 15 January 2007, brings significant changes to offenses in the fraud and forgery offense group. Changes are also made to the way in which the police record fraud offenses. In October 2008, the National Fraud Strategic Authority was launched as an Executive Agency of the Attorney General’s Office to coordinate activity across the whole economy, both the private and public sectors, in order to offer further protection of the economy against fraud.

Banks and nonbank financial institutions in the UK must report suspicious transactions. In 2001, money laundering regulations were extended to MSBs, and in September 2006, the Government of the United Kingdom (GOUK) published a review of the regulation and performance of MSBs 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, Her Majesty’s Treasury published new Money Laundering Regulations which took effect December 15, 2007. The regulations introduce a

comprehensive requirement to identify and provide an extensive definition of the beneficial owner; and introduce explicit requirements to apply enhanced due diligence, plus additional steps, when dealing with politically exposed persons. Correspondent banking relationships with shell banks are banned; and regulated firms, including designated nonfinancial businesses, are provided a legally sanctioned ‘safe harbor’ when they comply with HM Treasury approved guidance. The 2007 Regulations also give the UK Gambling Commission the power to supervise casinos, ensuring their compliance with the obligations placed on the physical and virtual casino sectors in the UK, including appropriate customer due diligence requirements.

European Union Council Regulation No. 1889/2005, known as the “Cash Controls Regulation,” became applicable in the UK on June 15, 2007. This regulation mandates a cash declaration system for every person entering or exiting the EU with cash of 10,000 euros (approximately \$13,500) or its equivalent in other currencies. The UK employs a written declaration system.

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. Individuals typically open nonresident accounts for tax advantages or for investment purposes. 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.

Bank supervision is the responsibility of the Financial Services Authority (FSA). The FSA’s primary responsibilities relate to the safety and soundness of the institutions under its jurisdiction, however, it 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, including 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. It also regulates mortgage and general insurance agencies, totaling over 30,000 institutions. The FSA administers a civil-fines regime and has prosecutorial powers. It also 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 anti-money laundering.

The Serious Organized Crime and Police Act of 2005 (SOCAP) amends the money laundering provisions in the POCA. Under the SOCAP, foreign acts are no longer considered money laundering if they do not violate the law in the foreign jurisdiction. SOCAP also creates the 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 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 received dipped from 220,484 SARs during the year ending September 30, 2007, to 210,524 during the most recent reporting period of October 2007—September 2008. During the current reporting period, 956 SARs were referred to the National Terrorist Finance Investigation Unit, as compared to 1,088 in the period ending September 2007.

The POCA enhances the efficiency of the forfeiture process and increases 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 a 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 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 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 gives greater powers of seizure at a lower standard of proof. In light of this, Her Majesty's Revenue and Customs increased its national priorities to include investigating the movement of cash through money exchange houses and identifying unlicensed money remitters. The Serious Crime Act 2007 merges the ARA's operational arm with SOCA and ARA's training function with the National Policing Improvement Authority. It also extends the powers of civil recovery to wider prosecution authorities and the powers of cash seizure to a wider range of law enforcement bodies. In its 2007/2008 annual report as of March 31, 2008, SOCA noted that 41 Financial Reporting Orders had been imposed, resulting in reports on convicted criminals' finances being received and scrutinized; omissions detected and appropriate action taken. The total value of assets recovered by all agencies in England, Wales, and Northern Ireland reached over £185 million (approximately \$296,000,000) over three years.

In an illustrative case, agencies looked into the activities of UK-based criminals who used the internet to trade stolen bank, credit card, and identity information using a website they had created. The agencies were able to identify the offenders and arrested, prosecuted, and convicted involved UK citizens. The potential loss to the UK financial sector from the actions of just one of the conspirators was estimated in excess of £6 million (approximately \$9,600,000). Another investigation targeted 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, among other countries. The UK end of the organization provided laundering services to UK drug dealers. Records seized showed that almost £15 million (approximately \$26,250,000) in cash had been passed. In September 2007, the last of eight men was sentenced. 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.

The UK's new terrorism legislation, the Counter-Terrorism Act 2008, entered into force on November 26, 2008. The new law grants the UK further authority to gather and share information for counterterrorism and other purposes, and to act against terrorist financing, money laundering, and certain other activities. The Act also amends the definition of "terrorism," and amends previous legislation relating to terrorist offences, control orders and the forfeiture of terrorist cash. Under the new law, the UK has the authority to impose measures on private sector actors that do business with non-EEA countries (1) against which the Financial Action Task Force (FATF) has applied countermeasures; (2) that HM Treasury has determined pose a money laundering or terrorist financing risk; or (3) that have developed or facilitated weapons of mass destruction that pose a risk to the UK.

As a direct result of the events of September 11, 2001, NCIS 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 MPS 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.

In the UK, HM Treasury implements UN financial sanction regimes using its powers under the relevant Order in Council, and those sanctions are enforced by the Treasury's Asset Freezing Unit. Individuals and organizations who have been listed by the UN Sanctions Committee or who are suspected of committing or facilitating terrorist acts, are listed on the sanctions page on its website. UK financial institutions are immediately alerted to changes to lists. UK banks and financial institutions are legally obliged to freeze the funds of all those individuals and organizations whose names appear on the lists.

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 GOUK reviewed regulation of the charitable sector in January 2008; the review formed the basis of a new Charities Commission strategy, including practical and regulatory changes to strengthen the safeguards against terrorist abuse of the charitable sector.

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 Convention for the Suppression of the Financing of Terrorism. The UK is a member of the Financial Action Task Force, and SOCA is a member of the Egmont Group. The UK cooperates with foreign law enforcement agencies investigating narcotics-related financial crimes. 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 U.S. Immigration and Customs Enforcement and HM Revenue and Customs.

The United Kingdom has a comprehensive anti-money laundering/counterterrorist financing (AML/CTF) regime. Authorities should continue to 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. The UK should continue its active participation in international fora and its efforts to provide assistance to jurisdictions with nascent or developing AML/CTF regimes.

Uruguay

Uruguay is a money laundering country of primary concern. While the level of domestic money laundering and related crimes is considered relatively low, Uruguay's financial system nevertheless remains vulnerable to money laundering and terrorist financing risks associated with international sources that may be involved in Uruguay's cross-border financial operations. Officials from the Uruguayan police and judiciary assess that there is a growing presence of Mexican and Colombian cartels in the Southern Cone and fear they will begin operating in earnest in Uruguay. Drug dealers are slowly starting to participate in other illicit activities like car theft and trafficking in persons, according to the police. The Government of Uruguay (GOU) acknowledges that there is also a risk of money laundering in the real estate sector and in the sports industry, and seeks to develop new regulations soon to address this emerging vulnerability.

In the past, Uruguay's strict bank secrecy laws, liberal currency exchange and capital mobility regulations, and overall economic stability made it a regional financial center (mainly for Argentine depositors) vulnerable to money laundering, though the extent and the nature of suspicious financial transactions have been unclear. In recent years, however, Uruguay has made significant efforts to expand the reach and strength of its anti-money laundering and counterterrorist financing (AML/CTF) regime, including by enacting several laws to criminalize money laundering and terrorist financing. These recent developments have led to the prosecution of 25 individuals; new legislation and

enforcement efforts also resulted in the freezing of \$1.5 million in assets, the detection of \$1.7 million in undeclared cross-border cash and other financial instrument movements, and increases in suspicious activities reports and information requests about international financial activities.

One government owned commercial bank (which has roughly half of total deposits and credits), 14 foreign-owned banks, six financial houses, six offshore banks, and 21 representative offices of foreign banks comprise Uruguay's financial sector. The six 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. 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. 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).

There are twelve free trade zones located throughout the country. While most are dedicated almost exclusively to warehousing, three host a wide variety of tenants performing a wide range of services, including financial services. Two free trade zones were created exclusively for the development of the paper and pulp industry. Some of the warehouse-style free trade zones have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay. There are nine casinos, eight of which are government owned, and 26 premises with slot machines (although media reports indicate a problem with businesses running unregistered slot machines). Four of the eight government-owned casinos are run by the state, and the other four by private sector concessions. Fiduciary companies called SAFIs (Anonymous Societies for Financial Investment) are also thought to be a convenient conduit for illegal money transactions. As of January 1, 2006, all SAFIs were 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.

Uruguay achieved several notable actions against financial crime in 2008. Parliament passed laws 18.362 and 18.390 in October 2008, which created three courts and two prosecutor's offices dedicated to prosecuting organized crime. These new offices will deal with money laundering, terrorism financing, banking fraud, tax fraud, counterfeiting, as well as drug trafficking, corruption, trafficking of weapons, child prostitution, among other crimes.

In the past several years, 25 individuals were prosecuted for money laundering; 22 were related to drugs and three to sexual exploitation. Uruguay's first arrest and prosecution for money laundering (under Law 17.835) occurred in October 2005 and resulted in the conviction of the offender. In another ongoing high-profile case, 14 people were indicted in September 2006 for a money laundering charge tied to the largest cocaine seizure in Uruguay's history; in June 2008, the kingpin was convicted. This case has significantly invigorated the GOU's efforts to fight money laundering and to push for increased reporting of suspicious activities. Other cases involving another large cocaine seizure and proceeds from trafficking in 2007 and undeclared transit of gold from Brazil in 2008 are also under investigation. There have been no reported cases or investigations related to terrorist financing.

Unlike neighboring Argentina and Brazil, tax evasion is not an offense in Uruguay, which in practice limits cooperation possibilities because the local Financial Intelligence Unit's Financial Information and Analysis Unit (UIAF) cannot share tax-related information with its counterparts. Nevertheless, the UIAF is becoming increasingly active in cooperation with counterpart financial units and judiciaries from other countries. From 2006 to 2008, the number of information requests received by the UIAF rose from 25 to 50 (mainly from Argentina and Brazil), and the number of information requests issued

by the UIAF rose from five to 16. Information requests received by the UIAF from the judiciary also rose from 10 to 26 in the same period.

In Uruguay, money laundering is treated as an autonomous criminal offense, separate from the underlying crimes, which extends, under certain circumstances, to offenses committed in other countries. Money laundering is criminalized under Law 17.343 of 2001 and Law 17.835 of 2004. The courts have the power to seize and confiscate property, products or financial instruments linked to money laundering activities. Law 17.343 identifies money laundering predicate offenses to include narcotics trafficking; corruption; terrorism; smuggling (valued more than \$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.

Four government bodies are responsible for coordinating GOU efforts to combat money laundering: (1) the UIAF, (2) the National Anti-Drug Secretariat, (3) the Coordination Commission for Anti-Money Laundering and Terrorism Financing, and (4) the National Internal Audit. Decree 245/007 (passed July 2008), transformed the Center for Training on Money Laundering (CECPLA) into the Coordination Commission for Anti-Money Laundering and Terrorism Financing. The Commission works under the National Anti-Drug Secretariat, which is the senior authority for anti-money laundering policy and is headed by the President's Deputy Chief of Staff. The Commission's board is composed of government entities involved in anti-money laundering efforts: the head of the UIAF and the Ministries of Education (via prosecutors), of the Interior (via the police force), Defense (via the Naval Prefecture), and Economy and Finance. The Director of the Commission 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 UIAF is responsible for supervising all financial institutions and the National Internal Audit Office (AIN) is responsible for overseeing all nonfinancial institutions, such as casinos and real estate firms.

The UIAF is a directorate of the Central Bank and is structured in three units: information and analysis, exchange houses, and money laundering control. GOU and private sector entities cannot refuse to provide information to the UIAF on the grounds of banking, professional or tax secrecy. Law 17.835 expands the realm of entities required to file Suspicious Activity Reports (SARs), making reporting of such suspicious financial activities a legal obligation, and conferring upon the UIAF the authority to request additional related information.

Law 18.401 (from October 2008) placed the UIAF under the Central Bank's Superintendent of Financial Services, and tasked it with several new activities that enhance its power as a mechanism to stop money laundering. While severely understaffed in the past, the UIAF achieved its goal in 2008 of establishing a staff of 19 people. Through funding from the Organization of American States (OAS), the UIAF is updating its hardware and software systems in order to receive SARs electronically, develop electronic early-alarm systems for SARs, and improve control and analysis of its lists. The project is part of the Central Bank's strategic plan and is expected to be finished this year.

The UIAF has circulated to financial institutions the list of individuals and entities included in UN 1267 Sanctions Committee and published it on its web page. It also works with lists from the Department of Treasury's Office of Foreign Assets Control (OFAC) and the European Union and is exploring options to purchase commercial databases with global blacklists. The UIAF is also working on a Politically Exposed Persons (PEPs) list that will also be published on their website.

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. Under this law, terrorist financing is a separate, autonomous offense that can be prosecuted from other terrorism-related crimes. The law, however, suffers from a narrow definition, which is limited to the financing of

terrorists or terrorist organizations where specific terrorist acts have been committed or are being planned. As a result, the law does not specifically cover the provision or collection of funds by known terrorists or terrorist organizations for purposes other than terrorist acts. Beyond criminalizing terrorist financing, Law 17.835 provides the courts with the power to seize and confiscate property, products or financial instruments linked to money laundering activities. Despite this power, the way real estate is registered complicates efforts to track money laundering in this sector, especially in the partially foreign-owned tourist sector. 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. As of November 2008, the project is at an advanced stage of implementation and its completion target date is December 2008. The UIAF is already using the loaded data for investigation purposes. In 2007, the UIAF froze assets for 72 hours in three occasions, for a total of \$1.5 million.

Under Law 17.835, all obligated entities must implement anti-money laundering policies, such as thoroughly identifying customers, recording transactions more than \$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. Law 17.835 also extended reporting requirements to all persons entering or exiting Uruguay with more than \$10,000 in cash or in monetary instruments. This measure has resulted in the detection of over \$1.7 million in about 20 undeclared cross-border movements since the declaration requirement entered into force in December 2006. The GOU imposes a fine of 30 percent on all undeclared funds. Since all movements were detected at one single customs office, and given Uruguay's porous borders, the GOU suspects that many more movements are passing undetected. Lawyers, accountants, and other nonbanking professionals that habitually carry out financial transactions or manage commercial companies on behalf of third parties are also required to identify customers whose transactions exceed \$15,000 and report suspicious activities of any amount.

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 counterterrorist financing policies. This circular mandates financial intermediaries to report conversion of foreign exchange or precious metals over \$10,000 into bank checks, deposits or other liquid instruments; conversion of foreign exchange or precious metals over \$10,000 into cash; cash withdrawals over \$10,000; and wire transfers over \$ 1,000. As of November 2008, the Central Bank's Capital Market Division is considering requesting reports of transactions with securities over \$10,000. Circular 1.978 requires these institutions to pay special attention to business with 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.

Obligated entities are mandated to know their customers on a permanent basis, keep adequate records and report suspicious activities to the UIAF. Compliance by reporting entities increased from 94 SARs in all of 2006 to 174 SARs in 2007 and 152 in the first half of 2008. SARs are largely concentrated within the financial system, with banks accounting for 70 percent of total reports and exchange houses for the remaining 30 percent. Other obligated entities, like casinos or real estate agents, have issued few SARs. Sixteen cases from SARs have been filed before the Judiciary but none have been prosecuted. The recent high profile money laundering cases have provided a boost to the money laundering issue and the Central Bank's efforts.

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 Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GOU is also a member of the OAS Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. Uruguay and the United States are parties to a mutual legal assistance treaty that entered into force in 1994. Uruguay is also a founding member of the Financial Action Task Force for South America (GAFISUD). Since early 2005, the former director of the GOU's Center for Training on Money Laundering Issues (CECPLA) has served as GAFISUD Executive Secretary, and has offered the services of Uruguay's anti-money laundering training center to GAFISUD.

Several notable developments that will strengthen Uruguay's anti-money laundering regime are expected in 2009. As of November 2008, the GOU has been working on legislation that would incorporate new money laundering predicate offenses to include prostitution, child pornography, intellectual property, trademark offenses, misappropriation, fraudulent bankruptcy, and counterfeiting of notes. Such legislation is also expected to identify new obligated entities that will be subject to Uruguay's anti-money laundering regime. New types of financial entities, including firms that provide services of leasing and custody of safety boxes, professional trust funds, professional advisors on investments, transportation of assets and wiring services, will be supervised by the UIAF. Various nonfinancial entities, including notaries, auctioneers, free zone exploiters, real estate brokers and other real estate intermediaries, will be supervised by the AIN.

The 2008 rendering of accounts (Law 18.362) granted the AIN additional funding of about \$1 million for staffing needs, but the agency would need further leverage to achieve its new tasks. Pending legislation also provides for new investigation techniques (such as undercover and collaborator agents), new witness protection systems, and new measures to facilitate and speed up the seizure of assets. The UIAF plans to submit its application for Egmont Group membership, which is being sponsored by Brazil, in 2009. The GOU will await parliamentary approval of the impending legislation before applying, since that draft legislation incorporates the possibility of exchanging information to fight terrorism financing, which had been involuntarily left out of previous provisions.

The GOU has taken significant steps over the past few years to strengthen its anti-money laundering and counterterrorist financing regime. To continue its recent progress, Uruguay should expedite the passage of pending legislation and continue its implementation and enforcement of recently enacted legislation. The GOU's UIAF should prioritize efforts to gain membership in the Egmont Group; such a step would enable it to share financial information with other FIUs globally. The GOU should exert greater vigilance in detecting undeclared and cross-border movements of cash and other monetary instruments, as well as enhanced regulating and monitoring of its real estate sector and sports industries.

Uzbekistan

Uzbekistan is not an important regional financial center and does not have a well-developed financial system. Corruption, narcotics trafficking and smuggling generate the majority of illicit proceeds. Local and regional drug-trafficking and other organized crime organizations control narcotics proceeds and proceeds from other criminal activities, such as smuggling of cash, high-value transferable assets (e.g., gold), property, or automobiles. Drug traffickers and other organized crime groups also control illicit proceeds in foreign bank accounts. Uzbekistan is home to a significant black market for smuggled goods. 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. Recent laws

and Presidential Decrees suspending Uzbekistan's anti-money laundering regime have caused concern among the international community.

Many Uzbek citizens continue to make a living by illegally shuttle-trading goods from neighboring countries and regions, including China, Turkey, 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, but, as noted above, drug dealers use the robust black market to clean their drug-related money.

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, fear of GOU seizure of assets, and lack of trust in the banking system as a whole. The Central Bank of Uzbekistan (CBU), General Prosecutor's Office (GPO), and the National Security Service (NSS) closely monitor all domestic banking transactions for tax and currency control purposes. As a result, Uzbek citizens have functioning bank accounts only if they are required to do so by law. They only deposit funds that they are legally required to deposit, and often resort to subterfuge to avoid depositing currency. In particular, banks are required to know, record, and report the identity of customers engaging in significant transactions, including the recording of large currency transactions above \$40,000. 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. The Central Bank of Uzbekistan (CBU) states that deposits from individuals have been increasing in recent years, but it is still seeking to increase consumer confidence in banks.

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), the National Security Service (NSS), 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. The law protects reporting individuals with respect to their cooperation with law enforcement entities. The GOU has reportedly not adopted laws holding individual bankers responsible if their institutions launder money.

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, banks can disclose private information to

prosecution and investigation authorities if a criminal investigation is underway. They can provide information to the courts on the basis of a written request in relation to cases currently under consideration. Tax authorities can also obtain protected banking information in cases involving the taxation of a bank's client. GOU officials noted that the secrecy law does not apply if a group is on a list of designated terrorist organizations.

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.

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 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. As of October 2008, officials stated that three of the sixteen cases are still pending. The status or disposition of the other cases is unknown. Overall, the GOU reportedly lacks a sufficient number of experienced and knowledgeable agents to investigate money laundering. Moreover, although the law has been in effect for more than five years, 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.

In 2004, Uzbekistan enacted a basic AML/CTF regime that contained a range of AML/CTF provisions, including CDD, record keeping, reporting, and the establishment of an FIU. While the AML/CTF law went into effect on January 1, 2006, important parts of the law were repealed pursuant to several presidential decrees and an additional law. In particular, provisions relating to suspicious transaction reporting, CDD, information gathering, and the FIU were suspended until 1 January 2013. In addition, pursuant to a February 2008 decree that expires on 1 April 2009, banks are prohibited from inquiring into customers' source of funds and providing customer information to any government authorities.

Specifically, the Presidential Decrees had the effect of rescinding the main legislative provisions as follows: Presidential Decree No. PP-565 of 12 January 2007 suspended the obligation of covered entities to report to the FIU information about threshold financial transactions (i.e., cash transactions above U.S. \$40,000 (approximately), and suspicious transactions), and further subjects such reports to legislation on bank secrecy. Presidential Decree No. PP-586 of 20 February 2007 suspended all AML/CTF Presidential and Cabinet of Ministers Decrees until 1 January 2013. It rescinds the various authorities provided to the FIU including the authority to establish a financial intelligence system, monitor financial and property transactions, identify money laundering and terrorist financing mechanisms and channels, share information on identified crimes with law enforcement agencies for criminal prosecution, cooperate and exchange information with foreign agencies and international organizations on AML/CTF issues based on international obligations and agreements of Uzbekistan. Presidential Decree No. PP-586 also suspends the Cabinet of Ministers Regulations on the creation of the FIU database and the reporting procedure. Law RU-94 of 27 April 2007 suspends Articles 9 and 13-16 of the main AML/CTF Law which correspond to these FIU authorities and include all of the covered entities' obligations regarding customer identification/due diligence, threshold transaction reports, suspicious transaction reports and internal control requirements. However, Article 21 on record keeping remains in place.

Separately and in addition, on 20 February 2008, the Government of Uzbekistan issued Decree No. YP-3968 that expires on 1 April 2009. This decree imposes blanket bank secrecy within the Uzbek financial system for natural persons—residents of Uzbekistan. It prohibits financial institutions from requesting background information from customers making deposits and transferring money from abroad into Uzbek banks; and further prohibits financial institutions from providing such information with respect to those customers to any governmental authorities. The express purpose of this decree—as stated in its preamble—is to reinforce people’s confidence in the banking system, reduce the volume of cash transactions that are not made through banks, and create “further incentives to attract people’s idle funds to deposits with commercial banks as a key source of investment resources for rapid development of the country’s economy.”

Together, the above actions had a marked effect: banks reported 17,000 suspicious transactions in a six-month period before the law was suspended, compared with 400 in the six months following the law’s suspension.

These executive and legislative actions led the FATF ICRG to review the AML/CTF situation in Uzbekistan. The FATF Plenary has issued two public statements (February 2008 and October 2008), expressing FATF’s concerns about Uzbekistan’s AML/CTF vulnerabilities; calling upon Uzbekistan to restore its AML/CTF regime and establish an AML/CTF regime that meets international standards; and calling on its members and urging all jurisdictions to advise their financial institutions to take the risk arising from the deficiencies in Uzbekistan’s AML/CTF regime into account for enhanced due diligence. A joint FATF-EAG High-Level/Technical Mission to Uzbekistan took place on November 24-25, 2008, which gathered information on Uzbekistan’s AML/CTF deficiencies, measures currently in place, and steps taken to address FATF’s concerns. During the course of this mission, the GOU acknowledged that it is currently relying on a tax regulatory system to partially compensate for their repealed AML/CTF provisions, but that these measures are inadequate and that an actual AML/CTF regime needs to be restored. The Uzbek authorities further acknowledged that FATF’s concerns were reasonable and committed to instituting an AML/CTF regime that meets international standards by enacting necessary legislation within 6 months that will address FATF’s concerns.

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, and authorities assess a one-percent duty on amounts in excess of this limit. Customs officers at Tashkent Airport vigorously enforce this limit and target foreign nationals for careful searches as they depart the country. Those caught in possession of more currency than they declared upon entering Uzbekistan are assessed severe fines and may face criminal charges. Residents may export up 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, Uzbekistan does not permit direct wire transfers to or from other Central Asian countries; a third country must be used.

Uzbekistan permits offices of international business companies, which are subject to the same regulations as domestic businesses, but prohibits offshore banks. Other forms of exempt or shell companies are not officially present.

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, and designates 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. 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 alternative remittance systems such as hawala, or deter 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 financial institutions track remittances. Although officially there is complete currency convertibility, in reality, authorities can significantly delay or outright refuse the conversion, and do so during such times as the annual autumn cotton harvest, when cash supplies are needed internally to support the extensive mobilization of people and machinery to collect the crop. Foreign companies complain that they must wait over six months to convert the profits from local sales into foreign currencies in order to transfer the money out of Uzbekistan.

The GOU closely monitors the activities of charitable and nonprofit entities, such as NGOs, that terrorism financiers could exploit. 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 high level of supervision of charities and other nonprofits, and the perceived threat from the Islamic Movement of Uzbekistan (IMU) and other extremist organizations, it is 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 a criminal case to decide forfeiture issues. As a practical matter, authorities conduct these proceedings as part of the criminal case. The obstacles to enacting such laws are largely rooted in the widespread corruption that exists within the country.

In 2000, Uzbekistan established a special fund to direct confiscated assets to law enforcement activities. In 2004, the Cabinet of Ministers closed the Special Fund. 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 is believed to enforce existing drug-related asset seizure and forfeiture laws enthusiastically, although there is no information regarding the total dollar value of crime related assets. 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 some efforts to integrate the country into the system of international cooperation. Uzbekistan has entered into bilateral agreements for cooperation or

exchange of information on drug related issues with the United States, Germany, Italy, Latvia, Bulgaria, Poland, China, Iran, Pakistan, the Commonwealth of Independent States (CIS), and all the countries in Central Asia. It has multilateral agreements under the framework of the CIS and the Shanghai Cooperation Organization, and under memoranda of understanding.

Uzbekistan signed an “Agreement on Narcotics Control and Law Enforcement Assistance” 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 crimes. 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. Cooperation in these areas became increasingly problematic in an atmosphere of strained U.S.-Uzbekistan bilateral relations, but there was gradual improvement in 2008.

Uzbekistan has been a member of the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), a FATF-style regional body, since 2005.

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), and the Shanghai Cooperation Organization. Uzbekistan is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and 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 decrees suspending the main provisions of the money laundering law until 2013 and the February 2008 Presidential decree providing an amnesty on deposits were major AML/CTF setbacks. The GOU should immediately rescind these decrees while continuing to refine its legislation to bring it into conformity with international standards. Additional revisions should expand the cross-border currency reporting rules to cover the transfer of monetary instruments, precious metals and stones. Regulatory and law enforcement agencies should have access to financial institution records, so that they can properly conduct compliance examinations and investigations. While the 2006 establishment of an FIU was a positive step, the repeal of the AML/CTF provisions makes it impossible for the Uzbek FIU to function effectively. Assuming restoration of Uzbekistan’s AML/CTF regime, much will depend on the FIU’s ability to become fully operational and to cooperate effectively with other GOU law enforcement and regulatory agencies in receiving and disseminating information on suspicious transactions.

Vanuatu

Vanuatu’s offshore sector is vulnerable to money laundering, as Vanuatu has historically maintained strict bank 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 (RBV) 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 (FTRAA), 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. As of July 2007, the FIU had received a total of 33 suspicious transaction reports. Vanuatu has no AML/CTF prosecutions and conviction, to date.

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 (\$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 counterterrorist 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. In June 2008, the FIU began to conduct on-site reviews of money exchanges, law firms, accounting firms, real estates companies and casinos. The onsite examination is a part of the VFIU's awareness campaign to familiarize these industries to their obligations, set forth under the FTRAA.

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 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 (\$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 March 2006, the APG conducted a mutual evaluation of Vanuatu, the results of which were reported at the APG plenary meeting in November 2006. The APG evaluation team found that Vanuatu had improved its anti-money laundering and counterterrorist financing regime since its first evaluation in 2000 by criminalizing terrorist financing, requiring a wider range of entities to report to the 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. It is further recommended that the GOV issue regulations under the FTRAA, particularly those relating to customer due diligence. The GOV was

advised to issue guidelines to financial institutions and DNFBPs, with regard to customer identification, record keeping, reporting obligations, identification of suspicious transactions and money laundering and financing of terrorism typologies.

The GOV has created the Vanuatu Financial Sector Assessment Group (VFSAG). The VFSAG is comprised of the Director-General of the Prime Minister's Office, the Director-General of Finance, the Attorney-General, the Governor and Deputy Governor of the RBV, the Commissioner of the Vanuatu Financial Services Commission (VFSC), Department of Finance and a member of the VFIU. The VFSAG have discussed the possibility of creating an additional working group that will be responsible for the implementation of recommendations and policies relating to Vanuatu's AML/CTF regime. The proposed group will be comprised of law enforcement officials, legal entities, and the VFIU.

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. Vanuatu is a party to the UN Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime and the 1988 UN Drug Convention. Vanuatu is not a party to the UN Convention against Corruption. The VFIU has a memorandum of understanding with Australia.

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. With the passage of the amendments to the FTRAA, the GOV should continue to initiate outreach to all reporting institutions regarding new CDD obligations, as well as establish legislative requirements for financial institutions to have policies and procedures to address risks arising from new or developing technologies and non-face-to-face businesses in particular internet accounts. Vanuatu should become a party to the UN Convention against Corruption.

Venezuela

Venezuela is not a regional financial center, nor does it have an offshore financial sector. The relatively small but modern banking sector, which consists of 60 banks, primarily serves the domestic market. However, Venezuela is a country of primary money laundering concern and one of the principal drug-transit countries in the Western Hemisphere. Venezuela's proximity to drug producing countries, weaknesses in its anti-money laundering regime, refusal to cooperate with the United States in mutual legal assistance matters, including 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, the embezzlement of funds from the petroleum industry and illegal currency exchange on the black market. 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. There has been an increase in money laundering due to a lack of access to foreign currency exchange and diminished investment opportunities. Transparency International's Corruption Perception Index for 2008 ranks Venezuela at 158 of 180 countries on the index.

Venezuelan law provides for the establishment of free trade ports and zones in any part of the country, as designated by the Executive. Currently, Venezuela has four free trade zones: Paraguana Peninsula, Margarita Island, Merida and Santa Elena de Uairen. Merida's free trade privileges extend solely to cultural items or scientific or technological development. The Law on Free Trade Zones designates

that the customs authority of each jurisdiction is responsible for its respective free trade zone. The Ministry of Economy and Finance is responsible for the oversight of the customs authority with regard to free trade zones. It is reported that many black market traders ship their wares through Margarita Island's free trade zone. Reportedly, some money is also laundered through the real estate market in Margarita Island. However, statistics regarding activities in the free trade zones were not available as of the time of this report.

The 2005 Organic Law against Organized Crime criminalized money laundering as an autonomous offense, punishable by a sentence of eight to 12 years in prison and a fine equivalent to the increased value obtained by the crime. 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 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. The Organic Law against Organized Crime addresses bank secrecy, requiring supervised entities to report suspicious activities. Supervised entities may not invoke bank secrecy to avoid reporting. Contravention of the law based upon the notion of bank secrecy is punishable by a fine of \$84,000 to \$126,000. The Organic Law against Organized Crime 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.

Under the Organic Law Against Organized Crime, terrorist financing is a crime against public order in Venezuela and is criminalized to the extent that if an individual finances, belongs to, acts or collaborates with armed bands or criminal groups with the purpose to wreak havoc, catastrophes, fires, explosions of mines, bombs or other explosive devices or to subvert the constitutional order and democratic institutions or gravely alter the public peace. Punishment for these activities is a prison term of ten to 15 years. Terrorist financing, however, is not adequately criminalized in accordance with the Financial Action Task Force (FATF) Nine Special Recommendations on Terrorist Financing. The law does not establish terrorist financing as a separate crime, nor does it provide adequate mechanisms for freezing assets.

In spite of the advances made with the passage of the Organic Law against Organized Crime in 2005, there is little evidence that the Government of Venezuela (GOV) has the political will to effectively enforce the legislation it has promulgated. To date, not a single case has been tried under the law. Reportedly, many, if not most, judicial and law enforcement officials remain ignorant of the Law against Organized Crime and its specific provisions, and the GOV's 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.

The Superintendent of Banks and Other Financial Institutions (SBOIF) is the entity that supervises and examines supervised financial institutions for compliance with anti-money laundering laws and regulations. The SBOIF conducts audits of supervised financial institutions, including a review of anti-money laundering compliance procedures, on a yearly cycle with the possibility of off-cycle audits on an as-needed basis.

Under the Organic Law against Organized Crime and Resolution 185.01 of the SBOIF 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, with the exception of the insurance industry and designated nonfinancial businesses and professions, 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 SBOIF in July 1997 and began operating in June 1998. The UNIF is not an autonomous entity. The UNIF has a staff of approximately 30 and has undergone multiple bureaucratic changes, with six different directors presiding over the UNIF since 2004. The UNIF receives reports on currency transactions (CTRs) exceeding approximately \$10,000 and suspicious transaction reports (STRs) from institutions regulated by the SBOIF: the National Securities and Exchange Commission, the Central Bank of Venezuela and the Bank Deposits and Protection Guarantee Fund. 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 SBOIF, such as tax collection entities and public service payroll agencies, are exempt from the reporting requirement. The SBOIF 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. SBOIF Circular 3759 of 2003 requires financial institutions that fall under the supervision of the SBOIF to report suspicious activities related to terrorist financing.

In addition to STRs and CTRs, the UNIF also receives reports on the domestic transfer of foreign currency exceeding \$10,000, the sale and purchase of foreign currency exceeding \$10,000, and summaries of cash transactions that exceed approximately \$2,100. The UNIF does not, however, receive reports on the physical 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. Article 67 of the Organic Law against Organized Crime protects individuals and institutions with regard to cooperation with law enforcement and the judicial process. However, this protection expires 15 days after the individual exits Venezuela.

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). For the six month period ending in June 2008, the UNIF received 603 STRs. In 2007, the UNIF forwarded approximately 40 percent of the STRs it received to the Attorney General's Office. The Attorney General's office subsequently opens and oversees the criminal investigation. Although the UNIF does not receive statistics from the Office of the Attorney General at this time concerning the number of prosecutions for money laundering, the UNIF is working on the implementation of a database for tracking cases referred to the Attorney General's office for investigation. The UNIF maintains several memoranda of understanding (MOUs) with Venezuelan government institutions regarding the sharing of information. In addition, the UNIF is working on updating all circulars and guidance so that the 2005 law is incorporated into its rules and regulations.

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 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 SBOIF has distributed to its supervised financial entities the list of individuals and entities that have been included on the UN 1267 sanctions committee's consolidated list. No statistics are available on the amount of assets frozen, if any.

The UNIF has been a member of the Egmont Group since 1999 and has signed bilateral information exchange agreements with counterparts worldwide. The UNIF does share information with Egmont Group members, but does not publish statistical information regarding such information sharing. Due to the unauthorized disclosure of information provided by the Financial Crimes Enforcement Network, (FinCEN, the U.S. FIU) to the UNIF, FinCEN suspended information exchange with the UNIF in January 2007. FinCEN and the UNIF are currently negotiating the terms and necessary measures that need to be taken by the UNIF to guarantee the protection of FinCEN information before information exchange will resume between the two FIUs. Once this issue is resolved, 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, and the UN Convention for the Suppression of the Financing of Terrorism. The GOV has signed, but not yet ratified, the UN Convention against Corruption. Although the GOV committed to sharing 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, no such information sharing occurred in 2008. Venezuela and the United States signed a Mutual Legal Assistance Treaty (MLAT) in 1997. Venezuela is currently undergoing a CFATF mutual evaluation, with a report to be presented at the May 2009 CFATF plenary. Its last evaluation was undertaken in 1999.

The GOV took no significant steps to expand its anti-money laundering regime in 2008. There were no prosecutions or convictions for money laundering in 2008, and this is unlikely to change in 2009. The 2005 passage of the Organic Law against Organized Crime was a step toward strengthening the GOV's abilities to fight money laundering. However, Venezuela needs to enforce the law by implementing the draft 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 adequately criminalize the financing of terrorism and establish procedures for freezing terrorist assets in order to conform to international standards. The UNIF should continue to pursue the normalization of information exchange with FinCEN, and take the necessary steps to ensure that information exchanged with other FIUs is subject to the appropriate safeguards mandated by the Egmont Group. The GOV should honor its commitment to share information with U.S. law enforcement agencies.

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 means of exchange and of stored value. Remittances are a large source of foreign exchange, exceeding annual disbursements of development assistance. Remittances from the proceeds of

narcotics in Canada and the United States are also a significant 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 50 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 for the first six months of 2008 are estimated to be approximately \$3.5 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.

Articles 250 and 251 of the Amended Penal Code criminalize money laundering. Article 251 of the Penal Code defines the offense of legalizing money or property obtained through the commission of crime, while the Article 250 defines the offense of harboring (such as acquiring, possessing, hiding or concealing etc.) or consuming (such as trading, exchanging etc.) property obtained from the commission of crime by others. Although this offence aims at punishing those who generate a black market for consuming property acquired through the commission of crime rather than those who legalize the illicit origin of such property, its guilty acts cover some forms of money-laundering prescribed under the Palermo Convention. The Counter-Narcotics Law, which took effect June 1, 2001, makes two narrow references to money laundering in relation to drug offenses: it prohibits the "legalizing" (i.e., laundering) of monies and/or property acquired by committing drug offenses (article 3.5); and, it gives the Ministry of Public Security's specialized counternarcotics agency the authority to require disclosure of financial and banking records when there is a suspected violation of the law. The Penal Code governs money laundering related offenses but no money laundering cases have been prosecuted under Article 251 to date. Similarly, while there have been many convictions under Article 250, such convictions have not involved money laundering, but instead relate to harboring property from crimes of others. Article 251 does not meet current international standards; among other

weaknesses, the law requires a very high burden of proof (essentially, a confession) to pursue AML allegations, so prosecutions are non-existent and international cooperation is extremely difficult. The GOV presented a draft revision of Article 251 to the National Assembly in October 2008, for approval sometime in 2009.

In June 2005, the 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 currently covers counterterrorist finance. A new draft article defining and criminalizing terrorism finance was presented to the National Assembly in October 2008 for approval sometime in 2009.

The SBV supervises and examines financial institutions for compliance with anti-money laundering/counterterrorist 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 aggregate daily account based transactions is VND 500 million (approximately \$31,000). Cash transaction reporting is not effective due to the absence of a suitable information technology solution to facilitate such reporting. 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 \$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 functions as the sole body to receive and process financial information required by the Decree. It has 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. In December 2008, SBV signed an information sharing agreement with Interpol's Vietnam office.

The AMLIC has 23 full time staff members, including a Director and two Deputy Directors and is working to hire more staff. The FIU is organized into three divisions: Administrative and Research, Collecting and Analyzing Information; and, Technical and Network. The FIU 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. The

AMLIC has virtually no IT capacity and a very low level of analytical ability. In spite of these drawbacks, AMLIC has begun to conduct awareness training with local financial institutions and with the public, and has its own section on the SBV website

The AMLIC has received 37 suspicious transaction reports and has referred two STRs to MPS for investigation. 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 are two cases pending prosecution in 2008. 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 2007 Vietnam became a member of the Asia/Pacific Group on Money Laundering (APG). As a member of APG, Vietnam underwent a mutual evaluation of its AML/CTF regime in November, 2008. The results of the review will be discussed at the annual APG meeting in July, 2009. The Prime Minister has also ordered the formation of an inter-agency anti-money laundering coordination committee, to be chaired by a Deputy Prime Minister.

Vietnam is a party to the UN Convention for the Suppression of the Financing of Terrorism. Reportedly, Vietnam plans to draft new legislation governing counterterrorist 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.

The GOV should promulgate all necessary regulations to implement fully the 2005 Decree on the Prevention and Combating of Money Laundering. Vietnam should also enact legislation to fully criminalize money laundering and to make terrorist financing a criminal offense, as well as including provisions to address 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 should be equipped with an electronic information reporting system to enable it to effectively collect, store and analyze financial transactions. Vietnam should continue to take those additional steps necessary to establish its anti-money laundering/counterterrorist financing regime so that it comports with international standards.

Yemen

The financial system in Yemen is not well developed and the extent of money laundering is not known. Yemen is not considered a regional financial center. Financial institutions are subject to regulations and limited monitoring by the Central Bank of Yemen (CBY). However, alternative remittance systems, such as hawala, are not subject to scrutiny and are vulnerable to money laundering and other financial abuses—including possible terrorist financing. The official banking sector is relatively small with 17 commercial banks, including four Islamic banks. Yemeni banks account for

approximately 60 percent of total banking activities. All banks are under the supervision of the CBY. Yemen has no offshore banks or shell companies.

Yemen has a large underground economy due, in part, to the profitability of the smuggling of trade goods and contraband. Khat is a recreational drug produced from the leaves of a bush grown in parts of East Africa and Arabia. 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 the North.

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 criminalizing terrorist financing nor are there obligations to report suspicious transactions associated with terrorist financing. In November 2007 the Cabinet sent a draft of more comprehensive anti-money laundering and counterterrorist financing legislation to Parliament to accommodate international standards. However, it appears unlikely the bill will be passed in the near term.

Law 35 requires banks, financial institutions, and precious metals and gems dealers to verify the identity of individuals and entities that open accounts to keep records of transactions for up to five years, and to report and file suspicious transaction reports (STRs). In addition, the law requires that reports be submitted to the Anti-Money Laundering Information Unit (AMLIU), which acts as the country's financial intelligence unit (FIU). The AMLIU reports to the Anti-Money Laundering Committee (AMLC).

The AMLC, housed within the CBY, 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 Association of Banks, and the CBY. The AMLC is authorized to issue regulations and guidelines and provide training related to combating money laundering and other financial crimes. Law 35 grants the AMLC the ability to exchange information with foreign entities that have signed a letter of understanding with Yemen; however the FIU is not autonomous since it is not granted the authority to receive information from other competent authorities without referring to AMLC or the CBY Governor.

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, and can open offices at multiple locations. Fund transfers that exceed the equivalent of \$10,000 require permission from the CBY. The CBY has not performed examination of the money exchange business for anti-money laundering and combating the finance of terrorism (AML/CTF) compliance.

The AMLIU has only a few employees. The AMLIU uses the services of field inspectors from the CBY's Banking Supervision Department for some of the FIU duties. The AMLIU has no database and is not networked to other government data systems. The CBY provides training to other members of the government to assist in elements of anti-money laundering enforcement. In September 2008, the World Bank initiated a restructuring project which will establish divisions within the AMLIU dealing with the receipt of STRs, financial investigations, database maintenance and the exchange of information. The project also aims at increasing the number of AMLIU staff to 15. The functions of the AMLIU are restricted to money laundering issues and do not cover terrorist financing.

The head of the AMLC is empowered by law to ask local judicial authorities to enforce foreign court verdicts based on reciprocity. There is no Mutual Legal Assistance Treaty (MLAT) or extradition

treaty between Yemen and the United States. The Legal Attaché's Office at the U.S. Embassy in Sana'a routinely passes requests for information and assistance to the Government of Yemen (GOY) concerning terrorist financing and other issues but seldom receives responses.

Prior to passage of the AML law, the CBY 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 the equivalent of \$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 the equivalent of \$10,000 cash without prior permission from the CBY, although this requirement is not strictly enforced. 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." However, the due diligence process is limited in most financial institutions, particularly the nonbanking ones, to customer identification. Little attention is paid to account activities or the size of the account. The existing AML law protects individuals, banks and others with respect to their cooperation with law enforcement entities. The CBY has a program to educate the public and the financial sector about the proper ways of detecting and reporting suspicious financial transactions. Since 2005, only ten STRs have been filed with the AMLIU, with a few forwarded to the Office of the Public Prosecutor for suspected money laundering. There has not been any money laundering prosecutions or convictions in Yemen.

Yemen has no cross-border cash declarations or disclosure requirements. Customs inspectors do file currency declaration forms if funds are discovered. Yemen has one free trade zone (FTZ) in the port city of Aden. Identification requirements with the FTZs 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 CBY 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 CBY. 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 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. In addition to keeping accounts under continuous supervision in coordination with the MOSAL, 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.

Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). In 2007 there was a MENAFATF mutual evaluation of Yemen. The report has not been released. The United States concluded in a recent Financial Systems Assessment Team (FSAT) report that Yemen is in the early stages of developing its ability to control money laundering and numerous factors should be considered in developing programs to deal with the cash-intensive nature of the economy, significant levels of corruption, and problems in the judicial system.

In September 2008, the Yemeni President ordered the establishment of an independent supervisory committee, chaired by the Minister of Finance, which would meet on an ad-hoc basis, to oversee the government's anti-money laundering program and eventually appoint a technical committee to carry out the recommendations of the FSAT and MENAFATF recommendations.

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 141 out of 180 countries in Transparency International's 2008 Corruption Perception Index.

The Government of Yemen should continue to develop an anti-money laundering regime that adheres to international standards. Banks and nonbank financial institutions should enhance their capacity to detect and report suspicious financial transactions to the FIU, including those related to terror finance. The AMLIU needs substantial improvement of its operational capacity to enhance its analytical capabilities and other duties. Yemen should 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. Yemen has no institutionalized coordination for terrorism matters among the different ministries and has yet to implement steps listed under the UN international terrorism protocols, to which Yemen is a party.

Zimbabwe

Zimbabwe is not a regional financial center, but continued rapid economic deterioration has led to the growth of money laundering opportunities for regime officials and well-connected elites. This situation results from official corruption and impunity; a flourishing parallel exchange market; rampant smuggling of precious minerals; widespread evasion of exchange controls; 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 investigators to investigate and enforce penalties for 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 exports and illegal trading, particularly regarding gold and diamonds.

In July 2008, the GOZ implemented a currency re-denomination program that slashed ten zeros from Zimbabwe's currency (so that Z\$10,000,000,000 became Z\$1). 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.

In October 2008, the GOZ froze the majority of electronic bank transfers by suspending the Real-Time Gross Settlement system (RTGS). Reserve Bank of Zimbabwe (RBZ) officials were trying to curb a scheme known as "burning" in which people used RTGS transfers to evade the daily cash withdrawal limit. The RTGS transfers electronically moved funds in local currency from a single account into dozens of different accounts. From these accounts, runners extract the funds as cash withdrawals up to the daily cash withdrawal limit (raised to \$500,000 Zimbabwean dollars in November 2008 (approximately \$8.25). The scheme was profitable because the scarcity of cash had driven the value of the Zimbabwean dollar high above the value of electronic funds. The RBZ justified this radical step by stating it would curb money laundering and illegal foreign currency dealings on the parallel market. In November 2008, the RBZ reversed the unpopular suspension and reinstated the RTGS, stressing the need for banks to know their customers.

In 2008, the government also amended the schedule of fines applicable to those convicted of financial crimes. The new guidelines establish only minimum penalties, allowing judges to apply whatever maximum fine they determine appropriate to the offense. This is a means of curbing the hyperinflationary effect that makes worthless nearly any fine not immediately collected.

In December 2003, the GOZ enacted the Anti-Money Laundering and Proceeds of Crime Act. This bill criminalizes money laundering and implements a six-year record keeping requirement. In 2004, the GOZ adopted the more expansive Bank Use Promotion and Suppression of Money Laundering Act (the 2004 Act) that extends the anti-money laundering law to all serious offenses. The 2004 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 2004 Act has reportedly raised human rights concerns due to the GOZ's history of selective use of the legal system against its political 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 the sources of the funds.

The 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 address politically exposed persons, mandating obliged entities 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—a nearly worthless amount at current exchange rates—for each day that a financial institution is in default of compliance.

The 2004 Act provides for the establishment of Zimbabwe's FIU, housed within the RBZ and known as the Financial Intelligence Inspectorate and Evaluation Unit (FIIE). The FIIE receives suspicious transaction reports (STRs), issues guidelines (including the Anti-Money Laundering Guidelines issued in May 2006), and enforces compliance with procedures and reporting standards for obliged entities.

In June 2007, the RBZ installed an electronic surveillance system to track all financial transactions in the banking system. The FIIIE 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. 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 \$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.

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 less to ensuring compliance than to securing the government’s access to foreign currency, targeting opponents, and tightening control over precious minerals. 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 166 of 180 countries on its 2008 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 and the UN Convention against Transnational Crime. Zimbabwe is also a party to the UN Convention against Corruption. It has not signed the UN 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 adopted at the plenary and Council of Ministers meeting in August 2007.

The GOZ leadership should work to develop and maintain transparency, prevent corruption, and 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 disagrees. Once these basic prerequisites are met, the GOZ should endeavor to develop and implement an anti-money laundering/counterterrorist 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.

