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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

APEC	Asia-Pacific Economic Cooperation
AFRICOM	U.S. Military Command for AFRICA
ARS	Alternative Remittance System
ASEAN	Association of Southeast Asian Nations
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
CICAD	Inter-American Drug Abuse Control Commission
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
EUCOM	U.S. Military for Europe
EXBS	The Export Control and Related Border Security Assistance (EXBS) Program
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FSA	FREEDOM Support Act
GCC	Gulf Cooperation Council
IBC	International Business Company
ICE	Immigration and Customs Enforcement
ICITAP	International Criminal Investigative Training Assistance Program
ILEA	International Law Enforcement Academy
IMF	International Monetary Fund
INCB	International Narcotics Control Board
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
NAS	Narcotics Affairs Section (U.S. Embassy)
NBRF	Northern Border Response Force
NIDA	National Institute of Drug Abuse
NNICC	National Narcotics Intelligence Consumers Committee

OAS	Organization of American States
OAS/CICAD	Inter-American Drug Abuse Control Commission
OFC	Offshore Financial Center
ONDCP	Office of National Drug Control Policy
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
SOUTHCOM	U.S. Military Command for the Caribbean, Central, and South America
TI	Transparency International
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
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

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 2011 INCSR, published in March 2011, covers the year January 1 to December 31, 2010 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).

Several 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 the largest amounts of 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 2011 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, 2010, consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

Afghanistan, The Bahamas, Bolivia, Burma, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, India, Jamaica, Laos, Mexico, Nicaragua, Pakistan, Panama, 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 continued support for bilateral programs in Bolivia and limited programs in Venezuela are vital to the national interests of the United States.

Major Precursor Chemical Source Countries

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

Argentina, Brazil, Canada, Chile, China, Germany, India, Mexico, the Netherlands, Singapore, South Korea, Taiwan, Thailand, the United Kingdom, and the United States.

Information is provided pursuant to section 489 of the FAA in the section entitled "Chemical Controls."

Major Money Laundering Countries

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking." FAA § 481(e)(7). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year's list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions, whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category:

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bolivia, Brazil, British Virgin Islands, 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, Iraq, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Somalia, 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

The White House

Washington

September 15, 2010

Presidential Determination No. 2010-16

Pursuant to Section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (P.L. 107-228) (FRAA), I hereby identify the following countries as major drug transit or major illicit drug producing countries: Afghanistan, The Bahamas, Bolivia, Burma, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, India, Jamaica, Laos, Mexico, Nicaragua, Pakistan, Panama, Peru, and Venezuela.

A country's presence on the Majors List is not necessarily an adverse reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e) (2) and (5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug transit or illicit drug producing countries are placed on the list is the combination of 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. Accompanying this report 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 continued support for bilateral programs in Bolivia and limited programs in Venezuela are vital to the national interests of the United States.

Afghanistan continues to be the world's largest producer of opium poppy and a major source of heroin. The United States Government recognized the Government of Afghanistan's ongoing commitment to combating narcotics and the range of initiatives undertaken in this regard under the auspices of the Government of President Karzai. A noteworthy achievement is the reduction of opium poppy cultivation from 157,000 hectares in 2008, to 131,000 hectares in 2009, a 17 percent decline.

The connections between opium production, the resulting narcotics trade, corruption, and the insurgency continue to be among the most challenging obstacles to reducing the drug threat in Afghanistan. Poppy cultivation remains largely confined to provinces in the south and west where security problems greatly impede counternarcotics efforts. Nearly all significant poppy cultivation occurs in insecure areas with active insurgent elements, although progress has been made in stabilizing these regions. Nevertheless, the country must demonstrate even greater political will and programmatic effort to combat opium trafficking and production nationwide.

Pakistan is a major transit country for opiates and hashish for markets around the world, especially for narcotics originating in Afghanistan. Pakistan also is a major transit country for precursor chemicals illegally smuggled to Afghanistan where they are used to process heroin.

Pakistan is still challenged by extremist groups who have power over parts of the Federally Administered Tribal Areas, particularly where most of Pakistan's poppy is grown. These extremist groups are also found in settled areas of the Khyber Pakhtoonkhwa Province such as its capital, Peshawar, and the Swat Valley. The Government of Pakistan is forced to divert law enforcement resources and equipment from poppy eradication efforts to contest these incursions.

The Government of Pakistan remains concerned about opium poppy cultivation in Pakistan and is working to return to poppy-free status soon. A joint U.S.-Pakistan survey in 2009 estimated that 1,779 hectares of opium poppies were under cultivation in Pakistan, approximately 130 hectares less than was under cultivation in the country the previous year.

The range of U.S.-Pakistan initiatives, which include programs to defeat the insurgency on the Pakistan-Afghanistan border and prevent terrorist safe-havens, have the spin-off effect of helping Pakistan to fortify its land borders and seacoast against drug trafficking and terrorists, support expanded regional cooperation and encourages Pakistan to return to poppy-free status. United States Government support focuses especially on upgrading the institutional capacity of Pakistan's law enforcement agencies.

Although Brazil no longer qualifies as a major transit country to the United States, narcotics control in this country which occupies such a large landmass in the hemisphere is of serious concern. Dynamic drug trafficking trends from Brazil are directed primarily at other countries, especially to and through Africa, and onward to Europe. For example, seizures of maritime vessels that departed Brazil in 2009, primarily to European destinations, recorded an unprecedented 2.2 metric tons of cocaine. With its vast terrain and shared borders with so many other countries, Brazil faces unique challenges in terms of patrolling so much illegal land, air and sea activity. Brazil is seeking to reduce its growing domestic drug use at home, especially the use of cocaine, cocaine base and crack cocaine, primarily from Bolivia; and marijuana. The United States recognizes Brazil's emergence as a forward-leaning regional leader for cooperation among neighboring states to thwart drug production, trafficking, and use. Like all hemispheric countries, it is important for Brazil to place narcotics and crime control at the top of its national security agenda to thwart these negative influences.

As Mexico and Colombia continue to apply pressure on drug traffickers, the countries of Central America are increasingly targeted for trafficking of cocaine and other drugs primarily destined for the United States. This growing problem resulted in Costa Rica, Honduras, and Nicaragua meeting the threshold for inclusion in the Majors List. Panama and Guatemala, already on the Majors List, are especially vulnerable because of their geographic location. Enhanced and effective counternarcotics measures are needed to thwart smugglers from moving illegal drugs through the seven countries on the isthmus, as well as the waters along the region's long Atlantic and Pacific coastlines between the coca producing Andes to the south and determined and flexible criminal trafficking organizations based in Mexico. United States Government support through the Central American Regional Security Initiative provides Central American countries with the opportunity to boost their rule of law institutions and promote greater regional law enforcement cooperation to counter drug trafficking and transnational organized crime.

United States and international data shows a continued strengthening of illegal drug trafficking between Latin America and East Africa, especially via Brazil and Venezuela, with a considerable portion of illegal product destined for Europe. Nigeria, a worldwide drug trafficking focal point, makes counternarcotics a top national security concern for the country, but Nigeria's efforts are often thwarted by lack of resources, institutional capability and corruption. A number of U.S. projects in Nigeria and other West African countries are aimed at building limited capacity to investigate and prosecute organized drug traffickers.

Drug traffickers continue to move significant quantities of cocaine through West Africa. For example, Gambian officials recently discovered over 2 tons of cocaine being stockpiled in the country. The crash of a Boeing 727 in Mali, which was believed to be carrying cocaine, points to new trafficking methods being used in the region. Drug trafficking remains a threat to security, good governance, and – increasingly, public health in West Africa. Many countries in the region have weak criminal justice institutions and are vulnerable to corruption. The facilitation of drug trafficking by government officials continues to be a significant challenge, especially in Guinea-Bissau. The United States is encouraged that some countries are actively investigating illegal drug traffickers. Liberia, for example, worked closely with the United States to arrest suspects and deliver them into U.S. custody to stand trial.

The assistance of international donors and organizations to West African governments to improve their counternarcotics capability is increasingly urgent. The United States fully supports all efforts to promote, preserve, and protect the stability and positive growth of countries in West Africa.

The United States continues to maintain a strong and productive law enforcement relationship with Canada. Both countries are making significant efforts to disrupt the two-way flow of drugs, bulk currency, and other contraband. Canadian criminal groups continue to produce large quantities of MDMA (ecstasy) and high-potency marijuana that is trafficked to the United States. The frequent mixing of methamphetamine and other unknown substances into pills marketed as MDMA by Canada-based criminal groups poses an emerging public health risk to the United States, as well as in Canada.

The stealth with which both natural and synthetic drugs including marijuana, MDMA, and methamphetamine are produced in Canada and trafficked to the United States, makes it extremely difficult to measure the overall impact of such transshipments from this shared border country, although U.S. law enforcement agencies record considerable seizures of these substances from Canada.

At the same time, the Drug Enforcement Administration reports that of the amount of MDMA seized in the United States, about half was traced to Canada as its country of origin in 2009.

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

Barack Obama

Memorandum of Justification for Presidential Determination of Major Illicit Drug Transit or Illicit Drug Producing Countries for FY 2011

Burma

Burma has failed demonstrably to make sufficient efforts to meet its obligations under Section 489 (a)(1) of the Foreign Assistance Act of 1961, as amended. While Burmese law enforcement have had some successes, Burma's drug enforcement authorities have not suppressed drug production and trafficking from the cease fire enclaves of certain ethnic minorities, primarily the region controlled by the United Wa State Army. The Government of Burma does not control those areas, and some Burmese Government officials are implicated in the drug trade. In addition, opium cultivation, long on the decline in most regions of Burma, has been rising in the Shan State, with minimal response from the Burmese regime. Due to these deficiencies in drug law enforcement, Burma has been unable to meet its international counternarcotics obligations.

From 2006 to 2009, opium cultivation in Burma increased from 21,500 hectares to 31,700 hectares, according to the UN Office on Drugs and Crime (UNODC). There continues to be an increase in production and transshipment of synthetic drugs, such as amphetamine-type stimulants, predominately in the Shan State and border areas controlled by ethnic minority groups. Unchallenged in their base areas, criminal gangs continue to manufacture dangerous drugs and traffic those drugs to surrounding countries.

Methamphetamine pills and, increasingly, the crystal form of methamphetamine are the most important drugs exported from Burma. Burma's illicit methamphetamine exported to Thailand has a devastating impact on drug users, and this substance is having a growing negative impact on China and the countries of Southeast Asia. Burma's lawless border regions and endemic corruption help facilitate the diversion and trafficking of precursor chemicals.

In terms of its enforcement efforts, Burma has eradicated narcotics operations of smaller groups such as the Kokang Chinese, but other more potent groups, such as the Wa, continue to operate. Burmese law enforcement seized larger quantities of methamphetamine, precursors and heroin in 2009. Burma's seizures included the largest heroin seizure (762 kg) ever made in Southeast Asia, the seizure of 13.1 million methamphetamine tablets, and more than 20 metric tons of chemical precursors. However, methamphetamine and heroin continued to flow out of Burma's ethnic minority regions to the major surrounding countries.

It has been six years since the last U.S.-Burma joint opium yield survey, previously an annual exercise. In the absence of that survey, an annual survey conducted by the United Nations Office on Drugs and Crime (UNODC) is used to track opium cultivation and production. Opium yield surveys are clearly in the interest of both sides to track the implications of policy steps taken and to gauge future action based on concrete facts rather than estimates.

The number of injecting drug users and regular consumers of methamphetamine-type stimulants in Burma is increasing, and intravenous drug users contribute to the expansion of Burma's HIV/AIDS epidemic. Burma has one of the most serious problems of illegal drug use in Asia. However, Burma's prevention and drug treatment programs suffer from inadequate resources and a lack of high-level government support.

Memorandum of Justification for Presidential Determination of Major Illicit Drug Transit or Illicit Drug Producing Countries for FY 2011

Bolivia

The United States remains committed to the bilateral dialogue designed to establish the basis for a cooperative and productive relationship going forward, and especially to agree on joint actions to be taken regarding issues of mutual interest, including counternarcotics.

We recognize that the government of Bolivia has taken some steps to combat the production and trafficking of illegal narcotics. However, during the past year Bolivia failed demonstrably to make sufficient efforts 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 (FAA).

Over the past 12 months, the United States maintained its counternarcotics support for Government of Bolivia counternarcotics efforts. While the Government of Bolivia's efforts, particularly those benefitting from U.S. support, continued to achieve some goals in interdiction and eradication, the Bolivian Government failed to diminish the production of coca leaf and cocaine products.

The United States Government estimated that, in 2009, net coca cultivation in Bolivia was approximately 35,000 hectares, nearly 9.4 percent higher than 2008 and the highest estimated level in a decade. In 2009, Bolivia eradicated 6,341 hectares of coca, about 1,100 more hectares than the previous year. These results, while significant, have not resulted in a net reduction in the cultivation of coca in Bolivia.

The United States Government estimated that Bolivia's potential cocaine hydrochloride production remained at 195 metric tons in 2009. Bolivian police seized approximately 27 metric tons of finished cocaine and coca paste in 2009, a figure slightly lower than 2008. Law enforcement in Bolivia also reported the destruction of 4,865 cocaine base labs, roughly the same number as in 2008. In 2009, the

number of cocaine hydrochloride labs destroyed increased to 16, as compared to seven in the previous year. In large part because of the Bolivian Government's January 2009 decision to expel U.S. Drug Enforcement Administration (DEA) officials from Bolivia, the United States Government is unable to verify this data. The trends track the rising prevalence of Colombian-style manufacturing methods and the increasing presence of Colombian and Mexican drug traffickers in Bolivia.

The Government of Bolivia continued its efforts to obtain counternarcotics assistance from other countries, especially Brazil. These efforts have not addressed the gap in operational support and enhanced investigative capabilities to target and dismantle drug trafficking organizations created by the government's expulsion of the DEA.

In addition, Bolivia has not implemented some of the controls outlined by the international counterdrug conventions. Strict licensing for coca growers is not enforced, illicit coca crops are not seized at the time of harvest, and illicit coca markets are not closed. The Government of Bolivia also failed to develop and execute a national drug strategy consistent with its international obligations.

The Bolivian government promotes a policy of "social control" of illicit and excess coca cultivation. The policy has diminished violence, but it has not yielded reductions in excess production. The Government of Bolivia maintained its intent to increase the amount of coca it deems licit to 20,000 hectares, in violation of its own laws and international obligations.

The total effort by the Government of Bolivia over the past 12 months falls short of its obligations to the international community as outlined in the United Nations and bilateral agreements. In accordance with Section 481(e)(4) of the FAA, the determination of having failed demonstrably does not result in the withholding of humanitarian and counternarcotics assistance. It is in the vital national interest of the United States to grant a waiver so that funding for other assistance programs may also be allowed to continue.

Memorandum of Justification for Presidential Determination of Major Illicit Drug Transit or Illicit Drug Producing Countries for FY 2010

Venezuela

Venezuela has failed demonstrably to make sufficient efforts to meet its obligations under international counternarcotics measures set forth in Section 489(a)(1) of the Foreign Assistance Act of 1961, as amended.

This determination takes into account actions taken by the Government of Venezuela during the past 12 months. Despite the opportunity for improved collaboration which could have been provided by the return of Ambassadors to Caracas and Washington, Venezuela has not responded to U.S. Government offers to work in a consistent, rigorous, and effective way towards greater cooperation on counternarcotics. Venezuela's President and Minister of Justice continue to refer to the Drug Enforcement Administration (DEA) as a drug trafficking organization. Venezuela never replied to an invitation by the Office of National Drug Control Policy extended in September 19, 2009, to send experts to the Marijuana Potency Monitoring Program in Oxford, Mississippi. In 2009, the U.S. Ambassador extended an invitation to Venezuela's National Anti-Drug Office (ONA) Director to discuss developing a mechanism for exchanging information on drug smuggling flights for Venezuelan interdiction. To date there has been no response.

Venezuela remains an important transshipment point for drugs bound for the United States and Europe and increasingly to West Africa. Corruption within the Venezuelan government and a weak and politicized judicial system contribute to the ease with which illicit drugs transit Venezuela. Trafficking through Venezuela increased from an estimated 50 metric tons of cocaine in 2004 to an estimated 143 metric tons in 2009.

While the ONA publicly reports seizures of illicit drugs, the Venezuelan government does not share the necessary data or evidence needed to verify seizures or the destruction of illicit drugs. The U.S. Coast Guard (USCG) has received permission from the Government of Venezuela to board suspect Venezuelan-flagged vessels operating in the Caribbean. Venezuelan authorities require the return of confiscated vessels, people and any contraband located during these operations. There is no exchange of information regarding drug trafficking organizations, the prosecution of the suspects or the destruction of the drugs seized.

The Venezuelan Government took some positive steps regarding counternarcotics issues during the past year, including: the July 13, 2010, deportation of three significant fugitives to the United States to stand trial for drug trafficking offenses; the purchase of aircraft, radars and patrol vessels purportedly intended for combating drug trafficking; the destruction of numerous clandestine airstrips; and the transfer of several drug traffickers to Colombia, the United States, and Europe. However, Venezuela remains a pre-eminent transit country for cocaine shipments. The Venezuelan Navy and Coast Guard did not report making any at-sea drug seizures on their own in the last 12 months. The number of illicit flights that depart Venezuela to supply drug trafficking organizations remains unchanged, indicating that the new aircraft and radars are not effectively employed.

In addition, there continue to be credible reports that the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) have established camps in Venezuela along its border with Colombia. The ability to operate freely in western Venezuela would facilitate the FARC's well-established involvement in narcotics trafficking. The Venezuelan Government merely denies the reports and has refused to investigate them further or to permit international bodies to investigate them. In light of this lack of action, questions are legitimately raised as to whether the Venezuelan Government and armed forces are tolerating this presence. Individual members of Venezuela's National Guard and Police are credibly reported to both facilitate and be directly involved in narcotics trafficking.

Venezuela's efforts fall short of its obligations to the international community as outlined in the relevant United Nations Conventions and bilateral agreements. A determination of having failed demonstrably does not affect funding for humanitarian and counternarcotics programs. A limited U.S. vital national interest waiver to Venezuela will permit funding for other programs critical to U.S. foreign policy interests.

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2010

Introduction:

Drug trafficking and transnational organized-crime pose a serious threat to citizens of all countries. For the United States, this has led to broad support for promoting security abroad as a crucial part of protecting the health and safety of American citizens at home. Today, over \$2 billion dollars (managed through the U.S. Department of State's Bureau of International Narcotics and Law Enforcement (INL)) is provided annually in U.S. foreign assistance for a range of bilateral and multilateral initiatives with partners abroad. This technical assistance and financial support is used to further drug control, law enforcement and administration of justice where transnational organized crime seeks to gain a foothold.

As President Barack Obama stated in the Administration's 2010 *National Drug Control Security Strategy*, "combating international criminal and trafficking networks requires a multidimensional strategy that safeguards citizens, breaks the financial strength of criminal and terrorist networks, disrupts illicit trafficking networks, defeats international criminal organizations, fights government corruption, strengthens the rule of law, bolsters judicial systems and improves transparency." This view is also the underlying story of the 2011 International Narcotics Control Strategy Report (INCSR).

International Frameworks:

In 1909, a handful of countries, including the United States, met in China to negotiate and sign the Shanghai Declaration, the first international convention that recognized that some drugs are dangerous and that the nations of the world must work together to regulate them. Decades international efforts culminated in the world's blue print for drug control, the 1961 UN Single Convention on Narcotic Drugs, which has been signed by nearly every country in the world. To stay ahead of agile criminal elements, the UN Convention's aim of international cooperation through implementation of comprehensive programs is reflected in numerous national policies, practical initiatives and strategies, and regional and bilateral conventions and agreements. In recent years, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, the OAS's 2010 Drug Strategy for the Hemisphere and a wide range of other regional accords have been adopted to promote the concept of a unified international front aimed at ensuring rule of law around the world. Countries understand they must continually adapt to stay ahead of criminal elements who attempt to undermine the aspirations of the community of nations.

Drug Demand Reduction:

The international community increasingly accepts that drug use is as much a public health problem as it is a public safety problem. The United States has emphasized prevention and treatment and, like many other nations, is determined to adapt the latest scientific knowledge and effective social services to help these individuals overcome their addiction. At the same time, strategies aimed at supply reduction and law enforcement control measures, at home and abroad, continue to be integral to overall national and foreign policy objectives.

During a recent trip to Mexico, U.S. Secretary of State Hillary Clinton acknowledged that the United States' "insatiable demand for illegal drugs fuels the drug trade." While the overall demand for drugs has diminished over the long term in the United States, the *National Survey on Drug Use and Health* indicates that illicit drug use increased in the United States in 2009 – with 8.7 percent of the population age 12 and older using illegal substances as compared to 8 percent in 2009. This development has prompted the Obama Administration to focus on a reinvigorated approach to prevent drug use and addiction and to make treatment available to those in need.

The International Narcotics Control Board (INCB) called on member states “to integrate drug abuse prevention into public health, health promotion and child and youth prevention programs.” Treating the drug user involves a comprehensive system of health and social services. In the United States, for example, an expanding network of drug courts with the purpose of rehabilitating non-violent drug offenders has helped many drug users to become responsible citizens. The model, which started with just one court in Miami, Florida, in 1989, has expanded to more than 2,500 such institutions that promote judicial and law enforcement collaboration with health treatment facilities and social services to meet community and offender needs. Evaluations of these courts over the years have proven that this humane approach for qualifying individuals is a more effective and cost-saving alternative to traditional incarceration.

Today, the drug-court model in the United States, Europe and elsewhere is being fostered and established all over the world. For example, multilateral assistance combined with national resources has resulted in the on-going establishment of drug court systems as an alternative to penal incarceration throughout the Western Hemisphere. For example, in reaction to an epidemic of marijuana use, Jamaica established the first drug court in the Caribbean over 20 years ago. Today, through bilateral programs fostered by such countries as the United States and Canada, and with the help of multilateral organizations such as the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) and the European Union, the drug court alternative continues to expand.

The Americas:

For more than 10 years, the OAS/CICAD Multilateral Evaluation Mechanism (MEM) has strengthened regional and sub-regional collaboration on all levels, including drug awareness and treatment approaches, information data collection, sharing and harmonizing counternarcotics and crime legislative models, extradition practices and other control measures. The MEM, unique in the world in that it deploys the expertise of independent peer reviewers from all OAS countries, has sparked hundreds of recommendations that individual countries and the CICAD Commission are taking concrete and effective measures to implement.

Implementing the MEM recommendations is an essential part of the toolkit that allows OAS countries to work as a cohesive force against the dual threats of drugs and crime. The MEM focuses on institution building, demand reduction, supply reduction, control measures and international cooperation. Notably, the MEM evaluation country reports published in 2010 prompted the independent hemispheric experts who draft the reports to make over a third of their recommendations in the area of narcotics control measures. These recommendations for action include establishing and/or refining laws and regulations to control weapons, ammunition and related material to stem the growing violence posed by illegal drugs and crime.

Partners in the Western Hemisphere also engage in cooperative relationships with the United States in the fight against drug cartels and transnational organized crime. In the face of significant public safety challenges, Mexico has taken a tough stance against powerful drug lords. Bolstered by complementary initiatives in the United States, the U.S.-Mexico Merida Initiative promotes cooperation at all levels to build Mexican institutional capacity to strike back at the cartels. The success of the bilateral partnership is urgent: law enforcement data indicates that Mexico-based drug trafficking organizations are active in more cities in the United States than any other drug trafficking organizations.

Led by President Felipe Calderon, Mexico is engaged in the arduous task of developing and implementing significant police and rule of law reform. Trafficking organizations have reacted violently, killing some 34,000 people in Mexico in the past four years, but Mexico has been firm in its commitment to regain national stability and to prevent criminal elements from weaving themselves tighter into the fabric of Mexican society. Mexican authorities dealt a major blow in January 2011 when they captured Flavio Mendez Santiago, “El Amarillo,” who directed operations for the infamous “Zetas” criminal gang in three southern Mexican states, including Oaxaca.

Support through the Merida Initiative incorporates a U.S.-Mexican prosecutor task force to dismantle Mexican cartels and a bi-national working group to augment law enforcement capacity to prosecute gun smugglers and stand up other key control measures, including the targeting of criminal money laundering. In 2009, Mexico extradited 107 fugitives to the United States.

The decade-old Plan Colombia, the bilateral counternarcotics between Colombia and the United States, has led to impressive results. Colombia's success in rebuilding its nation is due in no small part to U.S. technical and financial support but also to the will of the Colombian government and its people. Once mortally threatened by illegal insurgents, armed groups, and seemingly invincible drug kingpins, Colombia today has regained the upper hand as a vibrant democracy now able to transfer its "lessons learned" to Afghanistan, Mexico, Haiti and Central America. As the White House Office of National Drug Control Policy Director Gil Kerlikowske said in Bogota in January 2011, Colombia "serves as a beacon of hope for other nations struggling with the threat to democracy posed by drug trafficking and related crime." Colombia's leadership intends to sustain progress through a continued firm response to destabilizing influences and expansion of good governance to long-ignored rural areas of the country.

Central America and the Caribbean, transit zones for illegal drugs destined for the United States, are the focus of two important Administration multilateral initiatives to deter the displacement of crime from Mexico and Colombia: these are the Central American Regional Security Initiative (CARSI) and the Caribbean Basin Security Initiative (CBSI). Justice sector capacity building under CARSI and CBSI will expand on bilateral programs aimed at promoting the rule of law, reducing illegal weapons trafficking, countering the insidious influence of gangs, and enhancing law enforcement efforts against money laundering.

In the President's FY 2011 Majors List report to Congress, both Venezuela and Bolivia were found to have "failed demonstrably" to meet their international narcotics control commitments. Despite the capture and deportation to Colombia of several suspects connected to terrorist groups in 2010, Venezuela appears to tolerate the presence of such organizations and did not take significant steps to limit their ability to operate inside Venezuelan territory. Moreover, since stopping formal cooperation with the U.S. Drug Enforcement Administration (DEA) in 2005, Venezuela has maintained only limited case-by-case cooperation with the United States. In Bolivia, coca cultivation has expanded significantly during the government of President Evo Morales. The country's ability to identify, investigate and dismantle drug trafficking organizations remains considerably diminished following its expulsion of DEA personnel from Bolivia in January 2009.

Southwest Asia:

Afghanistan cultivates 90 percent of the world's supply of opium poppy for heroin. Active insurgencies tied to drug traffickers in the southern and western provinces of Afghanistan overlap with 98 percent of the country's poppy cultivation. Although plantings of this crop remained static in 2010, opium production decreased due to unfavorable weather conditions and an agricultural blight. The United States and its NATO allies are working with Afghanistan to strengthen basic law enforcement institutions and other civil society infrastructure to further the development of alternative livelihoods to poppy cultivation. In order to significantly reduce its poppy crop, the Government of Afghanistan must reinforce its determination to foster results-based programs that promote concrete institution building and root out corruption, a fundamental element contributing to instability.

With the support of international assistance, opium poppy cultivation has declined significantly. Today, only seven provinces in Afghanistan cultivate opium poppy as compared to 21 provinces in 2005. More incentives will be required to compel farmers to move to legal livelihoods, and to break their ties to traffickers and insurgents.

Opium from Afghanistan is primarily transmitted via Eastern and Central Europe to Western Europe. According to United Nations reports, Russia, Portugal and Spain, suffer from the greatest number of

heroin users in Europe. Important transit countries around Afghanistan include Pakistan, Iran, Tajikistan and other Central Asian countries.

Pakistan is a top national security priority for the United States. The country's serious problems with drug trafficking and addiction are strongly associated with instability and lawlessness on its 1,500 mile frontier which includes the rugged and remote Federally Administered Tribal Areas (FATA) along the border with Afghanistan. This region is ideally suited to drug trafficking operations. Moreover, these challenges are compounded by Pakistani Taliban and allied militant groups operating in the region. Given the enormous distances and terrain, the reach of Pakistani anti-drug forces has been limited. Despite these challenges, United States bilateral counternarcotics assistance will continue to incorporate programs to extend civilian law enforcement reach throughout the country.

In the absence of official relations with Iran, the United States depends on other sources for data on the country's significant illegal drug problem, both in terms of heroin use and the production and distribution of methamphetamine-type stimulants. The United Nations estimates that as much as 40 percent of opiates departing Afghanistan go through Iran for local consumption or onward transit to European markets. Estimates show there are some 1.2 million opium users in Iran, nearly 2.5 percent of the population.

Southeast Asia:

After Afghanistan, Burma is the second largest global cultivator of opium poppy for illegal heroin production. Between 1998 and 2006, the land devoted to poppy cultivation declined, but the United Nations reports that in 2010 there was a sharp increase in area cultivated by nearly 50 percent. Burmese production of illegal methamphetamines, marketed as amphetamine-type stimulants (ATS) also continues to increase. Law enforcement investigations show that ATS pills manufactured in Burma are produced in the millions and trafficked to Thailand, down the Asian peninsula and in smaller quantities, even north into China.

U.S. programs in Asia have traditionally focused on reducing opium production and raising law enforcement capacity. In Laos and Thailand, foreign assistance has historically helped local governments identify alternatives to poppy cultivation for minority hill tribes. Law enforcement capacity building programs in the region are carried out primarily by the U.S. Drug Enforcement Administration (DEA) and U.S. funds are integral to drug awareness and demand reduction initiatives implemented by the United Nations Offices of Drugs and Crime (UNODC).

Africa:

United States initiatives in Africa are based on the growing concern about drug smuggling and its potential to destabilize West African countries such as Guinea, Guinea Bissau, Nigeria and Liberia. The principal method of conveyance for cocaine to West Africa is via mother ships from the east coast of Latin America, especially Venezuela and Brazil. Because of natural linguistic links, Brazil has stepped up programs to establish counternarcotics initiatives with Portuguese-speaking African nations to thwart the movement of cocaine on its way to Europe, with Spain and Portugal serving as the main European gateway countries.

United States and European partnerships in Africa are dedicated to promoting the rule of law in countries that are threatened by political, social and economic instability, making them especially vulnerable to criminal enterprise and corruption. The proceeds of drugs trafficked in this part of the world and sold in Europe flow back to the same cartels that traffic illegal drugs to the United States. To further cooperative efforts against this threat, the United States and the European Union will host a Trans-Atlantic Symposium on Illicit Networks in Lisbon in May 2011. The U.S. will also participate in an upcoming G-8 Ministerial on Cocaine Trafficking, also scheduled for May 2011.

Looking to the Future:

International cooperation and coordinated action are needed to address the worldwide challenge posed by drug trafficking and transnational organized crime. This includes monitoring new and emerging criminal activity designed to avoid detection. In the past several years, for example, national leaders and law enforcement have been working to thwart the use of the Internet to facilitate drug smuggling. This includes efforts to stop the increasingly common practice of establishing virtual pharmacies on the Internet for the illicit sale of both legally produced medicines and counterfeit pharmaceuticals.

The use of new precursors and chemicals in the production of illegal substances is a similar problem. For example, the ingredients used to produce the synthetic drug MDMA are different today from those ingredients found in the “club drug” when it first appeared. New harmful synthetic concoctions are regularly reported by intelligence and law enforcement authorities. To meet the goal of controlling chemicals and illegal drug precursors, all countries should become full partners in the United Nations Pre-Export Notification (PEN) online data-base system.

The international community faces an array of emerging challenges that will require active and close cooperation in the years ahead. The use of self-propelled semi-submersible vessels, designed exclusively for smuggling, serves as a prime example. Effectively screening containers for illegal cargo among the thousands of shipments that pass through lawful ports of entry will also remain a significant challenge. The international community will need to continue to focus on innovative ways to counter money laundering and corruption, which are so often linked to insurgencies and terrorism.

Working to stop these illegal activities and protect like-minded nations around the world is directly tied to the security and prosperity of the American people. To that end, the United States is committed to enhancing the capacity of new and maturing democracies to uphold their international drug and crime control commitments.

Through this report, the United States seeks to provide a clear assessment of progress and challenges. It is only over the longer term that sustainable success can be measured. This year’s INCSR demonstrates that the policies and programs of individual nations, along with the courage and determination of the international community, are advancing common goals and objectives.

Demand Reduction

Demand reduction has evolved as a key foreign policy tool for addressing the inter-connected threats of drugs, crime, and terrorism in places like Afghanistan. More recently, it has become a critical component in efforts to stop the spread of HIV/AIDS, where intravenous drug use is the mechanism of transmission.

Drug abuse and addiction have a devastating impact on individual lives, families, and communities. Drug abuse is also inextricably linked with the spread of infectious diseases such as HIV/AIDS, Sexually Transmitted Disease (STD), tuberculosis, and hepatitis C. Drug abuse is 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. experience in trying to reduce the demand for drugs at home, many foreign countries request INL-sponsored technical assistance to enhance the development of effective policies and programs to combat narcotics abuse in countries around the world. INL is ready to provide guidance to international partners, which is based on a coordinated approach in the areas of drug prevention and treatment. INL promotes the sharing of critical information and evidence-based studies, in order to promote and preserve the stability of societies that are threatened by the narcotics trade and narcotics abuse.

INL’s 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 programs to prevent the onset of drug

use, intervention with drug abusers, and improvement of treatment delivery. In achieving these goals, INL supports the following:

Training and technical assistance to educate governments and NGOs 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 working together to educate communities about the dangers of drug abuse;

Research and evaluation efforts, to measure the effectiveness of intended prevention and treatment programs and the kinds and extent of current drug use in a community; and

Dissemination of science-based information and knowledge transfer through multilateral and regional organizations.

INL supports substance abuse treatment, training and technical assistance that addresses women's drug treatment issues, and related violence. These programs respond to the unique needs of female drug addicts.

Significant completed and on-going INL-funded demand reduction projects for Fiscal Year 2010 included:

Women Drug Treatment Initiatives: INL supports research-based prevention and treatment programs in key drug producing /using countries that improve services for addicted women and their children, a chronically under-served and stigmatized population. The program supports a model residential drug treatment program for high-risk female youth in Brazil. INL also supports the development of a training curriculum, which will address the unique needs of female addicts worldwide.

Mexico/Merida: In October 2010, the OAS/CICAD signed a Memorandum of Understanding (MOU) with the Government of Mexico through the National Council against Addiction (CONADIC), establishing a process and a framework for cooperation for carrying-out programs and activities. Under this Memorandum, INL is supporting the OAS/CICAD in the Mexico/Merida initiative to establish a national-level counselor certification system for drug abuse counselors aimed at improving the delivery of drug treatment services in Mexico. Thus far, three Needs Assessments have been conducted; training of 600 counselors will begin in early 2011.

Drug-Free Communities: INL is supporting the drug-free communities program which assists community groups in forming and sustaining effective community anti-drug coalitions that fight illegal drugs. The goal of these coalitions is to bring citizens together to prevent and reduce drug use among youth. Membership includes youth, parents, businesses, the media, schools, youth organizations, law enforcement, religious and fraternal organizations, civic groups and local government. As a result of INL-funded training, active coalitions have been developed in several communities in Peru, Brazil, Colombia, Guatemala and Mexico.

Colombo Plan: The USG and the Colombo Plan Drug Advisory Program (DAP) established a training arm for treatment experts to prepare the process of professional certification of addiction professionals in Asia.

UNODC: INL is supporting the United Nations Office on Drugs and Crime (UNODC) global *TREATNET* Project that provides comprehensive treatment-provider training and technical assistance to improve treatment delivery systems in Asia, Africa and Latin America. The primary emphasis of the initiative is to share drug treatment best practices with the aim to assist service providers to improve the quality of services and to guide policy makers in programming more effectively.

Afghanistan: INL currently supports 26 residential treatment centers in Afghanistan. This initiative includes training female addiction counselors in counseling techniques for women, family therapy, and

support for home-based treatment. Of the 26 centers, six provide residential treatment for women with adjacent facilities for their children and two centers provide residential treatment services for adolescent males. In 2011, INL will also begin support for an adolescent female treatment center.

Methodology for USG Estimates of 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.

As needed, we revise our estimate process-and occasionally the estimates themselves-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 may 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 reports of 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 accuracy 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, and revise and update the search area if possible. They then estimate cultivation in the new survey area using proven statistical techniques.

The resultant estimates meet the USG need for an annual 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 may not be possible.

Production Estimates

Illicit crop productivity depends upon a number of factors. Changes in weather, farming techniques, soil fertility, and disease prevalence can produce widely varying results from year to year and place to place. Although 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 production estimates. The relative productivity of poppy crops can be estimated using imagery, and 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 new 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.

The USG estimates for coca leaf, cocaine, marijuana, opium, and heroin production are *potential* estimates; that is, it is assumed that all of the coca, marijuana, and poppy grown is harvested and processed into illicit drugs. This is a reasonable assumption for coca leaf in Colombia. In Bolivia and Peru, however, the USG potential cocaine production estimates are overestimated to some unknown extent since significant amounts of coca leaf are locally 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

2005-2010 (all figures in hectares)						
	2005	2006	2007	2008	2009	2010
Poppy						
Afghanistan	107400	172600	202000	157000	131000	119000
Burma	40000	21000	21700	22500	17000	in process
Colombia		2300	1000		1100	in process
Guatemala	100					
Laos	5600	1700	1100	1900	1000	in process
Mexico	3300	5000	6900	15000	19500	in process
Pakistan	SEE NOTE BELOW					
Total Poppy	156400	202600	232700	196400	169600	
Coca						
Bolivia	26500	25800	29500	32000	35000	in process
Colombia	144000	157000	167000	119000	116000	in process
Peru	34000	42000	36000	41000	40000	in process
Total Coca	204500	224800	232500	192000	191000	
Cannabis						
Mexico	5600	8600	8900	12000	17500	in process
Total Cannabis	5600	8600	8900	12000	17500	

Notes on Colombia poppy cultivation: The 2008 and 2005 surveys could not be conducted due to cloud cover. Partial survey in 2007 due to cloud cover.

Note on Laos poppy cultivation: A partial survey of only the Phongsali growing area was conducted in 2009.

Notes on Pakistan poppy cultivation: There are no USG country wide numbers for Pakistan. Please see the Pakistan Country Chapter for government of Pakistan estimates.

Notes 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. The 2005 cultivation estimate was revised in 2007.

Worldwide Potential Illicit Drug Production

2005-2010 (all figures in metric tons)						
	2005	2006	2007	2008	2009	2010
Opium						
Afghanistan	4475	5644	8000	5500	5300	3200
Burma	380	230	270	340	250	in process
Colombia		37	15		17	in process
Guatemala	4					
Laos	28	8.5	5.5	17	10.6	in process
Mexico	71	108	149	325	425	in process
Pakistan	SEE NOTE BELOW					
Total Opium	4958	6027.5	8439.5	6182	6002.6	
Coca Leaf						
Bolivia	36000	37000	38500	43500	43000	in process
Colombia	146000	148000	139000	85000	79000	in process
Peru	53500	54500	43500	43500	46000	in process
Total Coca Leaf*	235500	239500	221000	172000	168000	
Potential Pure Cocaine						
Bolivia	115	115	130	195	195	in process
Colombia	500	510	475	285	280	in process
Peru	260	265	210	215	225	in process
Total Potential Pure Cocaine	875	890	815	695	700	
Potential Export Quality Cocaine						
Bolivia	155	150	160	245	240	in process
Colombia	590	600	570	355	365	in process
Peru	295	305	235	235	245	in process
Total Potential Pure Cocaine	1040	1055	965	835	850	
Cannabis						
Mexico (marijuana)	10100	15500	15800	21500	unknown	in process
Total Cannabis	10100	15500	15800	21500	unknown	

Notes on Colombia opium production: The 2008 and 2005 surveys could not be conducted due to cloud cover. Partial survey in 2007 due to cloud cover.

Note on Pakistan opium production: There are no USG country wide numbers for Pakistan. Please see the Pakistan Country Chapter for government of Pakistan estimates.

Note on Laos poppy production: A partial survey of only the Phongsali growing area was conducted in 2009.

Note on Bolivia coca leaf production: In 2006, CNC revised the 2002-05 values due to new yield information.

Note on Colombia coca leaf production: New research in 2007-2009 led to revised leaf and cocaine production figures for 2003 - 2008. 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 figures for immature fields.

Notes on Mexico marijuana production: Reliable Mexican marijuana yield data was not available to estimate potential marijuana production in 2009

Parties to the 1988 UN Convention

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

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

Country	Date Signed	Date Became a Party
72. Guinea-Bissau	Accession	27 October 1995
73. Guyana	Accession	19 March 1993
74. Haiti	Accession	18 September 1995
75. Honduras	20 December 1988	11 December 1991
76. Hungary	22 August 1989	15 November 1996
77. Iceland	Accession	2 September 1997
78. India	Accession	27 March 1990
79. Indonesia	27 March 1989	23 February 1999
80. Iran	20 December 1988	7 December 1992
81. Iraq	Accession	22 July 1998
82. Ireland	14 December 1989	3 September 1996
83. Israel	20 December 1988	20 May 2002
84. Italy	20 December 1988	31 December 1990
85. Jamaica	2 October 1989	29 December 1995
86. Japan	19 December 1989	12 June 1992
87. Jordan	20 December 1988	16 April 1990
88. Kazakhstan	Accession	29 April 1997
89. Kenya	Accession	19 October 1992
90. Korea	Accession	28 December 1998
91. Kuwait	2 October 1989	3 November 2000
92. Kyrgyz Republic	Accession	7 October 1994
93. Lao Peoples Democratic Republic	Accession	1 October 2004
94. Latvia	Accession	24 February 1994
95. Lebanon	Accession	11 March 1996
96. Lesotho	Accession	28 March 1995
97. Liberia	Accession	16 September 2005
98. Libyan Arab Jamahiriya	Accession	22 July 1996
99. Liechtenstein	Accession	9 March 2007
100. Lithuania	Accession	8 June 1998
101. Luxembourg	26 September 1989	29 April 1992
102. Macedonia, Former Yugoslav Rep.	Accession	13 October 1993
103. Madagascar	Accession	12 March 1991
104. Malawi	Accession	12 October 1995
105. Malaysia	20 December 1988	11 May 1993
106. Maldives	5 December 1989	7 September 2000

Country	Date Signed	Date Became a Party
107. Mali	Accession	31 October 1995
108. Malta	Accession	28 February 1996
109. Mauritania	20 December 1988	1 July 1993
110. Mauritius	20 December 1988	6 March 2001
111. Mexico	16 February 1989	11 April 1990
112. Micronesia, Federal States of	Accession	6 July 2004
113. Moldova	Accession	15 February 1995
114. Monaco	24 February 1989	23 April 1991
115. Mongolia	Accession	25 June 2003
116. Morocco	28 December 1988	28 October 1992
117. Mozambique	Accession	8 June 1998
118. Myanmar (Burma)	Accession	11 June 1991
119. Namibia	Accession	6 March 2009
120. Nepal	Accession	24 July 1991
121. Netherlands	18 January 1989	8 September 1993
122. New Zealand	18 December 1989	16 December 1998
123. Nicaragua	20 December 1988	4 May 1990
124. Niger	Accession	10 November 1992
125. Nigeria	1 March 1989	1 November 1989
126. Norway	20 December 1988	14 November 1994
127. Oman	Accession	15 March 1991
128. Pakistan	20 December 1988	25 October 1991
129. Panama	20 December 1988	13 January 1994
130. Paraguay	20 December 1988	23 August 1990
131. Peru	20 December 1988	16 January 1992
132. Philippines	20 December 1988	7 June 1996
133. Poland	6 March 1989	26 May 1994
134. Portugal	13 December 1989	3 December 1991
135. Qatar	Accession	4 May 1990
136. Romania	Accession	21 January 1993
137. Russia	19 January 1989	17 December 1990
138. Rwanda	Accession	13 May 2002
139. St. Kitts and Nevis	Accession	19 April 1995
140. St. Lucia	Accession	21 August 1995
141. St. Vincent and the Grenadines	Accession	17 May 1994
142. Samoa	Accession	19 August 2005
143. San Marino	Accession	10 October 2000

Country	Date Signed	Date Became a Party
144. Sao Tome and Principe	Accession	20 June 1996
145. Saudi Arabia	Accession	9 January 1992
146. Senegal	20 December 1988	27 November 1989
147. Seychelles	Accession	27 February 1992
148. Sierra Leone	9 June 1989	6 June 1994
149. Singapore	Accession	23 October 1997
150. Slovakia	Succession	28 May 1993
151. Slovenia	Succession	6 July 1992
152. South Africa	Accession	14 December 1998
153. Spain	20 December 1988	13 August 1990
154. Sri Lanka	Accession	6 June 1991
155. Sudan	30 January 1989	19 November 1993
156. Suriname	20 December 1988	28 October 1992
157. Swaziland	Accession	3 October 1995
158. Sweden	20 December 1988	22 July 1991
159. Switzerland	16 November 1989	14 September 2005
160. Syria	Accession	3 September 1991
161. Tajikistan	Accession	6 May 1996
162. Thailand	Accession	3 May 2002
163. Tanzania	20 December 1988	17 April 1996
164. Togo	3 August 1989	1 August 1990
165. Tonga	Accession	29 April 1996
166. Trinidad and Tobago	7 December 1989	17 February 1995
167. Tunisia	19 December 1989	20 September 1990
168. Turkey	20 December 1988	2 April 1996
169. Turkmenistan	Accession	21 February 1996
170. UAE	Accession	12 April 1990
171. Uganda	Accession	20 August 1990
172. Ukraine	16 March 1989	28 August 1991
173. United Kingdom	20 December 1988	28 June 1991
174. United States	20 December 1988	20 February 1990
175. Uruguay	19 December 1989	10 March 1995
176. Uzbekistan	Accession	24 August 1995
177. Vanuatu		26 January 2006
178. Venezuela	20 December 1988	16 July 1991
179. Vietnam	Accession	4 November 1997
180. Yemen	20 December 1988	25 March 1996

Country	Date Signed	Date Became a Party
181. Yugoslavia	20 December 1988	3 January 1991
182. Zambia	9 February 1989	28 May 1993
183. Zimbabwe	Accession	30 July 1993
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. Hong Kong		Not UN member
6. Kosovo		
7. Marshall Islands		
8. Papua New Guinea		
9. Somalia		
10. Taiwan		Not UN member
11. Turks & Caicos		Not UN member

USG ASSISTANCE

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

2/16/11				
FY 2010 - 2012 INCLE				
Allocations				
(\$000)				
	FY 2010 Actual	FY 2010 Supp	FY 2011 Request	FY 2012 Estimate
Africa				
Africa Regional (TSCTP)	2,500	0	4,500	3,500
Africa Regional (West)	0	0	0	14,650
Africa Regional (EARSI)	2,000	0	0	1,000
Benin	0	0	850	0
Cape Verde	603	0	1,000	0
Democratic Republic of Congo	1,700	0	6,000	6,000
Djibouti	0	0	750	750
Ethiopia	0	0	500	500
Gambia	0	0	500	0
Ghana	500	0	1,700	0
Guinea	0	0	500	0
Guinea-Bissau	1,500	0	3,000	0
Kenya	0	0	2,000	2,000
Liberia	9,000	0	17,000	17,000
Mauritania	0	0	330	330
Mozambique	300	0	600	600
Nigeria	500	0	2,500	0
Senegal	0	0	1,500	0
Sierra Leone	250	0	1,200	0
Somalia	0	0	2,000	2,000
South Africa	0	0	3,000	3,000
Sudan	16,000	0	53,950	37,000
Tanzania	450	0	950	950
Togo	0	0	400	0
Uganda	235	0	1,535	1,535
Zambia	0	0	900	900
Subtotal, Africa	35,538	0	107,165	91,715
East Asia and the Pacific				
Cambodia	0	0	670	670
China	800	0	850	850

East Asia and Pacific Regional	1,300	0	1,300	1,100
Indonesia	11,570	0	11,570	11,570
Laos	1,000	0	1,500	1,500
Philippines	1,365	0	2,450	2,450
Thailand	1,740	0	1,740	1,740
Timor-Leste	800	0	860	660
Vietnam	0	0	550	550
Subtotal, East Asia and the Pacific	18,575	0	21,490	21,090
Europe				
Turkey	0	0	500	500
Subtotal, Europe	0	0	500	500
Near East				
Algeria	0	0	870	870
Egypt	1,000	0	1,000	250
Iraq	52,000	650,000	314,560	1,000,000
Jordan	1,500	0	1,500	500
Lebanon	20,000	0	30,000	25,000
Morocco	750	0	3,000	3,000
NEA Regional (TSCTP)	2,000	0	1,030	1,000
West Bank/Gaza	100,000	0	150,000	113,000
Yemen	1,000	0	11,000	11,000
Subtotal, Near East	178,250	650,000	512,960	1,154,620
South and Central Asia				
Afghanistan	420,000	169,000	450,000	324,000
Bangladesh	350	0	850	850
Nepal	3,700	0	3,700	3,700
Pakistan	130,000	40,000	140,000	125,000
Sri Lanka	0	0	1,600	1,600
Subtotal - South and Central Asia	554,050	209,000	596,150	455,150
Western Hemisphere				
Argentina	300	0	400	400
Bolivia	20,000	0	20,000	10,000
Brazil	1,000	0	1,000	4,000
Caribbean Basin Regional	0	0	37,463	30,000
Chile	0	0	0	100
Colombia	243,900	0	204,000	160,600
Dominican Republic	4,450	0	0	0
Ecuador	4,500	0	7,638	7,700
Guatemala	7,500	0	0	0

Haiti	21,107	147,660	19,420	19,420
Mexico	190,000	175,000	292,000	248,500
Paraguay	500	0	1,000	800
Peru	40,000	0	37,000	28,950
Uruguay	0	0	0	100
Western Hemisphere Regional	74,107	0	70,000	55,000
Subtotal, Western Hemisphere	607,364	322,660	689,921	565,570
Centrally-Managed				
Criminal Youth Gangs	8,000	0	7,000	7,000
Demand Reduction/Drug Awareness	14,000	0	12,500	12,750
International Organizations	4,500	0	4,500	5,000
<i>CICAD</i>	<i>1,000</i>	<i>0</i>	<i>1,000</i>	<i>1,000</i>
<i>UNODC</i>	<i>3,500</i>	<i>0</i>	<i>3,500</i>	<i>3,500</i>
<i>G-8 Roma Lyon Group</i>				500
Interregional Aviation Support	60,088	0	60,355	60,652
Critical Flight Safety Program	20,750	0	17,250	17,250
Trafficking in Persons	9,262	0	20,400	20,808
INL Anticrime Programs	15,900	0	14,650	14,933
<i>Alien Smuggling/Border Security</i>	<i>1,000</i>	<i>0</i>	<i>1,000</i>	<i>1,000</i>
<i>Cyber Crime and IPR</i>	<i>5,000</i>	<i>0</i>	<i>3,750</i>	<i>3,750</i>
<i>Fighting Corruption</i>	<i>4,750</i>	<i>0</i>	<i>4,750</i>	<i>5,033</i>
<i>International Organized Crime</i>	<i>1,000</i>	<i>0</i>	<i>1,000</i>	<i>1,000</i>
<i>Financial Crimes/Money Laundering/CT</i>	<i>4,150</i>	<i>0</i>	<i>4,150</i>	<i>4,150</i>
Global Peacekeeping Operations Initiative	5,000	0	0	0
International Police Peacekeeping Operations Support				15,000
Civilian Police Program	4,000	0	6,000	4,000
ILEA Operations	37,200	0	36,700	31,300
PD&S	24,523	0	28,500	34,500
Subtotal, Global	203,223	0	207,855	223,193
TOTAL INCLE	1,597,000	1,181,660	2,136,041	2,511,838

International Training

International counternarcotics training is managed/funded by State-INL and carried out by the DEA, FBI, Immigration and Customs Enforcement, U.S. Customs and Border Patrol, and U.S. Coast Guard. Major objectives are:

- Contributing to enhanced professionalism of the basic rule of law 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 focuses on encouraging foreign law enforcement agency self-sufficiency through development of law enforcement skills. The overarching goal of our counternarcotics efforts overseas is to support 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, working closely with TDY trainers dispatched from the U.S., help promote creation of more effective law enforcement while improving cooperation and joint efforts with the United States. U.S. training can take two forms: as part of a planned bilateral assistance program in target assistance countries and as training with a regional approach. 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. The U.S. bilateral training assistance program works closely with the training and assistance activities of international organizations, such as the UNODC and the OAS. During coordination meetings with major donors of training assistance like: the Dublin Group, UNODC and other international assistance agencies, the U.S. assures its training plans are well-understood by other training providers, and urges 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 the expertise of U.S. embassies around the world and the Department of State's Bureau of International Narcotics and Law Enforcement Affairs can contribute to success of rule of law training in foreign countries around the world.

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 provides high-quality training and technical assistance, supports institution building and enforcement capability development, and fosters relationships of American law enforcement agencies with their counterparts around the world. ILEAs also encourage 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

coordinated international law enforcement around the globe. 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 address regional law enforcement priorities. The regional ILEAs offer three different types of programs. The Core program is a series of specialized training courses and seminars tailored to region-specific needs and emerging global threats. It is usually several weeks long, and has a set curriculum, carefully developed to respond to the law enforcement needs of the region where the ILEA is located. The core program typically includes 50 participants, normally from three or more countries. The specialized courses, comprised of about 30 participants, are normally one or two weeks long. Lastly, regional seminars present various emerging law enforcement topics 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 law enforcement organizations. 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 close to 35,000 officials from over 85 countries in Africa, Asia, Europe and Latin America.

Africa.

ILEA Gaborone (Botswana) opened in 2001. Its main feature is a six-week intensive 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 overall professional development through enhanced leadership and management techniques. ILEA Gaborone also offers specialized courses for police and other criminal justice officials to boost their capacity to work with U.S. and regional counterparts. 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, wildlife investigation and many others.

Instruction is provided to participants from Angola, Botswana, Burundi, Cameroon, Comoros, Djibouti, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Republic of Congo, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda and Zambia. Trainers from the United States and Botswana provide instruction. ILEA Gaborone trains approximately 550 students annually.

Asia.

ILEA Bangkok (Thailand) opened in March 1999. ILEA Bangkok focuses on enhancing regional cooperation against transnational crime threats in Southeast Asia, primarily illicit drug trafficking, financial crimes, and human trafficking. 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 about 20 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), Timor Leste and China (including the Special Administrative Regions of Hong Kong and Macau), and the strengthening of each jurisdiction's criminal justice institutions to increase its abilities to cooperate in the suppression of transnational crime.

Instruction is provided to participants from Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, Timor Leste and Vietnam. Subject matter experts

from the United States, Thailand, Japan, Philippines, Australia 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 Complex Financial Investigations (presented by IRS). ILEA Bangkok trains approximately 1,400 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, Kosovo, 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, United Kingdom, Russia, Interpol and the Council of Europe provide instruction. ILEA Budapest has offered specialized courses on money laundering/terrorist financing-related topics. ILEA Budapest trains approximately 1000 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 Administrative 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, San Salvador and the ILEA Regional Training Center (RTC) in Lima. 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. ILEA San Salvador normally delivers four LEMDP sessions and approximately 20 specialized courses annually, concentrating 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, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, 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 600 students per year.

The **ILEA Regional Training Center** in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The RTC, expected to be upgraded to a fully-operational ILEA in the future,

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 is produced outside of the United States and smuggled into our country. These illegal drugs are smuggled from their country of origin and often transit other nations before arriving in the United States. Thus, a strong international commitment to counternarcotics law enforcement is required to 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 significantly enhanced through the 82 offices located in 62 countries that DEA maintains worldwide. These overseas offices work in close cooperation with DEA's U.S.-based offices to seamlessly pursue narcotics criminals domestic and foreign. DEA's overseas offices have the following key missions:

- Conduct bilateral investigations with foreign law enforcement;
- Coordinate counternarcotics intelligence gathering with host governments;
- 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, DEA can focus on joint enforcement and joint intelligence gathering activities with host law enforcement. In countries lacking a robust law enforcement capability, DEA personnel may provide training assistance to help host enforcement increase their capacity for effective law enforcement. The following sections highlight the assistance and joint enforcement work in which DEA played a crucial role during 2010.

Bilateral Investigative Activities

Drug Flow Attack Strategy

The primary objective of DEA's Drug Flow Attack Strategy is to cause major disruption to the flow of drugs, money, and chemicals between the source zones and the United States.

Drug Flow Attack Strategy Highlights:

- As part of DEA's continued strategy to put sustained pressure on the Mexican cartels, Special Operations Division (SOD), with investigative support from DEA New York and DEA Houston, worked with the Department of State and the Department of the Treasury's Office of Foreign Assets Control (OFAC) to designate leaders of the Gulf Cartel / Los Zetas Cartel as Narcotics Kingpins, with Department of State rewards offered for their capture. After Los Zetas was designated, the Departments of Justice, State and Treasury announced coordinated actions against Los Zetas Drug Trafficking Organizations (DTO), now known as the "Company" and other narcotics trafficking DTOs: Antonio Ezequiel Cardenas-Guillen, deceased, Jorge Eduardo Costilla-Sanchez, Heriberto Lazcano-Lazcano and Miguel Trevino-Morales, high-level Mexican leaders of the Company and 15 of their top lieutenants, were charged in U.S. federal courts with drug trafficking-related crimes. The Department of State

announced rewards of up to \$5 million, collectively, for information leading to the capture of these drug traffickers, and other specially designated Narcotics Kingpins from the Company.

- The La Familia cartel is a violent drug trafficking cartel based in the state of Michoacan, in southwestern Mexico. According to court documents, La Familia controls drug manufacturing and distribution in and around Michoacan, including the importation of vast quantities of cocaine and methamphetamine from Mexico into the U.S. La Familia cartel has utilized violence to include murders, kidnappings and assaults to support its narcotics trafficking business. According to one indictment unsealed in New York, associates of La Familia based in the United States have allegedly acquired military-grade weapons, including assault weapons and ammunition, and have arranged for them to be smuggled back into Mexico for use by La Familia.
- On June 9, 2010, the U.S. Department of the Treasury's OFAC named two individuals and two entities linked to the international drug trafficking organization La Familia Michoacana as Specially Designated Narcotics Traffickers.
- On February 19, 2010, Jesus Vicente Zambada-Niebla, an allegedly high-ranking leader of one of Mexico's largest drug cartels, whose father allegedly heads a faction of the Sinaloa Cartel and is among Mexico's most powerful drug kingpins, was extradited from Mexico to face federal narcotics trafficking conspiracy charges in the United States. Jesus Vicente Zambada-Niebla is believed to be one of the most significant Mexican drug defendants extradited from Mexico to the United States since Osiel Cardenas Guillen, the accused leader of the notorious Gulf Cartel, was extradited in 2007. This development is a result of the continuing close cooperation between the United States and Mexico to investigate and prosecute the leaders of international drug-trafficking cartels.
- On June 1, 2010, the Department of Justice announced the culmination of an unprecedented undercover operation involving DEA and the Liberian Government, in which seven defendants were arrested on U.S. charges in Monrovia, and flown to New York to face charges in the Southern District. The Liberian Government's commitment to the rule of law and to combating international drug traffickers is exemplified by the fact that one of the undercover operatives is the Director of the Liberian National Security Agency and the son of the President of Liberia. The Liberian President was also aware of, and cooperated with, the DEA Operation.
- On June 9, 2010, the multi-agency, DEA-led SOD coordinated the takedown of Project Deliverance, an initiative encompassing multiple operations which targeted the transportation infrastructure of Mexican drug trafficking organizations in the United States, especially along the Southwest border. Project Deliverance continued a deliberate and strategic effort to cut off and shut down the supply of drugs entering the U.S., and the flow of drug profits and guns to Mexico. Through the coordinated efforts of over 3,000 federal, state and local law enforcement officers, cumulative results of this initiative include over 2,000 arrests (including one Consolidated Priority Organization Target (CPOT), the seizure of \$154 million, over 500 weapons, and over 74 tons of illegal drugs.
- DEA Operation Guillotine targeted CPOT Christopher Michael Coke, and his DTO. On June 22, 2010, Coke was arrested by Jamaican authorities near Kingston, Jamaica, after a five-week pursuit by local authorities. Coke waived his right to judicial extradition proceedings in Jamaica and subsequently was transferred to the custody of the DEA and U.S. Marshals Service for transport to the United States.

Coke is charged with conspiracy to distribute cocaine and marijuana and conspiracy to illegally traffic in firearms. If convicted on the narcotics charge, he faces a maximum sentence of life in

prison and a mandatory minimum sentence of 10 years in prison, as well as a fine of up to \$4 million or twice the pecuniary gain from the offense. He also faces a maximum sentence of five years in prison on the firearms trafficking charge, and a fine of up to \$250,000 or twice the pecuniary gain.

- On July 13, 2010, Carlos Alberto RENTERIA-Mantilla, the last leader of Colombia's Norte del Valle cartel, not in jail or deceased, was expelled from Venezuela to the United States. RENTERIA was arrested without incident on July 4, 2010 by the Unidad Especial Comando Anti-Drogas of the National Guard in Caracas, Venezuela. RENTERIA had been indicted by a Grand Jury in Washington, DC on April 28, 2004 for violation of RICO charges. The indictments had been unsealed on May 6, 2004, and RENTERIA had been declared a fugitive on September 26, 2004.
- On July 31, 2010, the Bangkok Country Office dismantled “Advanced Stealth”, one of the largest steroid trafficking organizations in the world. This organization sold steroids and pharmaceutical drugs via the internet to customers worldwide, including in the United States. During the search of a clandestine laboratory seized in connection with this operation, Thai investigators discovered millions of dollars worth of steroids and pharmaceuticals; three tableting machines; raw chemicals and active pharmaceutical ingredients; packaging machines; and evidence of numerous packing materials designed to thwart law enforcement interdiction efforts around the world. Thai authorities estimate the value of this seizure to be worth \$3.25 million. This investigation delivered a damaging blow to the illicit steroid and pharmaceutical market by dismantling one of the industry’s largest operators and by showing that the internet is not a safe place to conduct this illegal business.
- On July 30, 2010, CPOT Edgar Guillermo VELLEJO-GUARIN was extradited to the United States from Spain to face drug charges for his role as a cocaine source of supply to the United States. He had been indicted in the United States District Court of Southern District of Florida on June 12, 2001 based on a long term investigation conducted by the Miami Field Division, Bogota Country Office, and Madrid Country Office. VELLEJO-GUARIN was closely tied to the Autodefensas Unidas de Columbia and the Columbian North Valle Cartel. He was arrested by Spanish authorities on September 4, 2008 and remained in custody until his extradition.
- On April 12, 2010, the Buenos Aires Country Office reported the arrest of CPOT Luis Agustin CAICEDO-Velandia in the downtown area of Buenos Aires, Argentina. CAICEDO-Velandia was arrested by the Argentine Secretaria Inteligencia Del Estado Argentina pursuant to a Provisional Arrest Warrant issued from the Middle District of Florida based on a long-term DEA Tampa PANAMA EXPRESS investigation. On June 23, 2010, after an appearance before Argentine Judge Ercolini, CAICEDO-Velandia agreed to be extradited to the United States. CAICEDO-Velandia had been involved in narcotics trafficking since 1996 and had been a designated CPOT since 2008. CAICEDO-Velandia’s early associates were Juan Carlos ORTIZ, Juan Carlos RAMIREZ-Abadia (CPOT 2008) and Pedro Pablo RAYO-MONTANO (CPOT 2007). Since April 2004, CAICEDO-Velandia had been the command and control element of a major drug trafficking organization based in Bogotá, Colombia, responsible for controlling maritime cocaine transportation shipments of multi-ton quantities from Colombia to various Central America countries.
- On August 19, 2010, the Bogota Country Office reported the arrest of CPOT Walid MAKLED-Garcia in Cucuta, Colombia. CPOT MAKLED-Garcia was arrested by the Colombian National Police pursuant to a Provisional Arrest Warrant issued from the Southern District of New York. On June 18, 2009, MAKLED-Garcia was indicted in the

Southern District of New York. In April 2009, MAKLED-Garcia was approved as a CPOT based on a proposal submitted by the Caracas Country Office, and on May 29, 2009, the President of the United States named MAKLED-Garcia as a Specially Designated Narcotics Trafficker pursuant to the Foreign Narcotics Kingpin Designation Act. The DTO controlled by MAKLED-Garcia was based in Valencia, Venezuela and smuggled multi-ton quantity loads of cocaine out of Venezuela by private aircraft, commercial aircraft, containerized cargo, and fishing vessels.

- On December 16, 2009, Oumar Issa, Harouna Toure, and Idriss Abelrahman were arrested by DEA's Ghanaian counterparts at the request of the United States, for drug and terrorism charges and flown to the Southern District of New York. The charges stem from the defendants' alleged agreement to transport cocaine through West and North Africa with the intent to support three terrorist organizations -- Al Qaeda, Al Qaeda in the Islamic Maghreb, and the Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia (FARC). All three organizations have been designated by the United States Department of State as Foreign Terrorist Organizations. This case marks the first time that associates of Al Qaeda have been charged with narco-terrorism offenses.
- The Islamabad Country Office, with assistance from the Pakistan Anti-Narcotics Force (ANF) and Chinese authorities, dismantled the Shamal KHAN priority target organization (PTO). This organization controlled a complex and well organized heroin, hashish, and Acetic Anhydride (AA) network in the Afghanistan-Pakistan border region. Shamal KHAN's brother, Janas KHAN, was arrested in China on September 1, 2010 for smuggling AA from China to Pakistan. Subsequently, on September 22, 2010, the ANF arrested Shamal KHAN and his son Younis KHAN in Islamabad, Pakistan. Both subjects were arrested for violations of Pakistan's Controlled Substances Act. Family ties enabled the members of this PTO to conduct their operations through various countries and smuggle the AA into Afghanistan for the conversion of opium into heroin.
- On March 9, 2010, a Criminal Justice Task Force Judge convicted and sentenced Counter Narcotics Police of Afghanistan Commander Sayed Hassan KARIMI to a 15 year prison term in Afghanistan for violation of the Afghan Law Article 15-Drug Trafficking and Sale of Precursor Chemicals, namely AA. On October 3, 2009, KARIMI had been arrested on drug trafficking charges subsequent to the seizure of 10,000 liters of AA. Commander KARIMI had been operating as a corrupt government official in Masir-e-Sharif.
- On May 20, 2010, Muhammad HAQ and Muhammad WALI, were sentenced to 16 years in prison each for violation of Afghan law. On March 16, 2010 the DEA Kabul Country Office and the Afghan SIU/NIU participated in a joint operation with the U.S. Marines. During this operation a large laboratory complex that processed opium into morphine base was detected, seized, and destroyed. During the operation HAQ and WALI were seen fleeing from the scene and subsequently arrested.
- On October 29, 2010, a multi-national DEA operation led to the seizure of \$55.9 million in heroin at four clandestine laboratories located in Nangarhar Province, Afghanistan. The nearly one metric ton of narcotics was seized as a result of a large-scale joint narcotics enforcement operation by DEA, Afghan, and Russian anti-drug agents in Afghanistan. In addition to 932 kilograms of heroin and 156 kilograms of opium seized, the following precursor chemicals and materials were also confiscated: 10 liters of acetic anhydride, 15 kilograms of ammonium chloride, 10 kilograms of soda ash, 40 kilograms of charcoal, two mechanical heroin presses, three metal industrial cooking vats, and 500 feet of plas

An investigation into the drug trafficking organization responsible for operating the clandestine heroin labs is ongoing.

DEA has also targeted major shadow facilitators that support narco-terrorists around the globe:

- In September 2007, SOD initiated Operation Relentless, targeting notorious Russian arms trafficker Viktor BOUT and his large-scale transportation network which operated extensively in Africa. On March 6, 2008, the Thai Police, in cooperation with DEA, arrested Viktor BOUT in Thailand. After working with Thai authorities to arrest BOUT, however, the U.S. extradition effort was unexpectedly denied by a Thai judge in mid-August 2009. The judge in Bangkok stated that the FARC is not deemed a terrorist organization in Thailand, as it is in the U.S., and political offences are not covered by a U.S.-Thai extradition treaty.
- On February 17, 2010, Preet Bharara, the U.S. Attorney for the Southern District of New York, and Michele M. Leonhart, the Acting Administrator of the DEA, announced the unsealing of another indictment against international arms dealer Viktor BOUT and his associate Richard Ammar CHICHAKLI, for allegedly conspiring to violate the International Emergency Economic Powers Act stemming from their efforts to purchase two aircraft from companies located in the United States, in violation of economic sanctions which prohibited such financial transactions. The unsealed indictment also charged BOUT and CHICHAKLI with money laundering conspiracy, wire fraud conspiracy and six separate counts of wire fraud, in connection with these financial transactions.
- On August 20, 2010, a Thai court ruled in favor of extraditing Viktor BOUT to the United States to face trial on the original four terrorism charges.
- On November 16, 2010, after more than two years of legal proceedings, alleged international arms dealer Viktor BOUT was extradited to the Southern District of New York from Thailand to stand trial on terrorism charges,

On-Going Operations

Operation Broken Bridge—The objective of Operation Broken Bridge is to disrupt suspect aircraft flown from Venezuela and Colombia to the Dominican Republic, and to further dismantle DTOs which employ air drops over water and land and landings in the Dominican Republic to move narcotics to markets in the U.S. 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 Fiscal Year 2010 include 3,114 kilograms of cocaine, two vehicles, 15 arrests, several weapons and \$1,799,092 in U.S. currency.

Operation Bahamas and Turks and Caicos (OPBAT)—OPBAT is the largest and oldest cooperative effort overseas by any government involved in drug enforcement. This DEA led initiative also includes the participation of the U.S. Coast Guard, 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. Cumulative OPBAT statistics through the 4th quarter of Fiscal Year 2010 include seizures of approximately 262 kilograms of cocaine, 91,471 pounds of marijuana, and \$614,992 in U.S. currency, as well as 53 arrests.

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. From 2000 through October 2010, as a result of Operation Panama Express, 637 metric tons of cocaine have been seized, 236 metric tons of cocaine have been destroyed when vessels

carrying these illicit drugs were scuttled by their crews to avoid capture or when the boats were sunk by law enforcement. 1,923 individuals have been arrested during Operation Panama Express.

Operation Windjammer—Operation Windjammer was structured to assist DEA and host nation counterparts, in pursuing priority targets and/or significant narcotics traffickers impacting the U.S. via Jamaica. Cumulative statistics through the 4th quarter of Fiscal Year 2010, resulting from the success of Operation Windjammer, include the seizure of 926.9 kilograms of marijuana, \$53,744.97 in currency as well as 19 arrests.

Operation Esperanza—Operation Esperanza is the single most productive bilateral drug law enforcement project within DEA's international operations in the Western Hemisphere. It has become the technological cornerstone of DEA's technical Program in Colombia and has proven to be an extremely important tool for the U.S. Government and the Government of Colombia in protecting national security and combating drug trafficking, terrorism, and other illegal activities.

Operation Southern Fury – Operation Southern Fury is a DEA campaign plan for counter narcotics investigations and operations in southern Afghanistan. This operation assists DEA personnel in identifying and prioritizing DEA objectives for investigations, operations, programs, and initiatives phased over the next twelve months. This campaign is meant to be fully coordinated and synchronized with the U.S. whole-of-government effort, as well as the U.S. military and International Security Assistance Forces campaign plans.

Coordinate Counternarcotics Intelligence Gathering

Centers for Drug Information Program

This DEA-managed initiative facilitates information sharing among foreign law enforcement counterparts in the countries it serves. The information is made available to the participants via the internet. It became operational during June 2003 with 41 participating countries and protectorates located throughout the Caribbean, Mexico, Central America, and South America. The user base has since expanded to over 400 users in 58 countries that include a South Central Asia regional center in Kabul, Afghanistan, a Southeast Asia regional center in Bangkok, Thailand and a West Africa regional center in Accra, Ghana. An automated on-line language translation feature (English, Spanish, French, and Portuguese) serves to minimize language barriers for a majority of the participants. Discussions continue in regards to expansion to Europe and additional countries in Southeast Asia and the continent of Africa.

Conduct Training Programs for Host Nation Police Agencies

International Law Enforcement Academy (ILEA) Training Programs :

The ILEA program was established by the U.S. Department of State in 1995. Currently, there are four ILEAs operating in Budapest, Hungary; Bangkok, Thailand; Gaborone, Botswana; and San Salvador, El Salvador. A new facility has also begun operations in Lima Peru. ILEAs offer a program of mid-career leadership training for regional police and other enforcement officers, as well as specific training programs arranged in accordance with regional interests. DEA's role is to provide counter narcotics course instruction and best practices for the core supervisory sessions, as well as specialized training courses at the ILEAs.

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

DEA holds the directorship at the ILEA in Bangkok, Thailand. The ILEA Bangkok core program of instruction is the six-week Supervisory Criminal Investigator Course (SCIC). TRI provides seven days of instruction during the SCIC for 14 countries from Southeast Asia. DEA also offers several specialized courses at ILEA Bangkok.

ILEA Gaborone training includes a six-week supervisor's course, the Law Enforcement Executive Development and a number of specialized courses. ILEA Gaborone conducts training for 23 eligible southern African countries. TRI provides four days of counter narcotics training at each of the four annual sessions.

TRI provides five days of instruction at each of the four annual Law Enforcement Management Development Program sessions, as well as several specialized courses. ILEA San Salvador also conducts specialized training courses at an alternate training venue, a Regional Training Center in Lima, Peru. ILEA San Salvador provides training of law enforcement officials from 30 participating Latin American countries.

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 2010, DEA conducted bilateral training seminars funded by INL for approximately 130 participants from four countries.

Asset Forfeiture/Money Laundering Training Programs:

Each Asset Forfeiture Money Laundering Training Program is customized depending upon the country's needs and the level of law enforcement development. In FY 2010, TRI provided training to foreign officers on asset forfeiture and money laundering in order to enhance financial investigations of international drug trafficking and narco-terrorist organizations. During FY 2010, an approximate total of 146 participants from 11 countries were trained. Approximately 41 Chilean law enforcement officials received training to date in November 2010. The training emphasized techniques for conducting financial investigations such as the use of the internet and computer forensics; international banking; shell corporations, financial intelligence analysis, development and utilization of financial informants; terrorist financing; practical applications. Each session included case studies. Additionally Attorney General Exempted Operations (AGEO), U.S. forfeiture law and international asset forfeiture sharing and cooperation were covered. The training has resulted in improved investigative skills and an increase in joint DEA investigations that target significant international drug trafficking and narco-terrorist organizations.

International Asset Airport Interdiction Training:

In FY 2010, TRI continued to conduct Airport Interdiction Training as part of the Asset Forfeiture Program. The goal of this training is to educate members of foreign law enforcement about techniques for interdiction in transportation environments, especially as they relate to money launderers and the bulk shipment of currency. During FY 2010, an approximate total of 129 participants from six countries were trained.

International Narcotics Enforcement Management Seminar (INEMS) Program:

The INEMS is a two-week program. The TRI section of DEA in the U.S. conducts the INEMS principally for upper-level law enforcement managers of foreign operational drug units. 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. Currently TRI is planning to conduct an INEMS in FY 2011. An INEMS was not conducted in FY 2010; however two iterations were conducted during FY 2009, which trained 30 participants from 21 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 and supported by Central Command funds. In FY 2010, TRI led efforts to provide basic drug enforcement training, tactical training, and practical training to approximately 23 law enforcement counterparts in Tajikistan. This program has enabled DEA to develop strong law enforcement partnerships and promote an understanding of the regional and global effects drug trafficking has on neighboring countries. DEA serves as the only U.S. representation by providing instructors in support of the NRC Program. The NRC Program provides training for Central Asia and the surrounding region of Afghanistan. The other members of the NRC are: Russia, Italy, Finland, and Turkey. There are four iterations pending for NRC participating countries throughout FY 2011, two for Russia and two for Kazakhstan.

International Training—Mexican Federal Police: Secretaria de Seguridad Publica (SSP) Training:

During FY 2009, TRI initiated a Mexican Federal Police SSP Training Program. Beginning July 2009, DEA's Special Agents, Intelligence Research Specialists, and Diversion Investigators traveled to the Mexican Federal Police Academy located in San Luis Potosi, Mexico, to provide instruction on Police Intelligence. The Police Intelligence Course demonstrates how evidence collected during investigations can be analyzed and presented and defended in court. The inclusion of DEA, other federal, state and local agencies, as well as foreign national police agencies from countries such as Spain, Colombia, Czechoslovakia, Holland, and Canada, in the training of the Mexican federal police, known as the Mexican Secretariat of Public Security (SSP), sets a precedent for the Mexican government, and came about as part of the Merida Initiative. During FY 2010, TRI continued to conduct the Mexican Federal Police: SSP Training Program which provided training for approximately 2,735 Mexican officers. A new program will be introduced in FY 2011 providing instruction on Evidence Collection.

Afghanistan Regional Training Team (RTT) Program

The U.S. Government supports the RTT's primary mission to provide specialty law enforcement training to the Counter Narcotics Police of Afghanistan (CNP-A), as well as the neighboring regional countries. In FY 2010, TRI was instrumental in developing a Regional Training Team (RTT) concept of operations that enabled DEA to provide specialty law enforcement training to approximately 2,825 law enforcement counterparts assigned to the CNP-A and neighboring regional countries. Approximately 191 Afghan law enforcement officials received training thus far during the first quarter of FY 2011.

The RTT training mission focuses on providing the necessary skills in: basic counter narcotics investigations, maintenance of basic skills, advanced counter narcotics investigations, establishment of self-initiated investigations, and the creation of specialized units. Instruction is provided in a "building block" style which begins with a Basic Course and progresses to Specialty Courses, such as, Undercover, Operation Planning, Surveillance, Technical Training,

Investigative Techniques, Intelligence Analysis, and Leadership. The use of practical exercises is a key element.

The RTT coordinates with other established counter narcotics training programs, the Afghanistan government, and the international community on content of courses and delivery schedules for them. The RTT's goal is to develop a core of professional counter narcotics investigators throughout the region. This concept was so well received that it is being used as the model for training in Africa. As a result of the success of the program an RTT Program for Central Asia will also be initiated in FY 2011 to include former Soviet Block Countries in Central Asia.

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.

Afghanistan

DEA, in close coordination with the interagency community, continued to implement a comprehensive Afghanistan expansion plan. This plan called for a significant increase in DEA personnel throughout Afghanistan. As a result, DEA will assign additional direct hire personnel to the Kabul Country Office area of responsibility. The expansion plan includes five Enforcement Groups forward deployed to Kabul, and Regional Commands in Herat, Kandahar, Konduz, and Jalalabad.

DEA capacity-building efforts in Afghanistan are primarily focused on the CNP-A. An excellent relationship between DEA, the Department of Defense (DoD), and the Department of State has focused capacity building efforts on specialized units within the CNP-A, combining training, equipment and infrastructure with mentoring and operational interaction with DEA enforcement teams, DEA training teams, and experienced mentor/advisors. These specialized units have developed to the point where they can operate with limited coalition support and are engaged with DEA on a daily basis on joint operations and investigations.

Afghan Threat Finance Cell (ATFC)

As a result of a decision by the National Security Council, DEA works closely with the Afghan Threat Finance Cell (ATCC). The ATFC identifies financiers operating throughout Afghanistan with connections to insurgent activities, drug trafficking and public corruption. The ATFC then produces target packages for many of these financiers which are passed to the military and law enforcement officials for action.

Ghana Vetted Unit

In FY 2010, DEA established the Ghana Vetted Unit (GVU). The mission of the GVU is to develop, train, advise and mentor a professional counterdrug unit in Ghana that will have primary responsibility for counterdrug initiatives nationwide. The GVU will also serve as the cornerstone in the development of a counterdrug infrastructure needed to identify, disrupt, and dismantle criminal drug trafficking and money laundering organizations operating throughout West Africa. In August 2010, the GVU was fully operational and graduated its first class. The GVU is the first DEA vetted police unit in Africa.

Mexico City Chemical Group

This group has provided training to the Government of Mexico (GOM) counterparts regarding methamphetamine trends and skills for targeting and combating the clandestine Laboratory/Precursor Chemical operations of DTOs. The Chemical Group is also working with

GOM entities to help develop a Chemical Work Task Force between various GOM entities, to include regulatory, law enforcement, judicial/ prosecutorial, and military entities.

Sensitive Investigative Unit (SIU)

Shortly after Congress approved the SIU program in 1996, the Mexico City SIU was established, and DEA now works closely with a number of trusted counterparts throughout the country. In FY 2010, DEA and the GOM reorganized the SIU, and integrated vetted prosecutors from the PGR (Attorney General's Office) / SIEDO (Deputy Attorney General's Office of Special Investigations on Organized Crime) into the SIU. This investigative initiative creates a multi-faceted investigative approach in order to target and investigate all aspects of the Transnational Criminal Organizations' criminal enterprises, to include narcotics, arms trafficking, and financial crimes.

Financial Investigative Team (FIT)

The SSP created a FIT in 2007. The SSP FIT is located in Mexico City and they conduct investigations throughout Mexico. The unit works side-by-side with the SIU to conduct parallel financial investigations. The SSP FIT has received training from DOJ, DEA Financial Operations, and some of the investigators were once members of the Mexico SIU. The FIT is supported by the Mexico City Country Office.

United States Coast Guard

Overview:

The U.S. Coast Guard plays a crucial role in efforts to keep dangerous narcotic drugs moving by sea from reaching market countries. The Coast Guard's Drug Interdiction Mission Performance Plan (MPP) establishes goals, objectives and performance metrics that the Coast Guard Drug Interdiction program intends to achieve in the next five years. To reach its targets, the Coast Guard will continually assess mission performance and make periodic adjustments to its operational focus and out-year plans. There are three primary elements to the Coast Guard Drug Interdiction Mission:

- **Detection & Monitoring**

Detection of narcotics trafficking vessels occurs principally through the collection, analysis, and dissemination of tactical information and strategic intelligence combined with effective sensors operating from land, air and surface assets. The six million square mile transit zone between source nations in South America and the United States is far too expansive to randomly patrol; targeting information is necessary to focus efforts. Timely, actionable intelligence is the best force-multiplier available to the operational commander. Upon detection, the Coast Guard, and other similar U.S. and partner nation law enforcement agencies will provide monitoring, relaying data, imagery and position information until an appropriate interdiction asset arrives on scene.

- **Interdiction**

Successful targeting and interdiction of illicit activities create a deterrent effect. Interdiction success causes Drug Trafficking Organizations (DTOs) to incur greater costs and decreased efficiency in moving their illicit product to market. In recent years the Coast Guard has been successful in interdicting foreign flagged vessels, frequently flags of convenience, carrying multi-ton loads of contraband. A crucial element in that success was the system of agreements with many countries around the world which permit enforcement officers to stop, board, and search vessels suspected of transporting narcotics. This has caused DTOs to sharply reduce the use of flags of convenience in favor of stateless go-fast and similar style vessels, as well as investing in more technologically advanced self-propelled semi (SPSS) and fully submersible (SPFS) vessels. The result has been increased costs to the DTOs to outfit their trafficking vessels and greater risk of prosecution to smugglers interdicted on stateless vessels, since stateless vessels are subject to U.S. jurisdiction. Interdiction success requires a sufficient number of air and surface assets to respond to intelligence and operational cueing. Surface and air assets equipped with robust sensor systems, endurance, range, and speed, coupled with a range of use of force options to stop non-compliant vessels, enable transit zone operations across a spectrum of weather conditions. To increase its operational law enforcement reach, the Coast Guard embarks deployable Law Enforcement Detachments (LEDETs) on U.S. Navy and Allied warships, and embarks partner nation "shipriders" aboard Coast Guard vessels, consistent with Memorandums of Understanding, bilateral agreements and other arrangements in force.

- **Close Working Partnerships with both Domestic and International Agencies**

The Coast Guard would not be as effective in removing drugs from the transit zone without the significant interagency and international cooperation that comes together at Joint Interagency Task Force South and West (JIATF-S and JIATF-W). The Coast Guard provides staff and command cadre to both Task Forces, which have primary responsibilities for counterdrug detection and monitoring operations in the U.S. Southern Command and U.S. Pacific Command areas of responsibility. As Transnational Criminal Organizations (TCO) and DTOs in the Western Hemisphere expand their

operations, the Coast Guard is also increasingly engaged with U.S. European Command and U.S. Africa Command to meet the threat in those areas. The Coast Guard contributes to international counterdrug efforts through development and active use of agreements, operational procedures, professional exchanges, sharing best practices, and deployment of mobile training teams to support Theater Security Cooperation initiatives. Engagement in joint operations and training strengthens ties with partner nations and increases maritime law enforcement competency and capability.

International Agreements:

There are 37 maritime bilateral counterdrug agreements or operational procedures in place between the United States and partner nations. These agreements and arrangements help the USG move toward its goal of disrupting illicit trafficking within the transit zone and eliminating safe havens for smugglers. In the summer of 2010, the United States entered into temporary international agreements with Morocco, Cape Verde and Senegal as part of the Africa Maritime Law Enforcement Partnership (AMLEP). AMLEP is a combined law enforcement program designed to build partner nation maritime law enforcement capacity and help detect illicit activities through joint law enforcement operations. In the wake of AMLEP's success, the U.S. and Senegal are negotiating a permanent bilateral agreement. The U.S. and Canada furthered their joint efforts to combat illicit drugs by signing an agreement to allow Coast Guard law enforcement personnel to embark on Canadian forces aircraft and ships. This agreement will serve as a force multiplier in joint task force operating areas.

International Cooperative Efforts:

Overall during FY 2010, the Coast Guard disrupted 122 drug smuggling attempts, which resulted in the seizure of 56 vessels, the detention of 229 suspected smugglers, and the removal of 91.8 MT of cocaine and 16.7 MT of marijuana. Nearly all of these interdictions involved some type of foreign partner support or cooperation, through direct unit participation, exercise of bilateral agreements, granting permission to board, or logistics support.

The Ecuadorian police assisted by their Navy and with intelligence from the DEA seized the first documented SPFS vessel in July 2010. The vessel proved to be a significant leap forward in capability and technology. This vessel's ability to smuggle large loads (6-10 MT of cocaine), travel submerged, and only needing to surface for a few hours each day to recharge batteries necessitate modification of existing law enforcement tactics, techniques and procedures to combat this new threat. DTOs use of SPSS vessels dropped off considerably in FY10, with 18 events carrying an estimated 94 MT, of which 14.5 MT were removed by the Coast Guard in three cases, compared with 60 documented cases carrying 332 MT of cocaine in FY09. The Drug Trafficking Vessel Interdiction Act (DTVIA) of 2008 continued to provide an effective prosecution tool by outlawing the operation of stateless SPSS and SPFS in international waters with the intent to evade detection. Despite the use of technologically advanced smuggling conveyances in recent years, the go-fast and similar style vessels (including pangas, lanchas and pirogues) remain the smuggling vessels of choice within the Central American and Caribbean littorals.

To counter the cocaine flow across the Atlantic Ocean into Africa and Europe, the Coast Guard continues to work with U.S. Africa Command (AFRICOM) to expand maritime training and operations for West African countries. In FY 2010, both the USCGC MOHAWK and the USS JOHN L. HALL with an embarked USCG LEDET conducted joint training, surveillance and law enforcement operations off West Africa. During these operations MOHAWK embarked law enforcement teams from Sierra Leone, Nigeria and Senegal to conduct training and assist in their efforts to suppress illicit transnational maritime activity. These efforts continue to help African nations to gain control of their jurisdictional waters by maritime domain awareness as they attempt to thwart the growing threat from DTOs and other transnational criminals.

A previously established trilateral maritime counterdrug initiative between the United States, Colombia and Ecuador has matured into a semi-annual multilateral maritime counterdrug enforcement coordination

summit, which now includes Panama, El Salvador, Nicaragua and Mexico. The seventh and eighth Multilateral Summit (held in Panama City, Panama and San Diego, California respectively in 2010) gave participants the opportunity to share, exchange, and improve “best practices,” and to think creatively about employing new tactics, techniques, and procedures to counter drug trafficking organizations.

International Training and Technical Assistance:

In FY 2010, 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) provided engineering expertise, vessel assessments, and major repair contracting services to the maritime services of the countries in the Eastern Caribbean’s Regional Security System (RSS). USCG ships conducted training and technical assistance in conjunction with normal operations in several countries to encourage operational cooperation

The USCG’s Security Assistance Program offers a progression of one-to-two-week mobile training teams (MTTs) to partner nation maritime services around the world to help advance the capability of their naval and coast guard forces to patrol their territorial waters. Courses include Maritime Law Enforcement (MLE), Boarding and Advanced Boarding Officer, Joint MLE Boarding, MLE Instructor, Basic and Advanced Port Security/ Port Vulnerability, Waterside Port Security, and Small Boat Operations/Maintenance Courses. In FY 2010, the USCG deployed 108 MTTs to 48 countries.

Individual students also receive instruction in USCG resident training programs in the United States. These students develop a broad range of skills from boat handling and boat and engine repair to senior officer leadership training. In FY 2010, 66 partner nations enrolled students in 308 resident courses at USCG training installations.

U.S. Customs and Border Protection

The Department of Homeland Security's U.S. Customs and Border Protection (CBP) processes all goods, vehicles, and people entering and exiting the United States. CBP officers intercept narcotics and other contraband, improperly classified merchandise, unlicensed technology and material, weapons, ammunition, fugitives, undocumented immigrants, and unreported currency at America's 331 international ports of entry.

Since its creation in its current organizational structure 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 division of responsibilities 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 destruction (WMD) and terrorists. CBP also maintains its position as the nation's first line of defense against the introduction of narcotics and dangerous drugs from foreign sources.

CBP Representatives and Attachés

CBP deploys a growing network of Attachés and Representatives who serve abroad in U.S. Embassies and consulates. These personnel work closely with CBP's foreign counterparts in the on-going effort to counter drug-smuggling. Attachés 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 (SBACC) in Canada. They also exchange expert information, improving the effectiveness of law enforcement activity, policies, and resources relating to border enforcement. Their efforts help to ensure that enforcement cooperation is seamless across borders and that the battle against smuggling is effective.

International Training and Assistance

In 2010, 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, San Salvador, and Lima. 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.

The CBP Field Operations Academy (FOA) supports International Training on two fronts: conducting Academy tours for foreign dignitaries and aiding various training missions abroad. Internationally, the FOA has assisted training in Egypt, Iraq, Afghanistan, Georgia, Ukraine, Lithuania, Estonia, Dominican Republic, and Honduras in support of drug interdiction efforts. Additionally, the FOA has conducted numerous briefings/tours of its facilities in the U.S. for the benefit of visiting foreign Customs and Border groups. Dignitaries from Kazakhstan, Bahrain, and Saudi Arabia were recently shown a variety of venues and scenarios, which included drug interdiction instruction.

Port Security Initiatives

CBP implements a multi-layered, risk-based enforcement strategy designed to maximize security without causing economic disruption to U.S. trade. 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”:

CSI, announced in January 2002, addresses the threat to border security and global trade posed by the potential for terrorist use of a maritime container. This Initiative institutes a security regime to ensure that all containers posing a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. U.S. Customs and Border Protection (CBP) stations teams of U.S. officers in foreign ports to work together with host foreign government counterparts to develop additional investigative leads related to the terrorist threat to cargo destined for the United States and to identify potentially high-risk shipments. Over 80% of maritime containerized cargo destined for the United States originates in or transits through a CSI port and is screened prior to being laden aboard a U.S. bound vessel. CSI is currently operational in fifty-eight (58) ports.

Customs Mutual Assistance Agreements:

CBP is the lead negotiator of Customs Mutual Assistance Agreements (CMAAs). CMAAs are negotiated with foreign governments and provide for mutual assistance in the enforcement of customs-related laws. Under the provisions of U.S. CMAAs, CBP provides assistance to its foreign counterparts, and receives assistance from them in the exchange of information that facilitates the enforcement of each country's laws. The Agreements have a high level of flexibility that allow parties to quickly communicate concerns and requests to each other. Recent CMAA negotiations were held with Switzerland, Jamaica, and Algeria. The Algerian CMAA was signed in early 2010.

International Visitors Program:

The State Department's International Visitors Program (IVP) can provide an opportunity for foreign customs officials and other foreign officials working on contraband enforcement issues to consult with their U.S. counterparts and appropriate high level managers in CBP Headquarters. International visitors can also participate in on-site tours of selected U.S. ports and field sites to observe actual CBP operations. The objectives of this program are:

- To demonstrate CBP's efforts to prevent terrorists and terrorist weapons from entering the United States.
- To show how such U.S. programs as the Container Security Initiative can extend U.S. borders by encouraging layered security that clearly benefits the U.S. and the cooperating countries.
- To offer foreign decision makers the opportunity to discuss and explore with CBP experts finding a balance between legitimate trade and travel and the need for reinforced security.
- To build international relationships and cooperation in support of global security through the use of consistent security standards worldwide.
- To support international capacity building programs, and encourage the introduction of new, more effective methods and techniques.

In FY11 through January, IVP made arrangements for 518 visits for 3117 visitors. These visits were sponsored by the Department of State, Department of Defense, and U.S. Coast Guard, various State National Guard Units, U.S. Embassies and other components of the Department of Homeland Security.

Port of Entry Interdiction Training:

The correct approach to border interdiction varies with 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 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 attempt to smuggle contraband in lightly patrolled border crossing zones.

International Bulk Currency Smuggling:

With an increased enforcement focus on money laundering, organized criminals and terrorists have turned to bulk cash smuggling to move valuables across borders. Bulk Currency Smuggling training assists foreign government enforcement personnel in identifying techniques used by bulk currency smugglers. Further, it helps them to design and implement programs to counter that threat, resulting in seizures of millions of dollars in the proceeds of crime.

Training in Host Countries

Overseas Enforcement Training: 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 can also be conducted at foreign ports of entry. They include both basic training and refresher training/mentoring abroad for graduates of training at U.S. port facilities. Training combines formal classroom and field exercises. Although many courses focus on counter proliferation and terrorism, courses cover the gamut of issues faced by CBP and our foreign border control counterparts, including narcotics interdiction. CBP hopes that participation in this training 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.

CHEMICAL CONTROLS

2010 Trends

Chemicals play two essential roles in the production of illegal drugs: as starting chemical inputs for the production of synthetic drugs such as methamphetamine and MDMA (3,4-methylenedioxymethamphetamine more commonly known under the name of ecstasy); and as refining agents and solvents for processing plant-based materials such as coca and opium poppy into drugs such as cocaine and heroin. Chemicals used in synthetic drug production are known as “precursor” chemicals because they become incorporated into the drug product and are less likely to be substituted by other chemicals. Chemicals used to refine and process plant-based drugs are referred to as “essential” chemicals and can be readily replaced by other chemicals with similar properties. 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.

In 2010 the United States and other nations continued to focus on preventing diversion of precursor chemicals. International partners redoubled their efforts to target chemicals used in methamphetamine production as well as continued to target those used in heroin and cocaine. Regional and multilateral cooperative efforts are critical in this regard. The result has been to force traffickers to use non-traditional routes and methods. These efforts built on a variety of bilateral, regional and multilateral mechanisms, such as the United Nations and the Organization of American States.

Methamphetamine. Global abuse of amphetamines increased in every region of the world with the exception of parts of Western Europe where authorities believe that it may have stabilized. For the first time in several years, methamphetamine use may have increased—although only slightly—in the United States. Moreover, production of methamphetamine continues to rise in this hemisphere as well as in Asia.

2010 saw progress in the development of a more complete and systematic reporting regime covering the international trade in synthetic drug precursors. This effort began in 2006, with a U.S.-sponsored CND resolution that 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. The U.S. continues to work 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 2010, the INCB reports that more than 123 countries and jurisdictions (up from 100 in 2008) are now cooperating and providing voluntary reporting on their licit requirements for the aforementioned chemicals. The INCB 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 of 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.

The international community also took a number of significant steps in 2010 to stop traffickers from getting supplies of precursors to produce methamphetamine. Specifically, through the recommendations of the United Nations, Members of the UN Commission on Narcotic Drugs voted in favor of the tightening controls on phenylacetic acid, a methamphetamine precursor. A number of countries also changed their legislation and increased efforts to monitor imports and exports of ephedrine and pseudoephedrine—non-controlled precursor chemicals used to produce methamphetamine.

In 2010, the INCB continued to play a pivotal role in facilitating the exchange of information that led to coordinated law enforcement operations.

The most notable of these was the extension of activities targeting amphetamine-type stimulants under Project Prism with Governments exchanging information through the INCB on legitimate trade and trafficking trends. INCB-coordinated Operation PILA, a time-bound voluntary operation focusing on the trade of ephedrine and pseudoephedrine, including pharmaceutical preparations and ephedra, tracked shipments to the Americas, Africa, Oceania, and West Asia. This operation included regulatory and law enforcement officials and is designed in accordance with the CND resolution for a nine-month period to gather intelligence on diversion of amphetamine-type stimulants (ATS), precursors, clandestine laboratories and links to trafficking organizations. Pre-export notifications (PEN online) served as a primary source of information.

The operation revealed that many of the suspicious shipments were destined for Mexico, with the leading source country shifting from China to India. This shift may be a result of new legislative and administrative efforts in China. This year, analysis of data and seizures indicated that India was the source and Mexico the primary destination of ephedrine and pseudoephedrine. A special emphasis was put on pharmaceutical preparations and on the trade in phenylacetic acetic with fewer controls that can be substituted to produce methamphetamine and the amphetamine phenylpropanolamine, P-2. Building on information received from last year, the operation also focused on trafficking and diversion of amphetamine-type stimulants in Africa and West Asia.

This operation, global seizures and law enforcement reporting reveal that indicate that drug trafficking organizations are adapting smuggling routes and adopting new production methods to obtain chemicals. Specifically, traffickers are increasingly resorting pharmaceutical preparations to obtain methamphetamine precursors. Additionally, traffickers are turning to non-controlled or less controlled or reported chemicals, and are seeking new diversion routes.

The United States, through cooperation with Mexico and Central American nations, is targeting 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). 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—primarily through UN International Narcotics Control Board (INCB)-led task forces.

In 2010 Mexican authorities sought to implement legislative and administrative changes enacted during the previous two year to target ephedrine and pseudoephedrine.

In Asia, methamphetamine production, transit, and consumption remain significant problems. To help stem production, trafficking, and abuse in East and Southeast Asia, in 2010 the United States supported bilateral and multilateral initiatives 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. IFCs contribute to developing host nation infrastructure and aid local law enforcement to fuse and share information to detect, disrupt and dismantle drug and drug-related national and transnational threats. The United States also has provided law enforcement training to a variety of countries, including training in 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.

Heroin. In 2010, the US further engaged other Member States in targeting the chemicals used to produce heroin. International regulatory efforts to track the commercial flow of precursor chemicals were also given a boost. Specifically, in 2010, the United States increased efforts to focus on precursor chemical

trafficking through and around the world's largest supplier of opium, Afghanistan. In addition to promoting cooperation through several UN-led regional meetings and a special meeting of the Paris Pact hosted by France to target Acetic Anhydride, the United States continued to step up law enforcement pressure on traffickers seeking to obtain acetic anhydride, an essential chemical needed to produce heroin. Building on the success of INCB Project Cohesion Task Force-led Operation Dice (Data and Intelligence Collection and Exchange) and its follow-on operation DICE 2, the United States and other nations expanded last year's efforts. The result was increased seizures, stopped shipments and identification of suspicious consignments involving over hundreds of tons of acetic anhydride.

In 2009, the United States joined with other nations to continue promoting the implementation 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. The Government of Afghanistan informed the INCB that there is no legitimate use for acetic anhydride in Afghanistan and seeks to block all imports of the substance to their country.

Despite international efforts, the United States is keenly aware that drug trafficking organizations are adapting by splintering and expanding their operations. A niche market has formed in some areas, and specialized middlemen now seek new routes and methods for precursor chemical smuggling and diversion methods.

Activities under the INCB-led Task Force Project Cohesion, Operation DICE-2 lasted nine months with the support of sixty countries, the INCB reviewed 860 international shipments of acetic anhydride and led to the seizure of over 26 tons. These cases involved large scale seizures of acetic anhydride destined for the illicit manufacture of heroin. Analysis of seizures in a range of countries in Europe, the Middle East and East Asia identified definite patterns of diversion and trafficking. Traffickers are increasingly using new smuggling routes for acetic anhydride, in Africa as well as seeking new distributors located in Africa, or Asia, to include Iran and Iraq, or exploiting small European non-chemical export companies to obtain acetic anhydride. It was also evident that heroin precursors are being smuggled as well as diverted from legitimate trade.

This INCB operation received further political support in coordination with several other efforts, including follow-up to 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. Diversion of precursor chemicals from licit commerce, gray markets, and new smuggling routes are only a few ways drug trafficking organizations are adapting. Information from various operations indicates that Operation Ice international action to combat this threat in both bilateral and multilateral settings.

Cocaine. Potassium permanganate, the primary chemical used in producing cocaine, is an oxidizer that has many legitimate industrial uses. These include waste water treatment, disinfecting, and deodorizing. 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 INCB-led Project Cohesion Task Force focuses on monitoring the imports of potassium permanganate to cocaine processing areas. Developing an effective multilateral effort focused on potassium permanganate has proved difficult, and the INCB and others are encouraging countries in South America to make this a priority in 2010. While reporting and seizures seemed to indicate that global trade in potassium permanganate was down in 2009, in 2010 it appeared to be up to previous levels. In 2008-09 Project Cohesion Task Force participants expressed concern over the paucity of information pertaining to the trade of potassium permanganate in Latin America. Despite the lack of multilateral operations focusing on potassium permanganate, Colombia continues to report large numbers of seizures and note concern about illicitly manufactured potassium permanganate.

The Road Ahead

The U.S. will continue to urge other countries to implement the provisions of the 1988 UN Convention as well as monitor those substances on the special surveillance list. Development of effective chemical control regimes is critical to implementation. Against this backdrop, legislation to criminalize the diversion of precursors is critical. Additionally, it is important to develop the administrative and procedural tools to successfully identify suspicious transactions, as well as to make 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 task forces of Project Cohesion and Project Prism to target precursor chemicals. The United States will promote implementation of the new mechanisms that have been enacted to foster the broader exchange of information and expertise pertinent to the control of methamphetamine and other synthetic drugs. 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 enable the INCB to fulfill its expanding role.

In this hemisphere, the USG will continue to 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.

In 2010, 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. These seminars also provided law enforcement officers, customs officers, chemists, and regulatory/administrative officials with the knowledge, skills, and resources to safely and effectively conduct their chemical control activities.

To promote the full implementation of the CND resolution and support ongoing INCB activities, including Project Prism, the Department of State contributed \$700,000 each year from 2007-2010.

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.

Special Monitoring List: 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 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.

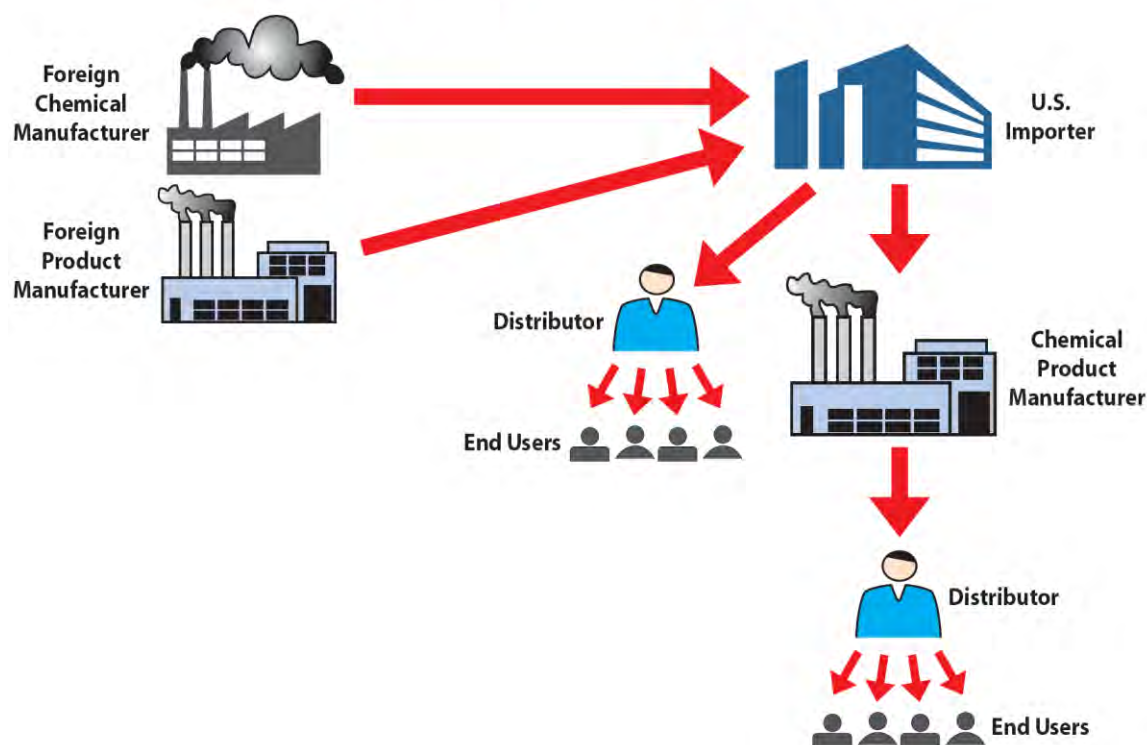
The regulatory framework codified by the United Nations through its conventions and resolutions is the most universally accepted and carries the broadest reach internationally, but it does not exist in isolation. Regional international bodies also have worked to complement the UN's regulatory regime and implement its goals. In February 2004, the European Union (EU) enacted binding legislation to regulate chemical control monitoring among 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 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 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 within the Western Hemisphere.

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

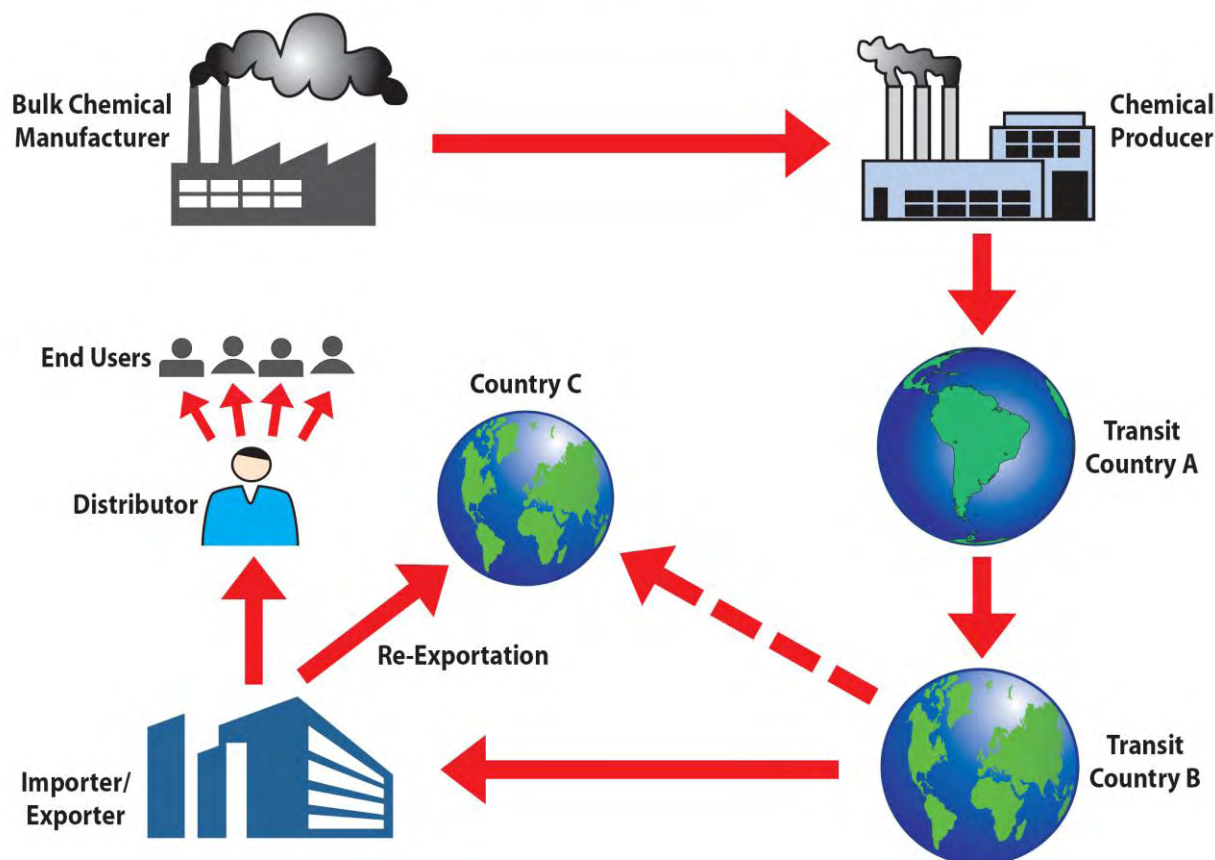
two main forms. The chemicals may be purchased from manufacturers or distributors. This can be done directly by traffickers or through unsuspecting or complicit third parties. Chemical producers also may be complicit in diversion schemes. This is less frequent. Instead, most diversion takes place due to the ability of criminals to exploit gaps in the regulatory frameworks 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.

ROUTES OF DIVERSION: Domestic



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. In parts of the developing world, traffickers often pick the path of least resistance and arrange for chemicals to be shipped to countries where no viable regulatory systems exist for their control.

ROUTES OF DIVERSION: International



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 obtain chemicals by bribing or blackmailing the employees of legitimate companies. In some cases they disguise the destination or nature of chemical shipments by mislabeling or re-packaging controlled chemicals as unregulated materials.

Traffickers also obtain precursors through theft, either from storage or during transit. Criminals have often employed violence to steal chemical supplies.

In the past year, transshipment or smuggling from third countries into drug producing countries has increased dramatically. This tactic is emerging as a key method in response to the increasing efforts of more countries to implement legislative and administrative controls to prevent diversion from legitimate commercial trade.

Since 2008 there has been a dramatic increase in criminal efforts to take greater advantage of finished pharmaceutical products. This includes extracting 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.

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. The next section focuses on illicit drug manufacturing. Each of these two sections is broken down by region.

The Americas

Argentina is one of South America's largest producers of precursor chemicals and remains a source of potassium permanganate. Argentina does not appear to be either a source or transit country for diverted acetic anhydride. The GOA has restricted any imports or exports of ephedrine. The Government of Argentina (GOA) has enhanced its precursor chemical regulatory framework as well as the effectiveness of its port and border controls and related criminal investigations in combating the traffic in precursor chemicals. Argentine and U.S. law enforcement officials continue to collaborate against attempts by drug traffickers to illicitly import or transship such chemicals.

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 of Planning for the Prevention of Drug Addiction and Drug Trafficking (SEDRONAR). Argentine law prohibits the transport of nonregistered precursor chemicals.

SEDRONAR employs a three pillar precursor chemical control system. First, all commercial entities that utilize these chemicals must register them in a National Precursor Chemical Register. Second, all entities must submit quarterly reports regarding the status/movement of registered chemicals. Finally, all registered chemicals are subject to audits by SEDRONAR's Precursor Chemical Diversion Control and Prosecution Unit. SEDRONAR performed 378 audits between January and November 2010, resulting in the imposition of 141 administrative sanctions and 16 criminal prosecutions.

Argentina restricted the importation and exportation of ephedrine, both as a raw material and as an elaborated product, in 2008 resulting in a substantial decrease in legal ephedrine imports in both 2009 and 2010. In addition, the GOA has taken steps to implement United Nations Commission on Narcotic Drugs Resolution 49/3. In August 2010, Argentina operationalized the International Narcotics Control Board's online Pre-Export Notification (PEN) system. SEDRONAR is responsible for data input of both precursor chemicals and pharmaceutical preparations into the PEN system.

Brazil

Brazil is the largest producer of chemicals in South America, including many common precursor chemicals listed in Tables One and Two of the 1988 U.N. Drug Convention. Brazil also imports significant quantities of chemicals to meet its industrial needs. The Government of Brazil (GOB) created

a chemical control law in 2001, establishing control and inspection norms for monitoring chemicals used in chemical products that potentially could be used to process narcotics. The GOB controls processing, storage, buying, selling, and transfer of 143 chemicals produced in Brazil, including potassium permanganate, acetic anhydride, ephedrine, and pseudoephedrine. The Brazilian Federal Police (DPF) registers 25,000 chemical handlers, who obtain a license and pay an annual fee. Brazil is implementing UNCND Resolution 49/3.

Since 2008, the National Computerized System of Chemical Control (SIPROQUIM) has monitored the chemicals most often used in cocaine processing. Brazil also participates in the U.S. Drug Enforcement Administration (DEA)-supported Operation Sin Fronteras, a regional chemical control initiative with eight other South American countries.

On April 29, 2010, the DPF, seized nine tons of sulfuric acid in Guaira, Parana, near the Bolivian border.

Canada

Canada continues to be a destination and transit country for the precursor chemicals used to produce synthetic drugs, particularly methamphetamine and MDMA (3, 4-methylenedioxyamphetamine, or ecstasy). According to the 2010 annual report of the Criminal Intelligence Service of Canada (CISC), Canadian-sourced pseudoephedrine has been found in raids on some clandestine U.S. methamphetamine labs. Though domestic methamphetamine use in Canada has "stabilized," according to CISC, production has continued to increase to supply export markets. CISC asserts that criminals export "significant quantities" of methamphetamine to the U.S., while to a lesser extent also supplying Japan, Australia and New Zealand. Canadian officials find that smugglers illicitly bring MDMA precursor chemicals into Canada from China and India "on a regular basis." The shortage of MDMA precursor chemicals in Europe is "not currently affecting the illicit manufacture of ecstasy in Canada," assessed CISC.

The U.S. maintains a close partnership with Canada in countering the scourge of synthetic drugs. Canada takes seriously its responsibility to curb the diversion of precursor chemicals required for methamphetamine production for both domestic and U.S. markets. Canadian-U.S. joint law enforcement operations have been fruitful in disrupting 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. Canadian officials confirm, however, that domestic production of methamphetamine and MDMA continues to increase. USG and Canadian officials 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. While an active participant actively the Government of Canada supports Project Cohesion when possible.

Chile

Chile has a large petrochemical industry engaged in the manufacturing, importation, and exportation of thousands of chemical products, including many common precursor chemicals listed in Tables One and Two of the 1988 U.N. Drug Convention. Chile has no known seizures of potassium permanganate or acetic anhydride, but it has been a source of ephedrine for methamphetamine processing in Mexico. Chile is also a potential source of precursor chemicals used in coca processing in Peru and Bolivia.

Chile has chemical control laws; however, enforcement is difficult due to procedural requirements. For example, CONACE, Chile's national drug control commission and a part of the Ministry of Interior, is the regulatory agency for chemicals often utilized to produce cocaine. However, CONACE does not have sufficient personnel to adequately review chemical purchases and movement. In addition, CONACE does

not have police powers, and must coordinate with law enforcement agencies and prosecutors to effectively investigate, arrest, and prosecute cases. Law enforcement agencies are limited in their ability to conduct proactive investigative measures without coordinating with prosecutors and CONACE. That said, many Chilean law enforcement entities, such as the Carabineros, Policia de Investigaciones (PDI), and Customs, have specialized chemical diversion units and dedicated personnel assigned with the responsibility for investigating chemical and pharmaceutical diversion cases.

On April 28, 2010, the PDI Chemical Investigative Unit, with in coordination with DEA, seized approximately 15,000 kilograms of sodium bicarbonate, 1,500 liters of acetone, and 40 kilograms of sulfuric acid. This operation resulted in three arrests and is the largest seizure of chemicals by Chilean law enforcement to date. Chilean government sources indicate the seizure of illegal pharmaceuticals reached an all time high in 2010, increasing 793 percent over previously reported numbers, with respect to the number of pills seized.

Companies that import, export, or manufacture chemical precursors must register with CONACE, maintain customer records, and are subject to CONACE inspections. There is pending legislation in the Chilean Congress to expand the list of companies subject to inspection by government authorities. CONACE has also requested additional resources from DEA to hire more inspectors so it can provide stronger oversight and regulation of the petrochemical industry.

Chemical industry compliance investigators work with DEA officials to identify suspect chemicals (potassium permanganate, sulfuric acid, acetone, ether, calcium chloride, etc.) that are often diverted in the Southern Cone for the production of cocaine base and cocaine hydrochloride. The majority of chemicals come from India and China, and the diversion of such chemicals is primarily directed at Bolivia, Peru, and Mexico. Chemicals destined for Peru and Bolivia most often are transported by land, while chemicals sent to Mexico are transported via air cargo and maritime shipments.

The government of Chile continued to make ephedrine diversion a major priority for 2010. On November 3, 2010, the Ministry of Health sent a government decree to the Comptroller General with the objective of banning the sale of ephedrine and pseudoephedrine. It is expected that this decree will be signed by President Pinera. According to Chile's most recent International Narcotics Control Board (INCB) statistics, as of October 19, 2010, Chile estimates the size of its licit domestic market for ephedrine to be 251 kilograms and pseudoephedrine to be 5,000 kilograms.

Mexico

Significant methamphetamine production continues in Mexico and importations of precursor chemicals into Mexico are on the rise. The GOM outlawed imports of pseudoephedrine (except for liquid pseudoephedrine for hospital use) in 2008. In November 2009, the GOM enhanced its regulatory laws pertaining to the import of precursor chemicals, which tightened the regulations for imports of phenyl acetic acid, its salts and derivatives, methylamine, hydriodic acid, and red phosphorous. In June of 2010, the GOM enhanced the category of the aforementioned chemicals in accordance with the November 2009 law, changing the category from essential chemicals to precursor chemicals. Potassium Permanganate and Acetic Anhydride are not regulated in Mexico.

However drug trafficking organizations sought new avenues to circumvent authorities in order to obtain and produce methamphetamine, after a ban was placed on pseudoephedrine and ephedrine, prohibiting their import and use, drug trafficking organization. They developed new trafficking routes through Central and South America, substituted new chemicals that have less controls, and sought ephedrine and pseudoephedrine in tablet or preparation vice bulk form. Operation PILA—an INCB led operation initiated in 2009 revealed that Mexico was the destination of many suspect ephedrine and pseudoephedrine shipments.

During 2010, the quantity of chemicals seized as reported by the Government of Mexico (GOM) totaled over 818.6 metric tons (MT). This included: potassium phenyl acetate (288 MT), ethyl phenyl acetate (218 MT), ethyl phenyl alcohol (147.6 MT), esters of phenyl acetic acid (80 MT), tartaric acid (40 MT), acetic acid (32 MT), phenyl acetic acid (9 MT), piperonal (4 MT). All of these are considered U.S. List I chemicals.

Imports of both precursor and essential chemicals are limited by the GOM to specific ports of entry. Mexico has a total of 49 ports of entry, of which only 17 are authorized for importing essential chemicals. Among these 17 ports, only four are authorized for importing precursor chemicals - Nuevo Laredo (land port), Port of Veracruz (Veracruz), Port of Manzanillo (Colima), and the Mexico City Benito Juárez International Airport (AICM) Mexico City, Mexico.

While the importation of pseudoephedrine and ephedrine is banned in Mexico, traffickers continue to illicitly import these precursor chemicals. During 2010, approximately 298 kg of PSE and 5,970 kg of ephedrine were seized at the ports of Veracruz, Manzanillo, and AICM. However, based on the number of clandestine laboratories that were dismantled by the GOM (approximately 110) during 2010, phenyl-2-propanone (P-2-P) is the primary production method for methamphetamine.

The majority of ephedrine destined for Mexico is supplied by sources in China, the Czech Republic, Switzerland, Thailand, India, Bangladesh, and the United States. Drug traffickers in Mexico now substitute ephedrine and/or pseudoephedrine with phenyl acetic acid (PAA), which enters Mexico in large quantities from suppliers in the Netherlands, Bulgaria, and China. The PGR has also detected shipments entering Mexico from the United States. The import, export, and trade of PAA are regulated according to an agreement issued by Mexico's Health Secretariat in 1998. In May 2010, officials seized 88 tons of the ethyl phenyl acetate precursor chemical used to make methamphetamines at the Port of Manzanillo, representing the largest single seizure of the chemical. The chemical was found in five shipping containers sent from China.

Acetic Anhydride has been identified at clandestine laboratories producing methamphetamine; however, the quantities are small, consisting of one or two barrels (200-liter capacity). Due to the lack of regulation of potassium permanganate by the GOM, any seizures of this product as an import chemical are not identified in statistics.

A strong bilateral working relationship between USG and GOM authorities continues 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.

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 6 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; the penalties for some chemical trafficking offenses involving methamphetamine 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 the task forces 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. China remains a major producer of ephedrine and pseudoephedrine used in the manufacture of methamphetamine. Many international law enforcement agencies believe that large-scale methamphetamine producers in other Asian countries and Mexico use Chinese-produced ephedrine and pseudoephedrine as a precursor. Numerous examples from criminal investigations confirm this suspicion. Diverted Chinese precursor chemicals may sustain synthetic drug production in other countries as far away as Mexico, Belgium, Indonesia, and the Netherlands. Although China enacted more stringent precursor chemical control laws in November 2005 and is engaged in multilateral and bilateral efforts to stop diversion from its chemical production sector, it has not yet found a way to effectively prevent diversion of precursor chemicals in its large chemical industry.

There is a widespread consensus among law enforcement authorities in Asia that large-scale production of methamphetamine, most notably in super- and mega-labs in Asia and the Pacific Rim, use precursor chemicals produced in China. Production of illicit synthetic drugs for both the domestic and foreign markets primarily occurs in southeastern provinces such as Fujian, Zhejiang, and Guangdong.

The PRC produces and monitors all 23 of the chemicals on the tables included in the 1988 UN Drug Convention. China continues to closely cooperate with the United States and other concerned countries in implementing a system of pre-export notification for dual-use precursor chemicals. China strictly regulates the import and export of precursor chemicals.

In 2010, several significant steps were taken. The Chinese Supreme People's Court, the Supreme People's Procuratorate, and MPS issued a set of legal guidelines to target illicit drug manufacture and set of guidelines and regulations on precursor chemical administration. Similarly the State Food and Drug Administration issued a set of guidelines to increase monitoring of ephedrine and its preparations. In a separate effort the Chinese Government is also increasing restrictions on online transactions of drug precursor. Specifically, individuals are banned from selling precursor chemicals over the Internet. Only companies having a license to produce and sell these chemicals are allowed to publish sales information online. Operators of business websites are required to carry out strict checks of precursor chemical

suppliers, submit photocopies of their licenses to Internet service providers, and publish the formal name of suppliers and their license numbers on the website.

In China, 137 cases were filed in 2009 related to a total of 649.1 tons of raw materials seized throughout the year. From 2006 to 2009, Chinese police cracked 1,554 cases of illegal trade in precursor chemicals and confiscated 3,814 tons of such chemicals. Between January and May 2010, Chinese People's Armed Police confiscated 243 tons of precursor chemicals.

Despite controls, regulatory loopholes are used to purchase precursor chemicals illegally to process drugs. In January 2010, health authorities urged healthcare professionals across the country to improve the clinical application and administration of narcotics and other specially controlled medicines. The specially controlled medicines include narcotics, psychotropic substances, toxic drugs for medical use and radioactive drugs, according to China's Pharmaceutical Administration Law revised in 2001.

China cooperates in international chemical control initiatives such as Project Cohesion, which targets the diversion of potassium permanganate and acetic anhydride, and Project Prism, which targets the precursor chemicals used in the illicit manufacture of amphetamine-type stimulants. With relation to Project Cohesion, China accounts for 70 percent of the worldwide seizures of potassium permanganate. China continued its participation in the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD).

India

India is the world's third-largest manufacturer of precursor chemicals and specifically, one of the top producers of ephedrine and pseudoephedrine. 2009 data from the Global Trade Atlas indicate that India is the top exporter of ephedrine (kilograms) and pseudoephedrine (kilograms). India has implemented legislation and a system to prevent diversion of ephedrine and pseudoephedrine. However, information from Operation Ice Block indicates that traffickers are now targeting India as the key source of ephedrine and pseudoephedrine for methamphetamine processing. Further, follow-up reports in 2009 from seizures in South and Central America indicate traffickers are targeting India. India was the source of several large shipments of ephedrine and pseudoephedrine tablets ultimately destined for Mexico. In another series of law enforcement reports large shipments of pseudoephedrine from India was formed into tablets in Bangladesh and sent to countries in Central America and the Caribbean.

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 Narcotic Drug and Psychotropic Substances Act requires that every manufacturer, importer, exporter, seller and user of controlled substances maintain records and file returns with the Narcotics Control Bureau (NCB). Each loss or disappearance of a controlled substance must be reported to the Director General of the NCB. Exports of the precursors ephedrine and pseudoephedrine require a "No Objection" Certificate from the Narcotics Commissioner, who issues a Pre-Export Notification to the Competent Authority in the importing country as well as the International Narcotics Control Board (INCB). India has also been an active participant in operations like Project Prism, which targeted precursors to manufacture amphetamine-type stimulants (ATS). However, 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. It is likely that in many

cases, India's elaborate control regimes have been undermined by corruption at the officer level. Nevertheless, each case investigated and prosecuted provides helpful information to authorities which they apply going forward to reduce opportunities for diversion.

Singapore

In 2009, Singapore's exports and imports of both ephedrine and pseudoephedrine increased. In 2009, Singapore was ranked the fourth largest (ranked fifth in 2008) importer of Ephedrine, a precursor for Methamphetamine, and moved up the ranks to become the third largest exporter of ephedrine (ranked fourth in 2008). For pseudoephedrine, another pre-cursor to Methamphetamine, Singapore was the number one importers in 2009 (ranked third in 2008) and moved to third from sixth place in 2008. The quantities not re-exported are used primarily by the domestic pharmaceutical industry and by the large number of regional pharmaceutical manufacturers located in Singapore. Singapore is one of the largest distributors of acetic anhydride in Asia. Used in film processing and the manufacture of plastics, pharmaceuticals, and industrial chemicals, acetic anhydride is also the primary acetylating agent for heroin.

Singapore participates in multilateral precursor chemical control programs, including Operation Cohesion, 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 controls precursor chemicals, including pseudoephedrine and ephedrine, in accordance with the 1988 UN Drug Convention 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 GOS conducts rigorous site visits on companies dealing with controlled chemicals to ensure awareness of the requirements and overall compliance.

The Republic of Korea (ROK)

With one of the most developed commercial infrastructures in the region, the Republic of Korea (ROK) is an attractive location for criminals to obtain precursor chemicals. As of 2010, 25 precursor chemicals are controlled by Korean authorities. Both the Korean Customs Service (KCS) and the Korean Food and Drug Administration (KFDA) participate in Projects Cohesion and Prism. In addition, the KCS, KFDA, and other Korean law enforcement agencies, such as the Korean National Police, participate in sub-programs of those projects, such as Data and Intelligence Collection (DICE) and the Information Sharing System (ISS). KFDA closely monitors imports and exports of precursor chemicals, particularly acetic anhydride, and investigates shipments suspected of being diverted for illicit purposes. Permits must be obtained for such shipments and records of transactions are maintained for a minimum of two years. KFDA works with governments of several Southeast Asian nations to verify documents and confirm the existence of importing businesses and sends representatives to the region to investigate. A draft bill proposed in the National Assembly will require manufacturers and exporters of precursor chemicals to register with the government and will also provide education to Korean businesses to prevent them from unknowingly exporting such chemicals to bogus importers.

The South Korean authorities have jointly investigated numerous shipments, constituting multiple tons of acetic anhydride manufactured and imported from the U.S. that have been illegally diverted. Other precursor chemicals, including acetone, toluene, hydrochloric acid, and sulfuric acid, are produced in large quantities within South Korea for in-country use and for export. In a recent notable case from May 2010, Korean prosecutors and customs officials arrested an Afghan national, who allegedly smuggled large quantities of acetic anhydride from South Korea to Afghanistan through Pakistani agents. Korean

authorities, working in conjunction with DEA and United Arab Emirates (UAE) authorities, successfully seized 420 liters of acetic anhydride allegedly connected to the arrested Afghan national from a sea container in UAE, according to a press release published by the Cheon An District Prosecutors' Office.

Taiwan

Taiwan's chemical industry has long been a driving force in boosting Taiwan's economic development. Globally, Taiwan is the fourth largest exporter of ephedrine and third largest exporter of pseudoephedrine and second largest importer of ephedrine. 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.

Taiwan law enforcement has long recognized that certain Taiwan-based chemical companies engage in the diversion of chemicals, which may be used to manufacture illicit substances in countries such as Cambodia, Thailand, Mexico, Honduras, and Belize. In order to combat the diversion of these chemicals, the Ministry of Economic Affairs, Industrial Development Bureau serves as the regulatory agency for chemicals such as acetic anhydride, piperonal, safrole, piperidine, hydrogen chloride, and potassium permanganate, among others. While licensing is not required for the importation or exportation of these substances, any company that imports, manufactures, sells, stores, or otherwise utilizes these chemicals must report to the Industrial Development Bureau. The Bureau may inspect the company's records to ensure that there is no diversion activity.

Taiwan does not control the importation and exportation of ephedrine/pseudoephedrine combination over-the-counter pharmaceutical preparations; however, companies engaging in their import/export must register their transactions with the Department of Health, who may elect to examine relevant shipping records. Of the twenty-three chemical precursors listed in the 1988 UN Drug Convention, five chemicals to include ephedrine and pseudo-ephedrine fall under the scope of the Executive Yuan's (EY) Department of Health. The other seventeen 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.

Taiwanese law enforcement agencies worked with USG agencies and received training from USG agencies. On an international level, since Taiwan is not a member of the United Nations, Taiwan is unable to access the International Narcotics Control Board (INCB)'s on-line Pre-Export Notification (PEN) system to report import and export shipments of precursor chemicals and pharmaceutical preparations. However, Taiwan unilaterally adheres to the UN convention on controls of such material.

Thailand

Thailand is a transshipment point and a net importer of amphetamine-type stimulants (ATS) and was the fifth largest importer of pseudoephedrine in 2009. Methamphetamine is smuggled from Burma across Thailand's northern border for domestic consumption, as well as for export to regional and international markets. Additionally, traffickers move methamphetamine and some heroin from Burma through Laos and across the Mekong River into Thailand's northeastern border provinces.

Drug smugglers travel south through Laos into Cambodia where they enter Thailand across the Thai-Cambodian border. Drugs are also transported from Burma through Laos to Vietnam and Cambodia for regional export. Thailand is a party to the 1988 UN Drug Convention.

The emergence of crystal methamphetamine or "ice" production in the Shan State of Burma is a serious concern to the Thai authorities. MDMA (ecstasy) trafficking is more common in Thailand. Ecstasy typically is smuggled into Thailand via commercial air carriers from Europe; the drug also is smuggled overland from Malaysia. Most ketamine is believed to transit from neighboring countries, especially Malaysia and Singapore. It is also smuggled into Thailand across the Thai-Cambodian border.

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 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--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. Belgium and the United Kingdom are also included this year because of their large exports of ephedrine and pseudoephedrine.

Belgium

Belgium has a substantial pharmaceutical product sector. The country has limited manufacture of licit methamphetamine precursors and it is not a final destination for international shipments of these precursors. The illicit ephedrine diversion market is controlled by Mexican traffickers who purchase both legal (i.e., cold medicine and dietary supplements) and illegal ephedrine, and ship it to Mexico. It is then used to produce methamphetamine for distribution in the U.S. Increased regulations in the U.S. appear to have led to increased transshipments in Belgium and other Western European countries of ephedrine and other methamphetamine precursors through their countries. The Belgian authorities reported the seizure of 13,400,000 ephedrine pills in 2 incidents during 2008. Data for 2010 is unavailable. Belgian authorities cooperate with the US on international controlled deliveries (ICD) to the destinations, or by seizing the shipments.

Germany

Germany continues to be a leading manufacturer of pharmaceuticals, and in 2009 was ranked number two in exports of both ephedrine and pseudoephedrine in 2009. All types of precursor and essential chemicals are manufactured and/or sold by the vast German chemical and pharmaceutical industry. Germany is a large manufacturer of pseudoephedrine and ephedrine used in its large licit pharmaceutical industry and exported to other countries. The essential chemicals pseudoephedrine and ephedrine are regularly diverted to Mexico and Central America for use in the production of methamphetamine, which is then smuggled into the United States by the various Mexican drug cartels.

Another example of a highly diverted precursor chemical is Acetic Anhydride (AA) which is diverted to Afghanistan for the use in the production of heroin. In August 2010, German and US authorities have begun a cooperative effort to gain an in-depth understanding of the AA commercial trade industry as it relates to the European and global market in order to identify and target drug trafficking organizations (DTOs) diverting legitimate AA supplies.

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. Although Germany's developed chemical sector makes the country susceptible to precursor chemical diversion, German legislation tightly controls the movement of chemicals throughout the country. 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 led to required amendments to German law. The amendments, which became effective in 2008, supplement three EU directives by regulating the monitoring of the precursor market by the authorities. The Federal Center for Drugs and Medical Devices is responsible for authorizing the import, export or transit of all precursor chemicals in Germany. Germany works closely with the USG on chemical control issues, including exchanging information and cooperating both bilaterally and multilaterally, to promote transnational chemical control initiatives. Germany works closely with the UN's International Narcotics Control Board (INCB), as an active participant of ongoing UN chemical control operations, such as Project Cohesion (targeting acetic anhydride) and is an active member of the United Nations Office on Drugs and Crime (UNODC) Paris Pact Initiative, an international working group formed to target Afghan heroin.

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. 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) at the Ministry of Finance oversees implementation of the law.

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. The Netherlands signed an MOU with China concerning chemical precursor investigations. The Netherlands is an active participant in the INCB/PRISM project's taskforce. In November 2009, the Netherlands hosted the two-year Synthetic Drugs Enforcement Conference (Syndec). In 1994, the Netherlands established procedures to maintain records of transactions of an established list of precursor chemicals essential in the production of some illegal 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 Dutch continue to work closely with the United States on precursor chemical controls and investigations. This cooperation includes formal and informal agreements on the exchange of intelligence.

In April 2009, the National Crime Squad's Expertise Center on Synthetic Drugs and Precursors (ESDP) established the Precursors Taskforce, which was assigned to gain insight into the most important trends in the market for precursors.

On the basis of the WVMC, trade and industry are committed to report suspect transactions with respect to registered chemicals to a special notification center (WVTC) of the FIOD, which is located with the ESDP. According to the 2009 annual report of the ESDP, the WVTC received 59 reports of suspect transactions in 2009, unchanged from 2008. Of the 59 reports, 33 came from Dutch companies and 26 from foreign companies/authorities. Of the 59 reported transactions, 37 cases were delivered, 13 were not, and nine are unknown.

According to the 2009 ESDP report, one of the most important trends in 2009 was the scarcity of PMK in Dutch criminal circles and, thus, the drop in MDMA production. In 2009, PMK was found on only one occasion, consisting of 40 liters. In 2009, there were four PMK seizures in the Netherlands totaling 207 liters. According to the ESDP, this is a relatively small quantity in view of the 1,946 kilos of amphetamine powder and 466 kilos of amphetamine paste seized in the same year. Pseudoephedrine seizures in 2009 totaled 587 kilos compared to 317 kilos in 2008. According to the ESDP, because there is relatively little methamphetamine production, the Netherlands appears to be a transit country rather than a destination country for pseudoephedrine. Statistics on GHB seizures are lacking since GHB is not listed on the WVMC list.

A second important trend noted by the ESDP in 2009 was the increase in "designer" drugs and other sorts of synthetic drugs. The ESDP was more frequently confronted with substances such as 2c-B, mCPP, methamphetamine, GHB and mephedrone, than in previous years.

The United Kingdom

The United Kingdom is one of world's largest exporters of ephedrine according to Global Trade Atlas data. In 2009, the UK was again ranked the fifth largest exporter of ephedrine and the fourth largest largest exporter of this precursor that can be used for methamphetamine production.

The UK strictly enforces national precursor chemical legislation in compliance with EU regulations and is a party to the 1988 UN Drug Convention. 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 Home Office Drug Licensing and Compliance Unit is the regulatory body for precursor chemical control in the UK. In 2008, the Controlled Drugs Regulations (Drug Precursors) (Intra and External

Community Trade) were implemented, bringing UK law in line with preexisting EU regulations. Licensing and reporting obligations are incumbent upon those that engage in commerce of listed substances, and failure to comply with these obligations is a criminal offense.

SOCA and the police have the responsibility to inspect facilities where listed chemicals may be housed, to investigate suspicious licensing requests, and to pursue issues related to terrorism or possible terrorism offenses. Her Majesty's Revenue and Customs deals with issues related to imports and exports of listed chemicals.

In 2006, the UK reclassified methamphetamine from a Class B to a Class A drug--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. Ecstasy consumed in the UK is believed to be manufactured in the Netherlands or Belgium; but some tablet making sites have been found in the north of England. Most illicit amphetamines were imported from continental Europe, but some were manufactured in the UK in limited amounts. While the UK government made the "date rape" drug GHB illegal in 2003, GBL, a close chemical equivalent of GHB, remained uncontrolled. In August 2009, UK Home Secretary Alan Johnson announced that the UK intended to classify both GBL and BZP (Benzodiazepine), another "party drug" as Class C soon. As part of this review the UK also intends to ban synthetic cannabinoids, which are chemicals that are sprayed on herbal smoking products. Often referred to by its street name, "SPICE" has become readily available in the UK. 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. The UK intercepts the most amphetamine in Europe.

Significant Illicit Drug Manufacturing Countries

Asia

Afghanistan

Afghanistan produces most of the world's opium. There are indications that the trend in processing heroin and morphine base by drug traffickers is increasing. However, there is no domestic chemical industry, or legitimate use for acetic anhydride, the primary precursor chemical used in heroin production. 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. (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.)

Large quantities of precursor chemicals used in heroin production are illicitly imported into Afghanistan. According to UNODC, markets and processing facilities are clustered in areas that border Iran, Pakistan and Tajikistan. UNODC has reported that trafficking routes for opiates (which are exported) and precursor chemicals (which are imported) are largely similar.

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. And this year, the Government of Afghanistan did not report statistics to the INCB in accordance with Article 12, so the Board was unable to confirm amounts seized.

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 helped 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 including 14,000 liters of acetic anhydride in 2008

Burma

Despite Burma's overall decline in poppy cultivation since 1998, a dramatic surge has taken place in the production and export of synthetic drugs. Burma does not have a significant chemical industry and does not manufacture ephedrine and pseudoephedrine used in synthetic drug manufacture, or acetic anhydride used in the remaining heroin manufacture. Burma is a significant player in the manufacture and regional trafficking of amphetamine-type stimulants (ats). Organized criminal syndicates produce significant quantities of heroin and ATS in Burma; most of this production occurred in Burma's border regions, particularly Shan State. Burma's own chemical industry is extremely limited and not sufficiently developed to support the chemical needs of illegal drug labs and refineries. Chemical precursors from China, India, and Thailand are smuggled into Burma. Burma's long, porous, and lightly policed border regions, many under the control of armed groups that operate outside the sphere of state authority, provided ample routes for incoming chemical shipments.

Burmese police seized unknown quantities of acetic anhydride, used in converting opium to heroin, but indications are that traffickers and refiners are able to get the chemicals they need to continue producing drugs. GOB statistics often do not differentiate among precursor chemicals. Seizures included 3320 liters of liquid chemicals, some of which was acetic anhydride, and 2202 kilograms of chemical powder.

January to October seizures related to ATS production included more than one million pseudo-ephedrine tablets and 312 kilograms of ephedrine powder, as well as 1159 kilograms of caffeine powder and almost six liters of liquid cough syrup.

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, and prohibited their import, sale or use in Burma.

Indonesia

In 2009, Indonesia was the fifth largest importer of ephedrine and fourth largest importer of pseudoephedrine—precursors used in methamphetamine production. Diversion and unregulated importation of precursor chemicals remains a significant problem facing Indonesia's counter drug efforts. However, Indonesia has demonstrated commitment to precursor control through national law and policy development and implementation. Indonesia has been an active participant all regional and international narcotics and precursor control initiatives, and has passed amended narcotics and precursor control laws. Indonesia's latest precursor control amendment is the grouping of Schedule II Psychotropics into Schedule I Psychotropics--effectively criminalizing violations of all Schedule II Psychotropics. Violators of illegal methamphetamine possession now face a minimum five to fifteen year prison sentence and a maximum death penalty. BNN's new role as inspector and law-enforcer in precursor production oversight will quite likely benefit precursor control on a national level.

Despite Indonesia's successes in narcotics and precursor control, formidable challenges remain. Chief among these challenges is surge in illicit drug activity—including drug trafficking. Indonesia's small and under-resourced border protection authority is juxtaposed against a massive and highly porous geography. While Indonesia can tout success and achievement in its oversight for precursors in small controlled environments such as pharmaceutical plants, it still does not possess adequate border protection resources to prevent smuggling of narcotics and precursors across its borders. Despite Indonesia's efforts to combat corruption through legislation, anti-corruption programs, and the Corruption Eradication Commission, government corruption will likely affect Indonesian oversight and implementation of precursor control programs adversely.

In the recent past, Indonesian enforcement also destroyed large clandestine MDMA (Ecstasy) and methamphetamine "Super Laboratories." In 2009, clandestine laboratory operations were much smaller, possibly in response to Indonesian law enforcement efforts. There are also indications that laboratories are being moved outside large metropolitan areas to rural areas where law enforcement is not as prevalent. Illicit methamphetamine production originates from diverted pseudoephedrine imported into Indonesia from China. Smaller-sized laboratories are becoming much more prevalent in Indonesia than the super labs. Laws to control the diversion of illicit drug precursors such as pseudoephedrine are still lax, but beginning in 2010, enforcement agencies will have more authority to regulate the importation of precursor chemicals. However, the diversion potential remains with the numerous legitimate large international pharmaceutical and chemical corporations that operate throughout Indonesia.

The scale of amphetamine type stimulant (ats) and Ecstasy manufacturing in Indonesia is already large, and the country may potentially displace Europe as the supply source for Ecstasy in the region.

Historically, MDMA has been smuggled into Indonesia from sources in the Netherlands or produced in China and smuggled to Indonesia by Chinese organized crime syndicates based in Hong Kong. However, in recent years, importation has been unnecessary as there has been large-scale MDMA and methamphetamine production in Indonesia itself. MDMA and methamphetamine produced in Indonesia is trafficked both domestically and internationally.

Laos

Laos is an important transit point 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. Laos is a party to the 1988 UN Drug Convention.

Laos Penal Code has several prohibitions against the import, production, and use and misuse of chemical substances which could be used for manufacturing illicit narcotics. In addition, the Ministry of Health and the Customs Department maintain lists of controlled and prohibited chemical substances. Laos has a very small and nascent industrial base and the use of industrial chemicals subject to misuse for narcotics manufacture is relatively small. It is expected that with the planned accession of Laos to the World Trade Organization in the next few years, the legal controls on the use and import of such controlled chemical substances will be strengthened with first line enforcement being performed by the Customs Department.

The new legal prohibitions on chemical precursors were notably enforced in a major chemical precursor's seizure in August 2009, when some 4.665 tons of "CD-10" medication cold tablet packages were seized in northern Xieng Khouang Province (which borders Vietnam). This was the largest such "chemicals precursor" seizures reported.

Individuals or small-scale merchants undertake the majority of street-level methamphetamine sales. Criminal gangs involved in drug trafficking across border areas adjacent to Vietnam, China, Thailand and Burma, including ethnic minority groups operating on both sides of those borders, constitute a particular problem for Lao law enforcement

In December 2007, the Lao National Assembly passed a drug law (Law on Drugs and Article 46 of the Penal Law), signed by the Prime Minister in early 2008, that defines prohibited substances and pharmaceuticals for medical use. In March 2009, the Prime Minister's Office issued a "Decree" to the revised drug law to clarify criminal liability that includes a list of chemical precursors which could be used for illicit purposes (32 including caffeine).

Malaysia

Malaysia continues 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. Methamphetamine, ecstasy, and ketamine, mostly from India, are smuggled through Malaysia en route to consumers in Thailand, Japan, Indonesia, Singapore, China, and Australia. Ketamine from India continues to be 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 2009, with methamphetamine laboratories seized in Kuala Lumpur and in Southern Malaysia, and frequent police reports of ethnic Chinese traffickers setting up labs in Malaysia. Nigerian and Iranian drug trafficking organizations are also increasingly using Kuala Lumpur as a hub for their illegal activities.

Latin America**Bolivia**

Because Bolivia does not have a large chemical industry, most of the chemicals required for illicit drug manufacture of cocaine 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.

The Chemical Substances Investigation Team (GISUQ), a division of the Special Operations Force (FOE) of FELCN searches for chemicals used in the cocaine manufacturing process, such as sulfuric acid, kerosene, diesel oil and limestone. In 2010, GISUQ found traffickers using new chemicals, such as electrolytes and acetone, which are not controlled under Bolivian Law 1008.

In 2010, GISUQ seized 963.8 MT of solid substances and 2,400,271 liters of precursor chemicals, surpassing 2009 results by 11 percent and 52 percent, respectively.

The GOB does not have control regimes for ephedrine and pseudoephedrine. On June 6, 2010, 49 kilograms of cocaine and 445 kilograms of ephedrine concealed in wood furniture from Santa Cruz, Bolivia, were seized in Manzanillo, Mexico. The ephedrine was likely smuggled into Bolivia by traffickers seeking a freight-forwarding area with less law enforcement scrutiny.

Colombia

Chemical trafficking is a serious problem in Colombia. Unlike illicit drugs, chemicals have a legitimate use. The burden of proof is on the police to prove that the chemicals are intended for illicit drug production.

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 and chemicals have also been diverted at large Colombian chemical companies, whose management has no knowledge of the illegal activities. Potassium permanganate, are also imported into Colombia. 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, 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 Colombian National Police Chemical Sensitive Intelligence Unit (SIU) was formed in June of 1998. The unit’s primary mission was to confirm the existence of companies importing chemicals including those from the United States, and it was also charged with confirming the statutory legality of those operating. The primary mission of the group changed near the end of 2000 when the focus shifted to investigative work as opposed to solely regulatory inspections.

In 2007, the regulatory function of the SIU was transferred to one of its own internal units and the SIU maintained its investigative focus. The SIU unit is currently comprised of 40 members, while the Regulatory Unit is comprised of 20 members. The SIU has offices in four cities in Colombia (Bogota, Medellin, Villavicencio, and Cali), and the Regulatory Unit is based in Bogota but travels as needed to other cities within Colombia.

The primary mission of the SIU is to target and dismantle large-scale chemical trafficking organizations that provide chemicals to cocaine, heroin, and synthetic drug producing organizations within Colombia and Mexico. The SIU and Regulatory Unit are also responsible for spearheading the multi-national

chemical targeting operation Six Frontiers (“Seis Fronteras”). The SIU coordinates all operations within Colombia in association with the Colombian Military, the Judicial Police, Colombian Prosecutors office, Colombian Customs, and various other agencies. SIU operations have resulted in large quantities chemical seizures by participating countries. In 2010, the SIU arrested 92 people and seized approximately 1.2 million gallons of liquid and 4.6 metric tons of solid precursor chemicals, including 3,882 kilograms (kg) of hydrochloric acid, 5,279 kg of calcium chloride, 50,092 kg of sulfuric acid, 842 kg of active carbon, 43 kg of potassium permanganate, 3,590 kg of sodium carbonate, 212.5 metric tons of cement, 3,289 gallons of methyl ethyl ketone (MEK), 3,422 kg of sodium metabisulfite, 720 gallons of diesel fuel, 16.5 metric tons of solvent #1A, 1,461 kg of isopropyl alcohol, 32,260 kg of thinner, 83.8 metric tons of lime, 29.8 metric tons of caustic soda, 6,485 gallons of N-propyl acetate, 12,304 gallons of acetone, and 154 kg of ephedrine. In 2010, no acetic anhydride, urea, or potassium chloride was seized.

Peru

Peru continues to be a major importer of precursor chemicals that can be used in cocaine production, such as acetone and sulfuric acid. Many tons of these chemicals are diverted from legitimate channels to cocaine production with a major concentration in the coca valleys. Peru also produces some precursor chemicals such as sulfuric acid and calcium oxide that can be used for processing coca base into cocaine base. Based on chemical seizures, multiple tons of precursor chemicals are diverted from legitimate channels to clandestine cocaine production laboratories located close to coca growing areas in the Apurimac and Ene River Valley (VRAE) and Upper Huallaga Valley (UHV).

Lima is the source of 90 percent of chemical precursors smuggled to cocaine production areas, where the chemicals are utilized in the cocaine manufacturing process. Drug traffickers transport precursor chemicals to cocaine labs using individuals, animals, and vehicles. Peruvian National Police (PNP) have identified the principal routes of precursor chemicals from Lima into the drug source areas. As drug traffickers seek alternate routes to move chemicals, the PNP has installed a number of checkpoints on roads leading out of Lima as part of the effort to control and prevent chemicals from reaching coca maceration pits and cocaine laboratories.

Consistent with the GOP’s Five-Year Drug Strategy, Peru’s counternarcotics police, DIRANDRO, continued Operation Chemical Choke, a bi-lateral chemical control program that targets acetone, hydrochloric, and sulfuric acid through a specialized enforcement/intelligence unit of PNP officers. In 2010, Operation Chemical Choke targeted those organizations that divert these chemicals to cocaine production laboratories located near coca growing areas in the VRAE and UHV, and resulted in the arrests of several chemical traffickers and the seizure of 9.5 metric tons (MT) of acetone, 21.8MT of hydrochloric acid, and 2.12MT of sulfuric acid.

Peru’s law enforcement has reported multi-hundred-ton seizures of hydrochloric acid and acetone collectively as well as calcium oxide, totaling 290 MT. In 2010, seizures of potassium permanganate totaled 516 kg, indicating a minimal presence. The PNP’s Control and Investigative Unit for Chemical Precursors (DICIQ) was directly responsible for the seizure of 75 MT of primary chemical precursors in 2010, as well as asset seizures valued at \$6 million, and the arrest of 70 traffickers.

Peru’s law enforcement organizations conducted joint chemical enforcement operations with neighboring countries and participated in enforcement strategy conferences to address chemical diversion. Peru was a major participant in the Operation Sin Fronteras Phase I held in Buenos Aires, Argentina. In 2010, Peru’s efforts in Operation Sin Fronteras resulted in the seizure of 20 MT of sulfuric, acetone, and hydrochloric acid, as well as several arrests.

In 2009, to combat the diversion of kerosene for cocaine manufacture, the GOP issued regulations prohibiting the commercialization of kerosene and established a program to replace the use of domestic kerosene with liquid petroleum gas. The regulation prohibited the selling, packing, repacking, transport, storage, distribution, transformation, use, services, possession or other types of activity with kerosene.

While the regulation initially applied only to the VRAE, it was later extended to apply throughout the entire country. As of September 30, 2010, the regulation was in full force throughout Peru and had resulted in the seizure of 218 MT of kerosene.

The GOP continues to work on developing a chemical user registry, which is needed to fully implement the Precursor Chemical Control law, aimed at controlling the domestic and international traffic of precursor chemicals. At the end of 2010, the registry project was still under evaluation at the Ministry of Economy and Finance. In the meantime, the Ministry of Production, responsible for its implementation, continues to work with an alternative control system. In November 2009, the GOP issued a new law integrating the terms of all precursor chemical control legislation issued after the original law was enacted, which enforces the control of, and stipulates penalties for, trafficking in chemical precursors. Funds for the implementation of the chemical precursor control booths are included in the CY 2011 national budget submitted to Congress for approval. The USG is supporting the creation of specialized mobile police units to expand the interdiction of precursor chemicals being trafficked all over the country.

Multilateral Efforts to Target Methamphetamine Chemicals

Efforts in reducing and preventing methamphetamine production through a global campaign to prevent diversion of precursor chemicals are forcing traffickers to seek new sources, trafficking routes, and production methods. The United States continues to work in close cooperation with two international entities that have played a critical role in 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. Efforts over the past several years have included:

--In 2010, the CND voted unanimously to move phenylacetic acid—a methamphetamine precursor—from table II to Table I of the 1988 UN Convention. This action has increased surveillance, monitoring and control of this precursor chemical that can be used in the production of methamphetamine.

--2007-2010 cooperation in several INCB-led operations that have revealed new trends including upswing in efforts by traffickers to seek precursors in the form of preparations as monitoring of bulk shipments increased.

--the 2009 High-level meetings of the UN Commission on Narcotic Drugs and a special plenary meeting at the UN General Assembly the ATS issues received unparalleled support from all nations.

--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.)

The UN Security Council also committed to greater action against the diversion of precursor chemicals used in production of heroin in Afghanistan—the world's largest producer.

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, 2009 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 2009 than in any previous year. It is still not fully sufficient to enable any accurate estimates of diversion percentages based on import data. There are significant numbers of countries which have yet to report their reasonable estimates about the trade in the end products that form a very 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 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 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, 123 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 most countries have not made any attempt to reconcile the trade data and their own reporting of licit requirements. For the first time, there are some signs of countries beginning to make efforts to reconcile the data. For instance, some countries that noted licit requirements had not reported into the Global Trade data exports or imports and have begun to do so.

Thus far the economic analyses required by CMEA, are not possible because of insufficient and constantly changing 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 continue to work with the INCB and with authorities in the reporting countries themselves to secure explanations for any anomalies between reported imports and reported licit domestic requirements. We also will seek to support efforts to provide developing countries with the expertise and technical capacities necessary to develop such commercial estimates. Often the collection and reporting of such data requires a regulatory infrastructure that is beyond the means of some governments in question.

The USG continues to support the INCB's efforts to assist countries in this regard. Moreover, efforts to support the implementation of prior resolutions and global commitments continue to be key objectives of the USG.

This report provides export and import figures for both 2008 and 2009 in ephedrine and pseudoephedrine to illustrate the wide annual shifts that can occur in some countries, reflecting such commercial factors as demand, pricing, and inventory buildup. GTA data on U.S. exports and imports have been included to indicate the importance of the United States in international pseudoephedrine and ephedrine trading. Complete data on the worldwide production of pseudoephedrine and ephedrine are not available, because the major producers will not release them publicly for commercial, proprietary reasons.

The following data are for 2005-2009 and provide an indication of the volatility of the trade in pseudoephedrine and ephedrine. We are using the 2009 data in this cycle of review to identify the major participants in the trade in ephedrine and pseudoephedrine.

Export Statistics						
Ephedrine And Its Salts						
Annual Series: 2005 - 2009						
Reporting Country	Unit	Quantity				
		2005	2006	2007	2008	2009
Reporting Total	KG					141,121.00
India	KG	217,106.00	185,804.00	221,105.00	188,967.00	88,416.00
Germany	KG	51,100.00	33,200.00	31,100.00	22,700.00	13,100.00
Singapore	KG	16,350.00	14,550.00	12,426.00	14,010.00	11,800.00
Taiwan	KG	20.00	2,218.00	3,400.00	4,550.00	7,700.00
United Kingdom	KG	3,700.00	7,300.00	5,900.00	9,000.00	4,000.00
Total						
United States	KG	5,542.00	596.00	5,821.00	1,120.00	12,711.00

Analysis of Export Data: According to the GTA data the top five exporters of ephedrine in 2009 include —India, Germany, Singapore, Taiwan, and the United Kingdom. In 2008 the aggregate amount of ephedrine exported by the top five countries declined from 275,031 kilograms in 2007 to 259,177 kilograms. This year the total declined even further to approximately 125,000 kilograms. The United States is has moved up to the third largest

The worldwide aggregate volume of ephedrine exports that was reported by the Global Trade Atlas increased from 303,059 kilograms in 2007 to 519,474 kilograms in 2008 and then dropped to 141,121,000 2009. It is unclear why the fluctuations increase included decreases by almost every exporter with the exception of the United States and Taiwan where there were significant increases. Exports of ephedrine from the United States increased from 596 in the 2006 level to 5,821 kilograms in 2007 and to 1,120 kilograms in 2008 and 12,711 kilograms in 2009.

Export Statistics						
Pseudoephedrine And Its Salts						
Annual Series: 2005 - 2009						
Reporting Country	Unit	Quantity				
		2005	2006	2007	2008	2009
Reporting Total	KG					1071934
India	KG	270,600.00	301,068.00	360,718.00	462,761.00	533,838.00
Germany	KG	389,700.00	229,700.00	546,400.00	333,500.00	304,800.00
Taiwan	KG	31,546.00	45,830.00	43,785.00	66,180.00	75,525.00
Singapore	KG	-	-	43,750.00	46,501.00	47,250.00
Switzerland	KG	41,084.00	41,519.00	38,564.00	36,398.00	42,021.00
Total		732,930.00	618,117.00	1,033,217.00	945,340.00	1,003,434.00
United States	KG	28,895.00	36,715.00	14,714.00	26,499.00	25,881.00

Analysis of Export Data: For pseudoephedrine, the aggregate volume of worldwide exports rose slightly to 1,071,934 kilograms in 2009 from 1,032,207 kilograms in 2008 a drop from the previous year 2007 of 1,132,665 kilograms. The top five exporters of pseudoephedrine were India, Germany, Taiwan, and Singapore and Switzerland. While the first four have remained unchanged over the last four years, Switzerland edged out China for the first time for the fifth ranked slot. Germany and Taiwan showed decreases, but India, Singapore, and China all showed increases. Exports from the United States as the seventh largest exporter (same as last year) rose from 14,714 kilograms in 2007 to 26,499 kilograms in 2008 and then dropped slightly to 25,881.

Import Statistics						
Ephedrine And Its Salts						
Annual Series: 2005 - 2009						
Reporting Country	Unit	Quantity				
		2005	2006	2007	2008	2009
Egypt	KG				7,258.00	64,763.00
Nigeria	KG			8,078.00	19,113.00	15,326.00
Singapore	KG	19,875.00	12,750.00	14,000.00	12,501.00	14,306.00
United Kingdom	KG	13,500.00	9,200.00	8,000.00	4,200.00	12,800.00
Indonesia	KG	16,177.00	15,407.00	11,407.00	12,893.00	12,679.00
United States	KG	178,657.00	89,624.00	166,886.00	81,432.00	17,722.00
Reporting Total	KG					179,614.00

Analysis of Import Data: The top five ephedrine importers in 2009 include Egypt, Nigeria, Singapore, the United Kingdom, and Indonesia. (2008 included Republic of Korea Argentina, Indonesia, Singapore and Denmark Republic of Korea and Singapore) Although overall imports are down significantly, Egypt and Nigeria—both listed in the top five for the first time--show significant increases without any corresponding explanations regarding the domestic markets. Indonesia continues to be on the list for the third year. U.S. imports of ephedrine rose from 89,624 kilograms to 166,886 kilograms in 2007 then showed a marked decline to 81,432 kilograms in 2008 and even more significant to 17,722 in 2009. The 2007 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 fluctuated from 188,606 kilograms in 2006 to 314,419 kilograms in 2007 and to 208,738 kilograms in 2008 and down to 179,614 in 2009.

Import Statistics						
Pseudoephedrine And Its Salts						
Annual Series: 2005 – 2009						
Reporting Country	Unit	Quantity				
		2005	2006	2007	2008	2009
Singapore	KG	37,830.00	45,400.00	50,950.00	50,014.00	58,309.00
Taiwan	KG	7,600.00	8,065.00	14,020.00	12,700.00	45,200.00
Switzerland	KG	67,800.00	38,891.00	56,399.00	54,952.00	41,927.00
Indonesia	KG	34,390.00	33,419.00	35,649.00	39,627.00	38,559.00
Thailand	KG	30,475.00	43,955.00	34,929.00	45,600.00	37,450.00
total of 5 countries		178,095.00	169,730.00	191,947.00	202,893.00	221,445.00
United States	KG	319,998.00	171,195.00	312,209.00	148,468.00	186,099.00

Analysis of Export Data:

Shifts in trade of pseudoephedrine have also resulted in a change in the top five importers for 2009 that include Singapore, Taiwan, Switzerland, Indonesia, and Thailand. While these five countries have been in the top range of importers in the last several years, 2008's top importer is not reporting any imports. Egypt the top importer of pseudoephedrine last year had a significant increase from 0 in 2007 to 60,973 in 2008. Egypt was the top importer of pseudoephedrine with 54,000 kilograms, but had not previously reported any imports of pseudoephedrine. In 2009 Egypt's imports drop to 20,635 kilograms.

Mexico in the top five in 2006 shows 0 imports of pseudoephedrine in 2009 —down from 43,428 kilos in 2006 to 11,502 in 2007 and 2,325 kilograms in 2008. 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 remains the top importer of pseudoephedrine with imports of 186,099.00 in 2009 up from 148,468 kilograms in 2008. However, this is still down from of 312,209 kilograms in 2007.

After a significant increase in 2007, the aggregate world imports drop again to 740,747 kilograms. These 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 in sales or represents a temporary statistical variance. US imports are expected to continue to decline next year.

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.

Trade data also fails to reflect illicit smuggling that has been detected by law enforcement and other official reporting in Africa, the Middle East and other parts of Asia. INCB-led operations have been critical in providing information in this regard. For instance,

--in 2006-07 it was observed that China was the origin of shipments to African destinations and that India, to a lesser extent, was a source country either directly or via Europe to the Americas.

--in 2007-09 Operation Ice Block, a more time-bound operation agreed by the Project Prism Task Force, indicated several key shifts in methamphetamine production and trafficking including shift was detected 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.

--in July 2009 to March 2010 Operation Pila focused on global trade in ephedrine and pseudoephedrine, with special emphasis on pharmaceutical preparations and on trade in p-2-P and phenylacetic acid. This operation revealed the dramatic upswing in traffickers efforts to obtain methamphetamine precursors in the form of preparations vice in the bulk form of these substances. Close to 70 percent of all the cases under Operaton Pila were in the form of pharmaceutical preparations. For instance almost all of the attempted diversions and seizures of pseudoephedrine preparations destined for Guatemala continued to originate in Bangladesh. Forty suspicious shipments, including over 12.8 tons and 199 million tables of ephedrine and pseudoephedrine were suspended stopped or seized preventing the illicit manufacture of up to 111.5 tons of methamphetamine. In addition suspicious shipments of P-2-P were identified. Operation Pila also reconfirmed that Central American countries have become major destinations and transit points for precursors ultimately to be converted to methamphetamine.

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

--2011 and beyond. Cooperation has continued in the wake of Operation Pila and as a result efforts to stop suspicious shipments, seizures and identified diversion attempts involving 66.5 tons reflect continuing commitments of Governments.

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. In past years, Iran and Syria for example, have reported licit national requirements for pseudoephedrine (55 metric tons and 50 metric tons, respectively) that would place them among the top five importers worldwide, but no trade

data for pseudoephedrine is available for these countries that could be used to verify whether these volunteered estimates are accurate. Egypt and Nigeria provided no data for imports/exports of these substances, but are the top two importers of ephedrine. It is unclear why the import of these two substances is so high or the reason for the significant increase legitimate needs.

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. Traffickers are also clearly exploiting sources for preparations of these substances in high volumes. 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.

INCB Tables on Licit Requirements

2009

Legitimate requirements reported by Governments for ephedrine, pseudoephedrine, 3,4-methylenedioxyphenyl-2-propanone, 1-phenyl-2-propanone and their preparations in kilograms **Status: 13 Jan. 2010**

<i>Country or territory</i>	<i>Ephedrine</i>	<i>Ephedrine preparations</i>	<i>Pseudoephedrine</i>	<i>Pseudoephedrine preparations</i>	<i>3,4-MDP-2-P^a</i>	<i>P-2-P^b</i>
Afghanistan	50	0	5000	0	0	0
Albania	1					
Algeria	10		17 000			
Argentina	156		9 700			1
Australia	5	15	9 000	1 250		40
Austria	130	67	1	1	1	1
Azerbaijan	20		10			
Bangladesh	368		49 021			
Barbados	250		160			
Belarus		60	50		1	1
Belgium	250		21 000		0	200
Belize			P	P		
Benin	2			15		
Bosnia and Herzegovina	20		1 500		0	0
Botswana	300					
Brazil	2 200		12 160		0	3 807
Bulgaria	50					
Cambodia	200	50	300	900		
Canada	2 000	5	20 000		0	0
Chile	270		6 800		0	0
China	140 000		110 000			
<i>Hong Kong SAR</i>	4 500	0	4 300	0	0	0
<i>Macao SAR</i>	1	10	1	159	0	0
Colombia	26		20 393			
Cook Islands		1				
Costa Rica	1		918		0	0
Côte d'Ivoire	31	1	0	0	0	0
Croatia	100		400			
Cuba	140			5		
Cyprus			100			
Czech Republic	660	14	2 300	2 000	0	1
Democratic People's Republic of Korea	2 300				10	
Democratic Republic of the Congo	250		900			
Dominican Republic	100			500		
Ecuador	100		7 500			
Egypt	2 000		58 000	2 000		

7	<i>Ephedrine</i>	<i>Ephedrine preparations</i>	<i>Pseudoephedrine</i>	<i>Pseudoephedrine preparations</i>	<i>3,4-MDP-2-P^a</i>	<i>P-2-P^b</i>
El Salvador	10	5	0			
Estonia	6					
<i>Falkland Islands (Malvinas)</i>		1		1		
Finland	100			1	000	5
Georgia	100	25	50		25	
Germany	8 000		20 000		1	3 046
Ghana	2 000		700			
Greece	50		320			
Guinea	36					
Guinea-Bissau	0	0	0	0	0	0
Guyana			85			
Haiti	150		360		0	0
Honduras	150					
Hungary	800		0	0	300	1 421
Iceland	1		1			
India			0	0		0
Indonesia	12 058		29 452			
Iran (Islamic Republic of)	50	1	55 000	10	6	51
Iraq	3 000		12 000			
Ireland	1	1	1	863	0	0
Israel	15		1 822	21		
Italy	126		25 528			4 011
Jamaica					0	0
Japan	210		10 000			
Jordan	1 650		20 000			60 500
Kazakhstan	818		1			
Kenya	3 000		3 500			
Kyrgyzstan	0		20		0	0
Latvia	25	27	41	383		
Lebanon	1		150		0	0
Lithuania		1		600		
Madagascar	702		150			
Malawi	1 000					
Malaysia	410	0	15 625	1	500	0
Malta		220			220	1
Mauritius	0	0	0	0	0	0
Mexico	P	P	P	P		
Monaco	0	0	0	0	0	0
Mongolia	1					
Montenegro		1		1		
<i>Montserrat</i>		1		1		

<i>Country or territory</i>	<i>Ephedrine</i>	<i>Ephedrine preparations</i>	<i>Pseudoephedrine</i>	<i>Pseudoephedrine preparations</i>	<i>3,4-MDP-2-P^a</i>	<i>P-2-P^b</i>
Morocco	1	0	1024	0	0	0
Mozambique	3					
Myanmar	3					
New Zealand	50		650			
Nicaragua			200			
Nigeria	3 849		5823			
Norway	300					1
Pakistan	22 000		48000			
Panama	25	30	2500	2 500		
Papua New Guinea	1		200		0	0
Paraguay		0	2500	0	0	0
Peru	39		2494	1 425		
Philippines	61		112		0	0
Poland	100		3600			
Portugal			15			
Republic of Korea	15 950		32500			
Republic of Moldova		10		150		
Romania	192		4575			
Russian Federation	1 500					
<i>Saint Helena</i>		1		1		
Sao Tome and Principe	0	0	0	0	0	0
Serbia	55		600			
Slovakia	3	1	1	0	0	0
Slovenia	3		350			
Solomon Islands	0	1	0	1	0	0
South Africa	10 000	0	10000	0	0	0
Spain	1 154		7005		0	
Sri Lanka			0	0	0	0
Sweden	177		1		1	25
Switzerland					0	
Syrian Arab Republic	1 000		50000			
Tajikistan	38					
Tanzania	950		500			
Thailand	16		36900			
Turkey	2 000		23000			
Uganda	200	1	2000	6		
United Arab Emirates	200		2000			
United Kingdom	3 335		6918		3	0
United States of America	140 260		511 100		46	803
Uruguay			22			
Venezuela (Bolivarian Republic of)	1 000		20000			

<i>Country or territory</i>	<i>Ephedrine</i>		<i>Pseudoephedrine</i>		<i>3,4-MDP-2-P^a</i>	<i>P-2-P^b</i>
	<i>Ephedrine</i>	<i>preparations</i>	<i>Pseudoephedrine</i>	<i>preparations</i>		
Yemen			5 000			
Zambia	5		10			

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

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

A zero (0) signifies that the country or territory has no licit requirement for the substance.

Reported quantities of less than 1 kg have been rounded up and are reflected as 1 kg. The letter "P" signifies that importation of the substance is prohibited.

^a 3,4-Methylenedioxyphenyl-2-propanone.

^b 1-Phenyl-2-propanone.

2010

Legitimate requirements reported by governments for ephedrine, pseudoephedrine, 3,4-ethylenedioxyphenyl-2- propanone, 1-phenyl-2-propanone and their preparations in kilograms
Status: 19 Nov. 2010

<i>Country or territory</i>	<i>Ephedrine</i>	<i>preparations</i>	<i>Pseudoephedrine</i>	<i>preparations</i>	<i>3,4-MDP-2-Pa</i>	<i>P-2-Pb</i>
Afghanistan	50	50	6 000	5000	0	0
Albania	1					
Algeria	10		17 000			
Argentina	50		16 000		0	1
Australia	5	15	9 000	1 250	1	1
Austria	84	7	1	0	1	1
Azerbaijan	20		10		0	0
Bangladesh	368		49 021			
Barbados	250		160			
Belarus		60	50		1	1
Belgium	100		11 000		2	1
Belize			P	P		
Benin	2		15	10		
Bosnia and Herzegovina	25	0	1 500	0	0	0
Botswana	300					
Brazil	3 000 g		15 000 g		0	3 807
Bulgaria	2 000		500		0	0
Cambodia	200	50	300	900		
Canada	2 000	5	20 000		0	0
Chile	251		5 000			
China	150 000		160 000			
<i>Hong Kong SAR</i>	1 600	0	8 590	0	0	0
<i>Macao SAR</i>	1	10	1	159	0	0
Colombia	P(7)c	Pd	P(4 000)c	P		
Cook Islands		1				
Costa Rica			1 230	1 028	1	1
Côte d'Ivoire	31	1	0	0	0	0
Croatia	100		400			
Cuba	140			5		
Cyprus			100			
Czech Republic	770	18	2 300	2 000	0	1
Democratic People's Republic of Korea	2 300	1 500			4	
Dominican Republic				220		
Ecuador	100		7 500			
Egypt	3 300		46 000	1 000		

<i>Country or territory</i>	<i>Ephedrine</i>		<i>Pseudoephedrine</i>		<i>Pseudoephedrine</i>	
	<i>Ephedrine</i>	<i>preparations</i>	<i>Pseudoephedrine</i>	<i>preparations</i>	<i>3,4-MDP-2-Pa</i>	<i>P-2-Pb</i>
El Salvador	P(6e)	P(2e)	P	P	0	0
Estonia	6					
<i>Falkland Islands</i>						
<i>(Malvinas)</i>		1		1		
Finland	3	150		1 000		5
Georgia	50	30	50	200		
Germany	8 000		20 000		1	3 046
Ghana	2 000		700			
Greece	6		300			
Guatemala			P	P		
Guinea	36					
Guinea-Bissau	0	0	0	0	0	0
Guyana	50		30			
Haiti	150		300		0	0
Honduras	150					
Hungary	600		1		300	1 893
Iceland	1		1			
Indonesia	12 058		29 452			
Iran (Islamic Republic of)	50	1	55 000	10	6	51
Iraq	3 000	100	14 000	10 000		
Ireland	1	2	1	895	0	0
Israel	19	5	1 777	21		
Italy	126		25 528			4 011
Jamaica					0	0
Jordan	2 000		20 000			60 500
Kazakhstan	818		1			
Kenya	3 000		3 500			
Kyrgyzstan	0		20	32	0	0
Latvia	25	27	41	383		
Lebanon	50	8	220	350	0	0
Lithuania		1		600		
Luxembourg	1					
Madagascar	702	180	150			
Malawi	1 000					
Malaysia	225	0	13 500	340	0	1
Malta		220	220			
Mauritius	0	0	0	0	0	0
Mexico	P	P	P	P		
Monaco	0	0	0	0	0	0
Mongolia	1					
Montenegro		1		1		
<i>Montserrat</i>		1		1		

<i>Country or territory</i>	<i>Ephedrine</i>		<i>Pseudoephedrine</i>		<i>Pseudoephedrine</i>	
	<i>Ephedrine</i>	<i>preparations</i>	<i>Pseudoephedrine</i>	<i>preparations</i>	<i>3,4-MDP-2-Pa</i>	<i>P-2-Pb</i>
Myanmar	3					
New Zealand	50		650			
Nicaragua	P f	P f	P	P		
Nigeria	3 849		5 823			
Norway	200		1			2
Pakistan	22 000		48 000			
Panama	25	30	1 000	1 000		
Papua New Guinea	1		200		0	0
Paraguay		0	2 500	0	0	0
Peru	54		2 409	1 192		
Philippines	61		112		0	0
Poland	120		4 000			
Portugal			15			
Republic of Korea	15 950		32 500			
Republic of Moldova		60		250		
Romania	156		8 252			
Russian Federation	1 500					
<i>Saint Helena</i>	0	1	0	1	0	0
Sao Tome and Principe	0	0	0	0	0	0
Serbia	340		41			
Slovakia	26	2	1	0	0	0
Slovenia	4		250			
Solomon Islands	0	1	0	1	0	0
South Africa	10 000	0	10 000	0	0	0
Spain	621		5 336		0	101
Sri Lanka				0	0	0
Sweden	120	213	1	33	0	23
Syrian Arab Republic	1 000		50 000			
Tajikistan	38					
Thailand	33		36 900	0		
<i>Tristan da Cunha</i>	0	0	0	0	0	0
Turkey	1 350		26 000			1 015
Uganda	150	20	2 000	300		
United Arab Emirates	200	41	63	2 499		
United Kingdom	2	4 744	1	29 840	4	2 215
United Republic of Tanzania	500	500	3 000	1 000		
United States of America	140 260		511 100		0	46 803
Uruguay			22			
Venezuela (Bolivarian Republic of)	1 000		20 000			

<i>Country or territory</i>	<i>Ephedrine</i>	<i>Ephedrine preparations</i>	<i>Pseudoephedrine</i>	<i>Pseudoephedrine preparations</i>	<i>3,4-MDP-2-Pa</i>	<i>P-2-Pb</i>
Yemen			5 000			
Zambia	5		10			
Zimbabwe	50		50			

Notes: The names of territories and special administrative regions are in italics. A blank field signifies that no requirement was indicated or that data were not submitted for the substance in question. A zero (0) signifies that the country or territory has no licit requirement for the substance. Reported quantities of less than 1 kg have been rounded up and are reflected as 1 kg. The letter "P" signifies that importation of the substance is prohibited.

^a 3,4-Methylenedioxyphenyl-2-propanone. ^b 1-Phenyl-2-propanone. ^c No imports will be permitted after a period of 18 months from the entry into force of the regulation

in July 2009, with the exception of ephedrine used in the manufacture of injectable ephedrine sulfate solution. The required 4000 kilograms of pseudoephedrine are to be used in the manufacture of medicines for re-export.

^d With the exception of injectable ephedrine sulfate solution.

^e Imports of the substance and preparations containing the substance are prohibited, with the exception of the imports of injectable ephedrine preparations and ephedrine as a prime raw material for the manufacture of such ephedrine preparations. Pre-export notification is required for each individual import.

^f Imports of the substance and preparations containing the substance are prohibited, with the exception of the imports of injectable ephedrine preparations and ephedrine as a prime raw material for the manufacture of such ephedrine preparations. Such import requires an import permit.

^g Including the licit requirements for pharmaceutical preparations containing the substance.

COUNTRY REPORTS

Afghanistan

A. Introduction

Afghanistan produces approximately 90 percent of the world's illicit opium. Poppy cultivation remained stable in 2010, but opium production decreased due to a blight that affected crop yields in high cultivation provinces. The United States estimated that Afghanistan cultivated 119,000 hectares of illicit opium poppy in 2010, which yielded a potential opium gum production of 3200 MT. The United Nations Office on Drugs and Crime (UNODC) also surveys illicit poppy cultivation in Afghanistan. They estimated that Afghanistan cultivated 123,000 hectares of opium poppy in 2010, the same as 2009. UNODC estimated that Afghan opium poppy crops in 2010 yielded only 3600 metric tons (MT) of raw opium, down 48 percent from 6900 MT in 2009, due largely to the blight.

Active insurgency areas in the southern and southwestern provinces account for 98 percent of illicit poppy cultivation. Narcotics traffickers provide revenue and material support to insurgents in exchange for protection. Insecurity in Afghanistan's primary poppy cultivation regions in the south and southwest has impeded the extension of governance and law enforcement, but coalition security forces did clear the Marjah District of Helmand Province and began extensive operations around Kandahar City.

Afghanistan is involved in the full narcotics production cycle, from cultivation to finished heroin to consumption. Drug traffickers trade in all forms of opiates, including unrefined opium, semi-refined morphine base, and refined heroin. Although improvements in Afghanistan's infrastructure have created viable economic alternatives to poppy cultivation, they have also increased traffickers' and insurgents' operational effectiveness.

The Government of the Islamic Republic of Afghanistan (GIROA) generally relies on assistance from the international community to implement its national counternarcotics strategy. Greater political will, increased institutional capacity, enhanced security, and more robust efforts at all levels are required to decrease cultivation in high cultivation provinces, maintain cultivation reductions in the rest of the country, combat trafficking, and respond to a burgeoning domestic addiction problem in coming years. Afghanistan is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Ministry of Counter Narcotics (MCN) is currently revising the National Drug Control Strategy (NDCS), which was approved in 2006. The new strategy was scheduled to be released by December 2010; however, it now appears that it will not be completed until early 2011. The NDCS states its overall goal is: "To secure a sustainable decrease in cultivation, production, trafficking, and consumption of illicit drugs with a view to complete and sustain elimination." The strategy outlines four priorities: disrupting the drug trade by targeting traffickers and their backers; strengthening and diversifying legal rural livelihoods; reducing the demand for illicit drugs and treatment of problem drug users; and developing state institutions at the central and provincial level vital to the delivery of the strategy. The MCN is tasked with implementing the strategy and is the "lead agency... responsible for coordination of affairs related to combating narcotics and implementation of the provisions" according to the terms of the Afghan Counternarcotics Law. Despite strong leadership under Minister Zarar Ahmad Moqbil Osmani, who assumed office in January 2010, the MCN has limited political influence and few resources. The

ministry depends heavily on the support of other implementing government agencies, such as the Ministry of Interior (MOI); Ministry of Public Health; Ministry of Agriculture, Irrigation, and Livestock; Ministry of Rural Rehabilitation and Development; and the Independent Directorate for Local Governance, to execute counternarcotics policy. The MCN also relies heavily on international partners, such as the United States, United Kingdom, Colombo Plan, and UNODC, for program funding as well as salary supplements for key positions.

The MCN implements the Good Performers Initiative (GPI), a U.S.-funded program launched in 2007, to reward provinces for successful counternarcotics performance. Provinces that are poppy free as declared by UNODC or where poppy cultivation has declined significantly (by 10 percent) receive funding for development projects proposed by provincial development councils and governors' offices. In 2010, 27 of Afghanistan's 34 provinces qualified for a share of \$25.7 million.

The MCN-run Governor-Led Eradication (GLE) program reimburses governors' expenses for each hectare of eradicated fields as verified by UNODC. Many governors are unwilling or unable to implement poppy reduction programs due to the lack of security and high levels of insurgent activity in their provinces. The overall amount of eradicated fields fell 57 percent in 2010, from 5351 to 2316 hectares, due in part to the discontinuance of U.S. support for the Poppy Eradication Force (PEF), a centrally-led eradication unit, in summer 2009. Eradication under the GLE decreased as well, but only slightly, down from 2687 hectares in 2009. The U.S. intends to increase levels of compensation in the GLE program as an added incentive for improved performance.

The Afghan government's Criminal Justice Task Force (CJTF) is a vetted, self-contained unit that consists of Afghan prosecutors, criminal investigators, and first instance and appellate court judges. The FBI and DEA polygraphs CJTF staff members as a check against corruption within their ranks and Department of Justice (DOJ) Senior Legal Advisors mentor the unit. CJTF officials receive salary supplements from the United Kingdom. The salary supplements and polygraphs were in danger of being discontinued following the arrest on bribery charges of a member of the Afghan National Security Council, in July 2010. The once unfettered access of international mentors to the Afghan CN drug prosecutors assigned to the CJTF also ceased following the July 2010 arrest. Under Afghanistan's 2005 Counternarcotics Law, the CJTF prosecutes all drug cases that reach certain thresholds (possession of two kilograms of heroin, ten kilograms of opium or 50 kilograms of hashish or precursor chemicals) before the Counter Narcotics Tribunal (CNT).

In the Afghan legal system, following a decision at the first court, the losing party, whether the convicted defendant or unsuccessful Government prosecutor may appeal to the Appeals Court. From March 2009 to March 2010, the CJTF handled 395 cases involving 502 suspects and more than 92 tons of illicit substances. The Primary and Appeals Court report conviction rates of over 90 percent. Fifty-six (56) Afghan officials were convicted of involvement in narcotics trafficking by the task force in primary or secondary courts during this time period.

Afghan authorities made some progress in developing their capacity to interdict large quantities of narcotics, and arrest and prosecute narcotics traffickers. However, low capacity and corruption within law enforcement and justice institutions, the absence of effective governance in many provinces and districts, and poor security in regions where trafficking flourishes are severely hampering law enforcement efforts.

The Counter Narcotics Police of Afghanistan (CNPA), established under MOI in 2003 as a specialized element of the Afghan National Police (ANP), is responsible for investigating narcotics cases and maintains regional offices throughout the country. The 2010 personnel roster for CNPA is 3995;

however, like many Afghan military and police units, the actual number of officers working regularly is smaller. Following basic ANP training, CNPA officers receive five weeks of specialized counternarcotics training and are deployed to the provinces where they report to provincial and district police chiefs. As a result of this command structure, CNPA officers are frequently assigned duties that are unrelated to counternarcotics undermining the objective of their training.

In August 2010, the MOI Deputy Minister for Counternarcotics Daud Daud, whose tenure was marked by allegations of corruption, was reassigned to the provinces. A significant number of senior MOI officials also left the ministry around the same time. The new Deputy Minister, Baz Mohammad Ahmadi, is a former governor of two provinces. It is unclear at this time how these changes will affect MOI's performance.

The CNPA, with DEA training, mentoring and support, continued to make significant progress during 2010 in developing its three specially-vetted elite units that investigate high-value targets: the National Interdiction Unit (NIU), the Sensitive Investigative Unit (SIU), and the Technical Investigative Unit (TIU). Personnel come from a wide variety of Afghan law enforcement agencies and have to pass rigorous examinations, including background checks and polygraph screenings.

Afghan provincial officials also continued to conduct limited eradication operations in 2010 with ANP and CNPA support. As noted above, the number of hectares eradicated in Afghanistan declined from 5351 ha in 2009 to 2316 ha in 2010. According to MCN and UNODC reports, eradication efforts in Nangarhar provinces decreased in 2010 due to frequent attacks on GLE teams. Eradication campaign-related fatalities increased by 33 percent in 2010. The decreased level of eradication can be attributed to insufficient resources (including lack of tractors and poor vehicle maintenance), poor security, lack of political will, and the elimination of the PEF program.

Afghanistan is party to multilateral conventions such as the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the UN Convention against Corruption. There is no bilateral extradition treaty between the U.S. and Afghanistan. Likewise, there is no mutual legal assistance treaty between the U.S. and Afghanistan. Mutual legal assistance and the successful extradition of fugitives for drug-related offenses remain difficult.

2. Supply Reduction

Based on UNODC data, the number of hectares under poppy cultivation in Afghanistan remained constant at 123,000 hectares in 2010. However, total opium *production* was estimated to have decreased by 48 percent from 2009 to 3600 MT due to a poppy blight in the high-cultivating southern and western provinces. A U.S. survey of opium cultivation and production in Afghanistan reached similar results, estimating cultivation at 119,000 hectares and potential opium production at 3200 MT. The number of households involved in poppy cultivation increased by one percent to 248,700 households, or six percent of the total population. The portion of narcotics proceeds actually received by farmers increased by 38 percent, bringing in an estimated \$604 million at the "farm-gate," the equivalent of five percent of total GDP.

According to the UNODC and MCN, the number of poppy free provinces remained unchanged at 20 in 2010. Ninety-eight percent of opium cultivation remains concentrated in seven provinces in the southern and southwestern regions of the country. The UNODC noted that its finding "further substantiates the link between insecurity and opium cultivation observed since 2007." A symbiotic relationship exists between the insurgency and narcotics trafficking in Afghanistan. Traffickers provide weapons, funding, and other material support to the insurgency in exchange for the protection of drug trade routes, fields,

laboratories, and their organizations, while others provide the same support because they are ideologically aligned with the Taliban. Some insurgent commanders engage directly in drug trafficking to finance their operations.

There is also evidence of significant and growing cultivation of cannabis in Afghanistan. The UNODC and MCN's first-ever cannabis survey in 2010, found that Afghan cannabis has an extremely high yield. As a result, UNODC and MCN estimate that Afghanistan is the largest global producer of hashish, estimated at 1500 to 3500 MT of hashish per year. For Afghan farmers, cannabis produces a higher net income per hectare than opium (\$3341 vs. \$2005) due to the lower labor costs associated with cannabis. The 2010 UNODC report estimated the value of cannabis resin production to be \$39 to \$94 million, a fraction of the value of the opium trade. UNODC also noted that, similar to opium, while illicit cultivation of cannabis has largely consolidated in insecure areas of the country, trafficking is prevalent across Afghanistan. A majority of cannabis farmers in southern provinces report being subjected to informal taxation (*Ushr*), indicating that this illicit crop may also directly or indirectly fund insurgent operations.

Primary trafficking routes into and out of Afghanistan are through Iran to Turkey and Western Europe; through Pakistan to Africa, Asia, the Middle East, China and Iran; and through Central Asia to the Russian Federation.

Drug traffickers lend money to farmers and then purchase the crops at previously set prices or accept repayment in the form of raw opium. Traffickers frequently buy raw opium directly from the farmer, eliminating for the farmer the danger and expense of transporting it to market. In many provinces, local and regional warlords control opium markets as well as the illicit arms trade and other criminal activities, such as trafficking in persons. Traders operate in the markets with little fear of legal consequences and pay taxes directly to corrupt officials and insurgent groups.

Drug laboratories within Afghanistan process a large portion of the country's raw opium into heroin and morphine base. Processing reduces the bulk of raw opium by about one-tenth and thus facilitates its movement outside of the country. Traffickers illicitly import large quantities of precursor chemicals into Afghanistan. According to UNODC, markets and processing facilities are clustered in areas that border Iran, Pakistan, and Tajikistan. UNODC also reports that trafficking routes for opiate exports and precursor chemical imports are largely similar.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Afghan government acknowledges a growing domestic drug abuse problem, primarily opiates and increasingly cannabis/hashish. The 2009 nationwide survey on drug use, conducted by the UNODC, the MCN, and the Ministry of Public Health, estimated that overall number of drug users is approximately 940,000 people, almost eight percent of the adult population (16 to 64 year olds). The 2009 survey estimated the number of opium users at 230,000 and heroin users at 120,000, together almost 3 percent of the adult population, a very high level for opiate abuse.

Cannabis/hashish consumption is also significant in Afghanistan. The 2009 survey noted that 60 percent of drug users had used cannabis in their lifetime and up to 630,000 Afghans use cannabis on a regular basis. The 46 drug treatment centers throughout Afghanistan are inadequate to care for the estimated 780,000 addicts who seek treatment. Each center treats ten to 50 in-patient men, women, and children and provides home-based care for additional addicts. The government has relied almost exclusively on international community funding to build, equip, and operate drug treatment centers.

4. Corruption

As a matter of government policy, GIRoA does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. However, many central, provincial, and district level government officials are believed to directly profit from the drug trade. Corrupt practices range from facilitating drug activities to benefiting from drug trade revenue streams.

The CJTF actively investigates and prosecutes public officials who facilitate drug trafficking under Article 21 of the Counter Narcotics Law (CNL), which criminalizes drug trafficking-related corruption. As a result of its efforts, the CJTF has successfully prosecuted high ranking government officials, including members of the CNPA.

Despite the CJTF's efforts, impunity still remains a concern in Afghanistan. For example, in the case of Haji Dil Jan, a Border Police colonel arrested on drug and corruption charges, the Afghan Attorney General ordered his release and suspended the investigation into his case and related cases for unclear reasons.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Afghanistan is a party to the 1988 UN Drug Convention, the 1971 UN Convention, the 1961 UN Single Convention on Psychotropic Substances, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. 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.

In March 2010, the U.S. Government adopted a Counternarcotics Strategy that supports the Afghan NDCS's four priorities of disrupting the drug trade; developing licit agricultural livelihoods; reducing the demand for drugs; and building the capacity of GIRoA's CN institutions. The Strategy is formulated to help secure the Afghan populace by working with the GIRoA and coalition partners to restore Afghanistan's agriculture economy, build Afghan institutional capacity, and disrupt the nexus between drugs, insurgents, and corruption. The Strategy includes 10 objectives that support the overall goals of: 1) Countering the link between narcotics and the insurgency and significantly reduce the support the insurgency receives from the narcotics industry and 2) Addressing the narcotics-corruption nexus and reinforcing the government of Afghanistan.

In 2010 the GIRoA and Coalition partners made significant progress towards the Afghan government's counternarcotics priorities. In particular renewed U.S. efforts to support Afghan counternarcotics operations have enabled Afghan law enforcement and military forces, along with their allied partners, to make significant drug seizures (particularly heroin). Last year Afghan and Coalition Forces conducted a total of 298 operations in which they seized 11 metric tons of heroin. One operation in July netted 5.7 metric tons of heroin. When compared to overall heroin seizures from 2009, in 2010 Afghan and Coalition heroin seizures increased by over 700 percent.

The GPI program rewards provinces that have significantly reduced or eliminated poppy cultivation. The MCN-administered program demonstrates that there is a direct and tangible benefit if a province engages in proactive supply reduction efforts. In 2010, the U.S. committed \$25.7 million to fund development projects in provinces that met the program's criteria. As noted above, the U.S. fully-funded MCN's GLE program, which reimburses provinces that eradicate poppy fields in targeted areas.

The DEA has increased its presence in Afghanistan to 82 personnel and will continue to train and mentor specialized CNPA units. The DEA utilizes permanently assigned personnel at the Kabul Country Office and Foreign-deployed TDY Advisory Support Teams (FAST) in Afghanistan. DOD/CENTCOM provides training to the regular CNPA and its vetted units; constructs CNPA facilities; and trains and equips the Air Interdiction Unit (AIU), an Afghan unit that provides helicopter support for drug interdiction missions. Until the Afghan crews are fully capable, the AIU provides medium-lift helicopter support to interdiction missions using contract pilots. Finally, State-INL provides operations and maintenance support for the vetted units' facilities and the CNPA Headquarters, pays salary supplements to vetted unit members, and provides additional mentors to assist DEA in their development. INL's Air Wing also provides support for DEA and the vetted units during their operations.

The Department of Justice has assigned five experienced federal drug prosecutors, supported by three criminal investigative advisors, to mentor the CJTF. The goal of the mentoring effort is to develop the CJTF's capacity to investigate and prosecute mid- to high-level drug traffickers. The Corrections System Support Program works closely with the U.S.-funded Justice Sector Support Program, which has over 150 U.S. and Afghan justice advisors, to provide training, mentoring, and capacity-building for Afghanistan's criminal justice system.

The U.S. Embassy Agriculture Team (USAID, USDA and National Guard Agribusiness Development Teams) implement comprehensive agricultural programming to support stabilization and development throughout Afghanistan. The combined budget for FY2010 is in excess of \$1 billion. U.S. agricultural programs are closely coordinated with the Afghan Ministry of Rural Rehabilitation and Development (MAIL) and other related Afghan ministries. In a multi-year strategy to combat poppy cultivation, programs continued supporting high-value perennial crops, improving market access for these goods, and supporting licit job alternatives. USAID programs provided training, increased farmers' access to markets and goods, supported rural enterprises and key value-chains, and improved basic infrastructure in the southwest, eastern and northern poppy-prone provinces to continue building on the significant decreases in poppy cultivation from previous years. An additional USAID program provided high quality vegetable seeds and other agricultural inputs, as well as training on basic farming techniques, to farmers in Helmand and Kandahar Provinces, helping farmers in these poppy-intensive areas to grow licit crops. Farmers in Helmand Province received this support as part of Governor Mangal's "Food Zone Program" and cultivated seven percent less poppy in 2010.

The U.S. funds a multi-pronged public information program, jointly implemented through the MCN, which focuses on discouraging poppy cultivation, preventing drug use, and encouraging licit crop production. In 2010, the largest campaign occurred during the opium poppy pre-planting season and involved farmers, district and provincial leaders, and religious officials. The Colombo Plan Drug Advisory Program (CPDAP), an international organization specializing in drug demand reduction services and activities, worked with MCN to coordinate 26 provincial conferences, 112 district jirgas and 20 ulema conferences during the pre-planting season involving community leaders in the effort to discourage narcotics abuse.

Coordination within USG entities, GIRoA, and the international community will be a key factor in the implementation of public information programs. In the short term, the U.S. supports the continued use of organizations, such as CPDAP, to help MCN implement public information campaigns. Longer term goals must address the MCN's need to find and retain sufficient staffing numbers within Kabul and the provincial directorates. MCN will require individuals that can develop and disseminate radio, TV and print content; organize provincial and national events; and coordinate counternarcotics messaging throughout GIRoA.

The U.S. is the largest donor to drug addiction treatment services in Afghanistan, funding 26 of Afghanistan's 46 treatment centers. Of the 26 U.S.-funded treatment centers, 12 treat adult males, six treat adult females, six treat children, and two treat adolescent males. Local NGOs manage treatment programs at 25 of the 26 centers and the UNODC manages the remaining center's programs. Five additional treatment centers are planned for 2011.

The Department of State has funded several drug demand studies through research consortiums: A three-year outcome evaluation to assess the long-term impact of U.S.-funded drug treatment services; a study to conduct special testing of children exposed to second-hand opium smoke; and a national household drug abuse survey. The last survey will provide the first scientifically-controlled assessment of drug addiction in Afghanistan and includes populations of women and children that previous surveys failed to adequately capture.

The U.S. also supports 15 mosque-based outreach and aftercare centers that provide a myriad of community-based services: shelter and crisis intervention; counseling; aftercare services; peer/family support group meetings; relapse prevention services; and basic drug information for schools and communities. In 2010, a life-skills drug prevention pilot program was launched in 24 elementary and middle schools in Kabul.

D. Conclusion

GIRoA, via its elite CNPA units and the CJTF, scored a number of impressive successes in 2010. These successes must be increased and serve as a foundation for advancing future counter narcotics law enforcement efforts. However, several elements will be significant to GIRoA's future success in combating narcotics trafficking; increasing the capacity of the MCN to coordinate policy at the central government level; actively combating corruption at all levels of government; and developing the ability of regular CNPA units to carry out street level operations. In order to accomplish these goals, GIRoA must develop the political will to challenge vested political interests.

Farmers and those involved in processing and trafficking drugs must also have viable economic alternatives to involvement in the narcotics trade. This will require improvements in security and market access, as well as continued concentrated efforts to increase agricultural and other alternative livelihoods throughout the country. Development and law enforcement efforts must reinforce – and not detract from or conflict with – each other.

The MCN has increased its role in the development and coordination of GIRoA's counter narcotics strategy. However, it still suffers from inadequate staffing and resources. The U.S. is working with the MCN to increase its capabilities in the areas of financial management, human resources, and information technology. MCN also needs to deepen its interaction with UNODC and the rest of the international community. One area that shows great promise is an increased role for Islamic states in the area of drug demand reduction.

Although the CJTF has successfully prosecuted a few high ranking officials in the past, senior GIRoA officials appear unwilling to prosecute politically connected individuals. The general public's perception that certain individuals are able to carry on criminal activities with impunity represents a direct challenge to GIRoA's credibility and legitimacy. The high profile release of five convicted drug traffickers last year serves as a clear example of the difficulty GIRoA has in consistently prosecuting politically powerful individuals.

Albania

A. Introduction

Albania made progress in its counternarcotics efforts during 2010. The Government of Albania (GOA) tries to aggressively confront criminal elements. Albania is primarily a transit country for narcotics with traffickers moving mostly Afghan heroin smuggled via the Balkan Route to destinations throughout Western Europe. Albania's ports on the Adriatic Sea, porous land borders, counternarcotics measures that are under-financed and poorly managed and law enforcement officials who are at times corrupt and inadequately equipped make it an attractive stop on the smuggling route for traffickers. Cannabis continues to be produced in the remote mountain regions of Albania for markets in Europe. Drug dependency is a relatively new problem in Albania with no clear picture of its size or scope and little official acknowledgement even of its existence.

With the exception of cannabis, Albania is not a significant producer of illicit drugs. Cannabis is currently the only drug grown and produced in Albania, and is typically sold regionally. The cultivation of marijuana decreased noticeably with increased enforcement action against both the traffickers and cultivators. There was no poppy cultivation or poppy plant seizures in 2010. No labs for the manufacture of synthetic drugs were discovered and the trade in synthetic drugs remains virtually non-existent. Albania is not a producer of significant quantities of precursor chemicals.

Narcotics trafficking in Albania remains 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, porous borders, weak law enforcement, and unreformed judicial systems. Albania is a transit country for Afghan heroin and a source country for marijuana, especially to Italy and Greece. While the majority of drugs have historically been smuggled across the Adriatic Sea, Albania's more aggressive policies and policing of its coast have redirected most trafficking over land borders with Kosovo and Montenegro for transit into Serbia and Bosnia. Albanian criminals appear to be taking a greater role in the financing and distribution of heroin outside of Albania, especially in the Northern Balkans and Western Europe.

To some degree, Albania's recent history as a poor, isolated country, helped keep drug dependency low and the government and people of Albania have been slow to address an emerging problem. Local and national authorities claim that the problem is not widespread due to cultural norms and low levels of discretionary income. The country is hampered by high unemployment, crime and lack of infrastructure, leaving little time and resources for the Albanian Government to focus on drug treatment or preventive education. There are no independent organizations that keep track of drug abuse in Albania.

Despite the difficulties it faces, there is some evidence that Albania is making progress in the counternarcotics arena. Data suggests that better law enforcement and border control is slowing the flow of trafficking as in the first 10 months of 2010, heroin seizures declined for the first time in seven years. Also, seizures of processed marijuana more than tripled due to increased counter narcotic measures by the Albanian State Police (ASP) and increased community policing practiced in the target areas. Albania is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Albanian government has elevated the priority of the fight against organized crime and trafficking, with the police taking an increasingly active role in counter narcotics operations. Albania's desire to obtain visa free travel to the EU, and its 2009 entry into NATO continues to motivate the GOA to implement and enforce reforms, however the fractional nature of Albanian politics and the slow

development of Albanian civil society have hampered progress. Despite this, some key policy initiatives were accomplished in 2010. A 2005 Moratorium outlawing speedboats and several other varieties of water vessels on all of Albania's territorial coastal waters was scheduled to expire, but was extended for another 3 years by the parliament. The moratorium continues to frustrate the movement of drugs and trafficking in persons by smaller vessels, particularly to Italy. In January 2009, Lockheed Martin completed installation of a seven-radar sea-surveillance system which provides the Albanian Ministries of Defense and Interior a complete real-time picture of their entire sea border. These radars feed into a newly created Inter-ministerial Maritime Operations Center (IMOC). The IMOC coordinates detection, tracking, and maritime operation missions between Naval, Coast Guard and law enforcement forces. 2010 saw the drafting of SOP's and selection and training of the first cadre of IMOC staff officers. Coordination is not yet 100 percent, but progress is being made.

In 2010 the Albanian Coast Guard/Navy was scheduled to complete construction of a 143-foot Damian patrol vessel to compliment one received from the Netherlands in 2009, however delays have pushed the projected completion date of the project back to 2011. In all, four Damian class vessels should be operational by 2013. In August, 2010, three U.S. donated Archangel patrol boats joined the fleet, significantly adding to interdiction capability. These measures to secure the coastal waters have pushed trafficking patterns overland through Kosovo, Montenegro, Serbia and Bosnia and then on to Italy.

Albania works with its neighbors bilaterally and in regional initiatives to combat organized crime and trafficking, and it is a participant in the Stability Pact and the Southeastern Europe Cooperative Initiative (SECI). Albania signed the Stabilization and Association Agreement with the European Commission in June 2006, and it has since been ratified by twelve European Union member countries. Albania is also a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Although an extradition treaty is in force between the United States and Albania, it is severely outdated (1933) and does not cover many crimes. 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 and the UN Drug Conventions enhance 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, which resulted in the successful return of the fugitives to the U.S.

2. Supply Reduction

Albania's antinarcotics efforts appear to be working as the ASP's seizures of heroin fell for the first time in seven years. Albanian Police believe that traffickers have changed their land routes to a more northerly direction, away from Albania. Italian statistics continue to show that the amount of Afghan heroin seized in Italy, which previously transited directly from Albania remains minimal. In the first 10 months of 2010 the ASP seized 25.40 kilograms of heroin compared with 73.95 kilograms in 2009. Since January 2010 the ASP has arrested or detained a total of 569 persons for drug trafficking with another 169 suspects at large. 151 of these arrestees were for heroin trafficking and 385 for marijuana trafficking or cultivation. The ASP seized 6091 kilograms of processed marijuana up dramatically from 2030 kilograms in 2009. This increase reflects a change of strategy and more enforcement and interdiction focus on the traditional areas of transit within Albania from the rural plantations to the borders. The ASP also destroyed 36,535 marijuana plants. The number of destroyed plants is down due to a 2009 eradication program in traditional areas of cultivation that successfully suppressed 2010 cultivation. The ASP also seized 694.5 grams of cocaine and arrested 46 suspects, most if not all dealing at the street or consumer level.

With the exception of cannabis, Albania is not a significant producer of illicit drugs. The Ministry of Interior's Anti-Narcotics Unit reports cannabis is currently the only drug grown and produced in Albania, usually for regional distribution. Cultivation of marijuana in 2010 decreased noticeably with increased

enforcement action against both the traffickers and the cultivators. There is no poppy cultivation, no evidence of labs for the manufacture of synthetic drugs, 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; however police and customs officials are not trained to recognize likely diversion of dual-use precursor chemicals.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Ministry of Health has stated publically that drug use is on the rise. While the Ministry has declared repeatedly that there are 30,000 drug users in Albania, it has no reliable data about drug abuse to substantiate these claims. Neither does it have statistics on the number of estimated addicts as opposed to users. However, anecdotal evidence suggests that marijuana use is increasing in school-aged children.

The GOA has taken steps to address Demand Reduction by embracing an ICITAP sponsored Drug Awareness/Demand Reduction project in the Tirana public elementary schools co-sponsored by the New Jersey National Guards Partners for Peace initiative. 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, primarily heroin, and most were intravenous drug users. There are two NGO's currently operating in Albania focused on drug abuse. 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.

4. Corruption

Although the Albanian Government neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, nor the laundering of related proceeds, 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. The prevalence of corruption makes organized criminals' and drug traffickers' task easier. In 2009 and the first half of 2010, the police and judiciary have been more active in investigating government officials and law enforcement personnel for corruption. During 2009, the prosecutorial system registered 746 cases for corruption-related offenses a 21.3 percent increase in registered cases compared to 2008. Prosecutors referred 338 of these cases to court, an 8.3 percent increase. During 2009, the courts rendered 346 guilty verdicts, or 25 percent more convictions compared to 2008. Albania is a party to the UN Convention Against Corruption.

Although these numbers are a significant improvement over previous years, Albania continues to lack the judicial independence for unbiased, transparent proceedings and many cases are never resolved. High-ranking government officials, including judges and members of parliament enjoy immunity from prosecution, which hinders corruption investigations. However, the Tirana Joint Investigative Unit to Fight Economic Crime and Corruption (JIU), established in 2007, has had a tangible impact against corruption in Albania's capital. Six additional JIUs were set up during 2010 in regions throughout Albania.

In November 2008, a new law on the Internal Control Service (ICS) entered into force, determining that the ICS Directorate in the Ministry of Interior would establish an Inspections Directorate as well as utilizing the Integrity Test as a tool to fight corruption within police ranks. The Inspections Directorate was established in May 2010 and all hired inspectors completed a ten-week [May-July 2010] training program, comprising two weeks of Admin Law, four-weeks of Basic Police Academy and a further four

weeks of Basic Inspections in cooperation with ICITAP and PAMECA. A Director and Deputy Director of Inspections have been appointed, however the "integrity testing" has yet to be implemented by ICS.

To date, in 2010, 61 criminal complaints have been forwarded for prosecution involving 111 police officers including one officer of mid-level management, 28 officers of first line supervision level, 75 operational level officers and seven non-sworn (support services). Twenty-five police officers of both first line supervision level and operational level have been arrested on corruption and misuse of authority charges.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The GOA continues to welcome assistance from the United States and EU countries. The U.S. is involved in judicial sector assistance programs for law enforcement and legal reform through technical assistance, equipment donations, and training. One of the problems encountered continues to be deep political polarization at all levels of government resulting in the absence of a strong civil service. Most government employees are subject to reassignment during times of political transition.

The State Department-INL 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, 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, advanced 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 of resident embassies.

In 2009 and to the present in 2010, OPDAT and ICITAP continued to work with the Albanian Ministry of Interior, Ministry of Finance, General Prosecutor's Office, and State Intelligence Service in forming additional Economic Crime and Corruption Joint Investigative Units (JIU) to improve the investigation and prosecution of financial crimes, especially money laundering and corruption. The Tirana JIU formally began operations in September of 2007 and has shown promising initial success. OPDAT has supported the JIU throughout 2009 and 2010 with an imbedded OPDAT anti-corruption legal advisor, intensive training programs, and equipment donations. Despite the election-year turmoil in 2009 (and the lower number of police referrals as a result), Tirana JIU saw vast improvements in several areas highlighted by a 40 percent increase in money laundering cases registered and a 10.5 percent increase in the number of defendants investigated. While the overall number of new cases registered was lower than the previous year (217 for 2009 compared to 249 for 2008), the higher number of defendants reflects the increasing complexity of the types of cases being investigated. As of September 30, 2010, the Tirana JIU has registered 192 new cases, putting them on track to exceed the previous years' tallies.

OPDAT continues to have a direct and visible impact on the work of the Tirana JIU and regional JIUs. The presence of an American prosecutor at the JIU has increased the public's trust in their work and also provided political cover for the prosecution of highly-placed public officials. Procurement fraud and property issues continue to comprise a majority of cases being prosecuted, with the number of money laundering investigations steadily increasing.

On May 6, 2009, the Prosecutor General, Minister of Interior, Minister of Finance, Director of State Intelligence Service (SHISH), the head of High State Audit (HSA), and the head of the High Inspectorate for the Declaration of Assets (HIDAA) publicly signed a Memorandum of Cooperation formally establishing six regional anti-corruption and financial crime units in the cities of Durrës, Fier, Korça, Shkoder, Vlora, and Gjirokaster. The regional JIUs are now operational and fully staffed. The signing of this agreement added two additional agencies (HIDAA and HSA) to all JIUs (both Tirana and regional) to increase case investigations of public officials. Since they began operating, the regional JIUs have begun

588 investigations, 88 of which have gone to trial. They are still in their early stages of operation, and OPDAT will continue to support these regional units through a Millennium Challenge Corporation (MCC) funded program with training, mentoring, and equipment.

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. Witness Protection Law reform was undertaken by the IC working group, with prosecutors and police working with internationals to revise the law written in 2004. The new law was passed by the Albanian Parliament in October 2009 and 2010 saw the initial implementation steps.

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, through specialized advice, equipment, and installation of the Total Information Management System (TIMS) at border crossing points. TIMS is now operational in all 26 major border crossing points. Part of the Integrated Border Management (IBM) 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. Since that time, the Border Police have established eight regional border directorates. IBM Program performance highlights include drafting and approval of the IMOC (Inter-ministerial Maritime Operations Center) Agreement in order to meet EU border demilitarization objectives, implementation of specific provisions of the Police/Custom Joint Activities Agreement (that includes joint controls of vehicles at the border and information sharing), certification of 32 Border Police trainers, delivery of the first Basic Border Police Training Program (4 month course for 20 participants) at the State Police Center for Police Development, establishment of functioning risk analysis capabilities, and initial implementation of joint cross border police agreements and supporting protocols. Outcomes and impacts are mostly associated with the initiation of joint patrols and joint activities. For example: 89 and 168 joint patrols were initiated between Albania and Macedonia and Albania and Montenegro respectively in 2009 compared to none in 2008. There were 10 joint operations in tandem with Greek Border Police in 2009, a 50 percent increase from 2008. Albania recently signed a Trans-Border Police Cooperation Agreement with Kosovo; however, implementation protocols for border security and facilitating the movement of lawful persons and commerce are still lacking. Drug seizures at the Albanian border, while difficult to directly correlate with Border Police program inputs have nonetheless increased since inception: 2007 – 5 seizures, 2008 – 15 seizures, and 2009 – 24 seizures. Institutional reforms within the Border Police also have the added benefit of supporting the capacity of the organization to deploy donor provided equipment for actual use in the field. 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 U.S. Coast Guard (USCG) provided maritime law enforcement training to Albanian officers through two visits of a mobile training team, as well as training two officers in the U.S. in 2010. 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.

ICITAP has teamed up with the New Jersey National Guard under the Partners for Peace Program to introduce a Drug Awareness-Demand Reduction Program in the Tirana Public Elementary Schools. ASP Community Policing Specialists and selected educators have been trained by US specialists in both the United States and Albania and have also been exposed to the US DARE Program, enabling them to deliver basic anti-drug information to children ages 9 through 14. Police and Educators have formed 10, three person teams which deliver these messages throughout the school year. In 2010 The Tirana Police Directorate and the Ministry of Education's Regional Directorate signed an MOU officially recognizing and endorsing this project. This program is part of a broader based community policing strategy that

includes international police assistance programs, educators and NGO's as well as the police and local citizens.

D. Conclusion

Albania continues to make progress with their counternarcotics effort but that progress is constrained by weak political, judicial, and law enforcement framework and institutions. Albania's primary role in the global narcotics picture is as a transit route into Western Europe and given its geographic position, it will continue to see trafficking activity. Improving government institutions and policing is having a positive effect, but progress is still slow. The U.S., together with the EU and other international partners, will continue to work with the GOA on fighting illegal drug trafficking, to use law enforcement assistance effectively, and to support legal reform.

Algeria

Algeria is principally a transit point for drugs – especially hashish bound for Europe - rather than a center of production or consumption itself. The Government of Algeria (GOA) is actively working to address the problem with increased resources devoted to education, interdiction, and treatment, although its security forces are primarily focused on ongoing counter-terrorism efforts.

Algeria is primarily a transit country for illicit drugs bound for Europe. The bulk of the drugs transiting the country consist of Moroccan-origin cannabis (especially cannabis resin-hashish) and a growing quantity of South American cocaine and heroin. The bulk of these drugs travels by sea to Europe, while some share is smuggled overland to Middle Eastern destinations. Algeria's borders stretch 6000 kilometers, mostly across broad and little-policed swathes of the Sahara. These long and porous borders with Morocco, Western Sahara, Mauritania, Mali, Niger, Libya, and Tunisia make it difficult for Algerian security forces to detect and halt smugglers. GOA officials have voiced concern that members of Al-Qa'ida in the Islamic Maghreb (AQIM) may be cooperating with smugglers in the Sahara. Drug use is not generally a significant problem in Algeria, although the problem is on the rise. Cannabis is the most widely used drug, but there is a small and growing consumption of hard drugs including cocaine and heroin. The government is expanding facilities for treating drug addiction, and this year aims to have an outpatient drug treatment facility in every province of the country. Some production of illicit drugs occurs in Algeria, principally cultivation of cannabis in the Southeast and around Algiers, but not at significant levels.

The GOA has taken a number of steps to counter the drug problem, including increases in enforcement personnel, enhanced training, and the purchase of more modern equipment. The GOA is formulating a five-year strategy (2011-2015) to more effectively deal with drug problems. Algeria has tough laws against illegal drugs, with sentences of up to 2 years for use and 10 to 20 years for drug trafficking and distribution. Algeria is a party to the 1988 UN Drug Convention. The GOA does not, as a matter of government policy, encourage or facilitate illicit production or transport of illegal drugs. Algeria has a large and capable security apparatus hardened by almost two decades of counter-terrorism efforts against al-Qa'ida-associated Islamic militants. The National Office for the Fight Against Drugs and Addiction (Known by its French acronym, ONLCDT) coordinates the GOA's drug policies and produces its official reports on the drug problem in Algeria. The National Gendarmerie, Customs, and National Police (DGSN) are responsible for day-to-day enforcement. The Gendarmerie accounted for about 90 percent of the drug seizures in the first six months of 2010, continuing the Gendarmes' record of strong counternarcotics performance. According to ONLCDT, the GOA has scored a number of successes in its counternarcotics efforts in 2009. Security forces made slightly less than 10,000 arrests and made seizures of 75MT of cannabis resin and insignificant quantities of heroin and cocaine; 2009 cannabis resin seizures doubled compared to 2008. During the first six months of 2010, Algerian authorities made over 5000 arrests and seized over 17MT of cannabis resin, 60 kg of heroin, and an insignificant quantity of cocaine. However, the head of the ONLCDT estimated that the 20 metric tons of cannabis seized through September 2010 comprised just 10 percent of the overall volume of cannabis transiting the country during that timeframe.

There is currently no extradition treaty between the United States and Algeria. A Mutual Legal Assistance (MLAT) treaty between the U.S. and Algeria was recently signed in April 2010, but has yet to enter into force between the two countries.

Algeria would benefit from stepped-up training to boost the counternarcotics capabilities of its security forces. The GOA has generally been receptive to US offers of training and assistance for law enforcement officer training, with several successful training sessions held in the past year. The GOA would probably be receptive to additional training offered to it.

Angola

Angola produces marijuana known locally as “liamba”, and is a transit point for cocaine. Angolan officials have demonstrated a concern for narcotics trafficking. Officials are improving their ability to control trafficking through the Luanda International Airport, but sea ports and trafficking from near-by countries using roads remain a challenge. There is no indication that Angola produces synthetic drugs, however, the authorities have no capacity to classify and control dual-use chemicals, which could be diverted in Angola or elsewhere for illicit drug production. The most pressing challenge is providing public health services to addicts, and educating youth on the dangers of drug abuse and addiction. Angola is a party to the 1988 UN Drug Convention.

Angola is a transit point for cocaine from Brazil intended for onward shipment to Nigeria or Europe. This trafficking route is characterized by low-level drug “mules” trafficking small quantities of cocaine that is produced in South America. Most cocaine enters by commercial air flights on routes from Brazil. A small amount stays in Luanda, but most is sent from the same airport to destinations in Europe.

Marijuana is the most abused drug in Angola, and an unknown additional quantity is trafficked to Portugal. “Liamba” enters Luanda via land, sea and air ports, hidden in containers, and leaves from the Luanda International Airport. The profile of low level, frequently “swallower” traffickers is men and women aged 18-45 years old from the Democratic Republic of Congo or Angola itself. These so-called “mules” are frequently recruited and organized by Nigerian trafficking syndicates.

The other most abused substances in Angola are alcohol, “liamba”, and cocaine. “Liamba” is widely available and usually smoked. Officials reported most marijuana smokers are 20-39 years old, and include students, workers, farmers, soldiers, and the unemployed. Cocaine is mostly consumed in the night clubs of Luanda by the wealthy elite.

Crack cocaine, heroin, ecstasy, mandrax (methaqualone), and synthetic drugs are not generally available in Luanda, but have begun to arrive recently in small quantities from Europe or South Africa for the few domestic users.

The National Directorate for Criminal Investigation (DNIC) reported the following drug-related crimes from January to September 2009:

Detained for drug consumption: 1,427 individuals

Convicted of drug consumption: 1,242 individuals

Detained for drug trafficking: 116 individuals

Convicted for drug trafficking: 90 individuals

The (DNIC) also provided the following official statistics for seizures between January and September 2009: 3,278 kilograms (kg) of marijuana; 76.4 kg of powder cocaine, 408.3 grams (g) of crack cocaine, and no heroin. Most traffickers are Angolan, but some have been Nigerian, Ghanaian, Senegalese, and Congolese (DRC).

Officials fear that as authorities improve interception capabilities at the Luanda International Airport, traffickers are turning to land or sea routes.

The Inter-Ministerial Committee to Fight Drugs (Comité Interministerial de Luta Anti-Drogas, CILAD) is charged with coordinating activities between the Ministries of Justice, Education, Health, Finance, Foreign Relations, Social Services, and Agriculture and Rural Development.

Infrastructure is lacking. The Ministry of Interior and Justice have indicated a strong interest in upgrading their equipment, and have been adding new canine units to their strategy.

The Angolan police work closely with Lusophone Brazilian and Portuguese police against drug trafficking. In January 2008, Angola and the Russian Federation signed an agreement to combat drug trafficking, and specifically to exchange information for investigations.

Officials have publicly noted their commitment to antidrug efforts. Beyond police education activities, there are advertisements for drug awareness around Luanda, but there is not an active, ongoing media campaign.

Some NGOs engage in prevention, demand reduction, and rehabilitation programs in Angola. One of the largest is the Christian Center for Help and Rehabilitation (Centro Cristão Benéfico de Ajuda e Reabilitação, REMAR), which provides rehabilitation services for over 100 people. However the capacity is far less than the demand.

Angola does not encourage or facilitate illicit production or distribution of narcotics and psychotropic substances, nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions. The USG is not aware of any senior officials engaged in drug trafficking. Angola takes drug trafficking seriously, as shown by a high level commitment to identify, detain, and try traffickers arriving or departing from the Luanda International Airport. Angola is a party to the UN Convention Against Corruption.

Angola's authorities require assistance developing the capacity to classify and control potential diversion of dual-use chemicals. Ministry of Justice and CILAD officials also want to receive assistance in drafting criminal codes that better classify and proscribe criminal penalties for distribution, sale and use of narcotics and chemical precursors. Current criminal codes often date back to early Portuguese colonial rule, and provide no clear legal mechanisms for enforcement or sentencing. In order to meet the standards in the 1988 UN Convention, Angola should enhance its maritime and port security capabilities, while devising social communication strategies to change the traditional cultural acceptance of marijuana cultivation in rural areas, which contributes to regional trafficking problems. In addition, Angola could improve its law enforcement intelligence gathering capacity to better predict drug trafficking trends and patterns, resulting in increased interception and seizure of illicit drugs.

Argentina

A. Introduction

While not a significant narcotics producing country, Argentina continues to be an important transit country for Andean-produced cocaine. The U.S. Drug Enforcement Administration (DEA) estimates as much as 70 metric tons of cocaine transited Argentina in 2010, mostly destined for Europe. Argentine officials believe there is increased transit of cocaine through Argentina and credit this to successful counternarcotics efforts in Mexico and Colombia which are forcing drug traffickers to utilize other routes to market. Diminished drug interdiction capabilities in Bolivia also contribute significantly.

Marijuana, the majority of which is imported from Paraguay and used for domestic consumption, continues to be the most widely abused drug in Argentina. However, the prevalence of cocaine use has risen sharply and the country has the second largest internal cocaine market in South America after Brazil. Cocaine remains by far the leading drug for which Argentines seek help at treatment centers and the use of cocaine base among economically disadvantaged members of society continues. The Government of Argentina (GOA) has taken steps, including new studies and educational and treatment initiatives, to reduce demand.

Argentina regulates the production, importation and transportation of precursor chemicals. Argentine law enforcement agencies impound unregistered precursor chemicals and violators are punished, generally through fines and revocation of importation and/or transport permits. In the case of ephedrine, these efforts have been successful although the country remains a regional source for precursor chemicals used for cocaine production.

Argentina is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Argentina's National Counternarcotics Plan for 2009 - 2011 continues to be coordinated by the Secretariat of Planning for the Prevention of Drug Addiction and Drug Trafficking (SEDRONAR). SEDRONAR's efforts are complemented by the National Coordinating Commission for Public Policy Regarding Prevention and Control of Illicit Drug Trafficking, International Organized Crime, and Corruption which is charged with an advisory, not enforcement, role in Argentina's counter-drug strategy. The Commission is under the authority of the Chief of Cabinet and is composed of leading jurists and both natural and social scientists who had participated in a 2008 - 2009 Scientific Assessment Committee focused on narcotics issues. While many of the Commission's initiatives in 2010 targeted efforts to deal with prevention and treatment of addiction, it is also developing strategies for enhancing coordination among national and provincial law enforcement agencies; proposing mechanisms to detect suspicious patterns in the trade of precursor chemicals; strengthening draft GOA anti-money laundering laws; and launching an effort to prepare a "Criminal Map on Drugs" to show trade, distribution, stock, and traffic of illegal drugs in Argentina. Unfortunately, insufficient cooperation among the various federal and provincial law enforcement agencies hampers Argentina's effectiveness in combating the illegal drug trade. Prosecution of traffickers is likewise complicated by backlogs in the judicial system. Among the reasons for these backlogs is the still incomplete move from an inquisitorial system to an oral accusatorial system at the national level.

Argentine law enforcement and security agencies, including the Federal Police (PFA), the Frontier Guard known as the Gendarmeria or GNA, the Special Airport Police (PSA), the Coast Guard (Prefectura or PNA), and provincial security forces enhanced their efforts in 2010 to apply additional resources,

including expanding radar coverage in the north, to address what the government views as an increasing push by drug traffickers to utilize the country's northern borders for illicit trade.

Despite the Supreme Court's 2009 ruling against imposing criminal penalties for the personal possession of small amounts of marijuana, Argentina's Narcotics Law 23.737 has not been modified. In fact, an October 2010 Federal Court decision refused to apply the 2009 precedent in the case of two youths who were arrested for smoking marijuana in a public park. The court distinguished the case by noting the 2009 ruling applied exclusively to "private use" of marijuana. Nonetheless, some GOA officials have advocated legislation to decriminalize personal possession of small quantities of marijuana, arguing that such a measure would permit the shifting of scarce police and judicial resources away from individual users and toward drug trafficking organizations, as well as free up funds for substance abuse treatment. Congress has not acted on the proposal.

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 and a mutual legal assistance treaty. Argentina has bilateral narcotics cooperation agreements with many neighboring countries, as well as with Mexico and Spain. In addition, Spain, the United Kingdom, Germany, Australia, France, Italy and the Netherlands provide limited counternarcotics training and equipment to the GOA. 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, among others.

2. Supply Reduction

SEDRONAR maintains centralized records of drugs seized by both federal and provincial security forces in Argentina. It is GOA policy to make this data public only after it has been turned over to the UN Office on Drugs and Crime (UNODC). Official 2010 seizure data is expected in March 2011. Pending official numbers, preliminary USG estimates indicate Argentine security forces seized approximately 12.7 metric tons (MT) of cocaine from January through September 2010. This nine month total represents an increase over the 12.56 MT of cocaine seized by the GOA in 2009.

While the vast majority of Andean cocaine transiting Argentina has always been smuggled across the Bolivian-Argentine border, diminished drug interdiction capabilities in Bolivia have contributed to increased flows. Cocaine transiting Argentina is primarily destined for international markets in Europe, in particular Spain; however SEDRONAR reported in 2010, that cocaine transiting Argentina is now reaching markets in South Africa, Israel, and Australia.

Maritime container-based smuggling appears to have increased in 2010. Between June and August 2010, 5.83 MT of cocaine was seized in Argentine-origin containers, most of which were destined for Spain. All of the containerized shipments involved cover loads of legitimate cargo ranging from fresh produce to household furniture. Traffickers are also increasing their use of light aircraft to bring cocaine and marijuana into Argentina across the borders with Bolivia and Paraguay.

The USG further estimates that Argentine security forces seized over 66 MT of marijuana from January through September 2010, representing a potential decrease from the estimated 91.87 MT seized during calendar year 2009. Most of the marijuana was seized either in the tri-border region with Brazil and Paraguay, or along Argentina's western border with Chile.

SEDRONAR reported the Special Airport Police seized 1.5 kilograms of heroin in 2010 and that provincial security forces seized 93,500 units of ecstasy and 84.5 liters of ether between January and July 2010. The Gendarmeria seized 1.07 MT of precursor chemicals from January through September 2010 while the Federal Police reported seizing 3.62 MT of precursor chemicals during the same period. The

Coast Guard reported seizing 16,200 liters of ether and 34 liters of hydrochloric acid from January through August 2010.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the 2010 UNODC World Drug Report, Argentina had the highest prevalence of cocaine use (2.7 percent) and marijuana use (7.2 percent) in South America among 15 to 64 year-olds. This translates into the second largest number of cocaine users in the region (600,000), second only to Brazil. In addition, abuse of a by-product of the base-to-hydrochloride cocaine conversion process, known locally as "pasta base" or "paco," is increasing. Pasta base is readily available on the streets, costs approximately 25 US cents a "hit" and produces a brief, intense high when smoked in pipes or mixed with tobacco. Argentine law enforcement officials and local press report that a rise in street crime has been fueled by a corresponding increase in pasta base consumption.

The GOA, in collaboration with private sector entities, sponsors a variety of print and broadcast information campaigns which have a nationwide reach. Although SEDRONAR continues to play the leading role in coordinating GOA demand reduction efforts, the National Coordinating Commission has sponsored several initiatives in 2010, including a scientific analysis of pasta base to better publicize its overall toxicity, as well as a set of guidelines designed to ensure drug addiction treatment programs comply with both domestic law and international obligations.

Drug treatment protocols/techniques are similar to those found in the United States and Europe. Prevention budgets are managed via four focus areas -- the family, schools, the community (with funding from the World Bank), and the work place.

4. Corruption

As a matter of policy, the Government of Argentina does not encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, or the laundering of proceeds from illegal drug transactions, and there is no evidence to suggest senior government officials are engaged in such activity. An independent judiciary and an investigative press actively pursue allegations of corrupt practices involving government authorities.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Argentina cooperated effectively with the United States, European, and other South American partners in narcotics investigations and regularly participated in U.S.-sponsored training in 2010. 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 among Andean and Southern Cone nations; maximizing host nation drug enforcement capabilities; and fortifying bilateral cooperation with host nation law enforcement agencies.

Key elements of U.S.-Argentine cooperation are the Northern Border Task Force (NBTF), a joint law enforcement group comprising federal and provincial elements which operates along the Bolivian border, and the Eastern Border Task Force (EBTF), which acts against illicit drug smuggling activities in the tri-border area with Paraguay and Brazil. Both the NBTF and EBTF utilize USG support and have proven successful in interdicting cross-border cocaine and marijuana shipments.

In addition, Argentine authorities actively coordinate counternarcotics activities with neighboring countries. The U.S. Government has facilitated this cooperation by supporting joint training and seminars in the region and providing software and equipment for the sharing of real-time drug investigation leads.

D. Conclusion

Argentina has worked to address all aspects of the drug control effort and has focused an increasing level of attention on demand reduction and treatment initiatives in 2010. In recognition of the increase in

cocaine shipments in containerized cargo, the GOA should focus its interdiction efforts on targeted investigations supported by increased personnel levels and enhanced use of technology, such as x-ray scanning equipment, in order to reduce the amount of drug traffic escaping detection. Likewise, the GOA should implement its plan to improve its ability to detect and interdict illicit shipments crossing its northern borders with Bolivia and Paraguay by investing in additional personnel and other resources. In addition, optimizing cooperation among the various federal and provincial law enforcement entities would enhance Argentina's effectiveness in combating the illegal drug trade. It would be particularly useful to further improve judicial case processing efficiency as prosecutions have been slowed by the still incomplete transition to an accusatorial system.

Armenia

A. Introduction

Armenia is not a major drug-producing country, and domestic abuse of drugs is relatively modest. Because it lies along smuggling routes between Asia and Europe, Armenia has experienced some use as a transit country for drug trafficking. However, Armenia is landlocked, and the two longest of its four borders, those with Turkey and Azerbaijan, are closed. The resulting limited transport options make the country a secondary traffic route for drugs. However, two factors may be increasing interest among traffickers to use Armenia as a primary transit route: 1.) Turkish interdiction efforts may be forcing smugglers to take other routes into Europe, and 2.) Armenia's borders with Russia and Georgia have been closed since 2008.

The Armenian Police Service's Department to Combat Illegal Drug Trafficking (Anti-Drug Department) has accumulated a significant database on drug trafficking sources, including routes and people engaged in trafficking. Scarce financial and human resources, however, limit the Police Service's effectiveness. The Armenian government is currently reforming its border control system, which is primarily under the purview of the Customs Service and the paramilitary Border Guards. With U.S. assistance, Armenia is implementing integrated border management practices that should improve the authorities' ability to detect shipments of illegal drugs, as well as other types of contraband.

Resources for treatment of drug addicts have increased significantly in the last several years, but the number of registered addicts continues to rise sharply as well, partly because legislative changes now allow drug abusers to seek help without fear of prosecution. Armenia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Drug abuse is currently not widespread in Armenia, but appears to be growing. 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 an 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 particularly the province of the young. Of those registered for drug treatment, 95 percent are over age 25 and 64 percent are over 35. Police statistics also show that over 65 percent of convicted traffickers are male Armenian citizens between the ages of 30 and 49.

The principal production and transit countries from which drugs are smuggled into Armenia are Iran (heroin and opiates) and Georgia (opiates, cannabis and hashish). 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.

The financial, material, and human resources of the Police Anti-Drug Department have always been minimal and have not increased proportionally to the Department's growing caseload. This is a systemic problem for Armenian law enforcement, but even within the Police Service, the Anti-Drug Department appears less well funded than some other departments.

In an attempt to improve its interdiction ability, Armenia, together with Georgia and Azerbaijan, engaged in a European Union-funded and UN-implemented Southern Caucasus Anti-Drug (SCAD) Program from 2001 to 2009. This program provided legislative assistance to promote the use of European standards for drug prosecutions, collection of drug-related statistics, rehabilitation services to addicts, and drug-awareness education.

In 2009 the Armenian government implemented new legislation to bring Armenian drug laws closer into line with EU standards and to focus enforcement efforts on trafficking while emphasizing prevention and treatment for 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 UN 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 U.S., but that fine is waived for a user who voluntarily seeks drug treatment. The Ministry of Justice also enlisted UN support in developing a new National Drug Strategy.

Armenian law enforcement agencies participate 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. All Armenian law enforcement agencies (Police, National Security Service, Customs, Border Guards, Police Internal Troops, Ministry of Defense, and the Prosecutor General's Office) participate in this operation, which includes scrutinizing vehicles and cargo crossing the border.

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 the UN Convention against Corruption.

2. Supply Reduction

Most supply reduction efforts focus on interdiction of shipments and the investigation and arrest of drug dealers. The amount of drugs seized has increased considerably, however; there is no reliable data to show what percentage of illegal drugs is being seized. Seizures are often made at border crossing points, but some drugs are seized from street-level dealers as well, especially in Yerevan. Prosecutions against drug dealers caught with illegal drugs are almost always successful.

Unfortunately, both domestic drug abuse and international trafficking appear to be growing. Drug-related arrests and interdictions of illegal drugs increased in the first nine months of 2010 compared to the same period in both 2009 and 2008. This increase probably reflects a combination of improved law enforcement efforts, some increase in domestic consumption, and rising use of Armenia as a transit country as other routes have become more difficult for traffickers. The number of cases and the volume of illegal drugs seized remain small; as a result, even modest fluctuations in these figures appear as large percentage changes. For instance, the total amount of drugs seized in the first nine months of 2010 was about 73 kg, compared to 57 kg for all of 2009, a 28 percent increase by seizing just 16 kg more drugs. Approximately 23 kg of 2010 seizures consisted of methamphetamine, a drug never seized in Armenia before this year. Nevertheless, the large and continuing increase in seizures, especially of opium, suggests that this trend is not merely a statistical aberration.

Hemp and opium poppy grow wild in Armenia. Hemp grows mostly in the Ararat Valley, the southwestern 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. Police seek to locate and destroy any cultivated drug crops, but this represents a fairly small part of the anti-drug effort in Armenia.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Armenia seeks to prevent 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 UN SCAD program. The Drug Detoxification Center, part of the Armenian Narcological Clinic and funded by the Ministry of Health, provides short-term drug treatment. Two new drug treatment facilities

opened in 2009, one of which is part of the prison hospital system. These new facilities represent a response to the lack of long-term treatment and counseling that previously limited the success of treatment efforts, although the number of registered addicts continues to rise steeply. In 2009 the Narcological Clinic began offering methadone substitution treatment.

4. Corruption

Corruption remains a serious problem throughout Armenia, but there appears to be little high-level corruption related to drug trafficking. The government has made limited efforts to crack down on corruption in some government agencies, including the police and customs services. 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 individuals found with drugs in their possession bribe police to avoid arrest. The decriminalization of drug use could reduce this tendency, but some drug users may be unfamiliar with the law or may still resort to bribes to avoid administrative fines.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

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 (including drug analysis capability), the improvement of the law enforcement infrastructure and the establishment of a computer network enabling Armenian law enforcement offices to access common databases. The USG partly funded a project that expanded Armenia's Border Management Information System (BMIS) to all border crossing points in 2008, centralizing immigration data and giving law enforcement agencies access to information on drug interdiction efforts at Armenia's borders. The Department of State assists the Armenian government 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 USG will continue aiding Armenia in its counternarcotics efforts through the capacity building of Armenian law enforcement and will continue to cooperate with the government on operational drug trafficking issues. The USG promotes reconciliation between Armenia and its neighbors, and seeks a future of open borders in the region. Continued USG assistance would help Armenia secure reopened borders against narcotics trafficking as well as other forms of transnational crime.

D. Conclusion

Armenian government officials, like Armenian society in general, appear genuinely committed to the fight against illegal drugs. Even in an environment where many kinds of corruption are widespread, few officials are involved in drug trafficking, whether because they consider it beyond the pale or because the opportunity has not arisen. The relatively low level of drug use and drug trafficking, however, likely owes more to geography, international politics, demography and social mores than to effective law enforcement. Armenia's police and border authorities are improving their capabilities, as shown by significant increases in drug seizures, but still suffer from major weaknesses in personnel, training, equipment, intelligence collection, and interagency as well as international coordination. In order for Armenia to reverse current worsening trends and keep drug abuse and trafficking under control, law enforcement will need greater resources, additional training and improved coordination, and the government will need to expand its education and treatment efforts to meet growing needs.

Azerbaijan

A. Introduction

The transit of narcotics and other illegal substances through the territory of Azerbaijan remains a significant concern, as Azerbaijan is situated along major drug trafficking routes from Afghanistan and Iran to Europe and Russia. According to government data, the quantity of drugs seized by the authorities in Azerbaijan, as well as the number of reported crimes related to drugs, has increased over the last decade.

The importance of Azerbaijan for the transit of illegal substances through the Caucasus has grown considerably, in part due to the strengthening of border regimes in Turkey and Georgia. Meanwhile, the corresponding domestic usage of drugs in Azerbaijan remains relatively low. Societal influences limit drug usage in rural and urban areas alike, but reports indicate that the availability and use of narcotics in and around prisons is a concern. Few notable government-sponsored programs exist in Azerbaijan to aggressively address the drug use that does occur in the country; however, media reports indicate that new programs have demonstrated increased support for drug use prevention efforts.

The cultivation of illegal substances in Azerbaijan, such as cannabis and opium poppy, is not widespread, but it does occur, mostly for consumption in the former Soviet republics. Government authorities in Azerbaijan regularly identify and destroy significant amounts of illegally cultivated and wild narcotic producing plants within the territory of the country.

Azerbaijan was one of the first countries in the South Caucasus to become a party to the 1988 UN Drug Convention in 1993; moreover, the country started one of the first police units for combating drug trafficking in the region. Since 2002, the United States has funded counter-narcotics assistance to Azerbaijan through the Freedom Support Act.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

During the past year, Azerbaijan has sought to develop and implement a regional approach to addressing drug trafficking by actively participating and seeking involvement in new and existing multilateral organizations and bilateral agreements. The government of Azerbaijan (GOAJ) played an active role in the Central Asian Regional Information and Coordination Center (CARICC) – an organization which serves to enhance the abilities of its seven member states to combat the flow of illicit substances across the region. Azerbaijan continued its participation with the South Caucasus Integrated Border Management (SCIBM) program, primarily funded and implemented by the European Union and the United Nations Development Program (UNDP). Though few government-sponsored drug rehabilitation or awareness programs currently exist, the GOAJ has recently begun to focus some attention on domestic and societal issues associated with drug usage, particularly amongst young people. In May 2010, government officials organized a conference in the southern region of Azerbaijan designed to address both the problems associated with illicit drug trafficking and drug addiction in the local regions. Azerbaijan has also begun to place greater emphasis on preventing and addressing drug addiction among young people in Azerbaijan, through programs and activities directed by the Ministry of Youth and Sports.

The GOAJ has also placed notable emphasis on the modernization of its customs code to address the growing threat posed by drug trafficking and the flow of illicit goods across the border. The modernization of the existing customs code, which has not occurred since Soviet times, remains part of the 2010 agenda for parliament in Azerbaijan. It is expected that a modernized customs code will greatly

enhance the abilities of the well-funded State Customs Committee (SCC) to stem drug smuggling through Azerbaijan.

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 three protocols.

2. Supply Reduction

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 through uncontrolled regions, which remain in conflict. Up to an estimated 11 metric tons of heroin could transit through Azerbaijan every year, much of it entering through the southern border with Iran. As Georgia and Turkey have strengthened their border control procedures in recent years, Azerbaijan may in the future become a favored transit country for drugs destined for Europe and Russia.

The GOAJ, however, repeatedly identifies and prosecutes drug smugglers entering Azerbaijan from Iran and other countries, and destroys any recovered illicit substances. According to the United Nations Office on Drugs and Crime, approximately 11 metric tons of heroin enter the Caucasus every year; 4 metric tons of that is either consumed or seized each year within the region. More than 3,200 persons were prosecuted in Azerbaijan for crimes related to drug trafficking in 2009 and almost one ton of narcotics were identified and destroyed by the GOAJ from 2005 to 2009. In July 2010, the Azerbaijan Ministry of National Security seized 425 kg of drugs after detaining 15 drug smugglers, who were identified as citizens of Russia and Azerbaijan. The State Customs Service revealed that in May 2010 approximately 77 kg of narcotics had been identified through raids targeted to combat illegal drug trafficking across the borders of Azerbaijan. In 2010, more than 400 tons of illegally cultivated and wild narcotics-producing plants were destroyed in Azerbaijan as of November of that year.

Drug control and law enforcement agencies have continued cooperation with the Russian Federal Drug Control Service, started through an agreement signed in April 2008, which facilitates joint operations, cooperative training and sharing interdiction techniques. During one operation in the summer of 2010, through close coordination between Russian and Azerbaijani law enforcement authorities, approximately 500 kg of heroin and 600 kg of hashish were confiscated from smugglers in Russia.

As the land border between Azerbaijan and Iran has become increasingly popular with drug traffickers, the water route across the Caspian Sea from the port city of Turkmenbashi in Turkmenistan has fallen somewhat into disuse, according to recent field research from the UN Office on Drugs and Crime (UNODC). Additionally, seizure data indicates limited direct trafficking between Turkmenistan and Afghanistan, with most of the drugs now passing through Azerbaijan coming via Iran and, to a much smaller degree, other countries in Central Asia.

In the second half of 2010, government authorities identified a large shipment of drugs in air freight bound for China. However, as a percentage of the overall volume of drugs transiting through Azerbaijan, the amount of drugs trafficked by air remains small.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Newly available data from the UNODC indicates that the annual prevalence rate for opiate use for persons aged 15 to 64 in Azerbaijan has decreased from 0.3% in 2004 to 0.2% in 2008. The most recent data suggests that the prevalence rate for cannabis usage for that same age group was 3.5% in 2008. Current figures provided by the GOAJ indicate that there are 24,000 identified drug addicts in Azerbaijan, with 6,000 of those persons identified as young adults; however, government officials acknowledge that international experts often state that those figures do not reflect the actual situation in Azerbaijan. Some international experts have placed the figure significantly higher.

In 2009, the GOAJ discontinued its anti-narcotics public service announcement program that used kiosks and billboards in downtown Baku; however, the government has replaced this program with one designed to focus primarily on students. New lesson plans and homework assignments were created for primary school students to provide anti-drug information and education. Azerbaijan has also funded NGOs to provide anti-drug training and advertisements on university campuses, as well as provide drug specialists to meet with college students. The GOAJ continued efforts to foster anti-narcotics activities in prisons and provided guidance to journalists on how to write reports dealing with narcotics.

Treatment centers for addicts in Azerbaijan are inadequate to meet the demand. A taboo in Azerbaijani society associated with drug addiction, and an overall lack of experience of policymakers and health professionals in dealing with the problems associated with drug addiction account for this problem. Though the GOAJ has expressed its desire to address substance abuse and drug addiction, these underlying issues, coupled with the lack of effective structured government-sponsored programs targeting drug abuse, hinder progress in combating drug abuse.

4. Corruption

Azerbaijan does not encourage or facilitate the production or distribution of illicit substances, nor the laundering of proceeds from illegal drug transactions. Unfortunately, corruption of government and law enforcement officials remains a serious concern. Corruption permeates much of the society in Azerbaijan, though significantly less regarding drug law enforcement than in other areas of government.

Through its participation in the Organization for Democracy and Economic Development-GUAM, Azerbaijan – along with neighboring member states Georgia, Ukraine and Moldova – has participated in discussions on technical assistance programs sponsored by the U.S. Department of Justice (DOJ) aimed at strengthening member states' ability to detect and prosecute corruption related crimes. These assistance efforts, originating through the International Criminal Investigation Training Assistance Program (ICITAP), promoted law enforcement coordination and cooperation within the Black and Caspian Sea corridor and assists Azerbaijan in addressing government corruption problems.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The GOAJ has demonstrated its commitment to increasing its ability to more securely and efficiently guarantee the integrity of its international borders through joint initiatives with the U.S. and other international and multilateral partners. Azerbaijan has worked closely with U.S. agencies in Azerbaijan to facilitate the deployment of new technology and to train and equip the appropriate government personnel to better secure its land and sea borders.

The State Border Service Coast Guard (SBS-CG) and the Navy of Azerbaijan recently enhanced their ability to control the movement of people and goods through Azerbaijani territorial waters in the Caspian Sea through surveillance and interdiction assistance provided by the U.S. Defense Threat Reduction Agency (DTRA). DTRA helped to provide equipment, including advanced communications and radar systems and patrol boats, and training to these two border control services. Both the SBS-CG and Navy will continue to work closely with their counterparts in DTRA as the project moves into the maintenance and sustainment phase. The GOAJ also continued its work with the U.S. Department of Energy (DOE) to increase its ability to monitor the flow of goods and persons across its borders through the Second Line of Defense program.

In late September 2010, the GUAM Council of Ministers of Foreign Affairs conducted a meeting, during which the representatives of member states discussed cooperation with the United States on combating drug trafficking and border control, among other issues. Azerbaijan, along with the other three member states, has sought to foster increased cooperation among the law enforcement agencies of member states, harmonize Virtual Law Enforcement Center (VLEC) practices with U.S. and European standards, and introduce new encryption equipment. With support from DOJ, GUAM member states recently completed

the second phase of the project designed to modernize the VLEC, which links these four countries through a secure video and criminal information sharing network. .

D. Conclusion

The reactivation of cross-border trade between former Soviet Republics and neighbors following the collapse of the USSR, the increase in drug production in Afghanistan, and the instability and lack-of-control across some portions of Azerbaijan's borders combine to make Azerbaijan an attractive conduit for the illicit flow of narcotics and other controlled substances. Additionally, more stringent border control monitoring regimes in Turkey, in response to PKK-Kurdish Workers' Party activity along its western border, and in Georgia have made narcotics trafficking routes through Azerbaijan more attractive to smugglers.

The GOAJ continues to develop and implement measures, both unilaterally and with other international and regional partners, designed to secure its borders and guarantee the lawful flow of goods and persons through Azerbaijan. Many of these measures – such as those implemented with the assistance of DOE, DTRA and other U.S. agencies – are not specifically designed to stem the smuggling of drugs across the border; however, these programs enhance the ability of Azerbaijan to secure its borders and hinder international smuggling operations. Azerbaijan also demonstrates its commitment to working with international partners, through multilateral agreements, such as the CARICC and SCIBM programs, to better address regional narcotics trafficking activities.

The Bahamas

A. Introduction

The Bahamas' archipelago contains several major transit points for South American cocaine and Jamaican marijuana bound for the United States. Although listed again as a Major Illicit Drug Transit country for 2011, the Government of the Commonwealth of The Bahamas (GCOB), with its close proximity to the United States coastline, has been a steady ally against illegal narcotics trafficking. In 2010, The GCOB continued to participate in Operation Bahamas, Turks and Caicos (OPBAT), a multiagency international drug interdiction effort established in 1982 to stop the flow of cocaine and marijuana through The Bahamas to the U.S. The GCOB also cooperates to target Bahamian drug trafficking organizations, and to reduce the Bahamian domestic demand for drugs.

Cocaine and marijuana are transshipped through The Bahamas' 700 islands and cays spread over an area the size of California. Drug Trafficking Organizations capitalize on the vast geography, via small commercial and private conveyances along short-distance maritime and aerial routes, making detection and apprehension difficult. In addition, the use of commercial cargo containers for smuggling contraband on larger ships through GCOB seaports, particularly the Freeport Container Port, continued to be of concern to Bahamian authorities. The Bahamas is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, the Royal Bahamas Police Force's (RBPF) participated actively in OPBAT. Officers of the RBPF's Drug Enforcement Unit (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 with a variety of small to medium-sized vessels based throughout The Bahamas. The RBDF fleet of 14 vessels and various small boats are operated out of bases on New Providence, Grand Bahama, and Great Inagua. RBDF assets include six interceptor "fast boats" donated under U.S. Southern Command's Enduring Friendship program, and two 60 meter vessels operated out of Nassau.

The RBPF operates 11 small, short range vessels based in New Providence, Grand Bahama, Bimini, Andros, and other small islands and cays, including three fast boats donated under the State Department's Bureau of International Narcotics and Law Enforcement Affairs' bilateral narcotics and law enforcement assistance program. The RBDF and RBPF 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.

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; the UN Convention against Corruption; and 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. GCOB prosecutors pursue USG extradition requests vigorously in the Bahamian justice system defendants can appeal a magistrate's decision, first domestically, and ultimately, to the Judicial Committee of the Privy Council in London. This process often adds years to an extradition procedure. In addition, there have been credible reports of subjects of U.S. extradition

requests continuing to participate in illegal drug smuggling activities while on bail awaiting resolution of their cases.

The United States 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. This agreement was utilized often in 2010 showcasing the Bahamian Government's strong commitment to joint counternarcotics efforts.

2. Supply Reduction

In 2010, the DEU cooperated closely with U.S. and other foreign law enforcement agencies on drug investigations. Including OPBAT seizures, Bahamian authorities seized 269 kilograms (kg) of cocaine and seized or eradicated over 42 metric tons of marijuana during calendar year 2010. The DEU arrested over 1,000 persons on drug-related offenses and seized over \$821,000 in cash.

The DEU and Bahamian Customs, in conjunction with the Drug Enforcement Administration (DEA), continued a program in Great Inagua to enforce GCOB requirements that vessels entering Bahamian territorial waters report to Bahamian Customs. During 2010, the RBDF assigned three ship-riders each month to U.S. Coast Guard (USCG) cutters. The ship-riders extend the law enforcement capability of the USCG into the territorial waters of The Bahamas.

Cocaine continues to transit The Bahamas via go-fast boats, small commercial freighters, or small aircraft. Small sport fishing vessels and pleasure crafts then move 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 marijuana from Jamaica, through The Bahamas and into Florida in the same manner as cocaine. During 2010, The Bahamas and USG law enforcement assets interdicted 58 vessels and disrupted numerous attempts to smuggle illicit drugs through The Bahamas. DEA/OPBAT estimates that there are 12 to 15 major drug trafficking organizations operating in The Bahamas.

Haitian and Haitian-Bahamian drug trafficking organizations continue to play a major role in the movement of cocaine from Hispaniola through The Bahamas. However, investigations of these organizations have been hindered by an insufficient number of Creole speakers within the DEU. In 2010, it was further stalled by the January 12 earthquake in Port-au-Prince, which limited the ability of the Haitian National Police to expand cooperative efforts with their law enforcement counterparts in The Bahamas. Bahamian law enforcement officials also identified shipments of drugs in Haitian sloops and coastal freighters. Information acquired by host country law enforcement suggests drug trafficking organizations have utilized air drops and remote airfields to deliver large cocaine shipments to the Turks and Caicos Islands and The Bahamas from Venezuela and Colombia.

Although maritime conveyances continue to be an important method of drug transit through The Bahamas, the majority of cocaine seized in recent years has been concealed in containerized cargo transiting the Freeport Container Port on the island of Grand Bahamas. DEA believes Colombian traffickers are utilizing containerized cargo as a means to thwart the efforts of law enforcement officials in The Bahamas. Approximately 3 metric tons of cocaine have been seized at the Freeport Container Port since 2007.

While there are no official estimates of hectares of marijuana under cultivation in The Bahamas, USG and host country law enforcement agencies believe Jamaican nationals are involved in the cultivation of marijuana on The Bahamas' remote islands and cays. Host country law enforcement eradicated over 35,000 marijuana plants during 2010. That was roughly three times the number eradicated for 2009. Taken together, marijuana seizures and plant eradication accounted for the destruction of some 42 metric tons of marijuana during this year.

3. Drug Awareness, Demand Reduction, and Treatment

The Bahamas National Anti-Drug Secretariat (NADS) 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. NADS received support from the USG in 2010, but it requires a significant increase in personnel and funding in order to continue to coordinate, plan, and implement The Bahamas' 2004 Anti-Drug Plan. In 2010, GCOB and NGO drug prevention efforts focused primarily on schools and youth organizations on New Providence, Grand Bahama, and other population centers.

4. 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, or the laundering of proceeds from illegal drug transactions. No senior official in the GCOB was investigated for drug-related offenses in 2010. The RBPF uses an internal committee to investigate allegations of corruption involving police officers instead of an independent entity.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The Bahamas is partnering with the other nations of the Caribbean and the United States to combat the drug trade and other transnational crime that threatens security. This shared security partnership has received new attention and commitment under the auspices of the Caribbean Basin Security Initiative (CBSI), a multi-year USG assistance program that focuses on supporting citizen safety programs and regional security institutions. The goals of CBSI relative to The Bahamas are to: stem the flow of illegal drugs through The Bahamas and into the United States; dismantle drug trafficking organizations; and strengthen Bahamian law enforcement and judicial institutions to make them more effective and self-sufficient in combating drug trafficking and money laundering activities.

During 2010, INL funded various training, equipment, travel and technical assistance for GCOB law enforcement and drug demand reduction officials. Computers and other equipment were procured to improve Bahamian law enforcement's capacity to target trafficking organizations through better intelligence collection and more efficient interdiction operations. INL funds also provided tactical equipment and training to the RBPF; and supported the GCOB's "Drug Free Schools" initiative with funding for teacher training, transportation, and course materials. After successful conclusions to lease negotiations in early 2010, the USCG was allowed to move forward with its plans to rebuild the OPBAT hangar on the island of Great Inagua. This two year construction project, which is expected to begin in 2011, will allow USCG to base helicopters flying in support of OPBAT on Great Inagua. USCG's helicopters have been operating from Providenciales, Turks and Caicos Islands since Hurricane Ike destroyed the original Great Inagua hangar in 2008.

As a key partner in building regional safety and security capacity, the Department of Defense (DoD) funded resident, mobile and on-the job training in maritime law enforcement, engineering and maintenance, professional development for the RBDF's officer and enlisted corps through USCG programs. The DOD also provided two additional high speed interceptor boats to the RBDF under SOUTHCOM's Enduring Friendship program.

D. Conclusion

The United States and The Bahamas continue to be steadfast partners in the fight against drug traffickers and the strong working relationship among U.S. and Bahamian law enforcement agencies is an example for other joint operations in the region. The recently-launched CBSI framework intends to improve this relationship even further.

However, a need still exists to reduce the long delays in resolving extradition requests and other criminal cases as an existing trend of law enforcement successes have been undermined by an overburdened Bahamian legal system. As mentioned in previous annual reports, we continue to encourage The Bahamas to increase the resources and manpower available to prosecutors, judges, and magistrates.

With regard to drug control efforts, it is recommended that the GCOB continue to examine the integration of Creole speakers into the DEU and to encourage information sharing between the RBPF, RBDF and the Haitian National Police. This relationship would help to develop information on Haitian drug trafficking organizations operating in The Bahamas. To further improve interoperability, build joint maritime security and law enforcement expertise, and enforce maritime laws at or beyond their territorial sea limit, it is recommended that RBPF and RBDF units work together to plan and execute at-sea law enforcement operations. Given the increase in drug trafficking using cargo containers and the subsequent seizures at the Freeport Container Port, it is also recommended that Port Authorities, Customs officials, and RBPF units work together to address this emerging threat.

Bangladesh

There is no evidence that Bangladesh is a significant cultivator or producer of narcotics. However, Government of Bangladesh (GOB) officials charged with controlling and preventing illegal substance cultivation and trafficking continued to lack sufficient training, equipment, continuity of leadership, and other resources to detect and interdict the flow of drugs. Law enforcement agencies nevertheless continued to interdict narcotics shipments from time-to-time. Many of these shipments originated from the Golden Crescent in Southwest Asia and the Golden Triangle in Southeast Asia. They were smuggled into Bangladesh along its porous land borders with India and Burma and also by fishing trawlers. Interdictions occurred, but not as efficiently as they could have if training and equipment needs were met. Corruption also hampers the country's drug interdiction efforts. Neither the GOB, nor any of its senior employees encourages drug production or trafficking as a matter of policy. Bangladesh 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 and the UN Convention against Corruption.

Assessments conducted by several U.S. agencies in 2009 and 2010 confirmed 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 was unable to estimate the number of drug addicts in the country, and NGO sources also have no real idea, since their estimates range wildly between 100,000 to 1.7 million addicts, with 20,000-25,000 injecting drug users and 45,000 heroin smokers, as best guesses for these classes of drug abusers. Other drugs used in Bangladesh were methamphetamines, marijuana, and the codeine-based cough syrup phensidyl. Most of the "yaba" (methamphetamine pills) circulating in Bangladesh are smuggled from neighboring countries such as Burma.

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. The smuggling, diversion and abuse of licit pharmaceuticals originating from India is considered one of the largest drug problems in Bangladesh. The DNC reported that Bangladesh law enforcement seized 62,712 liters (about 62.7 MT) of phensidyl, a codeine-based, highly addictive cough syrup produced in India, just during the nine months from January through September 2010. Other drugs seized by law enforcement agencies up to September 2010 (latest statistics) included: 141.3 kilograms of heroin, 22.3 MT of marijuana, and 679,973 tablets of yaba tablets, which consist of caffeine and methamphetamine. Meanwhile, RAB reported 506 drug-related arrests as of October 2010.

The International Narcotics Control Board reported 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. The DNC also reported, that as soon as knowledge of a cannabis crop reached its officers, that crop was destroyed in coordination with law enforcement agencies. Pseudoephedrine tablets, produced in Bangladesh, were diverted to Central America for production of methamphetamine destined primarily for the United States.

The most frequently abused drugs are heroin, phensidyl (illegally smuggled from India) and cannabis. 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. 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 examination of luggage items was cursory at best.

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 as well. The Department of Narcotics Control ran treatment centers in Dhaka, Chittagong, Rajshahi, Khulna, Jessore and Comilla. A drug addicts' rehabilitation non-governmental organization (NGO), APON, operates six long-term residential rehabilitation centers, including the first centers in Bangladesh for the rehabilitation of female addicts (opened in 2005 with a more permanent facility completed in 2009). APON says it is the only organization that includes street children in its drug rehabilitation programs. Bangladesh is a poor country, constantly forced by its poverty to leave important needs unmet, but as the drug trafficking/abuse problem grows, government managers will be forced to see what can be done to improve Bangladesh's efforts against narcotics.

Belgium

A. Introduction

With a major world port at Antwerp, an airport with connections throughout Africa, and its proximity to major consumers in the United Kingdom (U.K.) 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. Methods of shipment vary, but most drugs seized have been found in cargo freight, or taken from couriers using air transportation.

Belgian authorities take a proactive approach to interdicting drug shipments and cooperate with the U.S. and other foreign countries to help uncover distribution rings. However, fighting the drug trafficking problem in Belgium can be difficult due to the large ethnic population centers, language, and cultural differences and the cross-border nature of trafficking. Belgium is a party to the 1988 UN Drug Convention, and is a member of the Dublin Group of countries concerned with combating narcotics trafficking.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Belgium is committed to controlling narcotics, especially the significant transit of narcotics through Belgium. Belgium is a major supporter for Comprehensive Operational Strategic Planning for the Police (COSPOL), which is a new methodology for multinational police cooperation. This program was created by the Police Chiefs Task Force functioning under direction of the European Union. Belgian and other EU police officials have 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.

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 continue to be effective in that effort. Authorities utilize canine and aerial apprehension strategies on both the local and federal levels to help fight illicit drug production and shipment in Belgium. The Canine Support Service (DSCH) has trained 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 it spends in the sky in an attempt to detect drug laboratories across the nation. Belgium participates in an initiative to set up a database for European airports. The database is used to transfer narcotic related information to airports throughout Europe in order to increase cooperation among police forces and governments.

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

three protocols. The US and Belgium have an extradition treaty and a Mutual Legal Assistance Treaty (MLAT), and in February 2010 the US-Belgium Instruments implementing the US-EU Extradition Agreement and MLAT entered into force. In addition, the Customs Mutual Assistance Agreement (CMAA) between the United States and Belgium enables broad bilateral collaboration on drug trafficking investigations and other cross-border offenses. U.S. Customs and Border Protection (CBP) officials are stationed at the Port of Antwerp as part of the U.S. Container Security Initiative (CSI) to target and prescreen containers, together with 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 Belgian Navy vessels in the Caribbean Sea.

2. Supply Reduction

Belgium remains a key transit point for illicit drugs bound for The Netherlands, the U.K. and other points in Western Europe. The majority of large cocaine shipments transiting Belgium are bound for The Netherlands, where Colombian groups continue to dominate drug trafficking. Significant seizures continue to be made from sea and air shipments, en route from South and Central America or West Africa. Statistics provided by the Belgian Federal Police (BFP) show that during CY 2009, approximately 4605 kilograms of cocaine were confiscated in Belgium and between January and October 2010, approximately 5 132 kilograms of cocaine were seized.

It has been estimated that about 25 percent of drugs from South America moving through Europe eventually transit Belgium, especially cocaine. A large share of these drugs is ultimately shipped to the U.K., The Netherlands, and other points in Western Europe. Antwerp's port continues to be one of the preferred transit points for cocaine imported to Europe. The flow of cocaine to Belgium is mainly controlled by Colombian organizations with representatives residing in Africa and in Europe. Some Antwerp port employees have been documented in prosecutions as being involved 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, who hide drugs in their baggage or on their persons. The cocaine originates in South America and transits through either West Africa or other countries in South America. The other active cocaine trafficking groups in Belgium are 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 five years and intelligence indicate that Belgium continues to be a secondary distribution and packaging center for heroin coming along the Balkan Route. The Belgian Federal Police have identified commercial (TIR) trucks from Turkey as the single largest transportation mechanism for westbound heroin entering Belgium, although large maritime shipments from Iran have also been encountered.

Turkish groups, predominately from the Kurdish region of Turkey, control most of the heroin trafficked in Belgium. This heroin is principally shipped through Belgium and The Netherlands to the U.K. 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. In CY 2009, Belgium authorities seized a new record total amount of heroin at 275 kilograms. Between January and October 2010, approximately 228 kilograms of heroin were seized in Belgium.

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. However, domestic cultivation of cannabis increasingly involves elaborate, large-scale indoor hydroponic operations in Belgium, particularly near

The Netherlands, and increasingly in other regions. Local authorities have noted that the indoor marijuana cultivation is primarily run by Dutch and Belgian groups. Statistics from CY 2009 show that Belgian authorities seized a total of 143,311 cannabis plants. CY 2010 statistics regarding dismantled marijuana operations or seized cannabis plants were not available at the writing of this report.

Hashish and cannabis remain the most widely distributed and used illicit drugs in Belgium. During CY 2009, hashish seizures escalated to over 18,660 kilograms. Between January and October 2010, authorities seized approximately 575 kilograms of hashish in Belgium. The bulk of cannabis seized in Belgium is produced in The Netherlands and Belgium. Statistics from CY 2009 show that Belgian authorities seized 4486 kilograms of marijuana. Then, between January and October 2010 authorities seized approximately 4962 kilograms of marijuana in Belgium.

Belgium produces small amounts of Amphetamine Type Stimulants (ATS) and MDMA/ecstasy. Seizures of ATS and ecstasy have dropped compared to previous years. During CY 2009, Belgian authorities seized 49 kilograms of amphetamine and 31,025 ecstasy tablets. Between January and October 2010, approximately 187 kilograms of amphetamine and 21,786 ecstasy tablets have been seized by Belgian authorities.

Belgium has a substantial licit pharmaceutical product sector. The country manufactures methamphetamine precursors for licit products to a very limited extent, and it is not a final destination for international shipments of these precursors. The illicit ephedrine diversion market is mainly controlled by Mexicans who purchase both legal (i.e., cold medicine and dietary supplements) and illegal ephedrine, and ship it to Mexico, where it is used to produce methamphetamine for distribution in the U.S. Since ephedrine is strictly regulated in the U.S., Belgium and other Western European countries have seen an increase in transshipments of ephedrine and other methamphetamine precursors. In instances where precursor diversion for methamphetamine manufacturing purposes was suspected, Belgian authorities have cooperated by executing international controlled deliveries (ICD) to the destinations, or by seizing the shipments when the ICD is not possible.

Dutch traffickers are also involved in Belgium's production of Amphetamine-Type Stimulants (ATS). As Dutch law enforcement pressures mount on producers of ecstasy and 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. During CY 2009, Belgian authorities seized 2 synthetic drug laboratories; both described as "kitchen labs", and have also seized 4 synthetic drug waste dumpsites. Between January and March of 2010, one lab site was discovered by Belgian authorities; a GHB production lab. No further CY 2010 lab statistics were available at the writing of this report.

During CY 2009, Belgian authorities encountered and seized 104 liters of GHB, 4.5 kilograms of opium, 1685 kilograms of khat and 9668 pills of benzodiazepines. Between January and October 2010, the BFP have also seized approximately 17 liters of GHB, approximately 1960 pills of benzodiazepines and approximately 774 kilograms of khat.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

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 continues to direct its prevention education 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.

4. Corruption

Legal measures exist to combat and punish corruption. No serious cases of corruption related to drugs have been uncovered in Belgium thus far in 2010. 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. Belgium, as a matter of policy, does not encourage or facilitate the manufacture or traffic in narcotics, nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions. No senior government officials engaged in such activity.

C. National Goals, Bilateral Cooperation, and U.S. Policy

The U.S. and Belgium have an outstanding relationship on drug control, regularly sharing drug-related information. Counter narcotics officials in the BFP, Federal Prosecutor's Office, and Ministry of Justice are fully engaged with their U.S. counterparts. The U.S. continues to coordinate with Belgian authorities to identify and investigate both suppliers and shippers of precursor chemicals. The U.S. trained and certified several Belgian Federal Officers in clandestine laboratory search and seizure methods.

D. Conclusion

The Belgian government and law enforcement are dedicated to combating drug-related crime. One of the primary challenges is the scale of illicit drug transit through Belgian ports. The Belgian government continues to seize drugs. However, with the large amount of cocaine transiting through the Port of Antwerp, increasing the amount of Customs officials focused on drug interdiction would prove helpful and potentially increase seizures and arrests.

Belgium has always been open to international support when targeting illicit drug trafficking and production. The U.S. looks forward to this continued cooperation.

Belize

A. Introduction

Belize is vulnerable to the transshipment of illicit drugs due to its position along the Central American isthmus between the South American drug producing countries and Mexico. It has long stretches of unmanned, unpopulated forests on its borders with Guatemala and Mexico, and an unpatrolled coastline that includes hundreds of small cayes (islands) and atolls. Belize's population density is the lowest in Central America and its remote jungles make it a hospitable environment for growing marijuana. Narcotics trafficking is creating a citizen safety challenge for the Government of Belize.

Belize has a cultural tolerance for the use of marijuana. Drug possession penalties are generally small and rarely include jail time. Penalties for drug trafficking, however, include both fines and significant prison sentences, and bail could be denied if the amounts trafficked meet specific requirements. Crack cocaine is the second most abused drug in Belize according to a 2008 Central American Integration System (SICA) study. There is no evidence that synthetic drugs are being used or manufactured in Belize, though large quantities of precursor chemicals transit Belize en-route to Mexico.

Despite enhanced efforts to monitor coastal waters, the Belize National Coast Guard (BNCG) and the Anti-Drug Unit (ADU) are hampered by limited funds, equipment, and lack of personnel. Deficiencies in intelligence gathering, analysis, and sharing are also major impediments to reducing the flow of narcotics through Belize. A lack of political will and corruption contribute to minimizing the effectiveness of the Government of Belize (GOB) efforts against traffickers.

Belize is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments/Policies and Trends

1. Institutional Development

While there were several drug seizures early in the year, focus on the narcotics problem diminished as the GOB was forced to address a murder rate that is spiraling out of control. 2008 saw the highest number of murders in Belize's history, at 103. By October 2010, Belize had already exceeded this number, despite deploying the military to the streets of Belize City to try to control the violence. The murder total for 2010 was 128, which represents a per capita murder rate just below 40 per 100,000 citizens. Most of these murders are gang-related and many are related to narcotics.

In 2010, the GOB took several legislative steps to address the deteriorating law and order situation. The Criminal Code (Amendment) Bill, which is in the process of being redrafted, calls for an increase in penalties for crimes such as attempted murder, rape, carnal knowledge, and other offenses of a violent or sexual nature. The Crime Control and Criminal Justice (Amendment), which passed, is aimed directly at increasing penalties for gang-related crime. The Firearms (Amendment) Bill, which calls for an increase of penalties for firearms offenses, remains under review in the house. The most controversial piece of new legislation was the Interception of Communications Bill, which passed by the National Assembly, but remains under review. This bill allows police to seek a Supreme Court warrant which when issued allows the police to wiretap telephone and other communications of the individuals specified in the warrant.

The U.S. Drug Enforcement Administration (DEA) is working with the GOB to draft a statutory instrument that would criminalize trafficking in all precursor chemicals and will complement a 2009 statutory instrument criminalizing trafficking in pseudoephedrine.

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 six 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). While Belize passed the Money Laundering and Terrorism (Prevention) Act in 2008, establishing money laundering as an autonomous offense, it has failed to accede to the Inter-American Convention on Mutual Assistance in Criminal Matters, 1992. The Organization of American States' Inter-American Drug Abuse Control Commission (CICAD) has urged it to do so for the past ten years.

Belize became a member state of the Inter-American Observatory on Drugs (OID) in May 2009, and CICAD provided training for its national project coordinator. The CICAD representatives also assisted GOB personnel in mapping out an action plan to begin implementation of a national drug information system, which will share data with CICAD on the demand, use, and supply of drugs in Belize.

Bilateral agreements between the United States 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. While GOB assistance in the capture and repatriation of U.S. citizen fugitives is excellent (11 fugitives returned from January-November 2010), responses to formal U.S. extradition requests for Belizean nationals are 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.

2. Supply Reduction

The Belize Police Department's (BPD) well-equipped and trained Belize Anti-Drug Unit (ADU) maintains its base in Belize City. Belize uses the ADU as a quick response force to the spiraling violence in the city. However, the unit is often unable to respond in a timely manner to inbound air tracks in remote locations across the country as all of their assets are deployed in Belize City.

In 2010, Belize seized 97 metric tons (MT) of marijuana. In 2009, the GOB seized 291.5 kilograms (kg) of marijuana. However, there is no real comparison between the two years because, in 2010, seized marijuana was combined with eradicated marijuana for statistical purposes. The eradicated marijuana was destroyed on site. Also in 2010, Belize seized over 2.6 MT of cocaine compared to 28.3 kg in 2009. The jump in cocaine seizures can be largely attributed to a November 2010 bi-lateral operation with DEA, where 2,607 kg of cocaine were seized along with one aircraft, one go-fast vessel, and the arrests of five corrupt law enforcement officers that assisted in offloading the cocaine. This was the largest cocaine seizure recorded in Belize.

The GOB also seized 1.2 kg of heroin, and 122,000 dosage units of pseudoephedrine. Forty tons of the precursor chemical phenyl-acetic acid (PAA) were seized by Belize Customs officials in 2010, although these seizures did not result in arrests. Some of the PAA was returned to the sender since it is not yet illegal in Belize.

In October 2010 the GOB assisted the DEA in the return of a DEA Fugitive/ Guatemalan national wanted in the U.S. for allegedly trafficking thousands of kilograms of cocaine. In an April, 2010 incident, an aircraft suspected of carrying large quantities of cocaine crashed into the sea near a runway on a remote caye. The pilot was found shot dead and the plane was empty.

In 2010, the BNCG received two interceptor vessels from the U.S. Department of Defense (DOD) to use to patrol Belize's territorial waters; two go-fast boats were handed over to the Belize Defense Force in 2009. While these vessels are used to patrol, they have not contributed to any successful interceptions of

narcotics. The lack of a coastal radar system that can track vessels transiting Belizean waters hampers marine efforts.

The conviction rate in Belize courts is extremely low. While figures are not readily available, it is suspected to be below 5 percent, and lower for serious offenses. There were no successful prosecutions related to large seizures of illicit drugs in 2010, though at least three cases from 2010 are still pending before the court at year's end. It is difficult to obtain convictions, including on drug-related crimes, because the Office of the Director of Public Prosecutions (DPP) lacks the staff and resources necessary to devote to each case. Police prosecutors, who are responsible for the prosecution of minor offenses, lack formal legal training, which often results in cases being overturned on technicalities. The widespread issue of victim and witness intimidation and lack of forensic capabilities are also key deterrents to successful prosecutions.

3. Drug Abuse awareness, Demand Reduction, and Treatment

The National Drug Abuse Control Council (NDACC) is the central coordinating authority responsible for the activities of demand reduction, supply reduction, control measures and provision of information to the public. NDACC falls under the Ministry of Health. The Council has 21 regular employees and four U.S. Peace Corps volunteers, and had a budget of BZ\$350,000 (U.S. \$175,000) for 2010-2011. The budget has been steadily increasing and the Director estimates the 2011-2012 budget will be BZ\$750,000 (U.S. \$375,000), an indication that the GOB is placing increasing importance on this issue. NDACC also is updating its National Anti-Drug Strategy, a three-year plan which will cover 2011-2014. The Belize Central Prison, managed by a non-governmental organization called the Kolbe Foundation, runs the only drug rehabilitation program in Belize. The program, which began in 2006, runs in ninety-day increments and is a residence program available to the inmates and members of the public willing to stay at the prison to overcome addiction. There are no national demand-reduction education programs in schools or for school-aged children.

4. Corruption

As a matter of policy, the GOB 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, a lack of resources, weak law enforcement, and inadequate compensation allows these activities to continue at all levels of government within Belize, and is a significant impediment to strengthening law enforcement efforts against transnational crime. Belize has no laws that specifically deal with narcotics-related corruption. Its Prevention of Corruption Law deals mainly with corruption in public office related to public gain, use of public funds and code of conduct. Belize is the only country in Central America that is not a party to the UN Convention against Corruption. The tribunal against four officers from the Belizean Coast Guard, charged last year in connection with a Coast Guard vessel stolen from the station where it was docked, concluded in August 2010. Three of the officers were found not guilty. However the Patrol Commander was found guilty of negligence and was demoted in rank by the Security Services Commission. All officers remain posted with the BNCG.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The United States supported Belize's efforts to combat transnational crime and narcotics trafficking by providing training, equipment, and technical assistance. The State Department's Central America Regional Security Initiative (CARSI) seeks to work with the GOB to stop the flow of narcotics, weapons, and bulk cash generated by illicit drug sales, and to confront gangs and criminal organizations. The support provided in 2010, through the Department of State, DEA, and the Department of Defense (DOD) modernized and enhanced law enforcement capacity, improved prison management, and assisted anti-gang initiatives. DOD through Post's Military Liaison Office (MLO) provides training to the BDF along with infrastructure improvements and equipment to boost counternarcotics capability. USG agencies

operating in Belize work with the GOB to improve the capacity of law enforcement, security forces, and judicial system officials, in order to prevent the entry of illicit drugs, and spread of violence, and transnational threats in Belize. The U.S. Coast Guard provided the BNCG with resident, mobile and on-the-job training in maritime law enforcement, engineering and maintenance, leadership and management, port security, and incident command system. This training helps to improve their capability to deny DTOs access to the littorals. The State Department and DOD also are working jointly with the governments of Belize, Mexico, and Guatemala to develop a strategy to strengthen security along their shared borders, in order to inhibit the trafficking of illicit substances. The USG also provides support to the Belize National Forensic Science Service to improve investigations and prosecution of crimes by providing a bullet catcher and providing internships for two Firearms Examiners with U.S. state and federal forensic laboratories.

D. Conclusion

As the crime situation in Belize continues to deteriorate, Belize faces an ever more challenging battle against the threats of narcotics trafficking and gangs that permeate the region. Signs indicate that narcotics trafficking is increasing in Belize, and will continue this upward trend, putting even more pressure on Belize to protect its borders. It is vital that the GOB show the will to increase its efforts, through policy, resource allocation, and operations, to halt the flow of illegal drugs and drug money within and across its borders. The GOB must place more emphasis on institution-building, particularly for law enforcement and security forces, in order to build the capacity of these organizations and to increase their effectiveness. The GOB also could enhance its drug control efforts by adequately funding and training prosecutors in the DPP's office, as well as police prosecutors, in narcotics prosecutions. At the same time, Belize is encouraged to pass a Chemical Precursors Control Act with punitive sanctions. The USG will continue to partner with the GOB in its efforts to prevent traffickers from using Belize as a transit location.

Benin

Benin is a transit country for drugs, especially cocaine, with related laundering of trafficking proceeds. The volume of drugs transiting Benin is unclear, but appears relatively low compared to other West African countries; however, cocaine and heroin transit West African countries, including Benin, en route to Europe. Illicit drugs are often concealed in innocuous objects, such as the soles of shoes and large buttons on clothes, or ingested capsules. There are indications that large cocaine shipments originating from South America enter Benin via maritime vessels and cargo containers for further distribution in West Africa and to Europe. Drug traffickers often launder proceeds through purchase, and import, of second-hand vehicles from Europe and the purchase abroad of other consumer goods for sale in Benin. Cannabis is cultivated in central Benin for local consumption and regional sale. Benin is a party to the 1988 UN Drug Convention.

The Government of Benin (GOB) Central Office for Repression of Illicit Trafficking of Drugs and Precursors (OCERTID) is the lead agency for combating narcotics trafficking. OCERTID supports and coordinates anti-drug activities of the police, gendarmerie, customs, forestry service agents, and other offices. However, coordination is relatively poor since OCERTID liaison representative positions, which are supposed to be filled by personnel from relevant other agencies, remain unfilled.

OCERTID responds to tips and other reports of illicit drugs trafficking and maintains enforcement offices in the city of Cotonou and surrounding areas, including Benin's international airport and the Port of Cotonou. Seizures have been primarily of cannabis, followed by cocaine and heroin. OCERTID's reported January-October 2010 seizures in Benin were: 25.8 kg of cannabis; 13.2 kg of cocaine; and 4.2 kg of heroin.

Benin's Law criminalizes trafficking and narcotics-related money laundering and provides penalties of up to 20 years in prison and fines up to CFA 5 million (ca, \$10,000- at current exchange rates) for illicit trafficking of drugs and psychotropic substances. The GOB has established an Inter-Ministerial Committee for Control of Drugs and Psychotropic Substances (CILAS) and drafted a National Anti-Drug Policy (POLUDRO) to address drug abuse and trafficking. Proceedings against ranking police officials for drug trafficking opened in February 2007; however, they remain in progress, almost four years later, without resolution. The Government of Benin does not support or condone drug trafficking as a matter of policy and its senior officials are not engaged in this activity.

The United Nations Office on Drugs and Crime (UNODC) is assisting the GOB to draft an Integrated National Program to curb drug abuse and trafficking. UNODC and other development partners, including the Millennium Challenge Corporation, also assist the GOB to increase security at the Port of Cotonou, including improved shipping container profiling and inspection.

Benin is a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. As a matter of government policy, Benin 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.

The GOB coordinated a nationwide drugs awareness campaign as a key activity of its observance of the 2010 International Day Against Drug Abuse and Illicit Trafficking. In November 2010, the Inter-ministerial Committee for Control of Drugs and Psychotropic Substances (CILAS) trained 35 traditional healers from the twelve departments of Benin on the illegal drug trade and prevention of drug abuse.

The GOB continues to address drug abuse and trafficking through education and enforcement of anti-drug legislation. OCERTID effectiveness is constrained by limited human, technical and material resources, as well as poor coordination among security services.

Bolivia

A. Introduction

Bolivia is the world's third largest cocaine producer and a significant transit zone for Peruvian-origin cocaine. Bolivia also produces marijuana, primarily for domestic consumption. Existing reports indicate that most Bolivian-origin cocaine flows to other Latin American countries, especially Brazil, for domestic consumption or onward transit towards Europe, with little exported to the United States.

On September 15, 2010, the President of the United States determined for the third consecutive year that the Government of Bolivia (GOB) "failed demonstrably" to make sufficient efforts to meet its obligations under counternarcotics (CN) conventions. The President found that, despite exceeding minimum eradication goals and continued narcotic and precursor seizures, the GOB's total effort fell short of its international obligations. Coca cultivation increased 36 percent to 35,000 hectares, from 2006 to 2009. Potential pure cocaine production increased 70 percent during the period. In 2009, the GOB did not achieve a net reduction in the cultivation of coca or the production of cocaine, maintained inadequate controls over licit coca markets to prevent diversion to illicit narcotic production, did not close illicit coca markets, and failed to develop and execute a national drug strategy consistent with international conventions.

The National Drug Control Council (CONALTID) is the GOB's central CN policymaking body. The Vice Ministry for Social Defense (VMSD) is mandated to combat drug trafficking, regulate coca production, and advance coca eradication and drug prevention and rehabilitation activities. The Special Counternarcotics Police Force (FELCN) under the Bolivian National Police (BNP) comprises approximately 1,500 personnel and reports to the VMSD. FELCN works with CN Prosecutors within the Attorney General's Office on drug-related crimes. The Joint Eradication Task Force (JTF), approximately 2,000 military, police and civilian personnel, conducts coca eradication in cooperation with the Directorate General for Integral Development of Coca Producing Regions (DIGPROCOCA), which supervises and verifies coca eradication by measuring the fields before and after coca eradication.

Bolivian President Evo Morales is also president of the coca growers' federation in the Chapare region of Bolivia, one of the two major coca-growing areas. In 2010, the GOB continued efforts to amend the 1961 Single Convention on Narcotic Drugs by removing references to coca leaf chewing. The GOB also remained committed to passing legislation raising the legal number of hectares of coca cultivation from 12,000 to 20,000 hectares. The Morales Administration maintained its "social control" policy for illicit coca eradication in which the GOB negotiates with coca growers to obtain their consent for eradication. In 2010, eradication forces met resistance from coca growers, including large protests, road blockades, and stone throwing, forcing the GOB to temporarily withdraw eradication forces from Palos Blancos and Carrasco National Park.

The GOB's ability to identify, investigate and dismantle drug trafficking organizations (DTOs) and follow actionable law enforcement leads developed in Bolivia remains considerably diminished following its expulsion of all Drug Enforcement Administration (DEA) personnel from Bolivia in January 2009. The United States has no information on priority target DTOs that were dismantled in Bolivia in 2010 and GOB CN officials state that DTOs, including from Mexico and Colombia, continue to increase their presence in country. Bolivia is a signatory to the 1988 United Nations (UN) Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Although committed to increasing legal coca levels, the GOB announced it would delay legislation until mid-2011, pending the results of a European Union-funded study on traditional coca consumption. The

study was supposed to have been launched in 2004 with results ready in 2005, but was delayed for many reasons, including attempts by the GOB to expand the terms of reference to include potential commercialization of coca leaf. In September 2010, the GOB passed legislation intended to enhance regulation over coca leaf sales by restricting the amount of coca leaf that can be sold to five pounds per coca grower per month. However, the GOB then repealed the regulation in part due to public protests and road blockades. President Morales, in a speech to coca growers in the Chapare in October 2010, publicly acknowledged the diversion of Bolivian coca to drug production and requested coca growers to help contain coca production.

In 2010, the GOB prepared wiretaps, money laundering and asset forfeiture legislation to replace existing laws, drawing on technical assistance provided by the United States Government (USG) in 2008, as well as regional partners, especially Colombia and Chile. The bills await approval from the Ministry of Government prior to submission to the Bolivian Congress.

FELCN added a Special Cases Investigative Group (GICE) to handle CN investigations and an Information and Intelligence Generating Center (CIGEIN) to expand regional information sharing in 2010. FELCN also plans to update communications across the country to include scanner-equipped vehicles and satellite communications equipment. FELCN's Director General stated operations focused on high-level traffickers in the Santa Cruz Department by working with counterparts from neighboring countries and attacking traffickers' financial assets. The GOB reported that CIGEIN achieved its first investigative success in October 2010 in a multi-million dollar money laundering case in Santa Cruz involving a high-ranking BNP officer. However, the disposition of any assets seized was not verified due to the absence of DEA personnel.

The GOB increased its national eradication program by funding CN efforts through GOB resources. The Department of State Bureau for International Narcotics and Law Enforcement Affairs (INL) Narcotics Affairs Section (NAS) provides logistics and administrative support for Bolivian counternarcotics operations, including manual eradication.

The Morales Administration sought counternarcotics support from other countries and received training and information-sharing from Brazil, along with continued law enforcement cooperation with Brazil, Argentina and Chile. In October 2010, Bolivia and Brazil held their third high-level bilateral meeting under a law enforcement cooperation agreement.

Agreements and Treaties. Bolivia is a signatory 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. Bolivia is a party to the UN Convention against Transnational Organized Crime and its Protocols on Trafficking in Persons and Migrant Smuggling, the UN Convention against Corruption, and the Inter-American Convention against Corruption. Bolivia lacks many of the legal and enforcement mechanisms necessary to fully implement these agreements. Bolivia signed, but has not yet ratified, the Inter-American Convention on Extradition. The Inter-American Convention on Mutual Assistance to Criminal Matters was ratified, but not yet signed.

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. The United States has one pending extradition request to Bolivia as of December 2009.

2. Supply Reduction

Overall coca cultivation increased ten percent in 2009 to 35,000 hectares according to official USG estimates, up from 32,000 hectares in 2008.

President Morales set a 2010 coca eradication goal of 8,000 hectares. The GOB reported eradication of 8,200 hectares of coca in 2010 – 79.2 percent (6,493 hectares) in the Chapare, 4.6 percent (377 hectares) in Yapacani, and 16.2 percent (1,330 hectares) in the Yungas. The GOB reported increased annual

eradication over 2009 results (6,341 hectares), in part due to increased eradication in the Yungas. The GOB increased national expenditures for additional eradicators and new eradication camps in the Yungas, Alto Beni in La Paz District, and in Carrasco and Isiboro Secure National Parks. Despite increasing coca leaf eradication to 8,200 hectares in 2010, due to new coca planting in many locations in Bolivia, a net reduction in coca cultivation is not anticipated.

The U.S. Agency for International Development's (USAID) Integrated Alternative Development (IAD) program provides support to help diversify the economies of Bolivia's coca growing regions, reduce communities' dependency on coca, and complement the GOB's coca eradication program. IAD assistance helps increase Bolivian farmers' income by improving the quality and competitiveness of their products in national and world markets. The program also improves families' access to basic social services and to markets, including improvements to rural road infrastructure. USAID provides assistance in communities selected jointly with the GOB and focuses in the Yungas coca-growing area of La Paz Department. In Fiscal Year 2010, assistance provided to farm communities and businesses helped generate nearly 2,300 new jobs and \$13.4 million in sales of IAD products. In total, approximately 15,000 families benefited directly from U.S. Alternative Development assistance.

The USG estimates that potential pure cocaine production increased approximately 70 percent, from 115 metric tons (MT) in 2006 to 195 MT in 2008 and remained at 195 MT in 2009. While the lack of DEA or other international law enforcement working with FELCN in the field on a daily basis makes it difficult to independently verify the accuracy of figures reported by the GOB, according to the GOB, FELCN seized 1,016 MT of coca leaf, 25.71 MT of cocaine base and 3.38 MT of cocaine hydrochloride (HCl) in 2010. FELCN also located and destroyed 24 mega-sized cocaine HCl processing labs, 19 small and mid-sized processing labs, and 7,948 maceration pits. This represents an increase over calendar year 2009 levels. FELCN reports, however, that drug lab raids frequently fail to find and seize drugs or to result in significant arrests and that some labs are found abandoned, suggesting corruption and poor operational security. In addition, FELCN reported that it seized approximately 1,073.33 MT of marijuana, 963.82 MT of solid precursor chemicals, and 2,400,270.65 liters of liquid precursors.

The type of drug labs and chemicals seized suggest the prevalence of Colombian-style cocaine processing methods over traditional maceration pits and the increasing presence of Colombian and Mexican drug traffickers in Bolivia. Unofficially, FELCN officers believe rising violence and drug turf wars in Bolivia are linked to foreign DTOs.

FELCN reports it increased efforts to interdict narcotics air and road shipments and those occurring along Bolivia's borders. FELCN believes that most narcotics cross Bolivian borders in shipping containers or as cargo in small aircraft. Countries bordering Bolivia continue to experience increased drug trafficking from Bolivia, especially Brazil, and report seizures of Bolivian drugs and arrests of drug traffickers linked to Bolivia.

The GOB arrested and charged 3,735 persons on narcotics-related offenses in 2010. This arrest rate was about 10 percent more per month than in 2009. Internal GOB reviews of the statistical conviction rates by the Public Ministry and a survey conducted by the National Fiscal Training Facility in Sucre indicate that CN prosecutions continue to be backlogged. For example, fewer than 8 percent of cases brought in 2009 resulted in convictions.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The GOB is reluctant to accept indications of increased cocaine and marijuana consumption in Bolivia. The Latin American Center of Scientific Investigation (CELIN) study entitled "Drug Use in Bolivia 1992-2010" showed a steady increase in drug use throughout the country. Urban marijuana consumers increased from 0.2 percent in 1992 to 2.54 percent per capita in 2010; cocaine HCl consumers rose from 0.1 percent in 1992 to 1.59 percent in 2010; and cocaine base users grew from 0.2 percent in 1992 to 1.44

percent in 2010. Seventy-five percent of Bolivians surveyed view drug use as a major problem. More than 70 percent of Bolivians also believe that illegal drugs are easily available in their communities.

FELCN sponsored a media campaign to educate communities on the dangers of drug abuse, however, the Ministry of Health and Sports, which has the lead on drug prevention and treatment programs in Bolivia, did not take steps to increase public awareness of drug abuse in 2010.

4. Corruption

The GOB enacted an Anti-Corruption Law on March 31, 2010, which applies to all public officials and may be applied retroactively with no statute of limitations. The law does not specifically refer to narcotics-related corruption. Through October 2010, GOB prosecutors continued to bring corruption charges under the existing criminal code rather than the new law.

The GOB does not, as a matter of government policy, encourage or facilitate illegal activity associated with drug trafficking. 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. Incidents of corruption among FELCN officers increased since the departure of DEA in 2009, but the FELCN Director General launched an initiative to deter corruption that includes polygraph exams for all of its officers. Of the more than 500 FELCN officers polygraphed in 2010, 93 officers failed the exam and were removed from FELCN. Twenty additional officers who failed the polygraph were placed on administrative duties, pending removal.

The BNP has two Offices of Professional Responsibility (OPR) for internal investigations – one for FELCN and one for the remainder of the BNP – that are expected to merge in January 2011. The BNP OPR investigates all cases and may sanction law enforcement for minor infractions. The BNP's Disciplinary Tribunal is responsible for reviewing cases and determining punishment, if appropriate, for police officers involved in misconduct and other integrity-related violations. Cases involving violation of Bolivian law are referred to the Public Ministry for Prosecution. The BNP reports that the OPRs investigated 2,693 allegations of misconduct involving police officers and 1,311 investigations (involving one or more than one officer) were pending during 2010. The FELCN OPR received 163 new allegations against FELCN officers and fired one officer, imposed internal sanctions on 15 officers, dropped cases against 56 officers due to lack of foundation, referred 23 officers to the Disciplinary Tribunal and continued to investigate cases involving 58 officers.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

USG programs seek to enhance the capabilities of the GOB to reduce coca cultivation; arrest and bring traffickers to justice; promote integrated alternative development; disrupt the production of cocaine within Bolivia; interdict and destroy illicit drugs and precursor chemicals moving within and through the country; reduce domestic abuse of cocaine and other illicit drugs; institutionalize a professional law enforcement system; and improve the Bolivian population's awareness of the dangers of illicit drugs. To achieve these aims, the USG continues to provide administrative, logistical, financial and training support to Bolivian CN programs and to work productively with the GOB at the policy implementation and technical level.

In 2010, the USG provided administrative support for anti-corruption training and polygraph examinations for the BNP's OPR and the BNP's Disciplinary Tribunal to combat corruption within FELCN and CN Prosecutors. The USG also supported the training of 9,012 police officers, prosecutors, and other GOB and non-governmental organization (NGO) officials -- 60 percent more than in 2009. The USG also supported 112 training courses, seminars and conferences -- 90 percent more than in 2009. Support included training for Bolivian police officers in Peru, Colombia, Argentina and Chile, as well as USG-sponsored instructors from Colombia and Brazil delivering courses in Bolivia.

During 2010, the USG supported eight drug abuse prevention and rehabilitation projects. The USG and UNODC implemented a drug abuse prevention program in El Alto which focused on children between eight and eighteen-years-old and reached more than 60,000 participants. The USG funded the NGO Communication, Research and Action in Social Policies to produce drug abuse prevention manuals for teachers, social workers and parents, as well as audiovisual and printed working aids for high school students. The USG worked with the Ministry of Health and Sports to sponsor two training courses for counselors from rehabilitation centers affiliated with the Therapeutic Communities Bolivian Association (TCBA). These courses were specifically designed to improve the quality of service at 38 Bolivian drug rehabilitation centers.

D. Conclusion

The GOB took steps to improve its counternarcotics performance in 2010, but did not gain significant ground against illegal coca cultivation and drug traffickers. While President Evo Morales publicly challenged his Chapare coca grower political constituency to stay within the bounds of coca production that the GOB permitted, a new law will likely recognize an additional 8,000 more legal hectares of coca cultivation – bringing the total to 20,000 hectares. It is anticipated to be delayed at least until mid-2011, but its implementation will violate international agreements to which Bolivia is a signatory.

The GOB is encouraged to strengthen its efforts to achieve tighter controls over the trade in coca leaf to stem the diversion of coca leaf to cocaine processing, in line with international treaties; protect its citizens from the deleterious effects of drugs, corruption, and drug trafficking; achieve net reductions in coca cultivation; and keep pace with replanting.

For the near term, drug traffickers, including those from Colombia and Mexico, will continue to exploit opportunities to process abundant coca leaf into cocaine base and cocaine HCl. To diminish Bolivia's appeal to drug traffickers, further GOB action is required to improve the legal and regulatory environment for security and justice sector efforts to effectively and efficiently combat drug production and trafficking, money laundering, corruption, and other transnational crime, and bring criminal enterprises to justice through the rule of law. Concerns about the challenge to Bolivian institutions from drug traffickers and corruption may drive the GOB's increased resource commitment to these efforts. If Bolivia devotes more of its own resources to counternarcotics, it will become more vested in obtaining results. The GOB agreed in 2009 to nationalize some of the assistance the USG previously provided. Enacting new asset forfeiture legislation and other CN measures would provide Bolivian law enforcement agencies with additional resources in a constrained budget environment. Even with the GOB funding more of its CN effort, it will not have sufficient resources to win the fight. Members of the international community most directly affected by Bolivian cocaine exports are encouraged to share more responsibility and increase their support to Bolivia.

Bolivia Statistics (2000-2010)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Coca											
Net Cultivation (ha)	-	35,000	32,000	29,500	25,800	26,500	24,600	23,200	21,600	19,900	19,600
Eradication (ha)	8,200	6,341	5,484	6,269	5,070	6,073	8,437	10,000	11,839	9,435	7,953
Leaf: Potential Dried Harvest (MT)	-	43,000	43,500	38,500	37,000	36,000	37,000	33,000	35,000	32,000	-
HCL: Potential (MT) ¹	-	195	195	130	115	115	115	100	110	100	-
Seizures											
Coca Leaf (MT)	1,016	1,574	2,066.0	1,705.0	1,344.0	887.4	395.0	152.0	101.8	66.0	51.9
Cocaine Base (MT)	25.7	21.9	21.6	14.9	12.7	10.2	8.2	6.4	4.7	4.0	4.5
Cocaine HCl (MT)	3.4	4.9	7.2	2.9	1.3	1.3	0.5	6.5	0.4	0.5	0.7
Combined HCl & Base (MT)	29.1	26.8	28.8	17.8	14.0	11.5	8.7	12.9	5.1	4.5	5.2
Arrests & Detentions	3,735	3,397	3,525	4,268	4,503	4,376	4,138	3,902	3,229	2,948	3,414
Labs Destroyed											
Cocaine HCl	24	16	7	7	3	3	4	2	2	1	2
Cocaine Base	4,827	4,864	4,988	4,076	4,070	2,619	2,254	1,769	1,285	877	620

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, 315:1 in the Yungas.

Bosnia and Herzegovina

A. Introduction

Narcotics control capabilities in Bosnia and Herzegovina (“Bosnia”) achieved modest improvements in 2010, but state security institutions still need to develop further capacity. Bosnia is still considered primarily a transit country for drug trafficking due to its strategic location along historic Balkan smuggling routes. Bosnia is not a significant narcotics producer, consumer, or producer of precursor chemicals. Bosnian authorities at the state, entity, cantonal, and municipal levels require further capacity-building to combat the transit of illegal migrants, black market commodities, and narcotics, but state-level institutions have improved their ability to stop the flow of illicit narcotics in the country.

Weak state institutions, lack of personnel in counternarcotics units, and imperfect cooperation among the responsible authorities contribute to Bosnia’s vulnerability to narcotic trafficking. The political will to improve narcotics control performance exists in some quarters of the Bosnian government. However, faced with competing demands, the government has to date focused its limited law enforcement resources more on such problems as 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 reports, 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 inhibit efforts to counter narcotics trafficking and related crimes. However, law enforcement agencies, often in cooperation with neighboring countries, succeeded in making some substantial narcotic-related arrests and seizures. Bosnia is making efforts to forge ties with regional and international law enforcement agencies. Bosnia and Herzegovina is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

On November 8, 2005, the Bosnian House of Representatives passed legislation designed to address the problem of narcotics trafficking and abuse. Bosnia created a state-level counternarcotics coordination body and a commission to supervise the destruction of illegal narcotics. The counternarcotics coordination body adopted a counter-narcotics strategy and action plan. Bosnia has 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 deployment of the Border Police (BP) and the establishment of the State Investigative and Protection Agency (SIPA) have improved counternarcotics efforts, but continued underfunding, lack of staffing, and an ill-equipped BP and SIPA remain a challenge.

Law enforcement agencies made some significant drug-related arrests during 2010. For example, 32 people were arrested for drug trafficking and the illegal possession of firearms and explosives during a joint police action in northeast Bosnia. The operation required close coordination between several police departments in the Federation, Republic of Srpska, and Brcko District. Approximately 400 police officers and 120 vehicles were engaged in the mass

raid on 40 separate sites. A second operation occurred in May when 500 officers were mobilized in and around the southern town of Trebinje, where they searched 53 locations and arrested 45 people suspected of trafficking drugs and arms during a major crackdown on Balkan organized crime.

In September, 56 people were arrested in a police sting operation against drug traffickers in Bosnia, which was initiated on the orders of the Court and Prosecution Office. Over the course of four days, police from both entities in Bosnia searched 200 locations across the country. The searches were conducted in Zenica, Mostar, Sarajevo, Banja Luka, Capljina, Trebinje, and Stolac. The most extensive action, however, was conducted in Bileca, a southeastern town close to the border with Montenegro. Police report that they broke up the so-called "Bileca Group" suspected not only of cross-border drug trafficking, but also of arms trafficking and resale of stolen vehicles. Eleven members of the gang were arrested. They have been linked to several criminal organizations that were also recently the subject of enforcement actions in Croatia.

The Border Police (BP), established in 2000, is responsible for patrolling the country's three international airports, as well as Bosnia's 55 international border crossings and its total borders of 1,551 kilometers. The BP is considered one of the more effective border services in Southeast Europe and is one of the few functioning multi-ethnic state-level 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, where the BP lacks the staff to patrol regularly. In-ground sensors have been deployed to close some of these gaps, but response time to sensor alerts are also affected by lack of personnel and equipment. 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, cooperation between local law enforcement agencies and SIPA is often less than optimal.

Bosnia has become a transit point for shipments of cocaine coming from Colombia, partly because of the weakness of Bosnia's judicial system, which hinders law enforcement's ability to work hand in hand with the prosecutor's office in order to infiltrate organized crime groups and Colombian cocaine trafficking cartels. The National Assembly of the Republic of Srpska approved an asset forfeiture law, allowing law enforcement within the Republic of Srpska, to go after the assets derived from illegal activities.

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 and Herzegovina as a successor state.

2. Supply Reduction

While most drugs entering Bosnia are being trafficked to other destinations, primarily to Western Europe, indigenous organized crime groups are engaged in the local distribution of narcotics to the estimated 105,000 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. Officials believe that the Bosnian market for designer drugs, especially ecstasy, in urban areas continues to increase. Law enforcement authorities posit that elements from all ethnic groups and all major crime "families" are involved at some level in the lucrative 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, Italy, and increasingly even South American criminal networks.

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 also not a major synthetic narcotics producer or refiner.

Narcotic Traffickers have capitalized on a justice system with insufficient capacity, public sector corruption, and the lack of specialized equipment and training. Bosnia has become a warehousing location for drugs, mainly marijuana and heroin, but also some cocaine. Traffickers “warehouse” drugs in Bosnia, until they can be shipped out to their final 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 illicit drug consumption is not systematically gathered, but local experts estimate Bosnia has over 105,000 drug users. Law enforcement officials indicate that demand for illicit drugs is steadily increasing. The State-level Ministry of Security has created a Counternarcotics Office in its Sector for the Suppression of Serious Narcotics Crimes. Although this office has the mandate to collect and disseminate drug related data, its work is hindered by the occasional refusal of local law enforcement agencies to share information with it.

Despite some limited successes the 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 October 2010 (latest available statistics), law enforcement agencies in Bosnia and Herzegovina (including the State Investigation and Protection Agency), the Border Police, Federation Ministry of Interior, Republic of Srpska Ministry of Interior, and Brcko District Police) have filed criminal reports against 1029 persons for drug related offenses. These agencies also report having seized 75.6 kg of heroin, 2.3kg of cocaine, 12.8 kg of amphetamines, 150.3 kg of marijuana, 5,036 cannabis plants, 6,014 cannabis seeds, 204 ecstasy tablets, and 3.4 grams of hashish.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In Bosnia there are only two methadone replacement 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 for their addictions are recidivists. The Bosnian government currently pays for the basic medical treatment of drug addicts, but there are no government programs for reintegrating former addicts into society. There are 40 drug therapy centers in the Bosnian-Croat Federation, 19 centers operate in the Republic of Srpska, and one center operates in Brcko District.

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 distributed 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. In what has now become an annual event, UG PROI organized the 2010 race against drugs involving both a fund-raising event and a large anti-drug abuse convocation in downtown Sarajevo.

4. Corruption

Bosnia does not have laws that specifically target narcotics-related public sector corruption and has not pursued charges against public officials on narcotics-related offenses. Organized crime, working with a few corrupt government officials uses the narcotics trade to generate illicit revenues. There is no evidence linking senior government officials to the illicit narcotics trade. As a matter of government policy, Bosnia does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Bosnia is a party to the UN Convention Against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The 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.

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 traffic in weapons of mass destruction and check for appropriate use of dual use items. EXBS Assistance surely increased BP and ITA's ability to detect and interdict contraband, including narcotics. EXBS donated equipment for searches and inspections, including chemical detectors and x-ray machines which enhance the drug interdiction capabilities of the BP. The Overseas Prosecutorial Development Assistance Training (OPDAT) program provides training to judges and prosecutors on organized crime-related matters. The Drug Enforcement Administration (DEA) in Rome maintains liaison with its counterparts in Bosnian state and entity level law enforcement organizations. The DEA has also sponsored specific narcotic interdiction training in Bosnia, and during the past three years DEA and ICITAP have conducted training for local investigators.

D. Conclusion

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 encourage Bosnia to proceed with the full implementation of its national counternarcotics strategy.

The international community is also working to increase local law enforcement capacity and to encourage interagency cooperation by mentoring and advising the local law enforcement community. USG programs will encourage Bosnia to develop better intelligence and information-sharing structures, create a better legislative framework for undercover operations, and achieve better coordination and cooperation both regionally and internationally to meet the challenge of narcotics trafficking.

Brazil

A. Introduction

Brazil is South America's largest nation, sharing 10,000 miles of land borders with ten neighbors, including 5,000 miles with cocaine-producing Bolivia, Peru, and Colombia. It also has the longest coastline in South America (4,600 miles), making it an inevitable transit country for narcotics traffic to Europe, Africa and to a lesser extent, the United States. Small aircraft from Colombia and Peru also transit Brazil bound for Venezuela and Suriname. Brazil is increasingly a consumer nation and is a potential source of precursor chemicals for cocaine processing.

Paraguay remains Brazil's main supplier of marijuana although some marijuana is grown in the northeast for local consumption. Cocaine products enter Brazil via land, river, and small aircraft from Bolivia, Peru and Colombia enroute to Africa and Europe, with some destined for the United States. Roughly the size of the continental U.S. with a population of 191 million and a growing middle class, Brazil is the eighth largest economy in the world. Brazil is the largest drug consumer in South America and consumption is rising. It is reported by the UNODC World Drug Report to have 900,000 cocaine users.

The Government of Brazil (GOB) recognizes the effect of narcotics trafficking on public security and has made strides in combating organized crime; allocating increased resources to combat drug trafficking, developing strong international partnerships, and devising a strategy to address domestic consumption. Over the next six years, Brazil will host many major global events, including the 2014 World Cup and the 2016 Summer Olympics, attracting millions of visitors and heightened public security challenges. The National Secretariat of Public Security (SENASP) will lead security preparations, but will work closely with the twelve World Cup host states, including the state of Rio de Janeiro, the site of the 2016 Olympics.

Brazil is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In response to a growing crack cocaine use, then-President Lula announced the Integrated Plan to Face Crack and Other Drugs in May 2010. The plan allotted \$235 million for integrated drug traffic repression and treatment initiatives, involving 15 GOB ministries and civil society. It will address trafficking across Brazilian borders and increase the number of treatment beds for crack users. Long term goals include improved prevention, treatment centers, and social reintegration schemes for former users.

The Ministry of Justice (MOJ) plans to invest \$3.9 billion through 2012 in the National Program for Public Security and Citizenship (PRONASCI), providing training to public security professionals, restructuring the prison system, and fighting corruption. The program supports projects in 22 states and the Federal District (DF), including Pacifying Police Units (UPPs) in the favelas (shanty towns) of Rio de Janeiro. Rio's UPPs have made significant progress in the city's struggle against crime, establishing law enforcement control and then introducing social assistance and essential services into favela communities. Sixteen of Rio's favelas are now successfully under the UPP Program and the GOB may expand the program to other urban areas. However, Rio has over 1,000 favelas and authorities believe 450 are under the influence of drug gangs.

SENASP continued to develop the Forca Nacional (FN), comparable to a reserve force of state police that can be called upon in emergency situations. In a March 2010 joint announcement with President Lugo of Paraguay, President Lula recognized drug trafficking as a "powerful multinational industry" and announced a plan to establish eleven joint Brazilian Federal Police (DPF)/FN bases to combat trafficking.

The GOB will invest \$84 million in the project through 2012, including the purchase of helicopters, river vessels, and weapons.

In 2010, the GOB also announced the concept of an Integrated Center to Combat Drug Trafficking (CICON), envisioned similar to JIATF-South, with representation from the DPF, the Brazilian Armed Forces, and CENSIPAM, a sensor system established to monitor traffic in the Amazon.

Since state and local arrest and seizure statistics are not reported centrally in Brazil and are not always reliable, in July 2010, the GOB introduced the National Register of Drug and Related Asset Seizures (SINAD), a national database to capture these statistics. The system should be fully functional in 2012.

Brazil is a party to the 1988 UN Drug Convention, the 1971 UN Convention against Psychotropic Substances, and the 1961 UN Single Convention and its 1972 Protocol. Brazil 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 Mutual Assistance in Criminal Matters and its Optional Protocol, the Inter-American Convention against Terrorism, Inter-American Convention On International Traffic In Minors and the Inter-American Convention against Trafficking in Illegal Firearms. The U.S. and Brazil are parties to a mutual legal assistance treaty and a mutual assistance agreement on customs matters. Brazil cooperates with the United States in the extraditions of non-Brazilians. The U.S and Brazil cooperate in extradition matters under a 1961 extradition treaty. Brazil's constitution prohibits extradition of Brazilian nationals, but allows for extradition of naturalized Brazilians for certain drug-related crimes committed prior to naturalization. The Brazilian Supreme Court will agree to extraditions only if the MOJ receives assurance that extradited individuals will not be subject to sentences longer than 30 years.

2. Supply Reduction

Generally, cocaine and crack of Bolivian origin entering Brazil are distributed and consumed domestically while the higher-quality Colombian and Peruvian cocaine transits Brazil enroute to other transshipment zones or markets, such as northwest Africa and Europe, and, to a lesser degree, to the United States. Brazil's international airports remain common departure points for couriers carrying drugs on or in their body, in their luggage, or via air cargo. Brazil's seaports are among the busiest in the hemisphere and drug shipment via containers and sea vessels is common. The northeast coast of Brazil is the closest transatlantic shipping point to West Africa, less than 1,700 nautical miles. The Brazilian Federal Police (DPF) notes that criminal organizations often utilize the same route in reverse to traffic ecstasy and amphetamines back to Brazil.

In 2010, GOB initiatives to improve coordination and information exchange began to produce results in Brazil's fight against drugs. The CICON, SINAD, and Crack Repression initiatives are examples of a shift in Brazilian law enforcement culture to better coordinate among pertinent public security agencies. For 2010, the DPF reported seizures of 22.2 metric tons (MT) of cocaine and crack, 138.3 MT of marijuana, 33,542 stamps of LSD (lysergic acid diethylamide), and 12,343 bottles of ether perfume. The DPF indicted 4,264 individuals on narcotics-related charges.

The DPF's counternarcotics strategy is based on five concepts: prioritize Brazil's land borders, invest in technology, increase international and domestic police cooperation, attack organized crime leadership, and control chemical products. The DPF has increased its presence on Brazil's western borders by 50 percent over the past four years, created Police Cooperation Centers that combine DPF and state police and are focused on modernizing their aviation and fluvial capacities on the borders. The DPF is also upgrading technological capacities with the \$340 million Project VANT, which will create five bases with the ability to continuously monitor Brazil's borders, creating real-time images for immediate responses. The project includes unmanned aerial vehicles to provide reconnaissance support. The DPF has bilateral agreements with most of Brazil's neighbors, and has attaches in many countries. They continue to strengthen international cooperation by conducting more joint investigations, police exchanges, joint

training, and in the case of Paraguay, joint eradication. The DPF also coordinates with multilateral institutions such as INTERPOL, Organization of American States, MERCOSUL, and the United Nations Office on Drugs and Crime (UNODC). They continue to deepen their internal coordination with SENASP and various state civil and military police. In 2010, the DPF focused its investigations to target leadership of criminal organizations, rather than couriers, drivers, and low-ranking members and increasingly focused on targeting assets of criminal organizations.

In new developments, eleven cocaine hydrochloride and crack laboratories were discovered on the Brazilian side of the Bolivian and Peruvian borders by the DPF in 2010. The labs were unsophisticated and only processed small amounts of drugs. In May, 2010, DPF agents discovered a laboratory in the state of Sao Paulo and seized cocaine-processing equipment, 225 kilograms of refined cocaine, and 220 kilograms of controlled substances, including morphine and solvents. According to open-source information, former DPF Director Luiz Correa stated that traffickers are moving their labs across the border from Bolivia because precursor chemicals are easier to obtain in Brazil. Some analysts believe that increasing cocaine paste seizures in Brazil also suggest that raw Bolivian cocaine is increasingly being refined in Brazil.

In April 2010, the DPF arrested six members of the First Front of the Revolutionary Armed Forces of Colombia (FARC) who were part of a drug trafficking organization in the Amazon region, transporting processed cocaine to Manaus, where they sold to other traffickers for transport to European markets. The arrested individuals had been using Manaus as a base for over a year and possessed false Brazilian documents.

In April 2010, the DPF also arrested Colombian drug lord Nestor Ramon Caro Chaparro, alias "El Duro," in Rio de Janeiro. The U.S. Department of State had offered a \$5 million reward for information leading to the capture of El Duro, who was one of the Immigration and Customs Enforcement's most-wanted fugitives.

In July 2010, the DPF arrested Carlos Arias Cabral, Paraguay's largest marijuana trafficker. According to Paraguayan authorities, Cabral was responsible for a major portion of the marijuana that enters the Brazilian market.

In late November 2010, unified criminal gangs burned vehicles and shot at community police bases in Rio. In response, the Rio Secretary of Public Security requested federal support in a Joint Force composed of State Police, Armed Forces, and DPF. The Joint Force entered the gang strongholds of the Vila Cruzeiro and Alemao favelas. During the operation, they seized 300 kilograms of cocaine and 42 MT of marijuana, recovered 350 stolen vehicles, and discovered 518 weapons, including grenades, machine-guns, and bazookas. They arrested 119 drug traffickers. These numbers likely will increase as the police search more of Alemao and find stashes left behind by fleeing gang members.

The DPF conducts annual eradication operations against cannabis cultivation in northeastern Brazil with no USG assistance. In 2010, the DPF destroyed an estimated 1.6 million marijuana plants, a slight decrease from 2009. Brazilian marijuana is not considered high quality in comparison to Paraguayan marijuana, and is typically sold in poorer urban areas. The DPF also helped eradicate 901 hectares of marijuana in Paraguay in 2010, a slight increase over 2009.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The DPF estimates that up to 1 percent of Brazil's population may use cocaine or crack and that 2.6 percent uses marijuana. A large and violent organized network of criminal gangs poses an extreme security threat to the public and to Brazilian law enforcement, as witnessed recently in the violence, bus-burning, and attacks on police in Rio in November 2010. These gangs are present in Paraguayan marijuana-producing regions along the Brazilian border and control drug distribution in Brazil's largest cities, as proven by the 42 MT of marijuana seized in raids of the Vila Cruzeiro and Alemao favelas of

Rio. The gangs use drug proceeds to purchase weapons and tighten their control of the favelas in Sao Paulo, Rio de Janeiro and other urban centers. Usage of ecstasy and LSD is increasing slightly in metropolitan areas and within Brazilian student communities. This year, Brazil was included for the first time in UNODC World Drug Report as a small exporter of ecstasy to European markets.

The National Anti-Drug Secretariat (SENAD) was created in 1998 and is charged with overseeing the National Policy on Drugs, instituted in 2005. SENAD also administers the National Anti-Drug Fund and the Brazilian Observatory of Drug Information, a website with extensive information on drug use and its dangers, survey results, and medical research from recognized publications.

With USG support, SENAD is developing a unified national curriculum for youth drug education, similar to the Drug Abuse Resistance Education (DARE) program. It also provides training on detection and treatment of drug abuse for health care professionals, training of religious leaders in drug prevention, and capacity building of the national highway police to enforce Brazil's zero-tolerance alcohol and drug law. SENAD's distance learning programs have trained over 100,000 professionals in demand reduction and often offer certificates from Brazilian universities.

In 2010, SENAD completed the First National Survey on the Use of Drugs, Alcohol and Tobacco in Universities. The study had over 18,000 participants representing all 26 state capitals and the Federal District of Brasilia. The conclusions showed that 49 percent of Brazilian university students have tried an illicit drug at least once in their lives and 40 percent used two or more drugs in the last year.

4. Corruption

As a matter of policy, neither the GOB nor any of its senior officials encourage or facilitate production, shipment, or distribution of illicit drugs or laundering of drug money. However, non-narcotics related corruption remains a topic of media reports. Official anti-corruption initiatives showed good results in 2010, including the recovery of \$235 million diverted from public funds via corruption – a 35 percent increase over 2009. The GOB repatriated \$30 million from Switzerland that was diverted through the "Propinoduto" scandal of 2002 in Rio. Additionally, the Brazilian Attorney General's Office (AGU) secured judicial seizure of rent values from properties of the Ok Group, which diverted \$100 million of public funds during the construction of the Labor Court of Sao Paulo. Over 2,300 cases of this nature remain open.

In 2010, the AGU filed 3,706 actions to recover a total of \$1.5 billion suspected to have been diverted by corruption. According to the AGU's website, over \$340 million of that amount was found in the bank accounts of mayors, former mayors, public servants, and business executives involved in illegal operations. The funds in question have been blocked or seized pending filings by the AGU.

In a news report of December 2010, the Chief Minister of Brazil's Comptroller General (CGU) stated that the Brazilian Congress's delay in approving pending legislation is a challenge to combating corruption. Among those pending are bills addressing conflict of interest, illicit enrichment and stiffening the penalties for corruption. Also still pending is money laundering legislation first drafted in 2005 and submitted to Congress in 2008. Meanwhile, the Brazilian Public Ministry (MPF) and the CGU signed a Technical Cooperation Protocol in September 2010 to combat corruption involving federal resources throughout Brazil. Brazil's federal Ficha Limpa (Clean Record) was implemented in recent elections and prevented several potential candidates with criminal allegations in their background from running for office in 2010.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

In addition to the United States, Brazil has narcotics control or similar agreements with several neighbors: Argentina, Bolivia, Chile, Colombia, Paraguay, Peru, Uruguay, and Venezuela. Most of these agreements focus on information sharing, police exchanges, and joint investigations. Brazil has additional law enforcement accords with Portugal, Spain, the United Kingdom, Lebanon, Mexico, and South Africa.

Even in the absence of agreements, Brazil routinely cooperates with other countries in narcotics-related investigations and participates in the UN Drug Control Program (UNDCP) and takes an active role in OAS/CICAD.

The GOB has consulted with Argentina, Uruguay, Paraguay, and Bolivia about creating a South American Plan to Combat Organized Crime, with an emphasis on narcotics trafficking, and has plans to expand discussions to include Peru. In November 2010, Brazil's Minister of Justice held conversations with Bolivia regarding ways to increase cooperation against organized crime and drug trafficking. The DPF and the Paraguayan Federal Police cooperate well on marijuana suppression.

Brazil was removed as a Major Drug Transit Country in this year's Presidential Majors List Determination because the drugs transiting Brazil were deemed to not "significantly affect the United States." However, the President's determination deemed narcotics control in Brazil "a serious concern." Both the U.S. and GOB remain concerned by the rise in Bolivian coca production and its effect on Brazil. Essential goals of the USG are to assist Brazil in strengthening its narcotics and money laundering laws and to enhance law enforcement cooperation.

The 2006 Letter of Agreement between the U.S. and Brazil provides the framework for cooperation between U.S. law enforcement entities and Brazil's MOJ, DPF, SENASP, National Department of Prisons (DEPEN), SENAD, and Anti-Financial Crime Center (COAF). Cooperation is excellent in the areas of law enforcement training, drug interdiction, and information sharing on money laundering and financial crimes. In 2010, the USG provided training courses for Brazilian law enforcement on various topics including: Incident Command Systems, Emergency Operations Center, cyber crime, major events security, prison classification, prison design and construction, jungle interdiction, airport interdiction, use of mobile trace units, undercover tactics, interrogation techniques, hard-drive forensics, and dog-handling.

Cooperation between the DPF and US law enforcement agencies, particularly the Drug Enforcement Administration (DEA), continue to be fruitful for both countries. The DPF, with USG support, expanded its successful Special Investigation Unit (GISE) program, now with intelligence centers in all 27 of its regional offices. GISE units, in collaboration with DEA and other foreign police, have conducted successful investigations and seized increased amounts of internationally-trafficked drugs (over 20 MT), weapons, laundered money, and illicit assets. There was a seizure of 127 kilograms of cocaine on a river vessel in Manaus and the subsequent search warrant at a nearby farm that yielded an additional 470 kilograms of cocaine. During a similar investigation, search warrants were served simultaneously in four Brazilian cities, resulting in seizures of \$540,000, property, vehicles, and firearms and arrests of 16 Brazilians and one Peruvian trafficker.

The DEA and DPF jointly hosted the 2010 International Drug Enforcement Conference. Federal Police agencies from 90 nations participated in discussing international trafficking trends, organized crime prevention, and public security with a special focus on multinational cooperation.

The DPF's airport interdiction capabilities led to successful investigations in 2010. In March 2010, for example, the DPF arrested 32 individuals in Sao Paulo for a large-scale trafficking scheme that may have shipped up to 1.3 MT of cocaine through Sao Paulo airports over two years. The USG donated body-scan machines for DPF use at four major international airports and twelve mobile tracer units to be used at additional airports by mobile teams. The DPF uses the body scan machines to complement its airport interdictions and has noted that the machines serve as major deterrents to traffickers.

In 2010, the USG purchased seven dogs, as well as canine unit training and equipment, bringing the DPF Canine program to 63 dogs who support interdiction operations at over 20 key locations throughout Brazil with both narcotics and explosives detection. A first round of new dogs has been bred as part of a sustainability project to meet long term goals, including support of the World Cup and Olympics.

USG partnership with SENASP grew in 2010, with a focus on preparing security for major events as Brazil creates its own National Incident Management System. The USG coordinated courses with SENASP on topics such as Incident Command Systems, Emergency Operations Center, virtual command centers, and major events security. These courses combined federal and state public security officials. The USG also partnered with SENASP's World Cup Working Group in strategic development of its command centers for the twelve 2014 World Cup venues. The USG continues to partner with SENASP in providing training and equipment to SENASP's Forca Nacional.

In 2010, the USG and DEPEN continued their partnership to curb the ability of criminal gangs to operate within Brazilian prisons. Program goals include improving infrastructure of state prisons, developing a corps of professional managers, and consulting on appropriate, cost-effective designs for prisons. Twenty prison employees visited the U.S. to study prisoner classification and develop a design and construction strategy for Brazilian prisons.

The USG continues to partner with SENAD on demand reduction programs, such as the development of a national curriculum for youth drug education. Other INL support in Brazil finances pilot treatment centers for youth and women in the State of Sao Paulo.

The USG continued modest equipment and software donations to COAF in 2010 to assist it in combating illicit crime financing. COAF remained proactive in exchanging information with its U.S. counterpart, the Financial Crimes Enforcement Network (FINCEN).

D. Conclusion

Brazil continues to demonstrate a commitment to combat international trafficking of illicit drugs and related crimes in the country and the region. The USG encourages Brazil's efforts to intensify monitoring of its borders and continue cooperative law enforcement efforts with its neighbors. Likewise Brazil should continue to enhance its efforts to strengthen coordination between its federal, state law enforcement, and public security entities that will create a unified front against international drug cartels that consider Brazil both a major destination and transit country. Passage of anti-money laundering legislation will give police greater tools to confront these criminal organizations, such as greater access to financial and banking records. We strongly urge Brazil's legislature to pass this long-delayed legislation.

Bulgaria

A. Introduction

Bulgaria is a transit country for heroin and cocaine, as well as a producer of illicit narcotics. The only illicit drug crop known to be cultivated in Bulgaria is cannabis, primarily for domestic consumption. Recent evidence suggests that there has been a decrease in the indigenous manufacture of synthetic stimulant products. There are approximately 300,000 drug addicts in Bulgaria of which 10 percent are addicted to heroin.

The Customs Agency under the Ministry of Finance, along with several specialized police services under the Ministry of Interior (MOI), including the Border Police and the Directorate for Combating Organized and Serious Crime (GDBOP), are engaged in counternarcotics efforts. In the arena of counter-narcotics, GDBOP's Anti-Drug Unit is developing into an effective law enforcement organization. As evidenced by its declining drug seizures, the Customs Agency's institutional capability to combat drugs weakened this year due to structural changes that prioritize countering other contraband over combating narcotics. The Bulgarian government has demonstrated political will to combat major organized crime rings and has begun prosecuting numerous high-level cases.

Bulgaria faces several significant challenges in its fight against narcotics trafficking and related crimes. Although there is some evidence suggesting that traffickers are bypassing Bulgaria via alternative routes, Bulgaria's strategic geographical position astride Balkan heroin transit routes makes it vulnerable to international trafficking organizations transporting narcotics into the European Union. Organized crime groups, both Bulgarian and foreign, have increased their influence and involvement in the international narcotics trade. These groups are sophisticated, well-financed, and have entrenched themselves within Bulgarian society. Bulgaria is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

On April 21, 2010, the Parliament passed amendments to Bulgaria's criminal procedure code that improved the ability of law enforcement to gather evidence and convict high profile drug traffickers. These amendments allow judges to appoint reserve defense attorneys in cases when defense lawyers fail to appear in court without a reasonable excuse (a common tactic in organized crime cases). The amendments also provide additional safeguards for witnesses. The changes strengthened the role of specialized investigative techniques, making it possible for courts to accept collateral wiretap information and European Union's Anti-Fraud Office (OLAF) reports as evidence. The Bulgarian Parliament is also working on legislation that will allow non-conviction based civil asset forfeiture and close down loopholes used by organized crime figures to hide their assets. If passed, this law would likely increase the amount of assets seized in serious drug cases.

The Parliament adopted changes to the Narcotics Control Act, which prohibit the cultivation of illegal plants, regardless of their THC concentration, and add new drugs to the list of controlled substances based on recommendations from the Council of Europe. The amendments, which were published on March 19, also banned showing drug-related images and the use of drugs in commercials.

Over the past few years, the Bulgarian government, and specifically the Ministry of the Interior, has made significant improvements in its efforts to combat international narcotics trafficking. The GDBOP - Anti-Drug Unit can effectively use wire intercepts and other technical equipment, conduct intelligence analysis to identify long-term trends, and cooperate in complex multilateral investigations. Long-term training provided by DEA and State-INL has improved Bulgarian law enforcement's ability to conduct airport interdictions and financial investigations. Since 2008, a DEA Agent has been embedded with the

GDBOP Anti-Drug Unit. This has improved international cooperation and Bulgaria's ability to target high level drug traffickers.

During the year, one area of concern related to Bulgaria's narcotic control strategy was a shift to prioritize countering other-than-narcotics contraband at Bulgaria's international borders. One unfortunate effect of this change was that the Bulgarian Customs Agency subordinated many of its best narcotics units to local regional chiefs. As evidenced by the lower seizure rates, these units' loss of independence has adversely affected the ability of Customs to investigate narcotics smuggling and conduct comprehensive border control operations for illegal drugs.

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. A new U.S.-Bulgarian Extradition Treaty, which entered into force in 2009, now allows the extradition of Bulgarian nationals for a variety of offenses, including drug trafficking charges. In the past, the U.S. relied on provisions of the 1988 UN Convention to arrange extraditions for drug offenses from Bulgaria.

2. Supply Reduction

Significant narcotics seizures and arrests have taken place both in Bulgaria and outside the country due to the efforts of Bulgarian law enforcement. Of special note is that GDBOP and Customs seized over 21 tons of Acetic Anhydride. This precursor chemical is used in heroin processing and recent DEA forensic analysis indicates it also can be used to manufacture synthetic drugs. In 2010, over 210 kilograms of heroin were seized during international investigations initiated by, or with the assistance of GDBOP. Approximately 110 kilograms were seized outside the country as a direct result of Bulgarian investigative work. In addition, GDBOP assisted in the seizure of about 223 kilograms of cocaine outside Bulgaria.

Bulgarian law enforcement has also made significant progress in targeting and arresting major organized crime figures that are involved in narcotics trafficking and a myriad of other crimes. During the year, a multi-year joint operation culminated in the arrest on money laundering charges of five members of a multinational criminal group, designated by the DEA and MOI as a priority target organization.

From January to November 2010, MOI seized 115 kg of heroin, 6.5 kg of cocaine, 61 kg of amphetamine substance and 125 kg of amphetamine tablets, 25 kg of synthetic drugs and 3,000 tablets of psychotropic substances, 4 kg of opium, 444 kg of marijuana, and 1,600 kg of dry cannabis, 1,163 kg of green cannabis. From January to November, the Customs Agency seized 190 kg of heroin, 10.5 kg of cocaine, 27 kg and 3680 tablets of synthetic drugs, .28 kg of marijuana, 10 kg of opium and .039 kg of hashish. This is a big drop off from the corresponding period in 2009 in which Customs seized 719 kg of heroin, 234 kg of cocaine, 23 kg of ecstasy, 5 kg of marijuana, 44 kg of hashish and 588 tablets of psychotropic substances.

Overall, drug seizures within Bulgaria dropped this year in part due to the prioritization of efforts against contraband described above. According to Bulgarian law enforcement officials, traffickers are also bypassing Bulgaria in favor of the Black Sea or the "northern route" due to tightened security ahead of Bulgaria's entry into the Schengen zone. Heroin travelling the northern route originates in Afghanistan transits Iran and then goes through the Caspian Sea, Azerbaijan, Georgia and Ukraine before reaching Romania and then the rest of Europe.

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 known, but it is a major source of supplementary income for retirees in some areas in the southwestern part of the country. A small portion of the production is exported to Greece. Recent evidence suggests that there has been a decrease

in the indigenous manufacture of synthetic stimulant products after some illegal laboratories relocated to Serbia, Eastern Turkey, Syria, Lebanon, and Armenia in order to be closer to consumers and to reduce risks associated with border crossings. Despite this decrease, there still are indications that drugs such as amphetamines are being produced in Bulgaria in small home-style laboratories. During the year, GDBOP dismantled one such laboratory for the production of amphetamines and two mobile laboratories for methamphetamines.

Bulgaria's membership in the European Union makes it a desired target for drug trafficking organizations trying to get narcotics to consumer markets in Western Europe. In terms of heroin trafficking, Bulgaria remains primarily a transit country along the Balkan route between production centers in Afghanistan and Pakistan and European consumer markets. Chemicals used for making heroin move through Bulgaria to Turkey and ultimately to Afghanistan. Sporadic cocaine shipments from South America are transported via ship to the Black Sea and then on to Western Europe. From January to November, GDBOP's intelligence led to the arrest of 164 Bulgarian cocaine smugglers abroad, compared to 90 in 2009.

Bulgarian law enforcement also reports a surge in the import and local use of so-called "designer drugs", which are usually shipped from China disguised as innocuous chemical products. These drugs are cheap and easily distributed in Bulgaria as they are not on Bulgaria's list of controlled substances and are technically legal. Plans are underway to expedite the process for adding new drugs to the controlled substance list which would allow the government to match the pace of the appearance of new drugs on local streets and avoid the lengthy legislative process.

3. Drug Abuse Awareness, Demand Reduction, and Treatment.

According to the Bulgarian Institute for Addictions and the Bulgarian Association of Methadone Treatment, there are over 300,000 drug addicts in Bulgaria, of which around 30,000 are heroin addicts. Marijuana continues to be the most widely used narcotic, but the trend toward multiple-drug use is on the rise. Statistics from the National Center for Addictions show that nearly a third of high school students and 35.2 percent of students overall have tried drugs at least once.

The Bulgarian government includes methadone maintenance as a heroin treatment option in the national healthcare system. Nationwide, there are 30 outpatient clinics offering drug substitution programs with the capacity to treat 5,560 patients and 15 inpatient clinics with the capacity to treat approximately 2,000 drug addicts and alcoholics. None of these facilities has a separate unit for juvenile patients. In addition, there are seven social rehabilitation programs, two of which are long-term community based programs. The Bulgarian National Center for Addictions (NCA), co-funded by the EU Monitoring Center for Drug Addictions, conducts prevention campaigns. There are 26 regional councils on narcotics implementing national drug prevention policy at the local level and 22 information centers. The information centers, financially supported by the municipalities, have been consistently under-funded which adversely affects staff retention.

On the prevention and treatment side, the changes to the Narcotics Control Act also call for the establishment of a secure internal database that tracks those using treatment programs. The database will contain a unique identification code of the person which guarantees protection of the person's personal data. It also establishes an expert council to consult and support the Minister of Health in developing and implementing addiction treatment policies.

4. Corruption

Corruption remains a serious problem in law enforcement and the judiciary. Despite some reforms, the judiciary as a whole (which includes prosecutors and judges) consistently receives poor scores in the area of public confidence in opinion polls. As a matter of government policy, Bulgaria 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 there is also no evidence that senior

Bulgarian officials engage in these activities, during the past year, several former Bulgarian government officials have been implicated in public corruption and/or bribery scandals involving organized crime groups, many of which are involved in narcotics trafficking and/or money laundering.

Many NGOs claim that organized crime figures involved in the drug trade have contacts in the police who funnel information to them. NGOs report that corrupt officials are fired, pressured to quit, or most often reassigned rather than prosecuted on corruption related charges. Complicated judicial procedures and legal loopholes that allow for excessive case delays make it difficult to prosecute high-profile organized crime and corruption cases effectively.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

DEA operations for Bulgaria are managed from the U.S. Consulate General in Istanbul. DEA serves as the primary liaison with the Bulgarian government on counter-narcotics matters. DEA's current emphasis in Bulgaria is on conducting and coordinating joint international investigations with its Ministry of Interior counterparts and providing DEA technical and legal expertise and assistance. DEA also strives to arrange for counter-narcotics training for Bulgarian law enforcement personnel.

The U.S. Embassy is also providing State-INL-funded equipment and training to a Joint Organized Crime taskforce, which investigates and prosecutes many of the high profile drug cases. The goal of U.S. funding is to increase the operational capabilities and effectiveness of these specially-vetted units.

As part of the International Military Education & Training Program, three Bulgarian Officers attended the U.S. Coast Guard's fifteen week International Maritime Officer's Course in Yorktown, VA.

D. Conclusion

The Bulgarian government has demonstrated political will to combat major organized crime rings and has begun prosecuting numerous cases where the defendants are high-level organized crime figures. The U.S. government will continue to actively support Bulgaria's efforts to strengthen its asset forfeiture legislation and anti-corruption laws.

Bulgaria's emergence as an internationally respected law enforcement partner and its willingness to participate and lead multilateral international investigations is a significant accomplishment. Progress in this area has led to significant seizures and arrests in both Bulgaria and throughout the region.

More effective oversight of the police and judiciary is necessary to ensure that those guilty of compromising investigations are themselves investigated and prosecuted. Restoring the Customs Agency's anti-drugs focus would improve Bulgaria's counter narcotics efforts. Bulgaria would also greatly benefit from investing in updated police equipment for its anti-drug units.

Burkina Faso

Cannabis, amphetamines, and diverted licit medications are the three principal drugs being abused in Burkina Faso. There are also a very limited number of cocaine and heroin addicts. Toxic inhalants are used by the poorest drug addicts, especially street kids. Natural herbs with reported psychoactive effects are utilized in some traditional ceremonies.

Illicit drug production in Burkina Faso is limited to cannabis cultivation. There have also been sporadic and unconfirmed reports of mobile amphetamine labs run by Nigerian criminals, but none have been discovered to date. Cannabis cultivation has been reported across Burkina Faso, but is more prevalent along the southern borders, the outskirts of Ouagadougou, near Bobo Dioulasso, and close to Boromo. Burkina Faso borders six other countries, making it a natural transit point for drugs moving from coastal West Africa on their way across the Sahel north to Europe. Its porous, largely unmonitored borders and lack of trained border control personnel and inspection equipment make it hard for Benin enforcement to counter all types of trafficking. But Burkinabe officials believe that Burkina is not a West African drug hub and that there are no established networks or distribution centers in Burkina Faso.

Hard drugs are not imported into Burkina for local consumption, and Burkina Faso does not export drugs to other markets. The Ouagadougou airport is neither a hub for drug couriers nor an important drug transshipment point. Although some Burkinabe citizens are employed in the drug industry and profit indirectly from the transiting drug trade, they are not producers, organizers, financiers, or major players. Instead, they are organized, frequently as drug mules or small-scale street pushers, by criminals from Nigeria, Togo, Ghana, Cote d'Ivoire and Guinea Bissau.

Drug interdiction has progressed steadily since 2006, with significant increases in cannabis and cocaine interception. GOBF officials do not know if the increases were linked to better detection efforts or a higher volume of transit through Burkina Faso. Authorities intercepted 125 kilograms of cannabis and 108.15 kilograms of diverted licit medications in 2010. In 2010, 305 people were arrested on drug charges and 38 were sentenced to prison terms.

Drug shipments and couriers in Burkina Faso are intercepted by the national police, gendarmerie and customs officials. Interdiction of these couriers is the source of most of Burkina enforcement's drug seizures. For the past two years, drug traffickers intercepted in Burkina Faso have either ingested drug-filled condoms or have had cocaine or cannabis hidden on their bodies. Ouagadougou airport security staff has limited technical equipment and trained staff to detect and interdict the drugs, but have received basic training in drug courier profiling and know how to look for particular passenger behavior such as nervousness and late, hasty check-ins. They are particularly vigilant with passengers on Ethiopia Airlines, which has historically been an airline favored by traffickers in Africa.

Although customs officials at border posts and airports are financially rewarded for detecting and seizing undeclared goods, receiving 25 percent of the overall value of undeclared goods, this is not the case for drugs, which are considered "unproductive goods." Predictably, customs officials prefer to focus on interdicting the smuggling of non-narcotic goods since it brings them financial rewards.

Burkina Faso's overall drug policy is directed by the National Committee to Combat Drugs. There are plans to strengthen the Committee, give it additional resources, and transform it into a National Drug Office. All laws applicable to drugs are included in the "Code des Drogues." Burkina Faso has received funding and technical assistance from the United Nations Office on Drug and Crime (UNODC) and in-country drug experts are occasionally invited to attend European Union or ECOWAS conferences. In the past, France has provided drug/chemical detection kits as well as training. DEA has also provided training and assistance in the past and will be donating computers with access to intelligence databases soon.

Burma

A. Introduction

Burma remains a major producer of opium and a major source of heroin; globally, Mexico and Burma, depending on planting and weather, alternate as the second largest potential producers of heroin. In 2010, the Golden Triangle, where the borders of Burma, Thailand, and Laos converge on the Mekong River, was home to numerous drug labs producing synthetic drugs and refined heroin. Many long-standing heroin producers/traffickers have expanded their operations to include ATS and may co-locate production facilities. Although difficult to quantify, all indications suggest Burmese production of amphetamine type stimulants (ATS) continued to rise during 2010, in contrast to an overall downward trend in opium cultivation and production since 1996. Traffickers continued to move Burmese heroin to regional Asian markets and beyond. Burmese ATS continued to feed growing regional demand and, to a much lesser extent, appeared in more distant markets. According to GOB figures for 2010 (January-October), the GOB seized approximately 1.77 million methamphetamine tablets, 748 kilograms of opium (including low quality product), and 85.2 kilograms of heroin. According to surveys conducted by the UN, Land devoted to opium poppy cultivation increased slightly during 2009, and markedly (20%) in 2010. The U.S. also surveys Burmese potential heroin production. U.S. results were different from those of the UN and found that both land devoted to opium poppy cultivation and opium poppy production in 2009 decreased by about 25 percent because of poor weather. No U.S. survey data was available for 2010.

Officers attached to the Government of Burma (GOB)'s Central Committee for Drug Abuse Control (CCDAC) continued to exhibit willingness to move against narcotics traffickers. The CCDAC, however, often stood alone. GOB political leaders, notably senior officers in the Burma Army (BA) who are the nation's de facto rulers, did not uniformly support the CCDAC mission. Drug enforcement was a secondary priority when the GOB interacted with a range of ethnic groups, many of which used armed militias to control large swaths of Burmese territory. The GOB often sacrificed drug control, allowing armed ethnic groups to engage in drug trafficking in return for cooperation in other areas. Drug trafficking-related corruption among mid-level civilian and military officials was likely significant. Rumors continued to persist that link high-level military officials to drug trafficking; although hard evidence to prove allegations is lacking.

Burma's long and porous borders complicated anti-trafficking efforts. Many border areas continued to be controlled by armed ethnic groups and were off limits to Burmese police without significant armed support by the military. Even border areas under GOB control were often inaccessible due to distance, topography, and lack of transportation infrastructure.

Law enforcement efforts were further complicated by a lack of international-standard training for anti-narcotics officers. They also lacked adequate funding and equipment to address effectively their mandate; like all parts of the GOB besides the BA, the police were underfunded and stretched too thin.

Burma was once again judged by the U.S. government in 2010 as one of three countries to have "failed demonstrably" to meet its international counternarcotics obligations.

Burma is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Burma's official 15-year counternarcotics plan, launched in 1999, called for the eradication of all narcotics production and trafficking by the year 2014, one year ahead of an ASEAN-wide plan of action to make the entire region drug-free by 2015. In pursuit of this goal, the CCDAC, under the control of the

Ministry of Home Affairs, led all drug-enforcement efforts in Burma, including the operation of 26 anti-narcotics task forces throughout Burma, most located in major cities and along key transit routes. As is the case with most Burmese government entities, the CCDAC suffered from a crippling lack of funding, equipment, and training to support its law-enforcement mission. The BA and Burmese Customs Department support the police in drug enforcement, though that support is uneven, especially when strategic considerations related to ethnic insurgent groups conflict with drug enforcement priorities. Burma engaged in drug control cooperation with its neighbors with varying levels of interaction that included regular positive cooperation with China and Thailand, but infrequent contact with India and Bangladesh.

In addition to the 1988 UN Drug Convention, Burma is a party to the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. Burma (under the name Myanmar) is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling and has signed but has not ratified the UN Convention against Corruption.

Burma did not begin any major policy or operational initiatives during the reporting period; the applicable legislation remained unchanged and enforcement efforts followed longstanding patterns.

2. Supply Reduction

In 1996 Burmese farmers devoted an estimated 163,000 hectares to opium poppy cultivation. Aggressive domestic efforts accompanied by some international assistance have yielded a generally downward trend in cultivation over the past 14 years. U.S. Government estimates indicated that 17,000 hectares of poppy was cultivated in Burma in 2009—down 24 percent from 2008—although there were indications that farmers planted more poppy, heavy rains and frost destroyed many poppy fields. Potential opium production declined 27 percent to 250 metric tons in 2009. The U.S. has not conducted a joint opium yield crop survey with Burma since 2004.

The United Nations Office on Drugs and Crime (UNODC) conducted a joint survey with Burma in 2009 and again in 2010. The 2009 UNODC-GOB survey estimated 31,700 hectares were devoted to opium cultivation. This was an 11 percent increase from 2008 levels (28,500 hectares). While land area devoted to opium cultivation increased, yields dropped, a trend also observed in 2008. Per UNODC estimates, poppy land yielded an average of 10.4 kilograms of opium per hectare in 2009, a drop from the average 14.4 kilogram yield in 2008. This drop in yields translated to a 20 percent drop in potential dry opium production. Initial reports suggest yields and potential production both increased significantly in 2010. UNODC preliminary estimates of opium production in 2010 were as high as 580 MT, a 76 percent increase from 2009 production estimates. Experts attributed yearly fluctuations in yield/potential production to variables including weather and the availability of inputs such as fertilizer. Burmese authorities continued to eradicate opium poppies in 2009. According to GOB statistics, law enforcement officers destroyed 4,087 hectares of opium poppies in 2009.

Shan State continued to be the center of opium poppy cultivation in 2009, accounting for 94.5 percent of Burma's opium cultivation, the majority of it in southern Shan State. Kayah State and Kachin state accounted for most of the remaining land used to grow opium poppies. Small levels of poppy cultivation occurred in other areas, but these are likely for limited local consumption rather than part of larger commercial operations.

UNODC-GOB estimates indicated that the average 'farm gate' price of opium increased 5 percent from 2008 to 2009, from \$301 per kilo to \$317. This translated into an overall potential value of

\$104 million for Burma's opium crop in 2009. While the illicit drug trade clearly enriched traffickers, for farmers, opium poppy cultivation appeared to be a reaction to poverty rather than a lucrative pursuit. In 2009, UNODC estimated the annual income of poppy-cultivating households at approximately \$735 while the income of households in the same area that did not cultivate opium was slightly higher at approximately \$745. The GOB failed to provide sufficient suitable alternative development opportunities targeted at opium cultivators; this coupled with decades of economic mismanagement by Burma's military regime left some rural farmers with few options other than continued opium cultivation.

The cumulative decline in poppy cultivation in Burma since 1996 has been accompanied by a sharp increase in production, consumption, and export of synthetic drugs, especially ATS. Most ATS in Burma was produced in small, mobile labs located near Burma's borders with China and Thailand, primarily in territories controlled by active or former ethnic insurgent groups, many of which now operate as criminal syndicates rather than politically motivated insurgents. Many of these labs co-located facilities for producing ATS and refining heroin. Heroin and ATS produced by these groups was trafficked overland and via the Mekong River, primarily through China, Thailand, India, and Laos and, to a lesser extent, via Bangladesh and within Burma. Traffickers increasingly used maritime routes from ports in southern Burma to reach trans-shipment points and markets in southern Thailand, Malaysia, Indonesia, and beyond. There was at least one confirmed instance in which traffickers attempted to exploit air routes out of Burma to traffic ATS via a commercial flight.

Though under-resourced and hampered by political constraints, the CCDAC continued active drug interdiction efforts during 2010. From January-October 2010, Burmese police seized 1.77 million ATS tablets, 93,395 ATS tablet fragments, 42 kilograms of stimulant powder, and over 142 kilograms of ICE. During the same period, Burmese authorities seized over 625.9 kilograms of high-quality opium, nearly 123 kilograms of low-quality opium, and over 33 kilograms of opium oil. Heroin seizures totaled 85.2 kilograms and morphine seizures totaled 98 kilograms. Marijuana seizures totaled 184.7 kilograms. Seizures of Specosia, a form of hallucinogenic mushroom, totaled almost 317 kilograms.

Burmese law enforcement made the following notable seizures during the reporting period:

On January 20, 2010, the authorities seized 15 kilograms of methamphetamine ICE in Lashio (Shan State). The authorities seized another 108 kilograms of methamphetamine ICE in Lashio on March 24, 2010.

On September 27, 2010, the authorities seized 1.42 kilograms of methamphetamine ICE at Rangoon's international airport, one of the first airport seizures of the drug in Burma.

On October 22, 2010 in Tachilek (Shan State) the authorities seized 62 kilograms of methamphetamine ICE and 68.5 kilograms of heroin.

Notable pseudoephedrine seizures included 95 kilograms seized in Tachilek (Shan State) on March 14, 2010 and 375 kilograms seized in Monywa (Sagaing Division) on July 7, 2010.

Overall, seizure numbers significantly decreased during this reporting period for reasons which remain unclear. Throughout the year the GOB has engaged in tense, and ultimately unsuccessful, negotiations aimed at forcing several armed insurgent groups, currently party to ceasefire agreements with the GOB, to join a Border Guard Force under BA authority. All of

these potential border guard force groups currently engage in drug trafficking activities; for many the drug trade has long since eclipsed their original political goals. Some observers speculate that GOB leaders may have reined in drug interdiction efforts in 2010 to avoid alienating potential Border Guard Force groups and to minimize the chances of armed conflict during the run-up to Burma's November 7 elections.

3. Drug Abuse Awareness Demand Reduction and Treatment

Opium use and addiction remained high in places of historic or current opium production, i.e., hill tribe regions of Burma, especially Shan State; usage of more expensive opiate derivatives (e.g. heroin) remained less common. Some farmers used opium as a painkiller and an anti-depressant, often because they lacked access to other medicine or adequate healthcare. There has been a shift in Burma away from opium smoking toward injecting heroin, a habit that creates more addicts and poses greater public health risks. Extremely difficult economic conditions will likely continue to stifle substantial growth in overall drug consumption. However, an increasing incidence of injecting drug and ATS use was a cause for concern. ATS use in particular was difficult to quantify, but anecdotal evidence suggests it was a growing problem during 2010 marked by a continued expansion of the demographic of likely ATS users—namely young people in their teens and twenties. UNODC will soon publicly release its latest analysis of the scope of the ATS problem in Burma.

The GOB maintained there are fewer than 100,000 registered addicts in Burma. Past surveys by international organizations and NGOs suggest the addict population could be many times larger. There were no credible surveys or reports on the incidence of ATS abuse completed during the reporting period. The most recent UNODC opiate use estimates from 2009 cover only areas examined during the organization's annual crop survey; these findings indicated opium addiction rates were 1.4 percent for males and 0.1 percent for females in the survey area. These are likely higher than the rates nationwide as the survey was limited to cultivation areas where opium is more readily available.

According to Burma's National AIDS Program in 2008, one third of officially reported HIV/AIDS cases were attributable to intravenous drug use, which, if accurate, would be one of the highest rates in the world. Infection rates were highest in Burma's ethnic regions, and specifically among mining communities in those areas where opium, heroin, and ATS were often readily available.

Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register with the GOB and could be prosecuted if they failed to register and accept treatment. Demand reduction programs and facilities are limited. There were six major drug treatment centers under the Ministry of Health, 49 other smaller detoxification centers, and eight rehabilitation centers. The Ministry of Health in 2006 began to treat heroin addicts with Methadone Maintenance Therapy (MMT) in four drug treatment centers.

In 2010, UNODC continued to support 17 drop-in centers that provided support and counseling to drug users. The GOB conducted narcotics awareness programs through the public school system and limited public awareness campaigns. The activities of several international NGOs, working in collaboration with the GOB, focused on addressing injected drug use as a key factor in halting the spread of HIV/AIDS.

4. Corruption

Burma has signed but not ratified the UN Corruption Convention; the nation has no laws on the books targeted at corruption. Many inside Burma assume some senior GOB officials benefit financially from narcotics trafficking, but these assumptions have never been confirmed through arrests, convictions, or other public revelations. There were credible reports that mid-level military officers and government officials, particularly those posted in border and drug producing areas, were involved in facilitating the drug trade; this is almost certain given the low official salaries paid to civil servants. However, no military officer above the rank of colonel has ever been charged with drug-related corruption.

The Burmese government often monitored the travel, communications, and activities of its citizens to maintain tight control of the population. GOB officials were likely aware of the cultivation, production, and trafficking of illegal narcotics in areas they control. The government of Burma did not, as a matter of policy, encourage or facilitate the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

As a result of the 1988 suspension of direct U.S. counternarcotics assistance to Burma, the USG had limited engagement with the Burmese government. U.S. DEA, through its attaché office in the U.S. Embassy Rangoon, shared drug-related intelligence with the GOB and conducted joint drug-enforcement investigations with Burmese counternarcotics authorities. In 2009 and 2010, these joint investigations led to several seizures, arrests, and convictions of drug traffickers and producers. There are no longer any U.S. funded or supported alternative development programs aimed at opium poppy growers. No U.S. counternarcotics funding directly benefited or passed through the GOB.

The GOB has not taken direct action against seven United Wa State Army (UWSA) leaders indicted by U.S. district court in January 2005.

D. Conclusion

With opium cultivation slowly rebounding from historic lows and burgeoning ATS production, Burma risks losing the meaningful gains it made in its fight against drugs over the past decade. Stemming the tide of ATS and making further inroads on the opium trade promises to be difficult and will require significant political will. It will require the GOB to: no longer condone continued involvement by ceasefire groups in the narcotics trade; take positive steps to tackle official corruption; and devote additional resources to enforce its existing counternarcotics laws uniformly with the goal of eradicating all narcotics production and trafficking by 2014. Specifically, the GOB must close ATS production labs and prevent the illicit import of precursor chemicals needed to produce synthetic drugs. It must find alternative livelihoods for the impoverished, rural farmers who, as cultivators, form the first link in a chain that delivers heroin to addicts throughout the region and beyond. It must foster closer cooperation with all its neighbors, including India and Bangladesh. Finally, the GOB must stem the troubling growth of domestic demand for heroin and ATS; Burmese drugs have long been a problem beyond Burma's borders, but all indications are that the problem is coming home to roost, which is certain to strain Burma's social welfare, public health, and criminal justice institutions.

The key to progress is political will. Law enforcement officials in Burma have not had the authority or resources to take all needed steps, even when those steps are obvious. The military generals that have ruled Burma for much of its post-colonial history have not chosen to make the

fight against illicit drugs a priority. It remains to be seen whether Burma's post-election government will improve governance in any way and seek to address Burma's status as a haven for narco-traffickers and source of illicit drugs.

Increased international aid -- including development assistance and law-enforcement aid -- could complement Burmese efforts to reduce drug production and trafficking in Burma. However, the direct provision of assistance to the Burmese government by many donors will remain contingent on meaningful political change.

Cambodia

A. Introduction

Cambodia has a significant and growing illegal drug problem. Levels of consumption, trafficking, and production of dangerous drugs are all on the rise. The situation has become more urgent, despite the government's concerted efforts to crack down on drug trafficking and drug-manufacturing labs in recent years. Cambodia continued to be targeted by drug criminals as a location for drug production facilities and as a transit route to international markets due to its porous land, maritime and air borders.

Drug traffickers, especially from Taiwan, China, and several Western African countries, continue to use international airports in Phnom Penh and Siem Reap to smuggle narcotics out of the country. Illicit drug use rose slightly, and observers noted both an increased availability of drugs and deeper penetration of drugs into rural areas.

The Royal Government of Cambodia is committed to reducing the threat of drug abuse and trafficking and achieving the regional goal of a drug-free ASEAN by 2015. Recent improvements include more effective law enforcement, destruction of seized drug supplies, considerable increases to the budget of the National Authority for Combating Drugs (NACD), and stiffer penalties for drug trafficking.

However, corruption, limited resources, and lack of capacity and coordination continue to hamper government efforts. The availability and quality of drug treatment centers is inadequate to cope with rising demand and government rehabilitation centers lack trained professionals, resources, and standards of care.

Cambodia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cambodia continues to play a role in the regional transit of drugs from the Golden Triangle. An initial "spill-over effect" from drugs transiting Cambodia has resulted in an expansion of the country's narcotics problem with higher domestic illicit drug consumption and, as evidenced by recent discoveries of large and medium-scale production sites, and an increased production capability for synthetic drugs like methamphetamine. Many experts believe additional clandestine labs, engaged in "tableting" (i.e., pressing active and inert meth pill ingredients into tablet form) as well as production, are operating within the country.

Cambodia continues to be targeted by illegal traffickers as a source for natural safrole oil, which can be used as a precursor for ecstasy (MDMA) in addition to many entirely licit uses in such products as perfumes, insecticides, and soaps. The harvest, sale, and export of safrole oil are illegal in Cambodia.

The Cambodian government is concerned about the rise of drug trafficking, domestic drug manufacturing and abuse, and remains dedicated to stemming the flow of illicit drugs through the country. However, corruption, low education levels, low salaries, limited budgets, hierarchical decision making processes, and limited information sharing between agencies all contribute to poor institutional law enforcement capacity.

Cambodia's primary counter-drug agency, the National Authority to Combat Drugs (NACD) is headed by a Deputy Prime Minister, Ke Kim Yan, who leads NACD as his sole responsibility. 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. The next installment of the plan is expected to focus on drug users, provision of drug treatment, and health care.

The growing trade between Cambodia and its neighboring countries mean Cambodian border officers are asked to implement a modern system of border controls, but must do so with poor facilities, insufficient specialized knowledge and limited budgets. Criminal networks take advantage of these loopholes at the borders to smuggle drugs and dangerous chemicals as well as human beings and wildlife products.

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 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 foreign anti-drug police and the UN Office on Drugs and Crime 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 2011. 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.

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 three protocols. Cambodia is also a party to the UN Convention against Corruption. The NACD and the Cambodia Anti-Drug Department (CADD) within the police force cooperate closely with the U.S. Drug Enforcement Administration (DEA), regional counterparts, and the United Nations Office on Drugs and Crime (UNODC).

2. Supply Reduction

The NACD, in conjunction with the CADD has made strides in becoming a more effective organization. The NACD's 2009-2010 budget is \$1.15 million.

Drug-related seizures in the first nine months of 2010 decreased in several categories, but increased for ecstasy and methamphetamine powder compared to 2009. Drug seizures included 68,192 methamphetamine tablets, 6.4 kg of methamphetamine powder, 904 grams of heroin, 1,056 ecstasy tablets, 920 grams of cocaine, 3.9 tons of sassafras oil, and 12,864,000 pills for treating influenza that contain 771.6 kg of pseudoephedrine. The number of drug-related arrests surged. The NACD reported 272 cases and 536 arrests during the first nine months of 2010. Methamphetamine abuse accounts for approximately 83 percent of drug use in Cambodia. The majority of the arrests were for abuse of amphetamine-type stimulants (ATS), often involving foreigners.

In the first nine months of 2010, 1.23 kg of dried cannabis was destroyed. Police destroyed 520 marijuana plants growing on farmland in Battambang province. The 2-meter-high plants had been growing with cassava plants on a 120 square-meter patch of remote farmland. Police did not arrest 53-year-old farmer Sen Soeun because he told police he did not know growing the plants was illegal and had not sold any marijuana to the villagers. Once informed, the farmer promised to stop growing the plants. The Cambodian government announced that cannabis plantations have been completely eliminated on Cambodian territory. UNODC and other international organizations agree that cannabis production and cultivation have ceased to be a major concern in Cambodia. However, anecdotal information of cannabis cultivation indicates that the problem persists at a reduced level.

At the annual conference of the National Authority for Combating Drugs (NACD) on March 17, the Cambodian Prime Minister urged authorities of all levels, law enforcement officers, local and

international organizations to increase the fight against drugs. He named 2010 a year to crack down on all types of “vice,” including drug trafficking and use, and urged police officers not to overlook small-scale drug trafficking.

Some examples of drug cases in Cambodia follow:

On September 4, police arrested a Laotian man in Battambang province for transporting 764 grams of heroin into Cambodia. He confessed that he was asked to carry the heroin.

On August 30, Police in Preah Sihanouk province arrested a 56-year-old man and seized 3,200 amphetamine pills.

On August 29, police arrested a 26-year-old man in Pursat province for transporting 977 kilograms of sassafras oil stored in the bottom of his truck. On the same day, police arrested a Taiwanese man at Phnom Penh International Airport for attempting to board a flight to Taipei in possession of 91 grams of heroin.

On August 24, police in Banteay Meanchey province seized 12,864,000 smuggled pills that police said contained pseudoephedrine, a precursor for methamphetamine. Two suspects were arrested including a Deputy Commander in the Royal Cambodian Military Police. This was the largest seizure of smuggled pseudoephedrine to date in Cambodia. A health official said the medicine could be used to produce two million to three million pills of illegal drugs. Based on 70% conversion of pseudoephedrine to methamphetamine, the seized pills could have been used to produce approximately 540 kilograms of methamphetamine.

On August 15, anti-drug police arrested four people following a raid on a suspected drug lab in Prampi Makara district of Phnom Penh. Police discovered 259 grams of methamphetamine, 49 packets of drug precursor chemicals and other materials used in drug production.

On July 25, police arrested a man and a woman in Poipet town in Banteay Meanchey province for smuggling 1,944 methamphetamine pills from Thailand.

On July 21, police arrested a Laotian man in Stung Treng province for carrying approximately 4,000 methamphetamine pills. He was charged with drug distribution and smuggling.

On July 11, an anti-drug police officer was arrested after police discovered \$336 worth of counterfeit Thai currency and 100 amphetamine pills at his office in Poipet town of Banteay Meanchey province. The court charged him for possession of drugs and counterfeit currency.

On June 4, a police officer in Battambang province was arrested while trying to sell methamphetamine pills at a train station. He was carrying 79 methamphetamine pills and a parcel of crystal meth at the time of his arrest.

On May 17, police in Preah Sihanouk province arrested a police officer for involvement in an alleged drug-trafficking ring. Two of his children and a soldier were also detained; police said the ring had operated for several months.

On March 19, police arrested a brother/sister team in Battambang province for carrying about 20,000 amphetamine pills. Police said the siblings confessed to smuggling drugs for about five months from the Lao border in Stung Treng province. They told police that they would carry between 10,000 to 20,000 pills on each of their trips and sell the drugs for \$3 to \$4 per pill to clients along the Cambodian-Thai border in Poipet town.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The NACD estimates 6,000 drug users and the National Center for HIV/AIDS, Dermatology and STD (NCHADS) estimates 13,000. According to NGOs and law enforcement experts working in the field, the actual figures are likely to be much higher – the UN has estimated that as many as half a million people may be drug users among Cambodia’s 14.8 million population. Data now indicates that the drug problem in Cambodia has spread further into the rural areas, with the highest usage in the provinces bordering Laos and Thailand.

ATS is the most prevalent narcotic in Cambodia, accounting for nearly 83 percent of drug use. Both ATS tablets, known locally as yama, and crystal methamphetamine are widely available. Recent information from an NGO indicates that the use of crystal methamphetamine is overtaking the use of yama tablets in Phnom Penh. Heroin addiction, currently a problem for a relatively small number of users located mainly in Phnom Penh, also is on the rise in Cambodia. A recent UNODC baseline survey of 12 provinces found injecting drug use was especially prominent in the border areas, but some injecting drug abusers were found in all survey provinces. Cocaine, ketamine, and opium are also available in Cambodia. It is a common practice among the homeless population to sniff glue or similar inhalant products, particularly for minors living on the streets. NACD statistics reveal 77 percent of all drug users are below the age of 26; however local NGO Korsang surveys reveal 93 percent of drug users contacted via outreach and 68 percent of drug users who frequent Korsang’s drop-in center are over 25. The majority of Korsang’s clients are injecting drug users.

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 25 percent of injecting drug users are HIV positive.

Drug addicts have historically been treated as criminals by Cambodian authorities and society. Consequently, there has been an over-reliance on law enforcement and prosecution approaches at the expense of demand reduction efforts. Cambodia has 14 private and state-owned treatment centers as well as one center run by a local NGO, Mith Samlanh. Given the number of drug users in Cambodia, it is evident that the need for drug treatment services far outstrips the available supply. There are no separate treatment centers for women, although some centers accept both sexes. Government drug treatment centers are run by several different ministries, from Health to Interior to Defense, with no single unified standard of care. They are primarily compulsory military-style boot camps with an overarching philosophy of detention and control, providing very little in the way of medical or psychological addiction treatment. During the first six months of 2010, 741 drug users and addicts were admitted to the government-run centers.

Local NGOs have said that the NACD is making an effort to change perceptions and is willing to work with local demand reduction NGOs to enhance cooperation and skill sharing. On October 29, the government signed a letter of intent with the United Nations to implement a community-based drug treatment program as an alternative to compulsory treatment in rehabilitation centers. The community-based treatment program is designed to deliver drug treatment services at low cost, through a referral system at provincial health centers. The program, piloted in Banteay Meanchey Province, is expected to grow to 350-400 health centers after December 2010.

In partnership with numerous international donors and NGOs, the NACD is attempting to boost awareness about the dangers of drug abuse among Cambodians through the use of community outreach, media, pamphlets, posters, and public service announcements. The government relies

on NGOs to 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.

On July 1, Cambodia's first methadone maintenance program started providing heroin users with services at the Khmer-Soviet Friendship Hospital in partnership with Korsang and Friends International, two NGOs working on drug treatment and rehabilitation issues. Since opening, the program has treated 61 heroin users. In its initial year, the program was designed to reach 100 of an estimated total of at least 1,500 injection drug users (IDUs). The targeted number may exceed 100 since more clients have applied to the program. Cambodia and Vietnam are also coordinating efforts to establish a new rehabilitation center in Sihanoukville, Cambodia.

4. 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 January 20, the government promulgated a new Penal Code that will enter into full effect in December 2010. Several of the articles within the Penal Code address corruption committed by civil servants and court officials, and include penalties for offenses such as misappropriation of public funds, bribery of civil servants, willful destruction and fraudulent embezzlement, and witness tampering. On April 17, 2010, the government promulgated an Anticorruption Law, which provided the statutory basis for the establishment of a National Council against Corruption, and an Anticorruption Unit (ACU) to receive and investigate corruption complaints. Om Yentieng, head of the ACU, said currently the ACU has more than 60 staff and an additional 60 people would be needed. Under the law, as many as 100,000 officials will be required to declare their assets.

On November 29, the ACU made its first arrests, of a provincial chief prosecutor and two associates. They have been charged with corruption, extortion, and illegal detention. The ACU also has investigated tax collection irregularities in a unit of the Ministry of Economy and Finance and recommended the Ministry take disciplinary action against wrongdoers.

C. National Goals, Bilateral Cooperation, and U.S. 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 the Khmer Rouge's "Killing Fields" fled Cambodia 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.

Cambodian law enforcement authorities cooperate actively with U.S. agencies, including DEA, FBI, DHS-ICE, Department of State, USAID, and the Department of Defense. Approximately 20 law enforcement officials each year receive drug related training at the International Law Enforcement Academy (ILEA) in Bangkok. Bangkok-based DEA agents provide technical assistance, training, and limited resources to the CADD. The U.S. Department of Defense is concentrating on raising RGC capacity to maintain maritime security and has sponsored several workshops and training events. The Joint Interagency Task Force-West (JIATF-West) conducted two counternarcotics training missions and a small craft maintenance training course. JIATF-West will provide training infrastructure renovation projects for the Cambodian National Police, Maritime Police Patrol, and Ministry of Interior Forestry Administration to facilitate future training and build local capacity.

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.

D. Conclusion

Government actions such as the NACD implementation of yearly action plans in addition to the five year plan; the newly-established 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; increased law enforcement cooperation with the DEA, FBI, the Australian Federal Police and others; and the plan to implement a community-based drug treatment program as an alternative to compulsory rehabilitation centers 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 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.

Canada

A. Introduction

In 2010, the Canadian government continued its considerable efforts in combating the production, distribution, and consumption of various illicit drugs. Canada is a significant producer of marijuana, almost all of which is destined for the domestic market, according to Canada's Criminal Intelligence Service (CISC); and supplier of ecstasy for domestic use and export to the United States. Precursor chemicals for the production of ecstasy are smuggled into Canada from source countries on a regular basis. Marijuana and cocaine are the most widely used illicit drugs in Canada and Canadians are among the top illicit users of pharmaceutical opiates worldwide. Customs officials continue to seize more khat, a stimulant grown primarily in Africa and the Middle East, than any other drug at Canada's borders. Canada is home to large numbers of new immigrants from those parts of the world where khat use is prevalent.

Canada is midway through its five-year National Anti-Drug Strategy, introduced in 2007, to reduce the supply of and demand for illicit drugs, and government data suggests that drug use has fallen. In February the federal government appealed to Canada's Supreme Court in support of its bid to close a supervised injection site in Vancouver. Canada and the United States cooperate in counternarcotics efforts by sharing information and conducting joint operations. Canada has been a strong partner with the United States in international counter-narcotics policy forums. Canada is a member of the UN Commission on Narcotic Drugs and party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In May 2010, the government re-introduced legislation (S-10) that provides mandatory jail time for serious drug crimes and imposes special penalties for offenses by organized crime syndicates or by those who target children. A similar bill (C-15) died when the parliament was dissolved in December 2009 to call national elections.

S-10 would amend the *Controlled Drugs and Substances Act* to include mandatory prison terms for drugs listed in Schedule I, such as heroin, cocaine and methamphetamine, and in Schedule II, such as marijuana. An aggravating factor, including where the production of the drug constitutes a potential security, health or safety hazard, would attract the minimum sentence provisions. Also, the maximum penalty for production of Schedule II drugs, including marijuana, would be increased from 7 to 14 years. The bill calls for gamma-hydroxybutyric acid (GHB), flunitrazepam, and amphetamines to move from Schedule III to Schedule I, which would mean higher maximum penalties for crime involving these drugs. The government says it proposed S-10 to further the National Anti-Drug Strategy (NADS) to combat illicit drug production and distribution. Introduced in 2007, NADS involves 12 federal agencies and departments led by the Department of Justice. Public Safety Canada and Health Canada play large roles, as well. NADS has three action plans: preventing illicit drug use; treating those with illicit drug dependencies; and combating the production and distribution of illicit drugs. The strategy has a five-year, C\$578 million budget.

In its 2010 yearly evaluation of the NADS, Canadian Department of Justice auditors said the strategy has been "implemented largely as intended" with the exception of elements contingent on passage of S-10. The government admits that the prevention and treatment action plans "have experienced delays and other challenges, and are behind schedule in implementation." Human resource constraints and "the need to reorient existing programs" have meant that approximately one-third of NADS funding was not spent in the first two fiscal years.

In 2009, Canada announced the Synthetic Drug Initiative (SDI), the first Canadian strategy focused on a single class of drugs. Its goal is to eliminate illegal synthetic drug production and distribution in Canada through enforcement, deterrence, and prevention, and to inhibit the diversion of precursor chemicals from foreign and domestic sources. In October, 2010, the Royal Canadian Mounted Police (RCMP) Atlantic Region Clandestine Lab Team conducted SDI-related training in Moncton, New Brunswick for first responders including firefighters, paramedics and chemical disposal technicians who may be called to respond to the site of a synthetic drug lab.

Also in October, the Canadian government reintroduced legislation (S-13) to implement the Framework Agreement on Integrated Cross-Border Maritime Law Enforcement Operations ("Shiprider") between Canada and the United States. The two countries signed the framework agreement in Detroit, Michigan, on May 26, 2009, but a previous version of the legislation (C-60) expired when the government called elections in December 2009, ending that session of Parliament. If implemented, the agreement will allow the exchange of cross-designated officers (shipriders) to create seamless maritime law enforcement operations across the U.S.-Canadian maritime border, strengthening maritime counter-smuggling efforts.

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.

2. Supply Reduction

Cocaine (along with marijuana) remains one of the most significant illicit drug markets in Canada, according to CISC. Canadian officials say the United States is the primary transit country for cocaine entering Canada. Crack cocaine remains relatively concentrated in city centers across Canada.

Marijuana (along with cocaine) continues to be "one of the most trafficked illicit drugs in Canada, with extensive organized crime involvement at all levels of production, distribution, importation, and exportation," according to CISC. Canadian producers "almost entirely" meet the domestic market demand for marijuana. No single organized crime group dominates across Canada, according to the Criminal Intelligence Service Canada (CISC) 2010 annual report. CISC states that the number of organized crime groups in Canada has fluctuated between approximately 600 to more than 900 within the past five years. This fluctuation reflects improved reporting and information collection, according to CISC. Crime groups move the drug across the country from main production hubs in British Columbia, Ontario, and Quebec to meet domestic demand and to transport bulk quantities to areas along the Canada-United States border for smuggling into United States markets. Most exported Canadian marijuana is destined for the United States; however, it only accounts for a small percentage of total marijuana imported in the United States, according to Canadian officials. For example, Canadian officials say 4.1 metric tons of marijuana were seized at the Canadian border in FY 2009 while 741.5 metric tons were seized at the Southwest border. Smugglers send Canadian-origin marijuana to the United States in exchange for cocaine, firearms, and contraband tobacco. Canadian law enforcement reports that some Canadian organized crime groups have moved their grow operations onto United States soil to avoid increased vigilance at the border by United States law enforcement. Canadian officials point to this factor as one of many contributing to what they say has been a decline in the number of marijuana seizures along the Canada-U.S. border by United States law enforcement.

Canada continues to be a significant exporter of ecstasy to the United States, in amounts ranging, in 2009, from 2.2 million dosage units to 3.4 million dosage units. To a lesser extent, Canada also supplies Japan, Australia, and New Zealand. Precursor chemicals for the production of ecstasy are smuggled into Canada

from source countries such as China and India on a regular basis. The chemical profile of ecstasy has shifted towards a mixed composition of decreased quantities of MDMA (3, 4-methylenedioxymethamphetamine), its primary active ingredient, and increased quantities of several chemical fillers and substances, predominantly methamphetamine, as well as ketamine, ephedrine, and caffeine. The shortage of MDMA precursor chemicals presently affecting Europe is not diminishing the illicit manufacture of ecstasy in Canada, according to CISC.

In Canada, heroin continues to attract one of the smallest shares of the illicit drug markets, according to Canadian government data. CISC asserts that the heroin market has "been partially replaced by the use of pharmaceutical opiates, particularly in Ontario and Atlantic Canada." Canadians are among the heaviest consumers of pharmaceutical opiates globally, according to Canadian government reports, but organized crime involvement in this market remains small when compared with other drugs. The most commonly trafficked pharmaceuticals are: Valium, Klonopin, Ativan, Ritalin, Talwin, OxyContin, and steroids.

Domestic demand for methamphetamine has stabilized, but Canadian production has risen to meet expanding international market demands, according to Canadian government information. CISC says that "super labs," which the RCMP defines as "capable of producing 10 kilograms of methamphetamine per production cycle, cater to international wholesale distributors with export to countries including Australia and New Zealand." Methamphetamine continues to be used in Canadian-produced ecstasy as it is cheaper to produce and increases the profit margin. Canada remains a transit country for the precursor chemicals used to produce methamphetamine. Canadian-sourced pseudoephedrine has been discovered in some clandestine United States methamphetamine labs, according to CISC.

While there were no overall drug seizure statistics available from the GOC for 2010, in September, Winnipeg Police seized eleven pounds of methamphetamine, worth an estimated C\$900,000. Police said this was the largest haul ever of that drug in the city.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to GOC statistics, among all Canadians (defined as those 15 years and older), the prevalence of past-year cannabis use decreased from 14.1 percent in 2004 to 10.6 percent in 2009, the year for which the most current data is available. For Canadian youth (defined as those between 15 to 24 years), the prevalence of past-year cannabis use decreased from 37.0 percent in 2004 to 26.3 percent in 2009. The prevalence of past-year cocaine or crack (1.2 percent), ecstasy (0.9 percent), speed (0.4 percent) and hallucinogen (0.7 percent) use is comparable to the rates of use reported in 2004. The same study reported that, among youth, past-year use of at least one of five illicit drugs (cocaine or crack, speed, hallucinogens, ecstasy, and heroin) decreased from 11.3 percent in 2004 to 5.5 percent in 2009. The rate of youth drug use remains much higher than that reported by adults 25 years and older: almost four times higher for cannabis use (26.3 percent versus 7.6 percent), and almost five times higher for past-year use of any drug excluding cannabis (6.3 percent versus 1.3 percent).

The rates of psychoactive pharmaceutical use and abuse in 2009 (the year for which the most current data exists) remains comparable to the rates reported in 2008: 25.0 percent of respondents aged 15 years and older indicated that they had used an opioid pain reliever, stimulant, sedative, or tranquilizer in the past year while 0.6 percent reported that they used any one of these drugs to "get high" in the past year.

Canada has six drug treatment courts (DTC) in operation: Toronto (commenced in December 1998), Vancouver (December 2001), Edmonton (December 2005), Winnipeg (January 2006), Ottawa (March 2006), and Regina (October 2006). DTCs encourage the offender to deal with the addiction that motivates his or her criminal behavior, according to government officials. If the offender completes the program, the court generally suspends or reduces the sentence. The Canadian government says DTCs "aim to reduce crime committed as a result of drug dependency through court-monitored treatment and community service support for offenders with drug addictions." They also have the goal to reduce the

burden of substance abuse on the Canadian economy, which the Canadian government estimates at C\$9 billion annually for areas including police, prosecutors, and prisons.

Local and provincial authorities continue to maintain a number of so-called “harm reduction” programs, including a supervised injection site research pilot project (“Insite”) in Vancouver. The British Columbia Court of Appeal ruled January 15, 2010, that provinces, not the federal government, have jurisdiction for health care, which it said included services such as supervised injection sites for addicts of illegal drugs. The January decision upheld a lower court ruling. In February, the federal government appealed to Canada’s Supreme Court regarding the continued operation of Insite. In June, the high court accepted the case to decide whether the federal or provincial authorities have jurisdiction over the facility. As of December 2010, the Supreme Court had yet to set a date for hearings. Several cities, including Toronto and Ottawa, have also approved programs to distribute drug paraphernalia, including crack pipes, to chronic users.

There has been no change since the UN International Narcotics Control Board’s (INCB) 2007 Report noted that the Vancouver Island Health Authority’s approval of “safer crack kits” 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.

4. Corruption

In October, Transparency International ranked Canada as the sixth least corrupt country in the world, based on its annual ranking of international perceptions of corruption. Canada has strong anti-corruption controls and holds its officials, including law enforcement personnel, to a high standard of conduct. The government zealously pursues malfeasant civil servants and subjects them to prosecution. Investigations into accusations of wrongdoing and corruption by civil servants are thorough and credible. Government policy and law prohibit, and no senior government officials are known to engage in, encourage, or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Canada cooperates actively with international partners. The United States and Canada exchange forfeited assets through a bilateral asset-sharing agreement and exchange information to prevent, investigate, and prosecute any offense against United States or Canadian customs laws through a Customs Mutual Assistance Agreement. Canada has ratified 50 bilateral mutual legal assistance treaties and 66 extradition treaties, including with the United States. Judicial assistance and extradition matters between the United States and Canada operate under a mutual legal assistance treaty (MLAT), an extradition treaty, and related law-enforcement protocols, including the long-standing Memorandum of Understanding designating the United States Drug Enforcement Administration (DEA) and RCMP as points of contact for United States-Canada drug-related matters.

As in past years, Canada and the United States focused their bilateral cooperation through the Cross-Border Crime Forum (CBCF) and other fora. During the November CBCF, led by the Attorney General and Secretary of Homeland Security and their Canadian counterparts, Canada and the United States signed a memorandum of understanding on currency seizures at the border that will assist both countries in fighting money laundering and terrorist financing. Canada and the United States also cooperated through the Integrated Border Enforcement Teams (IBETs) and Border Enforcement Security Teams (BESTs). IBETs operate in 24 locations along the border, including four locations where Canadian and American intelligence analysts are co-located. Both countries will collaborate on the 2011 United States-Canada Border Drug Threat Assessment, scheduled to be released at the 2011 CBCF Ministerial as a snapshot of cross-border narcotics issues and trends. DEA, U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), U.S. Coast Guard (USCG), Canadian Border Services

Agency (CBSA), RCMP, and United States state, local, and tribal and Canadian provincial officers interact cooperatively and effectively in the field and at management level to ensure our two countries meet our shared objectives in combating illegal drugs.

On October 8, 2010, the USCG and Canada signed a Memorandum of Understanding (MOU) to conduct counternarcotics law enforcement operations pursuant to United States authority while on Canadian Forces vessels and aircraft in the U.S. Joint Interagency Task Force South operating area. In 2010, Canadian Forces attended the USCG tactical coxswain school.

Canada has been a strong partner with the United States at the UN Commission on Drugs (CND). In March at the fifty-third CND, Canada co-sponsored several USG initiatives and worked closely with United States officials on reforming and streamlining the UN drug bureaucracy.

D. Conclusion

The rise of methamphetamine production in the Canada is a concern for the United States and an area that requires deeper bilateral cooperation. Canada's continued role as a source country for ecstasy to United States markets highlights the need for greater cooperation in tracking precursor chemical activity. The United States will seek to collaborate with Canada to build enforcement capacity and regulatory frameworks in North America to promote industry compliance and avoid diversion of precursor chemicals and lab equipment for criminal use. The end of extraordinary security demands on law enforcement related to the 2010 Vancouver Winter Olympics and the G-8 and G-20 Leaders Meetings should allow Canada to implement a more effective and expansive inspection regime. Expedited investigations and prosecutions will also strengthen enforcement efforts.

The United States acknowledges the strong and consistent anti-drug message from Canadian senior officials. However, with no change in the past several years, the United States still urges Canada to continue to press municipalities such as Vancouver and Ottawa to implement the INCB's recommendations to eliminate drug injection sites and drug paraphernalia distribution programs as a violation of international drug control treaties. The United States believes that a fully implemented Shiprider agreement can serve as a model for cooperative enforcement to other hemispheric partners in addition to the benefits of combating smuggling on our shared border.

Chad

Chad is not a significant producer of organic or synthetic drugs; however, due to extremely porous borders, Chad's territory is susceptible to exploitation by drug traffickers. Most drugs entering Chad arrive from Cameroon, Niger, Nigeria, and the Central African Republic, and transit the country en route to Sudan, Egypt, and Libya. Drug abuse is not a significant problem in Chad. Drugs commonly abused include cannabis, which is cultivated among agricultural crops in the south of the country. Some abuse of synthetic licit pharmaceuticals such as tranquilizers and stimulants also occurs. Chadian authorities recently created a new office to oversee all anti-drug operations. Chad imposes significant penalties for the illegal use or trafficking of illicit narcotics. No senior officials are known to be engaged in the illicit production, trafficking, or use of narcotics. Chad is a party to the 1988 UN Drug Convention.

In May 2010, the Government of Chad (GOC) created the Directorate of National Drug Control within the Chadian National Police. This unit's mandate includes reducing illegal production, trafficking, and use of drugs. The Directorate has identified several key challenges in curbing the trafficking of drugs through Chad. Possibly the most daunting challenge for this unit is controlling the trafficking of narcotics across Chad's poorly guarded borders. According to the unit's commissioner, Chad's borders are not only inadequately guarded but some traffickers may also cross into Chad at official entry points under cover of foreign diplomatically plated vehicles. These traffickers are headed for Libya and Sudan. The

Commissioner was quick to point out that he does not believe accredited diplomats are trafficking narcotics, but rather diplomatic drivers may be taking advantage of their positions and official vehicles.

A secondary challenge facing the new police unit is an inadequate funding stream for training and equipping the unit's staff. In years past, DEA and other organizations provided specialized equipment to Chadian police, but these donated items wore out over time and haven't been replaced by the GOC. With a very small budget for equipment, the directorate has one hand tied behind its back in its effort to catch and deter criminals using ever more sophisticated means of moving narcotics.

Drug seizures in Chad from 2000 to 2008 reveal no particular trend. Seizures fluctuate as much as 900 kg per year for cannabis and 90 kg for heroin. This is due in large part to whether the National Police are by chance in the right place at the right time. Of course, individuals found trafficking or abusing drugs face lengthy prison sentences of 8 to 15 years on average, along with hefty fines. Many seizures, both large and small, are a result of vehicle accident investigations. Police report that they often discover the root cause of automobile or motorcycle accidents to be drivers trying to operate vehicles under the influence of drugs.

The Director General of the Pharmaceuticals Department, under the Ministry of Health, is responsible for ensuring that hospitals, pharmacies etc., make use of appropriate safeguards to control the storage and dispensing of all licit narcotic medicines. Hospital and pharmacy records are inspected regularly. Most Chadian schools participate in anti-drug campaigns, with primary and secondary school students receiving annual anti-drug education. Additionally, all Chadian National Police, Gendarmes, and Army recruits receive drug awareness training as part of their basic induction courses. While Chadian society generally condemns drug abuse, society supports government efforts to provide treatment programs for those who become addicted. Near the capital city of N'Djamena, the GOC operates a hospital for the treatment of addicted persons. The program is rudimentary, but those participating voluntarily are not prosecuted for narcotic offenses by the authorities.

The GOC makes a serious effort to control drug production, reduce trafficking, and curb illegal use of drugs. The most positive element of this campaign has been the creation of a new Directorate within the police system specifically tasked to tackle these issues. The system for regulation of legitimate drugs dispensed by hospitals and pharmacies is also well-designed and administered. Government funded drug treatment programs, while basic, are available and the government also organizes dangerous drug awareness campaigns to assist those who become addicted and to help reduce drug abuse.

In order to more effectively stem the flow of drugs trafficked through Chad, the GoC must better equip the anti-drug Directorate and other enforcement units such as customs and border inspection. Officers inspecting vehicles entering Chad from Cameroon do not have basic narcotic detection field test kits with which to test suspicious substances. They do not have drug-detection dogs. Perhaps the greatest limiting factor is the insufficient number of officers to control the vast and sparsely populated border areas, and the fact that officers who are available are in need of more professional training.

Cape Verde

A. Introduction

Because of its location in the Atlantic Ocean, along major trade routes between South America and West Africa, Cape Verde is an important transit country for narcotics headed for Europe from South America by way of Africa. Narcotics transit Cape Verde by commercial aircraft and maritime vessels, including yachts.

Cape Verde is not a significant producer of narcotics. Illegal drug use seems to be limited although there are no reliable statistics available on the numbers of people consuming or the overall trends. Cape Verde has two separate law enforcement agencies that fight narcotics trafficking: the Judicial Police (PJ) and the National Police (PN).

Cape Verde works with international agencies like the United Nations Office on Drugs and Crime (UNODC) and donor governments including the United States, Brazil, France, Germany, Portugal, and Spain to fight international narcotics trafficking and reduce local demand. Cape Verde is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cape Verde employs several interconnected institutions to combat the production, transit and abuse of drugs. These institutions have developed to combat the increasingly relevant issue of narcotics trafficking and use. Cape Verde is viewed by European law enforcement agencies as one hub in the trafficking of cocaine from Latin America to Europe. As an archipelagic state, the ratio of sea borders to land area in Cape Verde is among the highest in the world, adding to the challenges of border control and law enforcement in territorial waters.

While local illicit drug production is believed to be a relatively minor problem, the trafficking of drugs through Cape Verde has a great impact. Local criminals are sometimes paid by international traffickers in "product," which contributes to the growth of the local market for illegal narcotics. Local enforcement focuses on transit/trafficking: modest local production and abuse of drugs is naturally secondary.

The National Commission for Combating Drugs (CNLCD), under the Ministry of Justice, is responsible for coordination of Cape Verde's counternarcotics programs. The CNLCD gathers statistics, disseminates information on narcotics issues, and manages government treatment programs for narcotics addiction. It also runs a hotline and manages several public awareness campaigns. In addition, El Shaddai, a local NGO supplements the government's effort with a drug rehabilitation shelter located on Santiago Island.

Since 2006, the UNODC and the European Commission have maintained a partnership with the Government of Cape Verde to administer the Cape Verde Integrated Crime and Narcotic Program (CAVE INTECRIN). CAVE INTECRIN supports the development of Cape Verde by fighting the spread of illicit drugs, crime, and antisocial behaviors. The program aims to improve Cape Verde's law enforcement and border patrol capabilities through upgrades to the government's communication and intelligence capabilities, as well as through computer-based training programs.

The two main law enforcement institutions in Cape Verde are the Judicial Police (PJ) and the National Police (PN). The PJ is a unit of the Ministry of Justice and is primarily responsible for major crimes, but also patrols sea lanes and air borders. They have approximately 150 officers with a regular presence on four of Cape Verde's nine inhabited islands. The PN reports to the Ministry of the Interior, and maintains primary responsibility for routine law enforcement efforts on land. The PN has approximately 1,500

officers spread throughout the country. Both the PJ and PN have a positive record of productive cooperation with international law enforcement agencies.

Cape Verde's current anti-drugs strategy is operational until 2010, with an updated version anticipated in 2011. The authorities in Cape Verde instituted enhancements to their forensic and scientific departments within the police force in 2010 and created a financial intelligence unit (FIU) to combat money laundering.

Cape Verde 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. Cape Verde is also a party to the UN Convention against Transnational Organized Crime and its three protocols and the UN Convention Against Corruption. There is no extradition treaty between the U.S. and Cape Verde.

Because of its importance in combating international drug trafficking, Cape Verde receives considerable attention from many international partners, including the United States, Brazil, France, the Netherlands, Portugal and Spain. In June, 2010, the U.S. Coast Guard supported AFRICOM's fourth African Maritime Law Enforcement Partnership mission (AMLEP) to Cape Verde under an ad hoc agreement. The AMLEP combined operations aim to enhance maritime law enforcement capabilities in Cape Verde. In June, 2010, the French Navy participated in joint exercises with their Cape Verdean counterparts off the island of Maio focused on drug interdiction tactics. In July, 2010, then Brazilian President Luiz Inacio Lula da Silva addressed a meeting of the Economic Community of West African States (ECOWAS) in Cape Verde, highlighting a strategic political dialogue intended to combat drug trafficking.

2. Supply Reduction

Cape Verde's strategic location on the maritime and aerial routes between mainland Africa, Europe, and South America makes it an attractive transit point for drug shipments from the Caribbean, Venezuela, Colombia, and Brazil en route to Europe. The country's numerous beaches, extensive territorial waters, and an inadequately-monitored economic zone can allow drugs to pass through undetected. Cocaine is the most trafficked narcotic, mainly coming from Brazil, but a crack cocaine, "cocktail" (a mixture of cannabis and crack, called "cochada" in Cape Verde), using locally-cultivated marijuana is also trafficked. Ecstasy is trafficked to and through Cape Verde from Europe. Cape Verdean authorities are concerned about drug abuse within the prison system and drug-related crime such as assaults and robberies to feed individuals' drug habits.

In the first half of 2010, the Judicial Police detained 30 individuals from several countries, including Cape Verde, Nigeria, The Netherlands and Portugal for drug possession. As of November, 2010, the PJ have seized 55 kilograms of cocaine and 121 kilograms of cannabis. In August, 2010, the PJ seized 26 kg of cocaine from a yacht off the coast of Sao Vicente Island. The vessel originated in Brazil and was manned by a Lithuanian crew. In calendar year 2009, they seized 35 kilograms of cocaine and 645 kilograms of cannabis.

In 2009, assets worth over 408 million Cape Verdean Escudos (CVE) (\$5.1 million) were seized in connection with narcotics cases. Among the items seized were: four pieces of real estate worth 20,936,622 CVE (\$264,000), furnishings worth 18,500,000 CVE (\$233,000), three bank accounts worth 363,477,000 CVE (\$4.6 million), miscellaneous objects worth 4,901,777 CVE (\$62,000). To date in 2010, no assets have been seized, although several cases are still pending in the courts.

In one high-profile court case, the sentences of several convicted drug smugglers were mostly upheld by the Cape Verde Supreme Court of Justice in July 2010. The case stemmed from a 2007 incident in which authorities confiscated 70 kilograms of cocaine at the airport on the island of Sal. The five accused traffickers appealed to the Court after their October 2009 conviction in a lower court. While some of the sentences were reduced by 1 to 6 years, the Supreme Court upheld the 25-year sentence of one of the

traffickers -- representing the maximum sentence allowable by the law. In addition, the court ordered the seizure of 6 parcels of land, 20 buildings, and 5 vehicles, with a combined worth of over \$12.25 million.

3. Drug Abuse Awareness Demand Reduction and Treatment

On average, levels of illicit drug use in Cape Verde are consistently low and concentrated in urban areas. Because illicit drug abuse has historically been relatively minor, statistical tracking mechanisms are nascent and reliable data are not yet available. While drug abuse among the population is not considered significant, drug abuse among the prison population is relatively high and of growing concern. There is also a dearth of reliable statistics on the drug abuse problem in prisons.

The NGO El Shaddai coordinates a drug treatment shelter on the island of Santiago. This is the only drug treatment facility in the archipelago. Some international religious organizations have expressed concern about the population of untreated drug addicts in the country and are seeking to develop new drug treatment facilities.

The most recent data available are from a study done in 2008 by the Commission for the Coordination of the Fight Against Drugs, a part of the Ministry of Justice. Of the 752 drug users surveyed, 63 percent were under 29 years old. Within the prison population, 29 percent of inmates had used drugs at least once. The study recommended that a national campaign of prevention and education be carried out in schools, prisons, and within families.

4. Corruption

The government of Cape Verde neither encourages nor facilitates the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions. However, as in other countries, instances of official corruption do occur. In June 2008, for example, three Judicial Police officials were arrested for diverting over 135 kilograms of cocaine seized in a drug investigation to the illicit drug market. In 2010, one suspect in this case fled the country, one was declared innocent, and the third is still awaiting trial.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Bilateral cooperation with the United States in 2010 was marked by several initiatives designed to build Cape Verdean capacity, increase information sharing and enhance the rule of law.

In May 2010, the United States and Cape Verde inaugurated a new Counter Narcotics Maritime Security and Interagency Fusion Center (CMIC) on the island of Santiago. The \$2.5 million facility was donated by the United States to help coordinate maritime security and law enforcement efforts among various Cape Verdean agencies and international partners. The interagency center is to be administered jointly by the Cape Verdean military and police authorities. It is equipped with high-tech monitoring equipment to increase Cape Verde's ability to monitor marine traffic and to provide a platform for government-wide information sharing. In addition to the CMIC donation, the United States also provided a new \$1 million interdiction vessel to the Coast Guard of Cape Verde.

In July 2010, U.S. Africa Command (AFRICOM) and the Naval Criminal Investigative Service (NCIS) sponsored a seminar on countering narco-terrorism. The seminar provided participants the opportunity to share experiences with U.S. law enforcement personnel as well as counterparts from Portugal and Spain. Participants from Cape Verde, Senegal and The Gambia sought to promote national, regional, and international cooperation and to establish an informal network of professional contacts.

In September 2010, the United States and Cape Verde signed a Letter of Agreement on Narcotics Control and Law Enforcement to support projects designed to enhance criminal justice sector capability and to strengthen the rule of law and enhance then capacity of domestic law enforcement.

D. Conclusion

Cape Verde's narcotics problems are primarily a derivative of its location and extensive maritime borders. International trafficking through the country remains the primary concern of domestic institutions and international partners. Corruption levels remain low and progress continues to be made in the area of effective law enforcement. Several drug traffickers were successfully tried and convicted in Cape Verdean courts and seized assets have been effectively transferred to state ownership. Cape Verdean authorities generally recognize the problems they are facing and proactively seek international assistance to combat drug trafficking.

Although progress continues to be made, vigilance is still needed in the areas of maritime monitoring and judicial transparency. The domestic authorities generally lack the capability to effectively control the entirety of their territorial waters and monitor all coastal borders. The judicial process is relatively slow and sentencing guidelines lack transparency. The growing caseload in the courts hampers enforcement and effective prosecution of drug cases remains an area of concern.

While Cape Verdean authorities continue to improve their capabilities, it is important to focus on developing an even clearer picture of the domestic drug problem and fully leverage enforcement assets already deployed. Cape Verde will likely experience even more success in the fight against illegal narcotics if authorities increase interagency participation in the CMIC, improve the rule of law and gather more robust statistics on domestic drug consumption. Planned community educational and treatment programs are important to address the potentially expanding domestic impact of the drug problem in Cape Verde.

Chile

A. Introduction

Chile is not a major producer of illegal narcotics. It is however a significant transit country for Andean cocaine shipments headed for Europe, with some evidence from U.S. sources to suggest shipments are also destined for the United States. Chile has also been a source of ephedrine for methamphetamine processing in Mexico and is a potential source of precursor chemicals for use in cocaine processing in Peru and Bolivia.

According to the 2010 UN World Drug Report, Chile is the second largest per capita consumer of both marijuana and cocaine in South America. The majority of marijuana consumed in Chile originates in Paraguay and Bolivia, although Chile does produce small amounts of marijuana for domestic consumption. Chile also sees a seasonal increase in ecstasy and LSD (lysergic acid diethylamide) use during the summer tourist season.

Chile faces a special challenge in combating drug trafficking due to its long, difficult-to-monitor borders with Peru, Bolivia, and Argentina. Chile's borders with these three countries stretch more than 1,300 miles, with approximately 150 illegal border crossings. Rough terrain inhibits efforts to intercept narcotics along the borders. Inspection restrictions established by the 1904 treaty ending the War of the Pacific require Chilean authorities to seek permission from the Government of Bolivia to inspect Bolivian cargo transiting Chile. This impedes efforts to intercept illegal narcotics as it allows some cargo to pass through ports in Arica, Iquique, and Antofagasta without Chilean inspection.

Chile is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Chile's institutional drug control infrastructure is led by the Carabineros (uniformed national police) and the Policia de Investigaciones (investigative police, known as the PDI), which share responsibility for counternarcotics law enforcement efforts. Both the Carabineros and the PDI have dedicated anti-drug units that are considered highly professional and competent. CONACE, Chile's national drug control commission, a part of the Ministry of Interior, also plays a major role in combating narcotics trafficking and is a key institution for implementing studies and trainings that support drug, chemical, and money laundering control legislation. It also has demand reduction and regulatory responsibilities. The Institute of Health regulates pharmaceuticals.

Chile's Coast Guard, the General Directorate of Maritime Territory and Merchant Marine (DIRECTEMAR), is responsible for all maritime law enforcement activities, including counternarcotics. DIRECTEMAR has more than 80 small, medium, and large vessels that patrol Chilean coastline and waterways and it operates two Defender fast boats in Arica to intercept maritime drug shipping. It coordinates with the Carabineros, PDI, and Customs agency to conduct maritime narcotics operations. DIRECTEMAR's ability to confront maritime trafficking is limited by Chile's extensive coastline which stretches more than 4,000 miles.

Chile recognizes the threat posed by illicit narcotics and has 1,215 officers dedicated exclusively to anti-narcotics units nationwide. According to media reports, the government spends approximately \$33 dollars per person and more than \$568 million every year fighting drugs. Chile has adopted policies that contribute to worldwide drug control efforts. President Sebastian Pinera declared a "direct and total war on drugs" in June 2010, stating the need to prosecute drug traffickers to the "full extent of the law" and provide rehabilitation for drug users. In August 2010, the Chilean government adopted a new public security plan, called Plan Secure Chile. This plan, which supersedes previous legislative efforts, included

a new drug control strategy which was developed in consultation with international law enforcement organizations. Plan Secure Chile has been adopted as national policy for the period 2010-2014, and the government is currently developing an implementation strategy.

Plan Secure Chile seeks to address several national issues including the importation of drugs into Chile from neighboring countries, distribution of drugs inside Chile, the exportation of precursor chemicals and stolen merchandise, and the lack of coordination between agencies involved in drug operations and investigations. The efforts elaborated by the plan to address these issues include increased surveillance and control at border crossings, the creation of a “fusion center” to encourage interagency cooperation on drug issues, better registry of chemical re-sale companies, and a new requirement that businesses report suspicious financial transactions to the Financial Intelligence Unit. Funding, equipment, and space have already been provided for the fusion center which will be managed by the Ministry of Interior.

Furthermore, metrics for measuring drug unit success would be changed. Under the current system, agency effectiveness is judged based on kilograms seized. Under the new proposals, agencies would be graded on case quality, convictions, organizations identified, and other factors that place the volume of seizures in context.

In October 2010, Chile hosted a chemical and pharmaceutical control meeting of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD). On October 28, 2010 Chile signed the Union of South American Nations (UNASUR) joint action plan on fighting regional drug problems. On October 29, 2010, the organization Fundación Paz Ciudadana held an advisory board meeting where they released a study linking drugs and crime. This meeting was attended by Chilean Interior Minister Rodrigo Hinzpeter and resulted in a government commitment to focus on drug control, prevention, and rehabilitation in the coming year.

The United States and Chile are parties to the Organization of American States’ 1992 Inter-American Convention on Mutual Assistance in Criminal Matters, which facilitates mutual legal assistance. 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 persons and migrant smuggling, and the UN Convention Against Corruption. The 1900 U.S. - Chile Extradition Treaty is currently in force. A new treaty was signed in January 2010 and awaits ratification by both countries. Chile has also signed, but not yet ratified, the Inter-American Convention on Extradition.

2. Supply Reduction

Between March and September 2010, Chilean police agencies with responsibility for narcotics control took part in 20 percent more counternarcotics operations than during the same period in 2009, and 80 percent more than in 2008. During the same time frame, arrests for drug offenses increased by 28 percent from 2009 and 92 percent from 2008. Chilean government sources indicate the seizure of illegal pharmaceuticals reached an all time high, increasing 793 percent over previously reported numbers, with respect to the number of pills seized. Through October 2010, Chilean government officials seized approximately 2.3 metric tons (MT) of cocaine hydrochloride (down 35 percent from 2009); nearly 5 MT of cocaine base (up 20 percent over 2009); 5.6MT of processed marijuana (down 50 percent from 2009); 129,928 marijuana plants (down 53 percent from 2009); and 222,260 units of illegal pharmaceutical drugs (illegally diverted pharmaceutical pills). The increase in cocaine base seizures and decrease in other seizures appears to be due to an increase in cocaine base flowing from Bolivia. Statistics were not available for heroin, ecstasy, or LSD.

On June 30, 2010, the PDI made the third-largest seizure in Chilean law enforcement history, seizing 835 kilograms (kg) of cocaine from a truck following an x-ray scan of a vehicle in the port city of Arica.

Subsequent intelligence led to the seizure of approximately 29 kg of cocaine and two bulldozers in Santiago on July 1, 2010.

During 2010, international law enforcement officials collaborated with Chilean law enforcement counterparts to combat various cocaine smuggling methods via maritime routes, specifically regarding cocaine concealed or commingled within wood shipments originating in Santa Cruz, Bolivia and transiting the Free Transit Zone in the port city of Arica. Seizures demonstrating this emerging trend include approximately 200 kg of cocaine seized from a container in Riga, Latvia; 49 kg of cocaine and 445 kg of ephedrine seized in Manzanillo, Mexico; a Spanish National Police seizure of 575 kg of cocaine; and a Ukrainian seizure of approximately 152 kg of cocaine; in addition to a lead provided by Chilean Customs that led to a Nigerian seizure of 450 kg of cocaine and the arrest of five individuals.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2010, Chile ranked first in South America in cocaine base experimental use and first in marijuana experimental use by high school students, according to the 2010 UN World Drug Report. CONACE's latest figures show that 26 percent of Chileans have tried marijuana, 6.6 percent have tried cocaine, and 3.1 percent have tried "cocaine base" (a crude coca-derived product known locally as "pasta base"). Marijuana, cocaine, and cocaine base use in the school-age population has remained virtually unchanged in the past decade, with around 5 percent of students admitting having used one of these drugs. However, media reports the number of drug users in the country is approximately 625,000 which marks a six-fold increase since the beginning of the decade. This trend appears to be due to rising economic prosperity coupled with an increase in the availability of drugs.

Programs to promote drug abuse prevention and treatment are more than commensurate with the size of the addict population. CONACE has offices in all 15 administrative regions of the country and offers a wide variety of drug prevention and treatment programs. It also has an extensive website with several online resources to support its operations. Together with the Ministry of Education, CONACE offers four anti-drug programs in schools, each targeted at a separate age range. In addition to programs focused on drug prevention in schools, the workplace, and the community, CONACE has several programs designed to help parents talk to their children about the danger of drugs. CONACE has also instituted a community fund that provides grants to local organizations that design and implement prevention programs. Chile does not promote or sanction harm reduction programs.

CONACE, with support from the Paz Ciudadana Foundation, maintained drug court programs in Santiago, Valparaiso, 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. Average processing times were approximately one year for oral judgments in Chile's adversarial justice system. The number of narcotics related cases also increased slightly.

In October 2010, Interior Minister Hinzpeter announced his support to permanently implement a pilot plan to expand drug treatment centers in four of Chile's regions. In 2011, the pilot will branch out to nine additional regions, increasing coverage offered at the treatment centers by 40 percent.

Chile offers free drug abuse treatment for citizens who are part of the public health insurance system (FONASA). There are nearly 200 drug treatment facilities in Chile which have agreements with CONACE. Treatment may be residential or outpatient, depending on the results of an initial evaluation. Inpatient treatment is generally for 12 months, while outpatient treatment lasts approximately eight months. Special treatment programs also exist for addicts who are mothers, juveniles who are guilty of other legal infractions, and prisoners.

4. Corruption

As a matter of policy the Government of Chile does not encourage or facilitate illegal activity associated with drug trafficking and there is no evidence to suggest senior government officials are engaged in such

activity. Article 13 of “Ley 20,000” (Chile’s law covering drug offenses) addresses official corruption in drug investigations. 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 such activities. In cases where police are discovered to be involved in drug trafficking, or in protecting traffickers, simultaneous termination and investigation are immediate. Chile is traditionally considered one of the least corrupt countries in the Western Hemisphere and ranked as the least corrupt country in South America in the 2010 Corruption Perception Index Survey released by Transparency International.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Government works closely with Chile to strengthen Chile’s ability to confront drug trafficking. Specific U.S. goals include enhanced interagency cooperation among Chilean law enforcement agencies, an increase in Chile’s ability to conduct international drug investigations, and an increase in anti-narcotics resources in northern Chile. Chile is a strong anti-narcotics partner, and the United States works closely with Chile to achieve shared objectives. The Pinera administration has been very active in fostering bilateral cooperation with the United States. Additionally, both the Carabineros and PDI have been participants in U.S. Drug Enforcement Administration (DEA) multi-country chemical control operations over the past 10 years. CONACE and Customs recently attended DEA-sponsored chemical operation meetings.

DEA has also hosted several training courses on topics ranging from information exchange to financial investigations and money laundering. These events have been attended both by members of the Carabineros and PDI. In 2010, Chilean law enforcement officials also participated in International Law Enforcement Academy (ILEA) training courses in Peru, and a U.S. government-funded canine school in Guatemala. The U.S. Coast Guard provided resident and on the job training to the Chilean Navy in maritime law enforcement operations.

Chilean government and law enforcement agencies participate in UN and OAS drug control functions. Chilean law enforcement is also very supportive of officer and information exchange programs. Significant cooperative programs exist between Chile and Paraguay, and in 2010 the officer exchange programs in Tacna, Peru and Arica, Chile continued without direct U.S. financial assistance. Currently, one Peruvian National Police officer is on temporary duty in Arica, Chile, and six more officers are posted permanently in Tacna to work on cross-border issues.

D. Conclusion

The Pinera Administration has worked to address all phases of the drug control effort. The Interior Ministry adopted a new drug control strategy to help combat narcotics trafficking and better coordinate the various law enforcement agencies’ efforts. With regard to demand reduction and treatment, the Interior Ministry also moved forward to permanently maintain additional drug treatment centers in four of Chile’s regions, and intends to increase coverage offered at treatment centers by 40 percent.

Chile’s counternarcotics units should continue their efforts to profile and interdict containerized cargo shipments and continue to seize drugs transiting Chile’s port cities. In addition, continued additional resources for interdiction (such as x-ray scanners, canine units, personnel, etc.) should be identified and deployed to combat drug trafficking organizations infiltrating Chile’s shared northern border with Bolivia and Peru. Chile is a strong anti-narcotics partner of the United States, and the U.S. Government encourages the Government of Chile to continue its counternarcotics leadership.

China

A. Introduction

The People's Republic of China (PRC) is a significant drug transit country due to its history, location, geographical size, population, and current economic conditions. China continues to face problems of domestic drug production and trafficking and is a major manufacturer of "dual use" chemicals, primarily used for licit products, but also diverted by criminals. In particular, China is a major source of the precursor chemicals necessary for the production of cocaine, heroin, and crystal methamphetamine. Organized crime or criminal brokers divert these legitimately manufactured chemicals, especially ephedrine and pseudoephedrine, from large chemical industries throughout China to produce illicit drugs.

China is a transit area for Southeast Asian heroin and crystal methamphetamine (a.k.a. ice, shabu, bingdu) used by drug addicts in many Southeast Asian and Pacific Rim nations, as well as Southwest Asian heroin bound for international drug markets. Southwest Asian heroin continues to enter from Afghanistan to China for consumption in Chinese markets and, according to two recent investigations, for transshipments in smaller quantities to the United States, and other countries. China's high volume of exports presents significant enforcement challenges, while a lack of government transparency creates problems for international cooperation. These two factors make China an ideal narcotics transshipment and precursor chemical diversion location for criminals.

Based on statistics provided by Chinese law enforcement authorities, China's consumption of opiates would appear to be relatively stable, but some would dispute official statistics. Consumption of amphetamine-type stimulants (ATS) is unquestionably growing among China's younger population. PRC authorities view drug trafficking and abuse as a major threat to China's national security, economy, and stability.

China employs a comprehensive counter-drug strategy, dubbed "The People's War against Drugs," which includes prevention, education, eradication, interdiction, rehabilitation, thorough regulation on commerce in precursor chemicals, and increasing international cooperation. However, corruption in drug-producing and drug transit regions of China limits what dedicated enforcement officials can accomplish. PRC authorities continue to take steps to integrate China into regional and global counternarcotics efforts. China is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

China takes active measures to combat the use and trafficking of narcotics and dangerous drugs. The Ministry of Public Security (MPS), through the Narcotics Control Bureau (NCB), enforces narcotics control measures. The NCB operates from a central headquarters in Beijing and from provincial offices. China's Customs Anti-Smuggling police force is also significantly involved in narcotics control. The MPS is in the sixth year of its National People's War on Illicit Drugs, begun in 2005 at the initiative of Chinese President Hu Jintao. The 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 supervision through licensing designed to prevent the diversion of precursor chemicals and other drugs to illicit uses.

Besides the MPS, the State Food and Drug Administration (SFDA) and the General Administration of Customs (GAC) share responsibilities for controlling the licit/illicit drug markets. All three have representation in the National Narcotics Control Commission (NNCC) that sets drug policy in China. In 2009, the NNCC established eight joint working groups that focused on publicity and education, drug intelligence and investigation, treatment and rehabilitation, community-based drug maintenance and treatment, administration of narcotic drugs and psychotropic substances, precursor chemicals control, policy research on foreign drug sources, and opium substitution and alternative development in neighboring countries. Multiple ministries participate in each working group. Some working groups conduct in-depth cooperation on drug control with foreign governments, especially in promoting substitution and alternative development and providing assistance in food, education, and health services.

At NNCC's annual plenary meeting held in April 2009, Meng Jianzhu, State Councilor and NNCC Commissioner, called for the full implementation of the national Drug Control Law and further promoted the People's War Against Drugs with the aim of demand reduction, enhanced social stability, and harmonization. The NNCC and the Ministries of Public Security, Commerce, Customs General Administration, General Administrations of Industry and Commerce, Work Safety, and Food and Drug Administration launched a national campaign from October to December 2009, in which they publicized relevant laws and regulations in the chemical industry and markets, trained professionals on precursor control, and established reporting systems for precursor chemicals in markets, customs clearing agencies, and logistics companies. China 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. These treaties offer a legal basis for bilateral cooperation between China and other countries and facilitate requests for legal assistance. In January 2009, China signed the Agreement between the Government of the People's Republic of China and the European Community on Drug Precursors and Substances Frequently Used in the Illicit Manufacture of Narcotic Drugs or Psychotropic Substances. This agreement requires both sides to implement strict administrative control and checking systems that target ephedrine, phenyl acetone, piperonyl methyl ketone (PMK), and acetic anhydride destined for the Golden Triangle or the Golden Crescent. In 2009, over 660 pre-export notifications were issued, and the shipment of 422 tons of precursor chemicals was suspended in China.

China is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the UN Convention against Corruption. China is a party to UN Convention against Transnational Organized Crime and has signed, but not yet ratified its protocol on trafficking in firearms. On February 8, 2010, China acceded to its protocol on trafficking in persons. 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 in that operation. China also participates in Operation Topaz, an intergovernmental operation to detect and prevent precursor chemicals used in the illicit manufacture of heroin; Project Cohesion, which targets the diversion of potassium permanganate and acetic anhydride; and Project Prism, which targets synthetic drug chemicals. China continues its participation in the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD).

China has gradually expanded its contact and cooperation with foreign counterparts in information and intelligence sharing, drug investigation, technical assistance, and professional training. For example, China held the Eighth China-Thailand Bilateral Meeting on Drug Control Cooperation in September 2009, and the first China-Vietnam Bilateral Meeting on Drug Control Cooperation in December 2009. The NNCC, the Ministry of Foreign Affairs, the MPS, and the Shanghai Municipal Government held the Centennial of the International Opium Commission in Shanghai in February 2009. This commemorative meeting was attended by more than 100 high-level government officials and delegates from 17 countries and the UN Office on Drugs and Crime and International Narcotics Control Board.

China continues to build on Memoranda of Understanding (MOU) currently in place with Laos, Cambodia, Thailand, Vietnam, Burma, and the United Nations Drug Control Program and regularly participates in a variety of drug conferences and bilateral meetings, including the annual International Drug Enforcement Conference (IDEC) and regional targeting meetings. In response to the growing trend of South American cocaine transshipment to China, the Chinese have attempted to establish closer cooperation with South and Central American law enforcement officials.

2. Supply Reduction

China continues to emphasize interdiction of drug trafficking and law enforcement activities, including illicit crop eradication, drug seizures, arrests, prosecutions, and destruction of organic and synthetic drug laboratories. According to Chinese press reporting, between January and May 2010, Chinese police organs solved 32,000 drug criminal cases and arrested 38,000 drug criminal suspects. The police captured 11 Chinese and foreign drug lords. They smashed 918 drug criminal gangs, confiscated 2.3 tons of heroin, 2.4 tons of "ice," 2.1 tons of ketamine, and 243 tons of precursor chemicals. In 2009, China filed 77,924 cases related to drug law enforcement, resulting in 91,859 drug suspect arrests -- an increase of 25 percent from 2008. Through these cases, the Chinese government seized 5.8 tons of heroin, 1.3 tons of opium, 6.6 tons of methamphetamine, 5.3 tons of ketamine, 8.7 tons of cannabis, and 1,062,000 ATS tablets. A total of 17,462 criminals involved in drug-related cases received sentences in 2009 ranging from five years' imprisonment to death, a 9 percent increase over the previous year. The rate of severe penalties, including death, in drug cases stood at 31 percent in 2009, 15 percent higher than that for all criminal cases, according to the Supreme People's Court.

The MPS Narcotics Control Bureau is working on drug interdiction in areas of concern such as Yunnan Province. The MPS bureau identified a new drug interdiction strategy in 2010 with clear division of responsibilities in order to improve the capacity of drug interdiction and thwart the entry of illicit drug and exit of illicit precursor chemicals. MPS created an electronic national drug interdiction mapping system with the capacity to monitor over 423 checkpoints in 21 provinces. These actions were an important factor in a total of 5,086 drug cases and 5,683 arrested drug suspects, through which officials seized 3.1 tons of illicit drugs. Strengthened drug interdiction efforts at airports and seaports in Guangdong, Xinjiang, Beijing, and Shanghai were important factors in 9,459 drug cases, 11,000 arrested drug suspects, and 3.9 tons of seized illicit drugs in 2009.

The MPS Bureau of Narcotics Control conducted 36 drug cases in which more than 100 kilograms of drugs were seized. Pakistani, Afghan, Chinese, and African smugglers were involved in most of the large-scale seizures involving Southwest Asian heroin. Most of the investors and organizers for crystal methamphetamine clandestine laboratories in China hail from Taiwan and Hong Kong. A recent 2010 seizure of a Hong Kong methamphetamine lab involved a mainland chemist and phenyl-2-propanone (P2P) likely produced in and acquired from mainland China.

Since 2005, a trend of cocaine smuggling from South America has continued. Multi-ton loads of cocaine are still smuggled, primarily via maritime means, to China from the Andes region. These loads are largely financed by ethnic Chinese criminal financiers from Guangdong Province, Hong Kong, and the Macau Special Administrative Region (SAR) who have ties to Hong Kong-based Triads. These shipments are dependent on ethnic Chinese living in Central and South America, who coordinate with South American drug trafficking organizations. Distribution and transshipment of the cocaine in China are largely handled by Triads and other criminal organizations. However, there are increased instances of South American groups attempting to establish a foothold in the small but growing Chinese cocaine market.

According to UN Office on Drugs and Crime reporting from 2010, nine heroin processing laboratories were discovered in China in 2007. Previously, the existence of heroin processing labs in China was either not reported or denied. A 3.1 ton seizure of Burmese-origin poppy capsules in Yunnan suggests there may be some degree of heroin processing in regions with access to raw opium and precursor chemicals; however, neither the U.S. Drug Enforcement Administration (DEA) nor the foreign law enforcement community in China could confirm the existence of the above nine heroin processing labs. According to the Annual Report on Drug Control in China published by the NNCC, 244 clandestine laboratories were destroyed and 4.33 tons of heroin seized through 2008. The report did not specify whether the labs were making methamphetamine or heroin. In the first six months of 2010, the MPS reported it had dismantled 111 drug manufacturing labs. As the variety of drugs available in China grows, crimes involving newer types of drugs are emerging. Drugs crimes, especially those involving new types of drugs, such as ice, ecstasy, ya-ba tablets, ketamine (K powder), methadone, and triazolam (blue elf), have increased substantially. Crimes of production and sale of drugs made of precursor chemicals, psychoactive drugs, and anesthetic drugs and crimes involving liquid heroin have increased. Some of these crimes involve large quantities of psychoactive drugs and anesthetic drugs. Among the drugs seized nationwide in 2009, about 59 percent were “traditional” drugs, a decrease of 7 percent from 2008, while about 40 percent were new, frequently synthetic, drugs, a 7 percent increase over 2008.

In an effort to prevent or disrupt drug trafficking organizations (DTOs) from establishing mega-labs in the Asia Pacific region, member and observer countries of the East Asian Regional International Drug Enforcement Conference agreed to begin a program to track the movements of chemists who may be involved in the illegal manufacturing of narcotics. Many of these chemists are ethnic Chinese who are skilled in producing mass quantities of methamphetamine. One suspect was a mainland Chinese methamphetamine chemist arrested in July 2010 in a case involving a lab seizure in Hong Kong.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The NNCC, the Publicity Department of the MPS, and the China Narcotics Control Foundation distributed text messages regarding the “harms of ATS” to 1.2 million mobile phone users and conducted other mass messaging projects in Beijing and Hunan province. During the International Day against Illicit Drug Trafficking the central news media produced over 3,000 reports on drug control, including over 100 audio and video reports. CCTV covered drug law enforcement operations in Yunnan border areas and aired demonstrations of destroying drugs in Guangdong and Guangxi provinces.

The NNCC, Ministry of Culture, and the General Administration of Industry and Commerce organized a number of education and training programs for managers and employees in entertainment venues to help increase awareness of drug activity. To help promote drug prevention in schools, communities, working places, families, public places, and villages, the Ministries of Publicity, Education, Public Security, Public Health, Civil Welfares, Justice, Culture, Industry and Commerce, Broadcasting, Film, and TV, and Press and Publicity launched a national education campaign. The Ministry of Education continues to promote drug prevention among primary and high school children.

In 2009, 47,000 drug dependent persons entered into community-based treatment programs, and 35,000 ex-drug users entered into community-based rehabilitation programs. A total of 68,000 former drug users were confirmed drug-free over the past three years. In September 2009, the Chinese government implemented a registration and monitoring system of known drug users. Through community-based treatment, compulsory drug detoxification, facility- and community-based rehabilitation, and community-based drug maintenance programs, many former drug users free of drug dependence were integrated back into society. Approximately 88,000 new drug users were registered into the monitoring system.

According to the Drug Control Law, registered drug users started compulsory drug detoxification in 2009. As a result, over 173,000 drug dependents entered the compulsory drug detoxification program in 2010. The Chinese government allocated over \$60 million for construction of pilot rehabilitation centers and the services needed to run such centers. By the end of 2009, public security agencies and judicial administrative agencies had established 81 drug rehabilitation centers with 21,000 patients. The Chinese government also focused on improving pharmaceutical treatment for the drug users, emphasizing prevention and control of HIV/AIDS and other chronic diseases.

4. Corruption

Chinese leaders acknowledge that official corruption in China continues to be a serious problem. Anti-corruption campaigns have led to arrests of many lower-level government personnel and some more senior-level officials. Most corruption activities reported in the press in the PRC involve abuse of power, embezzlement, illegal land confiscations, and misappropriation of funds. Payoffs to “look the other way” when questionable commercial activities -- including, possibly, drug smuggling—occur are surely an important type of corruption as well.

While narcotics-related official corruption likely exists in China, it is seldom reported in the press, but the fact that narcotics transit into and out of China and are trafficked and abused throughout the PRC suggests strongly that official corruption at all levels is almost certainly part of the problem. Official corruption cannot be discounted among the factors enabling organized criminal networks to operate in certain regions of China, despite the efforts of authorities at the central government level to prohibit and punish such activity. China is engaged in an anti-corruption dialogue with the United States through the Joint Liaison Working Group process.

As a matter of policy, the Chinese government does not permit, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances. The Chinese government also does not permit the laundering of drug proceeds, either by individuals or government agencies. No senior official of the PRC government is known to engage in, encourage, or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances. Similarly, no senior official is known to launder proceeds from drug transactions. MPS takes allegations of drug-related corruption seriously, launching investigations when it deems appropriate. Most cases appear to involve lower-level district and county officials. There is no specific evidence indicating senior-level drug-related corruption. Despite lead information provided or allegations made by foreign governments, MPS officers have not investigated upper echelons of Party officials and State Owned Enterprises.

As part of its effort to prevent corrupt 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. In July 2010, the Ministry of Health, the National Development and Reform Commission, the Ministry of Supervision and several other government departments released a set of rules to control drug prices and prevent commercial bribery during government drug purchasing. According to regulations set in 2010 on the management and supervision of centralized drug procurements, medical institutions and pharmaceutical companies must now purchase drugs using a "centralized procurement system," which is supervised by provincial-level governments. Using this system, hospitals report to the provincial-level government the type, quantity, and other requirements of medicines they want to purchase, and then the government will invite bids from pharmaceutical companies and sellers, select the most suitable bid, and handle the purchasing on behalf of the hospitals. Those violating these regulations are punished, and their cases might be transferred to judicial agencies if the violations are deemed serious. China is engaged in an anti-corruption dialogue

with the United States through the U.S./China Joint Liaison Group (JLG) for Law Enforcement Cooperation under which there is an Anticorruption Working Group that meets on a regular basis.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The United States and China are parties to a mutual legal assistance agreement signed in 2000, and meet nearly annually under the framework of the Joint Liaison Group on Law Enforcement Cooperation (JLG) to discuss ways to improve cooperation. In the most recent JLG, held in December 2010, the two sides had candid and in-depth discussions on an array of significant law enforcement-related issues, including the implementation of their commitment to “strengthen law-enforcement cooperation” as expressed in the China-US joint Statement issued during President Obama’s visit to China in 2009, as well as following up on the recent high level discussions between Chinese State Councilor and Public Security Minister Meng Jianzhu and U.S. Attorney General Eric Holder during Mr. Holder’s visit to Beijing in October 2010. Those discussions focused on the need for law enforcement cooperation, including in combating drugs. There is no extradition treaty between the United States and China.

In January 2003, the United States and China signed the Customs Mutual Assistance Agreement (CMAA). In February 2005, the NNCC and the DEA signed a memorandum of intent to establish a bilateral drug intelligence working group (BDIWG) to enhance cooperation and the exchange of information. In October 2009, the MPS hosted a BDIWG meeting with senior DEA officials in Beijing. In July 2006, the U.S. Office of National Drug Control Policy (ONDCP) and NNCC signed a memorandum of intent to increase cooperation in combating drug trafficking and abuse.

The overall bilateral relationship still includes issues of parity and reciprocity. DEA relations with Chinese counterparts continue to progress, though at a slow rate, and can be overtly affected by a myriad of other issues, including Chinese non-interference and sovereignty concerns. Through the narcotics discussion group under the Joint Liaison Group mechanism, State, DOJ and DEA seek to continue to engage the MPS to enhance joint cooperation and to establish routine methods for drug information-sharing and investigative cooperation that can assist both countries in the fight against criminal drug activities.

China actively follows up on DEA intelligence leads on cases involving drug shipments to China. In particular, DEA has noted an increase in cooperation and information-sharing from China related to heroin and cocaine smuggling into China. Currently, Chinese law enforcement cooperation with the United States is more robust on cocaine investigations, whereas cooperation on investigations regarding Southwest Asian heroin is slowly improving. Timeliness and transparency in both types of cases are still a concern. Chinese authorities provide limited intelligence information concerning drug traffickers or drug trafficking organizations operating in China. Overseas Chinese in Hong Kong, Taiwan, Thailand, Canada, the United States and South America (primarily Panama, Venezuela, and Ecuador) frequently serve as the organizers and investors in these organizations.

D. Conclusion

Obtaining timely access to suspects, reporting, witnesses and evidence in criminal investigations remains a challenge from the U.S. perspective. Despite these issues, bilateral enforcement cooperation is on a positive track and is expected to continue to improve over the coming year.

Colombia

A. Introduction

Colombia remains the world's largest producer and exporter of cocaine, as well as a source country for heroin and marijuana. According to the U.S. Drug Enforcement Administration, 90 percent of the cocaine seized in the United States originates in Colombia. Colombia's marijuana is typically not sent to the United States, but rather feeds internal and Latin American consumption. Nevertheless, the Government of Colombia (GOC) continues to make significant progress in its fight against the production and trafficking of illicit drugs. The United States Government (USG) found that coca cultivation in 2009 was down 3 percent compared to 2008, from 119,000 to 116,000 hectares. Crediting sustained aerial and manual eradication operations in 2009, the USG also reported a decline in pure cocaine production potential of 3.5 percent, from 280 metric tons (MT) in 2008 to 270 MT in 2009 - a 61 percent drop from the 700 MT estimated production potential in 2001.

The United Nation's (UN) 2010 assessment of the drug problem in Colombia reflected a similar trend from 2008 to 2009. The UN Office for Drug Control (UNODC) estimated that in 2009, coca cultivation fell 16 percent to 68,000 hectares, and cocaine production dropped 9 percent to 410 MT. Although estimates differ due to dissimilar measuring methodologies, both reflect a declining trend in coca cultivation and cocaine production potential.

In 2010, the GOC continued its aggressive interdiction and eradication programs, and maintained a strong extradition record for persons charged with crimes in the United States. According to the Colombian government, Colombia in 2010 seized over 225.9 MT of cocaine and cocaine base and eradicated approximately 146,000 hectares of illicit coca crops, thereby eliminating hundreds of tons of additional potential cocaine production. The GOC also began to address increasing domestic drug consumption, and raised the profile of drug prevention and treatment efforts.

The GOC maintained pressure on the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), which still maintain considerable control in areas with high concentrations of coca and opium poppy cultivation. In 2010, Colombian security forces captured or killed many high value targets, including killing a FARC Secretariat member and its military chief, "Mono Jojoy," in September, and organized crime ("Bandas Criminales" or BACRIM) leader Pedro Guerrero Castillo, alias "Cuchillo," one of the country's most notorious and brutal narcotics traffickers, in December.

BACRIMs have become a major law enforcement challenge. Some of these groups include members of former paramilitary groups, and are active throughout much of the country -- competing and sometimes cooperating with the FARC in the drug trade. The violence associated with the BACRIMs has spilled over into many of Colombia's major cities, leading to an increase in the murder rates within some urban centers since 2009. In 2010, incoming President Juan Manuel Santos outlined a Public Security Plan that seeks to address violence in Colombia's urban centers, including funding for youth job programs and additional police.

Colombia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Over the past decade, Colombia has developed a robust institutional capacity to combat narcotics trafficking, mostly controlled by and financed through the activities of three Foreign Terrorist Organizations (FTO) – the FARC, the ELN, and the now demobilized United Self-Defense Forces (AUC). These FTOs used drug cultivation and trafficking proceeds to wage war on the government resulting in high levels of violence, displacement, economic stagnation, and insecurity.

To address the complexity and inter-connections of security, counternarcotics programs and economic development, the GOC launched the National Consolidation Plan (PNC) in 2009 that focused on selected priority areas where violence, drug trafficking and social marginalization converge. The PNC centers on increasing state capacity to provide security for communities; achieving lasting eradication; transferring security responsibilities from the national military to the police; and providing a wide range of social and economic services. Regional Coordination Centers staffed by civilian, police, and military personnel coordinate this comprehensive approach.

A PNC pilot project began in late 2007 in the Macarena region of the country's central Department of Meta. Early indications of this effort proved very positive. The UN reported that coca cultivation in the Macarena Consolidated Program (PCIM) was reduced by 85 percent from its high of 12,597 hectares in 2005 down to 1,848 hectares in 2009. Further reductions continued in 2010 with police coca detection efforts carried out in September 2010 that estimated the presence of only 406 hectares of coca remaining in the Macarena region. Replanting rates are low and coca farmers are taking part in licit productive projects.

On September 18, 2010, President Santos announced the "relaunch" of the National Consolidation Plan, declaring that consolidation would be part of Colombia's development plans, and target zones would be engines of Colombia's overall economic growth. The overall goals are to establish a more comprehensive government presence in former conflict and rural areas, deter coca replanting after eradication, improve interdiction along Colombia's Pacific coastline, and provide alternative livelihoods for those currently engaged in the drug trade.

On October 4, 2010, President Santos formally launched his strategy to reduce rising urban crime by calling for \$2 billion in additional government expenditures to increase the size of the Colombian National Police by 20,000 officers over the next four years. He has also submitted legislation to Congress for an economic stimulus package of approximately \$165 million focused on job creation programs. Then plan also aims to reduce the 25percent unemployment rate among high school graduates in some parts of the country that results in many looking to the drug trade for work and income.

President Santos established a new National Security Council (NSC) to improve interagency coordination on cross-cutting issues such as consolidation planning, border security, eradication, and land reforms. The NSC is under development, modeling U.S. and British agencies.

The GOC is a party to the UN Single Convention on Narcotic Drugs, 1961, as amended by the 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; 1988 UN Drug Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances; the Organization of American States (OAS) Convention on Mutual Legal Assistance; the UN Convention against Transnational Organized Crime, and its Protocol on Trafficking in Persons; and the UN Convention against Corruption. Colombia participated in the Regional Summit on the World Drug Problem, Security, and Cooperation, which promotes information sharing, training and technical assistance under the UN counterdrug conventions. Separately, the Colombian Minister of Defense participates in a tri-party group with the U.S. Drug Enforcement Administration (DEA), and the Mexican Attorney General to discuss counternarcotics and other issues of mutual interest. More working group and executive level meetings are planned for 2011. The GOC's 2003 National Security Strategy (Plan de Seguridad Democratica) meets the strategic requirements of the 1988 UN Drug Convention.

A 1997 U.S.-Colombian Maritime Ship Boarding Agreement continues to be a fruitful collaboration. This agreement facilitates timely coordination to board Colombian-flagged ships in international waters and has improved counternarcotics cooperation between the Colombian Navy (COLNAV) and the U.S. Coast Guard (USCG). Meetings on maritime interdiction have expanded recently to include Ecuador, Panama, and Mexico.

Colombia's 1999 Customs Mutual Assistance Agreement (CMAA) provides for the exchange of information to prevent and investigate customs violations in the United States and Colombia. As a result of the CMAA, the U.S. Immigration and Customs Enforcement (ICE) agency created a Colombian-based Trade Transparency Unit to analyze, identify and investigate companies and individuals involved in trade-based money laundering activities between Colombia and the United States.

In 2004, Colombia and the United States signed an agreement establishing the Bilateral Narcotics Control Program, providing the general framework for specific counternarcotics project collaborations with various Colombian implementing agencies. This agreement has been amended annually and is a key vehicle for the delivery of a majority of U.S. counternarcotics assistance.

2. Supply Reduction

Eradication: While using different measuring methodologies, causing varying estimates, the U.S. and UN reported continued declines in coca cultivation and cocaine production potential in Colombia in 2009. This is attributed to sustained aerial and manual coca eradication. The USG reports that cultivation in 2009 was down 3 percent compared to 2008, from 119,000 to 116,000 hectares. The United States also reported a 3.5 percent decline in potential pure cocaine production to 270 MT in 2009, from a revised 280 MT in 2008. The UN reported a 16 percent drop in cultivation in 2009, down to 68,000 hectares, and a 9 percent fall in cocaine production potential to 410 MT.

These reports also indicate that existing coca fields continue to be less productive, less dense, and in smaller plots than when eradication operations began in the late 1990s. Nevertheless, illicit cultivation continues and is a growing problem in Colombia's national parks, indigenous reserves, and along its borders with Ecuador and Venezuela, where aerial eradication is prohibited. (NOTE: : The GOC does not conduct aerial spraying within 10 kilometers of international borders. Manual eradication is ongoing in border areas, yet is hampered by the often rugged and isolated terrain, as well as the presence of the FARC in border regions and in some national parkland.)

Under the auspices of the President's Agency for Social Action, over 2,200 civilian eradicators, with support from the Colombian national security forces, conduct manual eradication throughout the country. After manually eradicating 60,954 hectares of illicit crops in 2009, the manual eradication goal for 2010 was set at 70,000 hectares. However, due to budgetary disbursement delays, security concerns, and the dispersion of coca to smaller fields, the GOC's manual eradication program only eliminated approximately 45,000 hectares in 2010. During 2010, the GOC reported 32 police, military, and civilian eradicator fatalities during manual operations, compared to 40 in 2009. The fatalities and nearly 150 injured are attributed to improvised explosive devices, sniper fire, and other attacks from drug traffickers. The aerial eradication program sprayed nearly 101,000 hectares, exceeding the 2010 spray goal of 100,000 hectares.

Heroin production has significantly declined in Colombia, due in part to substantial manual eradication efforts. The USG estimates that in 2009 poppy cultivation fell to its lowest level of 1,100 hectares, and pure heroin production was down to 2.1 metric tons. In 2006, which was the last year before 2009 in which a poppy survey was conducted, poppy cultivation was 2,300 hectares and production potential was 4.6 metric tons. In 2001 pure heroin production potential was approximately 11 metric tons. In 2010, the GOC manually eradicated 545 hectares of poppy, compared to 148 hectares in 2008 and 361 hectares in 2008.

Interdiction: The GOC's National Directorate for Dangerous Drugs (DNE) reported that in 2010, Colombian security forces seized a total of 225.9 MT of cocaine and cocaine base, 289.9 MT of marijuana, 367.2 kilograms (kg) of heroin, and approximately 1.2 million gallons of liquid and 4.6 metric tons of solid precursor chemicals. In addition, they destroyed 258 cocaine hydrochloride (HCL) labs, 2,283 coca base labs, two heroin labs, and four potassium permanganate labs.

The Colombia National Police (CNP) primary interdiction force, the Anti-Narcotics Directorate's (DIRAN) Jungle Commandos (Junglas) or airmobile units, are largely responsible for the significant number of HCL and coca base labs destroyed in 2010. Although the CNP's Mobile Rural Police Squadrons (Carabineros) are charged with expanding and maintaining police presence in rural and conflict areas, the Carabineros captured in 2010 over 1.7 MT of cocaine, and destroyed over 150 base labs.

The transport of drugs via Colombia's extensive rivers and coastal ports remains a major concern. 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 U.S. assistance programs. In 2010, almost 9.6 MT of cocaine, 15 kg of heroin, and 67.8 kg of marijuana were seized by the DIRAN in the ports. At Colombia's international airports, DIRAN units confiscated 36.1 kg of heroin, more than 1.2 MT of cocaine, over 2 MT of marijuana, and arrested more than 400 people on drug-related charges. The COLNAV seized 66.5 MT of cocaine, 13.1 MT of marijuana and 40 kilograms of heroin during 2010 in operations in Colombia's territorial waters and arrested 395 persons suspected of narcotics trafficking.

Captures/Arrests¹: The GOC continued to pressure terrorist organizations and succeeded in capturing or killing a number of high-level FARC and ELN commanders in 2010. On January 1, Luis Antonio Mosquera Ruiz, alias Negro Alberto, commander of 43rd FARC Front (heavily involved in drug trafficking) was killed in a joint Colombian Army (COLAR)/Air Force (COLAF) mission. On January 20, Angel Gabriel Lozada, alias Edgar Tovar, commander of the 48th FARC Front was killed in a joint Colombian Air Force-CNP mission. On June 25, the Army arrested ELN leader of the Antioquia and Bolivar Divisions, Juan Fernando Granda, "El Mello," in Medellin. On July 6, Henry Rosas Hernandez, alias Ciro, commander of the 37th FARC Front and Manuel Lara Hernandez, alias Jaime Canaguaro, commander of the 35th FARC Front were killed by a joint military mission. On September 19, a joint CNP-COLAF operation near the Colombian-Ecuadorian border resulted in the death of 27 FARC 48th Front members, including one of the FARC's general staff – Sixto Antonio Cabañas (alias "Domingo Biojo"). On September 23, the high ranking, and highly sought FARC military chief and secretariat member Victor Julio Suarez Rojas, best known by his alias "Mono Jojoy" was killed in a joint military strike.

The CNP and Colombian military also aggressively pursued traffickers associated with non-FTO criminal gangs. On February 9, the Colombian government arrested Marlon Valencia, the second-in-command of the Rostros organization, one of the largest criminal organizations in Colombia. On August 21, the CNP arrested Walid Makled Garcia, a major drug trafficker allegedly involved with high ranking Venezuelan government officials and accused of exporting 10 metric tons of cocaine a month to the United States, in the city of Cucuta on the Venezuela border. The GOC has indicated that Makled will be extradited to Venezuela in 2011. On August 31, Colombia arrested 11 traffickers accused of shipping drugs from the FARC to the cartel of captured Mexican narco-trafficker Edgar Valdez Villareal, alias "La Barbie." On December 25, members of the Judicial and Investigative Police Directorate and DIRAN killed drug lord and BACRIM leader Pedro Oliverio Guerrero alias "Chuchillo" - the Knife. Chuchillo was one of the three most wanted criminals in the country and the leader of a 1,000-strong paramilitary group, the People's Antiterrorist Revolutionary Army of Colombia (ERPAC).

3. Drug Abuse Awareness, Demand Reduction, and Treatment

¹ The arrests of the individuals listed have been widely reported by various media outlets, however, it should be noted that a defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt. An arrest or the issuances of an indictment are only evidence of an accusation.

In 2009, the Colombia's National Directorate on Dangerous Drugs (DNE) published a much anticipated study on drug consumption in Colombia titled "The National Consumption Survey." Such a study had not been conducted in over 12 years and the survey results were a leading cause behind new GOC initiatives to battle drug consumption. Results of the survey revealed that 9.1 percent of Colombians (ages 12-65) had used illicit drugs at least once in their lifetime. Close to 6 percent of Colombians between 18-24 years of age reported using illicit drugs within the past year -- the highest rate of any age group. The most noticeable impact from the study was the change of GOC funding for drug dependency prevention. In FY 2008, Colombia spent approximately \$27 million on anti-drug programs. In FY 2009, the GOC raised the bar, setting aside nearly \$46 million for anti-drug programs.

Since DNE published the study, various other entities have continued to do deeper analysis of the results and perform their own more focused studies. Two such examples are "The Consumption of Drugs in Colombia" by the Universidad los Andes, and "The Study of the Consumption of Psychoactive Drugs in Bogotá" by the Secretary of Health, UNODC, and DNE.

To combat drug abuse, in 2010, the government launched the nationwide campaign "Colombia: Free of Drugs," to provide information, and education, to heighten social awareness to reduce drug demand. The CNP, with USG assistance, manages a Drug Abuse Resistance Education (DARE) program in all 32 departments of Colombia. Additionally, the GOC continued implementing its 2008 National Drug Consumption Reduction Plan with UN and USG support, which focuses on drug demand prevention, mitigation and treatment.

In December 2009, the GOC approved a law that prohibits the possession and consumption of small, "personal," amounts of illegal drugs. This law does allow possession and consumption of certain healthcare-related drugs with a medical prescription. In 2010, the government began drafting regulations on treatments for drug addicts. Drug treatment services in Colombia are provided primarily by private organizations. According to the national consumption study, there are nearly 300,000 people with drug dependency problems needing treatment, and only 20,000 available spaces in facilities. To service the drug dependent population, the GOC has identified 104 inpatient or residential treatment centers, 88 outpatient centers, 58 drug treatment facilities in general hospitals, 34 toxicology services, and 5 methadone programs available to drug addicts.

4. Corruption

Colombia is party to both the Inter-American Convention against Corruption and the UN Convention against Corruption. Colombian government policy strongly discourages, and works to minimize the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, the laundering of proceeds from illegal drug transactions and corrupt acts that facilitate drug trafficking. Despite this commitment, corruption of some GOC officials occurs, often instigated by drug trafficking organizations.

On February 9, 2010, the Colombian government arrested Ramiro Antury, a military lawyer, for receiving approximately \$150,900 a month from the Rastrojos criminal organization, in return for intercepting security agencies' telephone calls and feeding information back to narcotics traffickers. In two separate cases, the Colombian government also indicted Colonel Juan Carlos Martinez Correal and Major Giovanni Enrique Pinzon Vargas of the CNP for narcotics trafficking. On May 27, Navy Captain Jorge Luis Ahumada Molina was sentenced to 62 months in prison by a court in Cartagena for involvement in drug trafficking.

The Santos Administration also introduced an anti-corruption law to Congress establishing more severe penalties for state officials convicted of corruption. If enacted, the law would strengthen the anti-

corruption Czar's office, preventative mechanisms, institutions, citizen participation, social control, public accountability, transparency and access to information.

C. National Goals, Bilateral Cooperation and U.S. Policy Initiatives

As Secretary Clinton has stated, the United States has a "shared responsibility" to assist nations struggling with drug production and trafficking. In Colombia, the United States provides a range of assistance to the CNP and Colombian military, as well as to judicial institutions that investigate and prosecute drug traffickers and human rights offenders. Counternarcotics assistance to the CNP and military includes support for a range of interdiction and eradication operations, as well as programs designed to develop rural policing capabilities. Interdiction support encompasses land, sea and air operations, and efforts are underway to expand the GOC's interdiction capabilities along its Pacific coast. Eradication, which is closely coordinated with alternative development programs, uses both manual and aerial operations, and focuses on strategic coca-growing zones. To support Colombia's National Consolidation Plan, the United States is providing equipment and training to rural security forces in order to help them establish a permanent presence in former conflict and drug growing areas.

In 2008, the United States and Colombia began working together to transfer operational and financial responsibility ("nationalization") for selected counternarcotics programs to Colombian control. Since that time, Colombia has successfully nationalized several programs, including the Air Bridge Denial program as well as components of several police and military aviation operations. To reflect Colombia's increasing level of capability, the GOC has taken an active role in training police and justice officials from many Latin American countries, including Haiti, Mexico, Panama, and others.

D. Conclusion

Colombia continues to make important advances in combating the production, exportation, and consumption of illicit drugs. These efforts have kept several hundred metric tons of drugs each year from reaching the United States, and have helped stabilize Colombia. As noted above, Colombia is also now a partner in exporting security and stability throughout the Western Hemisphere. Although these advances are significant, the progress is not irreversible and continued U.S. support in Colombia is needed. To solidify the gains made over the past decade, the Colombian Government will need to devote additional resources to its National Consolidation Plan to improve security, build infrastructure, and generate additional economic opportunities in regions that have historically been heavily influenced by terrorist and criminal elements. Encouragingly, the new Santos Administration is linking its consolidation plans with land reform and creating economic prosperity.

There are a number of steps the Government of Colombia can consider to improve ongoing programs. Ensuring the timely disbursement of funds for manual eradication operations so that operations can take place throughout the calendar year without interruption is important to ensuring continued declines in cocaine production and coca cultivation. To enhance its maritime interdiction efforts, the Government of Colombia should continue to expand its naval and coast guard infrastructure on its Pacific Coast. Institutionalizing a maritime fuel supply program to operate the Navy and Coast Guard's interdiction vessels will be equally vital.

The principal lesson learned from the massive reductions in coca cultivation in the Macarena pilot region is that long-term success in counternarcotics strategies and operations requires an integrated, broad-based approach. Government-led security, economic development and drug demand programs all need to work in coordination. Maintaining pressure on coca farmers, narcotics producers, and traffickers through eradication and interdiction reduces cultivation, production and keeps drugs out of the United States and the volatile transit zone. At the same time, programs that improve the rule of law and economic prosperity can lead communities to choose democratic values, licit economic activity and support for state institutions, which in turn promotes more permanent eradication results.

COLOMBIA STATISTICS (2001-2010)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Coca										
Net Cultivation ¹ (ha)	n/a	116,000	119,000	167,000	157,200	144,000	114,100	113,800	144,450	169,800
Aerial Eradication ¹ (ha)	101,939	104,772	133,496	153,133	171,613	138,775	136,555	132,817	122,695	84,251
Manual Eradication (ha)	44,775	60,500	95,732	66,396	42,111	31,258	10,991			
HC1(cocaine): Potential ^{1,2} (MT)	n/a	270	280 (adj)	485	515	500	410	445	585	700
Opium Poppy										
Net Cultivation ¹ (ha)	n/a	1,100		1,000 ³	2,300	N/A ⁴	2,100	4,400	4,900	6,540
Aerial Eradication(ha) ⁵	n/a				232	1,624	3,060	2,994	3,371	2,583
Manual Eradication (ha)	545	148	361	375	1,697	709	803			
Heroin:Potential ¹ (MT)	n/a	2.1		1.9	4.6		3.8	7.8	8.5	11.4
Seizures										
Coca Base/Paste (MT)	57.84	49.85	41	60.6	48.1	43.8	28.3	31.1	30.0	26.7
Cocaine HC1(MT)	160.1	156	182.8	130.7	130.2	179.0	138.6	114.0	94.0	57.3
Combined HC1 & Base (MT)	225.9	205.85	223.8	191.3	178.3	222.8	166.9	145.1	124.0	84.0
Heroin (MT)	0.367	0.74	0.64	0.6	0.5	0.7	0.7	0.5	0.8	0.8
Arrests/Detentions		61,021	54,041	59,652	64,123	82,236	63,791		15,868	15,367
Labs Destroyed										
Cocaine HC1	2586	285	301	240	205	137	150	83	129	
Base	2,283	2,795	3,238	2,875	1,952					
Heroin	2	0	4	1	9	6	8	3	3	6

Congo, Democratic Republic of

Marijuana is grown throughout the DRC, as it is throughout the region, but consumption of DRC's domestic marijuana is largely confined to the domestic market. There are no available statistics concerning acreage or yield in the country. There is no coca or opium production in the DRC. No evidence exists to determine that any controlled substances are manufactured in the DRC. Although known bulk shipments of pseudoephedrine entering the country could be an indicator that methamphetamine is being produced, more likely the shipments are diverted for production of meth elsewhere. There is no sizable methamphetamine user population in the DRC.

The three major DRC transit points for illegal drugs are the Ndjili International Airport at Kinshasa, the major seaport of Matadi, and the ferry crossing between Brazzaville, Congo and Kinshasa, DRC. Traffickers in the DRC are involved in the transshipment of drugs from the DRC to several countries in Europe. Couriers transiting through the DRC have been arrested with significant quantities of heroin, cannabis and cocaine in several west European countries and Canada. Significant seized shipments of pseudoephedrine into the DRC have been identified as diversions headed for the illicit methamphetamine market.

Funding for drug awareness training, demand reduction and treatment is scarce in the DRC. Congolese authorities believe that the use of marijuana, as well as abuse of licit drugs such as amphetamines and tranquilizers, has increased steadily over past years. The government does not maintain accurate statistics on drug abuse, and thus, the extent of the problem is unknown. Marijuana is widely used in the DRC, as it is throughout sub-Saharan Africa.

Cocaine and heroin abuse is most likely confined to the capital, Kinshasa, as well as some areas that have expatriate communities, such as Goma. Eastern areas of the country are the loci for the highest demand for cocaine and heroin. Congolese use of cocaine and heroin is cost prohibitive so it is possible that UN peacekeepers and other expatriate residents of the Eastern Congo are among those abusing these drugs.

The DRC continues to operate with antiquated drug laws and regulations. Marijuana regulations and laws were enacted in 1917, based on The Hague Convention of 1903. Laws and regulations controlling other narcotics were enacted in 1927 based on The Hague Conventions of 1912 and 1925. The Belgium Convention of 1941 is also still in force. Laws and regulations used to control the production and trafficking of opium were enacted in 1958 based on the international protocol of 1953. The DRC has signed on to the Rome Statute regarding the surrender of persons to the International Criminal Court, which entered into force in July 2003. The DRC is a party to the 1988 UN Drug Convention.

Drug enforcement efforts, however, are largely opaque in the DRC, and local police and customs officials are underpaid, undertrained and generally ineffective. Corruption, at various levels, possibly facilitates a wide range of criminal activity, to include drug trafficking. The DRC 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. There is also no proof that senior officials engage in drug trafficking, certainly not in an official capacity. However, corruption in conjunction with narcotics trafficking is thought to be widespread, possibly reaching into the highest levels of the government.

Narcotics control is not a priority in the DRC. Relative to neighboring African nations, drug enforcement in the DRC suffers from a lack of resources and training. Law enforcement officials in the DRC are not capable of conducting traditional drug enforcement investigations. The effectiveness of host government counter-narcotics efforts therefore is greatly reduced by the lack of expertise, training, equipment, and funding.

The DRC 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. There is also no proof that senior officials engage in drug trafficking, certainly not in an official capacity. However, corruption in conjunction with narcotics trafficking is thought to be widespread, possibly reaching into the highest levels of the government.

The DRC cooperates very little with its neighboring countries concerning counter drug operations. Officials from the DRC did attend the most recent United Nations Office of Drugs and Crime (UNODC) Heads of Narcotics and Law Enforcement Agencies (HONLEA) conference held in Windhoek, Namibia in October 2009. For the present, other problems in the DRC seem logically more urgent than drug abuse or trafficking, but drug abuse is growing, so the government will need to be wary of this development.

Costa Rica

A. Introduction

Costa Rica was named a major transit country for the first time in the President's September 2010 report to congress on Major Illicit Drug Producing and Drug Transit Countries. Costa Rica's position on the isthmus linking Colombia with the United States, its long Atlantic and Pacific coastlines, and its jurisdiction over Coco Island in the Pacific make it vulnerable to drug transshipment of South American cocaine and heroin destined for the United States. Rising consumption of illicit narcotics, particularly crack cocaine, the increasing presence of the Sinaloa Cartel and the alarming rise in drug-related violence are of great concern to the Government of Costa Rica (GOCR). President Laura Chinchilla and her Administration placed security at the top of their agenda in 2010, devising a national security plan and increasing police presence in areas of concern within the provinces of San Jose and Limon. Costa Rica is a signatory to the 1988 United Nations (UN) Drug Convention.

B. Drug Control Accomplishments/Policies and Trends

1. Institutional Development

Even before taking office in May 2010, President Laura Chinchilla declared citizen security her top priority. She and her Administration worked quickly to implement several new security strategies in 2010, foremost among them a plan to address the deteriorating security situation throughout the country. This included an increased police presence in areas of concern inside San Jose and the province of Limon, long known for narcotics smuggling activity as well as the highest murder rate in the country. In September 2010, the Minister of Public Security presented a request for \$250 million in funding to the Legislative Assembly for security programs over the next four years. A significant portion of the \$250 million for the security plan would be funded by a proposed tax on the gaming sector included in the legislation to regulate that sector. Costa Rica has also taken significant steps to establish a robust supervisory/regulatory regime and has developed measures to address money laundering and other financial crimes.

The province of San Jose, which includes the capital, continues to be a challenge for law enforcement due to the high concentration of residents and scarce resources – both in terms of number of personnel as well as their capacity. The Ministry of Public Security (MPS) continued its cooperation with the USG to interdict narcotics and to combat crack cocaine consumption in Costa Rica. The Ministry, with USG assistance, is moving forward with a container analysis and inspection program at the Caribbean Port of Limon and the eastern Pacific Port of Caldera. Legislation remains under consideration in Costa Rica's National Assembly which includes instituting a regulatory and tax regime on casinos and gambling to fund security needs, as well as a bill that limits the amount of fuel that vessels may carry, especially for fishing vessels that often resupply drug running go-fast boats. President Chinchilla made passage of this law a campaign promise although it remains in committee. The Ministry of Public Security has agreed to allow the U.S. Office of Defense Representatives (ODR) to construct a state of the art checkpoint station at kilometer 35 in Golfito province, a natural chokepoint of roads running north from Panama. The U.S. Drug Enforcement Administration (DEA), the Department of State's Bureau of International Narcotics and Law Enforcement Affairs Narcotics Affairs Office, and ODR will be providing the GOCR with the facility, training, and equipment to assist them in interdicting not only drug shipments, but other contraband traveling north from Panama into Costa Rica as well as weapons and currency shipments traveling south through Costa Rica to Panama.

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 continued in 2010. The 1991 United States-Costa Rican extradition treaty was actively used in 2010. In 2010, Costa Rica arrested 12 fugitives sought by the U.S. four were extradited, two are awaiting extradition, four were deported, and one is awaiting deportation. Costa Rica also extradited one additional fugitive who was arrested in a prior year. One fugitive U.S. citizen was released on bail and has a pending criminal proceeding against him in Costa Rica which prohibits his expulsion or extradition. The last fugitive arrested, a Costa Rican national, who is not extraditable or deportable, was released immediately.

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 passed a terrorist financing law in March of 2009 to remain in the Egmont Group. At its plenary meetings in July 2010, the Financial Action Task Force of South America (GAFISUD) voted to admit Costa Rica as a member formally marking its departure from the Caribbean Financial Action Task Force (CFATF). Costa Rica is also 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 counternarcotics agreement in April 2003, and is currently taking the necessary steps to bring the agreement into force. In 2010, the USG and the Government of Costa Rica (GOCR) signed three amendments to the 2009 Merida Initiative Letter of Agreement (LOA) to provide additional resources and programs to help combat narcotics trafficking and improve law enforcement capabilities.

2. Supply Reduction

The Costa Rican Coast Guard is an under-resourced agency with limited operational capacity. This dearth of enforcement capacity in territorial waters makes Costa Rican coasts an attractive landing zone for smugglers. Costa Rican-flagged fishing boats continue to be used by traffickers to smuggle multi-ton shipments of drugs and to provide fuel for go-fast boats that favor Pacific routes. Go-fast boats continue to transit the littorals as a method of transporting cocaine through Costa Rican waters. In addition, the southern Golfito region of the country continues to be popular for traffickers to off-load cocaine for transport north via the Pan-American Highway. Over 85 percent of all cocaine seizures in the last two years have occurred on land. Traffickers have also continued smuggling drugs through the postal system, international courier services and via individual passengers (“mules”) on international flights in/out of the country. Additionally, traffickers use Costa Rica as a “warehouse” to store narcotics temporarily on their trip north, often landing drugs on Costa Rican shores from go-fasts and then storing them until further land- or air-based travel can be arranged. Drug traffickers continue to pay for services rendered to local contacts with drugs instead of money. This has contributed tremendously to the problem of domestic drug use, especially of crack cocaine, and, consequently, to the rise in crime in the streets and the sense of domestic insecurity in the country.

Costa Rica produces low quality marijuana for domestic consumption; however the Costa Rican Drug Institute believes that the amount of tetrahydrocannabinol (THC) in the marijuana is increasing. There is also a new hybrid of marijuana plants being found and eradicated. Samples of this new breed of marijuana plant have been sent to DEA’s special testing laboratory to confirm the THC amounts.

Costa Rican counternarcotics efforts are carried out by both the Judicial branch (Judicial Investigative Police-OIJ) and the Executive (Ministry of Public Security’s Drug Control Police—PCD). The national police, Fuerza Publica, are often the first responders, but lack jurisdiction and resources to do more. In September, President Chinchilla announced a plan to add 4,000 officers to the Fuerza Publica by 2014 to help address continued insecurity due to widespread crime. Possible challenges include retention

problems that continue to plague the over-stretched force and recruiting efforts that just keep pace with retirement and attrition.

In 2010, Costa Rican authorities seized 14.8 metric tons (MT) of cocaine, of which 85 to 90 percent was seized on land. The remainder was seized via commercial and/or private aircraft in joint interdiction operations with U.S. law enforcement. The GOCCR also seized 206,760 doses of crack cocaine, 92.5 kilograms of heroin, (up from 10 kilograms in 2009) and eradicated 1,114,579 marijuana plants which would have produced 52 MT of marijuana. They also seized 289 doses of ecstasy (MDMA, or 3, 4-methylenedioxymethamphetamine). Additionally, Costa Rican authorities confiscated nearly \$9.7 million in U.S. currency and assets. The currency was not transiting Costa Rica, but rather bound for DTO command and control structures within Costa Rica. The more than 33,894 drug-related arrests made in 2010 represent a raw decrease of 30,106 arrests (or 45 percent lower) from 2009. Understaffing causes a significant prosecution backlog to continue.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Prevention Unit of Costa Rica's Counterdrug Institute (ICD) oversees drug prevention efforts and educational programs throughout the country, and is the GOCCR agency responsible for maintaining all assets seized in Costa Rica, whether real property or currency. The ICD is also responsible for producing and distributing demand reduction materials, including anti-drug abuse materials for schools. The ICD produces substance abuse identification guides and statistical reports on drug consumption and distribution in and through Costa Rica. The GOCCR estimates there are 400,000 marijuana users in the country. In 2010, in conjunction with ICD, Fuerza Publica, and Costa Rica's Drug Abuse Resistance Education (DARE), the DEA San Jose Country Office puts on a large Red Ribbon Week event for several hundred children each year. This year's event in Golfito was the largest ever, reaching 1,985 children over five days.

In 2010, the USG supported four non-government organization programs to combat drug use and reduce trafficking in Costa Rica. Projects addressed youth at risk in communities highlighted in the Chinchilla administration security efforts, had a high number of beneficiaries, a sustainable training component, a sound record of success, and a remarkable amount of partners both non-governmental and governmental.

4. Corruption

As a matter of policy, the GOCCR 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. Costa Rica enacted a strict law against illicit enrichment in 2006, in response to unprecedented corruption scandals involving three former Presidents. The GOCCR has taken strong steps against corruption and has laws in place to support anti-corruption programs. Nonetheless, corruption is present within security services and the judiciary. The Minister of Public Security has a program of "zero tolerance" for police officer corruption. Costa Rican authorities appear committed to combating public corruption because the GOCCR conscientiously investigates allegations of official corruption or abuse.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The USG is focused on capacity building programs in Costa Rica that will not only enhance the GOCCR's interdiction capabilities, but help it to disrupt and dismantle drug trafficking organizations. In support of counternarcotics projects designed to reduce the flow of illegal narcotics and other contraband through Costa Rica and its territorial waters, the USG purchased two 33-foot patrol boats in 2010 that are scheduled for delivery in 2011. Although these boats will enable the Costa Rican Coast Guard to conduct its operations, reform of Costa Rican law and policy to allow the swift conversion of confiscated assets such as go-fast boats, into anti-trafficking service would greatly enhance the effectiveness of GOCCR counternarcotics efforts. Currently, cumbersome, multi-year legal proceedings allow confiscated assets to deteriorate beyond the point of useful service or value.

The U.S. has partnered with the GOCR to support interdiction efforts at border and mobile checkpoints to stop drugs flowing north and cash and weapons flowing south; providing information sharing links to the border areas with Nicaragua; and providing technical assistance and equipment that enable the Costa Rica coast guard to patrol offshore. The USG also provided technical assistance and equipment including drug detection kits and interceptor boats to the Costa Rican Coast Guard (SNGC), via various funding mechanisms including the Merida Initiative. U.S. assistance also focused resources on interdicting maritime-based narcotics shipments to include containerized cargo. SNGC personnel continued to receive outboard motor maintenance training from the U.S. Coast Guard.

D. Conclusion

The GOCR 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 precursor chemicals. Costa Rica could further enhance its drug control efforts through its own direct efforts and collaboration with the USG and other regional nations. Improved law enforcement training to enhance officers' capacity to fight crime and interdict drugs and improved interdiction capabilities on its coastal littoral areas are needed if Costa Rica is to have a significant effect on narcotics trafficking through its territory. The U.S. applauds the ongoing organization and legislative reforms designed to give law enforcement entities greater ability to pursue narcotics traffickers, DTOs, and their financial flows as well as the GOCR's continued commitment to prevention and treatment. The GOCR is also encouraged to improve interdiction capabilities on its coastal littoral areas, which will be aided by the U.S. Southern Command-funded construction of the SNGC Academy and maintenance facilities near the port of Caldera in the province of Puntarenas. The construction of these facilities is nearly complete and they should be operational by February 2011.

Croatia

A. Introduction

The Republic of Croatia is a transit country for Afghan heroin moving to Europe and European synthetic drugs moving east. Croatia has negligible domestic narcotics production and a minor, but growing, domestic market. Croatia is located on the Balkan Route. Although illicit drug seizures in Croatia indicate that heroin is still the main illicit drug smuggled via this trafficking corridor, the traditional Balkan Route through Croatia is changing. Today, it includes a wider variety of drugs, such as cocaine shipments coming through the Black Sea or Adriatic Sea, in order to supply Europe's demand for drugs. The route now functions as a two-way street to include the exportation to Asia of synthetic drugs produced in EU countries. Heroin traffickers use all forms of transport (roads, railways, sea, air and post) but in Croatia larger quantities are usually transported by cars or trucks, while cocaine primarily arrives via sea transport.

Croatia has a strong legal and institutional framework to control and suppress narcotics related crimes, including a national police department focused on corruption and organized crime. Europol warns that although Turkish organized crime groups dominate heroin trafficking towards and within the EU, ethnic Albanian groups are increasing their influence. Croatian law enforcement agencies closely monitor activities and impact of Albanian and other criminal groups in Croatia and the region. Major cocaine seizures in Croatia were primarily related to sea traffic and occurred mostly in the port of Rijeka. Smaller ports, such as Ploče and Split on the Dalmatian coastline, are also entry points for narcotics.

Groups traffic synthetic drugs like amphetamine from Western European countries, but also from the increasingly active illicit drug markets in Eastern Europe. Occasionally drugs are smuggled through international express mail services. Croatian authorities expect a slight growth in the domestic Croatian market for synthetic drugs.

Small-scale imports of marijuana and hashish occur during the summer tourist season, when foreign tourists bring them into Croatia for their personal use. Larger quantities of marijuana are trafficked from neighboring countries, particularly from Albania, and are intended for Western European markets. Croatia is a party to 1988 UN Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Croatian drug policy was developed in the mid-1990s to address both the demand and supply of drugs, as well as to mitigate the harmful effects of drug abuse. A significant part of the National Strategy on Combating Narcotic Drugs Abuse is the implementation of measures and activities aimed at preventing the abuse of illicit drugs on the local, municipal and county levels. Given the significance of the problem of abuse and smuggling of narcotic drugs, the Republic of Croatia adopted at the end of 2005 the National Strategy for the Suppression of Abuse and Smuggling of Narcotic Drugs for 2006-2012. This is the second National Strategy, the first dating to 1996. The National Strategy is based on two strategic aims: reduction of supply (availability) and decrease of demand (interest). Since 2005, each of Croatia's 21 counties established a County Commission on Combating Narcotic Drugs Abuse. The commissions bring together local experts from various fields such as education, health and social care, nongovernmental organizations and media to develop programs to reduce narcotics abuse and facilitate treatment. The government's Annual Employment Plan has included guidelines for the employment of rehabilitated addicts since 2008.

The Interior Ministry, Justice Ministry and Customs Directorate share responsibilities for law enforcement efforts, while the Ministry of Health has primary responsibility for the strategy to reduce and

treat drug abuse. The Drug Crime Department of the Ministry of Interior is organised as part of the Police National Office for the Suppression of Corruption and Organised Crime (PN-USKOK), established in 2009. The department is responsible for monitoring and implementing activities at the national level connected with complex and organised crime, and is also responsible at the national level for combating narcotics trafficking and monitoring traffickers and organized crime groups

Croatian laws are generally sufficient to combat narcotics trafficking and drug use. The Criminal Law covers the illicit use (possession), production, and trade of narcotics. The law also criminalizes acts committed under the influence of drugs. The Act on Combating Narcotic Abuse, enacted in 2001, covers misdemeanor crimes, the export and use of precursor chemicals, and other administrative and regulatory issues. The act requires all persons or corporations to obtain import, export, or transport licenses for any quantity of listed drugs or precursors. The act also regulates healthcare, treatment, international cooperation, and drug education and other preventive programs. The 2009 Amendments to the Drug Abuse Prevention Act transferred control over precursor chemicals from the Ministry of Economy, Labor, and Entrepreneurship to the Ministry of Health and Social Welfare. The Act also shortened the time limits for the destruction of seized drugs.

In 2009, the Government spent HRK 88 million (\$16.2 million) from state budget funds for the implementation of the National Strategy and Action Plan, which represents an increase of 4% above 2008 figures. Counties spent an additional HRK 12 million (\$2.2 million) from county-level budgets, which is a 34 percent increase from 2008. The total amount spent from national and county budgets was HRK 100 million (\$18.7 million), a 6.8 percent increase in comparison to 2008. Budget data for 2010 was not available.

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 three protocols. Extradition between Croatia and the United States is governed by the 1902 Extradition Treaty between the United States and the Kingdom of Serbia, which applies to Croatia as a successor state.

2. Supply reduction

In the first five months of 2010, police recorded 2,426 criminal drug offences, resulting in charges against 1,675 people, including 814 people charged with misdemeanours. In this period, 979 (40 percent) were high level offences (e.g., smuggling, dealing, productions, etc), while 1,647 offences (60 percent) were related to unauthorised possession of drugs. In 2009, just below ten percent of all criminal cases were drug-related. In 2009, the Office of the Chief State Prosecutor reported that out of 4,342 adults charged with serious crimes, 2,297 were indicted, 2,486 were found guilty (including cases from previous years), and 834 individuals received prison sentences.

The Ministry of Interior provided the following statistics on drug seizures in 2009 and the first eight months of 2010:

	2009	2010
Cocaine	6.7 kg	11.2 kg
Heroin	59.0 kg	96.2 kg
Marijuana	255.1 kg	249.6 kg
Hashish	112.9 kg	3.1 kg
Amphetamine	12.8 kg	1.6 kg

Ecstasy	2455.5 tablets	541 tablets
Heptanone	4070 tablets	2585.5 tablets
LSD	21doses	95.5 doses

Police reported two important seizures in 2010. In February, police seized 150 kg of marijuana at the border crossing with Slovenia at Bregana. The route of the shipment was from Albania to the Netherlands. Police arrested two Montenegrin citizens. On August 13, police seized nearly 90 kg of heroin from the private vehicle of a foreign citizen.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The general health system in Croatia is under the supervision of the Ministry of Health and Social Welfare, which covers all state institutions involved in the treatment of drug addiction as a part of healthcare. According to the National Strategy, clinics or general hospitals in bigger cities provide resources for detoxification. The average stay for addicts in inpatient care is estimated at one month. After detoxification, patients generally receive outpatient treatment.

The inpatient treatment system consists of 29 psychiatric wards and hospitals, a ward in a prison hospital, and therapeutic communities. Croatia has nine therapeutic communities (usually residential homes housing recovering addicts) and 33 therapy houses that work and function as non-governmental organizations and offer treatment and psychosocial rehabilitation to drug addicts. Some therapeutic communities operate as humanitarian associations or religious communities, while others are organized and registered as social care homes for addicts. Therapeutic communities conduct drug-free treatment programs for any number of abuse problems and offer programs of psychosocial rehabilitation and re-socialization, family counseling, and self-help groups for addicts' families. Outpatient treatment is provided by one hospital ward, and 21 treatment centers and NGOs.

Croatian treatment centers utilize several types of pharmacologically-assisted programs. Substitution pharmacotherapy (methadone or buprenorphine) combined with psychosocial care is a common treatment option for opioid users. Pharmacologically assisted treatment is conducted in both inpatient and outpatient treatment centers. The Ministry of Health has explicit guidelines to regulate methadone and buprenorphine treatments.

In general, Croatian authorities provide all addicted jail inmates, detainees and defendants with health care programs that include medical examinations, counseling, psychiatric assistance, testing for infectious diseases and substitution treatment. Modified therapeutic communities are in operation in two penitentiaries.

Several respected Croatian medical doctors described the Croatian treatment model as among the best in Europe. Highly qualified medical staff works with the drug addicts, addicts have easy access to treatment, there are no waiting lists, and treatments are free of charge. Medication is available and treatments are not limited in terms of duration or doses. One Croatian doctor attributed Croatia's low level of hepatitis and HIV infections to the high quality of drug treatment programs. In addition to treatment, the socialization of drug addicts is also well implemented in Croatia.

According to 2009 data, 7,733 persons received treatment for drug addiction, of whom 1,463 were treated for the first time. The number of newly treated persons in 2009 represents the lowest number of newly treated persons in the past 10 years. In 2009, officials recorded 89 drug-related deaths, representing a significant decrease of 23 percent compared to 116 deaths in 2008. Health statistics for 2010 are not available until mid 2011.

Compared to Europe, a larger share of Croatian addicts are addicted to opiates (75 percent of total treated persons compared to 55 percent in Europe). Cannabinoid abuse in the Republic of Croatia, with about 13 percent of treated persons, represents a slightly lower percentage than in Europe (20 percent).

4. Corruption

The illicit production and/or distribution of narcotics, as well as the laundering of criminal proceeds are punishable under Croatian criminal law. Revisions to Croatian criminal legislation in 2009 introduced new legal tools for police and prosecutors that are proving to be more effective than earlier procedures for handling corruption and organized crime cases. 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 or other government officials participating in narcotics-related corruption activities. Croatia is a party to the UN Convention Against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Extradition between Croatia and the United States is governed by the 1902 Extradition Treaty between the United States and the Kingdom of Serbia, which applies to Croatia as a successor state. Amendments to the Croatian Constitution in 2010 now allow for the extradition of Croatian nationals to EU members and to others on a bilateral basis. The United States and Croatia have yet to conclude a new bilateral extradition agreement.

U.S. counternarcotics policy in Croatia focuses on expanding the capacity of the police and prosecutor's drug divisions and working with investigators from the Croatian Ministry of the Interior's Drug Division on their international investigations, particularly with respect to South America-based drug trafficking organizations. DEA is the lead agency in this endeavor and continues to foster an outstanding relationship with Croatian law enforcement. DEA achieved significant results with respect to bilateral and multilateral investigations and cooperation in 2009 and 2010. The Export Control and Related Border Security Program (EXBS) provided support and training to customs and border police, while the Department of Justice's International Criminal Investigative Training and Assistance Program (ICITAP) provided training and equipment to police and prosecutors. DoD, through the U.S. European Command, has funded familiarization trips for prosecutors and police leaders to the United States and a U.S. Coast Guard seminar involving the Croatian Coast Guard and Maritime Police. DEA, ICITAP, and EXBS training and cooperation have helped lead to several seizures and more effective prosecutions of drug crimes

D. Conclusion

Croatia has a well developed institutional and legal framework to suppress narcotic related crimes and implement preventive and educational programs. Despite the slow-growth worldwide economy, Croatia managed to increase its budget in 2009 for the implementation of the National Strategy and an Action Plan, which certainly contributed to decreases in the number of newly treated persons and the death rate from drugs. According to some indicators, the supply of illicit drugs has increased in the past several years. The increased supply and variety of illicit drugs have led to a growing trend of drug use among Croatia's youth. The situation regarding new patients treated for drug abuse has stabilized in the past several years thanks to early detection, treatment, rehabilitation and social reintegration of drug addicts and prosecutions of the perpetrators of drug related crimes. However, as new drugs continue to appear on the local market, the Croatian government will need to remain flexible with its resources for both treatment, and enforcement and may need to focus additional efforts on local distribution rather than transit operations. Croatia should also fully implement its agreement with Serbia to form a joint law enforcement unit targeting organized crime and continue to strengthen its relationship with neighboring countries along the Balkan Route, including mentoring and assistance to states from the former Yugoslavia.

Cuba

A. Introduction

Cuba is located between the large U.S. market and the largest exporters of illegal drugs in the hemisphere, and astride known smuggling routes. This offers an incentive to drug trafficking organizations to utilize Cuba's 5,746 kilometers of coastline and coastal waters for transshipment operations that avoid U.S. Government (USG) counter drug patrol vessels and aircraft. However, the Government of Cuba's (GOC) interdiction efforts and pervasive police presence have limited the opportunities for regional traffickers.

The twin goals of Cuba's counternarcotics enforcement effort are to reduce the available supply of narcotics on the island and to prevent traffickers from establishing a foothold. The Cuban Border Guard (TGF) maintains an active presence along Cuba's coastal perimeter, primarily to deter illegal emigration, but also to conduct maritime counter-drug operations and coastal patrols. Cuba's domestic drug production remains negligible as a result of stiff sentencing for drug offenses, very low consumer disposable income and limited opportunities to produce illegal drugs, either synthetic or organic, in quantity. To date, Cuba's counternarcotics efforts have prevented illegal narcotics trafficking from having a significant impact on the island.

Cuba is a signatory to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, Cuba's National Commission on Drugs continued to base its counternarcotics operations on "Operation Hatchet," their mainstay counternarcotics strategy. "Operation Hatchet" is Cuba's multi-agency approach to reduce both the supply and demand of illegal narcotics. Led by the Ministry of Interior, "Operation Hatchet" is a coordinated counternarcotics strategy and includes a multitude of GOC agencies including the Ministries of Armed Forces, Judicial, Investigations, Public Health, Education, Culture and Border Guard. The combination of forces is intended to reduce supply through vigilant coastal observation and detection, and reduce demand through education and legislation. In 2010, there was no information available on new counternarcotics legislation policy initiatives or related budget increases supporting such measures.

Cuba's domestic drug control policies appear to be effective. Drug abuse has been reported in major cities and some tourist centers. Unsubstantiated reporting indicates that it has increased in recent years. However, limited availability of illegal drugs, the Cuban government's overwhelming domestic security apparatus and public awareness campaigns have kept Cuba from becoming a major drug consuming country.

Cuba has continued to demonstrate a commitment to fulfilling its responsibilities as a signatory to the 1988 United Nations Convention based on adherence to the Convention's Articles. Specifically, Cuba has criminalized drug related offenses as outlined in Article Three; including 39 judicial agreements with partner nations regarding judicial proceedings and extradition. Furthermore, in accordance with Article Nine, the GOC has continued to exhibit counternarcotics cooperation with partner nations. The GOC reports having 32 counterdrug bilateral agreements and two memoranda of understandings (MOU) for counterdrug cooperation. Cuba has annually attended several international counternarcotics efforts such as the United Nations' Heads of National drug Law Enforcement Agencies (HONLEA), and submits quarterly statistics on drug interdictions and seizures to the United Nation's International Narcotics Control Board.

The GOC 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 Corruption, the UN Convention against Transnational Organized Crime, and its Protocol Against Illicit Manufacturing of Trafficking in Firearms. The 1905 extradition treaty between the United States and Cuba and an extradition agreement from 1926 remain in effect. However, in 2010, no fugitives were extradited utilizing these agreements.

2. Supply Reduction

During calendar year 2010, the GOC reported a total of 1.9 metric tons (MT) of illegal narcotics interdicted (including 97 narcotic wash-up events), compared to 3.19 MT total interdicted in 2009, and nearly 1.8 MT interdicted in 2008. Statistics on arrests or prosecutions were not available.

Major transshipment trends have not changed. The GOC reported in previous years that small aircraft carrying narcotics had occasionally landed at isolated Cuban airstrips due to engine trouble, but none were reported in 2010. As in previous years, “go-fast” vessels accounted for the largest amount of narcotics arriving in Cuba or transiting its territorial waters.

There were no significant changes in the government’s overall counternarcotics strategy or operations in 2010. Domestic production and consumption of illegal drugs remained limited, and the principal focus of GOC counternarcotics efforts was on illegal smuggling through Cuban territorial waters. The GOC reports inspecting 100 percent of all inbound vessels and that no major organized smuggling trends have been identified, other than the routine use of Cuba’s territorial sea to avoid detection from the U.S. Coast Guard (USCG). Under “Operation Hatchet,” the Ministry of Armed Forces and Ministry of Interior’s combination of fixed and mobile radars, coupled with visual and coastal vessel reporting procedures remains an effective network for detecting illegal incursions of territorial air and sea by narcotics traffickers. When a vessel or aircraft suspected of narcotics trafficking is detected, the GOC will swiftly pass the information on to other countries, or attempt to interdict using Cuban assets. With limited Cuban interdiction assets and the high speed of the drug smuggling vessels, at-sea interdictions remain problematic, and the GOC’s prevalent response continues to be to pass information to neighboring countries, including the United States. In 2010, the GOC reported to the USCG 36 real-time reports of “go-fast” narcotics trafficking events, leading to multiple vessel interdictions and one 1MT marijuana seizure.

Daily beach patrols search for washed-up contraband, a regular occurrence in the Guantanamo Province. Citizens are also encouraged to report washed up contraband and have been reportedly rewarded with public praise and material improvements to their homes for locating and reporting marijuana that washes ashore. In addition, strict legal penalties for possession and consumption of illegal narcotics provide compelling reasons to report contraband. Washed up narcotics are collected and destroyed.

Tourists from abroad continue to bring in small quantities of illegal drugs for mostly personal use, although the extent of this problem remains unknown. The Ministry of Interior conducts thorough entry searches using x-rays and trained counternarcotics detection canines at major airports. As of November 2010, Cuba detained 123 tourists, down from 164 in 2009, for attempting to smuggle small quantities of narcotics into Cuba.

“Operation Popular Shield,” instituted by the GOC in 2003 to prevent any domestic development of narcotics consumption or distribution of drugs, remained in effect and netted over 9,000 marijuana plants and 26 kilograms of cocaine in 2010.

3. Drug Awareness, Demand Reduction, and Treatment

The combination of very little disposable income, low supply, and strict drug laws involving up to 15-year prison sentences have resulted in very low illicit drug use in Cuba. No new national actions or initiatives to curb drug abuse were reported or observed, and the quantity of existing programs for the

general population appear adequate given the very low estimated numbers of persons addicted to drugs in Cuba. The National Drug Commission, headed by the Minister of Justice, with representatives from the Attorney General's office and National Sports Institute, remains responsible for drug abuse prevention, rehabilitation and policy issues in Cuba.

The GOC reports the Ministry of Health employs special clinics, offering services ranging from emergency care to psychological evaluation and counseling to treat individuals with drug dependencies. No special programs exist specifically for women or children battling drug addiction. The non-government funded Catholic hospital in Havana, San Juan de Dios, reportedly offers rehabilitation services slightly above the quality afforded at the GOC's facilities.

The GOC occasionally broadcasts anti-drug messages on state run media and operates an anonymous 24-hour helpline. In addition, the GOC reports the dangers of drug abuse are a part of the educational curriculum at all levels of primary and secondary schools.

4. 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 GOC reports a zero tolerance for narcotics-related corruption by government officials and claims there have been no such corruption occurrences in 2010. Such claims are difficult to verify.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

In 2010, Cuba maintained the same level of cooperation with U.S. counternarcotics efforts as it has in recent years. The United States Government does not maintain formal diplomatic relations with Cuba and operates an Interests Section (USINT), through which a USCG Drug Interdiction Specialist (DIS) carries out counternarcotics information exchanges with GOC law enforcement elements. The USCG shares tactical information related to narcotics trafficking and responds to Cuban information on vessels transiting through Cuban territorial seas suspected of smuggling or tactical information on drugs interdicted within Cuban territory. In November, officials from the USCG met with GOC officials in Havana to discuss technical level counter smuggling tactics and procedures. The technical talks led to increased awareness of Cuba's counter smuggling strategy and interdiction capability. In addition, through semi-annual bilateral talks on migration issues, Cuba continues to address issues that relate to illicit activities with the United States. It also shares real-time tactical information with Mexico and The Bahamas and Jamaica. In 2010, the DIS continued to have access to GOC counterdrug authorities, information related to ongoing investigations, after-action reporting and entry into Border Guard and Customs facilities.

The United States shares a mutual interest in reducing drug flow in the vicinity of Cuba, but does not provide any narcotics-related crime control or assistance. Historically, the Cuban and U.S. relationship has produced tangible results in terms of both carrying out successful interdictions and providing the USG with a better understanding of how Cuban territory is being used by drug traffickers. The GOC has presented the USG with a draft bilateral accord for counternarcotics cooperation which is still under review. Structured appropriately, such an accord could advance the counternarcotics efforts undertaken by both countries.

D. Conclusion

In coming years, greater communication and cooperation among the U.S., its international partners and Cuba, particularly in the area of real-time tactical information-sharing and improved tactics, techniques and procedures, would likely lead to increased interdictions and disruptions of illegal trafficking.

Dominican Republic

A. Introduction

The Dominican Republic is a major transit country for illicit drugs originating in South America with destinations to North America and Europe. Reports sourced by the United States indicate that approximately three percent of the cocaine en route to the United States transits Hispaniola. Illicit drugs continue to arrive in the Dominican Republic via aircraft and increasingly by sea aboard maritime conveyances such as go-fast boats, privately owned fishing and recreational vessels, and cargo containers. These vessels predominately originate in the Colombian Guajira Peninsula. In addition to these drug trafficking challenges, corruption at all levels of the government and throughout the private sector continues to hinder law enforcement efforts.

International drug trafficking organizations (DTO) often pay their local partners in narcotics rather than in cash. This results in an increasing domestic drug abuse problem that affects the youth of the country. It also has led to an increase in drug-related violent crimes. In order to combat the influence of DTOs in 2010, the Dominican Republic continued its cooperation with the United States government (USG) through the extradition of narcotics-related criminals and illicit drug seizures.

The Dominican Republic is a party to the 1988 United Nations (UN) Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The cooperation between the Government of the Dominican Republic (GODR) and the USG in efforts to control narcotics trafficking and related transnational crime remains strong overall. The USG's primary GODR partners are the Dominican National Police (DNP) and the National Directorate for the Control of Drugs (DNCD). Efforts that began in 2009 to foster greater cooperation between the DNCD and DNP were enhanced in 2010 with a focus on corruption, money laundering activities, and drug seizures. The DNCD and DNP also made improvements in domestic law enforcement capabilities and in interagency cooperation.

Furthermore, the GODR improved its relations with other Caribbean countries by its continued participation in the Cooperating Nations Information Exchange System (CNIES) agreement which allows the Dominican Republic to receive information on suspected aerial and maritime drug trafficking activities. The GODR also continued its participation in a joint agreement with Haiti to fight against drug trafficking and to increase law enforcement cooperation. However, the GODR has not signed a radar-sharing agreement that would allow the United States to share third country nation information with the GODR.

The Dominican Republic 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 (UNTOC) and its three protocols, the UN Convention against Corruption (UNCAC), and the Inter-American Convention against Corruption. In 1985, the USG and the GODR signed an agreement on international narcotics control cooperation. The Dominican Republic also has signed and ratified the Caribbean Regional Maritime Agreement and has a maritime counter-drug agreement with the USG that entered into force in 1995. Additionally, the 1909 United States-Dominican Extradition Treaty dates was augmented in 2005 to include judicial review for more transparency. Furthermore, the United States Marshals Service continued to receive excellent cooperation from the DNCD Fugitive Surveillance/Apprehension Unit and other relevant Dominican authorities in arresting fugitives and returning them to the United States to face justice. In 2010, the GODR extradited

22 fugitives, 15 of whom were wanted for narcotics related offenses, to the United States. The GODR also deported 10 criminals, six of whom were wanted for narcotics charges.

The Dominican Republic 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 are made through formal and informal means. These include diplomatic notes and formal legal assistance requests between “Central Authorities” related to the multilateral law enforcement cooperation treaties and conventions to which the USG and the GODR are parties. The Central Authority office responsible for processing all of the GODR’s international requests for assistance, including those from the USG, is small and under-resourced. Nevertheless, it attempts to process the requests it receives in a timely manner.

2. Supply Reduction

Although the distribution methods of illicit drugs to the Dominican Republic vary, the tourist zones and major metropolitan areas remain common destinations where cocaine and heroin are widely used. The majority of crack cocaine and ecstasy seizures in 2010 occurred in the provinces of La Altagracia on the eastern coast, Peravia on the southern coast, and Santiago and Puerto Plata on the northern coast. Cocaine seizures occurred on land, at sea, from air drops, and through airports in the country. Heroin seizures were predominately made at the country’s international airports. Marijuana is cultivated for local consumption, and seizures have been concentrated in the northwest and southwest provinces bordering on Haiti.

In concert with maritime and aerial interdiction, the head of the DNCD, General Rolando Rosado Mateo, continues to emphasize the pursuit of major drug traffickers and the dismantling of their organizations. These combined efforts have led to a modest increase in the amount of narcotics seized in 2010 as compared to 2009 interdiction efforts. During 2010, Dominican authorities seized approximately 4.85 metric tons (MT) of cocaine, 30 kilograms (kg) of heroin, 642 kg of marijuana, and 138 units (tablets) of ecstasy.

The DNCD focused its interdiction operations on the drug-transit routes in Dominican territorial waters along the southern border, while attempting to prevent air drops and maritime delivery of illicit narcotics to remote areas of the country. Due to the efforts of the DNCD, there were significantly fewer suspect drug flights from Venezuela destined for the Dominican Republic in 2010 compared to the same time period in 2009. However, flights delivering narcotics to the Dominican Republic remained a problem, and illicit drugs were easily available for local consumption in most metropolitan areas. To counter this flow, the Dominican Air Force, in cooperation with the USG, initiated an effort to develop effective end game operations using helicopters to transport DNCD Tactical Response Teams (TRT). This responsive and versatile transportation will allow the highly successful TRTs to interdict the illicit drug drops and increase seizures and arrests. Despite the GODR’s recognition that illicit narcotics are also transiting the country to North America and Europe through maritime means, only one Dominican port, Caucedo, is operating in compliance with the Container Security Initiative (CSI). The other Dominican Republic Mega Port, Rio Haina, is not CSI compliant.

3. Drug Awareness, Demand Reduction, and Treatment

The Dominican Republic continues to experience an increase in the domestic consumption of drugs, because DTOs often use illicit drugs as a method of payment for criminals involved in drug transit. However, no official surveys regarding domestic drug use have been conducted due to a lack of resources resulting from the focus on interdiction. With the limited resources that the GODR dedicated to demand reduction in 2010, the DNCD conducted sporting events and seminars targeting hundreds of thousands of Dominican youth to publicize the negative effects related to the use of narcotics and drugs. Additionally, the GODR, with USG support, implemented programs focused on grass-roots solutions to citizen safety and demand reduction. A community-based policing project established in 13 high-risk barrios in Santo Domingo demonstrated positive trends in crime reduction. Based on this success and on great praise from

community leaders and law enforcement officials, the GODR expanded this project to Puerto Plata, Cabarete, and Santiago.

4. Corruption

As a matter of policy, the Government of the Dominican Republic (GODR) does not publically encourage or facilitate the illicit production, processing, or distribution of narcotics, psychotropic drugs, and other controlled substances, or condone drug related money laundering activities. However, corruption remains endemic in Dominican society. Numerous law enforcement, military, and government officials have been implicated in a range of corrupt activities, including drug trafficking and money laundering. The GODR increased its efforts to reduce corruption in several areas during 2010. To counter the influence of drug traffickers in the judicial system, the GODR continued its focus on internal affairs operations and changed the venue of judicial proceedings when necessary. The GODR also continued to fight against corrupt public officials by cashiering officers and, in some cases, entire units implicated in drug trafficking or working with DTOs. Furthermore, the DNCD and DNP both have established internal affairs units to investigate officers accused of corruption and abuse of authority. The DNP Internal Affairs Office was restructured in 2009 and continued to operate efficiently in 2010 by conducting 2,246 investigations which led to the dismissal of 217 police officers for either testing positive for drug use, abuse of authority, or corruption. The DNCD dismissed another 408 officers for similar reasons. The GODR also has agreed to support a series of governmental reforms suggested by United States, multilateral institutions, and European nations.

The GODR is beginning to address its citizens' perception of corruption by implementing limited anticorruption initiatives. In response to a series of scandals in 2009, President Leonel Fernandez asked multilateral organizations, the United States, and other donor nations to help him address the perception of corruption. After organizing a multi-sector dialogue, the Participatory Anticorruption Initiative (IPAC) presented 30 recommendations for the GODR's consideration on November 17, 2010. Subsequently, the President agreed to begin implementing these recommendations recognizing that corruption in the Dominican Republic adversely affects programs ranging from promoting economic growth to combating illicit drug trafficking.

C. National Goals, Bilateral Cooperation, and United States Policy Initiatives

The USG supports counternarcotics projects that address crime and violence largely driven by drug and other illicit trafficking that affects the safety of Dominican Republic citizens. In combination with currently funded bilateral programs, the policy objectives of the USG are to substantially reduce illicit trafficking, advance public safety and security, and promote social justice. The goal is to establish sustainable institutional changes in support of GODR law enforcement capacity and capabilities that are free of corruption.

The Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) is represented through the Embassy's Narcotics Affairs Section (NAS). Through this office, the USG implements programs to **enhance existing land and maritime law enforcement capabilities, to improve investigations and prosecutions of criminal cases, and to coordinate counternarcotics efforts with the United States and neighboring countries. The United States also works with GODR officials to develop an effective anti-money laundering agency.**

During 2010, the USG provided equipment and training to increase the capabilities of various law enforcement entities. These programs supported the drug and explosive detection canine units in addition to the DNCD's vetted Sensitive Investigation Unit (SIU) and TRTs. The NAS also established programs to expand DNCD computer training, database expansion, and systems maintenance support. This improved the DNCD's capability to detect illicit drugs smuggled through airports and to enhance the Dominican Republic's anti-money laundering capacity. The Law Enforcement Development Program

implemented by the NAS continued to assist the DNP with its transformation into a professional, civilian-oriented organization. Since the program was initiated in 2006, over 14,000 police investigators and prosecutors have undergone training in basic criminal investigation techniques. In 2010 alone, 763 new personnel, 716 enlisted personnel, and 47 officers completed the training. The NAS initiated a similar program for the DNCD and has hired an advisor to oversee the development of this program.

Other USG departments and agencies work in concert with the Department of State's initiatives in the Dominican Republic. The United States Coast Guard (USCG) continued to participate in joint counternarcotics and illegal migrant operations that included technical assistance for pier-side boardings. Additionally, the USCG used biometrics to identify and prosecute criminals transiting via maritime means between the Dominican Republic and Puerto Rico since November 2006. Furthermore, the USCG held three subject-matter expert exchange conferences for the benefit of the Dominican Navy. The Annual Interoperability Conference focused on improving coordination in maritime interdictions and the Caribbean Search and Rescue Conference aimed at coordinating collaborative efforts on mutual search and rescue resources. Additionally, the International Shipping and Port Security Conference focused on enhancing container security measures in the Dominican Republic. The USCG also provided training to the Dominican Navy in the areas of maritime law enforcement, leadership, engineering and maintenance, port security, crisis management, and command and control.

The Sovereign Skies Program is designed to improve Dominican capacity to conduct law enforcement end game operations at sea, in the air, and on the ground. The program is supported by several agencies, including the United States Department of Defense (DoD). The program supports a fleet of A-29 Super Tucano aircraft, the development of a helicopter program to transport TRTs to drug drop zones, and the integration of radars to develop a common operating picture. In 2010, NAS-funded training included sending pilots from the Dominican Republic Air Force to Colombia for training in effective air interdiction operations and night operations. However, INL is continuing to assess with the GODR how best to meet the Dominican Republic's needs for end game capacity.

The United States Agency for International Development (USAID) continued to provide assistance to strengthen the Dominican Republic's justice system with particular focus on effective implementation of the Criminal Procedures Code. This code ensures proper acquisition, storage, and handling of evidence and adherence to reasonable time limits for prosecuting cases. USAID also assisted the National Institute for Forensic Sciences by improving procedures to secure and preserve evidence. Additionally, USAID supported the National Magistrates School in order to provide judges with current professional knowledge and skills. To help combat corruption, USAID assisted the GODR to develop new audit procedures and standards and trained 300 public auditors in international standards. USAID also supported the development of the IPAC recommendations and will continue support for implementation.

D. Conclusion

The most important challenges facing the GODR are to stop endemic corruption and to improve public confidence in the government. The GODR is continuing efforts to build a coherent, multifaceted counternarcotics program that can resist the pressures of corruption and address new challenges presented by innovative narcotics trafficking organizations. However, results of a 2010 poll show that over 80 percent of Dominicans believe that the nation's overall situation is "bad" and that 67 percent believe corruption is worse now than in earlier years. The poll also reveals that 75.6 percent of the people believe that the judicial system has the highest level of corruption followed by political parties, the National Police, municipalities, Congress, Presidency, Secretariat of Public Works and the Armed Forces. Despite the GODR's efforts of institutionalizing judicial reforms and developing the capacity to conduct complex financial investigations, it must address corruption issues and develop an effective witness protection program.

The increased cooperation between the DNP and DNCD has improved efforts to fight drug-related crimes. Additionally, the cooperation with neighboring countries and the United States has decreased illicit drug trafficking by air from South America. However, the GODR must continue to improve these efforts through the installation of radars, development of its helicopter units, and effective command and control procedures to maintain the line of defense. Through the Caribbean Basin Security Initiative (CBSI), the Dominican Republic should also improve maritime interdiction cooperation with neighboring countries as well as with United Kingdom, French, and Dutch affiliated territories in the Caribbean. Furthermore, the GODR must develop initiatives to deny DTOs the use of commercial ports to transit illicit drugs.

Dutch Caribbean

A. Introduction

The islands of Aruba, Curaçao, and Bonaire, located off the coast of Venezuela, 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. Typically, drugs are transported to U.S. territories in the Caribbean by "go-fast" boats, although use of fishing boats, freighters, and cruise ships are becoming more common. These maritime shipments were generally enroute to Puerto Rico or the U.S. Virgin Islands, but St. Maarten continues to hold some measurable popularity among drug traffickers as a gateway to Europe. Throughout the Caribbean, the U.S. Drug Enforcement Administration (DEA) and local law enforcement officials saw both typical go-fast boat traffic and load sizes reduced this year in the Dutch Caribbean. Drug couriers, also known as "mules," conceal small quantities of drugs on commercial flights to Europe and, at times, to the U.S. In addition to go-fast boat activity and smuggling via commercial airlines, there is increasing evidence that larger quantities of narcotics continue to be smuggled through the use of cargo containers.

B. Drug Control Accomplishments, Policies, and Trends:

No new laws or initiatives were undertaken in 2010 regarding counternarcotics programs in the Dutch Caribbean. However, as anticipated, the Government of the Netherlands Antilles (GONA) dissolved on October 9, 2010, and its successor political entities remain part of the Kingdom of the Netherlands (KON), though Saint Maarten and Curaçao became separate countries within the Kingdom on October 10, 2010. The GONA constitution was enacted in 1954, when the country included the six islands of Curaçao, Bonaire, St. Maarten, Saba, St. Eustatius and Aruba. Aruba left the GONA in 1986, but remained part of the Kingdom as a quasi-independent entity. Curaçao and St. Maarten now have a status similar to Aruba, and the three remaining BES islands (Bonaire, St. Eustatius, and Saba) are special overseas municipalities within the Netherlands.

Currently, Aruba, Curaçao, and Dutch St. Maarten, have autonomy over their internal affairs, with the right to exercise independent decision making in a number of counternarcotics areas. The Kingdom of the Netherlands is responsible for the defense and foreign affairs of all four Caribbean parts of the Kingdom and assists the Governments of Aruba, Curaçao, Dutch St. Maarten, and BES islands in their efforts to combat narcotics trafficking.

Cumulatively in 2010, approximately 2 metric tons of cocaine and 440 kilograms of marijuana were seized by Dutch Caribbean officials in the region.

The Netherlands extended the 1988 UN Drug Convention to the Netherlands Antilles (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, applied to the NA and Aruba upon accession. The Netherlands extended the UN Convention against Transnational Organized Crime and its three Protocols to Aruba in 2007 and extended the 1971 UN Convention on Psychotropic Substances to the NA in 1999. The Netherlands' 1981 Mutual Legal Assistance Treaty (MLAT) with the United States applied to the NA and Aruba, although the new US-Netherlands Mutual Legal Assistance Agreement does not. Both Aruba and the former NA have routinely honored requests made under the MLAT and cooperate extensively with the United States on law enforcement matters at less formal levels. On the other hand, the 2004 U.S.-Netherlands Extradition Agreement and its Annex (which is the earlier extradition treaty with the KON), does apply to the Dutch Caribbean; and both the

former NA and Aruba have been extremely cooperative in extraditing drug traffickers to the U.S. In addition, the former NA and Aruba adopted the Agreement Regarding Mutual Cooperation in the Tracing, Freezing, Seizure and Forfeiture of the Proceeds and Instrumentalities of Crime and the Sharing of Forfeited Assets, which was signed by the GONL in 1994. The Kingdom of the Netherlands has notified the United Nations in its capacity as depositary of treaties as well as the United States that the modification of the structure of the Kingdom (as described above) will not affect the validity of international agreements ratified by the Kingdom for the Netherlands Antilles.

Aruba

In 2010, 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 personnel of the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection pre-inspection and pre-clearance at Reina Beatrix Airport. These officers occupy facilities financed and built by the GOA. DHS reported several seizures of cocaine in 2010. Drug smugglers arrested are either prosecuted in Aruba or returned to the U.S. for prosecution. Aruban officials regularly explore ways to capitalize on the presence of the DHS personnel, seeking to use this resident U.S. law enforcement expertise to improve local law enforcement capabilities.

Curaçao

In Curaçao, all elements of the law enforcement and judicial community recognize that, chiefly due to geography, Curaçao 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. The local Korps Politie Curaçao (KPC) made progress in 2010 in initiating complex, sensitive cases targeting upper-echelon traffickers. As an example, Curaçao officials concentrated efforts on a major drug trafficking organization (DTO) that received multiple hundred kilogram loads of cocaine in Curaçao and Bonaire and then re-distributed the drugs through a long established transportation network to the Netherlands, Europe, and the United States. The DTO was also suspected of being responsible for several drug related murders in Curaçao. Previously the subject of numerous investigations by law enforcement in Curaçao, this DTO was able to evade officials in their attempt to bring a prosecutable case against them. In March 2010, an investigation occurred subsequent to the seizure of approximately 20 kilograms of cocaine from a fishing vessel off the coast of Bonaire. Four subjects were arrested in Curaçao and Bonaire and multiple search warrants were executed at various locations in Bonaire and Curaçao. Evidence collected from the search warrants included money counters, packaging material and drug ledgers. Also, the logo stamped on the 20 kilograms (two lions facing each other) were the same logos found on approximately 400 kilograms that were seized subsequent to a small plane crash off the coast of Bonaire during October 2009. These efforts also 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 gathering by creating a new Regional Expertise and Information Center (REIC) Unit within the KPC. These improvements were effected through money grants from the Netherlands and partnerships with U.S. law enforcement, specifically the DEA. The REIC had a positive impact on the KPC by improving investigative effectiveness. In 2010, the KPC REIC Unit has improved its place in the regional scheme of enforcement as a viable international partner for law enforcement matters.

The specialized Dutch police units named “Recherche Samenwerkingsteam” (RST) that support law enforcement in the area of responsibility continued to be effective in 2010 and continued to include local officers in the development of investigative strategies to ensure exchange of expertise and information. During 2010, the RST units have proven to be effective in sharing intelligence in a regional and international arena resulting in several successful operations to thwart organized crime groups.

The Netherlands Antilles and Aruba Coast Guard (CGNAA), soon to be renamed the Dutch Caribbean Coast Guard, has developed a very effective counternarcotics 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 marijuana.

In addition to these improvements in law enforcement, the Government of Curaçao demonstrated its commitment to the counternarcotics effort by continued support for a U.S. Forward Operating Location (FOL) at the Curaçao Hato International Airport. Under a ten-year use agreement signed in March 2000 and ratified in October 2001 by the Dutch Parliament, U.S. military aircraft conduct counternarcotics detection and monitoring flights over both the source and transit zones from commercial ramp space. A five year extension to this agreement was signed by Curaçao officials and begins in 2011.

The U.S. Consulate, in coordination with the DEA Country Office in Curaçao, continues a strong demand reduction program involving the International School of Curaçao, Curaçao Girl Scouts, and the Curaçao Baseball City Foundation (CBCF) with Major League Baseball.

St. Maarten

Officials in St. Maarten have taken the drug trafficking threat seriously by initiating joint U.S. cooperative investigations as well as adopting new law enforcement strategies to combat the problems. Sailing vessels and larger vessels continued to be identified infrequently even as they are used to clandestinely move multi-hundred kilogram shipments of cocaine under the guise of recreational maritime traffic. The multitude and diversity of routes and methods used by drug smugglers, coupled with a lack of adequate law enforcement controls over the flow of goods, works in favor of criminal organizations. Dutch St. 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 on monetary flows means that money laundering and proceeds from illegal activities are relatively easy to conceal.

Bonaire, St. Eustatius, and Saba

Since October 2010, the National Office for the Caribbean Netherlands has assumed the responsibilities of policing, security and other administrative functions on behalf of the Government of the Netherlands for the BES islands. In addition, the Dutch Navy regularly operates in the region for security purposes, and, at times, in support of the counternarcotics-focused Joint Inter Agency Task Force (JIATF) South. For many years, the Dutch Navy has become a close and essential ally of the DEA, U.S. Coast Guard and other U.S. agencies. Their continual efforts to thwart drug trafficking in the region have been noted at the highest levels of the U.S. government.

Corruption

As a matter of policy, neither the Government of Aruba nor the KON and its special overseas municipality islands encourage or facilitate illicit drug production, or are involved in laundering the proceeds of the sale of illicit drugs. The effect of official corruption on the production, transportation, and processing of illegal drugs is relatively small for Aruba and the KON, although it does occur on occasion. Aruba and the KON have been quick to address these issues through criminal investigations, internal investigations, new hiring practices, and continued monitoring of law enforcement officials who hold sensitive positions. To prevent such public corruption, there is a judiciary that enjoys a well-deserved reputation for integrity.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The objectives of U.S. policy in the Dutch Caribbean are to reduce illicit trafficking, advance public safety and security, and promote social justice. In particular, U.S. officials working with their island counterparts strive to maintain effective liaison and promote efficient country clearance actions which allow DEA domestic offices to advance investigations. The Ministers of Justice and Attorneys General of these territories and countries have pledged their support in galvanizing the police into action.

D. Conclusion

The U.S. encourages the Dutch Caribbean islands and the Kingdom of the Netherlands to continue their efforts in supporting the region through proactive counternarcotics activities and improved law enforcement intelligence sharing. The uses of technical investigative equipment and efforts to confront major drug traffickers have proved quite successful recently and will hopefully continue. The U.S. also encourages the Dutch Navy participation in offshore patrolling of the region, as it provides an important contribution to interdiction efforts and combined operations with U.S. counternarcotics agencies.

Eastern Caribbean

A. Introduction

Though quite unique in many ways, the seven independent countries of Antigua and Barbuda, Barbados, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines are commonly known and collectively referred to in this report as the Eastern Caribbean. This regional area continues to harbor abundant transshipment points for illicit narcotics primarily from Venezuela destined for North American, European and domestic Caribbean markets. The drugs transit mostly by sea in “go-fast” boats, larger fishing vessels, yachts and freighters in a variety of scenarios tailored to the geography of the region. Drug related crime rates are increasing as more drugs are remaining in the region, and local consumption of drugs is on the rise. Cultivation of marijuana is ongoing in the region as well, primarily for local consumption.

Independently, the Eastern Caribbean countries have bilateral maritime counternarcotics agreements with the United States. Meanwhile, an international organization known as the Regional Security System (RSS) exists by treaty, to which all seven countries are signatories.

The U.S. Coast Guard provides technical and logistical support for over 40 maritime police and security vessels in the region. However, independently, law enforcement capacity continues to be under-resourced and plagued with antiquated legal codes and corruption in the ranks. Collectively, they struggle with communication and coordination of effort despite their relative close proximity to each other.

In general, the Eastern Caribbean suffers from a dramatic increase in crime rates as more narcotics remain on the streets for local consumption while organized gangs are forming to control distribution in the lucrative drug trade. Compounding the problem is the lack of comprehensive and timely vetting of all officers serving in sensitive positions, which contributes to the vulnerability of narcotics corruption.

The Eastern Caribbean islands and the RSS are participating in the U.S. led Caribbean Basin Security Initiative (CBSI) and all island countries are signatories to the 1988 UN Convention.

B. Country Sections - Drug Control Accomplishments, Policies, and Trends

Antigua and Barbuda

The Government of Antigua and Barbuda (GOAB) has three drug enforcement agencies, the Royal Antigua and Barbuda Police Force (RABPF), the GOAB Coast Guard (which is part of the Royal GOAB Defense Force) and the GOAB Office of National Drug and Money Laundering Control Policy (ONDCP). ONDCP works closely with the police force and the Coast Guard to interdict and intercept the drugs, and share information with other countries in the region. The Royal GOAB Defense Force also has a mandate to interdict drug smuggling. According to the GOAB in 2010 there were no significant changes in the structure, centralization responsibilities, budget or manpower of government institutions relative to the institutional drug control infrastructure.

The Antigua and Barbuda Misuse of Drugs Act was amended in 2008 to provide that possession of drugs of over 2 kilograms is now subject to indictment and can only be tried by a judge and jury, removing the requirement of trial by magistrate. In addition, the Ministry of Health has specific record keeping requirements on the importation of pseudoephedrine and ephedrine chemicals. GOAB has civil forfeiture legislation in place.

The GOAB is a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances and the 1988 UN Convention. It is a party to the Inter-American Convention Against Corruption, the Inter-American Convention on Extradition, the Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Convention Against

the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention), the UN Convention against Corruption and its three Protocols and the UN Convention Against Transnational Organized Crime. The GOAB has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the U.S.

The GOAB estimates that both cocaine shipments and marijuana cultivation have increased over the same reporting period from last year. In 2010, GOAB law enforcement eradicated a total of two acres of cultivated marijuana in multiple locations. The local methodology used for crop size and yield data is reported as being uprooting of each plant separately which is then counted, and size of acreage is estimated on number of plants cultivated and uprooted in different locations on the island.

In cases where arrests were made in 2010, the following drug totals were reported as seized: just over 1 kilogram (kg) of cocaine, 83 kg of marijuana, 68 tablets of Ecstasy, and 3,345 cannabis plants. Amounts of drugs seized where no arrests were made are reported as: 36.3 grams of cocaine, 85.5 kg of marijuana, and 24,156 cannabis plants. GOAB authorities filed 82 drug related cases, some with multiple defendants. During 2010, thirty drug related cases went to trial, with twenty-seven convictions. The remaining cases are still pending in court. There were no prosecutions of any major drug traffickers during 2010. The nationalities of persons arrested for drugs in 2010 were as follows: 82 Antiguan; 4 Jamaican; 2 Dominican; 1 each from St. Vincent, Dominican Republic, Guyana, U.K. and St. Lucia.

The GOAB continues to struggle with a lack of adequate infrastructure for maritime patrol; only the GOAB Coast Guard, a defense and security force, has vessels. The GOAB police lack maritime platforms to help them patrol the marinas and secluded coastlines, and as a result, operational capacity is limited to joint operations. Though reasonably effective when exercised, the joint patrols still do not present the day to day deterrent effect of constant small vessel patrolling. The GOAB's counternarcotics effectiveness continues to be hindered by a legal system that does not reflect the needs of modern law enforcement. The GOAB has not targeted any major drug traffickers or their organizations. Law enforcement lacks the capacity and the resources to undertake systematic counternarcotics operations.

Antigua and Barbuda has the Drug Abuse and Resistance Education program and it is employed in the schools. Police officers are conducting anti-drug lectures in the school, churches, prisons and social organizations. The GOAB is also conveying the anti-drug message through print and electronic media. Antigua and Barbuda did not report the existence of any rehabilitation programs. The GOAB reported that a large amount of cannabis is consumed domestically, but no figures are available.

Barbados

The Royal Barbados Police Force (RBPF) has a Drug Squad which is guided by the Barbados National Anti Drug Plan. The National Plan outlines the policies, goals, strategies and legislation to combat narcotics trafficking. The Drug Squad management focuses on major traffickers, although it does monitor street "mules" and low level drug traffickers as well. The Drug Squad has a priority mandate to cooperate and share information and intelligence with regional and international counterparts, with the main intelligence focus on major traffickers and organizations. It works closely with the Regional Security Systems (RSS) Air Wing, the RBPF Marine Unit, and the Barbados Coast Guard.

Barbados has a coastal radar system (Inter Coastal Surveillance Systems Radar) which could assist in drug interdiction but it is not fully operational. The radar system has yet to achieve 360 degree coverage of the island by linking four strategically-placed towers together. Additional funding was sought by government officials to complete the project in 2011. RSS aircraft, the RBPF Marine Unit patrol vessels, and the Barbados Coast Guard patrol vessels are the main enforcement assets used by the Drug Squad to monitor the illegal movement of narcotics by sea. In 2010 there was no significant change in the structure of the Drug Squad.

There were no new developments or adoption of new legislation or budgets to assist in drug enforcement during 2010, according to the Drug Squad. Legislation is in place that imposes record keeping and reporting on the use of precursor chemicals, and importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

Barbados 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 Convention. Barbados is a signatory to the UN Convention against Transnational Organized Crime and has signed, but not yet ratified, the UN Convention Against Corruption and its three Protocols. Barbados has not signed the Inter-American Convention on Extradition or the Inter-American Convention on Mutual Assistance in Criminal Matters. However, Barbados has a Mutual Assistance in Criminal Matters Act which allows it to provide mutual legal assistance to countries with which it has a bilateral mutual legal assistance treaty, Commonwealth countries, and state-parties to the 1988 UN Drug Convention. Barbados has an asset sharing agreement with Canada. Barbados is a party to the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention). Barbados has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the U.S.

Recent trends in cocaine smuggling suggest that the Venezuelan drug trafficking rings have fostered relationships with local Barbados-based organizations to facilitate trafficking. Meetings between these organizations have involved arranging for drops of cocaine by foreign vessels at predestined global positioning system coordinates for retrieval by local vessels at sea.

In 2010 cannabis was the only drug found under cultivation. A total of 16,371 plants were seized; most were seized due to eradication efforts. The acreage was not measured as the plants were found in various locations such as cane fields, gullies, bushy areas, in homes and in enclosed yards of homes. No drug laboratories or processing facilities were encountered or eliminated during 2010. From January 1 until October 15, total drug seizures in Barbados were: 9.1 metric tons of cannabis; 63.67 kg of cocaine, and 16,371 cannabis plants. At sea seizures were reported as 6.7 metric tons of cannabis and 7 kg of cocaine. Seventy-three percent of total cannabis seizures were made at sea. No additional seizures were reported for remainder of 2010. For the first time, no designer drugs were seen this reporting period. Authorities seized cocaine in liquid, powdered and crystalline forms. Also in 2010, 641 persons were arrested for drug related offenses and all were taken to court. Statistics on convictions are not yet available. Nine major drug traffickers were prosecuted during 2010.

Barbados has the Drug Abuse and Resistance Education program and it is employed in the schools throughout the island. Police officers from the Drug Squad and the Community Relations unit are conducting anti-drug lectures in the schools, churches, prisons, social organizations, and to the private sector. There are other drug demand reduction programs through the National Council on Substance Abuse and the National Committee for the Prevention of Alcoholism and Drug Dependency. The Drug Squad believes these entities need to revisit their educational programs, pointing to the high level of cannabis consumption among the populations. There are four drug rehabilitation clinics in BBS, one of which is specifically targeted to youth.

Dominica

The Commonwealth of Dominica Police Force (CDPF) has a Drug Squad which is mandated to lead on drug enforcement. According to the CDPF, Drug Squad operations are focused on major traffickers; however, no significant arrests occurred in 2010. The Dominican Coast Guard is mandated with drug interdiction and, in March 2009, acquired a new vessel to facilitate operations to include routine patrols. Dominica is particularly concerned with cannabis cultivation in the mountainous zones which pose special challenges to law enforcement as the terrain is rugged and often impenetrable except by foot

patrols. The Financial Intelligence Unit (FIU) is operational and is assisting in identifying Proceeds of Crime Act violations in drug trafficking cases.

The Dominica Proceeds of Crime Act was amended during 2010 to address deficiencies in implementation. The FIU has referred the first major money laundering and Proceeds of Crime Act case to the Director of Public Prosecutions; the case is still under investigation and charges have been filed against several individuals. Legislation is in place that requires record-keeping and reporting on the use of precursor chemicals, and also on the importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

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 Convention. On May 28, 2010, Dominica acceded to the UN Convention against Corruption. Its bilateral maritime agreement with the United States does not include overflight provisions. It is a party to the Inter-American Convention Against Corruption, 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 Against Terrorism. Dominica has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the U.S.

Dominica estimates that 210 acres of cannabis is cultivated annually, primarily for local consumption. During the year, Dominican police eradicated 37 separate cultivations over some 16 acres and 145,258 cannabis plants. Dominica officials netted 265 drug seizures which included 145,258 cannabis plants, 604 kg of cannabis, and 1.5 kg of cocaine. There were no laboratories or drug processing plants eliminated. Dominica reported 197 drug related arrests during 2010. Although no major drug traffickers are reported as being prosecuted during 2010, there were 271 prosecutions for drug related offenses and 170 convictions.

Dominica has a Drug Prevention Unit which is engaging in education targeted to youth but the effectiveness is rated as moderate. Dominica does not have a drug rehabilitation clinic. Dominica reported 90 percent of the drugs transiting the country go to Guadeloupe, Antigua, and St. Martin. As to domestic consumption it is estimated that of the general population, 10 percent use cocaine and 25 percent use cannabis.

Grenada

Due to the location of Grenada, it is also used as rest and refueling stop-over point for drug traffickers; many of the neighboring uninhabited islands are used to temporarily store shipments of drugs. Traffickers exploit the remote cays and uninhabited islands for transshipment purposes. Though the police have boat platforms for patrols, they were mostly non-operational during the year. Grenada has developed a plan to combat drug trafficking, which involves a multi-dimensional approach to target major traffickers by enhanced collaboration with regional and international law enforcement. A special Drug Squad has been mandated to identify, target and investigate the major traffickers, along with joint initiatives with the Financial Intelligence Unit (FIU).

Grenada is using tools such as border-control data, searches, and profiling at ports of entry, as well as regional and international assistance in identifying and profiling vessels and persons involved in the movement of illicit narcotics. The Drug Squad lost its office accommodation during the 2004 hurricane and has been in temporary buildings since that year. The structure, centralization and responsibilities of the drug enforcement effort remain the same as the previous reporting period, but there has been a reduction in funding for counternarcotics initiatives and support, according to the Government of Grenada. Legislation is in place that requires record-keeping and reporting on the use of precursor chemicals, and also on the importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

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 Convention. It is a party to the Inter-American Convention Against Corruption, 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), the UN Convention on Transnational Organized Crime and its three Protocols, and the Inter-American Convention Against Terrorism. Grenada has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the United States.

Cannabis is grown on small plots in the mountainous areas of Grenada, accessible only on foot. Booby traps and lookouts are employed by farmers to protect their crops from rivals and from law enforcement. For the year, Grenada seized 6,979 cannabis plants. Grenada estimates 600 plants per acre for a total of 10 acres eradicated. For the reporting period, Grenadian officials seized 372.02 kg of cannabis, 1,107 cannabis cigarettes, 25.03 kg of cocaine, and 184 crack balls. There were no laboratories or drug processing plants detected or eliminated. Grenadian officials arrested 254 persons for drug related offenses. Information on prosecutions or convictions this year was not provided in time for this report. The numbers reported by Grenada in terms of seizures of cocaine are lower than previous years. Overall operational effectiveness is hampered by the lack of marine support, vehicles and equipment support, especially computers.

Grenada did have a drug rehabilitation clinic but it was destroyed in 2005. Since then the treatment of substance abuse has been provided at Mt. Gay Mental Hospital. Cannabis is the prevalent drug of use in Grenada, with only a very small percentage of drug abusers using crack cocaine.

St. Kitts and Nevis

There is a dedicated Drug Unit on St. Kitts whose mandate is to concentrate on drug offenses, with a smaller unit on Nevis. However, all programs are coordinated in St. Kitts. According to their officials, the present manpower of the Drug Unit is inadequate and it does not have a separate budget. The Government of St. Kitts and Nevis (GOSKN) Defense Force does work with the Drug Unit and complements the work in the eradication program. GOSKN authorities have limited ability to effectively patrol its maritime areas at the present time.

There were no significant changes in the structure, centralization responsibilities, budget or manpower from previous year's reporting. Legislation is in place that requires record keeping and reporting on the use of precursor chemicals, as well as importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

The GOSKN has proposed new legislation to provide law enforcement with the tools and authority to conduct wire intercepts. According to GOSKN reporting, the legislation is due for implementation in 2011.

St. Kitts and Nevis 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 Convention. It is a party to the Inter-American Convention Against Corruption, and 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 UN Convention on Transnational Organized Crime and its three Protocols. St. Kitts and Nevis has not signed the Inter-American Convention on Extradition or the Inter-American Convention on Mutual Assistance in Criminal Matters. St. Kitts and Nevis has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the United States.

St. Kitts and Nevis claims the prevailing global economic problems have affected the foreign drug trade in its territory in that imports are down and locally produced cannabis is gaining a foothold on the market with exports predicted to rise. Cannabis cultivation is predominantly taking place in the rough terrain in

the mountainous regions of the island, and a fair amount is also being grown in areas previously used for sugar production. During the rainy season the mountainous areas pose serious challenges to law enforcement and eradication is difficult. Based on local practice, St. Kitts and Nevis estimates that one acre of cultivation would allow for 2,000 to 3,000 plants. The amount of cannabis cultivation is unknown and unreported. There were numerous drug eradications during the reporting period. In 2010, 29.14 acres were eradicated with 81,595 plants destroyed.

Seizures in St. Kitts and Nevis for 2010 were: 41 kg of cured cannabis, 5 grams of hashish, 602.1 grams of crack cocaine and 9.2 kg of cannabis seeds. There were 165 drug related arrests, with 79 prosecutions during the same period and 74 convictions. A number of cases are still before the court. There was no prosecution of any major drug trafficker during 2010. There were no drug laboratories or drug processing plants detected or eliminated in 2010.

St. Kitts and Nevis has the Drug Abuse and Resistance Education (DARE) program and it is available for use in the schools; however, the program is dormant and efforts to restart it have not been successful. Another program is the Operation Future, which is similar to DARE, as public awareness education is conducted by the National Drug Council. St. Kitts and Nevis estimates that of domestic drug users, 90 percent use cannabis while only 10 percent use cocaine. St. Kitts and Nevis does not have any rehabilitation clinic but persons in need of rehabilitation are sent to St. Lucia for that service.

St. Lucia

St. Lucia has experienced a definitive uptick in drug gang related violent crime over the past year, including murders of witnesses in pending drug trafficking cases, prompting authorities to call for a regional witness protection program as a matter of regional security.

The Royal St. Lucia Police Force (RSLPF) is reorganizing internally with the view of improving its intelligence generating capabilities and has undergone personnel changes over the past year, which has tended to disrupt and possibly undermine effective drug enforcement efforts. U.S. agencies are seriously concerned over some of the personnel changes, and their full effect is under close scrutiny by the U.S. agencies involved in assisting St. Lucia in its drug enforcement programs. The RSLPF also wants to augment the Drug Squad and reprioritize its focus. However, other than the personnel changes and reorganization of the police department, there were no significant changes in structure, centralization responsibilities, or budget from the previous year's reporting.

In close collaboration with the Financial Investigations Unit (FIU), St. Lucian authorities report it is in the process of preparing for trial with its first financial investigations case against a major cocaine and cannabis dealer in 2011. This year, the government organized a special task force to try and suppress drug gang related activities. However, the Drug Squad was almost forced to suspend drug eradication exercises in order to provide support to this special task force. The RSLPF reported that eradication might be suspended for the final months of 2010 due to the demands of the special task force and the devastation caused by Hurricane Tomas, which caused safety concerns due to landslides.

The RSLPF did not report whether there is any legislation in place that imposes record keeping and reporting on the use of precursor chemicals, and importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals. There is currently an amendment before the Parliament to add civil forfeiture powers to the Money Laundering Act.

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 Convention. It is a party to the Inter-American Convention Against Corruption, and the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention), the Inter-American Convention on Extradition and the Inter-American Convention Against Terrorism. It has signed but not yet ratified the UN Convention Against

Transnational Organized Crime. St. Lucia has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the United States.

St. Lucia estimates that one third of actual cultivation of cannabis was destroyed in 2010 when it eradicated 180,113 grown plants and over 19,425 seedlings in 42 eradication operations covering an estimated 45 acres. St. Lucia reported total seizures in 2010 that included 481 kg of cannabis, 48.87 kg of cocaine, with four seizures made at sea. St. Lucia reported that more than 70 percent of all arrests made on the island were drug related; to date 279 persons have been arrested for drug offenses out of which 65 percent have been prosecuted and 55 percent of those convicted. A major drug trafficker, arrested in 2007 for possession of cocaine and cannabis with intent to supply, was successfully prosecuted in 2010 and sentenced to two four-year concurrent sentences.

St. Lucia has drug demand reduction programs sponsored by the Substance Abuse Department of the Ministry of Health, the Community Relations Branch Board of the RSLPF, the Ministry of Education, and the Ministry of Social Transformation. The Drug Squad makes a small contribution to the effort. However, even the RSLPF believes these programs are not very effective and too small scale and lack effective coordination. St. Lucia has one official drug rehabilitation clinic, Turning Point.

St. Vincent and the Grenadines

The Government of St. Vincent and the Grenadines (SVG) is drafting a National Drug Plan with assistance from the Organization of American States (OAS) and in collaboration with civil society and other stakeholders. The Government has set up a new Forensic Drug Laboratory in Kingstown to help expedite prosecutions. The Financial Intelligence Unit (FIU) is working closely with the Narcotics Unit in the police department, helping to target money laundering and identify traffickers. A new unit has been established in the police department (Rapid Response Unit, or RRU) with members placed in troubled areas to target drug and firearms offenses. The police department has seen an increase in personnel with 54 new officers during the year. Otherwise, there were no significant changes in terms of structure, centralization, responsibilities and budget.

A Narcotics Unit exists to target the major dealers. An example during the year was Dexter Michael who had been identified as a target for 2008-2009 and was successfully extradited in June 2010 to the British Virgin Islands for importation of cocaine. The Narcotics Unit, the RRU and the SVG Coast Guard jointly perform maritime interdiction operations with new domain awareness gained from the use of two radar sites installed in July 2010. The radar system has made a marked improvement to operational effectiveness. Almost immediately following radar installation and in concert with the RSS Air Wing, the SVG Coast Guard intercepted and seized a go-fast boat with two suspects on board and \$63,900 in U.S. currency.

There was no new legislation passed or pending in 2010 related to drug enforcement. There are no laws that govern the specific record keeping on the importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

SVG is a party to the 1961 U.N Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Convention. On October 29, 2010, SVG became a signatory to the UN Convention against Transnational Organized Crime and its three Protocols. It is a party to the Inter-American Convention Against Corruption, and has signed but not ratified the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention), the Inter-American Convention Against Terrorism, and the Inter-American Convention Against Transnational Organized Crime. SVG has an extradition treaty and a Mutual Legal Assistance Treaty (MLAT) in force with the U.S. The bilateral maritime counternarcotics agreement with the US does not include over-flight provisions.

St. Vincent and the Grenadines continues to be one of the largest producers of cannabis in the Eastern Caribbean and the source for the majority of cannabis in the region. The northern half of St. Vincent has extensive tracts of land under drug cultivation; this area is near the La Soufriere volcano with steep 4,000 feet high slopes, narrow ridges and dense forests. According to SVG officials, the Police have also seen an increase in movement of cocaine in airports via false bottom suitcases carried by both locals and foreigners. A go-fast boat was intercepted travelling from Trinidad and Tobago with cocaine and arms in exchange for cannabis.

Regional trade has also increased with Trinidad and Tobago sending drugs and guns by vessel to St. Vincent and the Grenadines in exchange for cannabis. There has been a marked increase in cash flowing through money remittance systems as well. As the main producer of cannabis in the region, the farmers in the hilly areas are a mixture of nationalities such as Antiguan, Barbadian, Dominican, Trinidadian, Grenadian, Kittitian, and St. Lucian. The farmers are compressing the dried product with hydraulic jacks and labeling the product with logos and signs, such as "XXX", "KILL", "MS 13", "666", and "777." According to local officials, St. Vincent has approximately 360 acres under marijuana cultivation. During 2010 there were 22 eradication operations carried out, destroying 90 acres of cultivation, and 164,787 plants. There are two different crop sizes and yields; the short crop is three months with less of a yield, and the long crop of six months with plants up to ten feet tall. No laboratories or drug processing plants were detected or eliminated during 2010. St. Vincent and the Grenadines police seized 3.4 metric tons of cannabis, 7.5 cannabis cigarettes, 28 kg of cocaine, and 394 cocaine rocks.

There were 459 drug related cases reported. During 2010 there were 268 convictions, 79 cases pending, 3 cases dismissed, 14 cases under investigation. There were 361 persons arrested for drug offenses, 17 of whom were foreigners, 321 for cannabis and 44 for cocaine. Six of those arrested were under the age of 16 years, and 45 were between the age of 16 and 19. According to the St. Vincent and the Grenadines police, they need more logistical support for their operations. The drug business has infiltrated segments of the population, causing a dependence on the cannabis trade, and the government will need more than just enforcement support to combat the long term effects of the drug trade.

St. Vincent and the Grenadines has the Drug Abuse and Resistance Education program and it is employed in the schools. Police officers are conducting anti-drug lectures in the school, churches, prisons and social organizations. St. Vincent and the Grenadines does not have any rehabilitation clinics. The main drug abused is cannabis with 30 percent of abusers estimated among local drug users consumption and 2 percent using cocaine.

Regional Security System (RSS)

Brokered by the USG, a treaty between the above islands was established in 1996 after a brief history of political instability among some islands in the 1980's, followed by a longer history of working together as a group on law enforcement and Cold War-era security issues. According to the treaty, the purposes and functions of the RSS are to promote co-operation among the Member States in the prevention and interdiction of traffic in illegal narcotic drugs, in national emergencies, immigration control, fisheries protection, customs and excise control, maritime policing duties, combating threats to national security, and other vital issues that require a combined effort.

A Regional Security Coordinator (RSC) is appointed by the Council of Ministers - the policy making body of the System - and is tasked with the responsibility for the general operational and administrative direction of the System. The RSC is the Chief Executive Officer and is the head of the Central Liaison Office (CLO) which is the Secretariat for the System. The first Regional Security Coordinator was Brigadier Rudyard Lewis who relinquished the post on 26 August 2003. Mr. Grantley Watson, former Commissioner of Police of the Royal Barbados Police Force, was appointed on October 1, 2003 and continues today at this post.

The key components of the RSS are the C-26 Air Wing, the Coast Guards and the Special Services Unit. Coast Guards are units of the Police forces except in Barbados, Antigua and Barbuda and St. Kitts and Nevis where they are Units of the Defense Forces. Each Police Force has a paramilitary unit known as the Special Services Unit (SSU). In Barbados, it is known as the Task Force and in Antigua and Barbuda, as the Special Patrol Group. The CLO coordinates paramilitary training for these units which are expected to deal with crises beyond the capacity to the regular Police.

During 2010, the USG continued to support the RSS Air Wing with operational support for flight hours and upgrades and maintenance on key equipment. In November 2010, USG officials transferred two ground equipment pieces, a Ground Power Unit (GPU) and an aircraft tug, which both support and help to maintain the capacity of the RSS air program. They replace units that were delivered when the C-26 program started in 1999.

Also donated in November 2010, were thirty-five sets of diving gear. Each RSS Coast Guard or Marine Police Unit received five sets of dive gear and the project represented a joint effort between U.S. Embassy Bridgetown's Military Liaison Office and Narcotics Affairs Officer to complement training previously provided to the RSS member states during a diving workshop with the USS GRASP.

Corruption

As a matter of policy, the governments of the Eastern Caribbean do 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 senior government officials in the Eastern Caribbean were reported as having been prosecuted in 2010 for engaging in or facilitating the illicit production or distribution of controlled drugs or laundering of proceeds from illegal drug transactions. News media, however, routinely report on instances of corruption reaching high levels of government that are not investigated or go unpunished. USG analysts believe drug trafficking organizations continue to elude law enforcement agencies through bribery, influence or coercion.

C. National Goals, Bilateral Cooperation, and US Policy Initiatives

The objectives of U.S. policy in the Eastern Caribbean as outlined in the Caribbean Basin Security Initiative (CBSI) are to substantially reduce illicit trafficking, advance public safety and security, and promote social justice. CBSI programs in support of these objectives will develop and strengthen the capacity of regional defense, law enforcement, and justice sector institutions to detect, interdict, and successfully prosecute criminal elements operating in the region. CBSI will directly address rising crime and violence through demand reduction and crime prevention programs while concurrently developing national and regional capacities to provide greater socio-economic alternatives for vulnerable populations. To enhance the collective capacity of the Eastern Caribbean to combat trafficking and transnational crime, CBSI will provide support for information sharing networks, joint interagency operations and regional training initiatives to promote interoperability.

All island countries have a unique counterdrug bilateral agreement with the U.S. that includes provisions such as ship rider, pursuit and entry into territorial seas, and ship boarding authorization, among others. These agreements provide advanced permissions and protocols that expedite law enforcement action day or night.

The USCG provided the Eastern Caribbean nations with resident, mobile and on-the-job training in maritime law enforcement, engineering and maintenance, port security, and leadership and management in 2010.

D. Conclusion

The U.S. encourages the seven nations of the Eastern Caribbean to effectively implement recent initiatives supporting counternarcotics efforts and proactive participation in the Caribbean Basin Security

Initiative. In addition, allowing the RSS to take a leading role in establishing strategic and operational priorities regarding law enforcement and counternarcotics program needs will provide an efficient and effective means to accomplish Eastern Caribbean goals under CBSI. The U.S. is also encouraged by the commitment of the Government of Barbados in securing resources to complete the integrated coastal radar system and invest in both maritime and air assets to achieve a new level of domain awareness that will benefit the entire region.

Ecuador

A. Introduction

Sandwiched between Colombia and Peru and bordering the Pacific Ocean on the west, Ecuador is a major transit country for cocaine and heroin. An estimated 220 metric tons (MT) of cocaine transits Ecuador each year, with 60 percent destined for the U.S. and most of the balance for Europe. Narcotics traffickers exploit large, sparsely populated border regions and difficult-to-monitor maritime and river routes to that end. Ecuador is also a major transit country for chemical precursors for South American processing and heroin destined for the United States. Border controls are weak and frequently evaded but are gradually improving.

Ecuador is vulnerable to organized crime due to historically weak public institutions and corruption. The Ecuadorian National Police (ENP), military forces, and the judiciary do not have sufficient personnel, equipment, or funding to meet all of the transnational criminal challenges they face. Ecuador has an increasing problem with domestic drug consumption.

Ecuador is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Ecuador (GOE) has continued to focus on the threat from narcotics trafficking. However, in 2010 domestic crime and other issues sometimes drew attention away from narcotics trafficking or otherwise disrupted counternarcotics work. An amendment to the bilateral Letter of Agreement needed to obligate FY 2010 funding for a significant portion of U.S. counternarcotics assistance was not signed by the GOE by the end of the fiscal year deadline, causing some needed support to be unavailable. The Ministry of Justice led work on reforming the current legislation on drug crimes, drug control, and prevention and administration of seized assets aimed at increasing institutional coordination and effectiveness. However, the National Drug Prevention and Control Plan for 2009-2012, introduced last year by Ecuador's National Council on Drugs and Illegal Substances (CONSEP) to address demand (prevention activities, assessments, and rehabilitation programs) and supply reduction (eradication, interdiction, seizures, and money laundering control) as well as alternative development, remains under consideration by President Correa.

A diplomatic process to restore relations between Ecuador and Colombia continued in 2010, and some recent signs, including a naming of ambassadors between the two countries and Ecuador's humanitarian support during heavy flooding in some areas of Colombia, are encouraging for a further improvement of relations. Nonetheless, frictions still exist following the March 1, 2008, Colombian attack on a Revolutionary Armed Forces of Colombia (FARC) camp in Angostura, Ecuador, which killed a senior FARC leader. Although Colombia ceased spraying near the Ecuadorian border in early 2007, senior GOE officials continue to allege that Colombian aerial eradication near the border harms humans, animals, and licit crops on the Ecuadorian side. The GOE continued to pursue a lawsuit at the International Court of Justice in The Hague, alleging that Colombia's aerial eradication actions near Ecuador's border violated Ecuadorian sovereignty, despite results of an Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD)-commissioned study concluding that drift from aerial eradication was not likely to affect Ecuador under spraying procedures followed by aerial eradication aircraft. The suit seeks reparations from Colombia and the cessation of aerial spraying. On October 22, the Inter-American Commission on Human Rights (IACHR) agreed to investigate a GOE complaint against Colombia seeking compensation for the death of the Ecuadorian citizen at Angostura. Ecuador's

Minister of Foreign Affairs has stated that this should not affect the restoration of ties between the two nations.

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. The United States and Ecuador do not have an active extradition relationship. The most recent U.S. extradition request, which involved a Colombian drug trafficker, was denied by the GOE in 2010. The United States does not have any further extradition requests pending with Ecuador.

In addition to the 1988 UN Drug Convention, Ecuador is a party to the 1961 UN Single Convention as amended by the 1972 Protocol and the 1971 UN Convention of Psychotropic Substances. It is also a party to the 1992 Inter-American Convention on Mutual Assistance in Criminal Matters, the UN Convention Against Corruption, and the UN Convention Against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. The GOE has signed bilateral counternarcotics agreements with Colombia, Cuba, Argentina, and the United States; the Summit of the Americas anti-money laundering initiative; and the OAS/CICAD document on Anti-Drug Hemispheric Strategy. Ecuador and the United States have agreements on measures to prevent the diversion of chemical substances; on the sharing of information for currency transactions over \$10,000; and a Customs Mutual Assistance Agreement.

2. Supply Reduction

In 2010, the GOE continued counternarcotics efforts focused on cocaine interdiction and identifying and destroying processing laboratories, but with diminished cocaine seizures compared to the previous year. Cocaine seizures in 2010 totaled 14.8 metric tons (MT) compared to a total of 43.5 MT in 2009. Of the cocaine seizures, 9.8 MT were land-based and 5 MT were maritime. However, heroin seizures increased to 257.9 kilograms (kg) from 148 kg in the previous year due to successful work by Ecuadorian law enforcement officials at national airports. Marijuana seizures were 2.5 MT compared with 2.8 MT in the previous year. The counternarcotics police (DNA)-run "1-800-Drogas" nationwide hotline, which allows citizens to report anonymously illicit drug activity, has produced tips that resulted in seizures of illicit narcotics, and supported development of cases against other illegal activities such as weapons smuggling.

Along Ecuador's border region a paucity of licit employment opportunity, endemic poverty, isolation, and proximity to FARC-held Colombian territory combine to make the region unstable. The U.S. Agency for International Development (USAID) continued to support GOE efforts to improve livelihoods and infrastructure, strengthen local government, and open opportunities to expand licit economic activity as part of the GOE's northern border development master plan. In FY 2010, USAID financed the construction of 40 infrastructure projects, including roads, bridges, irrigation canals, and water and sanitation systems that benefited nearly 22,000 people. USAID also helped increase average incomes of 10,600 families by 17 percent by strengthening value chains in cacao, coffee, and other products.

The Ecuadorian military sustained its operations near the northern border with Colombia, but leveled off from the enhanced tempo following the March 2008 bombing of the FARC camp by Colombia. In 2010, the Ecuadorian military conducted 64 operations at the battalion level, destroyed 89 camps or rest and relaxation locations related to narcotics and guerilla activities, detained 26 individuals, confiscated 27 weapons, 2,172 gallons of fuel, 1,825 kg of TNT, 1,045 kg of other explosives, and 7.5 kg of cocaine paste.

Other successful Ecuadorian counternarcotics operations included the April 2010 arrest of one of the U.S.'s 42 most-wanted drug traffickers, Consolidated Organizational Priority Target (CPOT) Ramon Quintero San Clemente. In addition, in May 2010, Ecuador discovered, for the first time, a self-propelled semi-submersible hidden in a shrimp farm on the coast near the city of Machala as well as 3 MT of cocaine and 10.8 kg of heroin seized at a farm near Perdenales that was being used as a staging point for

maritime shipments. In July 2010, Ecuadorian authorities were the first law enforcement entity in the world to seize a self-propelled fully submersible submarine used to transport narcotics. The vessel was clandestinely built in the jungle of the province of Esmeraldas. Additional operations led to seizures of 482 kg of cocaine in a container of frozen fish destined for Italy; 727.5 kg of cocaine in a container of frozen shrimp heading to Spain; 2.5 MT of cocaine in a truck headed for Guayaquil; and the destruction of six cocaine processing laboratories.

The U.S. Coast Guard and Ecuadorian Navy have effective Operational Procedures to facilitate maritime counterdrug cooperation and were planning meetings with USG counterparts in late 2010 to better coordinate case package handover procedures to ensure Ecuadorian convictions.

In 2010, Ecuador participated in joint operations with the U.S. Between September 4 and September 13, 2010, Ecuador and the U.S. successfully completed SPONDYLUS II, a joint exercise to improve coordination and communications between the Ecuadorian Coast Guard and Navy and the U.S. Coast Guard, Navy, and the Drug Enforcement Administration (DEA). An earlier exercise, SPONDYLUS I, took place in May 2010. No drug seizures resulted from the two operations, but the exercise was a success for enhanced communications between institutions from both countries. Continued exercises could help to mitigate the loss in surveillance coverage of the Eastern Pacific. On September 22, 2010, the United States Coast Guard seized an Ecuadorian-flagged vessel, Nino Divino II, 250 nautical miles south of Galapagos. The U.S. seized approximately 2 MT of cocaine and another 1 MT is believed to have sunk with the vessel. The Ecuadorian Coast Guard cooperated with the United States Coast Guard at sea, and Ecuadorian authorities took the 11 crew members into custody.

Maritime activity by drug traffickers in the Eastern Pacific near Ecuador increased by an estimated 200 percent or more in 2010 although maritime seizures dropped dramatically from the previous year. Both developments may stem from a loss of effective surveillance coverage in the Eastern Pacific due to the Manta Forward Operating Location (FOL) closure and are factors in the overall decrease in 2010 seizures. The GOE agreed in 1999 to permit the USG to operate an FOL for ten years at an Ecuadorian Air Force base in the coastal city of Manta for counternarcotics detection and monitoring operations. The FOL ceased operations in September 2009, following a GOE announcement that it would not renew the agreement which expired November 11, 2009. Other factors contributing to decreased seizures may include the change in tactics by drug traffickers, breaking shipments into smaller quantities, and disruptions in the work of specialized police units that have historically been responsible for most seizures. Despite efforts undertaken in 2009 to enhance their capacity and operational effectiveness against maritime trafficking, the Ecuadorian Coast Guard and Navy failed to make any narcotics seizures in 2010.

Ecuador continues to be largely free of growing illicit drug crops. In June 2010, the United Nations Office of Drugs and Crime (UNODC) released its second Ecuador coca crop cultivation survey. The survey found no identifiable coca crop cultivation within the risk zone of Ecuador's northern border with Colombia. Elsewhere, when small-scale poppy or coca cultivation was identified, Ecuadorian police or military immediately eradicated the fields. In 2010, the DNA eradicated 9,720 coca plants; 108,000 opium poppy plants; and 45 cannabis plants.

Cocaine and heroin from Colombia as well as cocaine from Peru transit Ecuador by various routes for international distribution in shipments ranging from a few hundred grams to multi-ton loads. Shipment methods for illicit drugs and other contraband continued to diversify, including use of small fishing boats, self-propelled semi-submersibles, high-speed go-fast boats, and containerized cargo. In 2010, drug traffickers increasingly broke up shipments into smaller quantities (200-500 kg) and secured their illicit cargo on decks, allowing jettisoning of bales at the first sign of detection. That approach diversifies risk and hinders confiscation of transport vessels.

Ecuador's postal authorities continued to improve their anti-narcotics controls, coordinating with the DNA to ensure increased drug detection. Utilizing canine screening and USG-purchased screening equipment at international airports and other postal facilities, 2010 postal system seizures approximately doubled over the previous year for the second year in a row. However, traffickers continue to ship drugs via international mail and messenger services, with cocaine generally destined for European markets and heroin for the United States. According to Ecuadorian and U.S. officials, there has been a reported rise in the use of shipping containers to hide drugs, and traffickers continued to ship white gas and other precursor chemicals in large quantities from Ecuador to Colombia and Peru for cocaine processing.

3. Drug Awareness Demand Reduction and Treatment

Ecuador has an increasing problem with domestic drug abuse including marijuana, cocaine, and other substances. According to UNODC data, the average age of first-time drug use in Ecuador dropped from 14.5 in 1998 to 13.7 in 2010. Local data regarding general trends in drug abuse is limited.

Coordination of abuse prevention programs is the responsibility of CONSEP, which leads a multi-agency national prevention campaign in schools. The campaign consists of nationwide workshops focused on the school-aged population and community outreach. CONSEP and the DNA also promoted awareness through anti-drug concerts for youth and a media campaign. CONSEP is developing a pilot project on community networks.

The Ministries of Interior and Justice are tasked by presidential decree with coordinating prevention efforts. Reports have circulated for some time that CONSEP may be partially dismantled in some way, but this has not yet occurred. A bill reforming the anti-drug law (Law 108), in the preparation stage within the Ministry of Justice, would replace CONSEP by a Secretariat with the same and perhaps enhanced functions. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace. The UNODC conducts a demand reduction and drug prevention program in Ecuador, which receives some U.S. government funding.

4. 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 prosecution of anyone charged under that law. There have been few, if any, successfully-prosecuted cases of government officials, police or military involved in narcotics trafficking-related corruption. Some other aspects of official corruption are criminalized in Ecuador, but there is no comprehensive anti-corruption law. Different entities (such as the President's Secretariat for Transparency of the Public Administration, the Technical Secretariat for Transparency and Fighting Corruption of the Council for Citizens Participation) are charged with receiving complaints and initiating corruption investigations. Overall results in this area have been mixed. The Financial Analysis Unit (formerly Financial Intelligence Unit) continues to gather information on suspicious financial transactions to build cases against the individuals involved. Any cases have to be formally investigated and prosecuted by the Attorney General.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. counternarcotics assistance is provided to improve the professional capabilities, equipment, and integrity of Ecuador's police, military, and judicial agencies to enable them to more effectively combat criminal organizations involved in narcotics trafficking and money laundering. A 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. Recently the USG has also begun to assess the problem of increasing illicit activity and the lack of state resources along

Ecuador's Southern border. USG-supported prevention programs in coordination with the Ministry of Education, CONSEP and other GOE entities address awareness of the dangers of drug abuse.

The DNA remains the primary recipient of U.S. counternarcotics assistance, including vehicles, equipment, training and the construction of installations at ports, border areas, and elsewhere. The DNA includes special nation-wide units, such as the Mobile Anti-Narcotics Teams (GEMA), a drug detection canine program, and a money laundering unit. In 2010, the U.S. continued to provide support to the military to facilitate their mobility and communications during operations along the Northern Border, and to Ecuadorian Navy elements to better mobilize, equip, and train for narcotics interdiction activities.

Ecuador is an active participant in the U.S. Coast Guard-sponsored Multilateral Counterdrug Summit, which includes participants from Panama, Colombia, El Salvador, Nicaragua, and Mexico. The goal of these Summits is to identify and implement measures by which partner nation entities and the USG can cooperate to combat maritime drug trafficking through interdiction and delivery of consequences in smuggling cases. The success of these summits is dependent on the continued participation and cooperation of partner nation counterparts to facilitate regional counterdrug interoperability.

Judicial sector reform also continued in 2010. Changes to the structure of judicial institutions under the new constitution, effective October 2008, created some uncertainty regarding applicable criminal procedures. A major USG-funded program continued to train prosecutors, judges, judicial police, law professors, and law students on best practices for investigating and prosecuting criminal cases under the emerging accusatory system. In workshops throughout the country, the program focused on building basic skills, as well as more advanced techniques required in complex and transnational crimes, such as human trafficking, money laundering and narcotics trafficking. The program has consistently received positive reviews from workshop participants, who state that the training has helped them with the prosecution of cases.

In cooperation with the Judicial Council (formerly the National Judicial Council), the U.S. continues to pursue the implementation of an automated database of all criminal cases. In early 2009, the database project was suspended by a political decision of the Judicial Council, supported by the Ministry of Justice. With new leadership at the Ministry of Justice, as of April 2010, the Judicial Council has showed renewed interest in the project. Once fully implemented, this database would enhance management and transparency of the adjudication of criminal cases to address problems of delay and corruption.

The U.S. provided technical assistance to support continued implementation of the Financial Analysis Unit and provided training and equipment to police investigative units. Training assistance programs encompassed anti-money laundering, financial crimes, and maritime law enforcement. On November 5, 2010, the National Assembly passed a law reforming the Anti-Money Laundering law, strengthening the powers of the Financial Analysis Unit. However, a potentially harmful reform tasks the Financial Analysis Unit with delivering information to the National Intelligence Council, which could be used with political bias.

D. Conclusion

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 and poppy cultivation, and destruction of cocaine-producing labs. Enhanced GOE presence near the Colombian border will enable Ecuador to better control Colombian-based drug cartels and destroy production sites. In addition, a shift from an approach based on stationary posts to more mobile operational patrols may be necessary throughout the country, particularly in border areas. As traffickers continue to shift tactics and employ fast boats for smaller shipments, containers, semi-submersibles, and, now for the first time, even a fully-submersible submarine, enhanced controls along Ecuador's maritime border, including improved port security, patrolling, and inspections, will be essential for controlling maritime trafficking. Strengthening coordination between military and police forces will facilitate GOE evidence-gathering and case

prosecution related to these activities. Additionally, we encourage the GOE to give high priority to prosecution of money laundering and official corruption, which are both key to successfully attacking the leadership of narcotics cartels. We also encourage the GOE to build upon current demand reduction programs and capitalize on lessons learned.

Egypt

The Arab Republic of Egypt is not a major producer, supplier, or consumer of narcotics or most precursor chemicals. Ephedrine and pseudoephedrine, precursors for methamphetamine, are an exception. Cannabis is grown year round in northern and southern Sinai and in Upper Egypt, while opium poppy is grown in southern Sinai from November through March. Egypt is considered a transit point for transnational shipments of narcotics from Africa to Europe due to Egypt's mostly uninhabited borders with Libya and Sudan and the high level of trade shipping through the Suez Canal Zone, which make Egypt prone to the transshipment of Afghan heroin and narcotics from other countries.

Egypt is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Egypt is a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons and the UN Convention against Corruption. Egypt and the United States cooperate in law enforcement matters under a 1998 MLAT and an 1874 extradition treaty. The 1988 UN Drug Convention, coupled with the 1874 extradition agreement with the former Ottoman Empire, provides the United States and Egypt with a basis to seek extradition of narcotics traffickers.

The Anti-Narcotics General Administration (ANGA) oversees most of the counternarcotics operations in Egypt, and cooperates fully with the U.S. Drug Enforcement Administration (DEA) office in Cairo to uncover and destroy narcotic laboratories, as well as identify millions of dollars of drug related proceeds. ANGA is working on updating their equipment to include vehicles and communication equipment capable of operating in the desert region of the Western Border area, as well as increasing cooperation with Egyptian Special Forces and Frontier Guards.

ANGA investigates and targets significant drug traffickers, intercepts narcotics shipments via land and sea, and detects and eradicates illegal local crops. Large-scale seizures and arrests related to cocaine, heroin and methamphetamine are rare, but there are very large scale seizures of hashish and marijuana. The following are the numbers of seizures in Egypt from January – October 2010: Cannabis - 52,502 kg; Cannabis – 243 feddan; poppy plants – 514 feddan; poppy seeds – 10.5 kg; psychotropic pills - 70,826,369 + 2015 MDMA; psychotropic (C3) – 1485; hashish – 12,420 kg; heroin – 37.269 kg; opium – 22.909 kg; cocaine – 4.476 kg. A “feddan” is a unit of area used in Egypt and some bordering countries; it is equivalent to slightly more than (1.038) U.S. acres.

As a matter of government policy, the GOE does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. The GOE has strict laws and harsh penalties for government officials convicted of involvement in narcotics trafficking or related activities. In recent years, a limited number of local, low-level police officials involved in narcotics-related activity or corruption were identified and arrested.

Government and private sector demand reduction efforts exist, but are hampered by financial constraints and logistical challenges. As of 2009, the National Council for Combating and Treating Addiction continues to be the GOE's focal point for domestic demand reduction programs; while the Council enjoys high-level leadership, its actual capabilities and influence within Egypt are minimal. The Council primarily funds training for drug addiction workers and drug awareness prevention campaigns, but is not actively involved in rehabilitation programs or drug abuse education programs. The Ministry of Health (MOH) has an annual budget of 150 million Egyptian pounds for the treatment of all mental health diseases, including addiction related conditions, and MOH state hospitals provide free treatment for drug addicts.

Imports of ephedrine and pseudoephedrine, both of which can be diverted for use as precursor chemicals for methamphetamine, increased sharply in 2009 and 2010 as Egypt became a regional producer of cold and flu medicine for Northern Africa. Due to price and ease of purchase, Egypt's purchases of these chemicals have shifted significantly to China and India. GOE authorities assert that in the past two years there have been no seizures of these chemicals as a result of any suspected drug trafficking or violation of local laws preventing their misuse. There have been no reports indicating a large scale diversion of these chemicals. Existing control regimes, however, place great weight on the documentation accompanying chemical imports. If the paperwork is in order the chemicals are almost always cleared for import with no follow up to detect possible diversion or misuse of the manufactured medicines.

El Salvador

A. Introduction

El Salvador is a transit country for illegal drugs headed to the United States from production countries in South America. Traffickers in El Salvador use go-fast boats and commercial vessels to smuggle illegal drugs along the coastline; land transit usually takes place along the Pan-American highway, with drugs hidden in the luggage of bus passengers or in containers on commercial tractor-trailers. Key to regional detection and interception efforts along both routes is the Cooperative Security Location at El Salvador's international airport in Comalapa. Transnational street gangs are involved in street-level drug sales but not major trafficking.

The Government of El Salvador (GOES) has not reported serious problems with the production of either synthetic or organic drugs. Local growers cultivate small quantities of marijuana for domestic consumption.

The Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) is the primary law enforcement agency responsible for combating illegal drug activity. The special antinarcotics group, or GEAN (for its initials in Spanish), within the DAN, handles the most complicated and time-consuming investigations. The DAN, however, is hampered by a lack of equipment, a shortage of officers, and recurring funding gaps. The Salvadoran Navy makes maritime intercepts of vessels suspected of drug smuggling. The Attorney General's office has a financial investigative unit (FIU); in 2010 the FIU was re-admitted into the Egmont Group, but no significant long-term investigations or prosecutions of money laundering took place, largely because of a lack of personnel, funding, resources, and political will.

El Salvador is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, the GOES passed an amendment to the Salvadoran constitution and enabling legislation related to wiretapping and electronic intercepts. Enabling legislation was also passed for asset forfeiture that allows the government to sell property seized in conjunction with narcotics arrests and to use the profits for counterdrug efforts. Also in 2010, the DAN, supported by prosecutors from the FIU, seized more than \$20 million in profits from illegal drug sales made in the United States. The bulk of this money will be returned to Salvadoran law enforcement agencies.

The U.S. Embassy in San Salvador is working with the GOES on the implementation of the new National Electronic Monitoring Center. The center promises to provide a steady stream of evidence suitable for use in court regarding illegal drug operations and organized criminal gang activity and will improve interagency cooperation within the GOES. The PNC has entered more than 300,000 names into the Advanced Fingerprint Information System (AFIS) and plans to create a national database to include the majority of Salvadoran citizens. The Embassy continues to support El Salvador's anti-gang efforts through specialized law enforcement training, prevention efforts including the Gang Resistance Education Program (GREAT) implemented with PNC officers, and the transnational anti-gang unit. Ten PNC officers were trained in the GREAT program and 700 children went through the course.

El Salvador is a party to the 1988 UN Drug Convention, 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 also 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 1911 extradition treaty between the United States and El Salvador is limited in

scope, and the constitutional prohibitions on life imprisonment and the death penalty are obstacles to negotiating a new bilateral extradition treaty. Narcotics offenses are extraditable crimes by virtue of El Salvador's ratification of the 1988 UN Drug Convention. Only one person, a Salvadoran national extradited in early 2010, has been extradited to the United States under this treaty, despite numerous requests. El Salvador signed an agreement of cooperation with the United States in 2000 permitting access to and use of facilities at the international airport of El Salvador (Comalapa) for aerial counternarcotics activities. The agreement was renewed in 2009 for an additional five years and will expire in 2015.

2. Supply Reduction

As of October 2010, the PNC had seized 708 kilograms (kg) of marijuana, 126 kg of cocaine, five kg of heroin, and three kg of crack cocaine. The police also arrested 1,627 persons for drug trafficking and possession and 15 persons for money laundering. In 2010, the Salvadoran Navy inspected more than 30 vessels suspected of narcotics trafficking and assisted the U.S. with the seizure of approximately 500 kg of cocaine.

Transit of illegal drugs through the country occurs by traffickers using go-fast boats and smuggling drugs on commercial vessels. Some land transit occurs through vehicles going through the country on the Pan-American Highway, including buses and tractor-trailers. Narcotics-trafficking also occurs at the major commercial airport, Comalapa, where large movements of cash are trafficked as well. From January to June 2010, the PNC Anti Narcotics Unit Office at the Comalapa Airport (AIES) seized a total of \$242,000 in cash.

3. Drug Abuse awareness, Demand Reduction, and Treatment

Drug use among Salvadorans is a growing problem, particularly among youth, although reliable statistics for illegal consumption are not kept by the government. Few programs exist for the rehabilitation of addicts.

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, and the PNC operates a Drug Abuse Resistance Education (DARE) program, but it is unclear if these programs are making progress in reducing demand. In 2010 the PNC also implemented the Gang Resistance Education and Training program in targeted schools, and it is expected to be replicated throughout the country. The Public Security Council sponsors a substance abuse prevention program aimed at El Salvador's gang population. The U.S. Government (USG) supports FUNDASALVA, a Salvadoran non-governmental organization (NGO) that provides substance abuse awareness, counseling, and rehabilitation. Local faith-based demand reduction programs offer counseling programs administered by recovering addicts.

4. Corruption

The GOES does not 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 official is known to engage in, encourage, or facilitate the illicit production or distribution of drugs, nor the laundering of proceeds from illicit drug transactions. Prosecutors in the Fiscalía did not make progress in pursuing scores of alleged cases of corruption announced in 2009, chiefly because of lack of evidence. The cases included allegations that former high-ranking members of the DAN were linked to narcotics traffickers. Critics have suggested the cases are politically motivated. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. assistance focuses on enhancing the operational capacity of Salvadoran law enforcement agencies to interdict narcotics shipments and combat money laundering and public corruption. There also is a strong emphasis on promoting transparency, efficiency, and institutional respect for human and civil rights within Salvadoran law enforcement and the criminal justice system. The USG supports Salvadoran measures to fight organized crime, including anti-money laundering efforts of the Attorney General's Financial Crime Investigation Unit. USG support also aids Salvadoran efforts to fight transnational gangs.

In 2010, the USG provided specialized vehicles, cargo inspection equipment, bullet-resistant vests, radios, computers and other basic law enforcement equipment to the GEAN and other DAN constituent units. The USG also funded tactical training in such areas as vehicle stops, roadway interdiction, and emergency responder first aid. The International Law Enforcement Academy (ILEA) provided police management and specialized training to the region. ILEA trained approximately 230 PNC officers and law enforcement officials in 2010. The U.S. Coast Guard provided mobile training in maritime law enforcement, port security, and leadership and management. The Department of State's Bureau of International Narcotics and Law Enforcement Affairs' (INL) Regional Gangs Advisor (RGA) coordinated anti-gang policy and initiatives for El Salvador, Honduras, and Guatemala. Although gang involvement in narcotics trafficking remains confined to retail distribution, the INL RGA is routinely consulted on narcotics issues, including programs that combat gangs, such as prison reform and the Central America Fingerprint Exchange (CAFE) program. In 2010, the U.S. Drug Enforcement Administration (DEA) and INL San Salvador continued working with the DAN to develop two mobile inspection teams capable of being deployed at highway choke points adjacent to El Salvador's land borders with Guatemala and Honduras, and also worked with the specialized container cargo inspection unit at the port of Acajutla. These units have basic vehicle fleet and cargo inspection equipment, as well as specialized training on conducting vehicle stops and roadway interdiction.

Central American Regional Security Initiative (CARSI) funds assist the GOES to confront organized criminal and narcotics trafficking organizations that plague the region and support programs to strengthen institutional capabilities to investigate, sanction, and prevent corruption. The GOES continues to provide prompt responses to USG requests regarding maritime drug interdiction cases.

El Salvador participated in the USCG sponsored Multilateral Counterdrug Summits hosted by Panama. The Summits help partner nations achieve regional interoperability to effectively combat the flow of drugs in the transit zone, improve overall prosecution support through post interdiction processes and procedures, and create opportunities for coordinated regional interdiction operations focusing on the littorals.

D. Conclusion

El Salvador remains fertile ground for USG and host government cooperation in combating narcotics trafficking and gang activity. Public security remains the foundation on which all other development assistance depends. Programs designed to increase police professionalism, enhance border security, and reduce corruption, among others, have had isolated successes, but they need to be sustained under GOES leadership. For example, significant underfunding and inadequate staffing of the Attorney General's FIU leave the country vulnerable to financial crime and money laundering. Because remittances are an important part of the Salvadoran economy, we encourage the GOES to carefully monitor this activity to ensure that money laundering is not taking place. 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 PNC. On a broader level, El Salvador should further enhance its drug control efforts by providing additional manpower, resources, and equipment to the PNC units on the front lines of the fight against narcotics traffickers.

Estonia

Estonia is a source of synthetic drugs for several countries in Scandinavia, especially Sweden and Finland. Synthetics and heroin also transit Estonia on their way further west into Europe. Estonia's domestic anti-narcotics legal framework is in full compliance with international drug conventions and European Union narcotics regulations, including the 1988 UN Drug Convention. The Estonian Narcotic Drugs, Psychotropic Substance and Precursor Act has been in force since 1997. The Act was last amended in February 2010 to strengthen the regime covering purchases of psychotropic medicines under EU prescriptions. Except for the higher HIV-infection rate among intravenous drug users (IDUs), the drug situation in Estonia is similar to that in other European countries.

Combating the trade, production and domestic consumption of narcotics continued to be high priorities for all Estonian law enforcement agencies and for key government ministries in 2010. Approximately 80 police officers from the Estonian Police and Border Guard Board (EPBGB) specialize solely in narcotic-related crimes. In the first nine months of 2010, police seized two amphetamine and two gammahydroxybutyrate (GHB) labs. Additionally, the police have investigated several persons suspected of recruiting drug smugglers. Estonian police credit these efforts with the decrease in arrests of Estonian drug traffickers abroad. Twenty-eight Estonian traffickers were arrested around the world in the first ten months of 2010, down from 56 in 2009. According to the police, their continuous law enforcement efforts have resulted in the number of seizures of narcotic substances decreasing annually.

Approximately 420 Estonian Tax and Customs Board (ETCB) officers perform narcotics control on a daily basis. About 50 officers work in mobile units and 30 officers from the Investigation Department are specialized on narcotics-related crimes. All customs border points are equipped with X-ray machines and equipment to disassemble vehicles, if necessary during searches. Both border points and mobile units are equipped with rapid drug tests, endoscopes, fuel pumps, and densimeters to discover drug caches. All customs, investigation and information officers have received special training in narcotics control. The ETCB also has 20 drug sniffing dogs working on the European Union's easternmost border, in Tallinn airport and in Tallinn harbor. The ETCB utilizes automated license plate surveillance systems to gather additional information on border crossings.

The counter narcotics efforts of ETCB continued to be successful in 2010. In February, Estonian customs officers detected about 39 kg of khat plants in the possession of two British subjects arriving via ferry from Finland. In March, 5.1 kg of liquid amphetamine hidden in a fire extinguisher were seized from a car entering Estonia from Russia. In April a pedestrian crossing the Russian border was arrested for attempting to smuggle 2.6 kg of liquid amphetamine. In September, customs detected about 47 kg of cocaine contained in a coffee mixture from a cargo plane arriving from Venezuela via Germany.

The ETCB and the EPBGB maintain good international cooperation through liaison officers with Finnish Customs and Police, Swedish Customs and Police, German Customs, UK Revenue and Customs and the U.S. Drug Enforcement Administration (DEA). The ETCB has cooperation agreements with all neighboring countries including Russia. Cooperation between Estonian police, tax and customs authorities and the regional DEA office in Copenhagen has been outstanding and productive. In Estonia the DEA has been able to work cases jointly, openly share criminal intelligence in furtherance-of joint operations with Estonian enforcement. Cooperation with DEA continued to be smooth and mutually beneficial in 2010.

Amphetamine and fentanyl remain as the most widely abused drugs in Estonia, followed perhaps by marijuana and MDMA, and also cocaine and mephedrone. According to the Government of Estonia and NGO estimates, there are about 14,000 IDUs in Estonia. Although the economic recession brought along a slight increase of IDUs (new cases and relapses), the GOE continued to provide full scale harm reduction services and HIV treatment.

The Government of Estonia 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. Estonia is a party to the UN Convention Against Corruption.

Estonia continues to implement its 2004-2012 National Strategy on the Prevention of Drug Dependency. There are more than 60 governmental, non-governmental and private entities working with IDUs to provide services to decrease demand and reduce harm. In Estonia, there are 10 drug rehabilitation centers: two for adolescents, two for adults, five therapeutic communities for adults and one daycare center for double diagnosis patients, i.e., drug dependence coupled with other ailments. In addition, in November seven new programs were launched to provide psychotherapy, psychological, social and peer-counseling. Methadone substitution treatment is provided by six clinics at nine different sites. In total nine organizations operate 36 syringe exchange sites, including outreach teams and mobile units. According to the National Institute for Health Development, the estimated coverage on syringe exchange is 52 per cent as the exchange points have about 7,300 regular clients. The USG will continue cooperating with Estonia on drug issues through exchange of information and enforcement assistance. DoD, through the U.S. European Command, has for example refurbished 24-hour helicopter forward refueling points at the Border Guard posts at Narva and Värskä to increase Estonian border surveillance capability.

Ethiopia

Ethiopia does not play a major role in the production, trafficking, or consumption of illicit narcotics or precursor chemicals associated with the drug trade. Khat, a chewable leaf with a mild narcotic effect, is legal in Ethiopia. This traditional stimulant is widely produced and exported across the region. Ethiopia has witnessed an increase in illegal drug seizures – mainly cannabis, cocaine and heroin – in recent years. Ethiopia's good airline connections and strategic location along drug trafficking routes have resulted in increasing amounts of drugs transiting Ethiopia. Officials have also noted increased illegal drug consumption within Ethiopia and drug exports from Ethiopia. While not a major player, Ethiopia is poised to become a problem if production, trafficking and consumption trends continue on their current upward path.

Cannabis is produced in rural areas throughout Ethiopia. A small portion of cannabis production is for export, primarily to neighboring countries, but with increasing amounts trafficked abroad via the Ethiopian postal system. Khat is grown widely in Ethiopia. Khat is Ethiopia's fourth-leading export, making up 10.5 percent of export revenue (\$210 million). This marks a rise from its ranking as Ethiopia's seventh largest export over the past few years. While khat is legally produced in Ethiopia, it is considered to be an illicit and illegal drug in the United States.

Small, localized quantities of poppies are grown in the southwest of Ethiopia (around Tepi) for local consumption of poppy seeds in food products. Upon discovery of illicit drug production, police typically eradicate the fields and provide a few days of training for the farmer. On the second instance, the farmer would be arrested.

Ethiopia is chiefly a transit point for illegal drugs, due to location and convenient airline connections. Ethiopia is strategically located along a major narcotics transit route between Middle Eastern, Asian, and West African heroin markets. Nigerian and other West African traffickers use Ethiopia as a transit point on a currently limited, but increasing, basis. Recent media reports also noted that three arrested individuals bearing Ugandan diplomatic passports were found to be part of a drug trafficking syndicate operating between Kenya, Uganda, and Tanzania and Peru, Brazil, Turkey, Ethiopia, and Malawi. Apprehended traffickers have cited convenient flight routes and short layovers as a draw for flying through Addis Ababa. From January-October 2010, Ethiopian authorities arrested four traffickers in possession of cannabis, four in possession of cocaine, and one in possession of heroin at Bole International Airport. While amounts of cannabis varied, all cocaine seizures involved more than a kilogram. The Counternarcotics Division of the Federal Police identified a new hard drug trafficking route in 2010: three of four apprehended cocaine traffickers were transiting Ethiopia en route from Brazil to Tanzania. The airport interdiction unit continues to improve its ability to identify male Nigerian/Tanzanian drug "mules," who typically swallow drugs to smuggle them. Given short layovers, Ethiopian authorities regularly pass information on suspected transiting drug traffickers to Nigerian authorities. The airport interdiction unit also relies heavily on tips from other countries to identify the drug mules.

Although not a major factor as a source of narcotics drugs, Ethiopia has increased shipments of cannabis compared to recent years. Cannabis producers are looking to increase the trafficking of their produce, by connecting with drug traffickers in Ethiopia and neighboring countries. Police stated that sentencing is underway for an Ethiopian man in connection with a drug cartel based in Shashamene. Six of ten illegal drug seizures at the airport involve cannabis. However, the Federal Police also intercepted 68 instances of cannabis trafficking in the mail – including the Post Office and courier services. Most seizures involve cannabis destined for the United Kingdom. Many of these seizures involved cannabis hidden inside typical souvenir items, reflecting an increasing degree of sophistication relative to past airport seizures.

A senior officer with the Ethiopian Drug Control Division, (DCD) of the Federal Police who also worked closely with UNODC noted an upward trend in drug abuse in Ethiopia, especially among youth. Increasingly, abusers of cannabis and other hard drugs have been using the legal khat-house infrastructure for distribution. Cannabis is traditionally grown and used by Ethiopia's resident Rastafarian population. The highest volume has been grown in and around the town of Shashemene, approximately 250 kilometers south of Addis Ababa. Now, Cannabis usage, in particular, is spreading from this base in the traditional Rastafarian demographic more generally in Ethiopia. In addition to cannabis users, DCD registered 200 heroin users within the past six months. Police also reported increasing cases of morphine addiction stemming from inappropriate medical treatment. Six doctors from one clinic were tried on charges of illicit morphine distribution, but all cases were dismissed.

Ethiopia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol and the 1971 UN Convention against Psychotropic Substances. Ethiopia is also a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The Government of Ethiopia 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.

In addition to the DCD, the Federal Police created a dedicated police investigation unit for human trafficking and organized crime in November 2009, which also covers drug trafficking. In domestic law, Article 525 of the revised Ethiopian Penal Code, "Producing, Making, Trafficking in or Using Poisonous or Narcotic and Psychotropic Substances," stipulates five years in prison and a 100,000 Ethiopian birr fine (approximately \$6,100) for convicted illegal drug users and dealers. The Federal High Court has been handing down longer sentences for drug violations in recent years – with traffickers now receiving at least a ten-year prison sentence. These longer sentences are supposed to deter repeat traffickers, such as the example of one Nigerian trafficker serving his fourth sentence in Ethiopian prison.

Both Ethiopian authorities and international partners have provided various types of drug law enforcement training over the past year. The Ethiopian Federal Police provided basic one-day trainings to postal employees and courier service staff, resulting in record drug seizures at the Post Office. The police continue to make weekly visits to post offices and courier services to monitor illicit drug interdictions. The commanding officer of the DCD received leadership training from the International Law Enforcement Academy (ILEA) this past year. Ethiopia was also a participant country in UNODC-led, East Africa regional trainings in the areas of drug dependence treatment and countering illicit trafficking. UNODC provided 78 officers from the Federal Police Commission, Ethiopian Revenue and Customs Authority and Addis Ababa Bole Airport Administration drug law enforcement training courses. UNODC also taught investigative techniques with help by the Ethiopian Federal Police University College (EFPUC) staff. UNODC is providing further assistance by developing a resource manual and assisting EFPUC to integrate drug law enforcement into the curriculum.

The UNODC is collaborating with the Government of Ethiopia (GOE) on the implementation of a multi-sectoral National Drug Control Master Plan for Ethiopia (2009-2013) as well as support for drug and HIV prevention and control. The GOE and UNODC have extended their joint project to curb drug-trafficking activities in Bole International Airport and to build investigative capacity for Ethiopian drug law enforcement. In addition to theoretical and practical training, UNODC supplied drug identification, urine test kits and telecommunications equipment to Ethiopia.

Khat - a legal, mild narcotic - was traditionally limited to older, Muslim males but its consumption has spread to a wider section of the population in recent years. Police report that most illegal drug users began with khat as a gateway drug. This trend corresponds with the DCD and UNODC's observation of rising illicit drug use. Accordingly, one major concern of drug enforcement authorities in Ethiopia is the utilization of khat infrastructure for distribution of illegal drugs. The DCD has a small staff and budget,

limiting its capabilities. DCD is comprised of just 50 individuals, including federal police officers and administrative personnel. Twenty-five personnel work at Bole International as part of the airport interdiction team. Beyond limited staff constraints, seven of eight senior staff left the Federal Police in recent years, leaving one trained veteran to run the operations. Most constables are only minimally trained. Moreover, the DCD has only one drug sniffer German shepherd dog. The unit has asked for assistance in procuring additional sniffer dogs. The DCD Education Unit aimed to increase public awareness by partnering with anti-drug clubs in high schools; however, lack of funds resulted in termination of this program.

One major positive element of Ethiopia's drug control performance is awareness of a budding drug problem and desire to tackle this problem at an early stage. UNODC is collaborating with Ethiopia to create and implement a National Drug Control Master Plan, but Ethiopia's capacity and resources are limited. Most resources target the airport, leaving minimal resources to combat internal trafficking and usage. Ethiopia would benefit from continued international assistance and cooperation to develop a robust anti-drug infrastructure and capacity as per Article 10 of the 1988 U.N. Convention.

France

A. Introduction

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 overseas territories' 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/hashish originating in Morocco, cocaine from South America, heroin originating in Afghanistan and transiting through Turkey, Belgium, and the Netherlands, and ecstasy (MDMA) originating in the Netherlands and Germany, all find their way to France.

Most of the illicit drugs in France are produced in other areas of the world. The vast majority of cannabis products in France originates in Morocco, and cocaine available in France is produced in, and trafficked to France from South American countries. The majority of the heroin entering France is produced in Afghanistan and Pakistan.

Almost all illicit drugs abused in the United States are also abused in France, with the exception of methamphetamine, which is almost completely nonexistent in France. Spain is believed to be the main entry point for cannabis and cocaine in Europe, although to a lesser extent the Netherlands is a point of entry for cocaine. 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). Penalties for drug trafficking can include up to life imprisonment. France is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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 percent and 3 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 it 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 55 deaths during 2007. There were 113 deaths attributed to drug use in 2008 (the last year for which statistics are available), a number far below death rates in Germany and the UK, but a significant increase from 2007. 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, though "life" terms are rarely served. The Government of France (GOF) has noted that many individual criminals who engage in drug trafficking are equally willing to engage in smuggling other contraband (e.g., untaxed cigarettes) as well as other crimes of opportunity that promise easy profits. However, unlike individuals, organized rings of smugglers tend to restrict themselves to drug trafficking. When these organized rings do engage in other criminal activity, it is usually an activity

which involves the use of the same maritime shipping containers, trucking companies, or other transportation resources as the business of drug smuggling.

In addition to the 1988 UN Drug Convention, France is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention as amended by the 1972 Protocol, a 1971 agreement on coordinating action against illegal trafficking. The United States 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.

France and the United States have an extradition treaty and an MLAT, which provides for assistance in the prevention, investigation, and the prosecution of crime, including drug offenses. 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. U.S. and EU officials exchanged the instruments of ratification during the EU-U.S. Justice and Home Affairs Ministerial meeting in Washington, DC, on 28 October 2009. The agreements entered into force on 1 February 2010.

France understands international cooperation is essential to combating illicit drugs. They have pushed through multiple international agreements and provided training to underfunded police in Africa. As an example, France cooperated with Senegalese authorities to provide training to the Senegalese custom service staff to fight illegal drug smuggling. In August 2010, the program helped the Senegalese authorities to seize one ton of cannabis in the Dakar harbor. The GOF entered an agreement with Ireland, the Netherlands, Spain, Italy, Portugal, and the United Kingdom to create an analytical center to share maritime intelligence on narcotics, the Maritime Analysis and Operation Centre-Narcotics (MAOC-N); the agreement went into force on 30 September 2007

On 30 November 2009, the GOF proposed a “pact” to fight illegal drugs in the European Council. The plan was approved on 3 June 2010, by the Justice and Home Affairs committee in the European Council. The aim of the plan is to cut cocaine smuggling routes from Latin America by linking the European cooperation platforms based in Accra and Dakar and the anti-drugs platforms based in Toulon (CECLAD-M) and Lisbon (MAOC-N) with Europol. Additionally, the pact will push to dismantle heroin routes. Fighting against illegal drug trafficking has become an accession criteria to gain EU membership. The pact also requires EU nations to fight against the revenues of drug trafficking by setting up bureaus of information collection in all member states with the participation of EU agencies EUROPOL and EUROJUST. On 7 June 2010, the GOF declared Mephedrone an illegal substance. On 11 May 2010, the GOF declared Tapendal an illegal substance. Both of these drugs have cathenone, a stimulant similar to methamphetamine, as their active ingredient

2. Supply Reduction

Official GOF statistics will not be published until late February 2011. Press reporting has highlighted an uptick in counter drug activity in France. French impact teams (Groupes d’Intervention Regionaux (GIR)), charged with enforcement actions against regional violent crime, spent 48 percent of their time during the first quarter of 2010 on drug-related cases; the GIR dedicated only 22 percent of their time to drug-related crime during the same period in 2009. In all of 2009 the GIR seized \$56.9 million worth of assets. In the first quarter of 2010, the GIR has seized nearly \$10 million in cash as well as 178 vehicles. Additionally, the following significant seizures took place in 2010:

On February 2, police seized seven tons of cannabis in the suburbs of Paris (Gonesse), which was the largest ever seizure of cannabis in France;

On February 18, gendarmes seized three tons of cannabis, weapons, and \$441,000 in currency;

In July, customs officials seized 134 kg of cocaine smuggled in an un-accompanied suitcase at Charles de Gaulle airport;

On October 12, two million dollars was seized in Northern France in connection with cocaine smuggling;

On October 16, one million dollars was seized in Northern France in connection with cannabis smuggling;

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). Approximately \$17 million equivalent 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.

Body couriers, using both internal and luggage transportation, are frequently arrested bringing drugs into France from many West African countries, such as Nigeria, Benin, Togo, Senegal, Guinea, and Guinea-Bissau. Smaller quantities of heroin and cocaine constitute the majority of the drugs transported via this method. In the past two years the amount of cocaine being brought to the African continent has increased. According to the DEA, the vast majority of this cocaine is believed to be intended for transshipment to Europe, although the percentage arriving from West Africa remains unclear as do the routes by which most of this cocaine makes its way to Europe following its arrival in West Africa.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

MILDT is responsible for coordinating France's demand reduction programs. Drug education efforts focus on 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 2007, Etienne Afaire, the President of MIDLT (since September 2007) announced a new government policy aimed at cannabis users. Since 2008, the state has required as a supplemental measure for those arrested for cannabis use to take a two-day class on the dangers of cannabis consumption. The cost of the class, €450 (approximately \$660.00) will be paid by the drug user. France's current basic law on narcotics abuse (dating from 1970) proscribes stiff penalties for cannabis use including up to a year prison sentence and a €3750 (approximately \$5515) fine, though the penalties are rarely, if ever, applied. This newer supplemental measure is viewed as a more effective approach towards the prevention of cannabis abuse.

On June 26, 2009 the Fédération Nationale de Prevention Toxicologique signed the EU resolution "European Action on Drugs." This resolution, which was signed by 120 stakeholders from across the EU, committed its signers to playing an active role in the fight against drugs by reaching out to Europeans in their everyday lives and providing European citizens with new means of expression their views on drugs and their commitments to take action. This resolution is a key action of the new "EU Drugs Action Plan (2009-2012)."

France is comparable to the United States in its ability to match its programs to the size of the addiction population. French rehabilitation facilities use similar treatment methods to those used in the United States for treating addictions. Subutex (a trade name for Buprenorphine) and methadone are used to treat heroin addiction. The GOF provides 15 million sterile syringes per year and facilitates access to substitutive treatment to 130,000 individuals. According to the MILDT, there are 230,000 opiate, cocaine and amphetamines users in France. However, Dr. William Lowenstein, member of the board of the National Council on AIDS, assesses there are as many as 300,000 heroin users with 120,000 following substitutive treatments. There are 500 outpatient centers specialized in dealing with illegal drug users, 130 centers dedicated to support, help and reduction of risk and four therapeutic communities aimed at achieving abstinence among illegal drug users. GOF spends \$456 million on risk reduction programs.

In August 2010, the Health Minister Roselyn Bachelot sparked a nationwide debate when she proposed creating "shooting galleries," which would have allowed illegal users to inject and smoke illegal drugs in

a medically controlled environment. Despite the fact that the proposal was backed by Mayor of Marseille Jean-Claude Gaudin, Prime Minister François Fillon opposed the experiment – arguing that the priority of the GOF is to “reduce drug consumption in France, not to support it or organize it.” In September 2010, a parliamentary committee was set up to investigate drug addiction and to reflect on the “shooting galleries” proposal.

4. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. and French counternarcotics law enforcement cooperation remains good. During 2010, 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.

D. Conclusion

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

A. Introduction

The islands of 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. 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. They are also subject to all international conventions signed by France, including the 1988 UN Drug Convention.

This region, particularly Martinique and Guadeloupe, contains well established transshipment points for cocaine, marijuana and ecstasy coming from South and Central America with destinations in Europe and, to a lesser extent, the United States. Meanwhile, the remote geography of the eastern Caribbean Sea coupled with the proximity of these departments to other nations with largely ineffective law enforcement agencies combine to facilitate the trafficking of illicit substances through the area.

There does not appear to be a large amount of drug production in the French Caribbean. Although some cannabis is grown locally in areas like Martinique and Guadeloupe, this appears to be mainly for local or individual consumption and does not have a significant impact on the availability of drugs in the area.

The governments within these territories are able to apply to France for additional resources in their fight against illegal drug smuggling.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

There were no significant institutional development changes pertaining to rule of law for France in 2010. 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. They do not make independent policy or rule of law changes.

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 (JIATF-S) at Key West, Florida, continued to enhance law enforcement cooperation in the Caribbean in 2010. France has joined the United States, Dominican Republic, Costa Rica, Guatemala, the Netherlands 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 bringing the agreement into effect. 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. The French Inter-ministerial Mission for the Fight against Drugs and Drug Addiction (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.

2. Supply Reduction

Official statistics for 2010 were not available at the time this report was published. However, on June 4, French Customs officials in Martinique found 1.4 metric tons of cocaine on a sailboat. Valued at over

\$100 million, this constitutes the largest drug seizure in French history. On June 19, a French Naval vessel on patrol in the region seized 385 kg of cocaine during an at-sea boarding.

Since 2001, the French Navy has continuously operated in the region and, to date, seized over 15 metric tons of drugs in the Caribbean. Often, these naval assets take part in Joint Interagency Task Force – South (JIATF-S) operations in cooperation with the United States and are normally based in Fort de France, Martinique.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

As departments (States) of France, the French Caribbean is an active participant in all French policies and programs regarding the treatment of drug addiction and lessening of domestic demand. The most prevalent drug abused in the French Caribbean remains cannabis – as in the rest of France. Statistics were not available. The MIDLT 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.

France’s 1970 law included stiff penalties for cannabis use including up to a year prison sentence and a fine of over \$5,500, though the penalties were rarely applied. In an effort to combat the consumption of cannabis in France, which has consistently increased over the past 20 years, in October of 2007, the MIDLT announced new government policy aimed at cannabis users requiring those arrested to take a two-day class on the dangers of cannabis consumption. However, there is no information as to the effectiveness of this policy with respect to prevention of cannabis use.

On June 26, 2009 the Fédération Nationale de Prévention Toxiconomique signed the EU resolution, “European Action on Drugs.” This resolution, which was signed by 120 stakeholders from across the EU, committed its signers to playing an active role in the fight against drugs by reaching out to Europeans in their everyday lives and providing European citizens with new means of expression their views on drugs and committing to action. This resolution is a key action of the new “EU Drugs Action Plan (2009-2012).”

4. Corruption

Officials in the area are drawn from and trained by the French Civil Service. There have been no accusations of corruption within the French government or of high ranking senior officials within the past year. As a matter of policy, the French 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. goal in the French Caribbean is to coordinate closely with France to counter transnational crime.

In 2010, the French Inter-ministerial Drug Control Training Center (CIFAD) in Fort-de-France, Martinique offered training in French, Spanish, and English to law enforcement officials in the Caribbean and Central and South America, covering subjects such as money laundering, precursor chemicals, mutual legal assistance, international legal cooperation, coast guard training, customs valuation, and drug control in airports. CIFAD coordinated its training activities with the United Nations Office on Drugs and Crime (UNODC), Organization of American States (OAS), and individual donor nations. U.S. Customs officials periodically provided training at the CIFAD. With funding from OAS, French Customs held training seminars aimed at Customs and Coast Guard Officers from those member states. The French Navy also continued to host “Operation Carib Royale,” a French and Eastern Caribbean counternarcotics operation, which Joint Interagency Task Force South supports with available air and maritime assets.

French law enforcement continued to work closely with the U.S. military forward operating locations (FOLs) in the Caribbean to monitor and prevent the flow of drugs. The two FOLs locations in Curacao and Aruba provided U.S., Dutch, United Kingdom, Canadian and French aircraft quick access to Caribbean drug smuggling corridors.

D. Conclusion

The United States encourages continued French support to these Caribbean departments on all counternarcotics fronts, including multilateral efforts such as the Dublin Group, a local regional, and global forum that consults on drug issues in more than 40 capitals, the Caribbean Financial Action Task Force, a group that reviews peers, consults and co-ordinates information on money laundering, the Inter-American Drug Abuse Control Commission (CICAD) - the drug-fighting body of the Organization of American States, and, of course, the United Nations Office of Drugs and Crime (UNODC). Patrol vessels that participate in JIATF-S operations have proven to be effective deterrent and interdiction resources in stopping drugs destined for U.S. and European markets. We hope this partnership continues in the years to come.

Georgia

A. Introduction

Apart from small-scale production of ATS, Georgia produces no narcotic drugs. However, because of its location bridging Asia and Europe, Georgia is becoming a major transit corridor for drugs of abuse produced elsewhere. One major drug route runs from Afghanistan and Iran through Azerbaijan and on to Western Europe and Russia. Drugs also transit through Georgia to Western Europe from Greece and Turkey. Another suspected route involves long-haul TIR trucks. These trucks are supposed to be inspected for contraband at their place of origination, and then sealed for their trip onward. However, many observers believe that they represent a major corridor for drug smuggling. The separatist territories of South Ossetia and Abkhazia are beyond the control of Georgian law enforcement, and there is speculation that drugs flow through these areas. This information cannot be verified as there is little or no exchange of information on drug trafficking between the Russian occupying forces or the de facto governments of these territories and the Government of Georgia.

Georgia has a domestic drug problem. Among other drugs, heroin, Subutex, methadone and marijuana are available on the domestic market. Subutex is a trade name for buprenorphine, produced throughout Europe, and used for the treatment of opiate addiction. However, this substance is not a registered medication in Georgia and thus not legally available. The drug is smuggled in and abused for its opioid content. Street prices for intravenous drugs continued to increase in 2010. Domestic production and use of methamphetamines, pseudo-ephedrine derived drugs and abuse of other pharmaceutical drugs, especially in urban areas, is also on the rise.

The Minister of Internal Affairs designated the drug problem as a top priority for calendar year 2010. Since the 2003 Rose Revolution, the Saakashvili Government has detained and imprisoned many influential criminals, so called “thieves-in-law”; others have fled the country. While these criminals are no longer in Georgia, they retain the ability to influence criminal activity in Georgia. In 2010, the Minister of Internal Affairs reshuffled the staffing of the special operations department – the main body at the Ministry in charge of counternarcotics – and appointed a new head of the department and a complete new group of investigators. The government initiated random drug testing programs for high level government officials and made the testing available to the private sector as well.

Under current law, possession of very small amounts of certain drugs would mean prosecution for intent to distribute as a drug dealer. Also, being under the influence of drugs is prima facie evidence of drug possession. These facts have given rise to a movement to change Georgia’s drug possession laws. The new laws would rationalize the amounts, allowing law enforcement officials greater ability to focus limited resources on actual drug dealers and offering treatment to users caught with small amounts of dangerous drugs. Georgia is a party to the 1988 United Nations Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Georgia’s system for drug control is in need of reform. The first and most pressing gap is the absence of a detailed specific Anti-Drug National Action Plan. The current Anti-Narcotics National Strategy established by the Parliament in 2007 only outlined main priorities; it lacks specifics to guide implementation. Coordination among institutions involved in drug related issues is also a problem. There is a lack of systemic drug preventive measures; treatment methods are developed with little or no attention given to social rehabilitation following detoxification. Information about dangerous drugs is inadequate, and statistics about drug use are limited and unreliable. Current national legislation does not conform to UN drug conventions’ requirements.

There are also arrangements for Europe as a whole, which frustrate drug control in Georgia. Currently, customs officers may only inspect a long-haul truck under Custom's seal in the presence of the owner or his representative. Practically, this means that very few vehicles are inspected beyond weigh stations. Law enforcement bodies in European countries have intercepted seven to eight tons of illicit narcotics in 2009 in long-haul trucks that had at one point passed through Georgia. Rules and regulations that unnecessarily hinder the legitimate inspection of cargo should be reviewed and revised.

In 2010, Georgia signed an agreement for visa free travel with the Islamic Republic of Iran. The exact timeframe for the implementation of this agreement remains unclear. If appropriate inspections and checks are not instituted and enforced, this agreement could lead to still more drugs entering Georgia. This seems likely as up to 40 percent of Afghan opiates pass through Iran. Smuggling of these opiates is a problem now along all of Iran's borders to the South, West and North, so there is good reason to fear that easier passage between Iran and Georgia could invite traffickers to try the "new" route. In addition, recently, Azerbaijan and Turkey have noted methamphetamine drugs coming from Iran.

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 also a party to the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling and to the UN Convention against Corruption. In addition, the GOG has signed counternarcotics agreements with the Black Sea basin countries, the GUAM organization (Georgia-Ukraine-Azerbaijan-Moldova), Iran, and Austria.

2. Supply Reduction

In 2010, the most visible drug-related seizure was the detention of five people engaged in importing into Georgia a large consignment of cocaine. The group was headed by a Greek citizen of Georgian origin, now residing in Spain. In total, 90 kilograms of cocaine transited through the port city of Poti having arrived from Latin America in a scrap metal shipment en route to Turkey. As part of the cocaine trafficking investigation, 1.7 million Euros which belonged to this criminal group were found in a greenhouse in the village of Geguti. The cocaine, however, was not seized, since authorities became aware of it too late to organize its seizure. According to the Ministry of Internal Affairs this was not the first such shipment organized by these traffickers.

Drug control reform legislation initiated in the Parliament in 2008-2009 remains stalled in Parliament. The aim of this legislation was to solve the problem described above involving the crime of "trafficking" being defined by too small quantities of drugs. The legislation would also mandate the formation of an interagency governmental body to coordinate counternarcotics efforts throughout the country.

According to current legislation, drug use is an administrative offense with a penalty of 500 Gel (approximately \$300). If the same person is apprehended as a drug user for a second time within one year of his/her first offense, they will face criminal prosecution. In this case, punishment may be either imprisonment or a minimum fine of 2000 GEL (approximately \$1145). According to MOIA statistics, for the first nine months of 2010, 3749 persons were prosecuted for drug-related crimes and 6290 persons were given administrative fines. The total number of drug related crimes for the first nine months of 2010 was 4070, compared to 4640 reported during the same period in 2009.

The breakdown of criminal cases and drug seizures according to Ministry of Interior statistics is:

	2007	2008	2009	2010(Jan-Sep)
Total Drug-related cases	8,493	8,699	6,336	4,070
Felonies	1,970	2,103	2,477	1,802
Contraband	71	102	100	100

Dealing	151	79	131	129
Cultivation	79	70	113	119
Heroin seizure	9.78 kg	8.332 kg	2 .358 Kg	1 .106 Kg
Marijuana seizure	1.36 kg	3.867kg	46.5 g	1 .231 kg
Opium seizure	127.19 g	47.5 g	37.2492 g	0
Cocaine seizure	558 g	0.02 g	0.78 g	0.099 g
Subutex seizure	77.25 g	72 g	40.5 g	10.43 g
Methadone seizure	96.15 g	179 g	73.8 g	172.8 g

The Special Operations Department (SOD) counternarcotics unit remains the main agency combating drug-related crimes. In 2010, the Minister of Internal Affairs reorganized this department and appointed a new head and assigned new staff members to the unit, as a preemptive measure against drug-related corruption. As an indication of some of the training/coordination problems facing drug enforcers in Georgia: SOD officers have basic training in counter narcotics detection, but lack appropriate detection equipment. Meanwhile the customs service has been provided scanners through U.S. assistance, but the equipment is largely unused.

Drugs generally, and opioid drugs in particular, are extremely expensive in Georgia. According to the information provided by the Georgian Ministry of Internal Affairs in 2010, street prices are \$600-\$700 per gram for heroin, opium is \$27-\$45 per gram, and Subutex is \$300 per 8 mg pill. However, some of these prices do not fully correspond with those reported to physicians, by street-level narcotics dealers and their drug-using clients. There is also wide variation in drug prices across borders. Local sources report that pure heroin purchased in Turkey from Chechen, Kurdish or Turkish drug dealers is available for \$40-\$50 per gram. The ten-fold increase in the selling price of heroin in Georgia makes smuggling heroin from Turkey to Georgia extremely profitable or represents an inaccurate figure being used by Georgian authorities.

Physicians and analysts have expressed concern about the increase in use of home-made synthetic drugs such as “Jeff” and “Vint” – street names in Georgia for injected artificial stimulant drugs. “China White” and “Crocodile” are names for a derivative of fentanyl mixed with natural-based opiates that is also used in Georgia, and is said to be approximately 300 times stronger than heroin alone. Statistics are not available for the extent of home-made stimulant drug usage in Georgia.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Domestic drug abuse is a problem for Georgia. Total number of multiple drug users (drug users who use more than one type of narcotic) ranges from 40,000 to 80,000. Over the past year, methamphetamines have been replacing opiates, as the prices of heroin and Subutex increased significantly. A large number of the drug using population has reportedly moved to home-made synthetic drugs. These drugs are extremely dangerous, and after only six months, drug users will face a severe degradation in their health.

There are no widely accepted figures for drug dependency in Georgia, and more generally, statistics in this subject area are poorly kept and vary according to the source. The Georgia Research Institute on Drug Addiction and drug treatment estimates the intravenous drug abuser (IDU) population in Georgia is approximately 40,000 out of a total population of 4.5 million. Using UN methodology, researchers estimate that about three percent of the population may be using drugs at any given point in time, yielding a total of approximately 138,000. Local drug treatment experts cite figures of upwards of 200,000 drug abusers, including one-time experimenters. According to the database administered by the Ministry of

Interior, the number of all types of registered drug users is 133,555. The number of overdose death cases in the capital (with a population of approximately 1.5 million) in 2010 was 13 through September.

In 2010, a youth survey was conducted by the U.S. National Center for Disease Control in the framework of the Southern Caucasus Anti Drug Program (SCAD). The survey revealed that 17% of the surveyed adolescents in the city of Tbilisi reported use of marijuana at least once during their life. After marijuana, ecstasy is the second most available drug for surveyed youth – 7.5 % reported its use at least once. Approximately 2% had used amphetamine-type stimulants. Intravenous drug usage is very low both among the youth and female populations.

In 2010 the Georgian Government increased funding for drug treatment and prevention. Two additional methadone maintenance treatment centers will be added to 16 currently operating in the country. Substitution therapy programs have been successfully launched in pre-trial holding centers. The HIV Global Fund fully covers treatment of HIV/TB infected patients. The total number of patients involved in co-financed treatment programs is 900-1200. The majority of these patients are opioid users, most of them heroin addicts. Detoxification programs administered at four government-funded clinics have the capacity to treat 25 patients per month. The primary detoxification program costs \$1000-\$1500, the primary rehabilitation program costs \$570. Methadone substitution therapy centers do not include an extensive psycho-social rehabilitation program. Psychologists are available for consultations with patients. In 2010, a new rehabilitation unit was established, renovated and equipped within the Institute on Addiction with the financial support of the SCAD program. Generally, however, there is lack of trained human resources in this field, and there is a lack of institutional mechanisms to provide proper relevant training.

The Ministry of Internal Affairs regularly hosts groups of juveniles from public schools throughout the country to discuss the dangers of drug use. Police officers visit schools to discuss the harmful impact of drug abuse with school children – a program started with U.S. Government assistance. Another governmental project, “Live Without Drugs,” facilitates presentations on drug abuse given by police officers at public schools.

Through the International Organization for Migration, the U.S. Government funded the production of anti-drug and anti-driving under the influence public service announcements. These announcements received attention both in Tbilisi and in the regions.

4. Corruption

The Georgian Government has made significant steps in the elimination of corruption in law enforcement agencies since the 2003 Rose Revolution and it remains committed to this effort. Prior to 2003, Transparency International’s (TI) Corruption Perception Index (2003), ranked Georgia jointly in 124th place out of 133 countries. The latest index (2009) shows Georgia ranking 66th. The Georgian government continues to implement civil service, tax and law enforcement reforms aimed at deterring corruption and prosecuting it when detected. Despite these efforts, however, isolated corruption allegations still surface, and a small number of civil servants are prosecuted each year on corruption charges. There have been no serious allegations that the new counter narcotics unit in the Ministry of Internal Affairs has engaged in corrupt behavior. In 2010, the Georgian Government initiated a random drug testing program for all government employees. The government of Georgia does not, as a matter of policy, encourage or facilitate trafficking in narcotics nor do any of its senior civil servants.

C. National Goals, Bilateral Cooperation, and U.S. Policy

In 2010, the U.S. Government began to provide direct counternarcotics assistance on demand reduction and treatment, and enhancing law enforcement’s capacity to detect and interdict illegal narcotics. The United States supported the establishment of a criminal database for the Ministry of Interior and an improved communications network for the police, renovation of methadone treatment centers and a

canine program for the Unified Revenue Service. The United States is also providing additional training for counter narcotics units, including case management, drug-trafficking financial investigations, and train-the-trainer sessions for basic narcotics officer courses.

In 2011, the United States will begin a canine narcotics interdiction program with the Government of Georgia. Additionally, the United States continues to work on related issues of procuracy (prosecutor) reform, better prosecution of narcotics crimes, money laundering, assisting to develop trial skills in an adversarial system, provision of training and equipment for Georgia's forensics laboratories, assisting the laboratory in establishing administrative policies and procedures to achieve international accreditation of its results, building new facilities for law enforcement units and providing training at the police academy, and providing training in fighting human trafficking, all of which will strengthen institutions and measures needed to reduce the transit and use of narcotics.

Training and equipment donation programs for 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. The U.S. Coast Guard provides training to Georgian officials in maritime law enforcement, use of the Incident Command System, and other professional education. With the basic police force increasingly being tasked with border security responsibilities, the United States has also been ensuring that police receive appropriate training and equipment to manage the ports of entry.

D. Conclusion

The Georgian Government has made combating the drug problem a priority. A lack of coordination among the agencies and bodies involved in drug-related issues complicates achieving this goal. The establishment of a national drug control strategy outlining an integrated action plan would be a logical and effective first step. The U.S. government is encouraging better inter-agency cooperation through development of an interagency task force model. The U.S. Government will continue to support Georgia's efforts with equipment and advisory support.

Germany

A. Introduction

Germany is a consumer and transit country for narcotics. The German government actively combats drug-related crimes and places particular emphasis on prevention programs and assistance to victims of drug abuse. 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. Organized crime continues to be heavily-engaged in narcotics trafficking. Germany is a party to the 1988 UN Drug Convention.

Germany is not a significant drug cultivation or production country. The Federal Criminal Police (BKA) statistics reported seizure of 24 synthetic drug labs in Germany in 2009. The majority of these laboratories were small scale methamphetamine-kitchen-laboratories that had production capacities sufficient to satisfy the operators' personal requirements or to supply a limited local circle of buyers. Germany is not a significant producer of hashish or marijuana. In 2009, German police reported the discovery and seizure of 67 outdoor marijuana "plantations", two of which were considered professional (containing more than 1,000 plants) outdoor plantations, 9 large outdoor plantations, and 56 small outdoor plantations, a 34 percent decrease compared to 2008. In addition, German police seized 342 indoor plantations – an 18 percent decrease compared to 2008 – including 26 professional indoor plantations, 98 large indoor plantations, and 218 small indoor plantations, resulting in a total seizure of approximately 91,310 marijuana plants. In addition, 127,718 marijuana plants used for the production of hashish were also seized.

Germany is a major manufacturer of pharmaceuticals, making it a potential source of precursor chemicals used in the production of illicit narcotics, although precursor chemical control in Germany is excellent.

Germany's central location in Europe and its well-developed infrastructure make it a major transit hub for commerce. Traffickers smuggle cocaine from South America (in particular by air via Brazil and Argentina) to Germany for domestic use, as well as through Germany to other European countries such as Spain, the Netherlands, and the UK. Larger seizures of heroin in Germany originated from Turkey and Bulgaria and moved to Germany via the Balkan Route, with some shipments destined to move on to other European countries, in particular the Netherlands. Cannabis is trafficked to Germany mainly from the Netherlands, but smaller amounts are trafficked through Belgium and France. Smaller amounts of cannabis (but with a higher frequency) are also smuggled from Switzerland, Austria, and the Czech Republic to Germany. Amphetamines are trafficked mainly from the Netherlands and in lesser quantities from Poland and Belgium.

In the view of the Federal Health Ministry, around 600,000 individuals in Germany consume cannabis and around 200,000 individuals consume other illegal drugs, such as heroin and amphetamines, through injection. The number of drug-related deaths in Germany decreased in 2009, bucking a recent upward trend. According to German authorities, a total of 1,331 people died as a result of consuming illegal drugs in 2009, down from 1,449 in 2008. According to German authorities, the most frequent cause of death was from an overdose of heroin, sometimes used together with other drugs. 18,139 hard drug users were newly recorded in 2009, a decrease of 6 percent compared to 2008. First-time use of crack cocaine (-48.3 percent), LSD (-19.6 percent), heroin (-7.9 percent) and cocaine (-9.5 percent) decreased significantly in 2009, while the first-time use of amphetamines increased by 0.5 percent. The first-time use of crystal methamphetamines decreased by 18 percent.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Germany continues to implement its "Action Plan on Drugs and Addiction" adopted by the Federal 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 Strategy 2005-2012 and its Action Plans. The National Interagency 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 on implementing measures against drugs and addiction. The government continued its demand reduction efforts, particularly focusing on cannabis consumption and offering a variety of treatment prevention programs. Germany is actively involved in a large variety of bilateral cooperative arrangements, European, and international counter-narcotics fora. 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 along with Italy has taken the lead on implementing the "European Pact to Combat International Drug Trafficking—Disrupting Cocaine and Heroin Routes" with regard to combating heroin trafficking on the Balkans route.

A 1978 extradition treaty and a 1986 supplemental extradition treaty are in force between the U.S. and Germany. A bilateral Mutual Legal Assistance Treaty in Criminal Matters (MLAT) entered into force on October 18, 2009. All 27 EU member states, including Germany, have signed and ratified bilateral protocols with the United States that implement the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements. These Agreements streamline the mutual legal assistance and extradition efforts between the countries. The mutual legal assistance protocol with Germany entered into force, along with the MLAT, on October 18, 2009. The extradition protocol entered into force on February 1, 2010. 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 has signed but has not yet ratified the UN Corruption Convention.

2. Supply Reduction

Counternarcotics law enforcement remains a high priority for the Federal Office of Criminal Investigation (BKA) and the Federal Office of Customs Investigation (ZKA). German federal and state law enforcement agencies scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers. On April 11, 2010 German police seized a record 1.3 tons of high-purity cocaine with an estimated street value of €40 million making this the biggest amount of cocaine ever seized in Germany, according to a police statement. Customs officers discovered the drugs when searching pallets of wood briquettes in a container shipment sent to Hamburg's port from Paraguay. Seven suspects were arrested and 200 police officers followed up with 19 searches in Hamburg, Schleswig-Holstein and North Rhine-Westphalia. The group was led by a national from Paraguay, while others had a Turkish background. In addition, in July 2010, Hamburg Police and German Customs seized approximately 352 kilograms of cocaine from two separate maritime shipping containers that had also originated in Paraguay. The cocaine had been concealed inside of shipments of sandstones. On 21 July, 2010, police in Cologne made the second largest drug seizure in the city's history, after workers found 50 kilograms of cocaine - valued between € four and five million - packed in a consignment of bananas. On March 14, 2010, the Hamburg Customs Investigation Office arrested two suspects involved in a five-person narcotics ring. The suspects were found smuggling 87 kilograms of hashish and marijuana from the Netherlands (worth about €500,000). Investigators searched three apartments and other premises, and seized weapons as well as three kg of amphetamines, 210 grams of cocaine and anabolic steroids, and €23,000 of drug money, 19,000 of which was counterfeit. According to press reports, on March 19, 2010, the Schleswig-Holstein State Criminal Police confiscated 14 kg of heroin (worth about € 700,000) and arrested 6 suspects in Flensburg. The drugs allegedly were shipped from in Turkey.

In 2009, the latest year for which statistics are available, Germany recorded the seizure of 758 kilograms of heroin in 6,183 different cases, resulting in a decline of 7 percent in the number of seizures but an increase of 50 percent in the amount of heroin seized compared to 2008. In 2009, German law enforcement agencies seized a total of 1,707 kilograms of cocaine, resulting in a 59.7 percent increase over the previous year. In addition to cocaine hydrochloride, a total of 4.6 kilograms of crack cocaine was seized in Germany during 2009, resulting in a 44 percent decrease from the previous year. Traditionally, most seizures of crack cocaine occur at the Frankfurt International Airport with quantities of not more than a few hundred grams. Ecstasy seizures were slightly lower this past year, with the seizure of 751,431 tablets in 2008 and 521,272 tablets in 2009, a decrease of 30.6 percent in volume and 34.7 percent in cases. In 2009, there were 24,135 reported marijuana seizures, resulting in the seizure of 4,298 kilograms, a decrease of 1.9 percent in the number of seizures and a decrease of 51.9 percent in amount seized from the previous year. There were 9,924 cases involving the seizure of 2,220 kilograms of hashish, a 10 percent reduction in the number of cases and a 70 percent reduction in the number of kilograms seized from 2008. Overall in 2009, 24 tons of the drug khat was seized, compared to 29 tons in 2008. In 2009, the majority of narcotics traffickers continued to be German nationals, followed by Turkish nationals, with organized criminal groups (mostly Turkish and German groups) continuing to expand their involvement in narcotics trafficking.

Seizures of illicit drugs moving by sea comprise a small proportion of overall narcotic drug seizures. However, the German ports of Hamburg and Bremerhaven seem to have 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.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's drug policies and programs. The National Drug Commissioner at the Federal Ministry of Health coordinates Germany's national drug policy. Drug consumption is treated as a health and social issue. Policies stress prevention through education. The Ministry funds numerous research and prevention programs, as do the Federal states. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy.

The Federal Ministry of Health also supports the German Center for Addiction Issues (GCAI), which provides a platform for associations and charities active in helping addiction sufferers and their families throughout Germany. With few exceptions, all bodies in Germany involved in out-patient counseling and treatment, inpatient provision and self-help are represented in the GCAI. This includes around 1,400 counseling centers, 160 specialist clinics, 7,500 self-help groups with 120,000 members, as well as daycare centers and night shelters, and residential and aftercare groups. More than 10,000 social workers, educators, psychologists and doctors, along with at least 20,000 unpaid volunteers, staff the largely locally-based addiction relief facilities.

Germany sees substitution therapy as an important pillar in the treatment of opiate addicts and has implemented corresponding measures and programs since the mid 1980s. Approximately 69,000 patients undergo substitution therapy in Germany, the most widely used medication being methadone, with an increased use of buprenorphine and levomethadone in recent years. On July 21, 2009 the law on diamorphine-based substitution treatment entered into force, which sets the legal requirements for prescribing diamorphine. The Narcotics Act, Narcotics Prescription Ordinance and the Pharmaceuticals Act were amended accordingly. They now lay out strict requirements on diamorphine use for a small group of the most seriously addicted persons. Diamorphine treatment pursuant to the new law and implementing regulation is expected to be fully implemented in the Federal states in 2011. The government's goal remains to reduce drug-related deaths.

4. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

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, DHS ICE (Immigration and Customs Enforcement), DHS CBP (Customs and Border Protection) 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. law enforcement agencies. The BKA and DEA also participate in exchange programs to compare samples of cocaine and MDMA (ecstasy) pills. DHS CBP in cooperation with German authorities operates two Container Security Initiative (CSI) locations at the ports of Hamburg and Bremerhaven where CBP Officers work with local German authorities to identify maritime cargo containers destined for shipment to the U.S. that may pose a threat to national security. The program's extensive targeting abilities can also identify and track containers used in transnational shipping of high risk cargo in support of global maritime security. Six German law enforcement officers attended U.S. Coast Guard resident training courses in maritime law enforcement.

D. Conclusion

The U.S. anticipates that Germany will continue to cooperate closely on counter-narcotics, including at the law enforcement level. This comprises law enforcement information exchange as well as the pursuit of narcotics traffickers and international organized criminal entities involved in the manufacture and distribution of narcotics.

Ghana

A. Introduction

Ghana continues to be a significant transshipment point for illegal drugs, particularly cocaine from South America, as well as heroin from Afghanistan and Pakistan. 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 limit their personal involvement in Ghana by relying on local partners, thus insulating themselves from possible identification and arrest by local authorities.

Trafficking has also fueled increasing domestic drug consumption. Local cannabis, imported heroin, and cocaine use are increasing as is the local cultivation of cannabis. Diversion of precursor chemicals is not a major problem, but government regulation and oversight of precursor chemicals is very limited, mainly due to technical and staff shortages.

President John Atta Mills remains committed to combating narco-trafficking in Ghana. With the assistance of U.S. and foreign law enforcement counterparts, Ghanaian law enforcement significantly increased its seizures of illicit drugs transiting the country during 2010. In the first ten months of the year, the Narcotics Control Board (NACOB) seized 100 percent more heroin than in 2009 and is on pace to seize more kilograms of cocaine than what was seized in 2009. In addition, the Ghana Customs, Excise and Preventive Service (C.E.P.S.) Rover Team reported an increase in cocaine seizures from arriving air passengers.

Corruption, a lack of resources, and porous borders seriously impede interdiction efforts. While law enforcement authorities arrested low-level narcotics traffickers, Ghana has had less success pursuing the so-called drug barons. Narco-trafficking-related and other cases involving serious crimes can sometimes take years to prosecute due to increasing workloads and the failure of witnesses to appear in court. Interagency coordination among law enforcement agencies, including the Narcotics Control Board (NACOB), the Narcotics Unit of the Ghana Police Service's Criminal Investigative Division (CID), the C.E.P.S., as well as the Bureau of National Investigation (BNI), Defense Intelligence, the Immigration Service, and the Ghana Navy, remain a challenge. Ghana is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The government took several significant steps in 2010 to increase its capacity to fight narco-trafficking and to uphold the rule of law in Ghana. On September 6, Parliament passed legislation revamping the Serious Fraud Office, an office within the Ministry of Interior, by renaming it the Economic and Organized Crime Office (EOCO) and giving it a new, broader mandate to combat organized crime, narco-trafficking, and other serious crimes. In March, the Financial Intelligence Center (FIC) constituted its Board and launched activities to analyze and report on suspicious financial transactions. DEA also worked with the NACORB to improve its operational capacity. In September 2009, Customs and Border Protection (CBP) Scientists in cooperation with DEA presented Narcotic Drug Test Kit training to C.E.P.S. and NACORB officers.

The Attorney General's Office is considering reforming the Public Prosecutor's Office to make it similar to the UK's Crown Prosecution Service. Parliament is also considering a Freedom of Information Act

that will facilitate greater transparency in government, including on counternarcotics-related issues, and regulations that would strengthen the existing anti-money laundering legislation and framework.

Ghana is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. U.S.-Ghana extradition relations are governed by the 1931 U.S.-U.K. Extradition Treaty. In 2003, Ghana signed a bilateral Customs Mutual Assistance Agreement with the United States. Ghana is a party to the UN Convention against Corruption and the African Union Convention on Preventing and Combating Corruption, and the UN Convention against Transnational Organized Crime.

2. Supply Reduction

Cocaine and heroin are the main drugs that transit Ghana. Cocaine is sourced 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. 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, as well as from other countries, including Iran. 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 through Kotoka International Airport. The most common individual concealment methods use false bottom suitcases or body cavity concealment.

In coordination with the U.S. and foreign law enforcement counterparts, Ghanaian law enforcement continues to increase its seizures of cocaine and heroin. Through October, NACOB seized over 80 kilograms of heroin, over 220 kilograms of cocaine, and over 3000 kilograms of cannabis and arrested 47 individuals. Through September, the GPS CID Narcotics Unit made 286 arrests for production and possession of drugs, and four arrests for drug trafficking. Through October (latest statistics available), there have been 59 cases referred to the Public Prosecutor's Office. Notable cases include the following:

- On February 19, collaboration between Ghanaian law enforcement and international partners led to the arrest of members of a Switzerland-based syndicate led by a 60-year old Ghanaian woman.
- On March 5, a Nigerian businesswoman concealed 80 kg of heroin in spare car parts, which were discovered at Kotoka International Airport. She has also been implicated in other narcotics investigations.
- On August 23, a twenty-four year old female student was arrested at the Kotoka International Airport for attempting to smuggle 35 pellets of cocaine using specially-made undergarments.
- On October 18, officials of the Narcotics Control Board and the Ghana Police Service dismantled a cocaine syndicate at Tema Harbor and arrested two clearing agents and a driver for attempting to smuggle 125 kilograms of cocaine.

According to police officials, as of late October, one kilogram of cocaine has a street value of \$24,000, one kilogram of heroin is valued at \$22,000 (up from approximately \$15,000/kg), and one kilogram of cannabis is approximately \$35. The increased street price of heroin has been attributed by police officials to reduced supply resulting from stronger law enforcement efforts. A new, local drug involves mixing cannabis with liquor/spirits. Various pubs sell this cannabis cocktail upon special request from knowledgeable customers.

3. Drug Abuse Awareness, Demand Reduction, and Treatment:

Illicit drug use is growing in Ghana. Cannabis is the most abused illicit drug, but the use of hard drugs is on the rise. According to NACOB, there has been an increase in reported cocaine and heroin usage and treatment in 2010 compared to 2009. Up to the second quarter of 2010, there were 823 illicit drug users being treated at four psychiatric hospitals.

NACOB has a small office that handles drug abuse awareness and demand reduction programs. It works with municipal, metropolitan and district chief executives to educate them on the negative effects of drug abuse, and to encourage them to educate their constituents. NACOB and police officials have appeared on radio and TV stations for sensitization programs, and sponsored essay and quiz competitions to promote drug awareness. These programs are broadcast on state television in local languages. NACOB recently released a 40 minute TV drama explaining narcotics' effects on the human body, individual users, and society. It also distributes counternarcotics ads, handouts, calendars and brochures, with strong and sometimes graphic anti-trafficking messages prominently displayed at Kotoka International Airport and other public exhibitions. In addition, NACOB's Counseling Unit work with different psychiatric hospitals around the country, providing drug education programs and counseling sessions, as well as monitoring drug use and treatment.

During 2010, the Ministries of Health and Education frequently hosted public lectures, participated in radio discussion programs, encouraged newspaper articles on the dangers of drug abuse and trafficking. Drug education was also broadcast on TV. Narconon International, a Scientology-affiliated organization, provided residential drug abuse education to schools in Ghana. It educates approximately 2000 students a year on the dangers of drug abuse.

4. Corruption

Corruption continues to be an issue in Ghana and is widely perceived to be endemic in the police force, as well as other government institutions. Ghana does not have laws that specifically target narcotics-related public sector corruption and has not pursued charges against public officials on narcotics-related corruption offenses. There is no evidence linking senior government officials to such activity. On July 1, the GOG began implementing the Single Spine Salary System aimed at unifying pay, increasing transparency and fairness, and reducing corruption in government. The initiative has resulted in salary increases for police and other law enforcement officials, along with other government employees. As a matter of government policy, Ghana 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. In 2008, CBP, in cooperation with DOS/INL, assisted C.E.P.S. in establishing an Internal Affairs (IA) Unit that reports directly to the Commissioner of C.E.P.S. The IA unit organized a campaign encouraging the public to report unprofessional behavior. As a result, other Ghanaian government agencies are following their example to establish anti corruption departments within their organization.

NACOB, as well as the newly formed EOCO, have both taken steps to conduct background investigations for new recruits. NACOB has also begun to institute further checks on its current staff.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

USG and Ghanaian law enforcement continue to enjoy excellent cooperation on counter narcotics enforcement. A full body scanner procured by the State Department's International Narcotics and Law Enforcement Bureau (INL) for use at Kotoka International Airport to detect drug swallows and carriers was placed inside a climate-controlled room provided for and built by the Department of Defense's Africa Command (AFRICOM) in January. Following the installation of the scanner, there has been a notable decrease in drug swallows transiting Kotoka. The USG plans to provide a second full body scanner soon. Moreover, a new narcotics evidence storage and training facility for the Ghana Police Service was constructed with AFRICOM's assistance in June 2010. AFRICOM has also provided seven "Defender

Class” patrol boats over the past three years to the Ghanaian Navy, and is building a small craft maintenance and docking facility to assist with maritime drug interdiction.

The USG continues to provide technical assistance to Ghana within its ministries and offices. A U.S. Treasury embedded advisor at Ghana’s Financial Intelligence Center provides technical assistance to the FIC to train its staff in anti-money laundering techniques. INL, in cooperation with the U.S. Department of Justice, has allocated funds for a legal advisor to assist the Ghana Ministry of Justice with narcotics prosecutions. On Friday, August 13, 2010, the first vetted unit on the continent of Africa graduated from DEA’s Basic Drug Enforcement Seminar in a ceremony in Accra, Ghana. The vetted unit, or Special Drug Investigative Unit (SDIU) as it is called in Ghana, received strong support from the Government of Ghana. DEA is also continuing to provide technical assistance and equipment to NACOB.

D. Conclusion

Ghana remains committed to combating narcotics trafficking and maintaining excellent cooperation with international partners, including the U.S., on counter narcotics issues. Ghana took several notable steps to strengthen its ability to counter narcotics smuggling and abuse, including the passage of the Economic and Organized Crime Act that strengthens existing laws on anti-money laundering and asset forfeiture and created the Economic and Organized Crime Office (EOCO). With the assistance of DEA, NACOB also took steps to improve its operational capabilities. However, Ghana’s law enforcement and judicial institutions continue to face a number of challenges that hinder the country’s ability to make greater strides against narco-trafficking. Ghana should endeavor to continue providing needed technical, human, and financial resources to law enforcement and judicial institutions, take steps to combat corruption, and improve interagency coordination among law enforcement agencies.

Guatemala

A. Introduction

Guatemala possesses many essential features of an ideal transshipment point: its location between the Andean producing countries and the U.S. market; easy accessibility by drug trafficking organizations (DTO) via air and sea; weak public institutions; endemic corruption; and vast ungoverned spaces along its borders. The situation in Guatemala contributes to over 60 percent of the cocaine trafficked to the United States being smuggled through Central America. Guatemala is also a minor producer of opium poppy for export to Mexico, as well as marijuana for domestic use.

The United States and the Government of Guatemala (GOG) enjoy strong bilateral relations and have partnered in many areas to strengthen GOG institutions and develop technical capacity. However, in 2010, the security situation continued to deteriorate. The continued incursion of Mexican DTOs into border regions, including the Sinaloa cartel and Los Zetas, led to a number of violent clashes between rival organizations. Guatemala is also beset with an array of transnational crime including trafficking in persons, arms trafficking, and an upsurge in regionally powerful youth gangs who engage in armed robbery, murder-for-hire and extortion schemes.

The GOG did not allocate the resources necessary to confront these challenges; it has one of the lowest tax collection rates in Latin America, and, in 2010, cut the justice and law-enforcement budgets. This constrained the effectiveness of U.S. Government (USG)-sponsored assistance. These factors have combined to create an impunity rate of 96.5 percent for murder, with similarly high numbers for other crimes including organized crime. While the number of homicides dropped in 2010 from 2009 levels, Guatemala's per capita murder rate has roughly doubled in the last ten years and is now eight times that of the United States, and four times that of Mexico. Drug seizures and eradication were down in 2010 compared to 2009.

Guatemala is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Weak law enforcement and criminal justice institutions operate in an environment of pervasive corruption. The frequent rotation of top officials in all ministries inhibits the development of coherent and consistent strategic approaches towards improving rule of law. Government officials, even when well-intentioned, are also challenged by intimidation, constrained budgets, and limited training. Guatemala has one of the lowest tax rates per capita in Latin America at 10.3 percent of GDP, leaving state institutions underfunded. Despite calls from the USG and other international and civil society leaders to increase tax revenue and to increase transparency in government spending, the Guatemalan Congress failed to approve a fiscal reform measure, in part due to opposition from the private sector. The budgets assigned to the ministries responsible for security, law enforcement and justice were cut again in 2010 in favor of the expansion of the government's social programs. These factors foster an environment which facilitates the operation of organized crime in Guatemala and has encouraged further encroachment and consolidation of power and control of trafficking networks by Mexican drug cartels.

The most promising initiative in 2010 was the establishment of the Police Reform Commission directed by noted human rights activist Helen Mack. The Commission has focused on improving planning, investigatory capacity, crime prevention, professionalization, and internal control of the National Civil Police (PNC). The USG has provided substantial technical and financial assistance to this initiative. The GOG vetted the top three tiers of the officers in the PNC, promoting only those that achieved positive

results. Additional police officers were also hired, bringing the force up to 23,000. However, by comparison the number of private security guards in the country is approximately 120,000.

The GOG achieved some success countering organized crime in 2010, utilized judicially-authorized wiretaps to obtain evidence critical in a number of high-profile cases, and appointed a promising new Attorney General. In October, major narcotics trafficker Mauro Ramirez was captured; following the capture, the Minister of Government requested USG assistance to reorganize and strengthen the anti-narcotics division of the PNC. On December 19, President Colom declared a state of siege in Coban, the capital of Alta Verapaz department, to respond to increased violence in the area attributed to Mexican drug traffickers. Police and military conducted 16 raids, arrested 18 suspects, and confiscated a large cache of weapons. The Department of State Bureau of International Narcotics and Law Enforcement Affairs' Narcotics Affairs Section (NAS) aviation program provided aerial reconnaissance and transported prosecutors to the area and captured suspects to Guatemala City to face trial. At the conclusion of the operation, the GOG requested USG support to permanently strengthen rule of law institutions in the department.

The passage last year of legislation establishing high impact courts to provide a secure environment for judges, prosecutors, and witnesses who participate in sensitive narcotics trafficking and other dangerous cases was a significant achievement; one high impact court has been established in Guatemala City and has already heard several cases. The U.S. Agency for International Development (USAID) provided funding in conjunction with the United Nations Development Programme to remodel the courts' facilities. On December 7, Guatemala's Congress passed the Seized Asset Law that targets assets obtained from crimes such as drug trafficking, money laundering and corruption and transfers the assets to law enforcement, prosecutorial and judicial authorities. The USG committed to assist the GOG in developing and implementing regulations and a strong secretariat to oversee seized assets before the law goes into effect on June 30, 2011.

Strict controls on precursor chemicals were enacted in 2003 and strengthened in 2009 to include pseudoephedrine. In 2010, the GOG began to develop new regulations to control other precursor chemicals.

A special anti-gang unit created last year with USG assistance contributed to the capture of 130 gang members in 2010. The GOG's official 2010 crime statistics show homicides decreased to 5,842 compared to 6,206 in 2009. In addition, as of December 2010, 33 PNC officers and 9 prison guards were killed while on duty, compared to 29 police and nine prison guards killed in 2009.

Guatemala is a party to the 1961 UN Single Convention and its 1972 Protocol; the 1971 UN Convention on Psychotropic Substances; the 1988 UN Drug Convention; the Central American Commission for the Eradication of Production, Traffic, Consumption and Illicit Use of Psychotropic Drugs and Substances; and the Central American Treaty on Joint Legal Assistance for Penal Issues. Guatemala is also a party to the UN Convention against Corruption, the UN Convention against Transnational Organized Crime and its three protocols, the Inter-American Convention against Corruption, and the Inter-American Convention on Mutual Assistance in Criminal Matters. A maritime counternarcotics agreement with the United States has been fully implemented. 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. As a result of laws passed in 2008, all U.S. requests for extradition in drug cases are consolidated and expedited in specialized courts located in Guatemala City.

2. Supply Reduction

Guatemala is bordered by the Caribbean Sea in the east and the Pacific Ocean in the southwest. Its geographic location and limited maritime law enforcement presence make it ideal for the transit of drugs

through its coastal waters. In addition, it has a large, sparsely patrolled border with Mexico to the north. Illicit flights direct from the Andean production zone, however, fell from an average of 60 in 2009 to six in 2010. The presence of a USG-maintained Aviation Support Program (ASP) contributed to this decline.

In 2010, the USG provided assistance to specialized GOG military and police units to strengthen their interdiction capabilities, including the counternarcotics police (DAIA) and Special Naval Unit (FEN). In July, the FEN sent boats from its special naval force out 120 nautical miles to interdict a semi-submersible vessel. Four suspected narcotics traffickers were captured; however, the vessel was scuttled, taking with it one of the GOG naval vessels.

U.S. Customs and Border Protection (CBP) provided training to improve police skills at the international airport in Guatemala City and main seaports, leading to increased seizures of money and drug couriers. However, despite sustained training and provision of substantial technical and logistical assistance to the GOG, drug seizures declined in 2010. According to the GOG, it seized 1.4 metric tons (MT) of cocaine in 2010, compared to 7.1 MT in 2009. The GOG only seized 1 MT of pseudoephedrine and 1.5 million pseudoephedrine tablets in 2010, compared to 11.8 MT of pseudoephedrine in 2009. This overall decline was due primarily to turnover in the leadership of the PNC as well as the assignment of an ineffective head of the counternarcotics police unit who was replaced in late September. The GOG did seize more heroin in 2010 -- 20.86 kilograms, compared to 950 grams in 2009, and also seized \$2.4 million in currency in 2010.

Guatemala continues to be a minor producer of opium poppy, probably for Mexican DTOs, as well as a grower of low-quality marijuana that is sold on the domestic market. During 2010, there were two manual eradication operations conducted by the NAS-supported DAIA compared to the four missions conducted in 2009. According to the PNC, a total of 918 hectares of opium poppy were eradicated in 2010. The ASP conducted reconnaissance flights which indicate the increasing prevalence and organization of poppy cultivation, especially in the Department of San Marcos in the proximity of Guatemala's border with Mexico. More intensive eradication operations are planned for 2011.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2010, the Commission against Addictions and Drug Trafficking (SECCATID) remained underfunded. However, by working with other GOG and non-governmental organization (NGO) institutions as well as by focusing on the most-at-risk areas of the Guatemala City metropolitan area, it was able to implement a number of prevention projects targeted at youth and local community organizations as well as support a small treatment program. During 2010, SECCATID worked with NAS, the Ministry of Interior, the PNC, the Ministry of Education, and several NGO's to implement nine drug use and violence prevention programs, all designed to generate protective factors at the individual, peer, and community level. The programs aimed to keep students off the streets, educate and inform them about the consequences of drug-use and violence, and build life skills for drug and violence-free lives.

SECCATID supported the implementation of a year-long youth-at-risk prevention program (Youth in Action for a Safe Life or JAVI in Spanish), which was funded through the Central America Regional Security Initiative (CARSI) small grant competition. The program taught 100 at-risk youth critical life skills, increase their economic opportunities through vocational training and participation in a job placement assistance program, as well as help them to share their skills with the community through a neighborhood restoration project. SECCATID also supported NAS in the implementation of the Drug Abuse Resistance Education program (DARE), Gang Resistance Education and Training program (GREAT), and the Police Athletic League (PAL) in high-crime areas of Guatemala City.

PAL police officers worked with teachers and parents to organize a number of non-sports activities to provide additional skills to the children and their communities such as the "Theater Festival" in which four PAL chapters presented a unique and originally produced theater play with an anti-drug theme. SECCATID was also able to raise drug-use awareness through creative activities with a drug prevention

message such as an art contest and a theater play that included more than 30 presentations with an average audience of 2,500 each. SECCATID, NAS, and the Community Anti-Drug Coalitions of America (CADCA) worked in two municipalities to build healthier, drug-free communities. Finally, SECCATID started to work on strategic research regarding drug-use and a science-based monitoring and evaluation schedule for their prevention programs; the data and information that result from these activities will feed the recently created National Drug Observatory which received equipment and technical support from NAS.

4. Corruption

The GOG does not, as a matter of policy, encourage or facilitate illicit production and distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. In 2010, the GOG continued to support the efforts of the United Nation-led International Commission Against Impunity in Guatemala (CICIG) to investigate organized criminal groups with links to public institutions and strengthen the Guatemalan justice system.

Nonetheless, corruption remains endemic in public institutions and society as a whole. Two former presidents of congress face charges for their alleged involvement in an embezzlement scandal. Two former heads of the PNC face illicit drug trafficking and conspiracy charges for their role in the attempted theft of a load of cocaine. Additionally, former President Alfonso Portillo is being prosecuted for embezzlement and money laundering during his administration. Under intense international scrutiny, in June the Constitutional Court ordered the removal of the newly-appointed Attorney General for his alleged ties to organized crime. The Court then directed that the selection process be started anew, and in December President Colom selected human rights activist Claudia Paz y Paz as the next Attorney General for a five-year term.

The USG focuses its assistance on developing vetted, specialized units to counter the threat of corruption and serve as examples of what good police work can accomplish. While the vetting process does not prevent corruption entirely, working with and training vetted PNC officers to do their jobs effectively should help build both public and internal confidence in the police. The USG also supports efforts to root out corruption in the Ministry of Government and Public Ministry. USG assistance and technical advice assisted the Public Ministry in developing a Code of Ethics and a renewed supervisory unit, which receives and follows up complaints of questionable behavior within the prosecutor's office. NAS is also working with the PNC to strengthen its Internal Affairs unit. These activities have had some positive effects, but need to be expanded and strengthened.

C. National Policy, Bilateral Cooperation, and U.S. Policy Initiatives

USG narcotics and law enforcement programs are focused on improving the ability of GOG leadership and institutions to provide a stable and secure political, social, and economic environment within Guatemala. Individual programs focus on training, equipping and developing host nation agencies' capacity to detect and interdict drug trafficking and combat other criminal behavior, investigate and build supportable criminal cases and police intelligence, and prosecute criminal cases to a successful conclusion.

U.S. narcotics and crime control assistance supports strengthening the PNC to create a more professional, well-trained civilian law enforcement organization that is an integral pillar of the criminal justice system. Assistance is directed at improving the PNC's investigative, analytical, preventative, and patrolling capacity through support for the Police Reform Commission, Model Precincts Program, Center for Collection, Analysis and Dissemination of Criminal Information (CRADIC), the PNC's Total Information Management System, the PNC Academy, the prison system, and the Inspector General/Office of Professional Responsibility (Internal Affairs) Unit. The USG also supports a vetting process for PNC special units, a special investigative techniques unit (UME), the Sensitive Investigative Unit (SIU), Airport Task Force, Financial Investigative Unit (FIU), and a confidential tip phone line.

In addition, the USG provides support for an anti-gang unit (PANDA), which is an inter-agency effort with representatives from the PNC and Public Ministry working in partnership with analysts from CRADIC to investigate and dismantle local gang organizations. Given its success, PANDA will be expanded from Guatemala City to Quetzaltenango and Jutiapa in the next year. There are also plans to expand UME and CRADIC in 2011 to meet the growing demand for their services in investigating high-impact cases.

The ASP provides six Huey II helicopters along with training, operational, logistics, and maintenance support to the GOG. This has been critical in enhancing GOG's ability to interdict narcotics trafficking activities, support the manual eradication of illicit drug crops, transport law enforcement agents and detainees/evidence to and from remote areas of Guatemala, and to respond to natural disasters. The ASP is supported by Guatemalan Air Force pilots and maintenance staff and a tactical PNC Air Interdiction Joint Task Force (FIAAT).

The Rule of Law Program supports the GOG's ability to prosecute narcotraffickers and organized crime leaders effectively, as well as violators of money laundering and corruption laws. To achieve this purpose, it provides financial and technical support to three special prosecutorial units that handle narcotics, money laundering and corruption cases. In addition, it supports a special GOG task force to investigate and prepare high-impact narcotics cases. In 2010, a new program was launched to support the agencies that investigate threats against and protect human rights defenders.

In most areas, bilateral cooperation is good and the GOG is meeting their commitments in the Letters of Agreement. However, the reduced budget for the police and the Ministry of Government's limited ability to fully execute its budget constrains the GOG's ability to counter organized crime and narcotic traffickers. This lack of resources, including well-trained staff and funds for equipment and maintenance, prevents the units from reaching their full potential. The Seized Assets Law, once fully implemented, should deprive narcotraffickers of the economic gains from their illicit activity and provide enhanced resources to vetted units such as the ASP, UME, CRADIC, as well as the law enforcement and justice sector as a whole.

D. Conclusion

The USG enjoys productive relations with the GOG and has worked with the Colom Administration to improve its technical and organizational ability in the rule of law and justice sectors. Despite the availability of enhanced tools, such as increased aviation capacity, interdiction performance did not improve in 2010. Changes in key personnel continue to be a problem. The Minister of Government and Director of the PNC were replaced in 2010, and a new Attorney General was sworn-in on December 10. This lack of leadership continuity complicates efforts to develop long-term strategies and fully implement programs. However, the current Minister of Government and new Attorney General have expressed their commitment to pursue reforms. While the total number of police officers has increased by 50 percent from 2008 to 2010, the Ministry of Government's budget was cut sharply in both 2009 and 2010, limiting the operational capacity of existing units and raising doubts about the prospects of replicating successful projects, e.g., the Model Precinct Program, on a national scale. Finally, corruption and intimidation of law enforcement and justice sector officials reduces overall effectiveness.

It is crucial that the GOG complete the full implementation of the Organized Crime Law, specifically in establishing and training operational units to utilize authorized tools such as controlled deliveries and undercover operations to detect, arrest, and prosecute known major traffickers. The GOG should also act quickly to implement the Seized Assets Law, as well as pass an Illegal Enrichment Law and reforms to the Injunction Law, both to deprive criminals of their gains and channel resources to counternarcotics efforts. The GOG must also continue to fight against corruption by fully implementing the planned reforms of the PNC and the reorganization of the Inspector General (IG) and the Office of Professional

Responsibility (OPR). Police reform, with appropriate budgetary support, and concerted efforts to bring corrupt officials to justice in Guatemala are necessary for sustained progress.

Ultimately, the long-term success of the activities proposed and initiated with USG support depends on the GOG's provision of the resources necessary to replicate and sustain these efforts. USG funding is not sufficient on its own to drastically improve citizen security, but our programs are vital in demonstrating to the Guatemalan government and citizens that the combination of political will, leadership, and USG assistance can make significant improvements.

Guinea

A. Introduction

Guinea has experienced a series of dramatic events that have either focused the Government of Guinea's [GoG] attention on narcotics in an unprecedented fashion, or seen the issue relegated to insignificance, all dependent upon the prevailing political climate and de facto ruler of the republic at that point in time. In some cases, the intent of the government's focus on the narcotics issue seemed to be manipulative, i.e., to convince foreign observers that more was being done than in fact was being done. In other cases, the need to focus attention elsewhere was in line with any fair assessment of the country's priorities at that moment, and left enforcement in the hands of Guinea's under-resourced and inadequately trained police and military, who did their best to carry out their responsibilities, but made very little progress with it. Regardless of these disparities, neither the attention, nor lack thereof, has had much of an impact and the situation remains much as it has throughout recent Guinean history; leaving effective narcotics control as being only one priority, and not a particularly well-served priority, among many future challenges facing Guinean Law Enforcement. Guinea is a party to the 1988 UN Drug Convention.

B. Drug Control Policies, Accomplishments, and Trends

1. Institutional Development

The death of longtime Guinean President Lansana Conte on December 23, 2008, was followed within hours of his passing by a military coup that brought to power Captain Moussa Dadis Camara of the Guinean Army. Determined to stamp out corruption that had marred the decades of rule by the Conte Regime, Dadis embarked on what his spokespeople characterized as a vigorous campaign to combat the narcotics trafficking that had become endemic to the administration of his predecessor. Dadis' campaign was crippled from the outset, however, as his presidency was unrecognized around the world, particularly among African nations, and thus he received little international support. Many nations also believed (rightly, as it was later proven), that Dadis' counter-narcotics efforts were often being used as window-dressing in order to garner recognition for his new government. The election of President Alpha Conde in 2010 could perhaps provide a new champion for future resolution of Guinea's troubled counter-narcotics programs, but this difficult challenge finds itself joining a very long line of competing priorities facing a fledgling government with few, if any, resources.

2. Supply Reduction

The summer of 2009 was a particular high point in the counter-narcotics fraud being perpetrated by the Dadis government. Several large "drug busts" were reported by the government in many areas of Conakry, including one (perhaps not without coincidence) in the hometown of former president Lansana Conte. Such alleged accomplishments, however, began to lose their credibility with the GoG announcement of the discovery of several "drug labs" in and around Conakry. Analysis of one purported lab near Gbessia International Airport by members of the U.S. Embassy staff led to doubts as to both the authenticity of the claims and the integrity of GoG anti-narcotics efforts in general. For example, Guinean police showed warehouses full of chemicals which they claimed were being used in the refinement of narcotics. Analysis of the chemicals in the warehouse by the Drug Enforcement Administration produced inconclusive evidence as to its actual purpose. Furthering these inconsistencies was the announcement days later of an "Ecstasy Lab" outside of Conakry that was alleged to contain large amounts of sassafras oil (used in the manufacture of the drug). While this claim caught the attention of international observers and organizations, it later proved to be the GoG's most outlandish hoax of the summer.

Nevertheless, DEA did dispatch two agents from its Paris office to investigate the veracity of the GoG's claims in September of 2009, an arrival welcomed by the GoG. Before DEA's inquiry could begin,

however, on September 28, 2009, 157 unarmed protestors were gunned down by government soldiers in the Conakry Football Stadium. This event virtually erased any remaining international support for the Dadis regime and, owing largely to the highly unstable environment that has beset Guinea since that period, the DEA has not visited the country and the counter-narcotics strategy of Guinea has faded drastically from public debate. In the aftermath of the 2009 massacre, it became clearly apparent the failures of Guinean Law Enforcement to adequately and honestly address a counter-narcotics strategy during the summer of 2009 were largely due to the failure of Guinean Law Enforcement to be effective in any arena.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Illicit drug use in Guinea is difficult to quantify, not only is local law enforcement and prosecution lax, but the absence of any rehabilitation clinics or other medical recording facilities relegates illicit drug use in Guinea to an obvious fact, but one lacking in supporting empirical data. Thus, it is not possible to say how many drug abusers there are in Guinea, or to clearly identify what drugs are being abused.

4. Corruption

Official corruption is endemic and frequently tolerated in West Africa. Under the past regimes in Guinea, it might well have played an important role in the emergence of Guinea as one of the West African centers of the transit narcotics traffic. Going forward, there is hope that a newly elected regime will realize the way corruption undermines any counternarcotics effort and will do what it can to remedy it.

Guinea is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Guinea is a party to the UN Convention against Transnational Organized Crime and has signed but has not yet ratified the UN Convention against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

For many years in Guinea, the only law enforcement available was being implemented by Guinea's military forces, not its nominal police. As of the end of 2010, the Guinean Military are nearly absent from street life in Conakry, remaining confined to barracks and out of the public eye. The Guinean National Gendarmerie has effectively engaged in Use of Force (UoF) training offered by the U.S. and EU and implemented the new policies with a degree of success many had previously thought impossible with Guinean Police. The Guinean military has also shown for the first time that it can deploy to the streets of Conakry during civil unrest without usurping police authority and limiting itself to a supporting role much like a U.S. National Guard unit. Effective leadership, clearly defined parameters, and the opportunities to put these newly taught principles into action have at this point far exceeded expectations for Guinean Law Enforcement.

Having said this, the sad fact remains that in congratulating Guinean Police on the effective implementation of proper UoF principles sadly demonstrates just how untrained and far behind the Guinean police were, and how much further they have to go. UoF is a key tenet for trained law enforcement organizations anywhere in the world. But this is law enforcement at its very basic level, providing perhaps a glimpse at the long road ahead for Guinean law enforcement and its future ability to fight complex narcotics trafficking.

D. Conclusion

Guinea's recent (and first) presidential election followed a tumultuous year of civil disarray surprised even the most pessimistic observers. Following this success with aggressive reformation and training of the Guinean National Police could provide the foundation, and hope, that implementation of a valid counter-narcotics strategy could become fact. Guinean Police forces responded exceptionally well to the small amount of UoF training provided briefly during the summer of 2010. This enthusiasm for

progressive training and modernization are a clear indicator that future law enforcement training programs provided by international observers or organizations will likely be heartily welcomed by the Guinean police and lead to an overall improvement of law enforcement throughout Guinea. Existing programs such as training in International Law Enforcement Academy (ILEA) are coveted opportunities for Guinean police, and the expansion of these programs can only further aid in the professional development of future leaders in the Guinean law enforcement hierarchy. The successes of American and European police officers providing a very modest amount of on-site training in Guinea was followed by almost textbook execution just months later in controlling election related violence in Conakry. Guineans have also responded well to “Train-the-Trainer” programs and with successes such as these, the optimism that is spreading throughout Guinea following its first free election could also have a positive effect on local law enforcement.

In discussing Guinea’s future, however, one cannot discount the not too distant past. Guinean democracy is less than a month old and while the future appears bright the long history of dictatorship, civil unrest, general strikes, and massacres have often and quickly nullified previous efforts and successes of the best-willed Guineans and the international donor community.

The enormity of Guinea’s political problems just one year ago would have convinced any scholar of international relations that those problems were in fact insurmountable. Yet Guinea has shown in an astoundingly short amount of time that such hopelessness was unwarranted. Guinea’s political crisis was resolved in part to the determination of major donor nations who doggedly insisted on free elections. What can be done in politics can certainly be done in police departments. While one cannot exactly be overwhelmingly confident in contemplating the future of law enforcement in Guinea, recent events clearly show there is still reason for genuine optimism.

Guinea-Bissau

A. Introduction

Guinea-Bissau, a tiny impoverished country in West Africa, is a major transit hub for narcotics trafficking from South America to Europe. The country provides an opportune environment for traffickers because of its lack of law 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 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. The degeneration of Guinea-Bissau into a narco-state is a real possibility, although the international community has made efforts to avoid such a troubling development.

Guinea-Bissau has a population of 1.82 million persons. The country is one of the poorest in the world, placing 164 out of 169 countries on the United Nation's 2010 Human Development Index. Security forces lack the most basic resources, and civil servants are often not paid for months at a time. Until September 2010, the country possessed no adequate criminal detention facilities. Guinea-Bissau's history since independence from Portugal in 1974 has been characterized by political instability, civil war, and continuous unrest. The U.S. Embassy in Bissau closed in June 1998 due to civil unrest; but relations and cooperation between the Government of Guinea Bissau (GOGB) and the United States, conducted from the U.S. Embassy in Dakar Senegal, have continued.

President Malam Bacai Sanha was elected in July 2009 following the assassination of President Joao Bernardo Vieira by the military. International observers declared the 2009 elections to be free and fair. On April 1, 2010 ex-Navy Chief of Staff Jose Americo Bubo Na Tchuto and soldiers loyal to Deputy Defense Chief of Staff Antonio Indjai detained Defense Chief of Staff Jose Zamora Induta and Prime Minister Carlos Gomes. Gomes was released several days later, but Induta remained in military detention without being formally charged until his release on December 23. Na Tchuto was listed as a drug kingpin in April 2010 by the U.S. Department of Treasury due to his significant involvement in international narcotics trafficking. In June 2010, Indjai was appointed to the position of Defense Chief of Staff. In October 2010, Na Tchuto was re-appointed as Chief of Staff of the Bissau-Guinean Navy. Guinea-Bissau is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Developments

During the year, the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL), working with partners such as the UN Office on Drugs and Crime (UNODC) and the UN Integrated Peace-building Office in Guinea-Bissau (UNIOGBIS), assisted Guinea-Bissau in updating the process for mutual legal assistance requests, provided training to justice sector professionals on transnational criminal issues, and worked on efforts to introduce a witness protection program.

A national security strategy which provides the country with an initial framework for security sector reform (SSR) was drafted in 2006. This reform received the support of the EU, with the help of bilateral governments and the UNIOGBIS. The aim was to restructure and rebuild the military, armed forces, police and judiciary - each of which are in varying states of disorganization and dysfunction. However, following the events of April 1, 2010, the EU decided to suspend its security sector reform mission, putting the future of SSR in Guinea-Bissau into question. The United States made a similar decision to suspend support for SSR and military engagement in light of the continued illegal detention of Admiral

Induta at the time of the decision, the appointment of Indjai as defense chief, and the re-appointment of Na Tchuto as naval chief.

In September 2010, the Ministry of Justice, with the assistance of UNODC, opened Guinea-Bissau's first-ever secure prison facilities in the towns of Bafata and Mansoa.

The extent of cannabis cultivation in the country is unknown, though there is evidence that at least some cannabis is cultivated illicitly for local consumption. On the border of Guinea-Bissau, cannabis cultivation is quite common in Senegal's southern Casamance region and is linked to a 28-year-old separatist movement, called 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 in Guinea-Bissau. There are no known efforts to determine the scope of the cultivation or eradicate it. The only illicit cultivation discovered by the Guinea-Bissau Judicial Police in 2009 was of a minor cannabis growing operation in Bafatá in the east and another in the Reno Gambeafada in the center of the country. No illicit cultivation was discovered in 2010.

In July, 2008, GOGB law enforcement authorities attempted to investigate a grounded Gulfstream 2 jet, which had taken off from Venezuela and was 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. Eventually, the pilots were arrested, set free on bail, and then subsequently fled. The GOGB is now trying to auction off the plane, which it seized during this incident. No drugs were officially seized during the incident. 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.

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.

2. Supply Reduction

In October 2010, José Américo Bubo Na Tchuto, long suspected of being a major facilitator of narcotics trafficking in Guinea-Bissau and listed by the U.S. Department of Treasury as a drug kingpin, was re-appointed Chief of Staff of the Bissau-Guinean Navy. In 2010, according to the Judicial Police, three Nigerians were arrested at the Bissau airport on narcotics-related charges. In addition, six Nigerian drug “mules” or low-level drug couriers on a flight originating in Bissau were arrested in Portugal after the Judicial Police passed the individuals' information to their Portuguese counterparts. No narcotics-related arrests were reported in 2009, in great part due to the major upheavals that the country experienced following the assassinations of former President Vieira and Armed Forces Chief of Staff Tagme na Waie in 2009. According to the Judicial Police, drug cartels required time after the assassinations to locate “barons” or senior government officials that will offer them the protection they need in order to be able to reactivate their networks.

In 2010, the Director General of the Judicial Police was sent to Ghana for ECOWAS-led training. In 2009, four judicial police officers were sent to take three courses in Cape Verde. Given limitations on funding, training, and policy, there is only limited current ability to guard against the transit of drugs through Guinea-Bissau. Due to weak law enforcement efforts and inadequate record keeping, it is difficult even to assess accurately the scope of the drug problem. Police lack the training and equipment to detect drug smuggling. Until September 2010, there were no adequate detention facilities to hold arrested suspects. There are not even any secured vehicles with which to transport suspects.

Cocaine transits through Guinea-Bissau moving from South America on either air or maritime traffic and continues on to Europe by means of other maritime traffic, drug “mules” on commercial air flights, or even traditional caravan routes through Northern Africa and then across the Mediterranean to Southern Europe. The U.S. is not believed to be a significant destination point for drugs transiting Guinea-Bissau.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the UN and the former Chief of the Armed Forces Induta, 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.

4. Corruption

Corruption is a problem for narcotics law enforcement all over Africa, and Guinea-Bissau is particularly susceptible. Anecdotal reports of corruption at the highest levels of government are common. Observers note the apparent complicity of military personnel in the July 2008 plane incident, and the judge’s release of the suspects on bail, despite the existence of an international warrant for their detention and the obvious flight risk. As of December 31, 2010, the government had no arrears in paying civil servant salaries, but salaries remain low causing a constant temptation to law enforcement personnel and others in a position to influence the outcome of narcotics-related law enforcement and judicial processes.

In October 2010, Admiral José Américo Bubo Na Tchuto was re-appointed as Chief of Staff of the Bissau-Guinean Navy. Na Tchuto and Air Force Chief of Staff Ibraima Papa Camara were listed as drug kingpins in April 2010 by the U.S. Department of Treasury due to their significant involvement in international narcotics trafficking.

In October 2010, former GOGB Treasury Secretary Maria Paula Costa was found guilty on charges of fraud and negligence by a Bissau court and given a fine and three years in prison. The charges stemmed from 2006, when forged signatures were used to steal 75 million FCFA from the Bissau-Guinean public treasury.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Embassy in Bissau suspended operations in June 1998. The U.S. Ambassador to Senegal is accredited to Guinea-Bissau and one U.S. officer assigned to the Embassy in Dakar monitors events. The U.S. Embassy liaison office opened in Bissau in 2008 and is staffed by three Local Employed Staff. Representatives from INL, DEA, AFRICOM and the FBI made frequent visits to Bissau in 2010 to provide technical assistance and to conduct needs assessments. During 2009, DEA and FBI representatives visited Bissau to assist in the investigation surrounding the July seizure of the plane from Venezuela.

D. Conclusion

Due to lack of law enforcement capabilities, its susceptibility to corruption, its porous borders, and an opportune location, Guinea-Bissau remains a significant hub of narcotics trafficking on the verge of developing into a narco-state. While many officials within the Bissau-Guinean government recognize the extent of the drug problem and express a willingness to address it, a crippling lack of resources and capacity to address the problem remain a hindrance to real progress in combating drug trafficking. The re-appointment of drug kingpin Na Tchuto as Naval Chief of Staff is likely to further entrench drug cartels into the conducive operating conditions prevailing in Guinea-Bissau.

The USG will continue to work closely with the government of Guinea-Bissau to improve the capacity of its narcotics law enforcement officers to investigate and prosecute narcotics crimes. In recognition of the importance of strengthening broader institutional capacity, the USG will support efforts to reform the

judiciary, and will seek to strengthen the legislative and oversight capacity of the National Assembly. Furthermore, given the broad role that socio-economic factors play in narcotics trafficking, the USG will seek to promote economic development and political stability.

Guyana

A. Introduction

Guyana is a transshipment point for cocaine from Colombia and Venezuela destined for North America, Europe, and the Caribbean. Generally, small aircraft transporting cocaine land at remote airstrips in Guyana's unpopulated interior highlands or coastal savanna regions to refuel and continue on to offshore destinations. Due to weak land and maritime border controls and the vast unpatrolled interior, drug traffickers are able to conduct operations without significant interference from law enforcement agencies. The ability to detect drug shipments has received some recent investment, but a lack of focused interdiction operations and the capacity to monitor and control its expansive borders hinder enforcement of anti-trafficking laws.

Guyana has a drug enforcement presence at the major international airport, post offices, and to a lesser extent at the port of Georgetown. The majority of drug enforcement assets are centered in the capital, although progress has been made in building capacity in the interior. The three major agencies involved in anti-drug efforts are the Guyana Police Force (GPF), the Customs Anti-Narcotics Unit (CANU), and the Guyana Defense Force (GDF). Of the three, CANU has the most institutional knowledge and drug enforcement experience.

Cannabis is grown in Guyana, and high-potency cannabis is smuggled in from Jamaica. This is mostly for domestic consumption, and is not trafficked in significant quantities. The most commonly used drug in Guyana is marijuana, followed closely by cocaine. Ecstasy is becoming more prominent, although its use is still low. Drug treatment activities are hindered by low funding and a lack of public awareness. Guyana is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Overall, Guyana's counternarcotics 2010 activities were challenged by the consistently marginal commitment and capacity at all levels of government, despite some achievements late in the year. Movements to modernize a colonial-era legal system based on English common law often stall or lack priority. Signed into law in 2008, the Anti-Money Laundering and Countering the Financing of Terrorism Act (AMLCFTA), the Interception of Communications Bill, and the Criminal Procedure Bill were designed to enhance both the investigative capability of law enforcement authorities and prosecutors' ability to obtain convictions in drug related cases. To the government's credit, the AMLCFTA was used in 2010 in court proceedings, when Guyanese authorities obtained a conviction of a Guyana Revenue Authority (GRA) employee in its first case under the Act. The case was prosecuted with significant cooperation provided by the United Kingdom (UK). Guyanese authorities have not yet handled a money laundering case from start to finish on their own, however.

Although, law enforcement agencies lack adequate government support and face perpetual personnel, training and budgetary challenges that undermine effective or sustained counternarcotics operations, there were some notable actions taken this year. For example, in March 2010, GPF units destroyed 10 marijuana fields with support from a GDF helicopter along the Berbice River. The GPF burnt 28,000 plants weighing approximately 22 metric tons, as well as, 45,000 two-inch plants that were found in 15 nurseries. This seizure was the largest of three separate raids over a two week period that also netted additional marijuana, drug equipment and arrests. Guyana's 2005-2009 National Drug Strategy Master Plan (NDSMP) expired last year and it achieved few of its original goals. However, using the NDSMP as a guide, CANU's drug enforcement operations at the international airport were reinforced while it also continued to modestly expand capability as an intelligence gathering and analysis organization. As

CANU officials continued to make plans to conduct counter-drug operations in the interior region, the Guyana Revenue Authority (GRA) assumed responsibilities from CANU for drug interdiction at the Port of Georgetown in March of 2010. GRA has no dedicated drug enforcement unit and did not receive funding specifically to support its new role in drug enforcement. A new shipping container scanner was received in June and is expected to be operational in 2011. While the main purpose of the scanner will be to counter smuggling activities related to duties and tariffs, it may have the secondary effect of deterring drug smuggling. Guyana also worked more closely with Trinidad and Tobago, and Barbados, on an operational level in 2010, utilizing personal relationships and existing CARICOM treaties to create information exchanges on narcotics trafficking.

Guyana is party to the Inter-American Convention on Mutual Assistance in Criminal Matters; 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 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. The 1931 Extradition Treaty between the United States and the United Kingdom is applicable to the U.S. and Guyana. In 2008, Guyana acceded to, and has filed information requests under, the Inter-American Convention on Mutual Assistance in Criminal Matters, to which the United States is also a party. 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).

2. Supply Reduction

The uncontrolled borders and coastal areas of Guyana allow for 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. 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. While there are no reliable estimates regarding the amount of cocaine or cannabis that transits through Guyana, USG law enforcement authorities say that Guyanese narcotics traffickers regularly move shipments of cocaine and marijuana through the country.

In 2010, modest efforts to reduce supply by Guyanese law enforcement agencies yielded 105 kilograms of cocaine, according to the Guyana Police and government media reports. U.S. law enforcement officials were involved in the seizure of 73 kilograms of the 105 kilograms of cocaine seized in 2010. This compares to seizures of 137 kilograms of cocaine in 2009 and 48 kilograms in 2008. Authorities seized and eradicated an undetermined amount of marijuana in 2010 though modest estimates of seized packages and plants indicate it was over 25 metric tons. This is a sharp increase over the 183 kilograms reported seized in 2009. The amount of heroin seized in 2010 was approximately 1.2 kilograms; two kilograms of heroin were seized in 2009. These figures, however, likely represent only a fraction of the drugs trafficked through Guyana. The number of criminal charges filed against individuals for activities related to the trafficking or distribution of illicit drugs for 2010 was 683; there were 648 such charges in 2009 and 473 in 2008.

Currently, there are no routine patrols of the numerous land entry points on the 1,800 miles of border with Venezuela, Brazil, and Suriname. While operating at the international airport, the GPF Narcotics Branch and CANU have engaged in the occasional arrest of low level drug couriers, who carry only small amounts of crack or powder cocaine, and marijuana. Much larger quantities seized in North American airports of cocaine coming from Guyana demonstrate lack of detection capability.

Drug interdiction efforts have yet to take place at the port of Georgetown since responsibility for counternarcotics at the port was transferred to the GRA. Though the GRA routinely searches outbound containers for smuggled goods, no searches are conducted specifically for drug interdiction, and no seizures were made at the port in 2010. On average, 500 containers each month are shipped from the port, with approximately half destined for the United States. GRA officials are required to be present during the packing of containers for export; otherwise the containers are subjected to physical search at the port. Until the container x-ray scanner is operational, GRA is not capable of conducting 100 percent inspections of outbound containers, despite the small number of shipments. GRA customs inspectors have not received any training on how to conduct counternarcotics searches.

In general, the Guyana Defense Force (GDF), with approximately 2,500 members, supports law enforcement agencies and their operations with boats, aircraft and personnel, but does not have law enforcement authority. The Guyana Coast Guard (GCG), a GDF sub-component and key partner in maritime interdiction, has approximately 250 members and its primary missions are patrolling the territorial waters of Guyana and humanitarian search and rescue. Unfortunately, its lone offshore patrol boat was in dry dock undergoing repairs for the majority of the year, and therefore was unable to carry out offshore drug patrols or interdictions. However, smaller patrol vessels do conduct patrols along the coast and inland waterways.

3. Drug Awareness, Demand Reduction, and Treatment

Guyana's ability to deal with drug abusers is impeded by the modest financial resources available to support rehabilitation programs. Guyana only has two residential facilities that treat substance abuse: the Salvation Army and the Phoenix Recovery Center. Both are partially funded by the government, but they have budgetary constraints and often rely on donations from addict's families to stay open. Since 2007, the Ministry of Health has run several modest demand reduction programs in the media, schools, and prisons, as well as outpatient talk-therapy treatment. Awareness efforts are inconsistent and lack material results, due to budgetary shortfalls. There is little by way of Non-Governmental Organization (NGO) support in demand reduction.

Marijuana continues to be the most common drug used by Guyanese. Marijuana is sold and consumed openly in Guyana, despite frequent arrests for possession of small amounts of cannabis. Evidence points to high quality marijuana originating in Jamaica ending up in Guyana. Crack cocaine is becoming more popular, and is quite affordable, costing as little as fifty cents per dose. The prevalence of ecstasy has increased greatly in the past year, although it remains a minor drug. There is also a significant link between the drug problem in Guyana and HIV, with a significant number of addicts testing positive for the disease. The number of addicts has remained steady, but there has been a trend of younger people becoming addicted to drugs.

4. Corruption

As a matter of policy, the Government of Guyana 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. News media, however, routinely report on alleged instances of corruption; some reports implicated police personally retaining drugs from seizures while others point to high government officials that are not investigated and thus go unpunished. As mentioned earlier, a GRA employee was convicted in 2010 for crimes under the AMLCFTA in a drug trafficking case. The case was prosecuted by the Director of Public Prosecution (DPP), and it saw international cooperation from police officers from Scotland Yard, who were among the nine witnesses that testified at the trial. This case was part of a larger investigation that began in 2006 in the UK and included other countries where the 'Bling Bling' gang appeared to operate. Several persons connected to this investigation, many of them Guyanese, were convicted in the UK in 2006.

Guyana is party to the Inter-American Convention Against Corruption (IACAC), but has yet to fully implement its provisions, such as seizure of property obtained through corruption. Guyana is also party to the UN Convention Against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. policy focuses on cooperating with Guyana's law enforcement agencies, promoting good governance, and facilitating demand reduction programs. The USG continues to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives, including the Caribbean Basin Security Initiative. The government of Guyana has a maritime counter-drug bilateral agreement with the USG.

In 2010, the USCG provided the GDF Coast Guard with training in maritime law enforcement and small boat maintenance, improving their maritime security capabilities. In addition, the Drug Enforcement Administration's Port of Spain, Trinidad and Tobago, office continued to collaborate with Guyana's law enforcement agencies in counternarcotics-related activities, and reported a generally favorable and improving working relationship.

D. Conclusion

The U.S. encourages the Government of Guyana to effectively implement recent legislation and regulations supporting counternarcotics efforts. We look forward to collaborating with Guyanese law enforcement to test the amended extradition law and emphasize the need for vigorous enforcement of laws against money laundering and financial crimes. Meanwhile, recently acquired equipment such as the maritime patrol craft and container scanner by the GRA should be optimized for long term use through development of training, evaluation and maintenance requirements. In addition, the execution of joint operations through task forces to accomplish complex raids and seize record amounts of marijuana signal a stronger commitment to the counternarcotics mission and the rule of law.

Haiti

A. Introduction

Haiti is a major drug transit country for South American cocaine destined for the United States, the Bahamas, and other countries. Flights from South America making airdrops offshore and at clandestine airstrips throughout Haiti remain a primary narcotics shipment threat. Although marijuana grows in certain parts of the country, Haiti is not a major drug producing country nor is there widespread illegal drug use.

Haiti faces challenges in combating the drug trafficking threat. Security and judicial institutions, including the 15-year old national police force, still in the early stages of professional development, were faced with additional setbacks following the January 12, 2010 earthquake. The widespread devastation to Haitian government infrastructure further impacted the Government of Haiti's (GOH) ability to combat drug trafficking.

Despite these challenges, there was evidence in 2010 of increasing GOH institutional capacity and improving political will to combat the illegal drug trade and address corruption. The presidentially-appointed permanent Commission Against Drug Abuse and Money Laundering (CONALD) continued to oversee the counternarcotics work of Haitian agencies across the Finance, Interior, and Justice ministries and across various Haitian National Police (HNP) directorates. The Justice Minister, who has frequently decried the apparent impunity enjoyed by drug traffickers who are able to bribe police, judges and court officials, held regular meetings with CONALD in order to focus attention on drug trafficking, money laundering and corruption, and to hold agencies accountable for results.

Haiti is a party to the 1988 UN drug convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional development

The HNP is the only Haitian government institution charged with investigating individuals or organized networks that engage in narcotics trafficking or benefit from the illicit trade, and arresting suspects. The key offices within the HNP are the 44-person counternarcotics unit, the Bureau de Lutte de Trafique en Stupéfiants (BLTS), the 18-person financial crimes investigative unit, the Bureau des Affaires Financieres et Economiques (BAFE), and the 99-person maritime police unit, the Gardes Cote.

The HNP were able to start the 22nd Promotion in September 2010 with the assistance of the U.S. and the international community. Graduation of the 900-person class in April 2011 will increase HNP ranks by ten percent, add 100 officers to the BLTS and double the size of the Gardes Cote. Even with these long-anticipated increases, HNP units are relatively small, poorly funded and badly equipped. Moreover, the highly centralized HNP structure has been slow to devolve the decision-making authority and the resources to permit units to conduct operations without substantial external support and ongoing technical assistance.

Haiti is a party to the 1961 Single Convention as amended by the 1972 Protocol, the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the Inter-American Convention against Corruption, and the Inter-American Convention against Trafficking in Illegal Arms. Haiti remains the only member of the Organization of American States (OAS) not a party to the 1971 UN Convention on Psychotropic Substances. On September 14, 2009 Haiti ratified the UN Convention against Corruption, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and its Protocols on Trafficking in Persons and Migrant Smuggling. A U.S.-Haiti bilateral letter of agreement signed in October 1997 concerning Cooperation to Suppress Illicit Maritime Drug Traffic allows U.S. law enforcement agencies to enter Haitian territorial waters and airspace when

in pursuit of suspect vessels or aircraft, to board and search suspect vessels, and to carry members of the Haitian Garde-Cotes as ship riders. Although there is no Mutual Legal Assistance Treaty between Haiti and the United States, the Haitian government has cooperated on many cases within the limits of Haitian law. The bilateral extradition treaty entered into force in 1905 and, although the Haitian Constitution prohibits extradition of Haitian nationals, the GOH has willingly surrendered Haitian nationals under indictment in the United States to U.S. law enforcement agencies. During 2010, there were no extraditions.

2. Supply Reduction

In 2010, there were a total of nine suspect drug flights into Haiti, as compared to 17 recorded in 2009. Go-fast boats also transport cocaine to locations on Haiti's southern coast for shipment to the United States or to the Bahamas and other Caribbean markets. Cocaine may also be entering via containers and across Haiti's land border with the Dominican Republic.

The HNP continued to make progress on the counternarcotics front in 2010, conducting investigations, arresting suspects, and seizing drugs and trafficking-related assets. In 2010, the BAFE seized 19 real estate properties valued at over \$10 million. These properties were seized from traffickers convicted in the United States on criminal charges related to drug trafficking or corruption. Some of the properties will be renovated for use as office space for the BLTS, the BAFE, and other GOH financial investigation units. Haitian airport authorities seized \$15,262 in cash at the Port-au-Prince Airport this year. Cocaine seizures in 2010 slightly outpaced 2009's six HNP cocaine seizures, which totaled 19.54 kilograms (kg). In late November, the BLTS seized two kg of cocaine from the suitcase of a traveler attempting to board a Port-au-Prince to New York flight, and arrested her and the companion who had taken her to the airport.

In September 2010, officers from the HNP station in the notoriously gang-infested Cite Soleil neighborhood seized a suitcase containing 19.8 kg of cocaine. It is the first such seizure ever recorded by officers from the Cite Soleil neighborhood and was the largest Haitian cocaine seizure of 2010.

The HNP seized 262 kg of bulk marijuana in 2010, and eradicated some 27,000 marijuana plants in the Artibonite region, respectively, both down from 2009 seizures of 704.95 kg of bulk marijuana and eradication of 12,000 marijuana plants.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

There are no Haitian Government-sponsored drug demand reduction and treatment programs, nor are we aware of non-government organizations (NGO) providing such services. The extreme poverty of the population – the country is the poorest in the Western Hemisphere – leaves little discretionary income, and the daily preoccupation with finding adequate food, water, and shelter for survival thus far has mitigated against a widespread drug abuse problem.

4. Corruption

As a matter of policy, the GOH 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 close associate of President Préval appointed to head the Haitian Justice Ministry in November 2009, Paul Denis, has been a forceful anti-corruption advocate. He made combating corruption one of his top three priorities; the two other priorities being pre-trial detention and improving the functioning of the courts. He has often spoken out publically against corruption and in favor of improving the functionality of the justice sector.

The Justice Minister's articulate observations about corruption problems have not, however, translated into substantive operational or structural changes. Moreover, the United States government (USG) continues to receive reports of actively serving HNP officers providing security for drug traffickers using

clandestine landing strips or for transporting cocaine from one location to another. This pervasive corruption is a serious impediment to conducting effective counternarcotics operations in Haiti.

The HNP themselves arrested police officers reportedly involved in drug trafficking and kidnapping gangs. In a highly publicized case reported in September 2010, the Director of the Central Judicial Police, which oversees all HNP investigative units, announced the arrest of seven officers – most of them traffic police from the Brigade d'Intervention Motorisée (BIM) – accused of aiding drug traffickers and kidnapers. Haitian officials characterized the arrests as part of a general housecleaning within the police force.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

President Préval continued to urge decisive action against drug trafficking and money laundering in Haiti. He has reiterated calls for an augmentation of the U.S. counternarcotics presence in Haiti, and encouraged the DEA and other USG agencies to work even more closely with Haitian authorities to arrest and extradite drug trafficking suspects.

This year, the HNP arrested 18 defendants in cases investigated jointly by the DEA and the BLTS. Three of those defendants were transferred to DEA custody and subsequently removed to the United States for prosecution. The GOH also authorized a DEA undercover investigation that resulted in the acquisition of 16 kg of cocaine and a controlled delivery to U.S. targets. One defendant was arrested in the United States and a second was arrested in Haiti by the BLTS and turned over to DEA for removal to the United States for prosecution. DEA also seized \$40,000 in cash from the targets during the course of the investigation.

The USG maintains a priority focus on building the capacity of Haitian institutions to provide policing and security for Haitian citizens and to address drug trafficking and money laundering threats. In response to Haiti's vast rebuilding needs, the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) expanded its Narcotics Affairs Section (NAS) to include a counternarcotics advisor, corrections advisor, police advisor and a management officer. INL also received FY 2010 supplemental funding of nearly \$148 million that will be used to support GOH efforts to rebuild its security and criminal justice sectors, as well as enhance the ability of the GOH to prevent political instability in Haiti. The supplemental funds will support judicial sector projects, including repair or reconstruction of select damaged facilities; renovation or rebuilding of damaged prison facilities. The funds will also support an increase in the U.S. contribution of police and correctional advisors to MINUSTAH; an increase in the number of Haitian National Police (HNP); reconstruction of damaged portions of the HNP police training facility; provide assistance for training new police recruits; and provide technical assistance and training and logistics support for counternarcotics efforts, among other things.

In 2010, NAS Port-au-Prince, working with NAS Bogota, funded a month-long training course featuring both counternarcotics and anti-kidnapping elements in the curriculum. The course, held in Colombia at the Junglas Training Center trained 24 HNP officers from the BLTS and the anti-kidnapping unit.

NAS worked with DEA to support BLTS operations with per diem, travel costs, rent for the BLTS Special Investigations Unit and equipment. NAS also supported the relocation of the unit following the earthquake to a more secure, upgraded compound which will have all necessary equipment for the BLTS agents to perform their duties without compromising their investigative and police activities.

The Embassy's Military Liaison Office (MLO) is drawing on Department of Defense Foreign Military Funding for an equipment and training package to support three new vessels purchased for the Haitian Gardes Cote unit by the Government of Canada. That project also will outfit the Canadian built Coast Guard base in Les Cayes to provide a badly-needed operating base for the Haitian Coast Guard on the south coast. NAS provided on-going support to feed the small Gardes Cote unit located on the North

Coast at Cap Haitien, and also funded fuel deliveries to run equipment and generators at the central Gardes Cote base at Killick. The Military Liaison Office and NAS are elaborating a strategic plan to rebuild the Killick base, including infrastructure, communications equipment linked to the HNP upgrade package, and training programs to build Gardes Cote capacity.

In 2010, the Haiti Stabilization Initiative (HSI) began its second phase to implement security assistance program in the Port-au-Prince neighborhood of Martissant. The program, which will run through 2011, adds to the completed efforts in Cite Soleil and targets an area known for the presence of criminal gangs reportedly linked to kidnapping and drug trafficking groups. This phase of the HSI will refurbish or build four police commissariats or sub-commissariats in Martissant and provide non-lethal protective equipment, communications gear, training and mentoring in community-oriented policing for existing police officers and those to be assigned to the impact area. This project not only rebuilds quake-damaged police stations in order to permit a return to normal police operations, it also facilitates an effective police presence in one of the capital city's most marginalized and destabilizing neighborhoods.

In 2010, NAS developed plans to continue training and mentoring projects for the Haitian National Police including the BLTS counternarcotics unit in 2011 and is working with DEA and the BLTS to design and establish a computerized database of narcotics traffickers and trafficking networks for Haiti, which will enable the BLTS and the HNP in general to share pertinent information with DEA, the U.S. Coast Guard, and with their Caribbean and Latin-American counterparts.

D. Conclusion

Infrastructure and resources, including personnel resources, are the top priorities articulated by the Haitian National Police Director General. To those ends, the United States and international donors are focused on assistance aimed at rebuilding the infrastructure damaged in the January earthquake and helping improve the operational capacity of the HNP as a whole, to include the counternarcotics and financial units. Leadership within the HNP has shown a willingness to tackle the counternarcotics issues in Haiti with a promise to increase the number of officers dedicated to the units with responsibility in these areas, a willingness to participate in specialized training efforts, and a desire to see these units better equipped. The United States will continue to support these efforts, working towards the goal of a self-sustaining, fully operational unit capable of fighting counternarcotics on land and water. However, it will be critical for Haiti's leadership to demonstrate the political will to address corruption and other serious issues, as well as provide sufficient resources for the HNP.

In 2011, it will be important to have a peaceful transfer of power as a new President is elected and begin to focus on the way forward in Haiti. While the United States and international community can train and equip officers, the GOH still has to ensure laws are updated to accommodate the growing criminal demands on the country. The HNP needs to be better equipped to arrest offenders, investigate criminal activity, prosecute offenders, and incarcerate guilty parties. This will not be possible without an updated criminal code and criminal procedural code.

Honduras

Honduras is a major transit country for drugs, primarily cocaine, destined for the United States. Its geographical location, limited resources, and weak law enforcement presence in under-policed areas of the Atlantic coast make Honduras vulnerable to drug trafficking organizations (DTO) operating from South America and Mexico. These groups use the remote northeastern region known as La Mosquitia and other isolated sites as transit and storage areas. Marijuana is cultivated in Honduras almost exclusively for domestic consumption. Honduran police have not detected any cocaine or heroin processing laboratories in the country.

2010 was primarily a rebuilding year for counternarcotics efforts, due to the political crisis which followed the June 28, 2009 coup d'état and continued until the January 27, 2010 inauguration of President Porfirio Lobo Sosa. The United States suspended assistance during this period, while the de facto regime reassigned Honduran armed forces and law enforcement resources from counternarcotics duties. Even before the political crisis, drug traffickers had increased their use of Honduran air, land, and maritime routes, and this upward trend continued into 2010.

Since restoration of constitutional order in Honduras, U.S.-Honduran joint counternarcotics efforts have resumed, and the Lobo administration has supported counternarcotics cooperation. Efforts by the Government of Honduras (GOH), in conjunction with U.S. law enforcement agencies, directly addressed the air, land and sea drug transshipment through the country. This resulted in some increases in interdictions of illegal narcotics, precursor chemicals bound for North America and illicit bulk cash shipments bound for DTOs.

While the prosecution of drug cases by the Public Ministry remains weak, a symptom of systemic deficiencies in the criminal justice system, collaboration with U.S. law enforcement on trafficking cases is improving. Honduras is a party to the 1988 United Nations (UN) Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The United States Government (USG) resumed active counternarcotics cooperation with the GOH following the January 27 inauguration of President Porfirio Lobo Sosa. The Lobo administration has worked through the Central America Regional Security Initiative (CARSI), formerly part of the Merida Initiative, to develop a plan of action for counternarcotics operations, strategy, and security sector development in Honduras. The U.S. Mission and GOH have developed a set of institutional changes, including the establishment of a financial crimes task force to investigate and prosecute narcotics and other financial crimes; agreement to create a GOH Joint Counternarcotics Operations Center; and expansion of the U.S. Drug Enforcement Administration (DEA) vetted joint anti-narcotics unit. U.S. Immigration and Customs Enforcement (ICE) established a vetted police unit as well as developed a vetted gang unit under the auspices of Operation Community Shield to combat trans-national gangs. The U.S. Agency for International Development (USAID) worked with local government actors on participatory crime prevention plans, establishing Outreach Centers in high risk communities and expanding vocational and workforce development opportunities for at-risk youth.

The GOH put in force a revised asset forfeiture law on July 5, and a U.S.-Honduran interagency working group has begun developing procedural guidance to fully implement the law. The financial crimes task force, a joint special investigation and prosecution unit, will be the primary method of investigating and pursuing asset forfeitures. In December, an emergency provision related to the seized asset law allowed the distribution of over \$8 million in U.S. currency to various government agencies.

The Honduran Armed Forces drafted a proposed interagency counternarcotics strategy, and commenced refurbishing air assets in support of the plan. The Secretariat of Security, which oversees the Honduran

National Police (HNP), drafted a long-term plan of action for strengthening the capacity of the HNP to combat transnational crime. The plan involves the expansion of the police information and analysis center (CEINCO) to serve as the national Joint Information Center for intelligence-driven investigations, including counternarcotics. Once this plan is enacted, these initiatives will derive additional funding support from the asset forfeiture process, creating a sustainable GOH approach toward improved counternarcotics efforts in the future. The GOH has sought international donor nation guidance and support in implementing this combined plan.

As part of its overall national police reform plan, the Security Secretariat reconstituted its vetted border police unit, a program that had been previously disbanded despite numerous successes from 2004-2006. Members of the U.S. Customs and Border Protection's (CBP) Office of Border Patrol Tactical Unit began retraining Honduran border police to conduct improved land-based interdictions.

The Security Secretariat continued work on an expanded polygraph unit within CEINCO. Although the United States agreed to resume support for vetting and training that was suspended after the coup, the HNP has not yet put forward a list of nominees for training.

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. Honduras is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its three protocols. 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, though 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 Principles was signed between the United States and Honduras on December 15, 2005 for the Container Security Initiative, which involves the inspection of maritime cargo destined for the United States.

2. Supply Reduction

Transshipment of illegal drugs through Honduras is facilitated by direct air flights from South America (particularly Venezuela), maritime vessels and the Pan-American Highway, which crosses southern Honduras. Various estimates place Honduras as one of the primary landing points for South American cocaine. Air tracks continued to proliferate in 2010. The Joint Interagency Task Force South (JIATF-S) recorded 75 suspect air flights into Honduras during the year, compared with 54 in 2009 and 31 in 2008. These flights were increasingly concentrated in La Mosquitia. Shipments arriving from South America were then broken down into smaller loads for onward transit. Honduras is also a key transshipment point for bulk cash being smuggled from North American drug markets to South American producers. In 2010, a new trend arose in Honduras in which suspect flights returned with bulk cash loads to South America. Previously, planes tended to be burned on arrival.

Honduras is not a production center for drugs, except for marijuana grown primarily for domestic consumption. Marijuana is grown in isolated fields hidden in rugged mountainous terrain in the departments of Yoro and Francisco Morazan in central Honduras; Colon along the Caribbean coast; Olancho in eastern Honduras; and in the western departments of Copan and Santa Barbara.

In 2010, the GOH seized 6.134 metric tons (MT) of cocaine, 2,704 stones of crack cocaine, 1.222 MT of marijuana, 29.75 million pseudoephedrine pills, and 12 kilograms of bulk pseudoephedrine. Additionally, the GOH arrested 539 persons for drug-related offenses, and seized cash valued at over \$9 million in U.S. currency. The Honduran National Police seized \$7,547,000, in a single operation at the San Pedro Sula airport on October 31, in collaboration with the DEA. These figures include seizures of Honduran vessels in territorial and international waters, and represent slight decreases in cocaine seized (6.6 MT in 2009),

slight increases in marijuana seized (923 kg in 2009) and persons arrested (529 arrests in 2009), and major increases in the seizure of pseudoephedrine (2.8 million pills in 2009) and bulk cash (\$671,641 in 2009) over the previous year. The GOH also destroyed two illicit airfields in the Department of Olancho as a result of joint USG-GOH investigations.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Poverty, unemployment, and the lack of economic development continue to be the primary factors for drug use, especially among youth in Honduras. Alcohol and inhalants remain the most commonly abused substances. According to the Honduran Government's Institute for the Prevention of Alcoholism and Drug Addiction and Dependency, drug use is on the rise, and a majority of Hondurans between the ages of 15 and 19 have tried some kind of illegal drug -- cocaine, in particular.

The Community Policing division of the Honduran National Police conducts drug awareness and prevention programs in schools using the DARE model, and, in 2010, educated 6,608 students through their program. The HNP has worked closely with the U.S. Embassy to obtain updated DARE materials for 2011 and adapt the curriculum to local Spanish. Two Community Police Unit instructors attended the 2010 DARE International Training Conference in the United States. GOH drug treatment programs have been dependent on international donor assistance, most of which was suspended following the June 2009 coup. USG assistance resumed in January 2010, when the new administration took office.

The new asset forfeiture law provides that a portion of the distributions from forfeited assets will be used to support drug prevention and rehabilitation programs. Specifically, Article 78(7) provides that 10 percent of the distributions from forfeited assets will be directed to programs and centers that work on drug prevention and rehabilitation of youth with addiction problems. No seized assets have been directed towards this purpose yet, as no implementation plan has been adopted for the law.

4. Corruption

As a matter of policy, the GOH does not facilitate or encourage illicit production or distribution of narcotic or psychotropic drugs or other controlled substances. However, corruption within the Honduran government and its law enforcement elements presents obstacles to counternarcotics efforts. While law enforcement authorities made numerous arrests related to drug trafficking, prosecution rates remained low for all crimes and few convictions have been made, in part due to corruption at all levels of the prosecution process.

The Security Secretariat staffed and provided expanded facilities for the National Directorate of Internal Affairs (DNAI), which was created by the 2008 Police Organic Law. This body investigates police misconduct and reports directly to the Secretary of Security. In 2010, the DNAI initiated over 88 prosecutions of police for criminal misconduct in an effort to combat corruption and abuse in the National Police. Ten police officers arrested in July 2009, members of the Anti-Narcotics Group of the National Directorate of Criminal Investigation, remain in custody at a police facility. There still is no date set for preliminary hearings and the cases remain open.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The primary vehicle for implementing U.S.-Honduran policy on counternarcotics is the bilateral Merida/CARSI Task Force, co-chaired by the President of Honduras and the U.S. Ambassador. The Task Force convenes quarterly to oversee and direct coordination on a broad range of security sector efforts, including counternarcotics operations and strategy.

Through the task force, eight working groups were established to address specific security sector issues in depth: Criminal Investigation and Prosecution Capacity; Anti-Gang Operations; Community Development and Prevention; Financial Crimes and Asset Forfeiture; Counternarcotics Operations and Strategy; Border Security; La Mosquitia; and Human Rights. These eight sectors represent the major

GOH priorities for combating transnational crime and narcotics trafficking, developed in close coordination with the United States. The working groups are also responsible for joint counternarcotics planning, including for the financial crimes task force.

The GOH and USG collaborate on joint counternarcotics operations regularly, and the GOH has supported expansion of these joint operations and the institutions that carry them out in order to increase efforts to combat trafficking. All the successful seizures of narcotics and related bulk cash smuggling in Honduras in 2010 were a result of this collaborative effort.

The Lobo Administration has made the reduction of illicit air tracks into Honduras a public priority. While maritime trafficking is believed to constitute the bulk of narcotics flow through Honduras, air tracks are the most visible sign of the drug traffickers' autonomy in remote areas, especially La Mosquitia. To reestablish government control over such areas, the Honduran interagency has been developing its capacity and planning toward a major effort to interdict and interrupt illicit air tracks by 2011. At the same time, the U.S. Embassy and GOH have developed a comprehensive strategy for partnering, prevention and interdiction in the remote northeastern region through the La Mosquitia working group. This strategy will prioritize improved access to government services, including health and education, in addition to interdiction efforts.

The Security Secretariat continued to focus on improving the prison system and dismantling criminal organizations working from within the penitentiaries. The Secretariat funded the construction of a maximum security wing at Tamara Prison, which will allow for segregation of the most serious offenders from the general prison population. Budgetary challenges delayed the opening of the unit during the year, but the final stages of construction resumed by year's end.

D. Conclusion

The Lobo Administration inherited a severely limited ability to combat illegal trafficking when it took office in January. The GOH has nevertheless made significant efforts to rebuild the collaborative counternarcotics effort with the United States. By late 2010, joint counternarcotics efforts saw increased success. Furthermore, expansion of vetted investigative units, GOH prioritization of prison reform, plans for building up institutional structures to combat illegal trafficking, and implementation of an asset forfeiture law all point to greater cooperation and domestic Honduran counternarcotics capacity in the future. However, the challenges posed by corruption and an extremely limited budget persist, and additional institutional changes must be made for Honduras to successfully eject both foreign and local traffickers.

Hong Kong

Poppy cultivation is non-existent in Hong Kong, but authorities have uncovered indoor-grown marijuana operations. While illicit manufacturing of synthetic drugs is rare, authorities occasionally discover small-scale crack cocaine processing sites. As a high-volume and highly efficient financial and transportation center, Hong Kong remains attractive as an occasional transit point for drugs and for management of drug transactions occurring elsewhere. Local enforcement efforts and alternative regional air and sea ports, where controls are less rigorous, reduce the possibility of Hong Kong becoming a major transshipment point for drugs. Increased cocaine seizures in 2010, including a record 372 kilogram seizure, were credited to determined law enforcement efforts, but also indicative of rising demand for drugs in Hong Kong and the region, particularly demand for cocaine. The U.S. Drug Enforcement Administration has identified non-traditional trafficking routes involving Hong Kong as a final destination, such as South American cocaine transported via the Middle East to Hong Kong, as an issue of concern. Another concern is the use of non-ethnic Chinese couriers through Hong Kong.

Ketamine poses the greatest threat to Hong Kong, with its use predominantly associated with young people. Heroin is the second greatest drug threat and most popular among older abusers. According to local authorities, young abusers prefer drug inhalation over injection and reject the traditional stigma associated with heroin use. Cocaine is fast becoming Hong Kong's third greatest drug threat. Arrests for trafficking and possession of both small and large quantities of cocaine have increased steadily. This supports the theory that a portion of recent large cocaine seizures was destined for a local and growing market where cocaine is exceedingly expensive.

Hong Kong Police Force/Narcotics Bureau and Hong Kong Customs and Excise Department/ Drug Investigation Bureau are the primary drug law enforcement agencies with the mission to suppress drug trafficking and control precursor chemicals. These agencies collaborate with Hong Kong-based U.S. law enforcement personnel, and routinely conduct joint operations with PRC counterparts to combat cross-border illicit drug smuggling.

Latest available data indicate that Hong Kong authorities seized: 42 kilograms of ketamine, 21 kilograms of cocaine, 17 kilograms of heroin, 0.83 kilograms of methamphetamine and 0.23 kilograms of marijuana in the first quarter of 2010, compared to 22 kilograms of ketamine, 22 kilograms of cocaine, 21 kilograms of heroin, 9 kilograms of methamphetamine and 0.77 kilograms of marijuana seized in 1Q2009. Their were also two large seizure of cocaine the 372 kg seizure mentioned above and another of 481 kg, but both of these seizures occurred later in 2010, not during the first quarter of the year.

Hong Kong actively participates with the World Health Organization, Financial Action Task Force, Interpol, and the World Customs Organization to combat narcotics trafficking, related money laundering, and drug abuse. Upon resuming exercise of sovereignty over Hong Kong, the PRC advised the UN Secretary General that the 1961 Single Convention, as amended by the 1972 Protocol, the 1971 Convention on Psychotropic Substances, and the 1988 UN Drug Convention applied to Hong Kong.

In 2010, the Hong Kong Government continued its anti-drug use campaign, including pledging \$390 million U.S. to its "Beat Drugs Fund", a government initiative established in 1996 with a capital base of \$4.5 million for anti-drug community efforts, education, and treatment. Since 2004, the Hong Kong Narcotics Division has disseminated its anti-drug message through the Hong Kong Jockey Club Charities Trust-funded Drug Information Centre, via TV and radio broadcasts, internet films, and widely-disseminated posters and printed materials. Recognizing schools as important platforms to combat youth drug abuse, the government launched a six-month School Drug Testing trial program in December 2009, which has been extended an additional year, and also pledged manpower increases for social work services at all secondary schools to support identified or self-reported drug users.

The Hong Kong Government neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, nor the laundering of related proceeds. There were no reports of official involvement in narcotics trafficking or related money laundering in 2010. The Independent Commission Against Corruption, which reports directly to Hong Kong's Chief Executive, enforces anti-corruption in Hong Kong.

Three agreements bolster U.S.-Hong Kong bilateral law enforcement cooperation: a Mutual Legal Assistance in Criminal Matters Agreement (MLAA), an Agreement for the Surrender of Fugitive Offenders, and an Agreement for the Transfer of Sentenced Persons. Hong Kong law enforcement entities, among the most effective in the region, continue to collaborate closely with the U.S. Drug Enforcement Administration in day-to-day enforcement, intelligence sharing, and training. Proceeds from joint U.S.-Hong Kong counter-drug investigations are routinely shared.

The Hong Kong Special Administrative Region is neither a major narcotics production center nor a major illicit drugs transshipment point. The Hong Kong Government continues to be a committed partner in the war against drugs. Evidence of this commitment includes renewed pledges by senior Hong Kong officials, including Chief Executive Donald Tsang in his annual policy address October 2010, to

continuing vigorous law enforcement, which led to recent record drug seizures, and for the government's determination to prevent drug use through school drug testing and support for the "Beat Drugs Fund".

India

A. Introduction

India is strategically located between Southwest Asia (the Golden Crescent) and Southeast Asia (the Golden Triangle), the two main sources of illicit opium and other narcotic drugs. The country's geographic location makes it an attractive transshipment area for heroin bound for Europe, Africa, Southeast Asia and North America. In addition, India is authorized by the international community to produce licit opium for pharmaceutical uses. Licit opium is grown, and harvested using the poppy incising method, in the states of Uttar Pradesh, Madhya Pradesh, and Rajasthan. Some percentage of this licitly produced opium is diverted to illicit uses. Illicit opium production also occurs in northern India in the states of Arunachal Pradesh and Himachal Pradesh. India has a large chemical industry, estimated to be the third-largest worldwide, and produces all of the major chemical precursors for illegal drugs such as acetic anhydride (AA), ephedrine, and pseudoephedrine, and is also an emerging manufacturer of licit opiate-based psychotropic pharmaceuticals (LOPPS) and synthetics. These items are destined for licit sales in such markets as the Middle East, Pakistan, Bangladesh, and Afghanistan, but are vulnerable to diversion through such methods as internet sales. Licit and illicit manufactured opiate psychotropic pharmaceuticals are often diverted in small quantities to the U.S. as illegal "personal use" shipments. India is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments/ Policies and Trends

1. Institutional Development

India has a stringent Narcotic Drugs and Psychotropic Substances Act (NDPSA) which was last amended in October, 2001 and which is designed to fulfill India's treaty obligations under the 1988 UN Drug Convention. India is also a signatory to the South Asian Association for Regional Cooperation (SAARC) Convention on Narcotic Drugs and Psychotropic Substances. India has signed but not yet ratified the UN Convention against Corruption. In March 2010, the GOI approved for ratification the UN Convention against Transnational Organized Crime (also called the Palermo Convention), and India is in the process of completing the necessary formalities.

While the GOI continues to tighten licit opium diversion controls, the capacity of India's drug law enforcement personnel to collect and analyze intelligence data and to initiate and conduct complex investigations of criminal drug trafficking and other sophisticated/organized crimes remains limited by lack of training and equipment. The Central Bureau of Narcotics (CBN) has a mandate to monitor India's licit opium production and prevent diversion, but is poorly equipped to fulfill that mandate. This inability has led to an increase in diversion and similar inadequacies in other Indian Government agencies charged with enforcement have contributed to the growing cultivation of illicit opium in certain isolated locations.

India has an elaborate licensing regime to control dual use (licit/illicit) pharmaceutical products and is clearly in compliance with international control requirements for these products.

2. Supply Reduction

The Government of India (GOI) estimates that roughly 10 percent of licit opium production is diverted for illicit heroin production, primarily for local consumption and for the production of crudely refined "brown sugar" heroin. Ten percent diversion of the 2009 licit opium crop would have been a diversion of 52.4 MT of opium gum; some foreign and Indian officials conjecture that the rate of diversion from licit cultivation could be as high as 30 percent, which would be a diversion of 157 MT of opium gum.

Licited opium poppy cultivation in India is a labor-intensive and geographically dispersed industry, which is inherently difficult to control. Both the CBN and the Narcotics Control Bureau (NCB) stress the strictness of the Indian licensing and control system. India is the only country that permits the legal extraction and export of opium gum rather than poppy straw concentrate. Poppy straw concentrate is less prone to diversion. The CBN organizes and supervises the licited cultivation of opium poppy, deciding on the quantity of opium it intends to purchase and expected yield per hectare. After the harvest, the CBN collects opium gum from farmers and operates two processing centers (in Madhya Pradesh and Uttar Pradesh) where the opium is purified, dried, weighed and packaged for export or partially refined to supply to Indian pharmaceutical companies.

Diversion may occur when properly licensed and harvested fields yield more opium than the Minimum Qualifying Yield (MQY) set by the CBN, and if the unreported excess is sold into the illicit market or if cultivators make false claims that their licensed fields are not harvestable and then sell their harvests illicitly. While farmers who submit opium above the MQY are paid a premium, sales made on the illicit market often have a higher profit margin than sales made to the CBN.

Crop Year	No. of licensed cultivators	Area licensed in hectares	Area harvested in hectares	Opium production in metric tons at 70% consistency
2004-05	87,670	8,770	7,833	457
2005-06	72,478	7,252	6,976	442
2006-07	62,658	6,269	5,913	357
2007-08	46,775	4,680	2,653	176
2008-09	44,821	11,020	8,853	524
2009-10*	60,787	23,425	12,237	739

* *Estimated*

The 2010 INCSR reports that in 2007 and 2008, India was the world's number one exporter of ephedrine (221.2 MT and 189 MT respectively). It seemed to be on course to retain that role in 2010, with 10 month export figures showing India in first place worldwide by a large measure. In 2008, India was also the world's number one exporter of pseudoephedrine (462.8 MT). According to the International Narcotics Control Board (INCB), traffickers are now targeting India as the primary source for diverted ephedrine and pseudoephedrine to be used in the illicit production of methamphetamine. Despite GOI control efforts, India has been identified in some law enforcement cases as a source of such precursors destined for illicit methamphetamine labs in Mexico.

Some examples of recent Indian enforcement actions: In October 2010, an illegal factory in Maharashtra was raided and 93 kg of ephedrine was seized, and another October raid at an illegal factory in Gujarat netted 238 kg of ephedrine. Two people were arrested in the Maharashtra raid and six were arrested in the Gujarat raid. In September, Mumbai NCB intercepted a truck at Thane, India and seized 61 kg of hashish. Three Indians were also arrested.

In August 2010, the NCB seized two operational methamphetamine laboratories in Mumbai, India. In an effort to reduce the possibility of any illicit methamphetamine from this lab being smuggled from India, NCB executed four additional search warrants; two on the laboratory locations and two on separate residences. The NCB seized multiple kilograms of methamphetamine, amphetamine, suspected powdered/bulk ephedrine, suspected pseudoephedrine hydro-chloride powder, multiple liters of methamphetamine base, over 15 additional precursor chemicals and chemical processing equipment including laboratory equipment. Five Iranian nationals, three Indian nationals, one Dutch national, and one Columbian national were arrested.

The NCB also destroyed illicit cultivation of poppy and cannabis in Situ. In May 2009, 276 acres of illicit opium poppy cultivation was detected and destroyed in Jammu. Illicit poppy cultivation totaling

5,238.87 acres was also destroyed in the states of Jammu and Kashmir, Arunachal Pradesh, Bihar, Jharkhand and West Bengal. UNODC reports that in 2008, illicit poppy cultivation totaling 1,542 acres was eradicated across India, down from 19,768 acres eradicated in 2007 through a series of joint law enforcement eradication operations.

India is also one of the world's largest clandestine methaqualone producers. Methaqualone (Mandrax) in pill and bulk form is mainly trafficked to South America and South Africa.

The table below outlines total drug seizures made in India during the period of 2003 through December 2009. (Note: The reporting period for 2003-2007 was equivalent to the calendar year. The reporting period for 2008 was April 2008 through March 2009. The reporting period for 2009 was April 2009 through December 2009).

Name of Drug	Total kg seized in India 2003	Total kg seized in India 2004	Total kg seized in India 2005	Total kg seized in India 2006	Total kg seized in India 2007	Total kg seized in India 2008	Total kg seized in India 2009
Heroin	272	468	259	246	900	1,155	561
Hashish	625	394	430	955	3,766	4,347	2,321
Opium	18	20	0	787	1,758	1,334	1,102
Ganja (Marijuana)	3442	10,502	5,572	14,919	75,407	113,025	135,922
Cocaine	n/r	n/r	.63	200	5	13	11
Methaqualone	535	n/r	330	19	1	2,382	33
Acetic Anhydride (Itrs)	596	2,370	51	n/a	n/a	1,200	478
Precursor Chemicals							
Ephe drine	1025	71	7	n/r	295	38,479	606
Amphetamines	n/r	n/r	n/r	n/r	n/r	22	11

n/r = not reported

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Figures from the National Drug Dependence Treatment Centre (NDDTC) at the All India Institute of Medical Sciences (AIIMS) indicate drug abuse in India is on the rise. Their records indicate that of the over 53,000 individuals who present themselves for treatment annually at the center, opiate abusers accounted for 22% of patients in 2000 but 42 percent of patients in 2009. India often quotes an official figure of 70 million users nationwide, however this figure is based on one national survey conducted in 2000-2001 and published in 2004. At the time of that study, the most commonly abused drugs were marijuana, hashish, opium and heroin, and women and children were omitted from the study. The new World Drug Report (WDR) 2010 of the United Nations Office on Drugs and Crime (UNODC) describes the growing abuse of amphetamine-type stimulants (ATS) along with prescription drugs in India. The abuse of these drugs during the 2000-01 national survey was too small to merit scrutiny.

The Ministry of Social Justice and Empowerment (MSJE) has a three-pronged strategy for demand reduction, consisting of building awareness and educating citizens about drug abuse, dealing with addicts through counseling and treatment programs, and training volunteers to work in the field of demand reduction. In July 2008, a National Consultative Committee on De-toxification and Rehabilitation (NCCDR) was created to advise Central and State governments on methods to reduce drug demand. In response to the publication of UNODC's New World Drug Report 2010, which indicated increasing drug abuse in developing countries and the growing abuse of amphetamine-type stimulants (ATS), the MSJE began working on the first-ever national policy on prevention of substance abuse. The new policy will include more awareness training in medical colleges and schools, increased vigilance on social

networking sites, periodic surveys on drug abuse, increased monitoring of pharmacists, drug demand reduction as a public health policy, a shift in treatment from detoxification and rehabilitation to longer-term substitution therapy, and more sensitive treatment of patients in de-addiction centers.

4. Corruption

In December 2005 India signed the United Nations Convention against Corruption (the Merida Convention), and the GOI has taken steps at both the policy and law enforcement level to limit corruption. Since 1964, India has had an independent statutory body, Central Vigilance Commission, which issues guidelines and conducts inquiries to address government corruption. The CVC reports to the President of India through the parliament. Despite this, Transparency International's Bribe Payers Index in 2008 ranked India as one of the five highest ranked countries where bribes had to be paid.

Although the GOI central government provides guidance and support, India's 28 states and seven union territories have the primary responsibility for maintaining law and order, and investigating such crimes as corruption. Corruption in police forces at all levels of government is pervasive, with officers frequently acting with impunity and rarely being held accountable for illegal actions. Officers found to have participated in such illegal activity as bribe solicitation were often simply transferred to a new post. While the law provides criminal penalties for official corruption, in practice many officials frequently engaged in corrupt practices with impunity. This undermines the effectiveness of even the most elaborate control regimes for dangerous drugs. Neither the GOI nor any senior government official as a matter of policy encourages or facilitates drug trafficking.

C. National Goals, Bilateral Cooperation, and U.S. Policy

India is party to the UN Drug Conventions of 1961, 1971 and 1988, and cooperates with global and regional organizations. India has entered into bilateral agreements with several countries including the U.S. on cooperation in drug related matters. India's Narcotics Control Bureau (NCB) complies with all of its international responsibilities under these agreements and treaties. India actively participates in such precursor control arrangements as Project Cohesion and Project Prism, and issues pre-export notifications for export of precursors using an online system developed by the International Narcotics Control Board (INCB). Law enforcement agencies in India continue to exchange lead information on a regular basis with drug law officers based at embassies in India, and they continue their extensive cooperation with the U.S. Drug Enforcement Administration (DEA). India has conducted a number of joint operations against illicit internet pharmacies with DEA, and five significant large-scale conspiracies were detected and dismantled during 2006-2008. Since 2004, the U.S. and GOI have had a Customs Mutual Assistance Agreement.

D. Conclusion

India is a drug transit country due to its strategic location between the drug producing regions of the Golden Triangle and the Golden Crescent. India is the world's largest producer of licit opium and the only authorized user of the gum method of opium production for pharmaceutical preparations. This method of production is appropriate for India's labor-rich economy, but is intrinsically harder to police from efforts at diversion. Precursor chemicals and other controlled substances are also diverted, as well as licit pharmaceutical preparations and prescription drugs containing psychotropic substances. India has become a hub of drugs sold through illegal Internet pharmacies and the misuse of courier services, despite constant efforts by governments at all levels to combat this sort of crime. India is increasing its efforts at training of its national enforcement officers, and is vigorously exploiting opportunities for international cooperation in an effort to improve the effectiveness of both its demand and supply control efforts.

According to the respected periodical "India Today", drug use in India has undergone a demographic and social shift during the last decade which could result in a public health disaster. Use of cocaine and heroin is declining globally, and use of alcohol, opium, and cannabis- the traditional drugs in India- are

giving way to synthetic drugs such as Amphetamine Type Stimulants (ATS) and prescription drugs, which are easily attainable and can be both bought and sold over the counter, via the Internet, and transported via courier. The emerging drug abusers in India are young, affluent professionals, beneficiaries of India's recent rapid economic growth, using chemicals to stay awake longer or feel relaxed. With seventy percent of India's population below 35 years of age, the potential number of substance abusers is very large.

Indonesia

A. Introduction

Indonesia, the world's fourth most populous country, continues to face challenges in combating drug production, trafficking, and internal drug use. Although Indonesian drug enforcement efforts appear to have contained the threat from industrial-scale domestic methamphetamine laboratories that were prevalent as recently as 2008, Indonesian law enforcement continues to view methamphetamine as the country's main drug threat. Mainly syndicates that export from Thailand, China, Iran, and Malaysia supply the drug.

Although the majority of the methamphetamine supply originates from smuggling activities, small clandestine labs also actively manufacture the drug domestically. Purity levels of domestically produced methamphetamine, however, are still not as high as the imported variety. Other narcotics produced domestically are cannabis and MDMA/ecstasy. Aceh is the nation's hub for cannabis production. There is also an increased threat posed by heroin, as indicated by increased reports of heroin seizures nationwide.

Indonesia has a large internal demand for methamphetamine and ecstasy. Both drugs, when smuggled into Indonesia, typically transit Cambodia, Malaysia, Singapore, or Thailand. Recent trends also show an increased influx of the drug, ketamine, mainly from India. A recent study estimates total drug users in Indonesia at approximately 3.6 million people, out of a population of 234 million, an increase of nearly 13% over last year's estimate. Rehabilitative services and alternative sentencing provisions have not kept pace with this growth in drug use. As a result, most narcotics users serve time in prison, a group estimated at 65% of the total prison population, contributing to a prison system that is underfunded and overcrowded.

Indonesian narcotics law enforcement has made significant strides in coordinating its investigations with counterparts worldwide. Indonesian drug enforcement also continues to work closely with DEA. As further commitment to its stance against drugs, the Indonesian Government has joined the rest of ASEAN in pledging to make Indonesia drug free by 2015. Nevertheless, Indonesia faces the ongoing challenge of building the capacity of its premiere drug enforcement agency, BNN (National Narcotics Board). Deployment of BNN assets to areas near the Malacca Straits continues to be a challenge. Malacca's extensive coastline and inadequate border security arrangements open the area to drug trafficking by syndicates based in Malaysia and other regional countries. Indonesia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Indonesia's has increased the coverage and stringency of its narcotic laws. The new laws, impose harsher penalties on drug trafficking. The amended laws also elevate the categories of certain narcotics from lower schedules (Schedule II and III), where the penalties are limited to administrative fines and revocation of business license, to dangerous narcotics schedules (Schedule I), where the penalty is imprisonment and even capital punishment.

At the same time, the revised laws establish mitigating circumstances, notably for minors and first time drug offenders. For example, the new law allows Indonesian courts to order minors and first time drug offenders to mandatory drug rehabilitation instead of prison. The addition of a rehabilitation option to sentencing in drug cases has created a surge in requirements for drug rehabilitation facilities and staffing with BNN leading the efforts. However, until funding for drug rehabilitation facilities catches up with provisions of the new law, most first time drug offenders are likely to spend time in Indonesian prisons,

the majority of which are not equipped to handle this specialized population. The new amendment also establishes BNN as a non-ministerial government entity that is no longer subordinate to the Indonesian National Police (INP), and reports directly to the Indonesian President. Further, the law grants BNN law enforcement authority, thereby, authorizing BNN investigators to initiate and conduct investigations, subpoena witnesses in court, and arrest and prosecute suspects in drug cases. BNN is still required to coordinate with INP in drug investigations. Additionally, due to staffing shortages, BNN borrows resources from INP's pool of detectives for their investigations. BNN's enhanced role and expansion has created a surge in the organization's staffing, training, and facility requirements. To meet these demands, BNN is on an aggressive campaign to recruit and expand its staff.

2. Supply Reduction

Supply reduction efforts coordinated and led by BNN, focus on methamphetamine, cannabis, MDMA/ecstasy, ketamine, and cocaine. Heroin is likely to become an increasing focus of supply reduction activities.

While there was a 50 percent decrease in heroin and cocaine smuggling cases in 2010, there was a 30 percent increase in methamphetamine smuggling cases. Most foreign drug smugglers caught with methamphetamine originate from Iran, where they acquire the drug. Once in Indonesia, methamphetamine can command a street value 10 times its cost. Within the past year, Indonesian authorities have foiled multiple drug smuggling attempts by Iranian nationals. In May 2010, a BNN delegation traveled to Iran to meet with counterparts to discuss measures to curb the flow of drugs from Iran to Indonesia. BNN also continues to disrupt and dismantle clandestine domestic methamphetamine laboratories. Earlier efforts by enforcement have seemed successful against ATS Mega-labs, but the smaller labs prevalent now are even more difficult to detect.

Cannabis is cultivated mainly in the Aceh region of Indonesia and transported in bulk by heavy trucks via Sumatra's main highway. Cannabis is consumed primarily in metropolitan areas, such as Jakarta, Surabaya and Bali. To access these areas, drug syndicates transport cannabis from northern to southern Sumatra via roadway, then across the Sunda Straits. Harvesting of cannabis in Aceh occurs year-round due to the region's ideal growing conditions. On May 28, 2010, authorities discovered 3.5 tons of cannabis while investigating a collision involving the vehicle transporting it. Most discoveries and seizures of marijuana by law enforcement are coincidental. Regional Narcotics police state they are in need of training and more experience in highway drug interdiction techniques. The Singapore DEA office has addressed this requirement by supplying training courses in FY11 to counter the drug threat in Aceh and North Sumatra.

Ketamine, a veterinary anesthesia, taken by young people because it induces LSD-like hallucinations, dominates the nightclub circuit. Ketamine, which is legal in India for veterinary use, is increasingly diverted into Indonesia for the illicit market. The growing importance of ketamine in Indonesia is supported by more frequent and higher-volume ketamine seizures. Jakarta law enforcement reported that ketamine is, at times, more readily available in nightclubs than ecstasy. Jakarta law enforcers assessed that the market has been flooded with *faux* MDMA/ecstasy (Nimetazepam/Erimin/"Happy Five"), which has led consumers to resort to ketamine as an ecstasy alternative for its hallucinogenic effects. As recently as 2007, Indonesian authorities did not report on ketamine abuse, highlighting the rapidity of its penetration into the domestic abuse market during the past three years

Cocaine is viewed as a niche drug in Indonesia, trafficked in small quantities, for use by Westerners at tourist destinations, and wealthier Indonesians at metropolitan party circuits. Recent reports, however, suggest that drug syndicates may be attempting to market cocaine to a wider market. Earlier this year, law enforcement officials arrested two Indonesian nationals in South America for attempting to smuggle kilogram-quantities of cocaine. From mid-2009 to the present, law enforcement investigations have implicated six Indonesian couriers for involvement in cocaine smuggling from South America. BNN,

with DEA's assistance, continues to conduct an international investigation into these cocaine arrests to determine if they indicate a major trend or represent merely isolated incidents. BNN also suspects involvement of West African drug distribution networks in Indonesia in cocaine smuggling operations. With the recent reports of Indonesians drug couriers in South America, Indonesian law enforcement remains concerned that a step-up in cocaine trafficking may be in store for Indonesia in the years ahead.

Indonesia's BNN Chief is concerned that inadequate maritime security in, Indonesia's coastal areas opens the country up to drug smuggling, with the Batam Islands in Riau Province noted as a major transit point for drug smuggling. Trafficking syndicates employ increasingly sophisticated resources to conduct their drug smuggling operations. DEA Singapore Office has responded with a counter-narcotics technological training program and enhanced capabilities to target high-level drug distribution networks.

BNN fears that traffickers might also begin taking a keen interest in the Miangas Islands area. Miangas is Indonesia's northernmost island, directly bordering the Philippines, and falls under the administration of North Sulawesi Province. Miangas is closer in proximity to the Philippines than to Manado, North Sulawesi's main city. Miangas is four hours by boat from the nearest coastal area of the Philippines. In contrast, Miangas is 18 hours by boat from Manado. To raise public awareness and deter drug trafficking activities on Miangas, BNN conducted anti-drug campaigns through its *2010 Miangas Caring Action Program*. Raising public awareness in Miangas of the danger of transnational drug trafficking was important to BNN and part of its agenda to commemorate Indonesia's International Anti-Drug Day on June 26, 2010.

Following are national statistics on drug types and amounts seized from January to July 2010:

Drug	Quantity
Marijuana	16,326 kilograms=16.3 MT
Heroin	15.1 kilograms
Hashish	78 grams
Cocaine	52 grams
MDMA/Ecstasy	244,728 pills
Methamphetamine	188.4 kilograms
Meth (liquid)	5,000 ml=5 kilograms

BNN's most recent statistical reports paint a troubling picture of drug use and trafficking in Indonesia, particularly for methamphetamine. According to the report, national use of Amphetamine-Type Stimulants (ATS) has increased. The increased discovery of smaller clandestine ATS laboratories further confirms Indonesia's shift from a consumer of ATS to a supplier and manufacturer of ATS, at least for the growing domestic market.

BNN statistics also show a threefold increase in the methamphetamine cases brought to court from 2006 to 2009 -- from 2531 cases in 2006 to 7543 cases in 2009. Similarly, there has been an increase of ATS-related arrests from 4077 in 2006 to 10,046 in 2009. In contrast, there has been a decrease in MDMA/ecstasy cases, from 2381 cases in 2007 to 1375 cases in 2009. Statistics also show a slight decrease in MDMA/ecstasy arrests from 1452 arrests in 2007 to 1422 arrests in 2009.

3. Drug Awareness, Demand Reduction, and Treatment

A recent study conducted by BNN and the University of Indonesia estimated total drug users in Indonesia at approximately 3.6 million people, or about 1.5 percent of the Indonesian population. Most drug users in Indonesia reside in larger cities.

BNN estimates the amount of money spent every year in Indonesia for the consumption of narcotics and dangerous substances at upwards of \$2.2 billion. For 2010, BNN projects that the Indonesian economy will suffer losses of about \$41 billion due to drug abuse. This figure is projected to rise in successive years to \$46 billion in 2011, \$51 billion in 2012, and \$57 billion in 2013.

Within the 2010 economic loss numbers, the misuse of methamphetamine accounts for the greatest loss, to the tune of \$5.51 billion. Marijuana and its derivatives account for a loss of \$2.37 billion, heroin \$2.31 billion, and MDMA/ecstasy \$1.98 billion. East Java, Central Java and the Special District of Jakarta suffer the most from economic losses due to meth abuse.

BNN has introduced several supply reduction programs, such as livestock farming in Aceh, to replace the illicit cultivation of marijuana in the region. The program offers local farmers higher profit margins if they substitute livestock farming for marijuana cultivation. Given the prevalence of marijuana production in Aceh, law enforcement struggles to eradicate marijuana crops, due to corruption and the provincial authority's lax attitude regarding marijuana abuse.

4. Corruption

Indonesia has made progress in combating official corruption, primarily through a growing body of laws and the efforts of its Corruption Eradication Commission (KPK). However, the KPK's focus on high-level targets may limit its impact in fighting corruption linked to narcotics trafficking and smuggling. Additionally, vested interests seek to weaken the KPK's anti-corruption mandate and capabilities, and some anti-corruption watchdogs believe these efforts have weakened the institution. In perhaps the most flagrant example of these attempts, an investigation into two of the KPK's vice-chairmen on allegations of bribery appears now to be based on fabricated evidence. How Indonesia resolves this case will likely affect KPK's efficacy in the future.

As a matter of government policy and practice, Indonesia does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal transactions. Nevertheless, corruption at all levels of government and society is endemic, and the pervasiveness of corrupt practices poses a significant threat to the country's counternarcotics strategy. This threat exists along the entire law enforcement chain, from police to prosecutors to judges and prison officials.

While counternarcotics laws have been strengthened, Indonesia police and prosecutors remain susceptible to official corruption due to low wages. The prevalence of judicial middlemen, often referred to as the "judicial mafia", further undermines the integrity of the judicial process. These middlemen, who have direct links to prosecutors and judges, can "fix" a case for the appropriate fee. Furthermore, corrupt police and investigators reportedly abuse their authority by conducting illegal searches, as Indonesian courts will admit evidence obtained without a warrant. On occasion, police have initiated investigations solely as a means for soliciting bribes from suspects. Corrupt prosecutors in narcotics cases reportedly request bribes for a reduction in charges with defense attorneys serving as facilitators.

Even when narcotics offenders receive stringent prison sentences, rampant corruption within the prison sector facilitates the ongoing use, distribution, and trafficking of illicit substances from prison. In September 2010, investigators revealed the disruption and dismantling of an organized narcotics ring in a high-security prison on the island of Nusa Kambangan, often referred to as the "Alcatraz of Indonesia." Investigators implicated three suspects on charges of methamphetamine distribution. All of the suspects had been sentenced to life imprisonment for prior narcotics offenses, and investigators believe the ring had been in operation for at least six months before it was detected.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Indonesia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention as amended by its 1972 Protocol. Indonesia is a party to

the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its two Protocols on Trafficking in Persons and Migrant Smuggling.

BNN has worked to implement appropriate strategies to make Indonesia drug free by 2015. In August 2010, BNN entered into a Memorandum of Understanding with the Ministry of Rural Development to support the eradication of cannabis production while also supporting crop substitution efforts. BNN also collaborates with civil society organizations and charitable foundations to raise public awareness of the dangers narcotics pose to Indonesian society. Finally, if budget constraints lessen, 2011 may see increased diversion of first-time narcotics users to rehabilitation programs, easing the burden on already overcrowded prisons.

In 2011, DEA will officially open the DEA Jakarta Country Office (JCO) to include Country Attaché, Special Agent, Intelligence Research Analyst and Administrative Assistant. Plans also include the assignment of an additional Special Agent position in mid-2011. DEA's increased presence in Indonesia further serves as an indicator of the growing drug threat in Indonesia and the willingness of Indonesian narcotics law enforcement to cooperate with the USG to counter it.

From June 20 through July 1, 2010, DEA Agents from the Singapore Country Office (SICO) conducted an intensive seaport interdiction operation with counterparts from the Indonesian Customs Narcotics Team (CNT) and BNN. The operation targeted ten (10) international seaports, located in the Riau Islands and along the eastern seaboard of Sumatra and the Malacca Straits. The SICO, CNT and BNN Officers targeted both inbound and outbound passengers from Malaysia. During the operation, law enforcement officials seized approximately 13,490 ecstasy tablets, 2 kilograms of heroin and 1 kilogram of methamphetamine, and arrested four people. Intelligence from various sources indicated that, due to the increased interdiction efforts at the ferry seaports, various drug trafficking organizations (DTOs) had switched to alternative methods to traffic narcotics. Earlier, there were indications that in response to increased drug interdiction successes at Indonesia's international airports, several DTOs shifted to trafficking narcotics via international ferry seaports. The operation also helped authorities understand better DTOs method of trafficking in response to enhanced interdiction efforts at the international ferry seaports. As evidence of the constantly shifting battle between enforcement and traffickers, DTOs seemed to be developing alternative trafficking routes, primarily through use of fishing vessels.

As with previous years, the USG has also provided equipment donations and technical assistance that has significantly increased Indonesia's interdiction capability. In 2010, USG assistance focused on the Indonesian Customs Narcotics Team's (CNT) development of its K-9 drug detection program. During FY10, the U.S. also provided several surveillance vehicles for members of BNN and Polda Metro Jaya (PMJ). USG also provided training in Precursor Control and narcotics investigation. This FY11 training will focus on advancing investigative techniques, including money-laundering investigations. Per Indonesian narcotics counterparts' requests, USG also will provide training in tactical operations for the development of BNN and PMJ entry raid teams.

BNN has also asked for assistance with the creation of their polygraph unit. In September 2010, BNN officers visited the DEA Office of Technology in Sterling, Virginia to gather details and hopefully model BNN's future program after that of DEA. BNN has requested additional training in the future for its polygraph operators.

D. Conclusion

Indonesia's commitment to developing stronger drug-control institutions, evidenced by recent comprehensive amendments to its narcotics laws, should be seen as a highly positive development. Additionally, BNN's willingness to collaborate with other ministries to develop shared solutions for supply reduction also bodes well for the future. On the law enforcement side, BNN's focus on information systems capabilities, linking headquarters in Jakarta with 31 provinces, will enhance information-sharing capacity.

Looking ahead, maritime security remains a concern, particularly given the vulnerability of the Malacca and Sunda Straits. Although the nexus between maritime security and narcotics smuggling is undisputed, BNN does not have the resources or mandate to secure these waterways on its own. As a result, this area is ripe for internal collaboration between BNN and the various military entities responsible for patrolling Indonesia's 'blue water' territory and 'brown water' harbors. Counter trafficking efforts will also benefit from closer cooperation among the littoral states of Indonesia, Malaysia, and Singapore.

In terms of demand reduction and treatment, while the mechanism for mandatory rehabilitation instead of incarceration for first-time narcotics offenders has already been codified into law, Indonesia lacks the financial resources and physical facilities to fully implement the provisions of that law. A number of civil society organizations focused on restorative justice programs have started discussions with Indonesian officials about ways to support the development of broad rehabilitative services. This remains an area where international assistance might be necessary.

Finally, when viewed through the specific lens of the 1988 U.N. Drug Convention's provisions, Indonesia's primary challenges remain budget constraints and the influence of corruption on rule of law. Bilateral and international assistance, both technical and financial, can help mitigate these influences moving forward.

Iran

A. Introduction

The Islamic Republic of Iran is a major transit route for opiates smuggled from Afghanistan through Pakistan to the Persian Gulf, Turkey, Russia, and Europe. A large share of opiates leaving Afghanistan (at least 40 percent) transits Iran for domestic consumption as well as to consumers in Russia and Europe.

There have been reports from U.S. embassies around the world of growing trafficking of crystal methamphetamine by Iranian criminal groups. Much of the methamphetamine being trafficked appears to have been produced in Iran itself. More than 100 Iranians have been charged with drug trafficking in Malaysia and seizures of methamphetamine from Iranian criminals there during 2010 were in excess of one-quarter metric ton. Iranian drug trafficking has been noted in other Southeast Asian countries, including: Thailand, Indonesia, Laos-and in countries closer to Iran like Uzbekistan, Azerbaijan, and Turkey. There was also a large seizure of high-purity heroin at Lagos' container port (130 kg). The heroin was secreted carefully in a container packed in Tehran. In addition, seizures of methamphetamine in Iran itself were almost 2.5 MT in 2009, up 65 percent from the previous year; opiate seizures in Iran during 2009 also continued at a high level.

According to the UN Organization for Drugs and Crime (UNODC), Iran has one of the most serious addition problems in the world. In 2007, Iran had 1.2 million drug-dependent opiate users, or about (2.4 percent of the adult population). Furthermore, drug use has driven the spread of HIV in the country. According to the UNODC, some 70 percent of the 21,000 HIV positive cases detected in June 2010 are, in fact, injecting drug users. The total amount of HIV cases in the country may be up to 80,000, according to the Iranian Ministry of Health. Not all opium users in Iran are addicts. Many Iranians smoke opium casually in social circumstances or use it as a medicine, in small quantities. However, what the Iranians call "crystal" or "crack" high-potency heroin is frequently taken intravenously especially by young people and is highly addictive. The share of high-potency crystal/crack heroin seized in Iran has been rising sharply for the past several years.

Evidence such as seizure data, and extensive engineering works constructed along its eastern border indicate Iran is making a serious effort to keep Afghan-produced drugs from reaching Iranian citizens. As Iran strives to achieve this goal, it also reduces the quantity of Afghan drugs reaching markets in the West. Iran is frequently the country reporting the largest seizures of opiates in the world. 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, Pakistan, and Iran itself continue to cause major disruption along Iran's eastern border. Traffickers have also stepped up use of Iran's airports and railways to move drugs, and Iran has responded by using body scanners and dog teams to increase drug seizures at airports and from railway freight.

Free needle programs, distribution of condoms, and programs which use methadone and buprenorphine to maintain addicts during treatment are all being used in Iran. Iranian drug officials point to a sharp reversal of their former policies to incarcerate drug abusers; the emphasis now appears to be clearly on treatment, and there is even discussion of formal de-criminalization of drug abuse.

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. Iran, Afghanistan, and Pakistan arranged at least two joint anti-drug operations under the auspices of the UNODC-sponsored Triangular Initiative, and claim excellent success against traffickers during both.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Iran's Drug Control Headquarters leads all aspects of drug control policy. The Secretary General of the Headquarters is its chief. He and his deputy report to the President of Iran. Other members of the Drug Control Headquarters include six Ministers, ranging from Interior and Intelligence through Health and Education to Islamic Guidance and Research. The Chief of Police, Prosecutor General and the Head of the Revolutionary Courts and the Head of Prisons is involved, as is the commander of the Basij militia. The budget for Iran's Drug Control Headquarters during 2009 was the equivalent of \$80 million. The share of this budget allocated to prevention and treatment was almost the same as the share allocated to supply reduction. Together these two classes of expenditure amount to more than 90 percent of the Headquarters' Budget. Of course, many of the units engaged in both supply and demand reduction have their own budgets, but by allocating roughly equal shares of the Drug Control Headquarters' own budget to supply and demand reduction, Iran's drug control authorities seem to be making a statement that both demand and supply reduction are equally important to a successful anti-drug policy.

2. Supply Reduction

Iran blames Afghanistan for many of Iran's problems with growing drug abuse. Iran regularly criticizes the U.S.-led coalition forces' failure to confront Afghanistan's drug production industry more effectively. 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 along its eastern frontier with Afghanistan. Iran claims it has dug 688 kilometers of trenches, thrown up 477 kilometers of embankments, built a concrete wall 85 kilometers in length and installed 120 kilometers of barbed wire fencing to deter drug smugglers. It also points to new road construction, numerous observation towers, and increasingly sophisticated electronic detection measures installed along its eastern borders. The overwhelming majority of the reported drug seizures registered by Iranian enforcement (82.1 percent) occurs along this border or very near to it. 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 Islamic Revolutionary Guard Corps (IRGC) have resulted in numerous drug seizures. Iranian officials seized more than 974 MT of opiates (opium equivalent) during 2009. Opiate seizures in 2009 set a new record, increasing by more than 10 percent over 2008. Iran and Pakistan alternate as the countries with the highest volume of opiate seizures in the world.

Iran-Seizure Statistics (in kg)

Year	Opium	Heroin	Hi-pot'cy Heroin	All Heroin	Morph	Total Opiates	Ice	Hash
2008	561272	198240	33050	231,290	89770	882,332	1472	75092
2009	579400	73190	160,720	233,910	161,390	974,700	2426	69222
% Ch.	+3.23	-63	+386	+1.1	+80	+10.5	+65	-8

NB. To compute the total weight of opiates seized in Iran accurately, we convert morphine base and the several kinds of heroin seized into opium equivalents by multiplying by a factor of ten. This is a convention, and only an approximation of the actual conversion values for these drugs.

Iranian drug seizures in 2009 demonstrated the following interesting trends:

- Total opiate seizures increased 10.5 percent to set a new record for Iran of 974 MT on an opium equivalent basis;

- The composition of opiates seized in Iran shifted dramatically, with highly addictive high-potency heroin seizures increasing by more than 386 percent; almost 70 percent of the heroin seized in Iran in 2009 was the crystalline form of the drug;
- Crystal methamphetamine seizures in Iran continued to increase sharply (+65 percent) to almost 2.5 metric tons. This continuing sharp increase in domestic methamphetamine seizures, combined with reports from around the world of methamphetamine trafficking by Iranian criminals suggests that crystal methamphetamine is being produced, domestically, in Iran, in very large quantities and trafficked worldwide, especially to Southeast Asia. This is a new development in world drug trafficking, and represents a new threat to young people in Iran itself.

In March and November of 2010, authorities in Ghana and Nigeria made large heroin seizures from containers which had originated in Iran. In Ghana, 80kg of heroin was seized, while in Nigeria the seizure was about 130kg. Law enforcement officials believe that both seizures might be related to the same sophisticated Nigerian trafficking group.

3. Demand Reduction

Although China is estimated to have the largest number of opiate abusers in the world, Iran has one of the highest percentages of its population abusing opiates. The UNODC estimated that 2.4 percent of the Iranian population between the ages of 15 to 64 used opiates in 2007. Many observers – including Iranian practitioners in the treatment community -- believe that opiate abuse in Iran is even higher now.

However, even at 2007's levels of 2.4 percent, Iran's usage rate is comparatively high. It is four times the rate of opiate abuse in the U.S. (0.6 percent), and well above neighboring countries like Pakistan (0.7 percent), and China (0.19-0.31 percent). Ninety-three percent of Iranian opiate addicts are male, with a mean age of 33.6 years. Approximately 1.4 percent of Iranian opiate addicts (about 21,000) are HIV positive, and growing intravenous drug abuse, especially among prison populations, is adding to this number. Iran's Ministry of Health has said that there might be 80,000 HIV positives currently.

Continuing large seizures of opium by Iranian enforcement suggest that opium continues to be the drug of choice in Iran by a wide margin. The traditional way to use opium in Iran is to smoke it. However, some Iranians also drink its burned residue in tea, inject it, or even eat it. Heroin is smoked or sniffed. A growing share is also injected. UNODC and diplomatic observers in Iran note that young people have turned aggressively to drug abuse (more than two-thirds of Iran's population is under the age of 30). Some knowledgeable observers have speculated that heroin abuse among the young has grown as an escape from what they perceive as difficult economic and social conditions. Iranians have clearly been using much 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 risen steadily since 2003 and reached more than 27 percent (opium equivalent) in 2008 seizure statistics, falling back to 24 percent in 2009. Iranian drug control officials claim that the heroin available in Iran has also been rising sharply in potency, especially during the last few years.

Iran reports intense efforts to upgrade its capacity to treat opiate abusers. It claims to have roughly 50 percent of its opiate abusers involved in some level of treatment and Iran reports a striking 80 percent reduction in prison admissions for drug users and a concomitant sharp increase in referrals for treatment. Iran's Fifth Overall Development Plan (2010-2015) calls for increasing efforts in prevention for all age groups threatened by drug abuse from 6 years old through 30 years old, and older. Iran reported that in 2009 it had 1569 treatment centers, 70 percent of which are actually managed by private sector personnel, and that more than 650 thousand persons were undergoing some form of treatment. Iran supports mobile outreach teams around the country to try to reach addicts in their communities to invite them in for treatment, and there are crisis centers in major cities open around the clock where addicts can seek help. Iranian officials single out four of their programs as the most effective during 2009:

- Use of methadone to maintain addicts during treatment;
- Syringe exchange program to fight the spread of HIV/AIDS;
- The use of outreach teams to actively search out addicts and invite them for treatment;
- Alternative treatment for addiction using opium syrup during detoxification.

Iran acknowledges that even this massive effort is inadequate to meet requirements and that there is a continuing need to upgrade the training and capacity of its treatment professionals. There are indications that treatment recidivism is high, and that more effort is necessary to reintegrate detoxified addicts into society. Iranian officials believe that prevention education could also be improved.

4. Corruption

It is difficult to assess the role corruption plays in narcotics trafficking in Iran. In other countries in the region, corrupt enforcement authorities accept bribes to look the other way to drug smuggling, and fail to enforce laws that prohibit street sales of narcotics and other contraband. Higher level officials are sometimes convicted of protecting narcotics traffickers. Given the scale of narcotics trafficking in Iran, it is possible that similar conditions may exist in Iran. However, Iran 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Government continues to encourage regional cooperation against narcotics trafficking, and has worked effectively on narcotics issues with Iranian diplomats in international organizations like the UN Commission on Narcotic Drugs (CND). The United States has also approved licenses that allow U.S. NGOs to work on drug issues in Iran. Iran is a party to the UN Convention against Corruption, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Iran has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime.

D. Conclusion

The Iranian Government has taken strong measures against illicit narcotics smuggling, including cooperation with the international community and costly interdiction of drugs moving into and through its territory. The sudden emergence of apparent large-scale domestic manufacturing of methamphetamine drugs and methamphetamine trafficking from Iran to countries in the Near East, Central Asia, and Southeast Asia poses a significant and growing new threat. 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 opium/heroin production and trafficking there now. The two recent developments of domestic methamphetamine manufacture and worldwide trafficking from Iran pose new threats to Iran itself as well as the rest of the world. The United States anticipates that Iran will continue to pursue policies and actions in support of efforts to combat drug production, trafficking and abuse.

Iraq

In Iraq drug use, trafficking, and production are modest by global standards. Abuse of licit prescription drugs is the only significant abuse problem. Most illicit drugs that are trafficked internationally come from Iran into the Iraqi Kurdistan Region and into the southern region, especially Basra; they typically transit Iraq headed for Europe or are consumed domestically. Given Iraq's recent history and its modest drug trafficking/abuse problems, combating drug trafficking and abuse is a lower priority to the Government of Iraq than maintaining security and public order. Few specifically dedicated facilities for drug rehabilitation exist. The chief American anti-drug initiative is the establishment of a Center of Excellence on Substance Abuse Services at Baghdad's Medical City. The cocaine precursor chemical, potassium permanganate, and the heroin precursor chemical, acetic anhydride, exist in Iraq, but only in small quantities. The Government of Iraq undertakes minimal activity to implement United Nations Commission on Narcotic Drugs (UN CND) Resolution 49/3 of the 2006 session; its focus, as noted above, is on security. Iraq does cooperate on bilateral counternarcotics operations, especially with information-sharing and on precursor chemical diversions. Iraq is a party to the 1988 UN Drug Convention.

Iraq's role in illicit drug production in the region is minor; Iran and Afghanistan continue to be the major producers of illicit drugs, including for the Iraqi market. Iraqi and American officials identify modest levels of illicit drug production in Iraq in 2010-2011. Steroid abuse has risen among bodybuilders and athletes. The illegal manufacture of steroids has risen accordingly to about 1000 kilos. Police estimate that about 2000 kilos of marijuana were cultivated, in southern Iraq.

In Iraq, it is illegal to traffic drugs from one person to another, but not illegal to use them. The GOI's official position is that the country has no drug problem, but some Iraqis use opiate products, hashish and diverted, licit prescription pharmaceutical drugs improperly. Users in this category exist at all levels of society. Lower socio-economic levels are characterized by abusers of hashish and opiates. Some members of the middle class abuse amphetamines. There are also reports that at least some members of the upper class abuse drugs too, but this is rarely documented because they can bribe their way out of legal trouble. Drug abusers are overwhelmingly male. The daily tensions of life in a highly insecure and violent country must be factored into the more typical causes of drug abuse. According to the Iraqi Office of the National Adviser for Psychological Health in the Iraqi Ministry of Health, 2770 people in the first half of 2010 alone were admitted into or examined in hospitals for drug, alcoholic, or psychotropic substance abuse, up from 1462 in 2008 and 2337 in 2009. Among police personnel, steroids are the most widely abused drug, but drug and alcohol abuse has increased significantly in the last two years, particularly among the army and police deployed in very sensitive and violent areas. Anecdotal evidence suggests police reportedly use drugs, especially Artane, and alcohol to escape some of the pressures of service. Hashish is widely sold, but is seized by law enforcement, if encountered.

Illicit drugs destined for other markets in the Middle East and Europe transit Iraq. Observers estimate that quantities seized are only a tiny percentage of what eventually gets through. Methamphetamine manufactured in Iran goes to Syria, Turkey or Saudi Arabia. Heroin originating in Afghanistan passes through Iran to users in Iraq and beyond. Iranian-manufactured drugs for Iraqi consumption and transit on to Turkey and Europe generally move through the Iraqi Kurdistan Region. Drugs moving from Iran to Saudi Arabia also transit Iraq. Much of the trafficking for domestic use flows through Wasit, Maysan and Basrah provinces. Drugs also enter through Anbar and Ninewa provinces. Groups that move drugs through Iraq are usually well-armed and extremely dangerous. Terrorists, militias or large criminal gangs generate revenue from their drug trafficking activities.

Iraq does cooperate on a limited number of bilateral operations. Cooperation focuses on information-sharing and on precursor chemical diversion seizures. This cooperation occurs in Baghdad and in the

north. It resulted in chemical shipments being halted by authorities in the countries where the chemicals originated. However, overall border interdiction is weak because Iraqi forces in charge of border control and interdiction have trouble detecting contraband due to inadequate training, lack of manpower, lack of equipment. U.S. Coast Guard representatives have coordinated with CBP and members of the Iraqi Coastal Border Guard to assist the Iraqis in their efforts to patrol the coastline and maritime border areas. Drug policing currently falls under various local law enforcement jurisdictions. Borders are all-but wide open, very little communication among the military, intelligence, and police agencies exists, and there is no central authority specifically targeted on drugs. The border enforcement that does exist however is frequently corrupt and a high rate of illiteracy amongst border enforcement personnel further limits their effectiveness.

Iraq is a party to 1934 bilateral extradition treaty with the U.S. Article II (23) of that treaty states that crimes related to narcotics are extraditable offenses. There is no mutual legal assistance treaty with Iraq, though the granting of mutual legal assistance is possible through informal letters of request.

Iraq's drug laws are in need of reform. The vast majority of laws date from the 1960's and are inadequate to discourage drug abuse. There are no laws against conspiracy, abuse of chemicals to manufacture illegal drugs, and no minimum mandatory sentencing law. Harsh sentences up to execution are the primary tool that the government has to combat drugs.

No functioning full-spectrum drug rehabilitation programs exist in Iraq. Efforts are underway at the Ministries of Justice and Interior to develop programs similar to Egypt's group therapy approach and to develop a program that connects enforcement, arrest and rehabilitation. The Iraqi Ministry of Health is working with the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration to establish a Center of Excellence on Substance Abuse Services at Baghdad's Medical City.

Iraq cooperates on a regional strategy through its seat on the Arab League, seeking to coordinate its limited enforcement activities with its neighbors. A proposal to create a federal drug enforcement authority is in the very early stages of consideration. Turkey has a presence to interdict illicit drugs at its Iraqi border.

Israel

A. Introduction

Israel is neither a major producer nor trafficker of narcotics, but does continue to see a rise in illegal drug use, particularly among youth and other high-risk groups. According to a recent epidemiological survey, 20 percent of youth surveyed do not perceive illegal drugs as dangerous. Use of cannabis, hard drugs, *hagigat* (a *qat* derivative) and unprescribed/off-label use of medications have grown over last year. Most worrisome to law enforcement authorities is the growth of “yaba,” or a caffeine/methamphetamine combination abused particularly by third-country national laborers.

The Minister for Public Security has stated that drugs continue to be a fairly sizeable trade in Israel. The narcotics market turnover is an estimated seven billion NIS (\$1.95 billion) in 2009. Internet trafficking of both counterfeit prescription drugs and “natural” substances which contain banned or pharmaceutically-active ingredients is also on the rise.

Increased seizures and active street-level enforcement by the Israeli National Police (INP) have sharply decreased availability of narcotics, which in turn has driven up street prices, encouraged growth of the hydroponic marijuana market, and pushed organized crime towards trafficking in counterfeit, illegal “lifestyle” and prescription drugs. According to a national survey, about eleven percent of adults have used some illegal substance; about ten percent of students in grades 7-12 reported having used an illegal drug in the last year. Israel is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Israel’s Dangerous Drugs Ordinance provides the legislative basis for drug definition, actions, penalties and related authorities, including the establishment and scope of the Israel Anti-Drug Authority (IADA). Under the auspices of the Ministry of Justice, the IADA coordinates cross-ministerial development, management and implementation of all anti-drug activity on the part of the GOI.

The Knesset amended the Hazardous Substances Law, which specifically defines illegal narcotics, to include cathinone (a.k.a. *hagigat*), methcathinone, amphetamines and methamphetamines (“Yaba”) in July 2010, at the request of the Deputy Health Minister, to ensure consistency with the drug market. Medical marijuana is legal in Israel, but its production and distribution are tightly controlled. A Health Ministry advisory committee has recommended that it be covered under the national insurance plan in order to reduce production and distribution costs. An estimated 40,000 Israelis use marijuana for medicinal purposes every year. There is one pro-marijuana legalization political party in Israel, but it currently does not have any standing members in the Knesset.

Israeli customs law does allow for “personal” imports of prescribed medications via mail or luggage of incoming travelers of up to a 60 day supply. However, there is little monitoring or universal standards on what constitutes a 60-day supply, and thus this loophole has been a suspected avenue for trafficking.

Amendments to existing legislation have increased penalties for trafficking and also allowed treatment in lieu of jail time for drug users. In addition, money laundering legislation and scrutiny has increased significantly in 2010 focusing on drug money, with ties to terror financing and human trafficking.

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. Israel and the U.S. have a customs mutual assistance agreement and a mutual legal assistance treaty. Israel is a party to the UN Convention against Transnational Organized Crime and has been a member of the Commission on Narcotic Drugs in the UN Office on Drugs and Crime (UNODC) since 2003.

2. Supply Reduction

A popular metaphor to characterize the objective of drug prosecution and arrests in Israel is that law enforcement prefers “to dry up the swamp rather than killing mosquitoes one at a time.” In other words, the emphasis is on targeting supply and trafficking rather than prosecuting first-time or minor users, although “lifestyle” users are taken very seriously, and the police have no qualms about prosecution. To this end, the INP has been very successful, with many notable busts in 2010 affecting supply and thus price and availability. They work closely with other law enforcement agencies within Israel, plus Egypt, Jordan, the United States, Colombia, Brazil and other countries to monitor and stem the flow of drugs into Israel, plus trafficking attempts by Israelis in other countries. With the opening of three police units in the south, at Ben-Gurion Airport and on the northern border with Lebanon, key points for smuggling have been reinforced.

So far this year the INP has seized nearly 5,000 kg of marijuana total – a tenfold increase from the same time period in the previous year (January to August) with more than 2,500 kg of marijuana seized at the Egyptian border. Most noteworthy was a bust at the Egyptian border of over 800 kg of marijuana – one of the largest seizures to date. Versus the same time period last year (January to August), the INP has seized nearly 5,000 kg of marijuana total – a tenfold increase. In addition, 173 kg of heroin was seized at the border with Jordan (Israel is a transit country for heroin trafficked between Jordan and Egypt). Cocaine trafficking is primarily from South and Central America, but police have been catching Israelis on both coasts smuggling cocaine in swallowed balloons. Seizure figures for hashish, heroin and cocaine are running about the same versus 2009, but thanks in part to focused, large-scale busts, the INP reported seizing nearly 12,000 methamphetamine (“Yaba”) tablets from January to August 2010, as compared with 2,300 for the same time frame last year.

The INP are also cracking down on growers of hydroponic marijuana, which is generally both weaker in potency and more expensive to produce, leading to higher prices, increased demand and complaints from users unable to get normal supplies. They have produced and posted 30 videos to “YouTube” so far highlighting this hardship. Most notable is a campaign featuring a hand puppet named Elimelech Duda, who also offers helpful suggestions for alternative highs, such as peyote and *hagigat*.

The Pharmaceutical Crime Unit has been especially active in terms of crackdowns and collaboration. In June 2010, it hosted the Permanent Forum on International Pharmaceutical Crime, at which representatives from fifteen countries discussed leading issues. While preventative measures and public campaigns have not been widespread enough to deter pharmaceutical crimes, particularly over the Internet, frequent seizures have surely deterred customers and sellers alike. The unit has caught everything from anabolic steroids (illegal in Israel but not considered a controlled substance under the law) to Plavix™ (covered under Israel’s national health plan but very expensive in other parts of the world, particularly the United States) and counterfeit Viagra™. Israel is a particularly attractive transit point due to its geographic location and advanced technological development. In addition, many Israelis are multilingual and hold multiple passports, giving criminals an advantage in smuggling and trafficking online or offline. Internet pharmaceutical crime, according to the head of the Pharmaceutical Crime Unit, has also been linked to money laundering as well as fraud and human trafficking.

Increasing numbers of illegal immigrants, particularly from Africa, are also targeted by police for drug trafficking investigations. The old bus station in South Tel Aviv has been a point of congregation for many refugees from the Sudan, Eritrea and Ethiopia; at least two INP units stationed around this district have arrested suspects for allegedly selling narcotics, particularly marijuana and cocaine. The INP has also been using more and more agents who had emigrated from Africa to make busts. Most notable was “Operation Queen of Sheba,” in which an Ethiopian-born undercover agent infiltrated drug rings in five cities, resulting in the arrest of over 40 suspected drug dealers. Abuse and trafficking of “Yaba,” according to Israeli customs officials, is prevalent among Thai immigrants, particularly those working illegally and attempting to keep up with workdays of 15-plus hours.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The IADA is the primary agency for raising awareness, reducing demand via design and implementation of targeted anti-drug programs, and supporting treatment facilities. They work in close cooperation with relevant ministries, agencies, local and regional authorities and organizations to develop and implement treatment programs. According to IADA, there are currently 150 community treatment programs for substance abuse throughout Israel. While efforts have always been strong and credible towards the general population and key demographics such as youth, the agency is also increasing outreach to target at-risk communities such as Arab-Israelis, new immigrants and orthodox Jews. By law, all drug treatment facilities must be licensed by the State and are subject to approval by government committee, plus regular audits by government-appointed inspectors.

Treatment programs are both thorough and innovative, targeting populations such as prisoners, the homeless, single mothers with children, and even post-*tiul gadol* (the traditional long trip abroad young Israelis take after mandatory army service and before starting studies or work, where they tend to travel for six months to a year or more, usually to South America, India, Thailand and other hot “backpackers” spots, and often through the United States if they qualify for a tourist visa). The *tiul gadol* can be a highly vulnerable time for selling, trafficking and abusing hallucinogenic drugs and marijuana, plus working overseas illegally. The IADA also sponsors needle-exchange programs in five major cities, and offers incentives for rehabilitated users – including technology courses, academic scholarships and employment workshops. Treatment opportunities are both outpatient and residential, such as specialized “treatment communities” and hostels. There are at least six facilities for youth only; at least five facilities are women-only, with one only for women with children.

Demand for marijuana has been affected by sharp increases in price, driven by more arrests for “soft” drugs and more police presence at key ports of entry. Some users have shifted to harder drugs unfortunately, according to IADA studies.

A Knesset report released on August 3 noted that the number of methadone stations was “inadequate,” based on an assessment by the World Health Organization. The head of the addiction treatment bureau within the Ministry of Health, according to media reports, stated that there were about 3200 available places for outpatient methadone treatment, as well as an on-site Health Ministry treatment center in Jaffa.

Problems remain with perception, according to surveys conducted by the IADA, the Tel Aviv municipality and Ichilov Hospital, as well as the national toxicology center in Haifa. Among youth and urban residents, ecstasy and marijuana, among others, are not seen as serious drugs – i.e., they are viewed as an adjunct to recreation or leisure. While treatment and hospitalization numbers say otherwise (at least seven victims of ecstasy are treated in emergency rooms at Israeli hospitals every month, according to the Ichilov/Tel Aviv survey), about 20 percent of students in seventh through twelfth grades surveyed by the IADA do not consider using illegal drugs “dangerous,” which, in a country with a sizeable population in the youth target age group, represents a critical moment of truth in terms of vulnerability to drugs. That said, the IADA is actively involved in raising awareness of the dangers of drug use through programs with cities, the “Yes to Sports, No to Drugs” program which encourages youth participation in sports rather than drug use (and also educates target groups on how drugs negatively affect athletic performance and health) and developing education programs for teaching, nursing and medical students so that they can identify and counsel at the early signs of drug use.

4. 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 money laundering from illegal drug transactions. Corruption is treated as a serious matter by the government. In 2010, a ranking IDF officer was arrested for allegedly assisting a drug-smuggling ring along the Lebanese border, and for passing information to Hizbollah. In addition, a former Mossad agent was found by police to be in

possession of over 2 kg of marijuana, leading to suspicions of drug trafficking. Israel does not have specific legislation for public corruption related to narcotics, but narcotics-related corruption is covered under its generic anticorruption legislation. Israel ratified the UN Convention against Corruption in February 2009.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Israel's goals as a nation are dramatic reductions in both consumption and trafficking of drugs. To this end, collaboration between the United States and Israel remains strong, with efforts spearheaded out of the DEA regional office in Nicosia, Cyprus. This year, representatives from DEA traveled to Israel for a weeklong conference/information exchange in November 2010 with the Israeli National Police on techniques, intelligence and critical information on drug trafficking and related criminal apprehension, including interdictions at ports of entry. U.S. and Israeli law enforcement have also collaborated closely to combat illicit activities of retail companies believed to be involved in the laundering of drug proceeds and the hiring of illegal workers. In addition, robust cooperation exists on extradition of criminals, especially organized crime figures, convicted on drug-related charges. Also in November, the head of the IADA met with the U.S. Office of National Drug Control Policy regarding ways to bolster collaboration and sharing of best practices in the war against drugs. This marked the first time that representatives from the GOI had been invited as guests of the Director. The delegation also focused on "precursor" ingredients such as pseudoephedrine, derivative legislation and research.

DEA's Nicosia Country Office, which covers Israel, is very pleased with the extent to which the Israeli National Police have cooperated on international investigations during this past year. This year alone, DEA's Main Justice Office of International Affairs and the Los Angeles Federal Prosecutor, along with the DEA Los Angeles Office and DEA Nicosia, had a week-long series of meetings with the Israeli Prosecutors and all INP members who were involved in the investigation of a member of a leading Israeli crime family. The series of meetings was requested by the United States for preparation of an extradition request of this member and four other suspects in this international investigation. Bilateral cooperation was key in preparation for trial, particularly among the Embassy, DEA, and Israeli interlocutors. This case also marked one of the first applications of Israeli organized crime laws. The Israel Supreme Court recently held all five defendants extraditable to the United States.

Israeli Customs has had successful money laundering seizures with DHS ICE, which has also been conducting pharmaceutical investigations with Israeli Customs and the Pharmaceutical Crimes Unit, leading to increased scrutiny and prosecution for Internet trafficking. DEA Cyprus maintains outstanding relations with the Ministry of Health's Pharmaceutical Crimes Unit. DEA also works with the Head of the Drug Lab in Israel on a wide range of issues pertaining to drug identification as well as the identification of new trends in drug production.

D. Conclusion

Already-excellent bilateral cooperation on illicit drug enforcement and rehabilitation grew even closer this year, with many watershed moments in terms of information-sharing and extraditions. Teamwork has expanded to source countries in South America, Europe and other Middle Eastern countries to combat trafficking and better train officials. DEA's regional office continues to cooperate with interlocutors in Israel. Drugs as linked to other crimes such as human trafficking, illegal labor and money laundering continue to be issues for law enforcement. A sizeable and growing youth population may be a concern for future drug use, and thus the IADA is working hard to raise awareness about the dangers of narcotics, despite perceptions of illegal drugs as not that harmful. Internet trafficking and fake pharmaceuticals are other growing issues of concern for Israeli officials. The IADA is leveraging relationships with U.S. drug authorities to expand collaboration into research and legislative development. In addition, with the establishment of a dedicated ICE attaché at Embassy Tel Aviv, bilateral cooperation at the working level

is expected to flourish even more, in addition to existing strong relationships with the regional security and LEGAT offices.

Italy

A. Introduction

Italy remains an important European transit country for illegal drugs, owing to its location and powerful domestic criminal organizations. Southwest Asian heroin arrives in Italy from the Middle East and the Balkans, while cocaine reaches Italy directly from South America or through Spain and other countries. According to UNODC, Italy is Europe's second largest consumer of opiates (behind the U.K.) and third largest consumer of cocaine (behind the U.K. and Spain). Synthetic drugs (such as ecstasy), hashish and marijuana are also illicit drugs of concern for the Italian government. Italian and Italy-based foreign organized crime groups are heavily involved in international drug trafficking.

A large percentage of all heroin seized in Italy is shipped from Turkey through an overland route by way of Balkan countries. Balkan heroin traffickers work with Italian criminal organizations as transporters and suppliers of drugs. Heroin is smuggled into Italy via automobiles, ferryboats and commercial cargo. Italian law enforcement agencies maintain liaison offices in Albania, Turkey, Iran, Afghanistan and Uzbekistan to assist foreign counterparts in interdicting narcotics originating from Afghanistan, which are destined for Italy.

Almost all cocaine found in Italy originates from Colombian and other South American criminal groups and is distributed in Italy by Calabria and Campania-based organized crime groups. Multi-hundred kilogram shipments enter Italy via seaports concealed in commercial cargo, as well as by private maritime vessels (such as sailboats). Although the traditional Atlantic trafficking route is still in use, stepped-up international scrutiny and cooperation are forcing traffickers to use alternative avenues. During 2009-2010, Italian drug investigations have identified increased activity by Serbian criminal groups involved in the importation of large amounts of cocaine. In 2010, bilateral investigations in Italy revealed South American cocaine trafficking groups are using Italy as a transit point for the repatriation of drug proceeds, via bulk currency shipments, to Colombia and Mexico.

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, the Netherlands and the Balkans are eventually transported to Italy and other European countries by land vehicles. Italian organized crime groups have representatives based in Spain who are responsible for purchasing bulk quantities of cocaine for overland transportation to Italian drug markets. Smaller amounts of cocaine (usually concealed in luggage) enter Italy via airline couriers traveling from South America. Express parcels with concealed cocaine are also dispatched to Italy from South America.

Ecstasy found in Italy primarily originates in the Netherlands and is usually smuggled into the country by couriers using commercial airlines, trains or land vehicles. The couriers originating in Amsterdam often conceal thousands of ecstasy tablets in luggage and travel by train or airline to Italy. The EU's open borders make this journey somewhat less risky. No ecstasy or amphetamine laboratories have been discovered in Italy.

Hashish comes predominately from Morocco through Spain, entering the Iberian Peninsula (and the rest of Europe) via sea access points using speed boats and concealed in commercial cargo shipments crossing the Straits of Gibraltar on ferryboats. As with cocaine, larger hashish shipments are smuggled into Spain and eventually transported to Italy by vehicle. Hashish is also smuggled into Italy on fishing and pleasure boats from Lebanon. Marijuana cultivation does occur in Italy, but it is generally small-scale and is for local consumption. Italy is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Italy (GOI) is 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. Law enforcement officials focus their efforts on heroin, cocaine, synthetic drugs, hashish and marijuana. 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.

Italy continues to combat narcotics aggressively. Notwithstanding important tactical achievements, strategic success in significantly limiting Italy's role as a transit country remains elusive. In 2006, Italy adopted a tough 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.

In August 2010, the GOI amended the existing legislation regarding undercover law enforcement operations targeting serious criminal activity. A key component of the amendment was the authorization for expanded undercover activities in furtherance of drug trafficking and money laundering investigations. It is expected that this new legislation will enhance the capacity of Italian law enforcement entities to infiltrate and dismantle major drug trafficking organizations.

After contributing about \$1.3 million in 2009 to the UN Office on Drugs and Crime programs, Italy contributed nearly \$1.6 million in 2010. 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.

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 ratified the UN Convention against Corruption in October 2009. Italy has bilateral extradition and mutual legal assistance treaties with the U.S. In February 2010, a U.S.-Italy protocol implementing the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements entered into force.

On October 29, 2010, the Italian government approved an Anti-Narcotics National Action Plan 2010-2013 (Piano di Azione Nazionale Antidroga). It is based on recommendations from the UN and the EU and by the EU Drug Action Plan 2009-2012. It also draws from the conclusions of the 5th National Conference on Anti-Drug Policies that took place in Trieste March 12-14, 2009.

The new national drug plan seeks to improve coordination of national level policies that are implemented by regional governments, and provide an integrated approach among the different Italian stakeholders as well as within the EU, the UN, and the international community. The National Action Plan identifies and details areas for intervention for which the Government has authorized 26 million Euros. It is unclear whether the funds are actually available for appropriation. The plan also calls on Italian regions to provide their own funding to accomplish the following goals: reduce demand; reduce availability; provide assistance and treatment; provide rehabilitation and social reinsertion programs; improve monitoring and provide periodic reviews; amend and enhance current laws to adapt them to the current situation.

The anti-narcotics plan states that international cooperation is necessary because "the global nature of the drug problem requires regional, national, European, and transnational approaches." The plan also focuses on cooperation beyond Europe because of the links between narcotics and both worldwide organized crime and terrorism. The plan particularly highlights the need for cooperation with African partners,

stating: “We must offer special cooperation to those African countries affected by the problem of drugs not only as consumer countries, but as countries of transit and storage of large quantities of substances from producer countries headed for European consumer markets.” The plan calls for the government to promote bilateral agreements between Italy’s police forces and those of other countries to confront the trafficking of narcotics drugs, psychotropic substances, and their precursors; organize anti-drug training programs with the police of countries in West Africa, Sub-Saharan Africa, and Central America; cooperate with such regional systems as the Central American Integration System (SICA) and the Central Asian Regional Information and Coordination Center (CARICC) to organize training.

2. Supply Reduction

The fight against drugs is a major priority for the National Police, Carabinieri, and Guardia di Finanza (GdF) counternarcotics units. The Italian Central Directorate for Anti-Drug Services (DCSA) coordinates the counternarcotics efforts of the three national police services and directs liaison activities with the United States Drug Enforcement Administration (DEA) and other foreign law enforcement agencies. DCSA has 20 drug liaison officers in 19 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. The other liaison officers are based in Miami, Florida (co-located with the DEA Miami Field Division); Bogota, Colombia; Caracas, Venezuela; Lima, Peru; La Paz, Bolivia; Buenos Aires, Argentina; Brasilia, Brazil; Dakar, Senegal; Rabat, Morocco; Istanbul and Ankara, Turkey; Beirut, Lebanon; Bangkok, Thailand; Madrid, Spain; Lisbon, Portugal; Budapest, Hungary, and Moscow, Russia.

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, and the Naples-based Camorra). Additional narcotics trafficking groups include Moroccan, Tunisian, Nigerian, Senegalese, Albanian, and other Balkan organized crime groups responsible for smuggling drugs into Italy. In 2009, Italian drug investigations revealed that Serbian groups have begun importing large quantities of cocaine (100-kilogram shipments or greater) into Italy. Colombian, Dominican, and other Latin American trafficking groups are also 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.

During 2009, Italian authorities seized 4078 kilograms of cocaine; 1149 kilograms of heroin; 19,474 kilograms of hashish; 7483 kilograms of marijuana; 119,182 marijuana plants; and 66,253 doses of synthetic drugs. The single largest drug seizures during the same period were: June 2009—400 kilograms of cocaine in Padua; April 2009—180 kilograms of heroin in Milan; May 2009—2,010 kilograms of hashish in Naples; November 2009—1300 kilograms of marijuana in Francica and January 2009—28,700 tablets of ecstasy in Turin. Also during this period, 29,529 individuals were arrested in Italy on drug-related charges, 3054 of which were arrested for more serious drug trafficking/conspiracy violations. Sixty-five (65) percent of those arrested were Italian nationals, while the remaining 35 percent of the arrestees were primarily Moroccan, Tunisian, Albanian, and Nigerian nationals.

During the first 6 months of 2010, Italian law enforcement agencies have seized 1824 kilograms of cocaine; 537 kilograms of heroin; 6673 kilograms of hashish; 2865 kilograms of marijuana; 20,474 marijuana plants; and 66,228 doses of synthetic drugs. Also within this time frame, 14,749 individuals were arrested for illicit drug violations (33% of them were foreign nationals), with 1847 of the defendants being charged with more serious drug conspiracy violations.

In June 2009, the DEA Rome country office coordinated multilateral assistance with the Italian Guardia di Finanza in an investigation into a Rome-based Italian organized crime group responsible for the importation of significant quantities of cocaine into Europe utilizing Colombian cocaine brokers resident

in Europe with sources of cocaine supply in Colombia and Venezuela. This investigative effort resulted in the maritime seizure of approximately 300 kilograms of cocaine and utilized the modern and sophisticated air and sea assets available to the Guardia di Finanza.

Also in 2009, Italian law enforcement agencies concluded several long-term criminal investigations targeting drug trafficking organizations operating throughout the country. Operation Red Man (Operazione Uomo Rosso) began in 2007 and targeted two West African criminal groups responsible for transporting cocaine and heroin from the Netherlands to Italy. The investigation linked the African groups to members of rival Italian Camorra (Naples-based) organized crime families and resulted in the arrest of 74 individuals and the seizure of cocaine, heroin and marijuana. Operation Como Hills (Operazione Colline Comasche) began in 2006 and targeted a large network of Albanian nationals operating in northern Italy and Tuscany. This organization was responsible for importing cocaine into Italy from the Netherlands and drug distribution throughout Europe. The investigation resulted in the seizure of cocaine and heroin and the arrest of 174 people. In June 2009, Italian police officials in Trento and Genoa concluded Operation Sutka (Operazione Sutka) with the arrest of 49 members of a predominately ethnic Romanian crime group importing cocaine from Spain. Over the course of this two-year investigation, Italian law enforcement seized 36 kilograms of cocaine and 60 kilograms of marijuana.

The DEA Rome country office, in conjunction with Italian law enforcement officials and numerous other DEA domestic and foreign offices, participated in a 2-year multinational investigation—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. In mid-September 2008, ten other subjects were arrested in Italy and six were arrested in New York. This investigation has increased law enforcement attention and focus on drug trafficking links between Italy and Mexico.

In 2008, the DEA Rome country office and the Italian National Police (INP) initiated a sophisticated drug trafficking and money laundering investigation targeting Colombian nationals operating in Italy. The investigation was linked to Colombian money laundering cells in the United States. Based upon intelligence sharing with the INP, in May 2010, the INP seized 225 kilograms of cocaine aboard a commercial airline flight originating from the Dominican Republic. As a result, the INP arrested six individuals on money laundering and drug charges and the Italian prosecutor indicted an additional 19 individuals on related charges. The Italian investigation has also resulted in the seizure of over \$13 million in trafficker-owned assets.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

GOI promotes drug prevention programs using abstinence messages and treatment aimed at the full rehabilitation of drug addicts. The Italian Ministry of Health funds 533 public health offices that operate at the regional level; the government identified 1108 private centers of which 65 percent are residential, 19 percent semi-residential facilities, and 16 percent walk-in facilities. Of about 500,000 estimated drug addicts, about 393,000 are eligible for treatment in Italy, and 161,000 receive services at public agencies. About 69 percent of the total currently receiving government-sponsored treatment used heroin. 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. Regional and local governments spent about 30 million Euro for drug prevention programs and a total of 20 million Euro were spent for social and professional rehabilitation.

4. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Within the European Union, DCSA actively takes part in the monthly meeting of the Horizontal Drug Group, which is in charge of examining – at the interdisciplinary level – the proposals and projects forwarded by Member States or community bodies on prevention and counter-strategies in the field of drug abuse and drug trafficking, as well as legislative measures and regulations resulting from the European Drug Strategy and Action Plan. In 2009, under the Czech and Swedish Presidencies, the DCSA represented the GOI on several issues; (a) the first implementation of the 4-year European Drug Action Plan for 2009-2012, (b) the adoption of the Stockholm Program, (c) the submission of a feasibility study – called the Africa Platform – aimed at improving international cooperation in West Africa relative to the current drug threat in this region, and (d) the update of the EU / Central Asia Drug Action Plan. The DCSA also regularly participates in the Dublin Group, which provides assistance in the coordination of regional cooperation strategies for drug producing and transit countries. Italy chairs the Mini-Dublin Group for Central Asia. During 2009-2010, DCSA continued to cooperate at the operational level within multilateral projects involving EU law enforcement authorities such as EUROPOL and COSPOL.

The U.S. and Italy continue to enjoy exemplary counternarcotics cooperation. At the April 2010 International Drug Enforcement Conference (IDEC) in Rio de Janeiro, Brazil. The Director of DCSA met with DEA's Acting Administrator in furtherance of bilateral cooperation and operations. September 2010, the DCSA Director visited the DEA offices in Miami and New York, as well as DEA Headquarters for further consultation with DEA's Acting Administrator regarding enhanced information-sharing initiatives. 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 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 2010, DEA provided training to Italian counterparts on asset forfeiture and drug law enforcement operations. Additionally, the United States Coast Guard provided a mobile training team on seaport security.

D. Conclusion

The USG will continue to work closely with Italian officials to break up trafficking networks in 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

A. Introduction

Jamaica continues to be the largest Caribbean supplier of marijuana to the United States. Cocaine and synthetic drugs are not produced locally, but Jamaica is a transit point for cocaine trafficked from Central and South America to North America. Drug production and trafficking in Jamaica are both enabled and accompanied by organized crime, domestic and international gang activity, and endemic police corruption. The gun trade for illicit drugs exacerbates the problem as undocumented handguns flow freely into the country. Recent assessments by the Jamaica Constabulary Force (JCF) indicate that a significant quantity of illegal firearms entering Jamaica originated in the United States.

Jamaican law stipulates that possession or use of cocaine, heroin, marijuana, and ecstasy are illegal and subject to criminal and civil penalties. The illegitimate possession of precursor chemicals is also prohibited by law, and, under the Precursor Chemicals Act of 2005, violations are punishable by criminal and civil penalties up to \$35,000 and/or 3 years imprisonment. Jamaica is a signatory to the 1988 United Nations (UN) Drug Convention.

Over the last three years, Jamaica's seizures of narcotics have generally decreased along with marijuana eradication efforts. This trend is largely the result of financial constraints on the JCF and the Jamaica Defense Force (JDF) in addition to a shift in focus and resources toward responding to natural disasters, combating gang activity, and addressing Jamaica's high murder rate.

There were 1,428 murders in 2010 which is a 15 percent decrease from the 1,682 murders in 2009. However, Jamaica's per capita murder rate was 52 per 100,000 citizens in 2010, giving it one of the highest murder rates in the world. The JCF estimated that 26 percent of the murders were gang related and suspected that gang rivalry was a motive for a large portion of the remainder. The JCF estimated that approximately 300 criminal gangs were operating in Jamaica in 2010.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cooperation between the GOJ and the United States government (USG) in efforts to curb narcotics and related transnational crime remains strong overall. The USG's primary GOJ partners are the JCF and the JDF which are both under the administration of the Ministry of National Security.

The GOJ and the USG have a Mutual Legal Assistance Treaty (MLAT) that assists in evidence sharing. The USG and GOJ also have a reciprocal asset sharing agreement and a bilateral law enforcement agreement governing cooperation to stop 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 1961 UN Single Convention as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, the 1996 Inter-American Convention Against Corruption, the UN Convention Against Transnational Organized Crime and its three protocols, and the UN Convention Against Corruption. The GOJ has signed, but has not ratified, the Caribbean Regional Maritime Counterdrug Agreement.

The 1991 extradition treaty between the USG and the GOJ is actively and successfully used by the USG to extradite suspected criminals from Jamaica. Extradition requests are normally processed in a routine and timely manner by Jamaican political and judicial authorities. However, the 2009 request for the extradition of alleged drug and firearms trafficker, Christopher "Dudus" Coke, languished for nine months before the Attorney General signed the authority to proceed with Coke's arrest. Coke was wanted in the United States on drug and firearms trafficking charges. In May 2010, the GOJ acted to arrest and

extradite Coke in a large-scale JCF and JDF operation that resulted in 73 deaths and, ultimately, the arrest and extradition of Coke to the United States where he awaits trial.

In 2010, Parliament passed several anti-crime bills as part of a broad agenda to address crime in Jamaica. These bills included an amendment to the Financial Investigations Division (FID) Act authorizing the FID to enter into a Memorandum of Understanding with the Egmont Group of Financial Intelligence Units to share financial intelligence. Furthermore, regulations were passed to implement the Terrorism Prevention Act requiring financial institutions to file reports of suspicious transactions involving terrorist financing. A Firearms Act requiring a minimum 15-year sentence for serious gun and drug-related offenses was also passed.

In response to a GOJ request in 2010, the USG provided a three-year training plan to improve the skills of criminal investigators and prosecutors. The training includes techniques in investigations, file management, and the presentation of cases which are designed to help secure convictions. Also, the USG delivered training on powers of arrest, search and seizure, and interviewing. Training will continue in 2011 and 2012.

An important part of fighting gangs, drugs, and transnational crime begins at the local level. Since 2008, the JCF has increased community-based policing (CBP) efforts with USG support. CBP is now the official policy of the JCF and is incorporated into pre-service training for all police recruits. In addition, the CBP program has spread from the 3 initial pilot communities in 2008 to 57 communities in 2010. Civilian acceptance of CBP is facilitated through programs aimed at creating safe communities such as a safe schools program and youth civic engagement.

In April 2010, a new Commissioner of Police was appointed. He is facing, as his predecessor did, internal, judicial, and political roadblocks that have hindered efforts to reform the police in the past including reforms required by Jamaica's 2007 Police Strategy Review. The Commissioner has taken a strong public stance against corruption and is continuing to implement and expand the strategic reform process that was initiated by the former JCF Commissioner. However, it is unclear whether the Commissioner will secure the necessary legislative and executive support, both in funding and political backing, to make significant and enduring progress in combating police corruption and transforming the institution.

2. Supply Reduction

Marijuana can be found in all fourteen parishes of Jamaica; however, there has been no recent survey to determine the acreage under cultivation. Natural environmental barriers such as swamps, marshes, and mountainous terrain make it difficult to conduct marijuana crop surveys without aerial support which is limited by funding availability. Marijuana is grown in areas generally inaccessible to vehicular traffic on small plots in both rocky terrain and along the tributaries of the Black River in Saint Elizabeth. Law enforcement gathers intelligence on these sites by surveillance from the land, sea, and air. The JDF employs teams of civilian cutters who, escorted by the military or police, cut growing plants. They also seize seedlings and cured marijuana and then burn them in the field. Jamaican law prohibits the use of herbicides, and only manual eradication is conducted.

Eradication of marijuana decreased in 2010 in most areas (cannabis, seedlings, seeds, and nurseries) when compared to 2009. For example, 447 hectares of cannabis were eradicated in 2010 compared to 633 hectares in 2009. The exception was seizure of cured marijuana, where 39.291 metric tons were seized in 2010 compared to 9 metric tons in 2009. Much of the decrease was due to fiscal constraints within the JDF and to the security forces' commitment of personnel and resources in response to gang activity and the widespread violence surrounding the Coke arrest. Other mitigating factors include the resources committed to addressing the country's high murder rate and to the response required for the flooding and damage resulting from two significant storms in 2010 (Nicole and Tomas). However, the impact of eradication efforts was demonstrated during a two-week operation in July 2010 when the combined

efforts of the JCF and JDF, with support from the Embassy's Department of Justice and Narcotics Affairs Section, resulted in the eradication of marijuana with an estimated street value of \$200 million. The operation also temporarily disrupted the availability of marijuana for foreign export.

Civil and administrative rather than criminal authorities continue to regulate the manufacture, sale, transport, and possession of Ecstasy, methamphetamine, or the precursor chemicals used to produce them. Jamaica is not a producer of precursor chemicals or other chemical substances and, therefore, relies on countries exporting goods to conform to international standards governing export verification. The importation and sale of pharmaceutical products and chemical substances are regulated and reinforced with fines or imprisonment. Other controls exist to monitor the usage of pharmaceutical products and chemical substances including register controls, inspections, and audits.

Smugglers continued to use maritime containers, couriers, checked luggage, and bulk commercial shipments to move drugs through Jamaica to the U.S. Drug seizures in 2010 decreased in the areas of hashish, hash oil, cocaine, crack cocaine, and ecstasy tablets from 2009. For example, cocaine seizures decreased from 264 kilograms in 2009 to 177.88 kilograms in 2010, and ecstasy decreased from 2,785 units in 2009 to 10 units seized in 2010. However, as previously mentioned, seizures of cured marijuana increased.

High profile organized crime gangs continued to successfully operate within Jamaica. Gang leaders are often afforded community and, in some cases, police protection. Despite this dichotomy there was an increase in drug-related arrests in 2010, with 10,255 arrests, compared to 6,346 in 2009. The only high profile figure arrested in 2010 was Christopher Coke.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the JCF, marijuana is used by nine percent of the population making it the most abused illicit drug among Jamaicans, while cocaine abuse has reached a plateau of less than 0.1 percent of the population over the last 10 years. However, there is evidence that new drugs, such as heroin and ecstasy, have entered the Jamaican domestic market in small amounts.

To combat this illicit use of drugs, Jamaica has several demand reduction programs. The Ministry of Health's National Council on Drug Abuse (NCDA) was established by statute in 1982 to reduce the use and abuse of legal and illegal drugs. NCDA field officers also provide support to the primary care system through the assessment of substance abusers in the mental health system. The GOJ's National Health Fund (NHF) has established and funded 18 community medical clinics across the island, primarily through faith based institutions, that provide primary treatment services with referrals to hospitals, clinics, physicians, psychologists, and psychiatrists. Additionally, the clinics provide drug-related counseling and trauma services. The GOJ also operates one detoxification center located at the University Hospital of the West Indies in Kingston. The GOJ/Organization of American States Inter-American Drug Abuse Control Commission (CICAD) university-level certificate program in drug addiction and drug prevention remains active. The United Nations Office on Drugs and Crime (UNODC) works directly with the GOJ and NGOs on demand reduction; however, due to limited resources, these programs have little impact.

The competent authority for the control of pharmaceuticals is the Ministry of Health. The GOJ's General Medical Council, established by law, regulates the conduct of health professionals. The NCDA, the Pharmacy Council, and the Ministry of Health with USG support, have worked to expand awareness among health professionals about the potential danger of pseudoephedrine and ephedrine when they are diverted to produce methamphetamine. The Ministry of Health has tightened its controls over the importation of pseudoephedrine, both in powder and final product forms. The NCDA collaborates with other non-profit organizations, such as RISE Life Management Services, to provide non-residential drug counseling services.

4. Corruption

As a matter of policy, the Government of Jamaica (GOJ) does not facilitate illicit production or distribution of narcotic, psychotropic drugs, or other controlled substances. However, corruption of public officials continues to be of major concern to the GOJ, the USG, and most Jamaicans. The law provides criminal penalties for official corruption; however, corruption is entrenched, widespread, and compounded by a judicial system that is poorly equipped to handle complex criminal prosecutions in a timely manner. Corruption undermines efforts against drug and other major crimes and is a major factor in allowing the passage of drugs and drug proceeds through Jamaica. However, an improving anti-corruption stance within Jamaican customs enforcement, the JCF, the Jamaica Tax Administration, and the Office of the Contractor General has shown encouraging signs. In addition, the USAID-supported National Integrity Action Forum that was launched in 2009 has helped focus increased public and government attention on anti-corruption reforms.

The Anti-Corruption Branch (ACB) of the JCF has the responsibility of identifying high-level officers engaged in corruption. This branch is endorsed by the Commissioner of Police and headed by a police officer recruited from the United Kingdom. The ACB continues to have success in identifying and removing corrupt GOJ officials. Since the ACB's inception in September 2008, 250 JCF personnel have been dismissed for unethical and corrupt behavior as a result of its efforts, with 188 of those dismissed in 2010. The GOJ now requires senior police officers to sign employment contracts that improve accountability and facilitate the speedy dismissal of corrupt police officers. The JCF is also addressing corruption through its CBP program. Through public advocacy and information programs, it is working to achieve a culture change among citizens that reverses the acceptability of government corruption. In comparison to the JCF, the JDF has been more effective in identifying and responding to corruption within its ranks. The JDF, while not immune from corruption, has taken swift disciplinary action when warranted in furtherance of its zero tolerance policy.

A bill creating an Anti-Corruption Special Prosecutor was drafted in 2009 and remains under review prior to introduction before Parliament. There has not been legislative action to create a National Anti-corruption Agency which is required by the Inter-American Convention against Corruption to which Jamaica is a signatory.

Jamaica's progress in battling corruption was reflected in the modest improvement of its rating in the latest Corruption Perception Index (CPI) that measures public perception of corruption and is published annually by Transparency International. Jamaica improved its global ranking (with the number one country being perceived as least corrupt) from 99 in 2009 to 87 in 2010. Within the Americas, Jamaica improved its CPI ranking among those 28 countries from 21 in 2009 to 16 in 2010. Jamaica was also identified as one of 10 countries worldwide that recorded an improvement in its score.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The USG supports counternarcotics projects in Jamaica designed to increase the capacity of its law enforcement agencies in order to reduce the trafficking of illicit narcotics through Jamaica. The USG seeks to sustain improvements in law enforcement capabilities through modernization and professionalization of the JCF while maintaining a strong and corruption-free law enforcement institution. Narcotics trafficking, corruption, and crime undermine the rule of law and democratic governance. Supporting Jamaica's transformation into a more secure, democratic, and prosperous partner represents a major U.S. policy goal. USG-supported programs in Jamaica also promote the recognition of the linkages between drugs, gangs, poverty, unemployment, and government corruption.

The Department of State's Bureau of International Narcotics and Law Enforcement Affairs is represented through the Embassy's Narcotics Affairs Section (NAS) augmented by the efforts of the United States Agency for International Development (USAID). Through these offices, the USG enters bilateral agreements with the GOJ intended to implement programs to enhance the capacity of Jamaica's criminal

justice sector, as well as complement programs run by USG law enforcement agencies operating in Jamaica.

In 2010, the USG provided training and material support to elements of the JCF and JDF to strengthen their counternarcotics and anti-corruption capabilities. This support also improved the investigation, arrest, and prosecution of organized crime by assisting 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. The U.S. Marshals opened 77 new cases and closed 88 cases involving U.S. fugitives. In coordination with the U.S. Marshals, Jamaican authorities made 15 arrests and extradited ten individuals to the U.S. during the year.

Beginning in September 2010, Department of State funding for counternarcotics efforts in Jamaica was administered through the Caribbean Basin Security Initiative (CBSI). CBSI contains both bilateral and regional funding mechanisms. The allocation of regional funds will be guided by technical working groups established within the CBSI structure that will commence deliberations in 2011. The regional component of CBSI will be instrumental in achieving USG goals in Jamaica, since the challenges it faces are largely shared by its neighbors. The GOJ is in the nascent stages of sharing some of its primary radar data with the USG as part of a broader regional initiative that would allow for sharing of illicit trafficking data.

Other USG departments work in concert with the Department of State's initiatives in Jamaica. The Department of Justice is represented through the DEA, FBI, and the U.S. Marshals Service, and the Department of Homeland Security is represented through the U.S. Coast Guard (USCG), Immigration and Customs Enforcement (ICE), Customs and Border Protection (CBP), and the National Programs and Protections Directorate (NPPD). Additionally, the Department of Defense's U.S. Army Southern Command is represented through the Military Liaison Office and the Tactical Analysis Team.

The USCG provided the JDF Coast Guard resident, mobile, and on-the-job training in maritime law enforcement, engineering and maintenance, port security, and leadership and management. ICE's office in Kingston supports a 41-person JCF vetted unit with investigative responsibility over violations of Intellectual Property Rights (IPR), weapons smuggling, human trafficking, human smuggling, money laundering, and fraud investigations.

D. Conclusion

The GOJ has publicly pledged to tackle Jamaica's widespread and growing gang, crime, and corruption problems. The proposed comprehensive program will strengthen criminal laws and the criminal prosecution process, improve government processes to better detect and punish corruption, and enhance the government's accountability to citizens and Parliament. Several measures to implement this commitment were passed in 2010 and are under consideration by Parliament or are in the drafting stage with assistance from USAID.

The JCF Commissioner's active and unrelenting work to remove the entrenched corruption within the JCF ranks is also encouraging. Likewise, some well-publicized prosecutions of government officials for corruption offenses are a positive sign. However, gang-led violent crime and corruption will continue to pose a significant threat to social stability in Jamaica and the region. We encourage the GOJ to increase its collaboration with the USG and other regional partners, to adopt the proposed comprehensive anti-gang law, and to maintain and enhance its efforts to detect, prosecute, and punish corruption.

Maintaining the independence of the Anti-Corruption Special Prosecutor, the JCF's Anti-Corruption Branch, the Police Civilian Oversight Authority, and the Financial Investigative Division while providing them with the resources and political backing to undertake their tasks is also critical to successful outcomes. Firm and unequivocal GOJ support for the Commissioner of Police to implement the reform

recommendations of the Ministry of National Security's Strategic Review of the JCF will help to ensure a professional and non-corrupt organization.

Japan

A. Introduction

Drug control in Japan is primarily a problem of domestic drug consumption; illicit drugs do not transit Japan, nor are they generally manufactured in Japan for markets abroad. Methamphetamine and stimulant abuse remains the biggest challenge to Japanese counternarcotics efforts; over 80 percent of all drug arrests in Japan involve methamphetamine or amphetamine-type stimulants (ATS). Marijuana continues to become more popular and other drugs such as MDMA (ecstasy), cocaine, and heroin are available, but much less prevalent.

According to Japanese authorities, almost all illegal drugs consumed in Japan are imported from overseas, usually by Japanese or foreign organized crime syndicates. Methamphetamine is smuggled primarily from Iran, Mexico and Africa. The primary source countries for marijuana are Canada and the United States; domestic cannabis cultivation is on the rise, but remains on a small scale. There are several examples in the last twelve months where methamphetamine was being produced in Japan; however, no consistent trend of manufacture has been established or identified to date. There has been no evidence of the domestic manufacture of any other synthetic drugs in Japan over the same period. However, there have been several seizures of liquid methamphetamine solution at some of Japan's international airports which indicates that some refining of the final product is occurring in Japan. There is also some unconfirmed anecdotal evidence that small quantities of MDMA-ecstasy may be being produced in Japan.

While Japanese law enforcement officers are well-trained and equipped, proactive law enforcement efforts are at times hindered by customary practices and bureaucratic obstacles. Despite these problems, Japanese authorities continue to conduct complex drug investigations both independently and in cooperation with international counterparts such as the U.S. Drug Enforcement Administration (DEA) and U.S. Immigration and Customs Enforcement (ICE). Japan is a party to the 1988 United Nations (UN) Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Methamphetamine and stimulant abuse remains the biggest challenge to Japanese counterdrug efforts. Japan is one of the largest and most lucrative markets in Asia for methamphetamine, which represents a significant source of income for Japanese organized crime syndicates. Over 80 percent of the drug arrests in Japan are related to methamphetamine.

Japan continues to be targeted by myriad domestic and international drug trafficking organizations. The majority of the methamphetamine consumed within the country is imported from Iran, Africa, Mexico, and, to a lesser extent, Taiwan and China. There also appears to be a very limited amount being produced domestically. In June 2010 Japanese law enforcement authorities seized an operational methamphetamine laboratory in the Tokyo metropolitan area that was operated by two Iranian residents of Japan.

The second most-abused drug in Japan continues to be marijuana. Much like methamphetamine, the sources for most of the marijuana are outside Japan. There is some limited domestic cultivation, though the seeds are usually purchased from overseas suppliers via the internet. The seeds are then shipped or smuggled into the country via parcel and courier services. The domestic plantations range from rudimentary outdoor operations to very sophisticated indoor hydroponic operations. During the year the Ministry of Health, Labor and Welfare's Narcotics Control Department seized a 1,400-plant hydroponic operation operated by Vietnamese immigrants in Kobe.

MDMA-ecstasy, cocaine and heroin are consumed on a far smaller scale. Japanese authorities have reported that these drugs are mostly abused by foreign groups that live in Japan and that these drugs are rarely consumed by Japanese.

Japanese law enforcement officers are well-trained and equipped, but proactive law enforcement efforts are often hindered by legal hurdles (both real and perceived) and bureaucratic obstacles. During the year there were several instances when U.S. law enforcement agencies provided actionable intelligence related to drug trafficking and money laundering organizations operating in Japan. The failure of Japanese law enforcement to act on these leads allowed very effective criminal organizations to gain a strong hold in the country and, in many instances, to virtually operate with impunity. In addition, very little information or criminal intelligence is shared among national, prefectural and foreign law enforcement agencies.

While these hurdles frustrated rapid, general advances in drug law enforcement efforts during the year, a few Japanese law enforcement agencies made notable achievements combating drug trafficking. Japan Customs was effective in identifying inbound drug shipments and made numerous significant seizures at international airports and seaports. They were very receptive to and acted on investigative leads provided by the international law enforcement communities. In addition, the Narcotics Control Department has taken a proactive approach to drug law enforcement and is conducting longer term and more complex drug investigations. This is a considerable accomplishment given the scope of the department's area of responsibility, diversity of its missions and the relatively small size of its staff. Japanese authorities also continued to conduct drug investigations both independently and in cooperation with international counterparts such as the DEA and ICE, as well as other international law enforcement agencies posted in Japan.

The United States and Japanese governments have an effective line of communication with regard to the extradition of drug offenders. In addition, the Mutual Legal Assistance Treaty process is effective and often utilized.

2. Supply Reduction

The GOJ hosts several regional and domestic conferences in an attempt to advance international enforcement coordination efforts to combat both domestic and international drug trafficking. These conferences are often attended by numerous drug enforcement and criminal investigative units representing Asian countries and countries of other regions. In addition, both the Narcotics Control Department and Japan Customs are proactive in pursuing training opportunities provided by foreign law enforcement agencies, which help to enhance their enforcement capabilities. The new procedures taught in these courses are reviewed and sometimes incorporated into current Japanese enforcement procedures.

Through October 2010, law enforcement agencies within Japan had seized 301.6 kilograms of methamphetamine; 85.9 kilograms of marijuana and over 1,500 live marijuana plants; 8.5 kilograms of hashish; 16,839 dosage units of MDMA; 200 grams of heroin; 2.6 kilograms of cocaine and 3.7 kilograms of opium.

3. Drug Abuse Awareness, Demand Reduction and Treatment

Drug treatment in Japan is currently handled mostly by small, privately-run programs without nationwide treatment criteria. While the government provides support services for addicts at prefectural consultation centers, it does not directly operate treatment or rehabilitation programs except within penal institutions. On a voluntary basis, addicts may choose to undergo short-term inpatient withdrawal treatment at general hospitals; outpatient follow-up is available at the discretion of physicians and patients. Outpatient psychiatric services are also available for abusers of hallucinogens. An NGO network that supports 58 independent facilities nationwide provides drug withdrawal programs as well as psychological assistance for about 600 recovering addicts. The Japanese government is researching a more formal, country-wide

rehabilitation and treatment approach, but has not publicly released concrete plans for implementing any such new methods.

Japan has additional programs for supporting drug and alcohol rehabilitation to convicted offenders and juveniles in protective custody. With support from private institutions, recurrence prevention and addiction education were provided to over 200 juveniles in protective custody. Prisons in the country, working with NGOs, run rehabilitation programs, including drug withdrawal assistance and group therapy, for drug offenders; more than 4,000 prisoners participated in these programs in 2009. A cognitive behavior therapy-based program was provided through probation offices to 1308 convicted drug offenders on parole or probation in 2009. This latter group was also encouraged to take regular drug tests and more than 7600 such tests were completed in 2009. Educational seminars were offered for family members of drug offenders on how to help recovering addicts resist recurrences. While the effectiveness of these programs has not been studied, the recidivism rate for stimulant drug offenders was 57.8 percent in 2009.

Government-funded drug awareness campaigns, designed to inform school-age children about the dangers of drug abuse, increased significantly in 2009. The Ministry of Education, Culture, Sports, Science and Technology (MEXT) reported that drug abuse prevention classes were held in 73 percent of the country's middle schools and over 75 percent of high schools, compared to 58 and 64 percent, respectively, in 2008. More than half of Japan's elementary schools also held drug abuse prevention classes in 2009. The Ministry of Health, Labor, and Welfare, along with other government agencies, prefectural governments and private organizations, continues to administer national publicity campaigns and to promote drug education programs at the community level.

4. Corruption

There were no reported cases of Japanese officials being involved in drug-related corruption in Japan in 2010. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The Headquarters for the Promotion of Measures to Prevent Drug Abuse, which is part of the Prime Minister's Office, supervises the implementation of Japan's Five-Year Drug Abuse Prevention Strategy. Implementation began in 2008, and includes measures to strengthen both inter-agency and public-private coordination to help prevent relapse into drug abuse. The Strategy also promotes increased measures to combat organized crime and illicit drug trafficking. In July 2010, an inter-agency committee released an interim progress report on achievements of the current five-year strategy as well as a plan to accelerate the government's drug abuse prevention strategy.

There have not been any significant changes or additions to the government's anti-drug efforts in the last year. Japanese law enforcement has utilized the same enforcement and investigative techniques, with acceptable levels of success. 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. It has signed the UN Convention against Transnational Organized Crime (UNTOC) and its three protocols but, as it lacks an anti-conspiracy law, cannot ratify the UNTOC. An extradition treaty and a mutual legal assistance treaty are in force between the United States and Japan.

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 anticrime 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.

The DEA and ICE Attaché offices in Tokyo will continue to work closely with Japanese counterparts to offer support in conducting investigations on international drug trafficking, money laundering, and other crimes. Without the political impetus needed to change laws that restrict the tools available for drug investigations, law enforcement efforts alone will not succeed in making Japan an equal partner in international counternarcotics efforts.

D. Conclusion

Japanese government policy makers and officials are proactive in their approach to interdiction and are cognizant of the changes in the drug trafficking trends within the country and the region. Japanese law enforcement agencies utilize effective, but basic, drug law enforcement techniques. The lack of authorization in Japanese law for other drug law enforcement tools and the absence of anti-conspiracy laws hinder law enforcement's effectiveness to effectively pursue complex drug investigations to conclusion.

Jordan

Jordan's geographical location between drug producing and drug consuming countries continues to make it primarily a transit point for illicit drugs. Jordan is bordered by Israel and the West Bank on the west, Syria on the north, and Iraq and Saudi Arabia to the east. Most of Jordan's borders are difficult to effectively patrol. The stationary posts along these areas lack the equipment and infrastructure to effectively patrol and monitor border traffic. For this reason the Jordanian Public Security Directorate (PSD) believes that the amount of drugs transiting through Jordan continues to grow. Following a familiar pattern for drug transit countries, there have been recent anecdotal reports suggesting possible increases in drug use in Jordan itself. Historically, Jordanians do not consume significant quantities of illegal drugs, and according to the PSD there are no known production operations in the country. Enforcement statistics for the first nine months of 2010 show a slight decrease in total drug cases compared to 2009. The number of persons involved and the number of drug abusers are also slightly lower than in 2009. The PSD attributes these decreases to Jordan's enhanced rehabilitation programs, increased border interdiction operations, better intelligence gathering, and stronger cooperation between Jordan and neighboring countries. One significant cause of the drop in apparent drug crime and abuse is the increased cooperation between the PSD and the Israeli National Police on narcotics related matters. The drugs of choice among users, arrested for drug possession in Jordan, continue to be cannabis and heroin, and to a lesser degree, captagon. The age range for people arrested for drug related crimes is predominantly between 18 and 35 years old. The PSD continues to see a rise in drug trafficking through its border regions, especially with Iraq and Syria. However, drugs transiting through the Queen Alia International Airport (QAIA) appeared to decrease in 2010. During the first nine months of 2010 there was a significant decrease in the amount of cocaine seized by the PSD as compared to 2009. During the same period in 2010, there was a slight increase in the amount of heroin seized by the PSD as compared to 2009. Nevertheless, when compared to historical figures for the past five years, this year's increase does not seem so substantial. For the moment, this increase should not be considered a notable trend in trafficking through Jordan. Jordan is a party to the 1988 UN Drug Convention, the UN Convention against Corruption and the UN Convention against Transnational Organized Crime

Jordan's vast desert borders make it vulnerable to illicit drug smuggling operations. Jordanian authorities do not believe that internal drug distribution is substantial; they believe most drugs entering Jordan are moving to markets elsewhere.

Jordan's PSD maintains an active counternarcotics bureau and has established excellent relations with the U.S. Drug Enforcement Administration's Nicosia Country Office. Compared to 2009, the PSD-AND- (Anti-Narcotics Directorate) has seen a decrease in cocaine and other drug trafficking through QAIA. During the first nine months of 2010, seizures of captagon tablets decreased substantially compared to 2009. However, PSD claims the vast majority of captagon is destined for the Gulf States, primarily Saudi Arabia. The PSD reports that 85 percent of all seized illicit drugs coming into Jordan are bound for export to other countries in the region. This is evident as the PSD-AND conducted 15 international controlled deliveries during the first nine months of 2010 with Syria and Saudi Arabia, which resulted in total seizures of 755 kilograms of hashish and 5,429,790 captagon tablets, respectively.

Drugs moving through Jordan include: cannabis entering from Lebanon, Syria, and Iraq; Afghan heroin entering through Syria on its way to Israel; and captagon tablets from Bulgaria and Turkey entering through Syria on the way to the Gulf. The majority of Jordan's drug seizures take place at the Jaber border crossing point between Jordan and Syria. Cooperative efforts between the PSD-AND and the Israeli National Police have resulted in positive outcomes with regard to heroin seizures along the Israeli border.

Jordan remains primarily a narcotics transit country. Jordan's main challenge in stemming the flow of illicit drugs through the country remains its vast and open desert borders. PSD-AND reports, however, that drug detection at QAIA is more effective due to increased levels of training and new drug detection methods. While law enforcement contacts confirm continued excellent cooperation with Jordan's neighbors, the desolate border regions and the various tribes, with centuries-old traditions of smuggling as a principal 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.

The Jordanian Government neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, nor the laundering of related proceeds.

The DEA Nicosia Country Office, Regional Security Office Amman, and the PSD have an excellent working relationship. In April 2010, the DEA provided an Airport/Highway Narcotics Interdiction Seminar to approximately 35 members of the PSD in Amman, Jordan. Also, in September 2010, the DEA Nicosia Country Office invited two high ranking members of the PSD-AND to attend an International Asset Forfeiture and Money Laundering Seminar in Nicosia, Cyprus. All of the training was extremely well received by the PSD-AND and efforts will be made in 2011 to expand on these programs. DEA international training anticipates more training in Jordan during 2011.

Kazakhstan

A. Introduction

While primarily a transit country for drugs bound for Europe, Kazakhstan increasingly is becoming an active consumer of Afghan opiates. Kazakhstan also harvests and markets wild-grown marijuana, ephedra, and opium poppies. In 2010, the government of Kazakhstan developed new approaches in the fight against drug trafficking and consumption, focused its attention on the disruption of supply, strengthened its southern border, and supported demand reduction with drug treatment programs. Law enforcement agencies also acknowledged publicly that civil society, NGOs, and mass media are essential partners in the effort against narcotics trafficking.

Kazakhstan's geographic position and transportation infrastructure have made it a major transit country for narcotics, and its increasing wealth has led to increased domestic drug consumption. The country lies along the so-called "Northern Route" – a loose collection of roads and highways used to smuggle cannabis and opiates from Afghanistan to Russia and Europe via Central Asia. The main drugs consumed in Kazakhstan are marijuana and heroin. Kazakhstan also harvests and markets wild-grown marijuana, ephedra, and opium poppies on more than 1.2 million hectares in the Almaty, Zhambyl, Southern Kazakhstan, Kyzylorda, and East Kazakhstan oblasts. This year, due to warm temperatures, marijuana with high levels of THC also grew on 22 hectares of illicitly cultivated land in Uralsk, western Kazakhstan.

In January 2010, Kazakhstan, Russia, and Belarus formed a Customs Union. This new customs area will increase pressure on Kazakhstan to strengthen its southern border in order to prevent trafficking of drugs and other contraband in the unified economic zone. To this end, the government of Kazakhstan in 2010 allocated KZT 16.5 billion (about \$112 million) to strengthen its southern border. Despite increased government funding to secure the border, it remains porous for drug trafficking, and this year the government has arrested citizens of Tajikistan, Kyrgyzstan, and Russia, as well as Kazakhstan, for narcotics trafficking.

On September 2010 President Nazarbayev signed legislation that proposes a 15 percent reduction in the number of government employees. This includes a reduction of 9300 employees of law enforcement agencies, primarily among mid-level management and office workers rather than street-level police officers. The resultant loss of experienced law enforcement management staff will in the near term prevent an anticipated expansion of the Ministry of Interior (MVD) Counternarcotics Training Center in Almaty and other law enforcement initiatives.

Kazakhstan is a party to the 1988 UN Drug Convention and is also party to the UN Convention against Corruption and the UN Convention against Transnational Organized.

B. Drug Control Accomplishments, Policies, and Treaties

1. Institutional Development

Many drug-related cases are not successfully prosecuted because, under long-standing practice, the Ministry of Interior (MVD) Committee on Combating Drugs (CN Committee) must transfer cases to the MVD's Investigation Committee for investigation and prosecution. The CN Committee, which knows the case best, lacks the authority to prosecute it. However, in August 2010, President Nazarbayev signed a decree to reform and demilitarize Kazakhstan's law-enforcement institutions. The CN Committee has proposed that it be given investigative and prosecution responsibility under this reform. Based on UN recommendations and positive results in some European countries, the MVD's CN Committee is also developing a draft law to provide treatment instead of incarceration for drug-addicted criminals

Under the new reform, MVD regional counternarcotics divisions will now report directly to the Counternarcotics Committee, which will give that Committee better information, access, and resources. The Committee for National Security (KNB) is responsible for investigation of drug-related crimes that pose a direct threat to national security. The Border Guard Service, a branch of the KNB, will continue drug searches of persons and vehicles on the border.

The Ministry of Interior's CN Committee, in existence since 2004, coordinates the counternarcotics work of ministries, agencies, and NGOs. It works with international organizations and conducts anti-drug information campaigns and other demand-reduction activities.

The CN Committee has introduced new performance indicators based on quantity of drug seizures. This year it closed several internal checkpoints that had been supported by UNODC and located on the main arterial roads of the country, after it determined that the checkpoints did not seize sufficient amounts of drugs to justify their cost, and might be vulnerable to corruption. The CN Committee diverted the equipment from those checkpoints to oblast-level counternarcotics divisions. It maintains these divisions in every oblast as well as in the cities of Astana and Almaty, and has two special divisions, "South" in the city of Shymkent, and "Delta-Dolina" in the Zhambyl oblast. The latter is the interregional special division that controls trafficking of wild-growing marijuana in the Chu Valley (Zhambyl oblast) and in Almaty oblast.

The Interagency Counternarcotics Training Center of the MVD Academy in Almaty has been one of the most important resources for providing law enforcement agencies with qualified specialists in the fight against illicit drug trafficking. Its training events help to establish professional relationships and cooperation among the staff of the various agencies.

As part of its planning to take advantage of the new Customs Union, Kazakhstan has proposed to harmonize legislation to create a unified list of narcotics, psychotropic substances and precursors subject to control. If successful, the effort would establish mechanisms for law enforcement interaction in such joint operations as controlled delivery, and encourage cooperation by all competent agencies from the member countries with their respective Financial Intelligence Units and with the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).

In order to strengthen the outer border of the Customs Union, the government reconstructed border checkpoints and built new posts on the border with China, Kyrgyzstan, and Uzbekistan. The government spent KZT 500 million (about \$3.4 million) for each of these posts. From 2010 to 2012, the Border Guard Service will construct barriers around the actual patrolled border crossing points to improve results.

Kazakhstan hosts the Central Asian Regional Information Coordination Center (CARICC). The government of Kazakhstan relies extensively on CARICC as the organization that coordinates efforts of interested law enforcement agencies and the international community. CARICC has become a good platform for information exchange and coordination of counternarcotics interaction of competent services and multilateral organizations including the Shanghai Cooperation Organization (SCO), the Collective Security Treaty Organization (CST), Interpol and Europol. The U.S. Drug Enforcement Administration became an observer at CARICC in September.

Law-enforcement agencies in Kazakhstan cooperate, under the terms of intergovernmental interagency agreements, with the Drug Control Agencies of the Kyrgyz Republic, Tajikistan, Russia, and Uzbekistan. The agencies of these countries conduct joint operations, investigations, demand-reduction programs, and exchange of operative information and methodologies.

Kazakhstan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Kazakhstan is also party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

2. Supply Reduction

Kazakhstan actively fights drug trafficking and works with neighboring countries to share information and conduct joint controlled delivery operations. In 2010, law-enforcement agencies focused their attention primarily on breaking up criminal networks and during the first nine months of the year, the MVD's counternarcotics divisions dismantled seven organized criminal groups.

During the first nine months of 2010, law enforcement registered 7189 drug-related crimes. The MVD accounted for 94.6 percent of these cases. 2158 drug-related crimes were sales-related cases, 1944 (90%) of which were registered by the MVD. All law enforcement agencies combined detected 185 drug contraband cases, a 10.2 percent decline from the same period in 2009.

During the same time period, the government seized 24.6 tons of drugs, including 23.7 tons of marijuana (3.3 percent more than last year) and 252.6 kilograms (kg) of heroin (60.6 percent less than last year). Law enforcement agencies arrested 4,900 individuals (10.5 percent less than last year). The number of women arrested for drug-related crimes decreased by 2.9 percent (from 556 to 540) and the number of minors by 73.1 percent (from 26 to 7).

The largest source of marijuana production in Kazakhstan is in the Chu Valley in the Zhambyl oblast, where wild marijuana with high THC levels grows on an estimated 144,000 hectares. Experts estimate that 145,000 metric tons of marijuana or as much 6000 tons of hashish could be produced annually from this area. There are businesses interested in producing medicinal marijuana in this area, but the government suspects their motives and continues to prohibit it.

In January, the Ministry of Interior and the Ministry of Health introduced a prohibition on the trafficking of some new synthetic drugs. The decree focused on synthetic marijuana-type preparations, with colorful names like: "Genie," "Smoke relax your mind," "Rush," "Damiana chocolate," "Effya," and "Spice." These drugs contain substances with psychotropic effects similar to those from tetrahydrocannabinol (THC) the effective ingredient of marijuana. The level of THC equivalent varies from 0.1 to 24 per cent.

Kazakhstan law enforcement agencies conducted a large-scale operation—"Kendir-2010" (Poppy-2010)—from June 1 to October 30. Despite its name, the operation aimed primarily to dismantle criminal groups involved in harvest and distribution of marijuana. The operation resulted in the detection of 3229 drug-related crimes, including 851 cases of sales, 45 cases of contraband, and seizures of 19 tons of different drugs, including 73.5 kilos of heroin.

During the first nine months of 2010, the MVD conducted 13 controlled deliveries, including three implemented jointly with Russian counterparts. These operations resulted in the seizure of 150 kg of various drugs.

Kazakhstan this year strengthened controls at auto checkpoints on its borders with Kyrgyzstan and Uzbekistan. The strengthened auto checkpoints have caused drug couriers to avoid the checkpoints and travel by train and by boat. The Border Guard Service and Customs Service have seized heroin and hashish on the railroad routes between Bishkek-Moscow, Bishkek-Novosibirsk, Dushanbe-Moscow, Khudzhant-Saratov, and Almaty-Atyrau. Most of those involved in trafficking are from Kyrgyzstan, Tajikistan, Russia, and Kazakhstan. Police also interdicted drugs along a route from East-Kazakhstan oblast to Almaty. This is unusual, since most narcotics trafficking in Kazakhstan goes from south to north, and the Russian and Chinese borders are significantly closer to East Kazakhstan than is Almaty. However, this route is attractive because of higher drug prices in Almaty, and the ability to avoid another border crossing.

In June 2008, the Kazakhstani government increased penalties for narcotics trafficking. The new law provides for life imprisonment for serious drug-related crimes, including trafficking in large quantities, participation in drug-related crimes as part of a criminal organization, sale of drugs in educational institutions and/or to minors, and sale or distribution of drugs resulting in death. Since introduction of the

new legislation, about 100 drug dealers have received sentences of 12 to 15 years, nine to 20 years, and one received a life sentence.

Law enforcement agencies have sought to use the mass media to increase public awareness about drug-related convictions, in the hope that this will discourage others from getting involved in drug trafficking. However, despite such a campaign and strengthened legislation, difficult economic conditions and an unstable political situation in Central Asia make many citizens of the region desperate to earn money by any means.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2005, the government of Kazakhstan launched a 2006-2014 strategy to combat drug addiction and trafficking. For 2010-11 the government allocated KZT 795 million (\$5.4 million) for this purpose. The government agencies plan to implement computer-based training programs in schools and increase the number of projects with NGOs. The program will also strengthen treatment and rehabilitation for drug addicts.

During the first nine months of the year, the Ministry of Health registered 51,366 drug-addicted individuals, 8.58 percent fewer than last year. The most common addictions are for opioids (heroin and opium), with about 30,000 regular users (58.5%); cannabinoids (hashish, marijuana), 12,200 (23.7%); psychotropic substances, 4000 (including 20 users of MDMA), then precursors and other toxic substances, 3100. 611 registered addicts died, up from 590 in 2009. The number of drug-addicted youth (ages 14 to 30) decreased by 6.4 percent (from 29,572 to 27,656). The number of minors among drug addicts decreased by 19.1 percent (from 3,939 to 3,188). The number of drug-addicted women decreased by 6.7 percent (from 4,598 to 4,162).

The Ministry of Health launched a pilot project to test methadone therapy in Pavlodar and Temirtau, with 50 participants. Funded by the Global Fund to Fight AIDS, Tuberculosis, and Malaria, the project provides patients with medical and psychological treatment. The project appears to have been successful with some of the participants. It will end in 2010 and the government must decide whether or not to continue methadone therapy in Kazakhstan.

The Government of Kazakhstan continues to conduct activities on primary prevention of drug addiction among the population. The government has established Narcoposts in 5020 schools. These are groups that provide drug-prevention counseling and treatment, using psychologists, doctors, local counternarcotics officers, teachers, and students. These groups organize lectures, round tables, and competitions, and provide medical examinations, psychological consultations, and peer counseling. Help lines are also available to receive calls.

The CN Committee created a web-site www.narcopost.kz with information on demand reduction activities, and success stories about the battle against drug trafficking. The site includes a question and answer page, where specialists answer questions submitted by visitors to the site. The Commission on the Coordination of Work on Demand Reduction and Combat Against Drug Trafficking, established by the government in 2003, monitors the work of all relevant government agencies and provides recommendations for further counternarcotics education. The Commission reported that relevant agencies took measures this year to improve the registration system for drug addicts and improved equipping and staffing of the treatment services in the regions.

National mass media distribute information on the battle against drug trafficking. They regularly publish articles about police operations and drug-demand reduction campaigns. The MVD publishes the magazines *Narcopost* and *Future without Drugs*. The Ministry of Education and Science introduced special demand reduction curricula at schools, which include lectures by treatment experts, psychologists, and police. State-INL is in preliminary discussions with DARE International about establishment of a DARE program in Kazakhstan in 2011.

4. Corruption

There is no evidence that the government of Kazakhstan encourages or facilitates the illicit production or distribution of narcotics or psychotropic drugs or other controlled substances

There have been no cases this year of senior government officials engaged in the illicit production or distribution of drugs. However, the Department of Interior of the South Kazakhstan oblast in Shymkent arrested a 54-year old employee of the Tax Committee for attempting to sell 60 grams of heroin.

The MVD actively fights narco-corruption in its ranks, vets its recruits, and the MVD's division of internal security investigates crimes committed by police.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Both the Department of Defense (Office of Military Cooperation) and State-INL sponsor counternarcotics programs conducted by Kazakhstani law enforcement agencies. In 2010 INL funded a series of events that included extensive train-the-trainer courses in Austria, a Regional Canine Competition in Kazakhstan for law enforcement agencies, and other workshops in Kazakhstan. Two instructors trained in Austria from the Military Institute of the KNB trained approximately 50 canine officers from the Border Guards Service in 2010. Law enforcement agencies have informed INL of increased seizures of drugs by canine teams trained in the Austrian methods. INL-sponsored training events have also inspired regional law enforcement agencies to continue and expand such programs with their own funding.

One constraint faced by law enforcement agencies in canine training is the inability to use real narcotics, due to a lack of availability and an inability to provide secure storage and control. Previously, when law enforcement agencies used real drugs for training of dogs, some drugs were substituted and sold. Law enforcement agencies therefore prefer to use substitutes than to be responsible for possible loss or theft of real drugs. At the same time, European and U.S. canine experts train their canines with real drugs, which increases the likelihood of successful searches and seizures.

In July, the U.S. Drug Enforcement Administration (DEA) opened an office at the Consulate General in Almaty. DEA deployed agents to conduct training on undercover operations and investigation of drug-related crimes. Kazakhstani law enforcement agencies have shown considerable enthusiasm for DEA-provided counternarcotics training.

The USG continues to work with the MVD's Counternarcotics Training Center to organize future training events, and plans to discuss with the directors of other MVD training centers the possibility of staging counternarcotics workshops in other regions of Kazakhstan.

D. Conclusion

Kazakhstan's large territory and location astride natural trafficking routes to Russia and China make it a natural transit corridor for narcotics. Due in part to the expectations raised by its membership in the new regional Customs Union and its 2010 OSCE Chairmanship, the government found the resources and the political will to increase control over its border and its capacity to interdict narcotics trafficking during 2010. The government also has taken encouraging steps with regard to drug demand reduction, rehabilitation and treatment, though these efforts are inadequate to address the growing need. President Nazarbayev's law enforcement reform initiative is designed to further clarify lines of authority and increase the efficiency of Kazakhstan's counternarcotics operations, though it is not clear how proposed staff reductions in law enforcement agencies will affect their performance. Law enforcement organizations remain receptive to U.S. training and assistance, and State INL intends to continue its cooperation with the government of Kazakhstan to enhance its counternarcotics capacity.

Kenya

A. Introduction

The trafficking of narcotics in and through Kenya is a major and growing problem that has permeated all strata of the society. Drug trafficking is linked to the prevailing culture of impunity, and presents serious ramifications to the nation's health, security, and stability. Kenya is a significant transit country for a host of illegal narcotics, including heroin and cocaine with an increasing portion of the trade being consumed domestically. Cannabis and miraa (khat) are grown domestically for both local use and export. Narcotics usage is spreading throughout the country from its original hubs in Nairobi and along the coast.

Stemming this flow of narcotics is an enormous challenge. Narcotics-trafficking is tied directly to the prevailing culture of impunity that has pervaded the senior political and business classes in Kenya since independence. Kenya's leaders profess strong support for counternarcotics efforts, but this rhetoric has not translated into robust interdiction and prosecution of drug kingpins. Various officials are complicit in narcotics trafficking either through direct involvement, protection, or by abrogating their responsibility to combat it. Members of the Kenya drug trafficking networks are increasingly becoming involved in politics with some holding municipal or national office.

The threats of drug trafficking were highlighted in a speech by the U.S. Ambassador to Kenya in November which emphasized the need for action against well-known drug barons. The speech sparked widespread debate within political, business and religious circles and has led to statements by the government of Kenya that it would boost investigations and enforcement. However, no action has been taken yet against the major drug traffickers. Kenya is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Ministry for Provincial Administration and Internal Security has oversight for the government's two main narcotics supply and demand reduction agencies: the Anti-Narcotics Unit (ANU) of the Kenya Police Service, which is the lead law enforcement agency responsible for combating drug trafficking, and the National Campaign Against Drug Abuse (NACADA) which co-ordinates public information campaigns against drug abuse and oversees rehabilitation services.

The Anti-Narcotics Unit, formed in 1983, is charged with the responsibility of enforcing the Narcotic Drugs and Psychotropic Substances (Control) Act of 1994. Subsequent revisions have been made to the Act with input from the United Nations Office of Drugs and Crime (UNODC) regarding the seizure, analysis and disposal of narcotics. The ANU currently has about 100 specially trained officers in 22 police stations at airports, border crossing, transport hubs and major urban centers. According to Police Commissioner, Mathew Iteere, "The unit had been performing its duties well" until seven years ago when some changes were made." Iteere announced in late 2010 that the ANU would be restructured to make it more effective in combating the drug menace in the country. This follows a President Kibaki directive calling for a shake-up of the anti-drug police. It is unclear, however, what changes will be made or how the unit will be strengthened.

In 2010, the National Campaign Against Drug Abuse Authority saw its share of upheaval with a number of senior officials resigning early in the year followed by the NACADA Board's decision in October not to renew the contract of the CEO for a fifth year. Management issues notwithstanding, NACADA had

some significant achievements this year. On April 1, 2010 NACADA formally released their Strategic Plan 2009-2010 along with a host of other key policy documents. These included the National Standards for Treatment and Rehabilitation of Persons with Substance Abuse Disorders, Guidelines for Developing Workplace Alcohol and Drug Abuse Policies. NACADA also launched a 24-hour helpline to provide information, basic counseling, and referrals to treatment facilities. In addition, NACADA developed a National Action Plan on Drugs and Substance Abuse based on the National Strategy. While both the National Strategy and the National Action Plan remain before the Ministry of State for Provincial Administration and Internal Security for final approval, NACADA has implemented its key features regardless.

In addition to the 1988 UN Drug Convention, Kenya is a party to 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 Convention against Corruption and to the UN Convention against Transnational Organized Crime and its three protocols.

2. Supply Reduction

Kenya's geographical location presents considerable challenges to supply reduction strategies. Traffickers exploit the traditional trade routes that have existed for centuries between South Asia and East Africa. Kenya's long Indian Ocean coastline—which serves as the port of entry for east and central Africa—and its porous northern border with Somalia represent poorly guarded blind spots through which narcotics move with relative ease.

Heroin transits Kenya bound for Europe, the United States, as well as other parts of western and southern Africa. Drugs are transiting through Kenya to Indian Ocean states and territories including the Seychelles, Mauritius, Madagascar, the Comoros, and Reunion. Over the past three years newer trans-Saharan drugs routes have developed between East and West Africa with heroin from South and Southwest Asia moving west and cocaine from South America moving east.

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.

According to a 2010 NACADA report entitled *Report of Survey on Drugs and Substance Abuse in Coast Province Kenya*, Mombasa is the hub of drug supply to the other parts of the Coast region. The major drug barons dwell in the posh estates of Mombasa, and coordinate the importation and supply of their illegal merchandise within the region and beyond. Cannabis is mainly reported to come from upcountry and is transported to Mombasa either using public transport as normal luggage or in private vehicles. Drugs are also smuggled into Mombasa from Tanzania, through the largely un-inspected fishing sea ports. Drugs smuggled into the country from overseas through the two main international airports in Nairobi and Mombasa are then driven in VIP vehicles to Mombasa town. Drugs are smuggled into Lamu—mostly Cannabis—through the many landing points for fishermen along the coastline.

Despite the official estimate that a significant portion of the narcotics trafficked through Kenya originates on international sea vessels, ANU maritime interdiction capabilities are limited. Inspection personnel turnover at the ports is high, contributing to Kenya's limited capability for maritime interdiction, and corruption continues to thwart the success of long-term port security training.

The NACADA report documents a number of mechanisms used to distribute drugs including school children, ambulance drivers (the coast general hospital area is a hot spot for peddlers) and VIP and government vehicles (given the ease with which they can escape inspection at roadblocks and intimidate law enforcement).

The number of arrests and prosecution for dealing in narcotics dropped sharply from 2009 to 2010. In all, around 1,350 were arrested in 2010 and prosecuted in court. In 2009, that same statistic (numbers arrested) was around 3,200. Only 12 of those arrested in 2010 were non-Kenyan. They included one Tanzanian, one Pakistani, one American, one German, four Somalis, two Ugandans, one Nigerian, and one South African. For both years around 95 percent of the cases were for marijuana and about 4 percent for heroin. Arrests for cocaine and psychotropic substances (rohypnol) were recorded but in negligible numbers.

Seizures of drugs increased dramatically from 2009 to 2010, but still only represent a tiny fraction of what is believed to transit in and through Kenya. The amount of heroin seized went from 8.5 kg in 2009 to 35.2 kg in 2010; for cocaine it went from 10 kg to 23 kg over the same period. Nearly all the cocaine came from a single bust in June of 2010 when police at Jomo Kenyatta International Airport found 21 kg on a Ugandan woman posing as a UN official. In October, just over 1 kilo was discovered at the Nairobi Post office. While the latter only represents a small seizure, it demonstrates a new capability by the Kenya authorities to monitor parcel shipments using sniffer dogs provided by the United States. Around 15,000 kg of marijuana were seized in 2010 which was roughly double the amount seized in 2009.

3. Drug Awareness, Demand Reduction, and Treatment

There are over 200,000 heroin addicts in the country, according to government and UN statistics. It is estimated that about 10 per cent of them are in Coast Province. This is more than any other country in Africa besides South Africa. Religious leaders have spoken out strongly against drug abuse and argue that every family on the coast has been touched by addiction.

According to the 2010 NACADA report, miraa (i.e., khat), marijuana, heroin and cocaine are the most commonly consumed drugs in descending order. Nearly 4.5 percent of Mombasa residents had consumed heroin at least once; most of those were between the ages of 18 and 28. Mombasa leads the province in drug use for most categories except marijuana which is more prevalent in Lamu. Fourteen percent of respondents said it was “easy to access” heroin or cocaine in Mombasa. Some heroin addicts have even resorted to “blood flashing” in which blood from one user who has just injected is collected and then injected into a second user. In focus groups assembled for the NACADA report, it emerged that in all the regions of Coast Province, there is an increased sense of desperation that use of drugs, especially cannabis, is “fast growing at an almost unstoppable rate,” according to respondents, and a majority of the them have the opinion that little is being done to stop the use of these drugs. The age at which people are beginning to use drugs has also decreased, and women are an increasing percentage of users. The threat of the spread of HIV/AIDS is obvious in many of the practices of intravenous drug abusers.

The cost of heroin is reported to be lower on the coast this year; there is consensus among experts that usage is price sensitive—the lower price attracts more users. Data collected by treatment centers on the coast and collated by the UNODC shows that the number of users counseled for drug use has increased at a steady rate.

Kenya is making some progress in efforts to institute programs for demand reduction, although NACADA’s budget remains inadequate to the challenge. NACADA has developed certification standards for drug treatment facilities and is implementing a licensing service to formalize the process.

NACADA makes good use of the media and it has engaged at the local level in partnership with community-based organizations to air its counternarcotics abuse message. In one instance on the coast, however, some members of a community group were discovered to be involved in trafficking. NACADA quickly terminated that partnership.

Private rehabilitation facilities are too expensive for most Kenyans to access, and the few low-cost community run centers are unable to satisfy the demand for services. According to the NACADA report, only 14.9 percent of the respondents to the survey were aware of any drug treatment and rehabilitation facilities in their communities.

4. Corruption

Corruption remains an enormous barrier to effective narcotics enforcement. The prevailing culture of impunity is not limited to narcotics trafficking but pervades the government and society. Drug barons use proceeds to contribute to political campaigns and to buy influence with government officials, law enforcement officers, politicians, and the media.

Religious and civil society groups are increasingly demanding that the government address the issues of drug trafficking and drug abuse. Members of Parliament consider the drug abuse problem significant enough to have requested a declaration of national emergency.

As a matter of policy, however, 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.

The March 2010 NACADA includes reports of drugs being seized by law enforcement officers and resurfacing in the community with the help of corrupt officials. There are also reports of the police arresting individuals to obtain bribes and suspects paying bribes after being arrested to avoid prosecution.

The “Proceeds of Crime and Anti-Money Laundering Act No. 9” was gazetted in January 2010, but it has not been implemented. The USG urged the government to stand-up the implementing agencies as required by the new law and is prepared to provide appropriate expert assistance with implementation of the anti-money-laundering legislation.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. bilateral cooperation with Kenya on counternarcotics matters is robust and continuing. The U.S. Department of State’s Office of Antiterrorism Assistance continues to train and equip maritime security patrol units. Graduates of this training are credited with a number of interdictions of boats which were transporting illegal narcotics.

The principal U.S. counternarcotics objective in Kenya is to interdict the flow of narcotics to the United States. A related objective is to limit the corrosive effects of narcotics-related corruption in law enforcement, the judiciary, and political institutions. The United States seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction, and the strengthening of Kenyan counternarcotics and overall judicial capabilities. In support of this effort, the U.S. Drug Enforcement Administration is in the process of opening a country office in Nairobi. Personnel from the DEA Pretoria Country Office offered support to the Government of Kenya in counter-narcotics over the course of FY 2010.

The U.S. Department of Homeland Security, Customs and Border Protection (CBP) has provided the Kenyan authorities, including the Kenya Wildlife Service and the Administration Police, with guidance, direction, and subject matter expertise in their efforts to create a Rural Border Patrol. Based on the U.S. model, there are currently four border patrol company-sized units that patrol the areas between border posts on the northern border, and will focus primarily on those areas between the recognized border-crossing-post.

The U.S. Office of Anti-Terrorism Assistance conducted three iterations of an 11-week Comprehensive Maritime Security Training Consultation that included training modules on the search and seizure process for boats and ships relating to finding illegal narcotics. Participants were also trained to recognize a variety of substances and packaging. Trends in narcotic trafficking specific to the East Africa region were covered in this training. In 2010, 67 maritime security officers from Kenya, Tanzania and Uganda received this specific instruction. ATA-trained cyber and cellular forensic investigators have successfully retrieved and analyzed digital evidence linking suspects to trafficking in narcotics, weapons, human trafficking and other criminal activities.

The U.S. Government is partnering with drug prevention and treatment organizations in Coast Province—such as the Reachout Centre Trust, the Tuonane Project, and the Omari Treatment Center—to aid communities in their struggle against the scourge of drug abuse. Reachout Centre Trust is a non-profit organization that provides preventive and interventional services to those affected by or vulnerable to alcohol and drug abuse. The Tuonane Project provides key services including an outreach program for drug and alcohol users, VCT, and outpatient addictions counseling through Narcotics Anonymous (NA) and Millati Islami (MI) 12 step programs.

In partnership with NACADA, the US government provided training for drug abuse rehabilitation counselors that included a series of two-week workshops by U.S. treatment experts on specific selected counseling tools pertinent to residential treatment programs. In 2010, the USG continued a program with NACADA to develop a nation-wide certification system for addictions treatment counselors. U.S. experts trained a core group of Kenyan trainers who are now carrying the certification training process forward under the direction of NACADA.

D. Conclusion

The passage of a new constitution in August of 2010 offers the possibility of significant change in the culture of impunity — if the new constitution is fully implemented. In the meantime, the culture of impunity remains unchecked. This is directly linked to the lack of effective action against drug barons, and to the growth of narcotics trafficking in Kenya. Countering this problem is an essential element of broader efforts to promote reform and to bring about fundamental change in order to ensure a more stable democratic and prosperous future for all Kenyans.

Kosovo

A. Introduction

Kosovo is primarily a transit country for Afghan heroin destined for Europe, but Kosovo Police (KP) reports suggest that the country has a growing domestic narcotics problem. Kosovo faces challenges in combating narcotics trafficking due to porous borders and corruption among the Kosovo Border Police (KBP) and Customs officers. The KP continues its efforts to combat the drug trade, but it possesses limited resources, and counternarcotics are a low priority. The Kosovo Government, led by the Ministry of Internal Affairs (MOIA) adopted its national counternarcotics strategy in July 2009, but has yet to allocate the resources to implement it fully.

Kosovo is not a significant narcotics producer. The KP 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 wild in rural areas. The KP 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 KP officials have found no evidence of narcotics refining or production labs.

Kosovo is primarily a transit country for Afghan heroin transiting from Turkey and for cocaine and marijuana coming through the Albanian and Montenegrin ports destined for Europe. The drugs are re-packaged at unknown sites within Kosovo into smaller amounts and then further transported in vehicles destined for European Union cities. Large shipments are transported mainly through the use of buses and trucks or through easy transit across the unprotected green borders with surrounding countries. The European Rule of Law mission (EULEX) and KP officials report many small movements of narcotics, such as two to five kilograms on one person or 10 to 20 kilograms in a bag on a bus. EULEX advisors have observed the KBP allowing buses to pass without search, and in some cases, without checking passports of the passengers. There are credible allegations of corruption among KBP and Customs officers on the borders. Larger-scale drug arrests by Kosovo Police and Kosovo Customs officials occur infrequently given the reported scale of drug smuggling.

The Kosovo Government continues its efforts to interdict and seize drugs transiting through Kosovo. There have been no significant changes in the methodology or tactics used by the Kosovo Police or customs agencies. Due to the issue of statehood status and a sense of mistrust in the Kosovo Police, there has been hesitation by surrounding countries to conduct joint investigations with Kosovo authorities. The KBP is set to begin policing the Kosovo border with Macedonia in early 2011, when KFOR (Kosovo Force-NATO-led International Peace Keeping Force) officially hands over responsibility.

Information on domestic narcotics consumption is gathered by UNICEF and NGO Labyrinth, which report that there is a growing local market and that illegal drug use is on the rise. Their statistics show that the levels of narcotics consumption among teenagers and university-aged young adults, the primary users, are close to those in most Western European countries. There are no reliable estimates of the number of drug users, but UNICEF places the figure at around 20,000. Of this number approximately, 5000-6000 are dependent intravenous drug users. Heroin use is responsible for the vast majority of dependent users referred for drug treatment. The number of cocaine users is increasing, and the cost of cocaine is decreasing on the local market. Kosovo has not yet become a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Kosovo made limited progress on counternarcotics policy initiatives in 2010. The country's national counternarcotics strategy, developed by the MOIA, was released in July 2009 but has yet to be implemented, in part due to financial constraints. The new national strategy calls for better coordination among Kosovo Government organizations such as the Ministry of Health (MOH) and the Ministry of Education, and for better communication within the KP. In accordance with this strategy, the MOIA, on January 23, centralized previously dispersed narcotics units under the Directorate for Investigation of Drug Trafficking, Crime Pillar. This move eliminated duplication of effort and fostered greater cooperation.

The MOH, in its strategic plan and budget for 2008-2013, included an assessment of the drug problem in Kosovo, the development of a national strategy for preventing drug use among adolescents and youths, the creation of regular mechanisms for monitoring drug use levels among adolescents and youths, and the improvement of services to drug addicts. In December 2007, the MOH compiled the National Strategy on Mental Health, which includes treatment and services for drug addicts, but implementation has been slow due to insufficient funding.

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, strengthening interagency cooperation, and adding up to 60 new counternarcotics investigators.

As a successor state to the former Yugoslavia, Kosovo assumed Yugoslavia's treaty obligations following its declaration of independence, including the 1901 extradition treaty signed between the Kingdom of Serbs and the United States. 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 71 countries which have recognized Kosovo. Kosovo is not yet a UN member-state.

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 KP regularly meets with his Albanian counterpart. The KP reports that data sharing with Macedonia and Montenegro on drug investigations is poor, while data sharing with Albania, with whom a data sharing agreement was signed in 2008, is reported to be excellent. Data sharing agreements with Macedonia and Montenegro are being negotiated. Kosovo Customs has memoranda of understanding with both Albania and Macedonia.

2. Supply Reduction

KP counternarcotics officers face many challenges. Their resources are limited, and counternarcotics is not a top priority for the GOK. Statistics on seizures, arrests, and prosecutions are largely unreliable and inconsistent. The KP reports that the absence of dedicated specialized narcotics crime prosecutors prevents coordinated investigations with the Prosecutors Office. The State Prosecutor recognizes the problem and is in the process of reassigning staff to address it.

From January to October 2010, according to a Ministry of Internal Affairs progress report, the KP encountered roughly 260 cases of narcotics smuggling. The KP conducted 122 operations that resulted in 454 persons arrested, the seizure of 340 kilos of marijuana, 2 kilos of cocaine, 23 kilos of heroin, and the destruction of 9697 individual cannabis plants. The data from previous years indicate 2010 has seen an increase in arrests for narcotics trafficking. Interdictions of illicit narcotics have remained steady, except for a spike in marijuana seizures (340 kilos in 2010 versus 44 in 2009). The KP has found no evidence of synthetic drug production in Kosovo.

The KP uses a wide range of investigative techniques, from information collection to interception and surveillance. The Kosovo Police employ “intelligence-led policing” to identify and investigate traffickers. This is an extension of community policing and relies on relationships between the police and local communities to provide the police information about such illegal activities as narcotics trafficking. This strategy is difficult to implement in Kosovo because of tight-knit family and clan structures.

EULEX mentors, monitors, and advises the KP on its narcotics interdiction activities. As part of a project that began in August 2010, EULEX coordinates combined drug interdiction efforts with the KP and KFOR utilizing KFOR air assets to locate and identify cannabis cultivation sites.

3. Drug Abuse Awareness Demand Reduction and Treatment

According to NGO Labyrinth, the use of marijuana in schools has been increasing. Only 18 percent of 15 to 24-year-olds understand the dangers of drug use according to recent surveys by UNICEF. The average age of first injection is 21.7 years, however there have been cases with children as young as 14. While there are no reliable estimates of the number of drug users in Kosovo, UNICEF believes that there are now 20,000, up from approximately 15,000 in 2001.

Both the Ministry of Health and the Ministry of Education run domestic drug education programs, and community police officers visit schools throughout Kosovo to educate students about the risks associated with drug use. NGOs such as Labyrinth assist with both education and treatment.

Labyrinth says that based on the number of people asking for treatment for cocaine addiction, the use of cocaine has increased considerably in the last five years, an opinion supported by the KP. Labyrinth currently has about 600 clients in various stages of treatment and takes on ten to eleven new clients per month, up from seven to eight per month two years ago. Approximately three percent of Labyrinth’s clients remain drug-free after treatment, compared to about 25 percent in the European Union. Labyrinth attributes this low success rate to a lack of follow-up and social services, cultural norms according to which a child can be disowned from his or her family for using drugs, and lack of economic or educational opportunities for young people.

The Pristina University Hospital Psychiatry Department, which also provides drug treatment, reports that on average 70-80 people receive in-patient treatment each year. The overwhelming majority of the patients are heroin addicts. Approximately 140-160 addicts receive out-patient treatment each year. Conditions are poor: the staff at Pristina University Hospital is limited, with only one doctor and one nurse devoted to treating drug addicts, and there are only two treatment rooms with a total of six beds.

According to Hospital officials, the number of patients is increasing, and there is 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. 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.

The MOH will start a methadone maintenance program, financed by “Global Fund” in late November, 2010, in Pristina, Prizren, and Gjilan. The program will be free of charge to patients. Labyrinth reports a success rate of only 12 percent using methadone to treat heroin addiction, and it attributes this low rate of success to the absence of a long-term maintenance and follow-up program. According to Labyrinth's evidence, this year more drug users have died from overdose (12 drug users) than in the previous year (4 drug users).

4. 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. However, results so far have been mixed.

The Suppression of Corruption law, passed in April 2005, is the prevailing legislation that directs anticorruption 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 early 2009, the Government of Kosovo drafted an amendment to the Suppression of Corruption law and also an official strategy against corruption for 2009 to 2011. As of November 2010, the amendment had not been passed by the Kosovo Assembly. In 2010, the Kosovo Police and Special Prosecutors Office implemented an Anti-Corruption Task Force that targets corruption by government officials.

Within the Kosovo Police and Kosovo Customs, there are reports of corruption among some individual officers. Typical cases reportedly involve officers turning a blind eye to narcotics trafficking or accepting bribes to allow narcotics to pass through borders. KP officials see the potential for problems due to the officers' low salaries and insufficient benefits, and they believe corruption exists in the regional counternarcotics offices. There are allegations that politicians and organized crime figures influence case investigations and the progress of cases through the justice system. There have been few arrests for narcotics trafficking over recent years, and most drug-related arrests have been for simple possession by individuals.

In May 2009, 47 kilograms of heroin and a large quantity of money and other evidence were stolen from a police evidence room. While there are at least 15 suspects in the theft, there have still been no charges brought, nor has any of the stolen property been recovered. The case is being investigated by the Police Inspectorate of Kosovo (PIK), an independent body under the MOIA designed to promote police efficiency and effectiveness, and to investigate and punish serious misconduct.

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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Kosovo cooperates with the United States on counternarcotics issues. Kosovo officials seek out and enthusiastically receive technical assistance and training provided through robust Department of Justice programs, organized by the Office of Overseas Prosecutorial Development and Training (OPDAT) and the International Criminal Investigative Training Assistance Program (ICITAP), both funded through the State Department's Bureau of International Narcotics and Law Enforcement (INL). In 2010, the OPDAT and ICITAP programs conducted a series of training seminars and technical assistance projects designed to enhance the investigative and trial techniques of police and prosecutors in Kosovo who routinely handle narcotics cases. These trainings focused on developing a number of skills (report writing, interviewing, interrogation and developing informants) and using various covert measures (including the use of wiretaps, cooperating witnesses, and informants) to further ongoing narcotics investigations.

A separate OPDAT initiative provided training and technical assistance for Kosovo and EULEX prosecutors in implementing the new law on negotiated guilty pleas (plea bargaining). The use of plea bargaining will ensure the entire criminal enterprise is held responsible for their narcotics activity. In several recent cases, lower level cooperating witnesses and informants have been used to further ongoing investigations and/or identify other criminal offenses and perpetrators. Also, in cooperation with the National Institute for Trial Advocacy (NITA), OPDAT has provided intensive trial advocacy training for Kosovo judges and prosecutors to develop and improve their courtroom presentations and to prepare them for the new adversarial trial system.

The U.S. Attorney's Office for the Eastern District of North Carolina (USAO-EDNC/Kosovo Initiative) has continued an active partnership with Kosovo narcotics investigators and prosecutors and introduced and encouraged the development of task forces dedicated to narcotics trafficking. Law enforcement officials who participated in the OPDAT and ICITAP trainings and technical assistance have carried out 45 arrests in 12 narcotics cases, resulting in the seizure of approximately 88 kilograms of heroin and 176 kilograms of marijuana. More than 31,000 Euros and three firearms have been confiscated during narcotics arrests or seizures. Export Control and Related Border Security (EXBS) Program equipment donations and training, though tailored to prevent the spread of Weapons of Mass Destruction, have also improved the capabilities of customs officers, leading to more frequent seizures of narcotics.

With USG drafting and technical assistance, Kosovo adopted a comprehensive anti-money laundering law on September 30, 2010. This law imposes international and FATF compliant reporting obligations including the reporting of suspicious and structured transactions (multiple transactions just below the reporting threshold). When implemented, this law will significantly hamper the ability of narcotics traffickers (and other criminals) to move or "clean" their illicit profits.

D. Conclusion

Kosovo is making progress in combating narcotics trafficking, but numerous problems remain. Kosovo is a transit country for drugs bound for the EU, and there is a growing domestic market for consumption. EULEX prosecutors inform U.S. Embassy staff that some government officials interfere with the prosecution of those accused of dealing in narcotics. The justice system is over-burdened and under-developed. Local treatment programs for drug-addicts are under-funded and have low success rates.

Programs sponsored by the United States are having an impact on the still nascent law-enforcement institutions in Kosovo. We have seen positive gains in detection and seizure of narcotics being trafficked across borders and in the quality of criminal prosecutions. ICITAP and OPDAT are engaged in training efforts with the Kosovo police and prosecutors to identify assets that are the proceeds of drug crime and to seize those assets so as to make it more difficult for criminal enterprises associated with drug-trafficking to operate within Kosovo.

The United States plans to continue its rule of law assistance to Kosovo. USG funded police, prosecutors, and judges continue working in Kosovo as part of the EULEX deployment and through the INL program. The USG is coordinating its rule of law assistance goals and priorities for Kosovo with the EU, and it will need to continue to provide training, technical assistance and equipment to the KP and Kosovo's criminal justice sector that directly and indirectly support counternarcotics work. Among the USG's contribution of police officers to the EULEX police mission in Kosovo, there is a need for special organized crime and counternarcotics skills. An additional issue facing Kosovo is the planned drawdown of KFOR and its impact on border crossing control. Kosovo Police will have to take over KFOR's duties in this area and will need continued training and support as they take responsibility for an increasing portion of the international border. Looking forward, it may be necessary to negotiate a new bilateral treaty for extradition of individuals to face justice in the United States.

Kyrgyz Republic

A. Introduction

The Kyrgyz Republic is a key transit country for the trafficking of Afghan opiates to Europe, the Russian Federation and China through its borders with Tajikistan, Uzbekistan, and Kazakhstan. The Kyrgyz Republic faces serious problems in monitoring its border with Uzbekistan and Tajikistan due to the topography of the country, which is 94 percent mountainous. Due to an ongoing negotiation process with neighboring states, 30 percent of the borders in Kyrgyzstan remain virtually uncontrolled. The internal drug situation is also cause for serious concern. One hundred thousand hectares of wild-growing cannabis in the country serve as a source of marijuana for local criminals. There is also evidence of intensive illicit cultivation of cannabis. The ephedra plant, which grows on fifty five thousand hectares, is a source for production of Ephedrone (Methcathinone), an amphetamine-type psychoactive stimulant. It can also be used to produce, ephedrine, an important precursor chemical for methamphetamine. There is a high level of drug addiction in the country, amounting to more than one percent of the population of Kyrgyzstan with three percent of the population remaining under high risk. With Kyrgyzstan's depleted financial resources, political turmoil, challenges in establishing a strong and stable central government, the current drug and crime situation, if not addressed, will continue seriously to affect the stability not only of the country, but also of the region.

Following intensive anti-government protests which lasted for several months, the government of President Bakiev was overthrown on April 7, 2010, after violent clashes that left 86 people dead. An interim government was formed under Roza Otunbaeva to restore order and the rule of law and to oversee a constitutional referendum and parliamentary elections. In May 2010, by decree of the interim government, Roza Otunbaeva was appointed President for the transitional period ending December 2011.

In the midst of political instability and a weakening of central government authority, new violence erupted in Southern Kyrgyzstan between ethnic Uzbeks and Kyrgyz in June 2010, leaving hundreds of people dead. An International Independent Commission of Inquiry was established to investigate facts and causes of this violence. Although the detailed investigation results are yet to be announced, this violence is seen by some in the international community and many current Kyrgyz government officials to be a result of concerted actions of organized criminal groups, especially those involved in drug trafficking in southern Kyrgyzstan. The Kyrgyz Republic is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2003, with the assistance and funding of the U.S. Government and the UNODC, Kyrgyzstan established an independent body to fight drugs, the Drug Control Agency (DCA). It became the agency that coordinated all drug enforcement activities in the Kyrgyz Republic. To stop transnational drug crime, the DCA worked 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 was to identify drug trafficking targets and seize illicit narcotics. Their mobility allowed travel into remote southern areas between fixed border posts along the Kyrgyz border with Tajikistan and Uzbekistan. The multiagency teams never achieved the intended goal of joint operations. The DCA Director brought the MobITs under his complete control during FY2009. In April 2009 two DEA agents were assigned to the U.S. embassy on a temporary basis to work closely with the DCA and MobITs, after which performance improved (see below).

In October 2009 then-President Bakiev abolished the DCA and divided its functions between the Ministry of Interior (MVD) and the Ministry of Health (MOH). There is some reason to believe this was because the DCA had conducted an operation that affected the President or his family.

The elimination of the DCA was effected by the presidential decree of October 26, 2009. On November 6, 2009, the government ordered the handing over of all buildings, staff, equipment, vehicles and other assets of the DCA to the MVD and MOH.

Following the elimination of the DCA, the MobITs were also placed under the control of the MVD. With the anti-drug agency's independence thus compromised, INL instructed the UNODC, which helps State-INL to manage its programs in Kyrgyzstan, to suspend all activities under the project, including the payment of salary supplements to MobITs officers, until the organizational situation stabilized. National plans for MOBITS were not confirmed until March 2010, and it was only then that INL allowed UNODC to resume salary supplements for MobITs agents – but only for those who had passed previous USG-required selection and vetting, including a polygraph test.

In August 2010, new President Otunbaeva reversed the organizational situation, establishing by decree a new State Service on Drug Control (SDC) as a specialized law enforcement body in the area of illicit drug trafficking, psychotropic substances and precursors. The new agency was staffed with 262 certified and 33 civil and support personnel. The decree instructed the MoI and MoH to hand over to the SDC all assets previously transferred to those Ministries, including buildings, vehicles, weapons, ammunition, technical assets, documentation, finances and personnel. In September 2010, a second presidential decree confirmed the SDC as the legal successor to the DCA and placed the MobITs under its jurisdiction.

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.

2. Supply Reduction

While there is still no significant commercial production of drugs in Kyrgyzstan, cannabis and ephedra grow wild over wide areas, especially in the Chui valley region and around Lake Issyk-Kul. In the past, Kyrgyzstan was a major producer of licit opium, and for decades was the Soviet Union's main source of the ephedra plant. However, with the continued large production of opium in Afghanistan, it has become easier and less risky to import drugs from Afghanistan via Tajikistan than to produce them locally. During FY09 the Kyrgyz government carried out yearly eradication campaigns against illicit crops and there was at least one substantial seizure resulting in the destruction of approximately 1400 kilograms of marijuana. No such seizure was recorded in 2010.

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 frequently used routes for drug traffickers. Government outposts 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 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.

Due to a very limited and rudimentary transportation system, traffickers mostly utilize lengthy overland routes leading through Afghanistan's neighboring provinces. As in 2009, a large part of the drugs smuggled through Central Asia in 2010 entered the region through Tajikistan. Together with Uzbekistan, Kyrgyzstan represents the main conduit for onward smuggling of opiates. In the last few years, trafficking has 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.

MobITs units in the south report encountering traffickers on three specific routes:

- Kyzylart route - the Osh–Khorog route and areas bordering the Murgab district of the Badakshan Autonomous Region of Tajikistan
- Altyn Mazar route - starting from the Rushan plateau up to Chon Alay valley
- Batken route - includes the mountain paths of Jergetal and Garm regions of Tajikistan to Batken and Kadamjay counties of the Batken region and, ultimately, further trafficking to Kazakhstan, Russia and European countries

Law enforcement statistics are gathered by the Kyrgyz Government on a calendar-year basis. Two different drug agencies were in service at different times during 2010, and, for part of that time, little or no attention was paid to addressing narcotics trafficking. The data following should be viewed in that light:

- In 2009, nearly eight tons of drugs and precursors were seized by all Kyrgyz law enforcement agencies, including 341 kg of heroin (up 14 percent compared to 2008) and 376 kg of opium (up 167 percent compared to 2008). Marijuana seizures decreased by 41 percent, amounting to 2029 kg (4741 kg in 2008); hashish seizures increased by 57 percent, amounting to 718 kg of (457 kg in 2008);
- From January – June 2010, by contrast, law enforcement agencies seized only 637 kg of drugs, including 100 kg of heroin (down 58 percent compared to the same period of 2009), 33 kg of opium (-76%), 341 kg of hashish (-36%) and 136 kg of marijuana (-34%)
- In 2009 there were 34 drug-related crimes per 100,000 population. Convictions for those crimes were 25 per 100,000 population.

3. Demand Reduction

Existing economic problems and budget constraints prevent the Government of the Kyrgyz Republic from addressing the country's burgeoning drug-abuse and HIV/AIDS problems effectively. The HIV/AIDS epidemic in Kyrgyz Republic and the other countries of Central Asia is the fastest growing in the world. Driven by intravenous drug abuse, high rates of HIV can be observed among high-risk groups along the drug trafficking routes. Sentinel surveillance conducted by the U.S. Centers for Disease Control and Prevention (CDC) in 2007 found HIV to be as high as 34 percent among injecting drug users (IDU). As noted in a Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM) report on Central Asia, another worrying trend is the number of young people infected. Approximately 75 percent of new infections over the previous five years have occurred in people below 30. While this is still considered a concentrated epidemic, extremely high rates among most-at-risk populations (MARPs) as well as repeated outbreaks that are a result of treatment in a hospital or a healthcare service unit indicate a potential for the spread of HIV into the general population. In 2007, an outbreak of HIV/AIDS took place among very young hospitalized children in southern Kyrgyzstan, which investigations determined was due to contamination of the blood supply and re-use of medical instruments.

In 2009, according to the UNODC, 687 new HIV cases were reported, for a total of 2718, of which 67 percent involved intravenous drug users (IUDs). In Kyrgyz prisons, 208 new cases of HIV were reported. At the end of 2010, there were a reported 7100 registered IUDs in Kyrgyzstan.

Insufficient budget funds are hampering prevention and treatment programs and training of professional staff. Although for the past few years funding from international financial and technical assistance programs to address HIV/AIDS problems in Central Asia has increased considerably, the Kyrgyz government has devoted insufficient state funding to HIV/AIDS and substitution therapy programs. The recent political unrest and violent change in administrations have only made matters worse.

In past several years, and with international assistance, the Kyrgyz Republic has successfully created a decentralized system of provision of Opioid Substitution Therapy (OST), both in specialized institutions and family medicine centers. OST is provided by teams of specialists in a comprehensive way and with external support sourced through NGOs. Provision of OST through family medicine centers offers the potential for further integration of the treatment of IDUs with family medicine and further reduction of their stigma. The country has developed a Clinical Protocol for OST providers, whether under the Ministry of Health or Ministry of Justice (2008).

4. Corruption

Corruption remains a serious problem and a deterrent to effective law enforcement. Up until its elimination, the DCA possessed a relatively good reputation, and its staff went through a thorough vetting procedure and received substantial salary supplements from the U.S. UNODC project mentioned above. The MobITs units were also vetted and underwent polygraph tests, as did all DCA agents. As a matter of policy, the Kyrgyz 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. Although four Kyrgyz law enforcement officials were identified in 2008 as involved in narcotics trafficking, the outcome of these cases is unknown. Due to the change in government and destruction of records, the only information that can be found is that the cases may still be pending.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

From 2003 to 2008, USAID funded a consortium of organizations headed by the Alliance for Open Society International (AOSI) to implement a Drug Demand Reduction Program in Uzbekistan, Tajikistan, and the Fergana Valley of Kyrgyzstan. The activity was designed to reduce the spread of HIV by decreasing drug use and changing attitudes toward drugs among target groups, with an emphasis on at-risk youth, vulnerable women, current drug users, migrant populations, and prisoners. The program supported the training of health care professionals, volunteer outreach workers, teachers, psychologists, law enforcement officials, and journalists. It also provided training in drug prevention strategies for professionals in national and local government agencies, including officials in the ministries of Health, Education, Labor and Social Welfare, and Justice, as well as the Drug Control and Migration Committees.

From 2004 to 2009, the USAID-funded Central Asia Program on AIDS Control and Intervention Targeting Youth and Vulnerable Groups (CAPACITY) built technical capacity within Kyrgyzstan and Central Asia to launch large-scale responses to HIV/AIDS and develop indigenous institutions and networks to manage comprehensive HIV/AIDS control programs. CAPACITY aimed to:

- Improve stewardship of national HIV/AIDS programs
- Educate and empower vulnerable populations to protect their health.
- Improve the quality of HIV/AIDS services
- Improve resource use through integration of HIV/AIDS services into countries' overall health systems.

These strategies reinforced the U.S. priorities embodied in the President's Emergency Plan for AIDS Relief (PEPFAR). The project worked to increase the capacity of local and other USAID partners to leverage the resources available through the Global Fund to Fight AIDS, Tuberculosis and Malaria

(GFATM), the World Bank, the British Department for International Development (DFID), and other donors. Currently, USAID is initiating a new Health Outreach Program aimed at helping vulnerable groups to increase their access to prevention and treatment services for HIV and tuberculosis.

U.S. bilateral counternarcotics assistance has been stalled since the elimination of the DCA in October 2009. It will resume as the new SDC acquires strength, exhibits independence, and is seen to enjoy high-level government support. INL also anticipates working with the UNODC on anti-drug assistance as that organization develops proposals for international funding.

D. Conclusion

The U.S. intends in 2011 to work with the SDC to rebuild the capacity and commitment to interdict drug shipments and capture traffickers, and with other components of the Kyrgyz law-enforcement system to prosecute suspects and punish those found guilty. Russia is expected to continue and increase its role in assistance to the SDC. Prior to the elimination of the DCA, the government of Kyrgyzstan was supportive of international and regional efforts to limit drug trafficking, and supported major initiatives to address its own domestic drug use problems. Continuation of this focus is imperative to future success in combating narcotics trafficking in Kyrgyzstan and in the region.

Laos

A. Introduction

In 2010, the Lao People's Democratic Republic (Lao PDR or Laos) remained on the U.S. Government's "Majors List" of some 20 countries worldwide determined by the President of the United States to be a "major illicit drug transit or major illicit drug producing" nation. For nearly two centuries opium poppy was the major illicit drug produced in Laos. As recently as 1998, Laos was the third largest producer of opium in the world with over 28,000 hectares in production and some 52,000 opium addicts. Since that time, steady progress has been made in reducing the cultivated area devoted to the opium poppy crop to between 3,000 to 4,000 hectares this year, according to UNODC estimates. However, despite the reductions in the area devoted to opium in Laos, there has been a dramatic increase in regional illicit drug trafficking through Laos. Lao authorities made some notable drug seizures over the past year, but Laos still continues to be used as an important regional transit country for illegal drugs, and Laos is still a major source of opium.

In 2010, there was also a disturbing and hitherto unforeseen level of violent crime related to drug trafficking by domestic and international networks. A series of alarming broad daylight shoot outs involving a number of persons, sometimes using sophisticated "war weapons", caused a sense of shock in Laos' normally peaceful capital city, Vientiane. Law enforcement authorities responded with increased nightly patrols, increased surveillance of known criminal gangs and a greater publicly expressed sense of urgency by policy makers to contain violent crime.

During late 2009 and 2010, there were a number of significant, multi-ton drug seizures by Lao law enforcement authorities linked to regional drug smuggling activity emanating from Burma, Vietnam, and China. In February 2010, some 2.2 tons of methamphetamines originating in Burma were seized in Vientiane province, apparently en route to Thailand. In May 2010, around two tons of marijuana, probably grown under contract in Laos, was seized in the south-central region near the Thai Mekong River border. In August 2009, Lao law enforcement authorities seized some tons of cold remedies being surreptitiously sent to Burma from Vietnam via Laos, apparently to provide pseudoephedrine for methamphetamine production. Furthermore, some African drug trafficking gangs continue to use Laos as a transit route. Lastly, in 2009 over 300 kilograms of opium gum were smuggled to the United States and intercepted by the Bureau of Immigration and Customs Enforcement (ICE). The actual amount entering the United States is believed to be much higher. Seizures of opium gum thought to originate from Laos by U.S. authorities continued in 2010.

The intersection of improved regional infrastructure (e.g. highways and transportation) with increases in illicit narcotics production (e.g. opium) and synthetic drugs (e.g. amphetamine-type stimulants) by regional criminal drug trafficking gangs was highlighted in the benchmark UNODC report "2009: Patterns and Trends of Amphetamine-Type Stimulants and Other Drugs in East and South-East Asia (and neighboring regions)" published in November 2010. Laos is a party to the 1988 UN Convention.

B. Drug Control Accomplishment, Policies, and Trends

1. Institutional Development

The Lao Government's primary drug policy document continues to be the "National Drug Control Master Plan, 2009-2013: A Five Year Strategy to Address the Illicit Drug Control Problem in the Lao PDR". The plan was finalized in 2009, and in 2010 several interagency meetings and donor consultations were held regarding the Plan's implementation, including requests for donor support. The Plan establishes two working groups consisting of a number of line ministries and foreign donors, mainly those countries which are members of the "Mini Dublin Group", a group of largely developed countries which coordinate

their narcotics-related assistance efforts. The Drug Control Sub Sector Working Group is chaired by the Lao National Commission for Drug Control (LCDC) and is co-sponsored by UNODC. Its meetings include representatives from the international donor community and generally focus on presentations by the LCDC and/or UNODC seeking funds for new narcotics related assistance projects.

The second interagency group, newly established in 2010, is the “Crime Sub Sector Working Group” chaired by the Ministry of Public Security (MOPS) and the Supreme Prosecutor’s Office (OSP). The crime working group has a broader ministerial membership, including the Bank of Laos, Ministry of Foreign Affairs, and the Ministry of Justice. The regular meetings of this group began in 2010, and are characterized by a lively exchange of information and interaction among the ministries. To date, this working group is just in its beginning stages.

In the fields of law enforcement and criminal justice, the Ministry of Public Security (MOPS), the Supreme Prosecutor’s Office (SPO), the Customs Department (Ministry of Finance), and the Ministry of Justice (MOJ) demonstrated increased willingness to work cooperatively together on new law enforcement initiatives.

During 2010, oversight of the Lao National Committee for Drug Control and Supervision (LCDC) was moved from the President’s Office to the Prime Minister’s Office. The administrative relocation of the LCDC to the Prime Minister’s Office was taken in order to bring drug control programs more into the mainstream operations of the Government. The LCDC is responsible for integrating drug control issues and goals to be included in the Lao government’s 2010-14 Social and Economic Development Plan.

The LCDC’s “Comprehensive National Drug Control Strategy” published in 2009, includes nine key elements or “pillars”:

- 1) Trend analysis and risk assessment,
- 2) Alternative development and poverty reduction (opium crop and income substitution),
- 3) Drug demand reduction and HIV/AIDS prevention including drug treatment,
- 4) Civic awareness and community mobilization,
- 5) Law enforcement (related to drugs),
- 6) Criminal justice and the rule of law (related to drugs),
- 7) Chemical precursor control and forensics capacity,
- 8) International and national cooperation (cross-cutting),
- 9) Institutional capacity building (cross-cutting).

This national strategy calls for a budget of \$78 million, with international donors invited to provide this sum. To date approximately \$10 million of that has been funded, mainly through UNODC.

Lao law enforcement agencies face enormous obstacles in the policing of more than 5,000 km of international borders along heavily forested jungle mountain areas or the Mekong River. Continued international support for institutional capacity building and training of Lao enforcement authorities is required for both the short and long term, emphasizing training in basic interdiction and investigative skills using simple equipment, communications and transport. Likewise, increased regional interaction and operational cooperation with law enforcement agencies in Vietnam, China, Burma, Thailand, and Cambodia are important parts of preventing drug and contraband trafficking through Laos.

2. Supply Reduction

Opium remains a legacy of the French colonial era from 1893 – 1954 when the opium poppy was a legal “state enterprise” monopoly and poppy became an integral part of upland and highland cropping systems.

Opium poppy planting was finally banned in 1972 by the Royal Lao Government (RLG) but efforts to enforce the law were sporadic and complicated in the midst of a war. In the post war period after 1975, the Lao opium poppy crop peaked in 1998 when over 28,000 hectares were cultivated, in some 1,100 villages and the ten Northern provinces. There were also over 52,000 opium addicts at that time, mainly hill tribe minorities living in remote highland villages beyond the reach of any real health care system. By 2006, the Lao Government had reduced the opium poppy crop to about 1,500 hectares, but a lack of viable income and food security alternatives, a residual population of some 16,000 addicts and a rise in opium prices (up from \$900 in 2007 to \$1,600–\$2,700/kg in 2010) has pushed the opium poppy crop steadily back up to 3,000 to 4,000 hectares in 2009/2010 according to UNODC data.

The current estimated crop of 3,000 – 4,000 hectares of opium poppy probably produced about 20 tons of opium (assuming a conservative crop yield estimate of 6 kg/ha) in 2010. The cultivated area devoted to poppy has increased by about 20% in both 2008 and 2009. Without sustainable alternative incomes, reducing the number of poppy hectares planted or harvested to less than 1,000 hectares (the “Majors List” criteria) is unlikely to be achieved. Furthermore, there remains a major “opium demand reduction” problem because of the 16,000 opium addicts in these remote highlands who continue to consume around a kilogram of opium per person per year on average.

The remaining opium poppy cultivation is generally in areas near borders with China, Vietnam, and Burma. Part of the production in these border areas is probably for contract opium farming by traffickers in adjacent countries where enforcement measures are stronger. Most poppy is grown in areas that have received little or no development assistance.

The Lao Government has sought additional international support for tackling drug control problems; very few donors show significant interest in reducing illegal poppy cultivation or drug addiction, however, preferring to focus assistance on rural poverty alleviation and food security in general. Many former poppy growers continue to face severe staple food shortages (rice), a prime cause of a return to opium planting. Rice purchase prices have increased by about 25 percent from 2009/10 and remain higher in most areas than in earlier years.

In 2009/2010 the German government provided funding for a new opium poppy alternative project at Oudomxai Province and is likely to continue the funding for an existing project at Phong Saly Province. The European Union has funded a new opium poppy alternative project at Houaphan Province. All three projects are multiyear and funded at about \$2-\$3 million, but are only reaching around 125 villages in total.

During 2010, the UNODC commissioned a study on the future of opium production which covered Laos and Burma. (“An Assessment of the Impact of the Global Financial Crisis on Sustainable Alternative Development”). This benchmark study noted that the global financial crisis had contributed to the fall in prices for legal cash crops in Laos at a time when the prices of household commodities and rice, had increased. Moreover, the study notes that the decline in the availability of non-timber forest products (NTFPs), a lack of farm credit, a shortage of land, and a lack of rural infrastructure continue to impede progress for opium poppy substitutes. The study concluded:

If opium is to be eliminated in the Lao PDR, expanded funding for continued alternative development assistance along with increased community mobilization efforts is urgently required. These elements are critical to providing sustainable livelihoods and food security for former opium producing communities

Opium poppy continues to be the major organic illegal narcotic produced in the country.

The trafficking of other illegal opiates, namely heroin, has increased, but most of the heroin is apparently sourced from Burma to the west and trafficked to markets to the north and east, probably to China and Vietnam, according to numerous news reports and other sources. For example, in 2009 China reported a 40 percent increase in opium and heroin seizures, mainly in Yunnan Province which borders on northern

Laos and Burma. During 2010, the Lao press also reported seizures of methamphetamine, opium and heroin in Houaphan Province which borders Vietnam. The likely destination of these drug shipments was Vietnam.

The other organic narcotic produced in Laos is marijuana (or cannabis). The largest single seizure of marijuana of over two metric tons was made at Khammouane Province (central Laos) in March 2010 by Lao Customs authorities and the Drug Control Police. A total of three MT was seized in 2010. Commercial marijuana in Laos is primarily grown in large plantation type plots, sometimes financed by the foreign customers for the drug. The market for most smuggled marijuana is Thailand and possibly other parts of South East Asia. Marijuana is also traditionally grown for use as a spice in cooking and some varieties (viz. hemp) are grown and used by some hill tribe peoples (e.g. Blue Hmong) for cloth used in making tribal costumes.

There are no confirmed reports that synthetic drugs are produced inside Laos, but there appears to be an increase in the availability of a range of synthetic drugs. A variety of synthetic drugs such as “ecstasy” or “crystal methamphetamine” or “ice” is readily available to foreigners or local buyers in the capital and major tourist destinations. While there might be some Lao domestic production, the overwhelming majority of synthetics are imported from Burma.

The increased trafficking of narcotics and synthetics (especially methamphetamine) from Burma through Laos is widely reported and discussed in the region.

The Lao government regularly participates in regional conferences on counter narcotics cooperation, but rarely shares operational information on drug cases with regional partners. Strides have been made in developing national strategies for further reducing the production of opium poppy and marijuana, and improving health care treatment of opium and methamphetamine addicts.

Methamphetamine continues to be the most commonly used and cheapest, illegal drug in Laos. The supply seems to be plentiful, reflecting the UNODC ranking of the Lao street prices as the second lowest in Asia. For drug traffickers, the profit margins are also very high, higher than for any other illegal drug, because of high volume and cheap production costs. There have been no official surveys of ATS addicts in country and there is no reliable methodology for doing so, unlike that of opium addicts. Based upon reports from some provinces, such as Luang Prabang and Savannakhet, the actual total number of ATS addicts is now believed to be well above the 60,000 figure cited in past years. The vast majority of drug-related arrests in Laos in 2009 and 2010 were for methamphetamine usage and trafficking.

Although there are no confirmed reports of clandestine meth labs in Laos, increased regional demand and relatively weak law enforcement mean the opportunity exists. Major drug seizures of methamphetamine and marijuana, with death sentences handed down in two 2010 criminal prosecutions of drug traffickers, may be regarded as public efforts to emphasize the Lao government’s commitment to take action against drug trafficking.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Laos made some limited advances during 2010 in reducing the demand for illicit drugs. Four new provincial drug addiction treatment facilities, primarily for methamphetamine addicts, were constructed in 2007-8, but only two of these have been able to offer any significant effective services to date. A new drug treatment center was opened in 2010 in Luang Prabang, but currently treats only about 35 addicts. The operational costs for provincial treatment centers are paid from limited provincial budgets, so their capacity and effectiveness has also been very limited. In addition, there are no standard national treatment regimens, or any central health care agency with the required budget and staffing resources necessary. There are no follow-up services for those released from drug treatment.

The operating capacity of existing drug addiction treatment facilities remains well short of the reported numbers of drug addicts in Laos. Many untreated addicts (mainly methamphetamine addicts) turn to crime as a means to support their addiction. Most existing treatment facilities are notably deficient in staff proficiency, systematic operations, counseling, effective occupational therapy or training, post-discharge follow-up and relapse prevention. The U.S. is providing assistance to the two principal treatment facilities in Laos to enhance their capabilities to offer some worthwhile occupational therapy and skills training prior to release.

In 2010, the U.S. assistance supported a “basic psychology” training course for drug treatment center staff and in service training for the staff at the Savannakhet Province drug treatment center. A U.S.-supported national drug awareness effort which began in 2009 using hip hop music and youth-oriented materials was expanded in 2010 due to its popularity. Two new dormitories for males at the Somsanga Drug Treatment Center, near Vientiane, one for adults and one for minors, were constructed this year to house some 150 patients in rehabilitation. These dormitories will relieve overcrowding at this Center, which houses some 850 male patients, and promote a healthier rehabilitation environment for recovering methamphetamine addicts.

Mainstreaming drug addiction awareness and treatment in public discussion, often through youth centered concerts and dance contests (“peer to peer”) is proving an effective means to reach a large number of youth at risk. There continues to be a strong demand for drug education materials, which use music, dance and media to reach youth in innovative ways. However, effective and broad based middle and secondary school-based drug education programs and community outreach programs for youthful “school leavers” are still lacking. Some urban schools have made some good beginning efforts, but a comprehensive approach is lacking. For one thing, teachers still need training in drug education prevention.

Several international donors other than the United States provided assistance in drug addiction treatment during 2010 including Australia, Thailand, Singapore and China. Singapore assisted with counseling training for drug treatment center staff. Australia supported a large scale program for containing the spread of HIV/AIDS among drug addicts. Thailand provided some technical training in Bangkok to Lao health personnel. China gave some training support to the Oudomxai Province Drug Treatment Center, which was constructed by China in 2008. However, all of these programs were relatively small in scale, with the exception of the Australian project, which is regional.

There is no national program for the treatment and rehabilitation of opium addicts other than through UNODC projects in the north. During 2010, UNODC estimated that about 600 opium addicts were treated. About 100 of these addicts were treated with USG funding through UNODC projects in the north. For example, in March 2010, the U.S. Embassy donated equipment and bedding supplies for an opium detox unit at a district hospital in Phongsaly Province. Many opium addicts living in distant areas remain unreported. Recidivism after attempted treatment is estimated at approximately 40 percent and may well be much higher.

4. Corruption

The State Inspection Authority (SIA) functions as the “anti corruption” agency within the Lao government. This agency was originally an office within the Lao Communist Party organization, but several years ago was moved to the Prime Minister’s Office.

UNODC and UNDP are the principal donor agencies working with the SIA, on issues of corruption and good governance. The UN-supported programs are intended to build the capacity and legal basis for Laos to comply more fully with the UN Convention Against Corruption (UNCAAC).

The National Assembly has taken an increasing interest in raising the issue of corruption and promoting “good governance”. Members of the National Assembly have noted that state corruption is most often related to revenue collection, foreign investment and logging. Others have complained that the government’s monitoring mechanisms for official corruption were inadequate.

In 2010, there continued to be credible allegations of corruption in the ranks of the Lao police and criminal justice system, as elsewhere in Lao society. Rumors of pay offs and bribes throughout the law enforcement system are common and many Lao people accept such bribes as a common although repugnant practice. Assessing fines, whether formal or informal, is often preferred by law enforcement authorities to going through the process of prosecuting and sentencing drug traffickers.

Corruption in Laos is at serious risk of increasing as the flow of illicit drugs and precursors 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. 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, although enforcement of such policies remains weak and not well publicized. One step forward was a report presented to the National Assembly in December 2010 by the State Inspection Authority which noted widespread improper or unreported expenditures by many government agencies. The 2009 international corruption ratings issued by Transparency International continued to indicate a deteriorating situation in Laos. In 2006, the first year that Laos was rated by TI, Laos ranked 111 on a global list of 179 countries with a “corruption index” of 2.6 (on a scale from 10 to 1, from least corrupt to most corrupt). Laos has since then steadily fallen to its current 2010 rating of 154 on a global list of 178 countries, with an index of 2.1.

As a matter of government policy, the government of Laos does not encourage the illicit production or distribution of narcotic drugs, psychotropic or other controlled substances, nor the laundering of the proceeds of illegal drug transactions. No senior official of the Lao PDR has been shown 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

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. 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 and its 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.

Most U.S. counter narcotics assistance to Laos over the past two decades has supported the successful effort to reduce poppy cultivation in Laos. U.S. crop control assistance continued at a diminished level in 2010 focusing on a 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 focused its efforts with the LCDC on administering village-based alternative livelihood programs (mainly crops and livestock) in the two northern provinces, working in four districts with some 45 villages. An 18 km all-weather road was constructed in Kua District of Phongsaly Province in order to allow for improved access for opium addict treatment and alternative cropping to opium poppy. LENS also provided funding support in 2010 for a UNODC rural development program in areas of Houaphan Province where poppy cultivation remains high.

As large scale poppy cultivation has declined over the past several years, a greater proportion of U.S. counternarcotics assistance has been devoted to demand reduction and law enforcement activities. One area of focus was enhancements to methamphetamine abuse treatment centers in Laos' two largest cities and a variety of national drug awareness and prevention programs. One of the more successful efforts using INL funding has been an innovative occupational therapy program at the Somsanga Drug Treatment Center operated in cooperation with UNODC. This successful program was expanded in 2010. Several hundred previously idle youth in the rehabilitation section are now busy with a variety of training activities. 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 200 persons in 2010) in INL-funded regional training opportunities offered by the U.S. and Thailand at the International Law Enforcement Academies in Bangkok and Roswell, New Mexico.

New policy and program initiatives during 2010 included an expansion and diversification of the criminal justice portfolio to include more training and capacity building with the Ministry of Justice and the Supreme Prosecutors Office. Another initiative was to expand the cooperation with the Customs Department to upgrade its international parcels inspections unit to stem the flow of opium gum being smuggled to the United States. Future programming with the Customs Department will address the broader needs for contraband interdiction at international borders and highways.

D. Conclusion

In 2009, the LCDC estimated the size of the illicit drug economy to be about 10% of GDP or about \$750 million.

There are a number of threats to the progress Laos has made on the narcotics control front:

- Higher prices for opium driving sharp increases in poppy cultivation and related drug trafficking;
- Increased trafficking from neighboring countries, especially methamphetamine from Burma;
- The continuing inadequacy of the Lao government's response to growing domestic drug abuse.

The U.S. will work with Lao authorities to encourage and assist in finding solutions to these problem areas.

Drug Statistics: May 2009 – May 2010

Following are national statistics on drug seizures by types and quantity.

Drug Type	Quantity
Methamphetamine	21,312,600 Tablets
Marijuana	3,113 Kilograms
Heroin	42.23 Kilograms
Opium	81.07 Kilograms

Narcotics Case Statistics: January-May 2010

Number of Cases	Number of Suspects Arrested		
	Male	Female	Foreign suspects
157	209	50	7 (2 Cambodian, 2 Thai, 2 Chinese, 1 Vietnamese citizen)

Lebanon

Lebanon is not a major illicit drug producing or drug-transit country. The Lebanese government reported ongoing marijuana cultivation in 2010, and increased drug use particularly among youth. During 2010, Lebanon conducted eradication efforts in the Bekaa valley. According to the Drug Repression Office of the Internal Security Forces (ISF) Judiciary Police, all illicit cannabis and poppy production was eradicated (plowed under) in 2009 and 2010. According to the ISF, 1091 hectares (2696 acres) of cannabis and 14.1 hectares (34.8 acres) of poppy were eradicated through the end of August 2010. This compares to 1310 hectares (3237 acres) and 20.7 hectares (51 acres) destroyed in all of 2009. There was no drug eradication in 2008, when the rate of cultivation was higher because the ISF had limited access to drug-producing areas of the Bekaa valley. With regular, high-profile eradication campaigns, the ISF estimates that yearly production is diminishing from the 2002 eradication total of 11,212 hectares of cannabis (27,705 acres) and 854 hectares (2110 acres) of opium poppy.

Illicit crop cultivation in small family plots remains a historically common and attractive option for farmers due to a lack of economically viable alternative crops. Another factor complicating eradication campaigns is the social acceptance of cannabis use in tribal areas of the Bekaa. There is practically no illicit drug refining in Lebanon. There is minimal production, trading or transit of precursor chemicals.

Drug trafficking across the Lebanese-Syrian border continued in 2010, in large part due to the absence of effective border security along the long eastern border with Syria. Through the end of September, Lebanese authorities confiscated 65 kg of cannabis (vs. 85 kg in 2009) and 3 kg of cocaine (vs. 0 kg in 2009) in the border area. The UN peacekeeping force on the Lebanese-Israeli border, UNIFIL (the UN Interim Force in Lebanon), reports, but can cite no statistics about, continued drug smuggling across the Lebanese-Israeli border in 2010. According to the DEA, Lebanon is a transit country for cocaine and heroin, with Lebanese nationals operating in concert with drug traffickers from Colombia, Peru, and Bolivia. The ISF made several large drug busts in 2010, confiscating 55 kg of cocaine (vs. 9 kg in 2009) at the airport and 230 kg of cocaine (vs. 0 kg in 2009) at the seaport.

At least five types of drugs are available in Lebanon: hashish, heroin, cocaine, amphetamine, and other synthetics, such as MDMA (ecstasy). According to the Ministry of Interior, the use of hashish and heroin continues to rise, though no estimates of the number of drug users is available. Although eradication efforts have diminished the supply of marijuana and hashish, the drugs are still relatively easy to obtain and readily available to users. Heroin use is small but increasing, according to local officials, who also reported an increase in the smuggling of heroin from Lebanon to Africa. Lebanese nationals living in South America, in concert with resident Lebanese traffickers, often finance these operations. Synthetic drugs are available in the market; Lebanese officials report that they are smuggled into Lebanon primarily from Eastern Europe both for sale to high-income recreational users in Lebanon and for transit to the Gulf States.

The Ministry of Interior considers counternarcotics a priority. The Government of Lebanon (GOL) continued its ongoing drug demand reduction efforts through public service messages and awareness campaigns. Through September 2010, the ISF arrested over 580 drug dealers and traffickers, and 1045 drug users. This compares to 781 dealers and traffickers and 908 drug users arrested in 2009.

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. 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 is also a

party to the UN Convention Against Corruption and the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons. The Lebanese Government does not as a matter of policy encourage or facilitate drug trafficking, nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions. No senior officials are engaged in such activity.

Liberia

A. Introduction

The Liberian Police believe there has been a significant increase in marijuana cultivation and abuse in Liberia. Cocaine trafficking through Liberia, a country with few effective counter narcotic programs, is also on the rise. The country's weak justice sector and the resource strapped Liberian National Police (LNP), both of which fall under the Ministry of Justice (MOJ) for administration, struggle to address the growing drug trafficking problem. The Government of Liberia (GOL) continues to struggle with a depleted security sector after 14 years of civil war that left behind a devastated justice system in dire need of restructuring. Nevertheless, last year, the Liberian National Security Agency (NSA), in coordination with the U.S. Drug Enforcement Agency (DEA) successfully intercepted \$100M worth of cocaine in a sting dubbed "Operation Relentless." While the GOL is committed to improving the institutions necessary for the rule of law, the challenges of a legacy of excessive executive control and a devastated judicial education system have hampered this process. During the turbulent years of war, qualified lawyers and other justice sector professionals fled the country. Currently, the lack of resources and the multitude of problems facing the judicial sector discourage the judiciary from beginning the necessary reforms. The result is few drug crime convictions, with apprehended traffickers often released on bail, then failing to appear or being acquitted due to lack of evidence, incompetent investigations and/or weak prosecutions. Under Liberia's new democratic government, the judiciary was supposed to operate without fear of executive interference, and this goal seems to have been achieved- but the real challenge has been to operate independently, yet collaboratively and effectively, with the MOJ and the LNP- this goal will require quite fundamental reforms and will take years to achieve. Liberia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Liberia's Drug Enforcement Agency (LDEA) is an autonomous agency. The LDEA was created under the MOJ by an act of the Legislature in 1998 as a law enforcement institution. Its specific mandate is to enforce all national anti-narcotic drug laws and formulate anti-drug policies including those targeted on reducing demand for drugs through preventative education and treatment. Unfortunately, the LDEA has had minimal impact to date, and the government has been forced to propose legislation to abolish it and place its functions with the LNP. Many of the personnel assigned to the LDEA were initially given jobs when they did not meet vetting criteria for the Armed Forces of Liberia. LDEA agents outside of Monrovia are paid significantly less than their counterparts in the capital city and work either in extremely modest offices or from their homes. The LDEA has appealed to the donor community for additional vehicles as well as training in money laundering and terrorist financing, however, previous donor training has yet to result in a higher conviction rate for drug offenders. On the other hand, the National Security Agency (NSA) and Liberian National Police (LNP) have a much better track record and have continued to effectively target drug dealers with several significant cocaine seizures.

In September 2009, the GOL passed the Anti-drug Act, which stiffened penalties for drug offenses, including minimum mandatory sentencing of 25 years and seizure of the proceeds of their narcotic crimes for convicted traffickers. However, there is provision for bail, but no mechanism to restrict the subsequent flight, and non-appearance of suspects for trial. The major loophole of the dysfunctional bail system has led to widespread problems for effective drug law enforcement.

Liberia is a party to the 1988 UN Drug Convention and the 1961 UN Single Convention as amended by the 1972 Protocol. Liberia is also a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

2. Supply Reduction

Liberia's agricultural sector has been significantly impacted by demand from the increase in illegal domestic drug use and demand stemming from trafficking illicitly produced drugs to neighboring countries. The cessation of hostilities also played a role as that allowed Liberians to cultivate with much less fear that their crops would be destroyed or stolen. Some local farmers in Bong and Nimba counties, approximately 100km and 150km from Monrovia, plant cannabis to trade regionally. Marijuana has become an increasingly popular cash crop with farmers seeing profits within three months versus seven years for rubber, or three years with palm oil. Through June 2009, with the help of international police from the UN Mission to Liberia (UNMIL), more than 400,000 cannabis plants in Bong and Nimba counties were destroyed and over 43,000 kg of seized marijuana burned. Since then, eradication has declined. The LDEA is severely restricted in its mobility with only three vehicles and 22 motorbikes to cover all counties.

Most of Liberia's other illicit drugs are smuggled from Sierra Leone, Guinea and Nigeria across loosely guarded borders. Last year, the NSA, in coordination with the U.S. Drug Enforcement Agency (DEA) successfully intercepted \$100M worth of cocaine in a sting dubbed "Operation Relentless." Fombah Sirleaf, the NSA Director (and the President's stepson) played a major role in the seizure and was recently presented an award by the U.S. DEA for his participation. However, Liberia had only two drug related convictions out of 361 arrests during 2010, largely because of the inability of police to investigate and the inability of courts to prosecute them.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Marijuana is still the most widely used drug in Liberia, with reported seizures valued at approximately \$2 million, followed by cocaine seizures, other than the major one undertaken on the basis of U.S. DEA information, valued at roughly \$29,000. Heroin seizures were valued much lower at just \$2,000, a statistic deemed too low to be accurate by the international police community. Psychotropic drugs are not as lucrative to traffic in Liberia since, based on the average Liberian wage of less than two dollars per day, their mass target market simply lack the disposable income to buy them. Increased drug abuse is linked to Liberia's history of civil conflict from 1989-2003, which left behind more than 100,000 ex-combatants. Many of combatants abused drugs during the war and remain the majority of Liberia's current drug users. Another factor behind the increase in substance abuse is the high percentage of Liberians, civilian and ex-military, suffering from Post Traumatic Stress Syndrome after the country's long history of violence. Drug rehabilitation and treatment facilities are practically non-existent, with addicts being referred to the only psychiatric hospital in Liberia. Liberia's unemployment rate also plays a role in its drug abuse problem: only 15 percent of Liberians are employed in the formal sector.

"Liberians United Against Drug Abuse", an NGO founded in 1993, provides limited drug awareness education through workshops and radio announcements. Christian Children's Fund lists forty active NGO youth organizations, with more than one fourth dealing with HIV/AIDS prevention/treatment and general health awareness training/advice, yet only three of these NGOs target drug abuse issues.

4. Corruption

With at least 50 tons of cocaine transiting West Africa annually heading to Europe, Liberia has potential to become a lucrative transit point. Corruption is a problem throughout West Africa, in part because salaries are low, and government workers find it difficult to support their families. Although Liberia lacks resources to independently combat large-scale trafficking, it does not lack the political will to cooperate with international partners. President Sirleaf is publicly committed to keeping organized crime out of the country. In the past, there have been successful attempts to bribe government officials for access to private airports or seaports for transporting drugs, but the government is very aware of the threat corruption poses to effective law enforcement, and does what it can to discourage corruption. Neither the

Government of Liberia nor any of its senior officials encourage drug trafficking as a matter of government policy or engage in such activities themselves.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

In October 2010, the MOJ signed an agreement with the United Nations Office for Drugs and Crime (UNODC) to establish a Liberian Transnational Crime Unit (TCU) which eventually will bring up to 60 Liberian law enforcement and security experts from the LNP, NSA, Customs, and Immigration into one highly specialized unit which will be structured, equipped and trained to provide a robust response to the severe threats posed by international organized crime and drug trafficking cartels. The plan is for the TCU to be built up in phases over a period of three and a half years at a cost of \$5.8M. It will be substantially supported by a partnership of international agencies and organizations known as the West Africa Coast Initiative (WACI). The idea to establish the TCU came out of the “ECOWAS Regional Action Plan to Address the Growing Problem of Illicit Drug Trafficking, Organized Crimes, and Drug Abuse in West Africa”. In February 2010 the Liberian Government became signatory party to the “WACI Freetown Commitment” which includes the establishment of a TCU. In addition, a comprehensive review of the current legislation related to drugs and organized crime in Liberia by the MOJ, with support from UNODC legal experts, will help create a more effective law enforcement performance in compliance with international standards and best practices. These ambitious goals will take time to realize.

In coordination with State and DOD, the U.S. Coast Guard (USCG) is assisting the Liberian Coast Guard to re-establish their service after 14 years of civil war. A USCG Commander is stationed at Embassy Monrovia to manage the developmental plan. This is the USCG’s largest developmental effort in Africa.

D. Conclusion

While Liberia’s poverty has prevented drug abuse from becoming a major scourge to date-discouraging drug abuse by the inability of the populace to afford the costs of drug use-weak law enforcement capacity leaves the government with little ability to combat even the existing problem, and no immediate answer to the growing threat. Marijuana continues to be the most widely used drug and is fast becoming a lucrative cash crop for farmers. Liberia also has the potential to become a transit point for the passage of cocaine and heroin to Europe. Drug offenders rarely languish in jail for long with the evidence often disappearing, either through theft or incompetence. Liberia is unique among Western African countries in that its currency is U.S. dollars, making it easier to launder money. Without the Liberian security sector taking a stronger lead to combat this trend, this new source of income could lead to more drug money pouring into Liberia. Given that Liberian law enforcement officials have worked effectively with foreign drug liaison officers to make a major drug seizure, with continuing international help and support, there is reason to hope Liberia will make progress on the drug enforcement and prevention fronts.

Libya

Libya is a destination and transit point for smuggled goods, particularly black market/counterfeit goods from sub-Saharan Africa, Egypt and China. Contraband smuggling includes narcotics, particularly hashish/cannabis and heroin. Additional supply of licit, but diverted pharmaceuticals enters the market through diversion from hospitals and pharmacies. Libya is not a production location for illegal drugs, although its geographic position, porous borders and limited law enforcement capacity make it an attractive transit point for illegal drugs. Recognizing the problem of smuggling, Libyan authorities have publicly asserted they have undertaken a campaign against smuggled goods, pointing to law enforcement activities that have resulted in large seizures of heroin, hashish, cocaine and psychotropic drugs.

Both drug trafficking and drug use are criminalized under Libyan law. During the summer of 2010, Libyan public security officials representing the Agency for Fighting Drugs and Psychotropic Substances told reporters that over the last ten years, Libyan authorities have seized approximately 100,000 tons of hashish, 360 kg of heroin and cocaine, and 5 million drug tablets and psychotropic drugs. There is no way to confirm the accuracy of these claims which seem exaggerated to some well-informed observers of trafficking in Libya. The Agency also reported that in 2009, approximately 3100 drug-related prosecutions had been referred to Libyan courts. The 3100 cases involved about 4400 individuals, and of those approximately 3700 were Libyan nationals.

Accurate statistics on the scope of domestic drug use are difficult to come by, as Libya lacks adequate survey capacity and possesses strong social and religious taboos against reporting drug use. Between June 26-28, Libya joined the international community to commemorate the International Day Against Drug Abuse and Illicit Trafficking, through an information and awareness campaign led by the Agency for Fighting Drugs and Psychotropic Substances and the National Society for Anti-Drugs and Mental Stimulants (a branch of the Qadhafi International Charity and Development Foundation). The latter organization has adopted a number of innovations in its campaign against drug use, including organizing a two-hour debate on drugs on Shababia Radio, a channel popular with young Libyan males, development of a popular "Facebook" site, and a hotline available to addicts having a crisis or seeking treatment. It cooperates with a number of international NGOs to develop its anti-drug campaigns.

Libya is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. In November 2009 Libya signed an agreement with the United Nations Office on Drugs and Crime (UNODC) to open a regional office in Tripoli, to help develop Libyan capacity to fight corruption, reduce drug trafficking, and combat the spread of drug addiction and HIV. The Libyan Government does not as a matter of policy encourage drug trafficking nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions. No senior government officials engage in such activity.

Macedonia

A. Introduction

Macedonia is neither a major producer nor a major regional transit point for illicit drugs. The Government of Macedonia (GOM) continues to make progress in combating drug trafficking and implementation of its 2008-2012 National Action Plan on Drugs, with a special focus this year and in the coming years on prevention activities in schools and among students and other vulnerable groups. GOM officials reported an increase in illegal commercial marijuana sales and use throughout Macedonia, but numbers for seizures and criminal cases remained at about the same level as 2009. Macedonian law enforcement authorities continued to cooperate on narcotics issues with regional counterparts, including Serbia, Bulgaria, and Turkey, and also with Western European colleagues in Germany and Austria. Cooperation with Kosovo institutions on counternarcotics operations improved from last year, with several institutions in both countries working together throughout the year. Macedonia is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Macedonia's National Anti-drug Strategy (2006-2012) sets out two general aims: (1) to prevent new, and reduce current drug use, dependence, and drug related harms to health and society and (2) to take action against drug production and cross-border drug trafficking while preventing drug-related crimes. The two main aims are complemented by three cross-cutting themes: coordination, international cooperation, and monitoring and evaluation. The GOM created an Action Plan in 2007 to implement this strategy and harmonize Macedonia's drug policy with that of the EU Drug Strategy, EU Drug Action Plan, and the UN Convention on Drugs. This action plan was successfully implemented, creating the National Coordination Body—an inter-ministerial commission—charged with coordinating anti-drug efforts, and the National Center for Drugs and Drug Addictions (National Center), which is tasked with providing objective, reliable, and comparable information on drugs and drug addicts in accordance with EU standards.

In 2008, the GOM created the current (2008-2012) Action Plan for Implementation of the National Drug Strategy, which included the signing of agreements, memorandums, and protocols for mutual cooperation with EU and neighboring countries to fight against illicit drug trafficking and criminal activities related to drugs. According to a 2010 report published by the National Center, the implementation of the 2008-2012 Action Plan is 79 percent complete with two more years left to finalize implementation.

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. The 1901 Extradition Treaty between the United States and Serbia applies to Macedonia as a successor state of the former Yugoslavia. Macedonia is a party to the UN Convention against Corruption and to the UN Convention against Transnational Organized Crime and its three protocols. In 2010 Macedonia signed several bilateral agreements: one on police cooperation with Kosovo, one on law enforcement cooperation with the Czech Republic, and one with the Republic of Serbia on regional trafficking issues. Macedonia also signed Memorandums of Understanding on law enforcement cooperation this year with Albania, Bosnia Herzegovina, Serbia, and Montenegro.

2. Supply Reduction

Macedonia is one of several Balkan drug routes used to deliver Afghan heroin (through Turkey and Bulgaria) to Western Europe. Hashish and marijuana produced in Albania travel along the same

Macedonian routes to Turkey and Greece. Synthetic drugs on the Macedonian market are smuggled in from neighboring Bulgaria and Serbia and also from the Netherlands.

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 is authorized to legally cultivate and process poppy for medicines. Authorized poppy production for pharmaceutical raw materials, some 160 hectares in 2010, is monitored by the Ministry of Health, which shares production data regularly with the Vienna-based International Narcotics Control Board. According to government sources, illegal commercial marijuana cultivation has increased beyond northwest Macedonia to throughout the country in greenhouses and fields. This marijuana is offered for sale on both the domestic and foreign markets.

According to Ministry of Interior (MOI) statistics, in 2010, criminal narcotics-related charges were brought against 649 persons, an increase of about 340 people compared with 2009, for a total of around 500 criminal cases. Of these persons charged, 566 people were charged with illegal production and trade in narcotics and psychotropic substances. There were 68 cases for “enabling the use”-i.e., trafficking in narcotics committed by 83 persons. These cases resulted in the seizures of 440 kilograms of marijuana, 37 kilograms of heroin, 2.6 kilograms of cocaine, one kilogram of liquid cocaine, 4108 cannabis plants, 11,152 tablets of amphetamine, and 791 grams methamphetamine. MOI sources reported that the drop in heroin seizures is a regional trend, and is a result of a poppy disease that significantly cut down poppy production. The market price of heroin has not dropped, but the “cut” i.e., mix between inert substances and active ingredient of street heroin, has increased.

The Macedonian MOI’s cooperation and communication with counterparts in neighboring countries and Western Europe remained strong. Cooperation with Macedonia’s new neighbor Kosovo has continued to improve. Macedonian intelligence contributed to the seizure of 74 kilograms of heroin in Greece, a case coordinated by U.S. Drug Enforcement Agency (DEA). Macedonia also contributed to the seizure of eight kilograms of heroin in Sweden, and two kilograms of cocaine in Germany, which resulted in several arrests. Macedonian-led initiatives resulted in the seizure of 5 kilograms of cocaine in Austria and the arrest of four individuals. Macedonian work with drug enforcement agencies in Bulgaria, Germany, and Austria, resulted in the arrest of 33 people as part of a drug dealing network that was based in Macedonia and sold imported heroin on the streets of Frankfurt and Vienna. The arrest including the main organizers of the network, a six member family based in Veles, Macedonia. In cooperation with neighboring services, the Macedonian police seized 600 grams of cocaine and arrested two individuals, one of whom was a fugitive wanted for the murder of two children at an Internet café in Skopje.

Macedonia’s Customs Administration continued to strengthen its intelligence units and mobile teams. Police officials described their cooperation with their customs colleagues as continuously improving over the past several years.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The opening of the National Center has improved some of the quality and reliability of statistics regarding drug abuse and addiction. Ministry of Health officials estimated there were some 9000 drug users in the country. The most frequently used drug was marijuana, followed by heroin.

Treatment and rehabilitation activities are carried out in 12 state-run outpatient medical clinics for drug users. These clinics supervise methadone maintenance therapy for registered heroin addicts. One of these 12 clinics is in the University Clinical Center in Skopje, and two are located in Macedonia’s two main prisons (the largest with over 60 percent of the country’s total prison population). The funding for these clinics and their treatment medications comes from the national budget. According to a 2010 survey conducted by the National Center (including inside the prisons), 75 percent of patients responded that they are satisfied with the overall treatment conditions and 63 percent responded that because of the success of the treatment, they are able to work.

Of the 1500 prisoners in the country's main prison, an estimated one quarter 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 in Macedonia.

The Macedonian Ministry of Education, with NGO and international support, successfully implemented three pilot prevention programs in three different cities in Macedonia, each of which included significant teacher training and "train the trainer programs." Educational prevention materials, such as fliers and posters, were also distributed in the pilot schools. The National Center evaluated the success of these programs as high among students, especially in regard to cannabis and alcohol prevention, but noted that there was little to no focus on controlled substances, such as benzodiazepines and tranquilizers, which according to a 2009 European School Survey Project on Drugs are the most problematic issue in the school population in Macedonia. The Center was also critical of the impact of the project, only reaching approximately one percent of the total number of students in Macedonia. In response, the GOM has planned to implement similar prevention activities across more schools during the last two years of implementation of the National Action Plan, using funding from the European Union. The GOM created a National Prevention Program to provide information to help students and other vulnerable groups—such as young people living on the streets and in prison - avoid drug abuse.

In 2010, the GOM also provided new trial treatment opportunities using buprenorphine to maintain 100 patients while undergoing treatment. Three private psychiatric clinics for outpatients opened in 2010, and have treated 123 patients. In Strumica, a city known to have a significant drug problem, a local anti-drug NGO partnered with the municipal government and the Macedonian Orthodox Church to open a private rehabilitation clinic for drug users. Local businesses provided materials to renovate a municipal building to be used as the treatment center. The center has been a huge success for the community, energizing cooperation between the local government and the people and providing a place for free rehabilitation outside the state system.

In June 2010, the Bureau for Public Security in the Ministry of Interior in cooperation with international partners held a conference in Macedonia that gathered experts on combating drugs entitled, "Analysis of the organized forms of drug crime and strengthening of the capacities for the suppression of illegal trafficking in drugs." Seventy experts from Macedonia as well as international experts from the European Commission, SECI Center, Interpol, and DEA participated.

4. Corruption

Corruption is common throughout the government in Macedonia, with low salaries fostering graft among government officials, law enforcement, and the judiciary. Macedonia's judiciary remains weak. As a matter of policy and practice, however, the Government of the Republic of Macedonia does not encourage or facilitate the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions. A small number of police officers were arrested related to drug enforcement anti-corruption efforts of the GOM.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Regional DEA officers report excellent cooperation with Macedonian authorities on counternarcotics operations. One notable example from 2010 occurred in June when Macedonian counterparts passed information to DEA officers regarding a truck that was traveling from Turkey to Italy that they thought might contain heroin. DEA officers and the Greek police located the truck as it transited Greece. A search of the truck revealed approximately 74 kilograms of heroin hidden in the fuel tank. DEA officers assessed that this case highlights the level of cooperation between Macedonia, Greece, and the United

States, and the importance of increased cooperation between both countries to combat drug trafficking. DoD, through the U.S. European Command, has renovated a National Police Training and Operations Facility and is in the process of providing equipment for it.

D. Conclusion

Pressure on Macedonian 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. However, the GOM remains committed to the fight against illegal narcotics and has succeeded in implementing many elements of its four-year action plan, including a new focus on prevention activities. The United States Government, through State Department-funded law enforcement training programs administered by DOJ and DEA, will continue to work to strengthen the ability of Macedonian police, prosecutors, and judges to more efficiently enforce Macedonia's laws against narcotics traffickers. In cooperation with EU and other international community partners, the U.S. will support continued successful implementation of the remaining elements 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.

Malaysia

A. Introduction

Malaysia is neither a significant source country nor a major 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). Illicit drugs smuggled into Malaysia include heroin and amphetamine-type stimulants (ATS) from the Golden Triangle area (Thailand, Burma, Laos), as well as ecstasy, cocaine, erimin-5 (Nimetazepam), and crystal methamphetamine from several countries.

There is no notable cultivation of U.S.-listed drug crops in Malaysia. However, local officials report significant cultivation/presence of a local plant known as ketum (*Mitragyna speciosa*), a plant with known psychoactive properties used for its narcotic effects throughout the region.

ATS production in Malaysia is also a problem. In years previous (2004-2008), Malaysian police seized significant quantities of crystal methamphetamine produced in large-scale clandestine laboratories. Since 2009, police have not uncovered large methamphetamine laboratories, but they did seize several smaller clandestine methamphetamine and erimin-5 labs in 2010. Most methamphetamine, erimin-5, and MDMA ecstasy labs seized in Malaysia are financed by ethnic Chinese traffickers from Singapore, Taiwan, or Thailand. In 2009 and 2010, at least three clandestine methamphetamine labs operated by Iranians were seized in Kuala Lumpur.

Drugs transiting Malaysia do not appear to make a significant impact on the U.S. market. However, Malaysia's proximity to the heroin production areas and methamphetamine labs of the Golden Triangle leads to smuggling across Malaysia's Northern border. Most heroin and ATS is destined for Taiwan, Singapore, Indonesia, and other markets in the region. Smaller amounts of ecstasy from Amsterdam are flown into Kuala Lumpur International Airport (KLIA) for domestic use and for distribution to Thailand, Singapore, and Australia. Large quantities of ketamine come from Chennai or Tamil Nadu, India, and are exported to several countries in the region. Nigerian trafficking organizations continue to mail small quantities of cocaine from South America to Kuala Lumpur. Nigerian and Iranian drug trafficking organizations are increasingly using Kuala Lumpur as a hub for illegal trafficking. In 2010, the Royal Malaysia Police arrested more than 120 Iranians who were attempting to smuggle methamphetamine into Malaysia, and seized over 270 kilograms of methamphetamine during these investigations. This number does not include numerous subjects arrested by Royal Malaysia Customs, or the couriers from Turkey, Bulgaria, Uzbekistan, Georgia, and other countries who were also arrested and who worked for Iranian trafficking syndicates. The appearance of Iranians in such large numbers as traffickers and as domestic drug refiners in Malaysia is a new drug trafficking phenomenon.

Local demand and consumption of drugs is limited in Malaysia, but police officials have expressed concern about the increased use of methamphetamine. Ketamine from India and erimin-5 also remain very popular drugs on the local market. Eramin-5 abuse is sometimes associated with meth abuse; meth users frequently take the sedative erimin-5 to ease their declines from stimulant meth highs.

The government continues promoting ASEAN's "Drug-Free by 2015" policy. Malaysia's counter-narcotics officials and police officers have the full support of senior government officials, but systemic problems with the legal system hinder the overall effectiveness of enforcement and interdiction efforts. Malaysia has a low conviction rate for arrested drug traffickers, and the country relies heavily on preventative detention under the Dangerous Drugs Act (Special Preventative Measures of 1985) rather than active prosecution. The extensive use of preventive detention in drug cases is due in large part to an extremely high burden of proof required for drug trafficking cases, as under Malaysian law all drug trafficking convictions result in a mandatory death sentence. Malaysia is a signatory to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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 subjects convicted of "trafficking," with harsh mandatory sentences also applied for possession and use of smaller quantities. In 2010, several individuals convicted of drug trafficking were sentenced to hang. In other cases, death penalty convictions were upheld by the courts and the defendants have been or will be executed. In practice, many minor offenders are placed into treatment programs instead of prison, and major traffickers are often arrested and held in preventive detention, as there is insufficient evidence to charge and prosecute them with "trafficking." In many cases, subjects charged with trafficking may have their charge reduced to a lesser charge, or if convicted of drug trafficking have their sentence commuted upon appeal.

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 Against Psychotropic Substances. Malaysia signed an MLAT with the U.S. in July 2006. The U.S.-Malaysian MLAT went into effect in January 2009. Malaysia also has a multilateral MLAT with seven Southeast Asian nations, and an MLAT with Australia. Malaysia is a party to the ASEAN MLAT. The U.S.-Malaysia Extradition treaty has been in effect since 1997, and in 2007 the first successful extradition was completed for Wong Wok Wing, who was extradited to stand trial in the Eastern District of New York for heroin trafficking.

2. Supply Reduction

The Royal Malaysia Police (RMP) and Royal Malaysia Customs (RMC) arrested 83,327 people for drug-related offenses between January and June 2010. The RMP, and to a lesser extent, RMC have been extremely effective at seizing crystal methamphetamine smuggled into Malaysia from Iran and Africa in 2010: The RMP arrested a total of 120 Iranian nationals and seized more than 270 kilograms of methamphetamine from January through September 2010. The RMP aggressively seizes narcotics assets: the police reportedly seized RM 35 million (approximately \$11.3 million) in drug-related property in the first half of 2010.

The Royal Malaysia Police is effective in arresting smugglers and low-level drug offenders, but has limited effectiveness in investigating, arresting, and prosecuting higher-level syndicate members. The RMP has acknowledged shortcomings and has implemented training programs to more effectively develop investigations. Overall effectiveness is also adversely affected by systemic legal and procedural limitations upon police and prosecutors. Specifically, Malaysian law requires that a subject charged and convicted of trafficking be sentenced to death. As a result there is an extremely high burden of proof required of both police and prosecutors. The RMP therefore frequently uses the Special Preventive Measures Act (SPMA), 1985, to arrest and detain drug traffickers. The SPMA allows for the RMP to detain suspects when there are reasonable grounds to believe a person is associated with any activity relating to or involving the trafficking in dangerous drugs. There is no judicial oversight for subjects arrested under preventive detention. The Inspector General of Police is charged with ensuring the detention is in compliance with the law. Based on the police inquiry, the Minister of Home Security then has the ultimate authority and responsibility under the SPMA to detain subjects for up to two (2) years, subject to extension as deemed necessary by the Minister. The frequent use of the SPMA to arrest drug traffickers in Malaysia is a result of investigative, enforcement, and/or prosecutorial limitations, which include the lack of alternate sentencing guidelines, a very high-burden of proof for a death penalty

conviction, and the lack of an effective conspiracy law. These systemic problems, in turn, determine police investigative and forensic procedures, as well as prosecutorial decisions.

3. Drug Abuse Awareness, Demand Reduction and Treatment

As of June 2010, the government had identified 8,984 new addicts and an additional 3,095 relapsed addicts. Since 1988 the Malaysian Government cumulatively has identified more than 300,000 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.

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. Statistics from the NADA indicate that as of June 2010 7,159 people were undergoing treatment at Malaysia's 28 public rehabilitation facilities. Of these, 162 were women. Another 46,830 persons were undergoing "in community" treatment and rehabilitation and are used as role models for relapse cases.

4. Corruption

Malaysian and foreign media organizations continued to highlight corruption, both specific cases and more generally as a factor impacting law enforcement effectiveness in Malaysia. The Government of Malaysia 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. No senior officials were arrested for drug-related corruption in 2009-2010. Narcotics-related corruption in the police was highlighted in August 2010; however, during the trial of a defendant arrested in May 2009 in the seizure of approximately 960 kilograms of crystal methamphetamine in Rompin, Pahang, Malaysia. The defendant was acquitted after at least ten police officers admitted to stealing or otherwise mishandling drug evidence or lying on investigative reports during this investigation; several officers were disciplined following an internal investigation in this case. In 2010, the RMP also disciplined and or terminated several other police officers accused of abusing drugs. The potential for drugs to be smuggled into Malaysia with the cooperation or assistance of Customs or Immigration officials at ports of entry and/or airports remains a problem, although the overall scope and scale of this form of corruption remains difficult to quantify.

C. National Goals, Bilateral Cooperation and U.S. Policy Initiatives

Overall cooperation with DEA on drug investigations is very good. In addition to frequent exchanges of information, DEA sponsored an airport interdiction seminar in December 2009 and a DEA Clandestine Laboratory Investigations Seminar and drug intelligence training program in August 2010. U.S. State Department-funded counter-narcotics training also continued in 2010 via the International Law Enforcement Academy (ILEA) in Bangkok and the "Baker-Mint" program sponsored by the DEA and U.S. Department of Defense. In 2008 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 USCG has conducted a series of Maritime Law Enforcement (MLE), Port Security, Search and Rescue and Small Boat Operations training courses to the Malaysia Maritime Enforcement Agency (MMEA) units serving in the Sabah region. This initiative has been a cooperative effort with representatives from the Embassy Maritime Law Enforcement Working Group and the interagency to include Customs and Border Protection and the Navy Criminal Investigative Service. MMEA has developed a core cadre of MLE instructors that conducted a series of five MLE boarding officer courses to individual MMEA units throughout Malaysia FY11 planned activities include MLE focused Mobile

Training Team's designed to mentor and assist the MMEA instructors in refining the current boarding officer course of instruction as well as port security and small boat operations courses.

United States goals and objectives for the year 2011 are to continue coordination and communication between Malaysian and U.S. law enforcement authorities in counter-narcotics efforts. United States law enforcement agencies will seek to assist Malaysian authorities to interdict drugs entering or transiting Malaysia. U.S.-funded counter-narcotics training for Malaysian law enforcement officers will continue in 2011, and U.S. agencies will continue working with Malaysian authorities to improve Malaysia's investigative and prosecutorial processes and promote rule of law. U.S. agencies continue to seek additional operational engagement and drug intelligence sharing with Malaysian counter-narcotics officials who have an increasing interest in regional and international cooperation.

D. Conclusion

Malaysia's overall performance in the area of drug control is good. Malaysian law enforcement effectively responds to changes in trafficking patterns and appropriately dedicates significant resources to interdicting drugs, reducing supply, and investigating criminal syndicates. The RMP and other elements coordinate and cooperate regularly with law enforcement counterparts in the region, to include the United States, and Malaysian authorities host or participate in a variety of bilateral drug control seminars and coordination meetings. With regard to demand reduction and treatment, the National Anti-Drug Agency has an outstanding drug awareness program and proactively conducts operations to identify drug users and treat addiction.

Systemic legal issues continue to affect overall effectiveness of the police and prosecutors to investigate, charge, and prosecute higher level drug traffickers and organized crime. Leadership-level criminal figures who supervise, direct, and control complex criminal organizations are rarely arrested in possession of drugs and therefore are difficult to prosecute in Malaysia. Areas for improvement relative to the 1988 UN convention are the strengthening of Malaysia's criminal conspiracy statute (recommended under Article 3, Section 1 C IV of the UN convention), as well as the development of a plea bargaining and an alternate sentencing system. If implemented, such changes would possibly reduce use of preventive detention, increase judicial oversight, streamline court cases, and provide an alternative to lengthy prosecution of drug cases.

Mali

Mali is becoming an increasingly important site for drug trafficking and drug transit, particularly as a transshipment route from South America to Europe. This was highlighted by the November 2009 crash of a Boeing B727-200F near the town of Tarkint, Gao Region, which the U.N. Office on Drugs and Crime (UNODC) notes was widely suspected to have been carrying a multi-ton cocaine shipment from Latin America. The attractiveness of Mali as a transit point for drugs en route to Europe is directly linked to the Government of Mali's limited presence in and control over the northern regions. Marijuana trafficked through Mali is generally destined for Senegal or Mauritania, whereas cocaine and other narcotics are generally shipped to Spain via Morocco, or destined for other European countries on a trans-Saharan route passing through Libya.

Local narcotic drug consumption is generally limited to cannabis, which is widely available. Local production of cannabis and other drugs is not yet an issue, although during 2009, Malian police began to increasingly come across the precursor elements for processing cocaine into crack – such as ammonia – during the course of drug raids.

The GOM has taken some steps to address the growing problem of drug trafficking. Mali's National Law 83-14 imposes sanctions on drug use and drug trafficking. The Malian National Police includes a specialized Drug Brigade, although it is underequipped to take on drug trafficking in the vast expanses of northern Mali. In 2009, the Brigade had 24 officers to cover the entire country. The Drug Brigade appears to be most successful at addressing the transit of drugs at Bamako-Senou airport (having made 39 arrests in 2008), although the Director of the Drug Brigade himself concedes that those arrested at the airport are usually only "mules." As a matter of government policy, the government of Mali 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. There are rumors, however, that some senior advisors in the Malian government may be involved in drug trafficking, possibly using the airport as the primary entry-point, but there is no proof, and no one has been charged or prosecuted.

Mali's just-initiated National Integrated Program (NIP) is a four year plan, with three primary objectives: strengthen the proactive crime control capacity of law enforcement agencies; strengthen the capacity of the state in deterring transnational criminal ventures by reducing their potential financial benefits; and strengthen the national capacity to control and minimize the spread of drug consumption. Focal points for implementation are the Ministry of Justice and the Inter-ministerial Drug Committee, which was recently reassigned from the Ministry of Internal Security and Civil Protection to the Ministry of Justice. UNODC also is discussing assistance to the Program. The objectives of the NIP reflect a set of generally acknowledged areas for improvement in drug law enforcement efforts.

Mali is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Mali also participates in regional initiatives to curb drug trafficking, including the Economic Community of West African States (ECOWAS) Regional Action Plan to address illicit drug trafficking, organized crime and drug abuse in West Africa, and the ECOWAS Political Declaration on the Prevention of Drug Abuse, Illicit Drug Trafficking and Organized Crimes in West Africa.

Maurutania

The Islamic Republic of Mauritania is an under-developed economy with a small population in a huge, sparse territory. Its economic system suffers from a combination of weak government oversight, lax financial auditing standards, a large informal trade sector, porous borders, and corruption in government and the private sector. The instability that followed the August 6, 2008 coup d'etat made the country more vulnerable to informal and illegal economic activity, but following the election of President Aziz in July 2009, the government embarked upon an aggressive campaign against corruption and the terrorist network of al-Qaida in the Islamic Maghreb (AQIM).

There is little, if any, domestic production of drugs in Mauritania. The more significant problem with regard to drugs is location. Mauritania's location makes it an attractive destination for drugs coming via air from South America or via land after arriving at sea ports in Guinea, Guinea Bissau, and Sierra Leone. With Mauritania's long, porous borders and an economy that is based almost entirely on informal trade, detecting and combating drug trafficking in Mauritania is extremely difficult.

There are few, if any, reliable statistics about drug use in Mauritania. Consumption of drugs in Mauritania is not thought to be prevalent. There is occasional use of drugs among Mauritians with the means available to purchase them, but there are concerns that if larger quantities of drugs transit through Mauritania, consumption could increase. Marijuana and other traditional herbal drugs are occasionally consumed, but to a much lesser extent than in many other countries in the region. There are no domestic drug addiction treatment facilities. The nearest center is the Thiaroye psychiatric hospital located in Dakar, although the cost of treatment in such a facility is beyond the means of a majority of Mauritanian citizens.

Mauritania has enacted laws for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets as well as assets derived from or intended for terrorist financing and other serious crimes. The authority comes from the 1992 law governing money laundering from drug trafficking and the 2005 laws governing terrorism, money laundering, and terrorist financing, and the newly passed 2009 anti-terrorism legislation. However, these laws have not been fully implemented. The Ministry of Interior is responsible for tracing, seizing, and freezing narcotics and narcotic-related assets. Drug traffickers and elements of AQIM often operate in the same isolated areas of Mauritania, but it remains to be determined how interconnected the two networks may be in their daily operations. There is hope that recent increases in the Mauritanian military presence along the borders with Algeria, and to a greater extent, Mali, will limit the ability of drug traffickers to easily cross Mauritanian borders.

Mauritania has two offices primarily responsible for combating the traffic of drugs: The Office to Combat Trafficking in Illicit and Psychotropic Substances, established in 2005, and "La Commission d'Analyse des Informations Financieres" (CANIF), established in 2008, which is the equivalent of a financial intelligence unit. Both organizations have received funding and technical assistance from the international community, but due to the political instability in Mauritania following their creation, they have only recently started to work as operational and functional units.

According to the Director of the Office to Combat Trafficking in Illicit and Psychotropic Substances, there were 276 arrests (74 Mauritians and 202 foreigners) made in 2010 for individuals suspected of trafficking in drugs. In 2010, Mauritania seized more than 2 kilograms of cocaine and 1.2 tons of cannabis during 103 different operations. By contrast, in 2009, a year marked by political instability and gridlock, there were only two cases of drug trafficking arrests in Mauritania. A French citizen was arrested in May 2009 in Senegal, and then extradited to Mauritania. In November 2009, a Mauritanian trafficker of drugs was arrested in Senegal, where he had taken refuge, then extradited to Mauritania for prosecution on narcotics charges.

The Government of Mauritania 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.

Mauritania 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. Mauritania is a party to the UN Convention Against Transnational Organized Crime and its three protocols, the UN Convention Against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the Organization of African Unity Convention on the Prevention and Combating of Terrorism of July 1999. It is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Mauritania is a member of MENA-FATF (Middle East and North Africa Financial Action Task Force).

Mauritius

Mauritius is not a major producer or exporter of illegal drugs, or a transit route for drug trafficking. Marijuana is the only illicit drug that is locally cultivated in large quantities, primarily by small groups or individuals. It is consumed locally and is not exported. Other illicit drugs, primarily: heroin and the prescription drug, Subutex (a brand name for buprenorphine, an opiate used to treat heroin dependence; Subutex is illegal in Mauritius), are brought into Mauritius for consumption with a small amount going for transshipment to other markets. Subutex is seen as being more profitable per unit weight than heroin on the illicit market. Mauritius has problems controlling access as a result of limited resources to patrol its shores and territorial waterways.

Mauritius's Anti Drug Smuggling Unit (ADSU) of the Mauritius Police Force works closely with other law enforcement and health agencies on drug control and treatment programs throughout the country, and cooperates with U.S. Government agencies. The ADSU continues to look for ways to improve its resources and capacity. Mauritius is a party to the 1988 UN Drug Convention.

The ADSU appears, based on data through October 2010, to be on track to record a similar or slight increase in seizures and cases involving illegal drugs. The ADSU credits the increase in illicit drug seizures and arrests in recent years to its ongoing operations with various intelligence units of the police force and its proactive approach to regional co-operation and profiling.

Mauritius has several agencies working on drug control issues, from law enforcement, to public health initiatives. NGOs also are engaged in treatment and prevention efforts as well. The Mauritian Government collaborates with the U.S. Drug Enforcement Administration, United Nations Office of Drugs and Crime, and the International Narcotics Control Board.

Based on narcotic seizures, arrests, and rehabilitation program participation, heroin and Subutex are the most commonly abused drugs in Mauritius. Treatment NGO's report approximately 20,000 abusers but the figures are disputed by the police as being nearer 12,000. Mauritius does have dedicated drug treatment facilities and has in recent years introduced methadone maintenance for addicts in treatment and a needle exchange program. NGO's provide counseling and treatment and government health facilities, managed by health professionals, are also available for drug treatment cases.

The Government of Mauritius (GOM) has clearly indicated that drug traffickers and those involved in drug trafficking at all levels will not be tolerated. At the launch of the National Policing Strategic Framework in February 2010, the Prime Minister called for the reintroduction of the death penalty for those involved in drug trafficking. The present policies have not completely stopped the flow of illegal drugs, but the forfeiture of assets applied to narcotics offenders is just beginning to take effect. The GOM 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 evidence has emerged to suggest that current government officials are involved in the production or trafficking of drugs.

It is U.S. policy to help Mauritius increase its capacity to enforce its narcotics laws and to work with Mauritian law enforcement to resolve cases where there is a U.S. nexus to drug trafficking. The U.S. Government provides training assistance to Mauritian law enforcement agencies, including the ADSU, through the International Law Enforcement Academies in Gaborone, Botswana and Roswell, New Mexico, and Africa Command (AFRICOM). The extradition treaty between Mauritius and the United States is the 1931 United States-United Kingdom list treaty.

Mexico

A. Introduction

Mexico continues to aggressively pursue policies to combat drug trafficking, resulting in the apprehension of key Drug Trafficking Organization (DTO) leaders and associates and seizures of drugs, weapons, and bulk cash. Meanwhile, the pace of implementation for the Mérida Initiative is increasing as deliveries of equipment and training have accelerated, the Government of Mexico (GOM) has improved its organization, and programs have started to take hold in a meaningful way.

In response to pressure by the GOM, and other factors, DTOs have become increasingly violent as they fight over lucrative trade routes and intimidate or control local authorities, particularly in areas along the U.S.-Mexico border. In 2010, the number of drug-related killings in Mexico surpassed all previous years. According to Mexico's Reforma newspaper, there were 11,583 drug-related murders in Mexico in 2010, compared with 6,587 in 2009. DTOs increasingly employ military tactics and use heavy weaponry such as sniper rifles, grenades, and rocket-propelled grenades in attacks on government security personnel, rival DTO members, and, more recently, media outlets and journalists. Demonstrating a change in tactics and increased brutality, a DTO detonated a car bomb in July 2010 in Ciudad Juárez, killing emergency response personnel. A more alarming trend is the move by the DTOs to diversify their activities into areas such as kidnapping, extortion, and petty "street crimes."

Mexico is both a major transit and source country for illicit drugs reaching the United States. Approximately 95 percent of the estimated cocaine flow toward the United States transits the Mexico-Central America corridor from its origins in South America. Mexico is also a major supplier of heroin, marijuana, and methamphetamine to the United States. Most drug crop production occurs in rural western areas of Mexico where detection and eradication of illicit crops are difficult and police presence is minimal.

Mexico is a source and destination for money laundering activity. Additionally, the majority of small arms seized in Mexico and traced by the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) in drug-related cases can be traced to the United States. Mexico is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Developments

The GOM has taken significant measures to strengthen its institutional capacity to resist the influence of DTOs. The Secretariat of Public Security (SSP) is completely restructuring the Federal Police and has more than tripled the size of the federal police force from 11,000 to over 34,000 since the beginning of the Calderón administration. Mexican Customs, which falls under Mexico's Tax Administration Service (SAT), is rapidly moving from solely a revenue collection agency to a law enforcement body, and is increasing in size and developing new capacities. Special Investigative Units (SIUs) within the SSP are developing new skills to investigate and confront organized crime. The Office of the Attorney General (PGR) recently began to restructure its key divisions and is seeking assistance to improve its traditionally low rate of prosecutions.

Unified Command ("Mando Único"). On October 6, 2010, President Calderón submitted a proposal to Congress that would restructure Mexico's 32 state police forces (31 states and the Federal District) and allow governors and the mayor of the Federal District to take over municipal police forces that do not pass a required certification process. The reform was drafted in recognition that a massive effort is necessary to reform the more than 2,000 police forces across the country and that economies of scale are needed to accelerate training, harmonize standards, and bring more accountability to state and local police forces across Mexico. The proposal requires congressional approval and entails a constitutional

amendment that must be passed by two-thirds of the states. If passed (as of December 2010, the proposal was still being debated in Congress), the reform has the potential to significantly improve the structure and management of the public security sector in Mexico by increasing training and resources and improving command and control of state and local forces.

Budget. The GOM's approved 2011 budget sets security spending as a clear priority, with a total budget for all security-related secretariats of 131.9 billion pesos (\$10.7 billion). National security and public security spending during 2011 will rise 8.2 percent and 5.3 percent respectively in real terms compared to 2010. Under the GOM's functional definition of "order, security, and justice," real spending on government programs/projects falling under this category will increase by 13.2 percent. With the exception of the PGR, resources for all security-related secretariats (Defense (SEDENA), Navy (SEMAR), and Public Security (SSP)) will increase as a percentage of total programmable expenditures.

Judicial Reforms. The scope and pace of reform to implement an oral, adversarial justice system by 2016 has been uneven across the country, with 11 of the 31 states and the Federal District (Baja California, Chihuahua, Morelos, Oaxaca, Zacatecas, Estado de México, Durango, Yucatán, Hidalgo, Nuevo León, and Tabasco) approving and/or implementing the accusatorial system as of 2010. Judges, police, prosecutors, and other justice sector officials are receiving training to work under the new system, and law schools and bar associations are actively training legal professionals in preparation for the complete transition from the inquisitorial to the accusatorial system. The reforms have set the foundation for a justice system that supports due process, transparency, alternative case resolution methods, and improved skills among both public defenders and prosecutors.

Technological Improvements. The GOM made key advances in data and telecommunications systems for public security in 2010. Major efforts included a biometric capture and biographic data verification system implemented along the Guatemala/Mexico border for Mexico's National Immigration Services (INAMI); this system will eventually be implemented nationwide. An Advanced Passenger Information System (APIS) will deliver key data on inbound flights to Mexican customs and immigration agencies over the next two years. Non-intrusive inspection equipment, including mobile backscatter x-ray vans and gamma-ray imaging systems, at border and interior checkpoints is advancing Mexico's interdiction controls. To combat money laundering crimes, the GOM, with support from the U.S. Government (USG), is now using sophisticated analytical software, high speed money counters, and a data center. To support the SSP's Plataforma Mexico, an information technology connectivity program, programs are moving forward for analytical systems, incident response, registration/tracking of over 600,000 public and private security personnel, and License Plate Recognition hardware/software for identification of suspect or stolen vehicles.

The PGR started an overhaul of its Center for Planning, Analysis, and Information to Combat Crime (CENAPI), and will use technological improvements to facilitate intelligence sharing across GOM agencies. Eight PGR subdivisions will receive cyber and communications forensics equipment, along with the associated training/certifications. Hardware and implementation services will support a complete judicial Case Management System (Justicia Efectiva para Todos, JET) from initial entry into the prosecutorial system to final disposition of the courts; the system is scheduled to be rolled out to PGR sub-agencies throughout 2011. The PGR is implementing Spanish eTrace, an electronic tracing system for arms provided by the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) that is linked to ATF databases in the United States.

Money Laundering. In a move to combat money laundering, on June 15, 2010, the GOM announced new regulations to impose limits on U.S. dollar currency conversions in Mexico. The caps are applicable to both individuals and businesses for cash transactions from dollars to pesos, including deposits, credit payments, and service fees. The GOM expanded its anti-money laundering strategy on August 26, 2010, announcing new reforms, including greater interagency coordination to identify and investigate suspicious transactions, harsher penalties for using resources from illicit activities, and restrictions on the use of

large amounts of cash. The proposal would also prohibit cash purchases of real estate and cash payments in excess of 100,000 pesos (\$7,700) for luxury items.

Arms Trafficking. The United States and Mexico signed a memorandum of understanding on October 5, 2010 outlining terms for cooperation to deploy Spanish language eTrace across Mexico. The eTrace system, developed and deployed by ATF, tracks recovered firearms from manufacturers and importers, and their subsequent introduction into the distribution chain, to the first retail purchase. The eTrace system assists investigators to develop investigative leads, identify potential traffickers, and analyze patterns regarding the sources and types of guns used in criminal activities.

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 Iztapa. Mexico is 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. 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 another. In 2010, Mexico extradited 94 people to the United States (42 for narcotics-related offenses). While the extradition figures for 2010 are slightly below the 107 fugitives extradited from Mexico in 2009, Mexico extradited more individuals charged with narcotics-related offenses in 2010 than in previous years.

Mexico and the United States cooperate in judicial assistance matters under a bilateral mutual legal assistance treaty. In addition, Colombia and Mexico formed a tri-party group with the United States that consists of the U.S. Drug Enforcement Administration (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. Finally, Mexico is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters.

Mexico actively participates in the Multilateral Counterdrug Summit, which includes the United States, Panama, Colombia, Ecuador, and other Central American countries as members. The U.S. and Mexican governments also continue to effectively use the North American Maritime Security Initiative (NAMSI) Standard Operating Procedures (SOP) to facilitate maritime interdiction operations executed by the Mexican Navy and the U.S. Coast Guard. The GOM cooperates with Colombia and the United States, in particular, in the sharing of information and coordination of resources in the effort against counternarcotics trafficking and criminal organizations. In 2010, for example, Mexico participated in training programs, judicial exchanges, and study tours with their Colombian counterparts.

2. Supply Reduction

In 2010, the GOM dismantled 160 drug-processing labs, arrested 28,216 Mexican nationals and 342 foreigners for drug-related charges, and seized 9.4 metric tons (MT) of cocaine, 2,240 MT of marijuana, 1 MT of opium gum, 368 kilograms (kg) of heroin, and 12.7 MT of methamphetamine. According to GOM statistics 17,211 hectares (ha) of marijuana and 14,842 ha of poppy were eradicated in 2010. Significant seizures in 2010 include an October 18, 2010 seizure of 134 MT of marijuana in Tijuana by Mexican law enforcement and military forces – the largest seizure of its kind in Mexico (with an estimated U.S. street-value of \$340 million).

2010 was the GOM's most successful year in terms of the arrests of high-profile drug traffickers in Mexico.¹ Mexican military and police forces exhibited an unprecedented commitment to combating organized crime, and bilateral cooperation in several fields, including the sharing of intelligence and resources between U.S. and Mexican law enforcement, has been key to disrupting and dismantling Mexican DTOs.

(January 12, 2010) **Eduardo Teodoro García-Simental (aka "El Teo")** – García-Simental was a leader of a violent faction of the former Arellano Felix Organization. His arrest, coupled with the subsequent arrest of his brother and other high-level members of the Tijuana-based Simental-led DTO, have crippled the organization.

(January 19, 2010) **Juan Carlos Tarabay-Castillo (aka "Z-20")** - Juan Carlos Tarabay-Castillo, aka "Z-20," Jaime Fuentes-Marquez, aka "Chupón," and Desiderio Jimenez-Rivera, aka "El Borrado" were high ranking members of the Los Zetas DTO.

(February 2010) **José Vasquez-Villagrana (aka "Javal")** - Vasquez-Villagrana was indicted for smuggling .50 caliber Berretta anti-aircraft machine guns from the United States into Mexico. It is believed he is responsible for smuggling multi-ton quantities of cocaine from unknown South American suppliers into the United States and Mexico.

(March 25, 2010) **José Antonio Medina-Arreguín (aka "Don Pepe")** – Also known as "The King of Heroin," Medina-Arreguín headed a DTO that was one of the primary suppliers of black tar heroin to distribution points throughout the United States. Medina-Arreguín was extradited to the United States.

(April 21, 2010) **José Gerardo Álvarez-Vasquez (aka "El Indio")** - Álvarez-Vasquez was a lieutenant for the Beltrán-Leyva organization and was allegedly responsible for the distribution of multi-ton cocaine shipments, methamphetamine precursor chemicals, and the production and distribution of methamphetamine.

(May 30, 2010) **Carlos Ramón Castro-Rocha (aka "El Cuate")** – Castro-Rocha headed a DTO based out of Sinaloa, Mexico, with ties to various distribution points throughout the United States. The DTO was responsible for the manufacture and distribution of multi-kilogram quantities of black tar and brown powder heroin.

(July 24, 2010) **Luis Carlos Vazquez (aka "EL 20")** – Vazquez was a key lieutenant of the Vicente Carrillo-Fuentes DTO and is believed to be the individual responsible for detonating the car bomb which killed three individuals in Ciudad Juárez on July 15, 2010.

(July 29, 2010) **Ignacio Coronel-Villarreal (aka "Nacho")** – Coronel was killed during an operation conducted by SEDENA forces in Zapopán, Jalisco, Mexico. It is believed he was one of the heads of the Sinaloa Cartel and was responsible for trafficking multi-ton quantities of cocaine into the United States.

(August 30, 2010) **Edgar Valdéz Villarreal (aka "La Barbie")** – Valdéz -Villarreal was an alleged assassin and key lieutenant for the Beltrán-Leyva DTO.

¹ The arrests of the individuals listed in this report have been widely reported by various media outlets, however, it should be noted that a defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt. An arrest or the issuances of an indictment are only evidence of an accusation.

(September 12, 2010) **Sergio Barragán-Villarreal (aka "El Grande")** – Barragán-Villarreal was an alleged assassin and key lieutenant within the Beltrán-Leyva DTO. He had significant drug trafficking ties throughout central Mexico.

(November 5, 2010) **Antonio Ezequiel Cárdenas Guillén (aka "Tony Tormenta")** – Cárdenas Guillén, one of Mexico's most wanted drug traffickers and believed to be a key leader of the Gulf Cartel, was killed in a gun battle with the Mexican military in Matamoros, Tamaulipas. Guillén was considered a key smuggler of marijuana and cocaine into the United States.

(November 26, 2010) **Arturo Gallegos Castrellón** – Gallegos Castrellón was the reputed leader of Barrio Azteca gang - which is closely linked with the Vicente Carrillo-Fuentes DTO - in Ciudad Juárez. Gallegos Castrellón is allegedly responsible for having ordered the attacks on U.S. consulate employees in March and for ordering hundreds of other murders in the city.

(December 9, 2010) **Nazario Moreno González (aka "El Más Loco"/"El Chayo")** – Moreno González, the founder and ideological leader of La Familia Michoacana DTO, was reportedly killed in a gun battle with the Mexican federal police in Apatzingán, Michoacán.

(December 30, 2010) **Francisco López Villanueva (aka "El Bigotes," or "The Mustache")** – López Villanueva, a key lieutenant of the La Familia Michoacana DTO, and four other suspects were apprehended in a joint operation by Federal Police officers, soldiers and marines. They were arrested near La Mira - a town in the western state of Michoacán, where the cartel is based.

Cultivation and Production Trends. USG estimates for 2009 indicate that marijuana cultivation in Mexico increased by more than 45 percent, from 12,000 ha to 17,500 ha. This is the second straight year of increased cultivation. Marijuana cultivation, along with opium poppy cultivation, remained concentrated in rural areas in the northwestern part of the country, principally in the tri-state area of Sinaloa, Chihuahua, and Durango.

Estimates indicate that opium poppy cultivation and heroin production increased sharply for the fourth straight year. Opium poppy cultivation increased 31 percent, rising from 15,000 ha in 2008 to 19,500 ha in 2009. This level of opium poppy cultivation would potentially produce 50 MT of pure heroin or 125 MT of black tar heroin, not accounting for losses from any spoilage, harvesting inefficiencies, or interdiction, and is the result of cultivation outpacing increases in eradication. While opium poppy cultivation in Mexico is very sparse in comparison to the densities estimated in Burma and Afghanistan, Mexico's share of global poppy production has been increasing in recent years; estimates show that Mexico surpassed Burma as the world's second largest poppy cultivator in 2009.

Black tar and brown heroin dominate the Mexican heroin trade. While black tar heroin is most common, DTOs increasingly traffic brown powder heroin and continue to smuggle white heroin from South America into the United States. Rising estimates of domestic opium poppy cultivation support this trend.

Approximately 7 percent of the world's heroin supply is produced in Mexico, and most Mexican heroin is destined for users in the United States, although abuse in Mexico is on the rise.

The increases in marijuana and opium poppy cultivation, in part, appear to be due to the sharp increase of Mexican military and police operations in other areas of the country.

Methamphetamine laboratory seizures in Mexico have risen dramatically over the past calendar year. As of May 20, 2010, PGR/CENAPI reported 63 methamphetamine labs seized, compared to 217 seized in 2009 and 57 in 2008. The volume of methamphetamine production suggests that it is not solely for U.S. and domestic consumption.

Trafficking Trends. Since 2008, there has been a clear shift in the geography of the drug trade in the Western Hemisphere, largely attributable to events related to Mexico. Greater monitoring of planes entering Mexico's airspace and vessels entering its territorial waters has caused airborne and maritime

shipments of cocaine to dramatically decrease. For this reason, Mexican smugglers expanded their presence in Central America and now rely heavily on land-based shipping routes. The Mexico-Central America vector continues to be the principal transit route for cocaine available in the United States. While the United States remains a primary destination for drugs produced in South America, expanding markets in Latin America and Europe and continued law enforcement efforts in Mexico may produce more shifts in drug-trafficking routes.

Mexico has several major chemical manufacturing and trade industries that produce, import, or export most of the chemicals required for illicit drug production. Mexico is an importer and transit country for potassium permanganate, an essential chemical in the production of cocaine. Likewise, Mexico imports and manufactures acetic anhydride, an essential chemical in the manufacture of heroin. While Mexico is a major supplier of methamphetamine, the country currently has no facilities or chemical plants that can synthesize and/or manufacture pseudoephedrine or ephedrine powder.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Mexican domestic consumption of illicit drugs has risen steadily since 2002. According to the National Council Against Addiction (CONADIC), the use of marijuana, cocaine, and methamphetamine has increased from 2002 to 2008; over this time period, marijuana use has increased from 3.48 percent of the population in 2002 to 4.4 percent in 2008, cocaine from 1.23 percent to 2.5 percent, and methamphetamine from 0.08 percent to 0.5 percent. Geographically, the northern states of Mexico suffer most, in part due to drug trafficking organizations operating along the border and often paying young dealers in product.

GOM coordination on drug demand reduction is managed by CONADIC. CONADIC's priorities under the Mérida Initiative are to standardize drug counseling curricula, increase the availability of rehabilitation services in the penitentiary system, link more than 330 government-supported New Life Center prevention and treatment referral resource clinics via information technology networks to promote sharing of best practices, and to establish Drug Free Community Coalitions to expand citizen participation in the prevention of drug use. In the first quarter of 2011, 600 new counselors will be trained in a standardized curriculum to assist drug addicts. In addition, Mexico's Office of the First Lady has sponsored the first Mexican-developed methodology for drug awareness in the form of an informational tool kit. This tool kit includes a survey covering a range of behaviors, patterns, and emotions; pamphlets on the nature of addiction; and therapy and intervention resources, all of which helps families and individuals. Mexico is also developing a drug treatment node linked to the Clinical Trials Network in the United States (CTN) in order to improve the quality of drug abuse treatment in Mexico. There is also growing focus on comprehensively improving the life of youth in high risk areas such as Ciudad Juárez, where drug traffickers often pay their own associates in drugs. The long-established and highly respected organization Centros de Integración Juvenil (CIJ) is expanding its inpatient treatment centers in underserved areas of Ciudad Juárez.

Mexico's retail-level narcotics distribution (narcomenudeo) law, signed in 2009, does not mandate legal action against individuals in possession of minimal amounts of drugs until their third offense. The law created stricter penalties for traffickers of drugs and mandated drug treatment programs in certain cases. Federal police have, as a result, focused their efforts on identifying and detaining drug dealers, while prosecutors focus on prosecuting these dealers, including via specialized drug courts.

4. Corruption

As a matter of policy, the GOM does not encourage or facilitate the illicit production or distribution of narcotics or psychotropic drugs or any other controlled substance, or the laundering of money derived from illicit drug transactions. The Calderón administration has taken several steps toward reducing the levels of corruption in the law enforcement community by passing laws requiring stronger vetting processes, including the greater use of polygraph and background checks on candidates. The Sistema

Nacional de Seguridad Pública (SNSP) is responsible for overseeing the implementation of these efforts. The GOM has also restructured and augmented the use of Internal Affairs Units to aggressively investigate allegations of corruption, and enacted a new law that gives them the authority to use intrusive investigative methods to conduct preliminary investigations in an effort to prevent crime and corruption. Labor laws have been changed to specifically preclude judges from reinstating officers separated for corruption allegations. These new corruption reduction efforts and actions are primarily directed at federal agencies, and focus on reducing corruption within the rank-and-file. Despite this progress, corruption remains a significant impediment to counternarcotics efforts in Mexico.

In perhaps the most public move against official corruption, in May 2010, the GOM arrested Gregory Sanchez, the former Mayor of Cancún and candidate for Governor of Quintana Roo, for alleged narcotics trafficking ties and money laundering. Critics of the arrest say that it was politically motivated and have compared it to last year's arrests of ten mayors with alleged ties to corruption in Michoacán. Of the 38 officials and police chiefs arrested in Michoacán in 2009 for alleged ties to organized crime, as of October 2010, 37 had been released for lack of evidence. In August 2010, the SSP dismissed over 3,500 officers for a variety of reasons, including corruption.

Mario Ernesto Villanueva Madrid - On May 8, 2010, the former governor of the State of Quintana Roo, Mario Ernesto Villanueva Madrid, was extradited to New York after serving a six-year sentence in Mexico on money laundering charges. In the United States, Villanueva faces charges of drug trafficking and money laundering.

Gregorio Sanchez Martinez – On May 25, 2010, the PGR federal ministerial police served an arrest warrant on Gregorio Sanchez Martinez, a candidate for governor in Quintana Roo. He is accused of drug trafficking, health code violations, and money laundering. Ministerial investigations indicate that he has ties to the Beltrán Leyva and Los Zetas DTOs in Quintana Roo and that he allegedly laundered money for organized crime.

Jorge Arturo Castañeda Uscanga -- On May 27, 2010, SEMAR arrested Captain Jorge Arturo Castañeda Uscanga on allegations of drug trafficking and the facilitation of precursor chemical shipments. He is the highest ranking naval officer to be detained by authorities.

Alfonso Gutierrez Cabello - On May 27, 2010, members of SEMAR Special Forces and members of the SIEDO -- Organized Crime Unit of the PGR -- raided the Port Captain's office in Mazatlán, Sinaloa to serve arrest warrants on multiple persons identified as working for or with DTOs. This effort led to the arrest of Alfonso Gutierrez-Cabello, the Port Chief of Vessel Inspections.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Over the past two years, the Mérida Initiative has become the cornerstone of U.S. – Mexico security cooperation and greatly enhanced the GOM's ability to address organized crime and violence. The Mérida strategy is built around four pillars: 1) disrupt the capacity of organized crime to operate; 2) institutionalize the capacity to sustain the rule of law; 3) create a twenty-first century border structure; and 4) build strong and resilient communities. Eleven bilateral working groups focusing on topics such as money laundering, arms trafficking, effective border management, and strategic communications meet regularly to design strategies and manage programs that will enhance Mexico's ability to combat organized crime. The recently inaugurated Bilateral Implementation Office, where Mexican and U.S. officials work side by side in Mexico City, complements these working groups by providing a special forum to address progress on Mérida implementation and target Mérida resources. Under the Mérida Initiative, the GOM has taken advantage of a wide variety of training courses offered by the USG, including anti-money laundering investigative techniques, witness protection, oral advocacy, chain of custody, police rural operations, explosives investigations, investigative techniques, and many others. Complementing Mexico's own extensive training efforts, over 20,000 Mexican officials from the law enforcement and judicial sectors have been trained via Mérida Initiative programs since 2008. The

Mérida process has improved over time, and the pace of implementation has been accelerating considerably.

Since 2008, the U.S. Congress has appropriated \$1.5 billion for Mérida – this includes \$379.25 million in FY 2010 alone. While significant funding has gone toward equipment, the Mérida Initiative is increasingly oriented toward building institutional capacity and reducing the pervasive corruption that enables drug trafficking. Specific training and equipment elements are detailed in Letters of Agreement between the USG and the GOM. As of December 31, 2010, \$351 million in equipment and training has been delivered under the Merida Initiative.

Examples of 2010 Mérida and bilateral accomplishments include:

- The USG delivered three UH-60M helicopters, spare parts, and training to the Federal Police (SSP), and three Bell 412 helicopters (for a total of eight since Mérida started) to SEDENA, worth a combined total of \$115.5 million.
- The GOM received delivery of 318 polygraph units to screen out potentially corrupt employees, for use by the PGR, the SSP, and Mexican Customs.
- 52 canine handlers were trained and 78 canines able to detect weapons and explosives, narcotics, and bulk cash were donated to the GOM and assigned to major ports of entry.
- Mérida supported training for approximately 800 Mexican federal prosecutors and law enforcement officers in 2010 through a series of two-week trial advocacy courses.
- A total of six (6) Integrated Ballistics Identification System (IBIS) machines, which assist in analyzing ballistic evidence, were delivered to the GOM and are now located in Ciudad Juárez, Chihuahua City, Tijuana, Culiacán, Hermosillo, and Mexico City.
- Mérida helped the GOM to establish a dedicated corrections academy at Xalapa, Veracruz. To date, more than 180 trainers have been certified at the New Mexico Corrections Academy, and they have, in turn, trained 1,300 newly recruited corrections staff.
- The USG assisted the GOM to establish a new Prisoner Transportation Unit within the Mexican federal penitentiary system. 48 staff from the new unit received training at the Colorado Department of Corrections, and over \$400,000 worth of new prisoner transportation vans were delivered in May 2010.
- In total, over \$13.5 million in non-intrusive inspection equipment (NIIE) was delivered to the SSP and Mexican Customs in 2010, including two Railroad VACIS and ten ZBV Backscatter vans.

These accomplishments build on previous Mérida Initiative programs to assist the GOM in developing institutional capacity. By the end of 2010, over 6,700 Federal Police officers have received Mérida - supported training over the past two years, and over 3,000 prosecutors and judicial authorities have received significant training in rule of law programs, including participation in study exchange programs. A train-the-trainer approach is used whenever possible to develop sustainability.

D. Conclusion

The GOM has an enormous challenge ahead to control drug trafficking, roll back pervasive violence, and build the institutional capacity necessary for the rule of law to flourish. Significant strides have already been taken both in terms of policy reforms and program implementation, as evidenced by success in

apprehending key leaders of the DTOs and major drug seizures. Real efforts to combat arms trafficking and money laundering have been taken by the GOM, and the implementation of a unified police command is likely. However, the DTOs continue to expand their presence and find new ways to transport drugs and expand markets. Domestic production of marijuana, heroin, and methamphetamines is rapidly growing, and cocaine from South America continues to transit Mexico to reach markets in the United States.

Recommendations for future action include emphasizing institutional capacity building, disseminating programs from the Federal to state and local levels, and continuing to focus on priority areas as defined in the Mérida Initiative Four Pillar strategy. Furthermore, the USG urges Mexico to expeditiously implement judicial reforms previously passed in order to complement other initiatives by law enforcement and other government agencies to combat drug trafficking.

For its part, the USG continues to enhance programs on the U.S. side of the border to curb drug demand, and inhibit the flow of arms and cash across the border into Mexico. The battle against organized crime requires a holistic approach, and the USG remains committed to working with the GOM to implement programs and policies to confront the DTOs.

Moldova

A. Introduction

Moldova is not a major drug-producing country, but has a climate favorable for cultivating marijuana and poppy plants. Annual domestic production of marijuana and opium poppy is estimated at several thousand kilograms each. Moldova is a regular transit point for drugs destined for Western Europe, with several known and suspected transshipment points existing within Moldova's borders. Moldova's proximity to the European Union, the resource deficiencies of its law enforcement agencies, and its limited control of the territory situated on the left bank of the Dniester River, where Moldovan law and by extension, national drug policy are not applicable, has resulted in both the continued transshipment of drugs through Moldova into Europe and in the increased import of synthetic drugs and psychotropic substances into Moldova, both for local use and external distribution outside the country. Moldova is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Moldova's (GOM) Interdepartmental Commission for Drug Addiction and Drug Trafficking Control and the Permanent Committee on Drug Control manage the GOM's policies on drug addiction and trafficking. Drug abuse and trafficking remain issues of concern to the government. An intensification of inter-agency cooperation is needed on both a regional and national basis to accelerate progress in these areas.

Although the development of a National Drug Strategy was explicitly stipulated in the 2005-2007 EU-Moldova Individual Action Plan to harmonize Moldova's laws and policies towards eventual EU membership, the lack of an adopted Strategy remained a primary shortcoming of national drug control policy in 2010. This, however, will not be the same for 2011 as the Moldovan government adopted a national anti-drug strategy on December 14, 2010 for 2011-2018. According to the terms of the EU-Moldova Action Plan, the Strategy was conceived of as a declaration which would lay out general principles, wide-ranging policies, and guidelines for future activities. The National Anti-Drug Strategy will have two principal objectives: to decrease drug trafficking to and through Moldova and to restrict the supply and availability of all types of dangerous drugs.

Even before the very recent adoption of its National Strategy, Moldovan authorities, with the assistance of European Union (EU) experts, were successful in 2010 in elaborating a three-year Anti-Drug Action Plan. The Action Plan contains specific information on concrete activities planned by GOM institutions (in some instances, in cooperation with non-governmental institutions) for the years 2010 through 2013. The Action Plan focuses on items such as: improving the country's drug-related legal framework; establishing educational activities to discourage drug abuse; organizing activities to help reduce drug consumption; and informational activities and training for specialized staff.

In September 2010, the GOM added 36 new substances to its list of narcotic drugs, psychotropic substances, and plants that contain these substances, thus criminalizing any commerce or transport involving these items.

As in previous years, Moldovan police, customs and border officials cooperated in counter-narcotics activities. The Moldovan MIA has a specialized sixteen-person police unit responsible for the prevention and combating of drug-related crime nationwide. In addition to these full-time specialized counter-narcotics officers, there are 65 other police officers nationwide assigned responsibility for combating drug-related crimes. Anti-drug activities overall are hampered by the lack of a sufficient number of specialized police officers, along with a lack of funding and adequate technical equipment including

vehicles and analytical resources. Additional cooperation with the Ukrainian authorities is an absolute necessity to stem the flow of heroin and cocaine into Moldova from the Ports of Odessa and Illichivsk in Ukraine.

The GOM is a party to the 1988 UN Drug Convention and the UN Convention against Corruption. There is no bilateral extradition or mutual legal assistance treaty between the GOM and the United States Government. The Moldovan constitution precludes extradition of its nationals. The Prosecutor General's Office (PGO) of Moldova is responsible for handling requests for international legal assistance in the pre-trial phase, whereas the Ministry of Justice (MOJ) handles the in-trial and correctional phases.

The Republic of Moldova ("GOM") has concluded many bilateral and multilateral treaties in the field of combating crime, largely deriving from its participation or membership in such organizations and initiatives as the United Nations Council of Europe, Commonwealth of Independent States (CIS), Southeast European Cooperative Initiative, Black Sea Economic Cooperation (BSEC), GUAM (Georgia, Ukraine, Azerbaijan, Moldova) and others. In September and October of 2010, Moldova's law enforcement agencies, in cooperation with their counterparts from GUAM, participated in joint operation "NARCOSTOP-2010," which focused on combating drug trafficking between GUAM member states.

On September 25, 2010, the GOM and the Government of the Federal Republic of Austria signed a cooperative agreement on combating crime. The agreement will enhance bilateral cooperation between the governments in combating the illicit trafficking of narcotics, psychotropic substances, and chemical precursors.

2. Supply Reduction

Moldovan authorities registered 1555 drug related cases in the first ten months of 2010. Three criminal networks and eleven criminal groups were dismantled by Moldovan police in 2010. The MIA has been very active in 2010 in its fight against narcotics trafficking.

Drug seizures carried out during 2010 continued to indicate that Moldova remained primarily a transshipment country. Information provided by the Anti-Drug Division of the MIA in 2010 indicated one predominant heroin route: from Ukraine through Moldova into Western Europe. Cocaine movement has been detected from South America to the Ukrainian ports of Odessa and Illichivsk and on through Moldova into Western Europe. Synthetic drugs are imported primarily from Western Europe (ecstasy, amphetamines) and from the Russian Federation (amphetamines), but the scale of west to east movement for these synthetics is minute in comparison to the east to west movement of cocaine and heroin. Seizure data for 2010 revealed increases in amounts confiscated of the most commonly used and trafficked drugs: heroin - 4079 grams compared to 1611 grams in 2009; liquid heroin - 192 ml compared to 40 ml in 2009; hashish - 35,367 grams (35.4 kg), compared to 24,338 grams (24.3kg) in 2009; amphetamine - 1711 grams compared to only 17 grams in 2009.

Cannabis and poppy cultivation are a source of income for the local population in some rural areas. According to the MIA, both cannabis and poppy are primarily cultivated for local usage, however, they are also smuggled to nearby countries such as Ukraine and Russia. Lack of control over Moldova's eastern border creates favorable conditions for the cultivation of drugs in that vicinity and for drug trafficking via that border. Moldovan authorities regularly seize and destroy a significant amount of illicitly cultivated marijuana and poppy plants. As of November 2010, authorities had seized and destroyed 44,383 kilograms of cannabis plant biomass (44.3 MT) along with 6499 kilograms of poppy plant biomass (6.5 MT).

3. Drug Abuse Awareness, Demand Reduction, And Treatment

No major changes pertaining to drug abuse awareness education or treatment have been made in Moldova in 2010. As of November 2010, authorities had registered 8604 drug addicts in Moldova. Some officials, however, speculate that the real number of drug addicts in Moldova is almost three times higher.

The national system for collecting data on persons using illegal drugs in Moldova is based almost exclusively on the count of cases of persons who either voluntarily or involuntarily contacted relevant public institutions. Registration following contact with these public institutions requires disclosure of the individual's identity in the great majority of cases; this discourages registration. Data on the number of drug users depends on the methods and activities of referring services rather than on a survey of the drug abuse situation itself, and thus almost certainly underestimates drug abuse.

In its prevention education efforts, the GOM tries to focus on the reduction and eradication of drug abuse, the education of the population in a spirit of abstinence and of a healthy lifestyle, and the elimination of the consequences of physical and/or psychological addiction.

The development of a course for the curricula of pre-university institutions on the harmfulness of drug use began with the plan "Measures of Fighting Drug Addiction and Drug Trafficking" which was approved by the government in 2007.

The optional curriculum "Life Skills Education" starts in the sixth grade and continues until the pupil graduates from high school. Prevention of drug use is part of this curriculum.

At the regional level, the Education and Youth Departments have developed their own yearly activity plans to prevent drug use among school-aged children. "Anti-drug" lessons are taught in schools. The existing reporting system does not allow for a detailed analysis of the effectiveness of the activities implemented. Some observers in the non-governmental sector consider these classes to be inefficient and obsolete in many cases.

There is no formally structured, integrated approach to treatment for drug addiction in Moldova. The after-care and reintegration system is underdeveloped. In 2007, the first governmental Center for the Rehabilitation of Drug Addicts was created in Chisinau. The Center treats drug addicts on an outpatient basis. For participants in the national health insurance system, all services are free of charge.

Once discharged from the hospital after detoxification, patients not referred to the rehabilitation center may be invited to continue treatment in rehabilitation and reintegration programs offered by local NGOs, or in some cases, to travel outside the country for treatment. NGOs offer the advantage of free-of-charge service on an anonymous basis.

Implementation of an intravenous drug abuse/AIDS-HIV strategy began in Moldova in 1997. An agreement between the Moldovan Ministry of Health and the Soros Foundation-Moldova was signed on May 8, 2003. Under the terms of this agreement, the Soros Foundation-Moldova helped establish a network of NGOs and public institutions which implement activities to prevent the spread of HIV among high risk groups, including intravenous drug users. The GOM has to date not funded these programs by itself. Basic components of Moldovan programs include: informational and educational outreach about HIV and the prevention of high-risk practices through the distribution of informational materials and condoms at workshops; referral to medical and social services where medical counselling on sexually transmitted infections is available; psychological counselling; pre- and post-HIV test counselling; a needle/syringe exchange; and a methadone substitution treatment program.

4. Corruption

Moldovan national legislation does not distinguish between drug corruption and corruption related to other types of crime. As a matter of governmental policy, Moldova does not encourage or facilitate the production, shipment, or distribution of illicit drugs or the laundering of illegal drug proceeds. There is no credible evidence available indicating that any current senior Moldovan government official is engaged in illegal activity associated with drug trafficking. However, corruption is seen as a serious problem within both the Moldovan government and society and legal cases have been prosecuted where heads of ministries have been seemingly complicit with drug trafficking.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The GOM and the USG cooperate on law enforcement and counter-narcotics development issues under the terms of the Letter of Agreement on Narcotics Control and Law Enforcement signed on August 28, 2001. Amendments to this agreement provide funding to support activities designed to create sustainable improvement in the rule of law and in the operational capability of Moldova's law enforcement agencies.

USG-provided training and equipment help improve the ability of the Moldovan police to investigate and dismantle organized crime and narcotics enterprises. The U.S. Drug Enforcement Administration's office in Vienna is responsible for case-work cooperation with members of Moldova's specialized anti-drug unit within the MIA and enjoys support from Moldovan counterparts in several ongoing investigations. DoD, through the U.S. European Command, has cooperated with the Organization for Cooperation and Security in Europe on forged document training for border personnel.

D. Conclusion

The USG and the GOM have worked together successfully to bring about improvements in the ability of Moldovan law enforcement to operate effectively while respecting the rule of law. The GOM has also had a positive and cooperative relationship with the EU, which has placed senior level advisors at the MIA and the MOJ to assist in the reform efforts of these organizations and to help coordinate the contributions of international donors. The GOM should increase its own efforts to better train and equip its justice sector entities, including those engaged in combating illicit narcotics trafficking. The GOM should also work with the international community to assess the compliance of its legislation with the obligations existing under international counternarcotics treaties. Additionally, the GOM should look to develop and nurture a more comprehensive and active relationship with Ukrainian authorities to address border control concerns, especially in the southern and eastern portions of the country. Finally, the GOM should reconsider its ban on extradition of nationals.

Montenegro

A. Introduction

Montenegro continues to be an important transit route for heroin, cannabis, and cocaine into Western Europe due to its position along the Balkan Route. The country, which neighbors Kosovo, Serbia, and Bosnia and Herzegovina, is located among central Europe's most sensitive areas. A small portion of the smuggled narcotics (between 10% -15%) remains in the country and is sold in the small, but growing, domestic market. There is negligible illicit production of precursor chemicals or synthetic drugs in Montenegro itself. The Government of Montenegro (GoM) has placed the battle against organized criminal groups, including illicit drug traffickers, at the top of its list of priorities, linked in large part to its efforts to fight organized crime and corruption nationwide.

Montenegrin law enforcement officials are becoming more proactive in addressing the operations of illegal drug distribution networks; however, the country remains vulnerable to penetration by drug traffickers who use sophisticated methods and are closely connected to organized crime groups in neighboring countries and the wider region. Drug-related crime and drug abuse, particularly among young people, is on the rise. The GoM created a National Council for the Prevention of Drug Abuse and continues to implement its national anti-drug strategy, but these efforts remain hampered by endemic corruption.

There are no significant changes in narcotics use, market or price compared to last year. Suppression of street sale, particularly of heroin, remains a key challenge for authorities. There is an increasing conviction rate for drug trafficking in the context of overall crime, and reports indicate the increased involvement of Montenegrin citizens in illicit narcotics smuggling abroad.

Montenegro is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In May 2008, the GoM issued the country's first National Strategic Response to Drugs (2008-2012), a comprehensive drug strategy, along with an Action Plan (2008-2009), to implement the strategy and carry forward plans and initiatives to meet the objectives of the 1988 UN Drug Convention. The Government also created a National Office for Drugs, within the Ministry of Health, to ensure effective coordination, monitoring and evaluation of the country's counternarcotics efforts.

The Action Plan defines a timetable of activities and duties for each ministry or particular office during each budgetary period. It emphasizes the importance of coordination of all actors involved in combating drugs, making clear the importance of information exchange. The National Office for Drugs has established a system of contact persons within each organization or entity responsible for carrying out these polices; the Ministries of Interior and Justice, the Police Directorate, other relevant ministries, local governments and the healthcare system, plus several NGOs are all involved. However, in its 2010 annual Progress Report for the Western Balkans, the European Commission noted that there has been limited progress in this area.

The National Council for the Prevention of Drug Abuse, with the President of Montenegro at its helm, was established in March 2010 to institute measures and activities aiming to prevent, treat and re-socialize drug addicts. During the year, 21 municipal drug prevention offices – one in each municipality across the country – were established to carry out various drug control activities.

Because of its position on the Balkan Route, police believe that most drugs in Montenegro come from its southern and eastern neighbors – Albania and Kosovo. Marijuana and heroin are the most prevalent

drugs on the local market, while synthetic drugs such as amphetamines and ecstasy are less frequently used. There were no known cases of synthetic drug production or operation of secret labs. After several police seizures, it is believed that “skunk” or synthetic marijuana has increasingly supplanted ordinary marijuana in the local market and in smuggling through Montenegro headed for Western Europe. Authorities have noted an increase in the use of drugs among the youth population and have placed a high priority on fighting drug abuse and trafficking. The GoM has also begun to take steps to address public health issues associated with drug use.

The National Office for Drugs maintained communication with the **International Narcotics Control Board (INCB)** and regularly sent quarterly and annual reports on controlled substances. In December 2009, Montenegro adopted the Law on Precursors for Narcotics which stipulates surveillance and controlled sales of substances that could be used in the production of narcotics. The list of precursors is in line with international standards. The Law is also harmonized with the EU Directives and UN Conventions that Montenegro is a party to:

- The Single Convention on Narcotics Drugs (1961), as amended by the 1972 Protocol;
- The Convention on Psychotropic Substances (1971); and
- The UN Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988)

Montenegro is also a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and its three protocols. The 1901 extradition treaty between the United States and the Kingdom of Serbia remains in force between the U.S. and Montenegro, though it has never been tested.

In October 2010, Montenegro signed a bilateral extradition agreement with Serbia, which followed a similar agreement with Croatia signed earlier the same month. In July 2010, Montenegro signed two agreements with Bosnia and Herzegovina: the Agreement on Mutual Execution of Criminal Judgments and the Agreement on Legal Assistance in Criminal and Civil Matters.

The Criminal Procedure Code (CPC) and Criminal Code (CC) call for mandatory treatment of drug addicts. They also permit temporary and permanent seizure of assets derived from illicit drug trafficking, as well as authorize the use of secret surveillance measures in the pre-trial and investigation process. Extended confiscation of assets can also be applied (under the most recent CC amendments) if the offender was sentenced by a final and enforceable decision for a crime involving the unauthorized manufacture, possession or distribution of narcotic drugs. The penalty for producing and selling drugs ranges from two to 15 years in prison.

2. Supply Reduction

During 2010, police noted no major changes related to the general narcotic drugs trade and trafficking in comparison to the previous year. Authorities estimate there are seven or eight organized criminal groups operating in Montenegro, some of which are believed to be a part of a larger international narcotics smuggling network working in the region, Western Europe, South America and the Near East. The groups are believed to be organized on a horizontal level and do not have a significant hierarchy or firm organizational structure.

Heroin from Afghanistan transits Turkey, Bulgaria, Macedonia, Serbia, Kosovo and Albania, and is smuggled into Montenegro in private vehicles before being transported to Bosnia and Herzegovina, Croatia, and further into Western Europe. In recent years police have identified major heroin smuggling routes from Kosovo through Montenegro which operate under the control of criminal groups from the northern municipalities of Rozaje and Berane. According to police, the price of heroin on the local market has increased, which might possibly be attributed to reduced production in Afghanistan.

Cocaine is smuggled by sea and air from South America and then on to other countries in the region and to Western Europe. The Montenegrin police noted the increased involvement of Montenegrin citizens, either as organizers or couriers, in the smuggling of cocaine into the Netherlands, Spain, Germany and Scandinavia.

According to Montenegrin police, there were no reported cases of synthetic drug production, but the usual summer influx of tourists along Montenegro's Adriatic coast has led to seasonal increases in the use of synthetic drugs.

Drugs seized by police from January through November 2010 are as follows: 8.4 kg of heroin (compared to 18.3 kg in 2009); 581.4 kg of marijuana (compared to 851.5 kg in 2009); 4 kg of cocaine (compared to 1.4 kg in 2009); 10.7 gr. of hashish; 120.9 gr. of amphetamines. The majority of drugs were confiscated on land by the Drug Smuggling Suppression Department and the National Border Police.

Several important counternarcotics police operations were launched during the year:

- In the police operation "Orah" (Walnut), which lasted for seven months, police arrested three persons for smuggling 1.2 kg of cocaine and 0.5 kg of blended benzocaine and lidocaine from Argentina to Montenegro. Police stated that three arrestees are a part of a larger international criminal group that used sophisticated methods to smuggle 4 kg of cocaine from South America to Montenegro by air.
- In February 2010, the three month-long police operation "Chivas" resulted in the arrest of 10 persons who are believed to have smuggled 100 kg of "skunk" cannabis from Albania through Montenegro to Bosnia and Herzegovina.
- In August 2010, police confiscated 2 kg of heroin and arrested two persons suspected of being part of an organized group that smuggled heroin through Turkey, Kosovo, Montenegro and Serbia.
- In cooperation with Bosnian police, Montenegrin police intercepted smuggling networks trafficking drugs through Montenegro to Bosnia and Herzegovina, and confiscated 300 kg of "skunk" and 1 kg of heroin. Police actions were carried out both in Montenegro and in Bosnia and Herzegovina.

There was no known cultivation or production of narcotics in Montenegro in 2010, short of two cases of "house" cultivation of cannabis in the municipality of Niksic, where police in two separate actions confiscated 581 and 80 cannabis plants.

During the first ten months of 2010, police filed charges against 241 persons in 166 cases involving the production and distribution of narcotics.

In 2010, the Office of the Special Prosecutor for Organized Crime, Corruption, War Crimes and Terrorism, along with the High Prosecutors in Podgorica and Bijelo Polje, requested criminal investigations of 213 persons. 217 persons (including some charged in previous years) were convicted for drug-related offenses during the year. The investigation of 65 persons is ongoing.

The Drug Smuggling Suppression Department (DSSD) within the Police Directorate's Crime Division is responsible for law enforcement efforts and for the exchange of information among eight counternarcotics police units located throughout Montenegro, the Customs Administration, the Ministries of Justice and Finance, and Interpol.

During the year there was no technical improvement of equipment used by the anti-narcotic police units. Police use tracking dogs at the land border crossings and patrol boats to curb illicit trafficking at sea and on Skadar Lake, which straddles the Montenegrin-Albanian border.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Drug use began to spread more widely in Montenegro in the mid-1990s and became a significant public health issue in 2000. Reliable statistics on drug use in Montenegro are still lacking. Authorities estimate that Montenegro has between 2,000-3,000 addicts. According to a 2008 EU survey of high school-age respondents on the use of alcohol and other drugs, the most frequently-used illicit drugs were marijuana and inhalants, followed by tranquilizers and sedatives. Local surveys showed the rate of lifetime use of drugs by secondary school students to be 7.8 percent in 1999-2000 compared to 6.9 percent in 2006-2007, while the age of first use fell from 16 years in 1999-2000 to 14 years in 2006-2007.

Following on the “National Response to Drugs 2008-2012” initiative, the GoM is implementing activities in four key areas: prevention, treatment and rehabilitation, reduction of harm, and police and customs interventions. In March 2010, the National Council for the Prevention of Drug Abuse, with the President at the helm, was established to treat, rehabilitate, re-socialize and reduce the number of drug addicts.

During the year, the Ministry of Health established a network of 21 municipal drug prevention offices across the country. They are the major tool for implementing preventive and education activities covering all primary and secondary schools nationwide. Schools, health centers, police stations, social centers and NGOs all supplement the activities of the municipal drug prevention offices.

Preventative medical treatment is free of charge within the public health system. The number of patients treated for addiction in inpatient and outpatient healthcare in 2007 was around 600. The number of drug-related deaths per year is low – four in 2005, four in 2006, seven in 2007 and five in 2008.

There is equal treatment available to all drug addicts irrespective of gender, age or type of drug consumed. There is no formal mechanism for coordinating drug addiction treatment, however. Treatment is available on an outpatient basis in 18 health centers across the country and on an inpatient basis in general hospitals, as well as the special psychiatric hospital in Kotor. Hospital treatment for drug overdoses is provided by the Clinical Center of Montenegro and seven general hospitals across the country. Three outpatient centers provide methadone substitution therapy, though their capacity is limited. Drug counseling is confidential, and services offered by the local counseling centers are promoted in schools. Eight advisory centers throughout the country also provide services for voluntary and confidential testing on HIV.

Qualified doctors and methadone substitution therapy is available to convicted drug addicts in the Spuz prison facility, the country’s main penal institution. There are also educational programs for inmates about drug use, as well as voluntary and confidential counseling and testing on the HIV, Hepatitis C and Hepatitis B viruses.

The GoM provides funds from the national lottery to various NGOs for drug education programs. Funded programs include a drop-in center for psycho-social support, a medical referral service, outreach activities for hard to reach populations, informative workshops on the prevention of drug abuse among the Roma population, self-help projects conducted by former inmates, and healthy lifestyle promotion activities.

Rehabilitation and re-socialization programs are provided by the Public Institution for the Accommodation, Rehabilitation and Re-Socialization of Drug Users in Podgorica. Admittance to the institution is voluntary. The treatment program is divided in two phases: the first phase is a 12-month stay in the Institution followed by a second, nonresidential phase that includes group therapy, withdrawal symptoms testing, and family engagement. Patients pay one-third of the treatment costs while the state pays for the rest.

In cooperation with the European Monitoring Center for Drugs and Drug Addiction (EMCDDA), Montenegro produced its first “Country Overview” and “Info Map” for 2009, and adopted standards for drafting its first National Report based on EMCDDA standards. The goal of the project is to establish a

national focal point, national data base, and early warning system – priority areas cited by the European Commission in its 2010 annual Progress Report.

4. Corruption

The Government of Montenegro 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 remains widespread in Montenegro at all levels, however, and poses a considerable hurdle for the country in reforming state institutions. Low salaries foster graft among law enforcement officials and public servants. There is a widespread perception of public sector corruption, particularly in the executive and judicial branches, which undermines public confidence in government institutions. There are no specific laws covering narcotics-related public corruption. In two cases during 2010, police officers were arrested and had criminal charges brought against them for involvement in drug smuggling.

The Government has made efforts aimed at reducing corruption, identifying the problem as a key strategic priority. During its July 29 session, the Government adopted its 2010-2014 Strategy for the Fight against Corruption and Organized Crime, together with an Action Plan for its implementation over the next two years. In February 2010, Montenegro formed an inter-agency joint investigate team to work exclusively on fighting organized crime and corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. bilateral relationship with Montenegro is strong. The country views the U.S. as a strategic partner and generally supports U.S. goals in the Balkans, including drug control initiatives.

The Montenegro Special Prosecutor's Office communicates directly with the DEA regional office in Rome on matters of mutual concern. DEA maintains an active liaison with the National Police Directorate's Narcotics Division and has invited Montenegrin narcotics investigators to attend the 2011 DEA International Drug Enforcement Conference.

During 2010, the Embassy's Department of Justice/ICITAP and Department of State/INL programs began a re-invigorated rule of law assistance program. Key activities include extensive training initiatives, mentoring of police and prosecutors, and study visits to relevant international police agencies. In the maritime realm, the United States Coast Guard provided training in law enforcement and general maritime competencies. The emphasis of USG assistance programs is on organized crime and corruption, with a major sub-focus on combating narcotics trafficking.

Listed below is a summary of activities to date:

- The INL policing program has planned with local Police officials a comprehensive training program to be provided to the National Police Directorate. Training activities also include subject matter experts from the Drug Enforcement Administration, the Federal Bureau of Investigation, and the U.S. Marshals Service. Additionally, a resident policing advisor will provide mentoring to police commanders at the National Police Headquarters.
- The INL police advisor has also developed an incremental assistance program with the Attorney General of Montenegro to support the Office of the Special Prosecutor and the Joint Investigative Team for Organized Crime and Corruption. With the new Criminal Procedure Code requiring prosecutor-led investigations, INL is also providing intensive training in major case management to all Special Prosecutors. This training teaches leadership skills, effective police-prosecutor relations, case preparation, and the effective

use of electronic intercepts and informants. The training places strong emphasis on net-worth analysis of suspects and aggressive asset forfeiture.

- Along with the DEA and the Government of Croatia, INL completed joint training on money laundering investigations for the Special Prosecutor's Office and police.
- In cooperation with the U.S. Attorney's Office, INL completed training for the Special Prosecutor's Office on asset forfeiture courtroom presentation. Training focused on effective methods for presenting understandable cases and proving a clear nexus between criminal activity and illegal proceeds. The training also introduced Montenegro special prosecutors to cross-examination techniques, which will be used immediately with the enactment of the new Criminal Procedure Code.

INL assistance programs have implemented a very aggressive training schedule for the police and prosecutors during 2010. This training also involved over 200 prosecutors, police, and financial investigators in major case management, informant management and undercover operations. DoD, through the US European Command, has also provided training equipment to the National Police Working Dog base of operations.

D. Conclusion

Montenegro remains an important trafficking route for narcotics smuggling, but the county's top officials have demonstrated a commitment to cooperating with the U.S. and its partners in the global anti-narcotic efforts. The country has made limited progress in its counter narcotics efforts so far, however, and significant challenges remain.

Most observers believe that police investigations to date have focused on low-level organizers of criminal groups, street dealers and drug users while major narcotics traffickers are rarely arrested. The country needs to develop greater capacity for dealing with growing rates of addiction to narcotics, particularly among the young. Existing programs to educate youth on the dangers of drugs use must be reinforced, and drug abuse treatment availability must be significantly enhanced. To better track and intercept narcotics smuggled into and through Montenegro, the GoM should work with its neighbors to further improve its controls at coastal and land border crossings. Montenegro should continue to strengthen relationships between law enforcement agencies of other countries in the region. In the coming years, increased GoM efforts will be required to strengthen institutions, tackle drug control performance, corruption, money laundering, smuggling, trafficking, and other forms of organized crime to achieve its strategic goal: integration into the EU and NATO.

Montenegro's strategic importance to the U.S. is significantly disproportionate to its small size. The GoM's failure to establish effective rule of law could provide greater inroads to organized criminal activity and further erode confidence in public institutions. Helping Montenegro transform its law enforcement and judicial institutions into efficient tools for combating narcotics will be critical to its overall success in strengthening its rule of law capacity. Montenegro can be an asset to regional anti-narcotics cooperation, and its sustained efforts to do so will deepen the country's security cooperation with its neighbors, increasing confidence and stability.

Morocco

A. Introduction

Morocco continues to pursue an aggressive counternarcotics strategy focused primarily on interdiction and eradication, and has maintained previous years' progress in these areas. Yet despite persistent eradication efforts, Morocco still has more arable land devoted to cultivating cannabis than any other country in the world, although it produces less cannabis resin than Afghanistan, whose crops yield four times as much resin per acre, according to the 2010 UNODC World Drug Report.

Cannabis cultivation which has historically centered in the northern tip of the country, between the Rif Mountains and the Mediterranean Sea, provides an income for large segments of the population of that area. Cannabis remains primarily an illicit export crop for Moroccan growers, with most of the product typically processed into resin or oil and exported predominately to Europe. 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's location at the crossroads of Africa and Europe make it a key transit and transfer point for drug traffic. Spain serves as the primary transfer point for Europe-bound Moroccan cannabis resin, and from there it can normally be transhipped to most other Western European destinations. France, Belgium, the Netherlands and Italy are also major European destinations for cannabis trafficked from Morocco. The GOM is concerned that Morocco's importance as a transit country is increasing, particularly for cocaine originating in South America and moving through West African states to Europe.

Heroin and synthetic 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 kilograms of pseudoephedrine), and the country neither serves as a known source, nor transit point for diverted meth precursors.

Illicit drug use in the country has not been a primary area of concern for the GOM, which has generally viewed consumption as a European problem. To date, the GOM has not made an effort to quantify nationwide rates of drug use and lacks an effective system in place to measure and evaluate the situation. Though the scope of the problem is unknown, officials are becoming more aware of the need to invest resources in drug treatment and prevention programs. Morocco is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Morocco's national strategy to combat drugs rests on the three pillars of: (1) interdiction, (2) eradication, and (3) demand reduction. In recent years, Morocco has made significant efforts to combat the production and trafficking of narcotics. The GOM has pursued a counternarcotics strategy which emphasizes combining conventional law enforcement, crop eradication, and demand reduction efforts with economic development to erode the "cannabis growing culture" that has historically existed in northern Morocco.

According to the GOM, most current cannabis cultivation occurs in al-Hoceima, with the adjoining province of Chefchaouen largely making up the rest of production. Although production in the cannabis growing provinces of Larache, Taounate, and Tetouan, has reportedly declined in recent years, some production remains. 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 through the Spanish enclaves of

Ceuta and Melilla and the Moroccan port of Tangier, crossing the Strait of Gibraltar by ferry. According to the GOM, heroin continues to enter Morocco from the Spanish enclaves of Ceuta and Melilla.

In 2010, Morocco dedicated greater resources to combating the growth in trafficking and consumption of harder drugs, particularly cocaine, and has had some success in disrupting international cocaine trafficking networks. However, transnational drug trafficking networks with European, West African and Latin American ties remain in operation. The press has reported that Moroccan cocaine trafficking rings based in Agadir purchase cocaine from Colombians and Venezuelans operating from Botswana and Senegal, for shipment through Morocco into Europe. According to the United Nations, networks involving Moroccan nationals participated in the trafficking of cocaine to Spain, Portugal, Italy, Germany, and France in 2010. GOM officials believe that cocaine smugglers are increasingly seeking access to Europe through much harder to detect land routes and other methods, and may seek to cooperate with other criminal organizations including al Qaeda in the Islamic Maghreb (AQIM).

Morocco's national drug strategy is augmented by an emphasis on a broader economic development approach and crop substitution. Although the GOM has had some success encouraging the cultivation of alternative crops, farmers who traditionally rely on cannabis as a source of income have, at times, resisted this policy. Moroccan officials have reported the successful substitution of olives, figs and carob (Used as a sweetener, as a substitute for chocolate, and in drinks in Mediterranean countries) for cannabis since the launch of their 2004 drug-eradication campaign. Saffron may offer another crop substitution possibility. Since 2004, Morocco has conducted an awareness campaign for cannabis growers, alerting them to the environmental dangers of cannabis mono-culture, including 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 substitutes.

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 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. The GOM 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.

2. Supply Reduction

Due in part to an aggressive eradication campaign, carried out mainly by gendarmes and local authorities, police, and customs officials, the GOM reports that they have successfully decreased the land dedicated to cannabis cultivation from 134,000 ha in 2003 to 56,000 ha in 2009. Notwithstanding the decrease reported by the GOM in cultivation and production, there is no indication of a significant diminution of cannabis products reaching major European markets, according to the 2009 UNODC World Drug Report. However, increased cannabis resin production in Afghanistan may account for some of the discrepancy. During the year, Morocco used the following methods to eradicate illicit crops: (1) defoliant sprayed via airplane, (2) mechanical and manual destruction of crops and (3) burning.

The GOM has continued to pursue an aggressive eradication strategy despite opposition from segments of the population in traditional cannabis growing areas. The press reported that in 2010 Morocco cleared an additional 9,400 hectares dedicated to cannabis cultivation. In March in Taounate, authorities arrested 44 people suspected of growing cannabis and seized 700 kg of cannabis seeds as well as farming equipment. According to press reports, farmers in the Chefchaouen region attacked and vandalized a police station and repeatedly clashed with police in order to pressure authorities to allow the unhindered production of

cannabis. Press reports noted that local cannabis farmers also criticized the GOM for the aerial spraying of defoliants in cannabis cultivating areas, noting that the effort had destroyed the farmers' food crops.

The GOM has deployed enforcement personnel throughout the northern and south western coastal areas to interdict drug shipments, maintain counternarcotics checkpoints, and staff observation posts along the coast. The Moroccan Navy carries out routine sea patrols to suppress sea-borne narcotics trafficking. In August, the Moroccan navy seized two speedboats carrying nearly three tons of cannabis resin in the waters around Nador, a site of frequent maritime drug interdictions. GOM forces also use helicopters, planes, speed boats, mobile x-ray scanners, ultrasound equipment, and satellites in their drug fight.

Although the GOM provided no statistics on the total amount of drugs seized during 2010, large scale drug seizures were frequently in the news and the press reported that Morocco seized 102 tons of cannabis resin and 43 kilograms of cocaine during the first ten months of the year. During one individual seizure in Nador, Moroccan authorities confiscated 20 tons of cannabis resin. In February and March, customs officials seized 18 tons of cannabis resin in Casablanca. In a separate incident, authorities seized another six tons of cannabis in Errachidia in the south of the country. In April, authorities also seized 700 kg of cannabis resin in Larache, along the Northern Atlantic coast. In October, authorities disrupted the largest trafficking operation at the Casablanca port in a decade when they seized 12 tons of cannabis hidden in a shipping container bound for Belgium. The shipping container belonged to a front company claiming to export plastic plates to Europe.

Arrests of traffickers at the seaports and of Sub-Saharan African cocaine “mules” are also frequently in the news. In March, authorities in Senegal arrested two Moroccans carrying eight kg of cocaine en route from Brazil to Morocco. In a separate incident, authorities seized 1200 doses of heroin and 70 doses of cocaine from a Moroccan national in Tetouan. Surveillance, detection training, and the use of ultrasound equipment were critical to the success of these and other seizures.

Morocco's efforts to disrupt drug trafficking networks also resulted in several large scale arrests. In April, the press reported that authorities dismantled a cocaine trafficking ring led by a member of the Royale Gendarmerie, which also involved Nigerian and Congolese operatives. In August, officials arrested 50 people in Agadir implicated in another drug trafficking network. In October, Moroccan authorities arrested 34 people charged with trafficking 600 kg of cocaine from Colombia through Mali and into Morocco, Algeria, and Europe. According to the GOM, this international network laundered large sums of money through fictitious companies and was lead by Colombian and Spanish nationals, with assistance from Moroccan traffickers. In November, the GOM publicly called for expanded cooperation with Spanish authorities to combat international cocaine trafficking networks.

While calling for enhanced cooperation with Spain, Morocco continued to collaborate with French and Spanish authorities to combat drug trafficking. Since 2008, Morocco and Spain have participated in a joint commission to fight drug trafficking and illegal migration. 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 smugglers to take longer and more vulnerable routes.

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. Eight to ten years' imprisonment remains the typical sentence for major drug traffickers convicted in Morocco.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

To date, Morocco's strongest actions to combat drugs have been in the areas of interdiction and eradication. The GOM has not made an effort to quantify nationwide rates of drug abuse and lacks an effective system in place to measure and evaluate the situation. However, authorities are concerned about anecdotal evidence suggesting an increase in domestic cocaine and heroin use. According to the GOM, a

significant percentage of offenses committed by juveniles are drug-related, and approximately 29 percent of the prison population has been convicted on drug-related offenses ranging from trafficking to personal consumption.

Officials are becoming increasingly aware of the need to address consumption and develop options for treatment. In 2009, the GOM established a drug treatment facility in Casablanca to provide specialized care to patients suffering from addiction, the only such facility in the country. Morocco has also established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction. In order to discourage drug abuse among school children, the Ministry of Health launched a counternarcotics awareness campaign targeting school children and created drug-free school zones, patrolled by police and the Auxiliary Forces. Moroccan civil society and some schools are active in promoting counternarcotics campaigns.

4. 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 in Morocco. However, despite GOM actions to suppress corruption, narcotics-related corruption among governmental, judicial, military and law enforcement officials continues. In May, in Nador, authorities seized seven tons of illegal drugs destined for Europe, implicating more than 180 people, including 40 Moroccan administrative staff, police officers, and customs officials, according to press reports.

The GOM has taken steps to hold officials complicit in drug trafficking accountable for their actions. In March, the GOM sentenced 92 people - 55 of whom were members of the security services - to a maximum of ten years in prison for participating in a drug trafficking ring based in Nador that reportedly shipped 30 tons of cannabis resin to Europe over several years. In May, a guard in the Kenitra prison and three prisoners were sentenced to ten years imprisonment for selling drugs. Moroccan courts also sentenced 14 people, including a former parliamentarian, to between ten months and eight years in prison for trafficking cocaine.

In late 2008, the government formed the Central Authority for the Prevention of Corruption (ICPC), charged with anti-corruption advocacy and prevention. The Authority and the MOJ have jointly developed a guide on procedures for processing corruption complaints. In addition to the ICPC, the MOJ and the Court of Accounts (*Cour de Comptes*), the Government's supreme audit institution, also had jurisdiction over corruption issues. In October 2010, the Government of Morocco adopted a two-year anti-corruption program which aims to reinforce public administration integrity and transparency, strengthen internal administrative control, and reform anti-corruption legislation.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

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. This cooperation has been strong on the law enforcement side but less robust in terms of demand reduction efforts, as GOM officials still consider demand to be mainly a European problem.

The USG is working to enhance Morocco's counternarcotics capability through training in law enforcement and border control 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 track the flow of money from the drug trade as an enforcement technique.

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 2010.

During FY 2010, the Department of State's International Narcotics and Law Enforcement Affairs Bureau (INL) funded training for Moroccan police, gendarmes, customs, and justice officials in the areas of: (1) border interdiction training (2) cargo control (3) fraudulent document detection and (4) anti-corruption. DHS/CBP provided some of the training mentioned above and also three additional tool trucks to Moroccan Customs officials in Tangier, Nador and Oujda through INL funding. These trucks are being utilized in the disassembling of vehicles and or containers used for concealing and transporting narcotics. The USCG conducted maritime law enforcement training, and engaged in a combined maritime counterdrug operation with the Moroccan Navy. The U.S. will continue to engage Moroccan authorities in these areas in FY 2011.

D. Conclusions

Since 2004, Morocco has devoted considerable effort to cannabis eradication, and has successfully reduced the area of arable land dedicated to illicit cultivation of cannabis, although significant room for improvement remains. The GOM has also effectively sought out and cultivated counternarcotics partnerships with countries in Europe and Africa in order to improve interdiction and coordination against international drug trafficking networks, and has established mechanisms to better intercept the transfer of drugs across its borders. However, the lack of reliable data about drug use in the country coupled with the lack of demand reduction and drug treatment programs for youth, inmates, and the general population remain gaps in Morocco's overall counternarcotics approach. Many countries in the world teach the lesson that drug production and transit countries invariably become consumption countries for drugs. The U.S. will continue to monitor the illegal drug situation in Morocco, support the GOM in its counternarcotics efforts, and, provide law enforcement training, intelligence, and other support.

Mozambique

A. Introduction

Mozambique is not a significant producer of illegal drugs or chemical precursors. The long borders and endemic corruption in Mozambique mean the country is primarily used to transit drugs to consumer markets in South Africa and Europe. Domestic drug consumption is thought to be limited primarily to cannabis and some “mandrax”/quaaludes. The Ministry of Interior reports that cannabis cultivation is for local consumption and is difficult to control because it is deeply engrained in rural, cultural practices. The porous borders, an extensive seacoast, weak security infrastructure, and inadequately trained and equipped law enforcement personnel hamper Mozambique’s enforcement and interdiction efforts. The Government of Mozambique (GRM) is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The GRM has made some strides in developing an institutional infrastructure to combat drug use and trafficking, but the capacity of these institutions in terms of human and financial resources is weak. The Mozambique Office to Combat and Prevent Drug Use (GCPCD) focuses largely on treatment, prevention, education, and collecting statistics. The GCPCD Director reports that his office lacks resources and cooperation from other parts of government. The Attorney General’s office dedicates staff to the counternarcotics mission and details staff to the GCPCD. In 2001, with the help of the United Nations, The Ministry of the Interior created, an Anti- Narcotics Brigade (BCN) within the Investigative Police (PIC), which at one point reached 75 agents. The staffing currently stands at 45, spread throughout the country. The PIC Director and BCN Director both report a lack of resources and training necessary to interdict illegal drugs and successfully combat major drug traffickers. The GRM has no unified counternarcotics plan, though the GCPCD does annually report and analyze trends and activities of the GRM and civil society.

2. Supply Reduction

The Attorney General’s Office (PGR) and Ministry of Interior reported that in 2009 (the latest year for which statistics are available) 700 individuals were arrested for drug use or trafficking resulting in 410 court cases, a slight decrease from 2008. Twenty-three of the 700 individuals arrested were foreigners. Of the 700 arrested, 531 were convicted of a drug-related offense, usually possession for personal use, and 169 were awaiting trial at the time of this report.

The GCPCD also reports the seizure of 2,955 kilos of hashish, 2,619 kilos of marijuana (slightly less than 2008), 6 kilos of cocaine, 4.4 kilos of heroin, 20 kilos of mandrax, and 113 marijuana plants. Only the seizures of hashish represent a significant increase over 2008. The GCPCD noted that methods of smuggling drugs have become more sophisticated. The PIC Director said most of the arrests and seizures were the result of fortuitous tips by fishermen along seaports or lucky catches at airports.

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 and the UN Convention Against Corruption.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The GCPCD leans heavily on civil society support to convey its anti-drug message. The GCPCD reported that the number of community leaders trained to communicate an anti-drug message reached 31,960, representing an increase of 4,324 from 2008. The GCPCD also reported 3,567 anti-drug lectures

were given, an increase of more than 900 from the previous year, reaching an audience of 566,184. These lectures targeted mainly school-age youth. The GCPCD was active in working with a number of ministries – ranging from Health to Women and Social Action – to provide comprehensive drug abuse education in local languages. The GRM raised the public profile of drug abuse through public events, fairs, and media appearances.

Mozambique lacks dedicated drug treatment facilities. The GRM provides drug treatment only at general service government health units which happen to have associated mental health or psychiatric units. As a result, most drug addicts are treated at home by the family. The GCPCD analyzed 2006-2009 data from the Ministry of Health and concluded that a doubling of psychiatric patients treated for problems related to substance abuse (2,125 in 2009, half for alcohol abuse) resulted from steadily improving conditions and treatment at government health units.

4. Corruption

While Mozambican law provides for criminal penalties for official corruption, corruption remains widespread and endemic. The World Bank's Worldwide Governance Indicators reflected that corruption is a serious problem. Few high-level government officials face prosecution for corruption so officials engage in corrupt practices with impunity. Despite the government's strong anti-corruption rhetoric, anti-corruption law enforcement is weak.

In May, the Customs Director of Investigation at the Ministry of Finance, Orlando Jose, widely regarded as active in combating corruption, was murdered by unknown assailants suspected to be linked to organized crime and corrupt officials. The investigation into his murder has stalled with no significant arrests.

Inadequately trained and equipped law enforcement agencies and corruption in the police and judiciary hamper Mozambique's interdiction efforts and facilitate the country's use as a transit point for illegal narcotics. 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. However, some Customs officials are suspected of assisting drug traffickers move contraband through Mozambique.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. and the GRM have worked together on U.S.-sponsored training and assistance programs that seek to reduce drug trafficking. The Department of Defense (DoD) supplied 12 rigid hull inflatable boats (RHIBs) in November 2010 to the Mozambican Navy (for a total of 17 since 2006) to patrol the lengthy Mozambican coast. The donations and subsequent training aim to improve primarily the GRM's counter-terrorism capacity, though it will have ancillary benefits of countering piracy and interdicting drug shipments. Additional counternarcotics assistance coordinated jointly by DoD and State-INL is planned for 2011.

USAID's Democracy and Governance Program seeks to develop a Security Sector Reform Program that may include program elements working on community policing and institutional reform. The U.S. Embassy's RSO and Political/Economic Sections are also currently coordinating with State-INL to put together an array of short-term training programs, in order to provide training for Mozambican police and border security forces for improved detection and interdiction of traffickers of both people and contraband, especially illegal drugs.

D. Conclusion

Because of weak border controls, Mozambique remains a transit point for drugs passing to more lucrative consumer markets, especially South Africa. With the June designation in the U.S. of prominent local businessman, Mohamed Bachir Suleman, ("MBS") under the Kingpin Act, the GRM was faced with

public calls to combat drug trafficking and money laundering. Progress on the GRM's investigation into MBS's activities remains inconclusive, and the lack of progress or any demonstrable action means the GRM has lost an opportunity to demonstrate commitment in fighting illegal narcotics. Some observers allege this is because MBS gave support and had ties to the highest levels of the ruling party, Frelimo. Mozambique has yet to convict any major drug traffickers in the courts and does not use asset forfeiture laws to increase enforcement pressure on traffickers. The GRM's counternarcotics fight is hampered by weak political will, high levels of corruption and few resources. The USG will continue to work with those elements of the GRM committed to combating illegal narcotics.

Nepal

A. Introduction

Although Nepal is neither a significant producer of nor a major transit route for narcotic drugs, some hashish, heroin and domestically-produced cannabis and opium are trafficked from and to Nepal every year. The Narcotics Drug Control Law Enforcement Unit (NDCLEU) of the Nepal Police reports that more Nepalese citizens are investing in, and taking a larger role in managing, trafficking operations. They are making contact with Indian criminal drug trafficking organizations. Customs and border controls in Nepal remain weak, but international cooperation has resulted in increased narcotics-related interdictions at the borders and Nepal's international airport. Limited resources hinder the development of a robust counternarcotics program. Narcotics-related legislation has been pending for several years. Nepal is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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 plans to amend the Act to incorporate provisions for psychotropic substances, demand reduction, treatment and rehabilitation.

In 2006, the Home Ministry updated its 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 crime groups, the revised 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 counternarcotics. The NDCLEU contains 76 personnel, 21 of whom are stationed outside of the Kathmandu Valley. Operational proficiency has improved since 2009 and the chain of command has been clarified. The Deputy Inspector General of Police (DIGP) of the NDCLEU now reports to the Inspector General of Police Secretariat who reports to the Home Ministry.

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 Iraq, Afghanistan, and residents of the Palestinian territories are unable to obtain visas on arrival. Implementation of Machine Readable Passports (MRP), scheduled for December 2010, will greatly reduce the ability to travel on false passports. 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 networks.

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. Nepal does not have any extradition or mutual legal assistance treaties with the United States.

2. Supply Reduction

Police do not believe illicit production of marijuana has increased during 2010, although illicit cultivation of opium appears to be on the rise. The increase may represent a shift in crop choice from marijuana to opium. The volatile security situation in the Terai region, the unstable political situation, and corruption contribute to the rise in opium cultivation. The growing Indian market via the open border with Nepal has increased demand for opium. The NDCLEU reported that Indian poppy producers have begun to provide Nepalese farmers with hybrid opium seeds and instructions on cultivation techniques. Nepal does not produce precursor chemicals, although it 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 2010. Additionally, a proposed amendment to the Narcotics Drugs Control Act regarding the control and regulation of precursor chemicals remains under review.

Limited human resources and inadequate equipment constrain the effectiveness of the NDCLEU's intelligence and law enforcement operations. The NDCLEU and Nepal's customs and immigration services are improving coordination and cooperation. Nepal's International Airport has been manned with more personnel from NDCLEU. However, manual efforts at drug seizure are not sufficient to meet the present challenges to drugs trafficking. NDCLEU regularly conducts training programs on drugs investigation for Nepal Police. Narcotics officials admit the destruction of areas of illicit drug cultivation is not as effective as it could be; statistical data indicate a sizeable drop in area destroyed over each year in 2010, 2009, 2008 and 2007. This year the Nepal Police destroyed 50 hectares of land of cannabis cultivation compared to 62 hectares destroyed in 2009 and 105 hectares in 2008. As of November 2010, 126 Nepalese citizens and 31 foreigners from 15 countries had been arrested on drug related charges. As of November 2010, Nepalese officials confiscated 764 kilograms of hashish, eight kilograms of heroin, 4000 tablets of amphetamine-type stimulant (ATS), i.e., Ya-ba (ATS) **tablets, and 25,000 vials of pharmaceutical drugs, primarily Buprenorphine and diazepam.**

The Ministry of Science and Technology regulates the estimated 3000 pharmacies in Kathmandu, although some observers wonder whether the Ministry's oversight is effective. The NDCLEU notes that the pharmacies have the capacity to manufacture prescription-based drugs, and some pharmacies provide those drugs to anyone willing to pay for bogus prescription drugs, but practices like this are common enough in many developing countries, where pharmacists are frequently the only health professionals accessible to poor populations.

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, Iran, Europe, the U.S. and Canada. In 2008, police for the first time seized 50 kilograms of phenobarbitone in transit to Pakistan and 800 grams of methamphetamine in transit to Iran. There was one arrest in 2009 and one in 2010 involving Iranian-produced crystal methamphetamine. An investigation by international law enforcement agencies concluded that the substances matched Iranian-produced crystal methamphetamine seized in India. The NDCLEU has noted an increase in arrests of Nepalese couriers in other countries in recent years 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. The NDCLEU has also identified the United States as a final destination for some drugs transiting Nepal, typically routed through Thailand, China and Indonesia. The most recent arrests involved the attempted delivery of narcotics destined for the United States via Kathmandu - Doha - Amsterdam - New York.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Nepalese government continues to implement its national drug demand reduction strategy with assistance from the United States, UNODC, donor agencies, and NGOs. Budgetary constraints and limited political interest have limited progress beyond donor and NGO-funded education and awareness programs. Training program for the courier and cargo services on drug awareness is another important program conducted by NDCLEU.

4. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. policy is to strengthen Nepal's law enforcement capacity to combat narcotics trafficking and related crimes, to maintain positive bilateral cooperation, and to encourage Nepal to enact and implement appropriate laws and regulations to meet all objectives of the 1988 UN Drug Convention. The United States is committed to working with Government of Nepal agencies to provide expertise and training in law enforcement. Nepal cooperates and facilitates international investigations with regional partners to include the U. S. Drug Enforcement Agency (DEA) and International Criminal Police Organization (INTERPOL). In 2010, the United States provided and trained 18 NDCLEU agents on the use of drug test and drug analysis kits.

D. Conclusion

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 Nepalese border and customs services. The United States also will encourage the Government of Nepal to enact stalled drug legislation.

The Netherlands

A. Introduction

The Netherlands is a significant production and transit country for narcotics. Although drug use is not a criminal offense, the Dutch Opium Act prohibits the possession, commercial distribution, production, import, and export of all illicit drugs. The Dutch government places a high priority on combating the illegal drug trade and it has seen considerable success. The Netherlands is a party to the 1988 UN Drug Convention.

Cultivation of Dutch-grown cannabis (“Nederwiet”) is extensive. In July 2008, the Justice and Interior Ministers established the National Taskforce on Organized Hemp Cultivation to focus on fighting criminal organizations behind cannabis plantations. The special focus resulted from the 2008 National Threat Assessment (NDB), which labeled organized hemp cultivation as a main threat to Dutch society.

The country remains an important producer of ecstasy (MDMA) although a sizeable amount of production appears to have shifted to other countries. According to the 2009 report by the Expertise Center for Synthetic Drugs and Precursors (ESDP), no reports of ecstasy tablet seizures in the United States linked to the Netherlands were received in 2009. There is also production of amphetamines and other synthetic drugs in the Netherlands. The Netherlands has a large (legal) chemical sector, making it an opportune location for criminals to obtain or produce precursor chemicals used to manufacture illicit drugs.

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 sizeable percentage of the cocaine consumed in Europe enters through the Netherlands. Cocaine trafficking is combated through the successful 100 percent checks on inbound flights from the Netherlands Antilles and Suriname and West African countries. 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 a systematic, organized scale, the sentence is increased by one-third (up to 16 years). It should be noted, however, that under Dutch law, prisoners typically are released after serving 2/3 of their sentence.

The Government of the Netherlands and the Dutch public view domestic drug use as a public health issue first and a law enforcement issue second. The Dutch Opium Act distinguishes between “hard” drugs that have “unacceptable” risks (e.g., heroin, cocaine, ecstasy), and “soft” drugs (cannabis products). Sales of small amounts of cannabis products (under five grams) are “tolerated” (i.e., not prosecuted, even though technically illegal). Sales of this sort take place in “coffee shops” operating under regulated conditions (no minors on premises, no alcohol sales, no hard drug sales, no advertising, and not creating a public nuisance).

The Health Ministry coordinates drug policy, while the newly created Ministry of Public Security and Justice is responsible for law enforcement, including the police. Matters relating to local government are the responsibility of the Ministry of Interior. At the municipal level, dangerous drug policy is coordinated in tripartite consultations among the mayor, the chief public prosecutor and the police.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In September 2009, the former Dutch Cabinet submitted a letter to Parliament that was to form the basis for a new policy document on drugs. The letter expressed the Cabinet's desire to maintain the policy of tolerating cannabis sales in coffee shops, but to further restrict their operations in order to address related criminal activity and public nuisances more effectively. However, due to the fall of the Cabinet in February 2010, the drafting of the new drug policy paper was left to the next Cabinet.

In anticipation of this new policy paper, the former Cabinet earmarked 3.3 million Euros to fund pilot projects in several Dutch cities to combat public nuisances caused by coffee shops. The pilot projects include scaling down the size of coffee shops, intensifying controls and enforcement by local governments, restricting access to local residents, and reaching out to foreign drug tourists to discourage travel to the Netherlands for marijuana. The pilot projects will begin at the end of 2010 and will be assessed after two years. The most successful projects will then be duplicated in other cities. The former Cabinet also decided to set up an expert committee to review the classification system in the Dutch Opium Act, which distinguishes between "hard" drugs (Schedule I drugs, such as cocaine, ecstasy and heroin), and "soft" drugs (Schedule II drugs, such as cannabis). The committee will study various new classification scenarios, including the option of merging the two lists into one.

The recently-formed Cabinet of conservative Liberals and center-right Christians, with the support of the anti-Islam Freedom Party, was sworn in on October 14, 2010. The "coalition accord," which forms the basis of the coalition partners' cooperation for the government's policies over the next four years, included a paragraph on drug policy. The parties highlighted the need to intensify the fight against public nuisances and drug-related crime. They proposed that:

- Coffee shops become private clubs only accessible to adult Dutch nationals and residents upon presentation of their IDs;
- Heavier penalties be imposed on (conspiring to) the import, export, cultivation and (organized) trade in drugs, including a revision of the distinction in hard and soft drugs (lists I and II); and
- The minimum distance between schools and coffee shops will be increased to at least 350 meters.

Current expectations are that the new Cabinet will take an even sharper stand toward coffee shops and cannabis cultivation than the former government. Experiments with regulated cannabis cultivation, therefore, are not likely to take place during this term of office. In this respect, new Security and Justice Minister Opstelten noted that the fight against organized cannabis cultivation would particularly focus on seizing criminal assets.

In April 2010, caretaker Justice Minister Hirsch Ballin submitted a bill calling for a major clampdown on all aspects of organized cannabis cultivation. The bill makes all preparations that facilitate illegal cannabis cultivation a criminal offense. Under the plan, all parties involved in the supply chain, from equipment suppliers ("grow shops"), dealers, and even electricians who help build illegal cannabis plantations, will face up to three years' imprisonment. Due to the fall of the former Cabinet, action on that bill has been suspended.

In July 2010, Hirsch Ballin signed a covenant with the police, the Dutch Energy Association and the Association of Dutch Insurers to step up the fight against organized cannabis cultivation. Under the pilot project, police, public prosecutors and the private sector will exchange personal data of suspects. The

objective of the covenant is not only to dismantle cannabis plantations, but also to combat the criminal organizations behind the plantations

In July 2010, the European Court of Justice (ECJ) ruled that Dutch municipalities in border regions may refuse to allow foreign customers in local coffee shops as part of their efforts to fight drug tourism. The ECJ stated that such a measure appeared not to be contrary to the European rules on either the free movement of persons and services or non-discrimination, because the sale of cannabis is considered an illegal activity in all member-states. The Dutch Council of State, the highest administrative court in the Netherlands, had sought the ECJ's advice after receiving an appeal from a coffee shop owner in a case against the city council of Maastricht. The coffee shop owner was forced by the city to close in 2006 after two non-Dutch nationals were found on his premises. The Council of State's ruling on the appeal is still pending.

The 100 percent security checks on inbound flights from the Netherlands Antilles and Suriname continued in 2010, despite the dramatic decline in the number of cocaine couriers arrested at Schiphol airport. The stricter controls also have been expanded to inbound flights from West Africa, in light of the emergence of that route for trafficking from Latin American cocaine-producing regions to Europe.

The Netherlands is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention on Narcotic Drugs as amended by the 1972 Protocol. The Netherlands is a member of the UN Commission on Narcotics Drugs and the major donors group of the UNODC. The Netherlands is a leading member of the Dublin Group of countries coordinating drug-related assistance. The Netherlands is party to the UN Convention against Corruption, and to the UN Convention on Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling. The U.S. and the Netherlands have fully operational extradition and mutual legal assistance agreements, which were supplemented by the 2004 U.S.-Netherlands Mutual Legal Assistance and Extradition Agreements, which entered into force on February 1, 2010.

Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. One serious problem, however, is the classification of certain drugs or precursors as either legal or only "list II" drugs under the Dutch Opium Act. For example, GBL, an odorless liquid originally developed as an industrial solvent and engine degreaser, is also used as the primary ingredient (precursor) to clandestinely manufacture gamma hydroxybutyric acid (GHB), a powerful central nervous system depressant that is used illicitly, often for its euphoric and sedative effects, but also for the commission of drug-facilitated sexual assault-"date rape". As such, the possession, use, transportation, and importation of GBL are a strictly regulated controlled substance in the United States. There are few legitimate household uses for GBL, and thus, any amount possessed by an unlicensed person or corporation is subject to prosecution. GBL itself may be ingested as a substitute for GHB; once ingested, the body will convert it to GHB. Because of the lack of criminalization of GBL in the Netherlands, the United States has been unable to obtain assistance in a least one law enforcement investigation in which GBL was being sent to the United States specifically to make GHB; the Dutch cited lack of "dual criminality." Similarly, Cathinone, found in the plant Khat, is proscribed in the United States, and is listed as a Schedule 1 Controlled Substance in the 1971 United Nations Convention on Psychotropic Substances, which formed the basis for the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The Netherlands is a party to both Conventions, but Khat and its derivatives are not controlled, thus making cooperation in investigations involving Cathinone a problem. The Netherlands actively participates in DEA's El Paso Intelligence Center (EPIC) and the DEA sponsored yearly International Drug Enforcement Conference (IDEC).

In August 2010, the Netherlands acceded to the Caribbean Regional Maritime Agreement, a treaty which will pave the way to intensified cooperation in combating sea-borne drug trafficking in the region.

2. Supply Reduction

Cannabis-related seizures, including plants, marijuana, and resin, decreased significantly from 2008 to 2009. Total MDMA seizures, including tablets seized in foreign countries that can be linked to the Netherlands, also dropped considerably in 2009. According to the ESDP, no reports of MDMA tablet seizures in the United States linked to the Netherlands were received in 2009. Most Dutch MDMA tablets were seized in Germany.

The amount of Dutch-produced amphetamine (powder and paste) seized in the Netherlands and abroad increased between 2008 and 2009, as reported by the ESDP. Most Dutch amphetamine is exported to the UK, Germany and Scandinavian countries. Other synthetic drug seizures in 2009 included 2C-B tablets and MCPP tablets, seizures of both of which increased significantly from 2008. The number of dismantled hemp plantations in the Netherlands remained constant from the previous year. The number of dismantled synthetic drug production sites rose to 24 from 21 in 2008. Of these 24 sites, 10 related to amphetamine production, compared to 3 in 2009.

Drug Seizures in the Netherlands:	2008	2009
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Heroin (kg)	803	596
Cocaine (kg)	6,757	4,934
Ecstasy (tablets)	249,761	172,845
Ecstasy (powder and paste) (kg)	84	3.4
Synthetic drug labs	21	24
Amphetamine powder (kg)	1,106	1,946
Amphetamine paste (kg)	121	466
Methamphetamine (kg)	0.02	0
LSD (trips)	17,825	0
Methadone (tablets)	4,562	113
Cannabis resin (kg)	24,443	4,633
Marijuana/"Nederwiet" (kg)	42,359	5,942
Hemp plants	1,053,368	863,343
Dismantled hemp plantations	4,731	4,727

BMK (liter)	232	40
PMK (liter)	0	207
mCPP (tablets)	7,764	361,600
2C-B tablets	0	149,600
Chemical waste dumps	47	43

(Source: KLPD National Police Force)

The number of drug crime suspects registered by the Dutch police in 2007 (the latest available year) was 21,000. In 2008, more than 18,000 drug-related offenses were registered with the public prosecutor's office. Drug-related offenses constituted about eight percent of the total number of criminal cases handled by Dutch courts in 2008. The average unconditional prison sentence (unsuspended and unreduced by probation) for a drug offense in 2007 was 340 days.

The Netherlands is a major producer of cannabis and synthetic drugs. The NDB estimates there are between 30,000 and 40,000 hemp plantations in the Netherlands. More than 80 percent of Dutch-grown cannabis is exported (with illegal revenues of approximately 2.5 billion to 5 billion Euros). According to the 2009 report by the Expertise Center for Synthetic Drugs and Precursors (ESDP) of the National Crime Squad (NR), MDMA production has dropped dramatically since 2008. The National Crime Squad (NR) reported in July 2010 that synthetic drug production in the Netherlands is in the hands of a few dozen organizations, most of which come from trailer park circles and the Moroccan community. The NR explained that MDMA production is temporarily on the decline because its basic precursor material, PMK, has become more difficult to obtain due to new legislation and tightened controls in China, the largest producer.

3. Drug Abuse Awareness Demand Reduction and Treatment

The Ministry of Health, Welfare and Sport continues to be the agency responsible for coordinating Dutch drug policy and implementation. Demand reduction and treatment policies aim to reduce the risks to drug users, their immediate surroundings and society. In meeting these goals, the Netherlands has been reasonably successful. Despite their reputation for tolerance, the number of drug users and addicts in the country is on par with the rest of Europe. The rate of drug-related deaths is the lowest in Europe: 2.4 per million inhabitants.

Drug prevention programs are organized through a network of local, regional and national institutions. Programs target schools in order to discourage drug use among students, and use national mass media campaigns to reach the broader public. The Netherlands requires school instruction on the dangers of alcohol and drugs as part of the health education curriculum. The "healthy living" project developed by the Netherlands Institute of Mental Health and Addiction (the Trimbos Institute) continues to run in about 60 percent of Dutch secondary schools and a third of primary schools. At the request of the Health Ministry, the Trimbos Institute carries out drug information campaigns each year. The 24-hour national Drug Info Hot Line of the Trimbos Institute has become very popular.

According to a 2009 survey of drug use in Amsterdam carried out by the Jellinek institute for addiction care among 266 coffee shop visitors, 94 percent of respondents admitted having used cannabis during the previous month. Almost 75 percent of them reported daily cannabis use, averaging just fewer than four

joints per day. According to the researchers, the number of heavy users in Amsterdam has risen substantially.

Below are the latest available comprehensive statistics on drug use among the general population ages covered: 15-64, years compared: 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 2009, Trimbos Institute)

The party drug GHB is becoming increasingly popular. According to the Foundation for Consumer Safety, the number of people who had to be treated by Dutch hospitals for GHB-poisoning quadrupled between 2004 and 2009 from 300 to 1,200. According to the Trimbos Institute for addiction research, the number of GHB users seeking treatment for their addiction is also rising dramatically. GHB seems to be the fastest growing addiction problem in the Netherlands. Trimbos has also noted a slight increase in mephedrone, or “Miaow Miaow” use in the Netherlands.

The Health Ministry administers a wide variety of demand and harm-reduction programs, reaching about 75 percent of the country's addicts. According to the 2009 National Drug Monitor (NDM), in 2008, outpatient treatment centers registered 8,418 clients seeking treatment for their (primary) cannabis addiction, 9,686 clients for their cocaine addiction, 12,711 clients for addiction to opiates, 191 for ecstasy, and 1,446 for amphetamines. The number of opiate addicts is low compared to other EU countries (about 1.6 per 1,000 inhabitants); the number has declined dramatically over the past ten years; the average age has risen to 44; 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. There are 17 clinics in 15 Dutch cities at which heroin is distributed to approximately 700 hard-core addicts, for whom all other forms of assistance have failed. As apparent results of this program, both the crime rate has dropped and the health of addicts has improved.

4. 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 has been found 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. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread or systemic.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. and Dutch law enforcement agencies maintained excellent operational cooperation, with principal attention given to South American cocaine trafficking organizations, drug related money laundering activities, and countering MDMA/ecstasy entering the United States.

Dutch regulations continue to restrict the use of “criminal infiltrates”, i.e., undercover informants in investigations of drug traffickers. In addition, the Dutch do not use their asset forfeiture laws in conjunction with drug related investigations to the same extent as in the United States. Bilateral law enforcement cooperation continues to expand under the U.S.-Dutch bilateral “Agreed Steps” commitments to jointly fight drug trafficking. DEA The Hague has also noted improved and expedited handling of drug-related extradition requests.

The United States is also working with the Netherlands to assist Aruba and the former Netherlands Antilles in countering narcotics trafficking. (On October 10, 2010, Sint Maarten and Curacao became independent countries, like Aruba, with foreign affairs and military operations still within the purview of the Dutch government.) The 10-year Forward Operating Location (FOL) agreement between the U.S. and 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.

During the bilateral “Agreed Steps” law enforcement consultations in March 2010, the United States and the Netherlands discussed continued operational cooperation in international drug trafficking investigations. The discussions focused on the subject of enhanced police-to-police information sharing. In support of further cooperation, two officers from the Netherlands attended resident training with the U.S. Coast Guard in maritime law enforcement.

The Netherlands continued its maritime support to the Joint Interagency Task Force South (JIATF-S) operations against illicit drug trafficking in the Caribbean. The Royal Netherlands Navy with attached U.S. Coast Guard Law Enforcement Detachments (LEDET) removed over 7,525 lbs of cocaine and 2,000 lbs of marijuana, detained 11 suspected drug smugglers, and seized 3 vessels while operating in the Caribbean in 2010. The U.S. Coast Guard embarks LEDETS on RNLN surface assets to expand interdiction opportunities and enhance law enforcement presence.

Additionally, both DEA and the Dutch National Crime Squad (NR) recognize the importance of money laundering investigations and joint initiatives concerning drug related “bulk” cash smuggling operations. This includes operational programs and bilateral discussions at DEA Headquarters. Many of these initiatives were discussed and planned during the June 2009 “Expert Meeting” between DEA and NR in The Hague.

In December 2006, the Royal military police (KMar) was instructed by the Justice Ministry to stop sharing the Schiphol “black list” of couriers intercepted at the airport with DEA The Hague for privacy reasons. The Ministry indicated that, since Dutch policy requires the names to be removed from the list after three years, entering the names into a U.S. government database without a sunset provision would be

contrary to Dutch law. To date, this issue has not been resolved and the suspension continues. DEA The Hague continues to supply the KMar at Schiphol with international trend information on routes being utilized by drug couriers.

In 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 2010 IDEC held in Rio de Janeiro. Additionally, in June 2009, NR and DEA held an "Expert Meeting" regarding money laundering, synthetic drugs/precursors, drug trafficking trends in Africa and heroin trafficking out of Afghanistan.

All foreign law enforcement assistance requests continue to be sent to the International Liaison Division (IPOL), a division of the National Police Force (KLPD). The IPOL has assigned two liaison officers to assist DEA and other U.S. law enforcement agencies; DEA and other law enforcement liaison officers contact the Regional Police Forces and NR offices directly for requests and intelligence sharing. This policy has continued to permit coordination during ongoing enforcement actions.

Under Dutch law enforcement policy, prosecutors control most aspects of an investigation. Dutch police officers often must obtain prosecutor concurrence to share information directly with foreign law enforcement liaison officers even on a police-to-police basis. Dutch regulations regarding police-to-police information sharing can be ambiguous and often subject to interpretation, which can hamper the quick sharing of information. However, expeditious sharing of police-to-police information is improving as a result of the increased access for DEA agents with NR units. Additionally, DEA has continued to work with KLPD and the National Prosecutor's Office to shorten the amount of time it takes to obtain approval of MLAT (Mutual Legal Assistance Treaty) requests. Based on these discussions and close working relationship, Dutch officials have dramatically shortened the amount of time needed to obtain these approvals.

Additionally, the use of confidential sources is heavily restricted under Dutch law. Since many DEA investigations outside of the Netherlands utilize cooperating source information, this can pose unique challenges when attempting to initiate or coordinate cases with Dutch counterparts.

D. Conclusion

Despite the reality of toleration for soft drug use, the Dutch government takes the fight against drug trafficking very seriously. The expectation is that the new Cabinet will take an even stricter stand than its predecessor, particularly on cannabis production and use. The Netherlands has had much success with their drug policy to date, especially with prevention and treatment programs (as statistics cited in this report bear out). Although the Netherlands is hampered to some degree by domestic legal restrictions on the extent to which it can cooperate bilaterally, we have every reason to believe the Netherlands will maintain close bilateral cooperation with the United States on counter-narcotics efforts.

Nicaragua

A. Introduction

In 2010, Nicaragua was added to the List of Major Drug Producing and Transshipment Countries because it is a major transshipment route for cocaine flowing from South America to the United States.

Nicaragua's poor economy, limited law enforcement capabilities, and sparsely populated regions provide an opportune environment for drug trafficking organizations (DTOs) to transit drugs, weapons, cash, and to establish clandestine labs and warehouse facilities. Despite these conditions, Nicaragua's civilian and military law enforcement units have successfully disrupted some DTO operations throughout the country in the past year, notably in the important autonomous regions of the Caribbean coast. This included dismantling DTO logistic structures; seizing drugs, currency, and small arms; destroying clandestine airstrips; and confiscating vehicles and aircraft.

Nicaragua also is a producer of methamphetamine and marijuana. No reliable data exists to indicate the destination of this growing sector of the drug trade in Nicaragua, though open source and official sources suggest a dramatic increase in the production of the two drugs in 2010. Nicaragua also is experiencing increased domestic consumption of methamphetamine, crack, and marijuana.

U.S. anti-narcotic efforts in Nicaragua face a number of competing challenges. While anti-U.S. rhetoric and controversial decisions by President Ortega often run counter to U.S. interests, Nicaraguan military and civilian law enforcement capabilities are almost wholly dependent upon foreign assistance, much of it contributed by the U.S. to provide necessities including food, fuel, equipment, and training. U.S. cooperation and support for the Nicaraguan Navy helped it overcome many challenges and become one of Central America's most effective agencies in narcotics interdictions.

Nicaragua is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

A particularly troubling development occurred on March 25, 2010, when the Nicaraguan National Police (NNP) Vetted Unit was disbanded, ostensibly due to the cost of maintaining that unit. The United States Government (USG) was not notified of the decision until it was publicly announced. The disbanding of the unit was a blow to U.S.-supported counternarcotics efforts, as the Vetted Unit officers, who had all been polygraph tested, were dispersed among various non-vetted drug units. The decision to dissolve the Vetted Unit, combined with President Ortega's frequent public criticism of U.S. bilateral counternarcotics assistance, placed considerable strain on USG efforts to support counternarcotics programs with the NNP.

Nicaragua's strict penal code, implemented in 2008, sharpened the Government of Nicaragua's (GON) efforts against money laundering and terrorism financing in the past year, though greater government attention to this issue is necessary. That law made money laundering a crime with significantly harsher penalties separate from drug trafficking. In 2010 there were eight money laundering cases investigated, resulting in seven criminal convictions. However, for the sixth consecutive year, Nicaragua failed to approve an independent Financial Intelligence Unit (FIU); the only Central American country without one. Nicaragua is a member of the Caribbean Financial Action Task Force (CFATF), though compliance has been minimal. In 2009 Nicaragua completed the CFATF Mutual Evaluation Report, which outlines the country's progress in its Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) efforts.

In 2010 the Nicaraguan National Assembly approved an anti-organized crime law, which included seized asset guidelines, a witness protection program, and telecommunications intercept guidelines.

Despite an extradition treaty with the United States dating from 1907, there have been no extraditions from Nicaragua to the United States in the recent past. Nicaragua does domestically prosecute its nationals for crimes committed outside Nicaragua, but the outcomes are inconsistent. The GON routinely remands foreign nationals to U.S. custody during high-seas interdiction cases, but has been less cooperative in the extradition of Nicaraguan citizens in similar cases.

The United States and Nicaragua signed a Maritime Counterdrug Bilateral agreement 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 (UNCAC), the UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention on Mutual Assistance in Criminal Matters, and the Inter-American Convention against Corruption. Nicaragua also ratified the Inter-American Mutual Legal Assistance Convention in 2002, an agreement that facilitates sharing of legal information between countries, and improved cooperation with U.S. requests for evidence sharing or evidence transfer in 2010. Nicaragua ratified the 2002 Inter-American Convention against Terrorism, and signed, but not ratified, the Caribbean Regional Maritime Counternarcotics Agreement in 2003. In 2004, the United States and Nicaragua signed the Cooperating Nation Information Exchange System (CNIES), which allows greater law enforcement intelligence sharing among nations. 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.

2. Supply Reduction

In 2010, DTO transshipment methods varied between countless land, sea, and air routes. Maritime smuggling via go-fast boats on the littorals of both coasts, the San Juan River, and Lake Nicaragua remained prevalent, though exact routes routinely change. The predominant maritime routes included the littoral waters of the Caribbean and Pacific, as well as inland waterways in and around Lake Nicaragua. Both fixed and rotary wing aircraft were used to smuggle contraband.

Traffickers increased the construction and use of clandestine airstrips in the Caribbean coastal areas-- Regional Autonomous Area North (RAAN) and South (RAAS) -- though seizures of helicopters on both the Atlantic and Pacific coasts indicate the continued use of rotary wing aircraft throughout the country. Highlighting an uptick in illicit air traffic, three aircraft crashed near the Río Coco, in the RAAN and Walpasiksa, in the RAAS. In the area bordering Honduras, near Rio Coco, a helicopter was found abandoned in close proximity to a clandestine airstrip. Heavy moving equipment and fuel also were recovered on-site.

Border security is a concern in Nicaragua. DTOs use the Pan-American Highway as a primary route for northbound cocaine, heroin, and marijuana and a southbound route for weapons and currency. DTOs increased the use of couriers, as well as hidden compartments in cars and trucks to smuggle drugs and currency across the five Nicaraguan border crossings at Guasaule, El Espino, Las Manos, Penas Blancas, and Los Chiles in 2010. The port of entry in Penas Blancas, Department of Rivas, on the Nicaragua-Costa Rica border, is the most successful and aggressive of the Nicaraguan border checkpoints. It is also the last overland chokepoint for northbound contraband and southbound currency, entering or leaving the Central America customs area.

In 2010, Nicaraguan law enforcement authorities nearly doubled the previous year's cocaine seizures to 17.5 metric tons (MT) from 9.8 MT and dismantled a large clandestine methamphetamine laboratory. In the first half of 2010 alone, Nicaraguan security forces confiscated 199 vehicles, nine airplanes, one helicopter, 48 boats, and 209 weapons.

Despite reductions in the Navy's budget during 2010 as part of across-the-board cuts, the lion's share of counternarcotics success in Nicaragua is due to the excellent cooperation and interoperability of the Nicaraguan Navy, its regional partners, and the United States. Successful joint operations included an

operation that netted 2.5 MT of cocaine in a shipping container at the Nicaraguan port of Corinto. Maritime cocaine seizures during 2010 accounted for 13.6 MT of the 17.5 MTs confiscated. The Nicaraguan Navy and the Nicaraguan National Police (NNP) also seized \$2 million in cash, and assets worth over \$8.4 million during 2010. The NNP eradicated 8,500 marijuana plants in five growing regions in the Northern provinces of the country, with an approximate local value of \$1.4 million.

3. Drug Awareness, Demand Reduction, and Treatment

Drug consumption in Nicaragua is a growing problem, particularly on the Atlantic coast where transshipment has increased. Domestic use of crack cocaine, methamphetamine, and marijuana are on the rise, particularly among 16 to 35 year olds, according to Nicaraguan community leaders and law enforcement. What little education and law enforcement resources are dedicated to this issue are largely focused on the Hispanic Pacific coast regions of Nicaragua, rather than the Creole and Indigenous Atlantic coast.

Using United States Government (USG) resources, the NNP's Drug Abuse Resistance Education (DARE) program is the premier youth demand reduction program in Nicaragua. In July 2010, six NNP Juvenile Affairs officials attended advanced DARE training in the United States. In 2010, DARE reached 12,000 students in Nicaragua, a slight reduction from 2009. In August, 20 NNP officers received DARE "Train the Trainer" training from 12 Costa Rican National Police officer/trainers in Managua. The NNP's Second Step program (Segundo Paso) which prepares teachers and police officers for drug awareness and prevention at the preschool level, continued in Managua, the RAAS, and the RAAN. The NNP Juvenile Affairs division's anti-drug message reached 530 students in 2010. Also in 2010, 38 police officers and preschool teachers were trained for the Second Step program, "Monitoring and Project Evaluation."

The Gang Resistance Education and Training (GREAT) pilot program initiated in 2010 met with enthusiastic support from the Juvenile Affairs Division of the NNP and shows great promise as a demand reduction program going forward. To date the program has graduated 500 students in Nicaragua. More than 300 of these students are from Bluefields, the strategically important capital of the RAAS.

Using GON funds, the Ministry of Education (MINED), the Ministry of Health (MINSAL), and the Nicaraguan Fund for Children and the Family (FONIF) have all undertaken limited drug abuse awareness and demand reduction campaigns in schools. The Nicaraguan Narcotic and Psychotropic Drugs and Other Controlled Substances, "Law 285," sets aside one fifth of all seized assets for GON demand reduction campaigns, though, to date, no survey, estimates of treated/rehabilitated patients, or budget figures for these GON demand reduction programs is available. No private sector initiative exists to promote national drug abuse awareness, prevention, and drug use treatment programs. Nicaragua does not have a dedicated drug treatment center.

4. Corruption

Despite attempts to address it, corruption is a pervasive and continuing problem in Nicaragua. As a matter of policy, the GON neither encourages nor facilitates illicit production and distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior government officials are reported to be engaged in such activity. However, many factors make it difficult to combat corruption, including low salaries for police and judges and a poor law enforcement infrastructure. Cash rich criminals have acquired a cloak of impunity through bribery and extortion of judicial and law enforcement officials. Detained drug suspects are regularly freed after a short detention, a practice that undercuts law enforcement effectiveness. The continued politicization of the Nicaraguan judiciary and the Nicaraguan Supreme Court in particular, is a worrisome impediment to serious law enforcement efforts in the country. For instance, money and other assets seized from drug trafficking activities are to be distributed at the discretion of the Supreme Court. These funds are largely unaccounted for and reports of justices keeping expensive vehicles and luxury items for themselves are

common. Because of these irregularities and other reports of judicial corruption, the United States no longer provides foreign assistance to the Nicaraguan Supreme Court.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The USG goals in Nicaragua are to enhance the abilities of GON law enforcement agencies to detect and intercept shipments, detain traffickers, and stop the laundering of illegal profits from the drug industry, as well as support preventative programs to protect youth from drugs and recruitment into gangs.

The law enforcement bureaus of the GON are heavily dependent on USG assistance. The Nicaraguan Navy, U.S. Coast Guard, and Drug Enforcement Administration (DEA) enjoy an excellent operational relationship to include information sharing. USG funds support the NNP Mobile Inspection Unit, border security units, and military border patrol units. The USG also buttressed NNP border security efforts by improving office and living quarters at the Penas Blancas border crossing. The USG supported the NNP's Mobile Inspection Unit (MIU), which establishes random checkpoints at strategic points on the national highway system and accounts for the bulk of all police seizures. The existing Maritime Counterdrug Bilateral agreement was used by the GON and the USG six times in FY 2010, which resulted in the removal of over 7 MT of cocaine from the transit zone.

In 2010, the USG provided the Nicaraguan Navy with training in maritime law enforcement, small boat operations, maintenance and logistics, engineering, and leadership. The Nicaraguan Navy, with assistance from the USG, is developing a long-range patrol capability centered on three 65-foot Dabur patrol boats, which will extend its blue water operations, and has plans to refit and return to service 40 confiscated go-fast type vessels, to work predominantly along the littorals and rivers.

Also in 2010, U.S. Customs and Border Patrol (CBP) conducted assessments at all but one of the Nicaraguan border crossings. A Central American Fingerprint Exchange System (CAFÉ) team also conducted a project needs assessment for Nicaragua and reported pervasive lack of resources and low levels of infrastructural and operational capacity.

D. Conclusion

Nicaragua did not sign bilateral counternarcotics assistance agreements with the United States in either FY 2009 or FY 2010, thus losing related foreign assistance funding. The United States continues to support Nicaragua's interdiction efforts, but U.S.- Nicaraguan anti-corruption and money laundering cooperation has deteriorated severely since the GON disbanded the NNP Vetted Unit. We encourage the GON to re-establish this important law enforcement asset. Nicaragua also needs stronger statutes to combat corruption and money laundering and needs to professionalize and remove political influences on the judiciary and the Prosecutor General's office.

Although many sectors of the GON remain uncooperative, the interdiction successes of the Nicaraguan Navy are a bright spot and demonstrate the willingness of some branches of the GON to confront DTOs and live up to their international commitments. The Nicaraguan Navy regularly confronted DTOs using information provided by the USG. We encourage the GON to continue effective targeting and patrolling that has served as a deterrent for DTO shipments moving northbound. By selectively rewarding and supporting cooperative elements of the GON, real progress is clearly attainable.

Niger

Though drug production and use are not Niger's top-priority problems, the Sahara's role as a transit route for drugs flowing to Europe presents a very real challenge. Low prices for narcotics, especially cannabis and diversion of licit prescription medications, are leading to a gradual increase in consumption and in narcotics-related health problems. The vast uncontrolled spaces in northern Niger have been used as smuggling routes for centuries and continue to be exploited for the transit of illicit drugs. Only a very small amount of cannabis is grown in Niger, and to date there is no evidence of synthetic drug production facilities. Niger is a party to the 1988 UN Drug Convention.

Cannabis and prescription medications are readily and cheaply available. Enough marijuana to make a cigarette or two is available for as little as 100 to 200 CFA (20-40 cents) and can be purchased on the periphery of many markets throughout Niger, but especially in Niamey and other urban areas. Diazepam, a depressant commonly marketed as Valium, is the prescription medication of choice for abuse and can be purchased on the street for as little as 25 to 50 CFA (5-10 cents) per pill. Cannabis and prescription medications are generally trafficked into Niger from Nigeria and Ghana on heavy transport trucks, in the baggage of people traveling north into Niger, and on the backs of camels using traditional trade routes.

Embassy sources report large quantities of cocaine originating in South America and cannabis originating in Morocco transit Niger en route to Europe. The clandestine west-east traffic in cocaine and marijuana through northern Niger is believed to dwarf the south-north traffic in marijuana and prescription medication. Drug trafficking has been destabilizing to Niger and is believed to have contributed to the 2007-2009 Tuareg rebellion and the ongoing banditry that keeps much of northern Niger inaccessible to most travelers. The lack of investment or development projects and the magnitude of revenue generated by trafficking and other smuggling make it difficult for local and regional leaders to provide attractive alternatives for young people. The Nigerien government professes the will to curb the threat, but does not sanction drug trafficking, and does not have the capacity to effectively combat drug use and transportation.

The Nigerien Center for Coordination of the Fight against Drugs, led by a Nigerien National Police Officer, is the focal point for government and private organizations that combat drugs, and is tasked with compiling statistics, developing intelligence, and pursuing drug users and distributors. The Center receives support from the French government and uses the French national public health laboratory to analyze recovered drugs. Within the Ministry of Justice, the Director of Criminal Affairs and Pardons heads the National Coordinating Commission for the Fight against Drugs, which organizes outreach and educational programs.

In 2009, illicit drug use was a factor in 1709 of the cases seen at the Nigerien National Hospital, which included 791 hospitalizations and 12 deaths. Drug demand reduction professionals identify an increasing trend in drug use. There were 479 arrests for drug related offenses in 2009, down from 498 in 2008. Seizures resulted in 823 kilograms of cannabis plants and 1076 kilograms of hashish being removed in 2009, down from 1449 kilograms of plants but an increase from the 54 grams of hashish that was seized in 2008. In 2009, 2 doses of amphetamines, 331,487 doses of diazepam and 6876 doses of ephedrine were seized. In 2008, it was 17,818 doses of amphetamines, 328,615 doses of diazepam, and 4866 doses of ephedrine. In 2009, authorities seized 209 grams of cocaine, up from 105 grams of cocaine and 2 grams of heroin in 2008. The Nigerien security services (Police, Gendarmerie, Customs and Intervention and Security Service) arrested 479 people on drug-related offenses in 2009, of whom 460 were Nigeriens. Of the remainder, 8 were Nigerian, 5 Ghanaians, 2 Burkinabes, and one each from Benin, Mali, Togo and

Sudan. In 2008, 498 people were arrested, of whom 458 were Nigerien, 21 were from Nigeria, 6 from Mali, 5 from Ghana, 3 from Burkina Faso, 2 from Benin, and one each from Guinea, Togo and Chad.

As a matter of government policy, Niger 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.

Niger is a party to the UN Convention against Corruption.

Nigeria

A. Introduction

Heroin and cocaine transit Nigeria on their way to markets in Europe, and to a lesser degree, the United States. While steady arrests of drug couriers have occurred at Murtala Mohammed International Airport (MMIA) in Lagos, Nigerian Drug and Law Enforcement Agency (NDLEA) officials suspect that drug traffickers have begun using other ports of entry such as seaports and land borders to transport drugs to neighboring countries for outward shipment to European and American markets. NDLEA officials have also increasingly intercepted drug couriers from Latin America, particularly on flights from Brazil at MMIA. NDLEA continues to apprehend drug couriers as a result of the use of modern scanning equipment donated to Nigeria by the Embassy's International Narcotics and Law Enforcement Affairs (INL) Office in 2008. State INL and AFRICOM also donated drug detecting kits to the NDLEA for use at all Nigerian points of entry, including land borders, to enhance the drug agency's capacity to conduct interdiction activities at these locations.

Still, Nigerian organized criminal networks remain a major factor in moving cocaine and heroin worldwide. While many of these organizations are not based in Nigeria, 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. Widespread corruption in Nigeria makes the criminals' 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 an important drug trafficking hub.

In Nigeria, the only drug cultivated in significant amounts domestically is cannabis sativa (marijuana). Nigerian-grown marijuana is the most common drug abused in the country. It is also exported to neighboring West African countries through Nigeria's vast porous borders and then shipped to Europe. However, it is not shipped in significant quantities to the United States. Nigeria is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The NDLEA is responsible for enforcing laws against illicit drug trafficking and abuse. 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. Inter-agency cooperation is a key missing ingredient that partially explains the dearth of apprehensions of major traffickers or the absence of consistent interdiction of major shipments of contraband. 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.

Nigeria's counter-narcotics policy derives from an ambitious National Drug Control Master Plan (NDCMP), in place since 1998, which assigns responsibilities to various government ministries and agencies as well as non-governmental organizations (NGOs) and other interest groups. In addition, the Master Plan outlines basic resource requirements and timeframes for the completion of objectives. Many of the plan's goals, however, remain unfulfilled. In the past, the Nigerian Government has not adequately budgeted for necessary drug law enforcement by NDLEA. The GON increased the NDLEA budget to 7.25 billion Naira (about \$48 million) from its N4.62 billion in 2009. Of this, the GON has allocated

26.16 million naira (or about \$175,000) for training of NDLEA staff. By far the greatest portion, 80 percent, of the NDLEA budget goes to personnel costs, while 8.6 percent supports capital expenditures.

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, made applicable to Nigeria in 1935, remains 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. Nevertheless, processing extraditions has become a tedious, slow process yielding few results. The U.S. has two drug-related extradition requests pending with Nigeria. The first request has been pending since June 2004. That request has gone through a lengthy appeal process, as the defendant has challenged the original judge's objectivity. Despite the appeals court finding that the defendant's appeal lacked merit, the court reassigned the case to a second judge, who then retired in August 2010. A third judge has taken over the case and scheduled a hearing for December 2010. The second extradition request was filed in April 2009. The federal court judge found for the defendant, because the defendant said that he had never traveled to the United States. Arguing that this is not grounds for denying an extradition, the NDLEA has appealed that decision; no hearing date has yet been scheduled. Despite the dedicated efforts of NDLEA prosecutors to pursue these extraditions, Nigerian law still affords the defendant many options to delay or confuse proceedings, especially through interlocutory appeals, which allow defendants to raise objections, which are then litigated to conclusion first before the main case can proceed.

In the past year, NDLEA cooperated with international drug enforcement efforts, including an operation with U.S. DEA. This joint operation resulted in five arrests and the seizure of 450 kilograms of cocaine originating in Bolivia. NDLEA and the U.S. DEA also cooperated on a controlled delivery which resulted in one arrest and the seizure of 5.25 kg of heroin from Pakistan, and a third in which a large seizure of heroin (130 kg) was made from Iran.

2. Supply Reduction

In the past year, NDLEA's most consistent interdictions have taken place at Nigeria's four international airports, with the majority of hard drug seizures (e.g., cocaine and heroin) at MMIA. The U.S. Embassy supported a number of commanders at these strategic locations for training at the International Law Enforcement Academy (ILEA) in Gaborone, Botswana. Courses included basic airport interdiction and drug unit commander training, and as mentioned elsewhere, the U.S. provided sophisticated drug detection devices for use at all of Nigeria's international airports. The agency continues to apprehend individual drug couriers transiting through these airports and Nigeria's land borders. In some cases, NDLEA officials dismantled drug trafficking rings formed by airport employees, but have not arrested major drug traffickers and financiers, who organize the regular traffic of low level drug "mules" on their way to Europe.

Until this past year, authorities have not systematically used asset seizures from narcotics traffickers and money launderers as enforcement tools, although Nigerian law permits such seizures. According to the NDLEA, of eight narcotics-related money laundering cases, three have remained at trial and five resulted in conviction. However, of the five convictions, only one occurred in a Nigerian court – the other four came from NDLEA cooperation that led to convictions in U.S. and United Kingdom courts. Asset forfeiture remains particularly challenging in Nigeria, where no law supports non-conviction-based forfeiture or plea bargaining. Therefore, NDLEA can only recover assets after obtaining a conviction and proving a connection between the assets and the drug trafficking. Also, without plea bargaining and mandatory sentences, NDLEA encounters difficulty working with low level couriers to assemble successful cases against the higher echelons of sophisticated organized criminal gangs. At other times, the problem lies with Nigeria's courts, which remain subject to intimidation and corruption.

Cannabis is the only illicit drug produced in any significant quantity in Nigeria; it is cultivated in all of 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. Cannabis sativa (marijuana) is the main drug abused by Nigerians. 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. Cannabis sativa remains the largest volume drug seized by the NDLEA, which destroyed a total of 395.3 hectares of cannabis sativa cultivation between January and September 2010.

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, the preferred methods of transshipment appear to have changed. The NDLEA unit at MMIA conducts selective 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. In the past year, NDLEA officers received training from both the U.S. and the UK Governments to improve their skills in intelligence-gathering and profiling of potential drug couriers. This training of NDLEA officers has resulted in immediate dividends, as demonstrated by large drug seizures in the past year.

A key factor in the increased arrests of couriers has involved the continued use of the Digital Body scanners donated under the U.S. State Department's anti-drug assistance project. NDLEA officials have operated these scanners at Lagos and Abuja International Airports, and to a lesser extent at Kano and Port Harcourt, since early 2008, ensuring that drug couriers face a significant likelihood of detection at these international airports. Many observers believe that, if Nigeria introduced vigorous, anti-drug enforcement regimes at its five major seaports and some drug detection measures at its porous land borders; such efforts would also yield significant drug seizures. A recent large seizure of cocaine shipped from Iran at Lagos' container port suggests this suspicion is accurate. As traffickers have now become more aware of the presence of scanners at the airport, they have begun to avoid the airports and seek other routes and means to smuggle drugs. The U.S. also purchased four new drug or 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 of drug couriers transiting Nigeria's airports.

Between January and October 2010, the NDLEA command at MMIA seized 25.05 kilograms of cannabis, 183.61 kilograms of cocaine, 41.56 kilograms of heroin, and 71.45 kilograms of psychotropic substances (44.90 kilograms of methamphetamine and 26.55 kilograms of amphetamine). In addition to such seizures, authorities confiscated 450 kilograms of cocaine from Bolivia and 4 kilograms of heroin from Pakistan through international controlled-delivery operations in cooperation with DEA.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

While local production and use of cannabis has remained a problem in Nigeria for some time, according to the NDLEA and NGOs, the abuse of harder drugs (e.g., cocaine and heroin) has begun to rise. Following a well-known pattern, that narcotics transiting a country eventually are abused by its citizens, heroin and cocaine have become readily available in many of Nigeria's larger cities. The NDLEA's Directorate Demand Reduction reinvigorated its school-oriented programs within the past year, focusing on creating awareness of the consequences of drug abuse and illicit drug trafficking. Other demand reduction programs have targeted various groups, including youths, professional truck/bus drivers, and commercial sex workers, community leaders, and transport workers, staff of various organizations among others. In the past year, NDLEA counseled and rehabilitated a total of 2,369 drug dependent persons, more than 95 percent of whom were dependent on cannabis. NDLEA has also launched awareness

campaigns on the health effects of drug use and the consequences of narcotics trafficking, focusing on youths, commercial sex workers, and transport workers.

4. Corruption

Corruption plays a major role in drug trafficking around the world, and this is certainly true in Nigeria. The large illicit proceeds from drug trafficking empower traffickers to use widely prevalent small and large scale corruption to protect their operations. Nigeria has laws against corruption, and authorities can point to several indictments, including one lodged against a former NDLEA Chief. His trial began in September 2009 and was resolved in 10 months, due mostly to the firm courtroom management of a no-nonsense judge. This case, however, serves as the exception to the rule. The Economic and Financial Crimes Commission (EFCC), the lead agency on high-level corruption and financial crime cases, features a listing on its website of 55 high profile cases, most of which began between 2005 and 2007. The slow progress of these cases illustrates the level of impunity that results from the inefficiency and corruption in the Nigerian justice system. While the GON does not, as a matter of government policy, encourage or facilitate illicit drug production or trafficking, nor is it involved in laundering the proceeds of the sale of illicit drugs, frequent reports in domestic and foreign media of high-level corruption in Nigeria that goes unpunished send the message that, by deft use of corruption, narcotics criminals can also operate with impunity in Nigeria.

To address some weaknesses in Nigeria's criminal code, NDLEA has worked with the National Assembly to amend Nigeria's basic narcotics law to provide stricter mandatory sentences for major traffickers. The National Assembly has considered such amendments since 2007, but few expect that any action will happen before national elections in April 2011. NDLEA officials will also seek a new provision to allow NDLEA and the Nigerian Immigration Service to seize an offender's passport during pre-trial and post-conviction periods to prevent drug traffickers from travelling abroad to escape justice.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Despite recent budget increases for NDLEA, GON funding for Nigerian law enforcement agencies remains woefully insufficient and erratic in disbursement, which affects the planning of actions on the part of these agencies and undercuts the stated GON commitment to effective law enforcement. Unless the GON remedies this situation, little progress will occur over the medium to long term. Only strong and sustained political will and continued international assistance will allow authorities to confront these difficult issues and bring about meaningful change.

U.S. government counter-narcotics assistance to Nigeria since February 2001 now totals over \$3 million, primarily through the Department of State's INL Bureau. An important target for U.S. assistance was the Nigerian National Police. Despite some assistance successes, many citizens distrust the Nigerian National Police and organized crime groups continue to exploit that mistrust by preying on citizens throughout the country. The Embassy INL office continues to promote greater interaction between the Nigeria Customs and the NDLEA to improve interdiction at the vulnerable seaports and porous land borders. Even with support from international donors, NDLEA officers still received little training due to insufficient budgets.

U.S.-Nigerian counter-narcotics cooperation focuses on drug interdiction at major international entry points and initiatives to enhance the professionalism of the NDLEA and other law enforcement agencies. The INL and DEA country offices in Nigeria work closely with the NDLEA and other law enforcement agencies to strengthen capacity, sending several NDLEA officers for training through the ILEA. In FY2011, INL will fund a counter-narcotics advisor, who will work with NDLEA to develop strategies for strengthening the Agency's operations. At all levels, U.S. representatives enjoy excellent access to their counterparts and both sides desire to strengthen these relationships.

D. Conclusion

The U.S. government will continue to engage the GON on the issues of counter-narcotics, corruption, 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 remain deep-seated and require a comprehensive and collaborative effort at all levels of law enforcement and government. Progress can only occur through the GON's sustained efforts and political will with continued support from the international community.

North Korea

There still is insufficient evidence to say with certainty that state-sponsored trafficking by the Democratic People's Republic of Korea (DPRK or North Korea) has stopped entirely in 2010. The continued lack of public reports of drug trafficking with a direct DPRK connection suggests that such high-profile drug trafficking has either ceased or been sharply reduced. Trafficking of methamphetamine along the DPRK-China border continues and press reports about cross-border trafficking have increased in comparison to last year. These reports, which appear in Chinese and South Korean media, point to transactions between DPRK traffickers and large-scale, organized Chinese criminal groups in locations along the DPRK-PRC border such as Dandong and Yangi and as far away as Changchun. There are also an increasing number of reports in media published by North Korean defectors on the rise of drug use in North Korea. Other criminality involving the DPRK territory, such as counterfeiting of cigarettes and foreign currency, continues.

China National Radio reported that in the first six months of 2009, the province of Jilin, which covers much of the eastern part of the China-DPRK border, led all of China in the volume of drugs seized. Crystal Meth ("Ice") seizures doubled in comparison to the first six months of 2008. Most of the recorded cases involved cross-border drug smuggling, and the total weight of all drugs seized during this six-month period was 6.1 MT. Another Chinese press report indicated that in response to increased cross-border drug trafficking, Chinese police initiated a boat patrol along the Tumen River which forms part of the DPRK-China border.

No confirmed instances of large-scale drug trafficking involving the DPRK state or its nationals were reported in 2010. This is the eighth consecutive year that there were no known instances of large-scale methamphetamine or heroin trafficking to either Japan or Taiwan with direct DPRK state institution involvement. From the mid- 1990s through to 2002/2003, numerous instances of narcotics trafficking involving DPRK persons and important state assets, such as sea-going vessels and military patrol boats, were recorded in Taiwan and Japan.

The Department of State has no evidence to support a clear finding that DPRK state narco-trafficking has either stopped or is continuing. The absence of any seizures linked directly to DPRK state institutions, especially after a period in which seizures of very large quantities of drugs regularly occurred, does suggest considerably less state trafficking, and perhaps a complete end to it.

On the other hand, press reports of continuing seizures of methamphetamine trafficked to organized Chinese criminals from DPRK territory suggest continuing manufacture and sale of DPRK methamphetamine. This and continued trafficking in counterfeit cigarettes and currency suggests that enforcement against organized criminality in the DPRK is lax. It is likely that the North Korean government has sponsored narcotics trafficking and other criminal activities in the past. The Department of State has insufficient information to confirm that the DPRK-state is no longer involved in manufacture and trafficking of illicit drugs, but if such activity persists, it is certainly on a smaller scale. The DPRK is a party to the 1988 UN Drug Convention.

Pakistan

A. Introduction

In 2010, Pakistan continued to be a major transit country for opiates and hashish originating in Afghanistan. It was also a producer of opiates from approximately 1700 hectares of illicit poppy. Drug trafficking and addiction were strongly associated with instability and lawlessness on Pakistan's 1500-mile (2430km) border with Afghanistan. The rugged, remote, lawless border separating Pakistan's Federally Administered Tribal Areas (FATA) and Baluchistan Province from Afghanistan is ideally suited for drug traffickers, who smuggle approximately 150 tons of heroin and 80 tons of opium across the border annually. Heavy traffic at the three official border crossings contributes to the difficulty of surveillance and detection efforts. The frontier is dotted by dozens of unsupervised crossing points and crisscrossed by unmapped and uncontrolled trails. The sheer volume of drugs transiting this country of about 180 million people, along with its deep-seated economic and social problems, fuels a significant domestic drug addiction problem. The country's enforcement and judicial structures are weak, under-financed, and fail to cooperate among themselves. Corruption in Pakistan is widespread.

Throughout 2010, the Pakistani Taliban and allied militant groups remained an active and determined insurgent force in the tribal areas in the northwestern area of the country that borders Afghanistan. The Pakistan Army and Frontier Scouts committed thousands of troops to the fight and achieved some success in clearing militants from the settled areas of Khyber Pakhtunkhwa (KP) Province and the Swat Valley. Militants and government forces hotly contested the tribal agencies of Bajaur, Mohmand, Khyber and South Waziristan. The ongoing violence and military necessities relegated counternarcotics to a secondary effort in these regions. Pakistan's federal Anti Narcotics Force (ANF), the government's lead anti-drug agency, only rarely extended its reach into the tribal areas. The ANF, along with the Frontier Corps, was present in Balochistan, which borders Afghanistan's major drug producing provinces, Helmand and Kandahar. Given the enormous distances and the nature of the terrain, law enforcement and other barriers to trafficking were spread thin.

In July and August 2010, the worst seasonal flooding in decades also damaged the Government of Pakistan's (GOP) limited capability to combat the narcotics trade. Over 2000 people died and millions were forced from their homes. The Asian Development Bank and the World Bank estimated the damage at \$10 billion. As a result, the government was forced to divert its limited resources to disaster recovery.

Despite these obstacles, Pakistani authorities still actively tried to intercept the flow of narcotics and continued to make seizures, sometimes large ones. The GOP understood that the flow of drugs through the country was not just the problem of destination countries, but also fueled an expanding addiction problem within Pakistan itself. Indicating its increased focus, in June, the GOP issued its long-awaited "National Anti-Narcotics Policy 2010" and "Drug Control Master Plan 2010-14."

In 2010, Pakistan continued to cooperate with the USG and other governments on bilateral counternarcotics programs. The GOP also cooperated with multilateral organizations on narcotics abatement. United Nations Office on Drugs and Crime (UNODC) has a large presence in Islamabad which worked closely with the GOP during the past year. With Afghanistan and Iran, Pakistan participated in the UNODC-sponsored "Triangular Initiative," an effort begun in 2007 under UNODC auspices to increase cooperation among the three governments on anti-narcotics and border management. Pakistan is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In mid-2010, Pakistan issued the “National Anti Narcotics Policy 2010” and “Drug Control Master Plan 2010-14.” The policy addressed three objectives: drug supply reduction, drug demand reduction, and international cooperation. It seeks to accomplish the first by eliminating poppy cultivation to regain Pakistan’s “poppy-free status”; preventing the trafficking and production of narcotic drugs, psychotropic substances and precursor chemicals; and, strengthening law enforcement agencies and streamlining their activities. The second objective is to be achieved by enhancing prevention efforts through education and community mobilization campaigns, effective and accessible drug treatment and rehabilitation systems, and, conducting a survey to determine the prevalence of drug addiction. Third, the policy suggests that Pakistan should promote and actively participate in bilateral, regional and international efforts to combat drugs; emphasize controlling the problem at the source in poppy-growing countries; and prioritize demand reduction in destination countries.

The policy underlines that cooperation among GOP agencies with counter-narcotics responsibilities has been lacking and needs to be enhanced. It establishes an Inter-Agency Task Force on Narcotics Control to coordinate drug interdiction operations by all federal and provincial agencies. The report emphasizes the primacy of the ANF as the principal enforcement agency and advocates the reinforcement and enhancement of its resources and capabilities. The Master Plan is built around the same three objectives as the National Policy, but goes into much greater detail on short, medium and long-term implementation strategies. It also contains a Monitoring and Evaluation section that identifies performance indicators. While both policies are cogent and reasonable, neither contains any discussion of funding and resources needed in order to implement the proposed initiatives.

2. Supply Reduction

The ANF is the lead counternarcotics agency in Pakistan. It is not part of the armed forces: its Director General is traditionally a senior Pakistan army officer. The ANF is authorized 3000 personnel. Other law enforcement agencies have counternarcotics mandates, including the Frontier Corps Baluchistan (FCB) and Frontier Scouts (FSKP), the Pakistan Coast Guards, the Maritime Security Agency, the Frontier Constabulary (FCONS), the Rangers, Customs Preventive Force, the provincial police forces, and the Airport Security Force (ASF). The Pakistan Coast Guards uses counternarcotics cells and checkpoints along the Makran Coast to better coordinate and execute counternarcotics operations. The primacy of ANF, however, limits other agencies’ investigative authorities. In addition, weak inter-agency cooperation has degraded the GOP’s ability to pursue drug traffickers and seize their contraband.

In the first three quarters of 2010, GOP law enforcement and security forces reported seizing 1.7 metric tons of heroin, 3.46 tons of morphine, 7.6 tons of opium, and 228 kilograms of cocaine. Eighty-nine tons of hashish was also seized, with 31 tons captured in a single operation late in the year in Khyber Agency. In March, authorities in Karachi seized 15,600 kilograms of acetic anhydride (AA), a precursor chemical used in heroin production. Almost an equivalent amount was intercepted in Dubai in an operation in which Pakistani agents were closely involved. Pakistan is not a major drug-producing country, but it has lost the “poppy-free” status it enjoyed briefly in 2000/2001. UNODC estimates that just over 1700 hectares of illicit poppy were harvested in Pakistan in 2010. There was a minimal amount of eradication, possibly a few dozen hectares. Based on the GOP’s standard estimate for poppy crop yield, (25 kilograms of opium per hectare cultivated), Pakistan’s potential opium production was about 40 metric tons in 2010.

Through September 2010, Pakistani law enforcement agencies made 689 arrests in narcotics cases. Of these, 611 were made by the ANF. Authorities registered 599 cases. During the same period, there were 898 convictions in narcotics cases. According to the ANF, the overall conviction rate during the period exceeded 90 percent.

Since many strong cases are reversed on appeal, the ANF supplemented its in-house prosecutors by hiring private lawyers to argue appealed convictions. The U.S. Drug Enforcement Administration (DEA)

continues to advise ANF on the use of conspiracy laws to prosecute major traffickers. Through September 2010, drug traffickers' assets totaling 56 million rupees (about \$700,000) remained frozen.

Pakistan has an established chemical control program to closely monitor the importation of controlled chemicals used to manufacture narcotics. Significant quantities of precursor chemicals nevertheless transit Pakistan. Some progress has been made in determining the routes and methods used to smuggle chemicals through Pakistan into Afghanistan. Major routes run to the Afghanistan provinces of Nangarhar, Helmand, Kandahar, and Nimroz. DEA routinely provides 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.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Pakistan's position as a major drug transit country has fueled domestic addiction. The GOP estimates that there are about one half million chronic addicts and perhaps four or five million more occasional drug users. Pakistan's population is growing rapidly and is believed to have reached 180 million, with some estimates as high as 184 million. The figures for narcotics addicts and users are somewhat conjectural, since no comprehensive survey of the problem has been done since 2006. The National Anti-Narcotics Policy recognizes that there is no accurate picture of the extent of drug abuse and that a survey is needed in order to grasp the true magnitude of the problem. Pakistan has one of the largest demographic bulges of young people in the world, with many of them poorly educated and either underemployed or unemployed; the country thus has a vast pool of people in danger of becoming drug users.

Currently, Pakistan's programs for drug awareness, demand reduction, and treatment are inadequate. The National Policy recognizes that with the increase in opium and heroin production in Afghanistan and the shift in trafficking routes toward Pakistan, it is likely that opiate usage rates have increased. The policy proposes a national "Drug Free" campaign that would be a coordinated effort among educators, religious leaders, labor unions, the media, and political parties. The policy also envisions development of effective and accessible treatment and rehabilitation systems. It argues for wards in hospitals for treatment and detoxification of drug users. Pakistan has only three Model Addict Treatment Centers, in Quetta, Karachi and Islamabad. The report argues for upgrading those centers and adding two more, in Lahore and Peshawar. It also proposes separate facilities for women and children, who are under-served by the minimal treatment facilities that exist. There are some private organizations engaged in drug rehabilitation and treatment, such as the USG-supported DOST ("Friend") Foundation in Peshawar.

4. Corruption

Corruption is widespread in Pakistan. Government officials as well as the political opposition, press and courts have acknowledged that it is a major challenge to law enforcement and the business climate. An independent judicial system and a lively and critical press investigate and expose corrupt practices, but sometimes with limited consequences for those involved. While parliamentary oversight committees and executive branch agencies also work against corruption, their overall effectiveness is mixed. Pakistan's corruption challenge also increases its vulnerability to drug trafficking, principally through bribes to officials to allow the unchecked movement of people and goods. Narcotics traffickers are not thought to have major influence on senior-level government policy or law enforcement. The Government of Pakistan 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The USG and the GOP have cooperated on counter narcotics since the 1980s. The U.S. Embassy's Narcotics Affairs Section (NAS) manages an extensive and multi-faceted effort in Pakistan, with an FY10 budget of \$130 million. The Counter-Narcotics program includes road

building and alternative development projects in previously inaccessible areas, assistance for GOP counter-narcotics units including the Special Investigative Cell within the ANF, and demand reduction programs. NAS also manages a Border Security Program (BSP) and a program of Law Enforcement Reform and Capacity Building. The three are closely related and complementary. Through the BSP, for instance, the USG provides aviation support and training to enhance the GOP's surveillance and interdiction capabilities; makes available commodity support, training and outpost construction for Pakistani security forces to improve their capability to interdict militants, narcotics traffickers and other criminals; and has built hundreds of kilometers of roads to allow Pakistani authorities access to remote areas where narcotics cultivation and militant activity often occur. The Law Enforcement Reform Program provides training and equipment to enhance the professionalism, investigative skills and technical expertise of Pakistani police and prosecutors. The USG funds a Narcotics Control Cell in the FATA Secretariat to help coordinate counternarcotics efforts in the tribal areas, where the bulk of the poppies are grown. The NAS Air Wing, operated by the Ministry of Interior (MOI), but using both fixed and rotary wing aircraft provided by the U.S., was established to assist the counternarcotics efforts and also serves to advance U.S. border security objectives.

DEA's Islamabad Country Office has a close working relationship with the ANF Special Investigation Cell (SIC). A recent joint DEA-ANF/SIC international priority target investigation led to the seizure of 30,000 liters of the heroin precursor acetic anhydride, 16.5 metric tons of hashish, over \$200,000 in cash, and three priority target arrests. The narcotics and precursor chemicals seized in this investigation deprived traffickers of more than \$164 million in drug proceeds. In an effort to enhance DEA – ANF/SIC joint operations, an updated Memorandum of Understanding (MOU) has been submitted for final approval, aimed at funding an 80-man ANF Vetted Unit (VU) that will be adequately trained and fully equipped to conduct joint DEA – ANF/SIC operations from Pakistan throughout the world.

The Office of the Defense Representative in Pakistan (ODRP) has provided counternarcotics assistance to Pakistan since 2004. Over \$174 million in equipment, construction, and training have been provided to the Navy, Maritime Security Agency (MSA), Coast Guards (PCG), Customs Preventive (MCC), Anti-Narcotics Force (ANF), and Special Services Group-Navy (SSG-N). Joint training includes military-to-military engagements such as Visit, Board, Search and Seizure (VBSS) tactical training, and civilian-to-civilian engagements such as operator and maintenance training for narcotics/explosive detection equipment. Key ODRP-funded counternarcotics programs and equipment grants include the construction of a Joint Maritime Information Operations Center (JMIOC) in Karachi, individual soldiering equipment and the construction of a training compound at Gharo Creek for the SSG-N; nine 42-foot Fast Response Boats (FRB) for the MSA; and a boat storage and maintenance facility for the MSA at Pasni.

The United States continues to encourage Pakistani cooperation in the extradition of narcotics fugitives and the enactment of comprehensive money laundering legislation. The USG also encourages streamlining Pakistani drug enforcement legislation, making it easier for the ANF and other law enforcement agencies to prosecute narcotics cases.

The GOP is also working independently with other governments and UN agencies against narcotics trafficking. In November 2010 Pakistan hosted UNODC Executive Director, Yury Fedotov, along with the Afghan Minister for Counter Narcotics and the Iranian Interior Minister for the fourth ministerial meeting of the UNODC-sponsored Triangular Initiative. The Initiative was launched in 2007 to strengthen cooperation among countries seriously affected by illicit opiates originating in Afghanistan. The meeting resulted in agreement on expanding the work of the Joint Planning Cell in Tehran, increasing joint patrols in the border areas, and enhancing

legal cooperation in drug-related matters. A senior officials meeting is planned for May 2011 in Tehran and another ministerial meeting in November 2011.

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. Pakistan is a party to the UN Convention against Corruption, and on January 13, 2010 ratified, the UN Convention on Transnational Organized Crime. The United States provides counternarcotics and law enforcement assistance to Pakistan under a Letter of Agreement (LOA). The LOA provides the terms of and funding for cooperation in border security, crop control and area development efforts, narcotics law enforcement, and drug demand reduction efforts. There is no mutual legal assistance treaty (MLAT) 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 1931 U.S.-U.K. Extradition Treaty, which was applicable to all of British India, was adopted by Pakistan when it 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 continues to be of concern to the United States. One case has been pending since 1995. The last extradition was in 2006. Obstacles to extradition include the inexperience of GOP public prosecutors, an interminable appeals process that tolerates delaying tactics by the defense, and corruption.

D. Conclusion

Pakistan is likely to continue to serve as a major narcotics trafficking country as long as production of narcotics in Afghanistan continues at current levels and Pakistan's border region remains largely ungoverned. Afghan-produced narcotics require exit routes to foreign markets and Pakistan offers many of the most accessible and most efficient transit corridors. This influx of narcotics into Pakistan almost certainly will fuel an expansion of drug use among Pakistanis, creating additional social and economic ills in a country already burdened by security challenges and poverty.

Pakistani authorities recognize that narcotics trafficking and drug use are growing and are very aware that the damage they are causing the country is increasing. This year's National Anti-Narcotics Policy and Drug Control Master Plan are indicative of the growing concern within the government. But the capacity of the GOP to act effectively against the narcotics trade is limited. Combating the threat to the country from terrorist groups and insurgents takes priority, and that effort absorbs most resources available for security and law and order. The militancy along the border with Afghanistan contributes to the difficulty of blocking or interdicting the drug trade.

Despite the obstacles and difficulties it faces, the GOP can make its counter narcotics efforts more effective. Most importantly, government agencies can work in a more coordinated fashion against the traffickers. Stove-piping and inter-agency rivalries severely hamper the government's effectiveness. Better utilization of GOP agencies' limited resources requires basic improvements such as information sharing to avoid duplicative or contradictory efforts. Increased cooperation with other governments and international organizations is another way for the GOP to enhance its capabilities. While the GOP does accept training, equipment and advice from outside sources, such assistance is not always put to effective use. The GOP has re-affirmed its own plans for combating drug use, including a national "Drug Free" campaign involving numerous national groups along with increasing availability of treatment, but it needs to put those plans into action. Disaster recovery and reconstruction in the aftermath of devastating floods in 2010 are the overriding national priority right now, making it more difficult than ever for the GOP to commit the funding and manpower needed for a fully resourced, multifaceted counter-narcotics policy.

Panama

A. Introduction

Panama is a major transshipment hub for the movement of contraband to the United States and other world markets due to its geographic position and well-developed transportation infrastructure. Colombian and Mexican drug trafficking organizations (DTOs) located in Panama along with a Colombian illegal armed group operating in the remote Darien region actively seek to move drugs through Panamanian territory. Traffickers utilize Panama's coastline and littorals and its transportation infrastructure, including four major containerized seaports, the Pan-American Highway, and an expanded Tocumen International Airport, to facilitate the movement of licit and illicit commodities.

In 2010, the MartineLLi Administration continued Panama's history of close cooperation with the United States on counternarcotics operations. United States Government (USG) support to Panama's counternarcotics efforts, including support of the newly created Ministry of Public Security (MSP) and its three security services, continued to help Panama combat narcotics trafficking and build stronger security and justice institutions.

Panama is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishment, Policies, and Trends

1. Institutional Developments

In 2010, Panama reorganized the Ministry of Government and Justice (MOGJ) into the Ministry of Interior (Ministerio de Gobierno or MOG) and the newly-created MSP. Dividing the unwieldy MOGJ into component parts was widely seen as a necessary reform that may enable the new ministries to more effectively address pressing needs within their respective mandates. Though the MSP was not fully staffed or operational in 2010, this new structure should enhance the Government of Panama's (GOP) ability to coordinate the activities of its security services. The GOP also increased the fiscal year 2011 budget of the MSP by over 12 percent over fiscal year 2010 funding levels, demonstrating a commitment to resourcing overall Panamanian security efforts. The Panamanian National Police (PNP) continued a series of reform efforts to establish community based policing, improve policing methods, and overhaul the PNP's Internal Affairs process throughout 2010. These ongoing reforms hold the potential to increase the effectiveness and transparency of the PNP.

Panama's National Frontier Police (SENAFRONT) continued to develop as a law enforcement institution and improved the GOP's ability to exert control in the remote Darien region of Panama along the border with Colombia, although challenges remain. In 2010, SENAFRONT benefited from a robust training program with the Colombian National Police, which included the training of SENAFRONT members by Colombian Commando Junglas trainers in Colombia and Panama, increasing cooperation between the two countries.

Throughout 2010, efforts to reform the National Air-Naval Service (SENAN) suffered due to frequent changes in key personnel. While the force contributed to the GOP's maritime interdiction capacity, SENAN's ability to effectively control Panama's territorial waters was limited by endemic institutional weakness and corruption. SENAN and the PNP riverine unit cooperated with U.S. assets to interdict narcotics transiting Panama's waters with varying degrees of effectiveness.

In addition to efforts to improve the capacity of its security services, improvements in judicial and prosecutorial effectiveness are required to effectively control trafficking and organized crime penetration in Panama. Corruption and institutional weakness limited the ability of judicial institutions to thoroughly

investigate and prosecute complex cases of organized crime, weakening the judicial deterrent that is critical to push traffickers out of Panama.

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 2002, the USG and GOP concluded a comprehensive maritime interdiction agreement, which continued to be one of the most effective agreements in the region in 2010. Panama has bilateral agreements on counternarcotics 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 also a member of the Organization of American States (OAS) and is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Convention Against Corruption, the Inter-American Convention of Extradition, the Inter American Convention against Terrorism, and the Inter-American Convention against the illicit manufacturing of and trafficking in firearms. Panama is a member of the Central American Integration System (SICA) and an active participant in the U.S. - SICA security dialogue.

2. Supply Reduction

In 2010 the GOP reported the seizure of over 49.5 metric tons of cocaine in cooperation with U.S. law enforcement. This data includes cocaine captured by GOP forces, but does not include cocaine interdicted by U.S. Coast Guard (USCG) assets in Panamanian waters or cocaine jettisoned by traffickers to avoid prosecution. SENAN cooperated with USCG requests for ship registry data and provided officers to serve aboard U.S. maritime vessels as “ship riders,” which expanded the effectiveness of these operations. In addition to allowing USG maritime vessels to operate in Panamanian territorial waters under the bilateral agreement, SENAN provided support for counternarcotics operations within its limited means and with varying degrees of effectiveness, including patrolling and photographing suspect areas, and identifying suspect aircraft. Nevertheless, SENAN’s institutional weakness continued to be a limiting factor in the GOP’s ability to effectively deter drug trafficking through its territorial waters.

Panama is not a producer of cocaine, heroin or precursor chemicals. There is limited cannabis cultivation in Panama, principally for domestic consumption.

Maritime trafficking along Panama’s north coast increased in 2010, with Panama experiencing a nearly two-fold increase in the amount of documented cocaine departing Panama’s north coast towards Honduras and other Central American countries. The USG assesses that there is an increased amount of trafficking through the exploitation of maritime containers, with Europe as a final destination rather than North America, although the scale of this traffic has not been determined. Panama has interdicted few maritime containers destined for third-countries at its seaports.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

While the GOP took steps to better coordinate existing at-risk youth programs in 2010, further steps are necessary to address growing drug abuse. A lack of hard data makes trends difficult to assess, as the last drug demand study was conducted in 2008. The GOP did not update the formal written strategy on drug demand reduction established in 2007. Throughout 2010, the GOP lacked an official budget for drug reduction programs, although funding became available through seized assets, donations from civil society groups and international cooperation. Nonetheless, the Ministry of Education provided drug prevention programs in schools and the Ministry of Health supported a drug-counseling program known as the Mental Health Institute. The GOP also designated the Ministry of the Presidency as the coordinating entity for some 45 at-risk youth programs spread among 20 GOP agencies. Meanwhile, the USG partnered with the PNP and other local actors to implement such programs as Drug Awareness and Resistance Education (DARE) and Youth Crime Watch.

4. Corruption

The GOP 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. Despite the GOP's public stance against corruption, the government adjudicated few cases of corruption, in part due to a lack of investigative capacity and a weak judicial system. Corruption remains a serious concern throughout the security services and the justice sector. There are indications that members of the security services were involved in trafficking and that DTOs penetrated the PNP and SENAN. However, the MSP and the PNP supported a major reform of the internal affairs process governing all security services in 2010. While the reform effort will continue into 2011, the new PNP Internal Affairs system has already produced quick results, with over 50 officers – including some senior leaders – removed for corruption in the latter half of 2010. In October 2010, the GOP and the United Nations Office on Drugs and Crime (UNODC) agreed to create a Regional Anti-Corruption Academy in Panama that will seek to improve transparency in Panama and throughout the region.

C. National Goals, Bilateral Cooperation, and U.S. 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 promoting strict enforcement of existing laws.

In 2010, the Bureau for International Narcotics and Law Enforcement Affairs (INL) Narcotics Affairs Section (NAS), Department of Homeland Security (DHS), Office of Defense Cooperation (ODC), and USCG provided resources for modernization and upkeep of SENAN, SENAFRONT, and PNP vessels and facilities in support of interdiction efforts. Throughout 2010, the USG also provided training, operational equipment, and logistics support to members of Panama's security services to improve their professionalism and effectiveness.

The USG supported and encouraged a growing training relationship between Panama and Colombia through which Colombian police experts provided jungle-survival training to members of Panama's security services. The NAS continued support for a major law enforcement modernization project within the PNP to develop its leadership and implement community-based policing procedures. The program aims to improve community policing tactics, expand existing crime analysis technology and also promote managerial change to allow greater autonomy and accountability. In 2010, the program expanded beyond community policing training to incorporate the training concepts into the curriculum of the PNP's three training academies. As a result, the PNP provided the 40-hour block of instruction to 20 percent of the PNP's estimated 17,000 members. In 2011, the program will culminate by providing the community-based police training to all remaining members of the PNP, and the implementation of new criminal statistic management procedures.

In addition to these reforms, the USG collaborated with the PNP and the MSP to help Panama reform its Internal Affairs process for all of Panama's security services to combat corruption and the corrosive influence of criminal actors. The combination of establishing community-based policing tenets within the PNP's core values, and reforming its internal affairs process is expected to bring far-reaching, positive effects on the law enforcement institution.

In 2010, the GOP collaborated in joint counternarcotics efforts with U.S. entities, such as the Drug Enforcement Administration (DEA), DHS, and USCG, and worked to strengthen national law enforcement institutions with assistance from NAS and ODC.

The U.S. provided equipment and support to GOP vetted law enforcement units in 2010. These law enforcement units conduct sensitive investigations and operations related to counternarcotics, money laundering, human smuggling, and other transnational crimes. The DEA vetted law enforcement unit continued to lead the region's vetted units in cocaine seizures. The NAS-funded Immigration and

Customs Enforcement/Homeland Security Investigations (ICE/HSI) vetted unit remained a critical asset for the PNP, due to continued high-profile investigations and operations, many involving crimes with a nexus to the U.S. In 2010, the MSP – with infrastructure support from ODC – embarked on an ambitious plan to establish Air-Naval Stations in key locations throughout Panama’s littoral waters to increase the ability of its security forces to respond to suspect trafficking vessels.

D. Conclusion

Panama has a long tradition of close cooperation with the United States. Narcotics trafficking and associated violence threatens to erode public confidence in government institutions. The current administration came to power amid rising insecurity and increased narcotics trafficking, and it took concrete steps to improve security in the short-term and reform the security services for long-term institutional change. The GOP made some strides toward institutional reform and increased transparency, within the newly created MSP and the security services under its control. However, these reforms must be completed and institutionalized to ensure that the PNP, SENAFRONT, and SENAN develop into professional forces capable of withstanding the corrosive effects of transnational crime.

Panama’s justice and security organs remain weak and susceptible to the corrupting influences of drug trafficking organizations. The United States encourages Panama to devote more resources to the modernization of its security and justice services and to continue with reform efforts that improve public sector accountability and transparency. The GOP made positive advances in reforming and improving the PNP and SENAFRONT, and should ensure that these changes are implemented in SENAN. The GOP took some positive initial steps to combat corruption in the security forces, and the United States encourages the GOP to continue reform efforts aimed at increasing transparency and bringing corrupt elements to justice. The GOP also is encouraged to continue enhancing its efforts to prevent, detect, investigate, and prosecute financial crimes and money laundering. Panama’s ability to safeguard its citizens, confront drug traffickers and other transnational crime, and ensure that law enforcement efforts are anchored in democracy will be strengthened by its continued focus on law enforcement modernization, strategic planning, decentralization of decision making, and community-oriented policing philosophies.

Paraguay

A. Introduction

The U.S. Government dropped Paraguay from the President's list of major narcotics transit or producing countries in September 2010. Paraguay previously appeared on the major's list as a significant marijuana source country. However, Paraguayan marijuana is trafficked to the neighboring countries of Brazil, Argentina, Chile and Uruguay but not to the United States. Paraguay does remain a transit country for cocaine produced in Bolivia, Peru and Colombia. But again, while a small portion of the cocaine from these countries that transits Paraguay may be destined for the U.S., the vast majority is transported to Brazil, Europe, Africa and the Middle East.

Paraguay continues to face significant challenges in its fight against narcotics production and trafficking. Its continental location, poverty, unemployment, crime, corruption, and limited governmental and security presence in much of the country, all impede counternarcotics efforts. Although domestic demand for illegal drugs remains low, Paraguay continues to produce a marijuana crop second only to Mexico. Seizures of precursor chemicals, including ephedrine, continue apace.

Despite these challenges, the Government of Paraguay (GOP) continued to make progress against illegal narcotics trafficking in 2010 and supported drug interdiction, eradication, and demand reduction efforts.

Paraguay is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In June 2010, Paraguay's Congress passed a new terrorism bill sanctioning the prosecution of acts of terrorism, terrorist association, and terrorism financing. The law is an important companion piece to the July 2009 legislation that established money laundering as an autonomous, punishable crime in Paraguay. Despite slow implementation and a lack of convictions, in 2010 SENAD, Paraguay's National Antidrug Secretariat, continued to press for a full legal framework to combat drug trafficking, calling in October for President Lugo to press Congress to pass a long-stalled asset forfeiture law to better fund counternarcotics activities.

SENAD is staffed by a 366-person anti-narcotics unit, which includes 127 special agents and 68 military Special Forces operators conducting anti-drug efforts in the field. SENAD special agents have *de facto* law enforcement powers in that they carry weapons, conduct investigations, make arrests, and forward cases to prosecutors. However, SENAD has not been provided with law enforcement authority through legislation.

SENAD combats all aspects of the illegal drug trade nationwide from its Asuncion command base with regional offices, control points, airport control brigades, a 15-dog canine unit, and a Sensitive Investigation Unit. SENAD also works with Paraguayan customs to more closely monitor imports and exports. The Paraguayan National Police (PNP) has twenty-two thousand police officers and offices throughout the most remote areas of the country with the ability to conduct operations and investigations in those same areas. The PNP also maintains a counternarcotics unit, but its operations are separate from SENAD and the two organizations do not coordinate their efforts due to inter-agency rivalry, lack of trust,

and a government-wide hierarchical management culture which does not encourage inter-agency cooperation.

As SENAD's seizure and arrest statistics show, it continues to improve its ability to find and seize narcotics, leading to the arrest and prosecution of narcotics traffickers. However, weak prosecutorial presence in regions with high incidence of drug trafficking and judicial corruption continues to confound successful prosecution efforts in many SENAD cases.

In 2010, the GOP increased SENAD's annual budget from approximately \$2.98 million USD to approximately \$3.53 million. While a positive step, additional resources are still needed. In particular, inadequate GOP funding hampers maintenance of one of SENAD's most important assets, its drug analysis laboratory, which cannot operate at full effectiveness due to its antiquated and limited technical equipment. Compounding the problem, Paraguayan courts assign drug analysis work from PNP drug cases to the lab which, in addition to SENAD's own workload, overburdens an already limited capacity.

Paraguay 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 GOP is also a party to the UN Convention against Transnational Organized Crime and its protocols, the United Nations Convention against Corruption, the Inter-American Convention against Corruption and the Inter-American Convention against Terrorism. The GOP also signed the Organization of American States Inter-American Drug Abuse Control Commission (CICAD) Hemispheric Drug Strategy. Paraguay has law enforcement agreements with Brazil, Argentina, Chile, Venezuela and Colombia. The United States and Paraguay cooperate in extradition matters under a 2001 extradition treaty. The 1987 bilateral Letter of Agreement under which the United States provides counternarcotics assistance to Paraguay was extended in 2004 and followed by yearly amendments through 2010. Paraguay is also a signatory to the 1992 Inter-American Convention on Mutual Assistance in Criminal Matters.

2. Supply Reduction

Drug traffickers use land, air, and sea operations to smuggle narcotics through Paraguay. Overland tanker trucks and large cargo trucks transporting cover loads of legitimate goods are the preferred method of smuggling cocaine from Bolivia through Paraguay and into Brazil. Border towns such as Pedro Juan Caballero, which has witnessed an increase in violence and Brazilian gang presence, Salto del Guaria, and Ciudad del Este are notorious narcotics, arms, and contraband transit centers with both vehicular and foot traffic crossing wide-open, typically unmanned borders. Small airplanes are also used to transport 200-250 kilogram drug shipments to the Chaco region near the Bolivian and Brazilian borders. Large farms in this area are used as bases of operation due to the harsh terrain, limited transportation routes, and minimal security presence in the region.

In 2010, and for the second consecutive year, SENAD doubled its cocaine seizures from the previous year, seizing 1,425 kilograms (kg) of cocaine and 3.5 kg of crack cocaine. Precursor chemical seizures fell in 2010, but all indications point to a continued stream of acetone, ephedrine, lidocaine, and other chemicals flowing through the country. In March, SENAD seized 30 kilograms of ephedrine from a cargo container destined for Mexico. Additionally, it seized 45 kg of lidocaine, 40 kg of acetone, 108 metric tons (MT) of marijuana, 110 vehicles (including motorcycles), 121 firearms, 4 airplanes, 4 boats, and made 312 arrests.

Paraguay's two international airports and private and public maritime shipping ports are used to transport narcotics overseas. In 2010, SENAD's canine unit made 16 airport seizures with 30 related arrests, the majority of which were of travelers destined for Western Europe. Ports on the

Rio Paraguay link to Buenos Aires, Argentina and Montevideo, Uruguay, where shipping containers are combined with others, usually destined for Europe. Paraguayan customs has typically ignored exported containers, choosing to focus its limited resources on imported materials with higher revenue potential. In March 2010, Spanish officials seized 175 kg of cocaine in Seville; in April, German officials seized 1,300 kg of cocaine in Hamburg; and in June, officials in Hong Kong seized 70 kg of cocaine; all three cases involved containerized cargo originating in Paraguay.

According to the UN Office on Drugs and Crime 2010 World Drug Report, Paraguay is the world's second-largest marijuana producer, trailing only Mexico in terms of its cannabis crop. Paraguayan marijuana is not trafficked to the United States. Production takes place primarily in the hilly, northeastern departments of Amambay, San Pedro, Canindeyú, and Concepcion near the border with Brazil. Multiple crops are harvested throughout the year. High international demand, low crop cost, continued rural poverty, unemployment, weak institutions, sparse government presence, and limited eradication efforts are causing marijuana cultivation to spread to new regions of Paraguay. According to SENAD officials, there are approximately 5,000 hectares of marijuana under cultivation; however the UN Office on Drugs and Crime places the estimate closer to 6,000 hectares.

In 2010, SENAD's manual marijuana eradication operations in the departments of Canindeyú and Amambay destroyed 869 hectares of marijuana crops, 60 camps, and 12 marijuana pressing factories. SENAD seized 4,285 kilograms of marijuana seeds, wax and plants during eradication and interdiction operations. Additionally, SENAD continued working with, and receiving funds from, the Brazilian Government to conduct joint marijuana eradication missions in 2010 in two northeastern departments, Amambay and Canindeyú, which border Brazil. SENAD partnered with the Brazilian Federal Police (DPF) and established a cooperation program to fight marijuana production and trafficking utilizing DPF equipment and technical expertise including helicopters and remote sensors in marijuana plantations.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Domestic demand for illegal drugs in Paraguay remains low in comparison to neighboring countries. National estimates indicate marijuana is used by roughly 3 percent of the population and cocaine by 0.7 percent. Though there are no reliable numbers, both SENAD and the U.S. Drug Enforcement Administration (DEA) have expressed concerns that crack is increasing in popularity among young adults and children in Paraguay based on seizure numbers and reporting data.

SENAD conducts formal workshops, informal sessions, public seminars, and distributes informational materials in order to reach thousands of students, teachers, and parents in its role as the principal coordinator for the National Program Against Drug Abuse. A revised pilot program, begun in the third quarter of 2010 called "Prevent Together," provides drug awareness information and evaluates its impact throughout the school year. Another SENAD initiative is a weekly demand reduction and narcotics education radio program. Due to poverty, illiteracy, and limited telecommunications and Internet connectivity in Paraguay's sparsely populated countryside, radio reaches the largest percentage of the population.

In 2010, SENAD sponsored 335 workshops reaching 23,240 students, parents and teachers in 105 different educational institutions. It distributed 8,291 informational pamphlets and 149 DVDs to students, teachers and counselors, and conducted 41 radio broadcasts.

4. Corruption

As a matter of policy, the GOP does not encourage or facilitate illegal activity associated with drug trafficking. No senior government officials have been implicated in specifically facilitating or encouraging illegal activity. Nevertheless, corruption remains the principal barrier to reducing the production and distribution of illegal drugs. Corruption in the judicial system is a significant concern and is the greatest barrier to effective prosecution of drug traffickers and producers. Police officials are routinely involved in organized crime activities or accept bribes.

In September 2010, a three-judge panel absolved and released drug trafficker Mendi Pavao after an alleged \$1 million payoff. Although the dismissal of the case is yet another example of judicial misconduct, the swift and strong reaction by the GOP to suspend the three judges and two prosecutors involved in the case is a positive sign and anticorruption efforts are a major priority for the current administration.

The U.S. Agency for International Development (USAID) continued phase II of the Millennium Challenge Corporation's anticorruption project in 2010, targeting corruption within the judicial system and Paraguayan National Police.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Mission in Paraguay works closely with the GOP to disrupt drug trafficking organizations; build stronger legal and regulatory measures to restrict money laundering, drug trafficking, and illegal contraband flows; and to enhance institutional capacities to carry out effective measures against narcotics trafficking. In 2010, SENAD received USG assistance for equipment and commodities, operational support, its canine detection program, and demand reduction initiatives. USG operational support sustains joint SENAD/DEA investigations of major narcotics traffickers, resulting in successful drug trafficking investigations documented by official records of drug seizures, arrests and cases presented for prosecution.

Meanwhile, the USG has expanded its cooperation with the PNP and Paraguayan Customs, creating both a new Sensitive Investigations Unit within the PNP and a new Container Group with Paraguayan Customs.

USG support for SENAD's Narcotics Detection Canine Program continues to show results in seizures at border, port, and airport locations throughout Paraguay. Although the program received four new dogs in 2010, allowing it to expand its country-wide detection and seizure operations, the program remains constrained by the number of animals versus the number of potential transit points that need them, transportation capabilities, and the dogs limited use within airports. A more robust program would substantially increase seizure rates.

The USG funded the participation of SENAD and the Secretariat to Combat Money Laundering (SEPRELAD) agents at seminars on information sharing, software implementation, sensitive investigations training, drug and chemical controls, canine training, and money laundering. The USG also funded participation of the Paraguayan Navy in a Regional Small Boat maintenance course in Argentina. In addition, the USG provided support for members of SEPRELAD, prosecutors, and others associated with intellectual property rights initiatives.

D. Conclusion

Corruption remains a challenge to Paraguay's ability to counter drug trafficking and prosecute narcotics traffickers. We encourage the GOP to continue to institute measures to address this

issue. The GOP is also faced with increasing amounts of cocaine crossing into Paraguay -- particularly from Bolivia, limited law enforcement coverage, and corrupt police and customs officials who permit not only drug trafficking, but the trafficking of weapons and counterfeit materials as well. The GOP needs to augment SENAD's presence on the Bolivian border and elsewhere, supply it with greater budgetary support, and encourage SENAD to work more effectively with other Paraguayan agencies such as the PNP and Customs.

In 2010, SENAD continued to demonstrate positive seizure results in spite of limited resources, and SENAD's leadership has been effective at keeping pressure on narcotics traffickers.

However, SENAD is constrained by the GOP's failure to pass legislation giving it autonomy and its officers law enforcement authority, and, while SENAD's seizure rate continues to improve, those seizures still represent only two to three percent of the cocaine likely transiting Paraguay.

We encourage the Government of Paraguay to effectively implement its anti-money laundering and anti-terrorism legislation, as well as to pass and implement the long-awaited asset seizure and forfeiture legislation and the new criminal procedure code pending before Congress.

The USG supports SENAD's demand reduction and drug education programs which have reached tens of thousands of people throughout Paraguay. However, demand reduction efforts are constrained by a lack of clear demand and usage statistics. The agency has not conducted a thorough usage analysis since 2006. Having key information, such as tracking trends in drug use among younger users (70 percent of Paraguay's total population is under 30), would enable SENAD to better focus both its demand and supply reduction efforts within the country.

Peru

A. Introduction

Peru is the world's second-largest producer of cocaine and, according to U.S. Government (USG) statistics, in 2009 had an estimated 40,000 hectares (ha) used for coca cultivation nationwide. Cocaine is transported over land to neighboring countries, and to Europe, the Far East, Mexico, the Caribbean, and the United States via maritime conveyances and commercial air flights. Peru is also a major importer of precursor chemicals used for cocaine production.

While studies show that 93 percent of the coca leaf grown in Peru is illegal and destined for narcotics production, the fact that coca cultivation and drug production is distant from the urban centers often relegates the issue to a lower priority. In Peru's major cities the public is most concerned about the impact of drug trafficking and the effect of drug abuse among youth. There is a growing awareness of the damage that illicit drug cultivation and production causes to the environment. According to DEVIDA, the Government of Peru's (GOP) drug policy entity, Peru has lost 2.5 million ha of land to deforestation in the last three decades, experienced the erosion of 30 cubic meters annually per hectare of coca cultivated, and suffered from the dumping of 118 million liters of precursor chemicals in forests and streams over the past five years.

Drug addiction is also a serious social problem in Peru, but the number of treatment and rehabilitation centers throughout the country falls far short of what is needed to treat the estimated 200,000 addicts nationwide.

Peru has a national counternarcotics strategy but does not devote sufficient resources to its implementation or for counternarcotics operations. In 2010, the Peruvian government began to absorb the cost of aviation fuel for eradication operations. Eradication remains controversial in coca-growing areas and coca growers engaged in violent acts to resist it in 2010, including attacking police and eradicators, blocking major roads, and seizing a power station. Remnants of the terrorist group Sendero Luminoso (Shining Path, or SL) in the Upper Huallaga Valley (UHV) and in the Apurimac and Ene River Valley (VRAE) are reliant on drug trafficking for funding and are also active in ambushing and killing police and military personnel. Two police officers and three eradicators were killed in 2010. Since 2006, 35 Peruvian National Police (PNP) officers and three Control and Reduction of Coca in the Upper Huallaga (CORAH) employees have been killed in attacks. Despite these violent incidents, the Peruvian Government did not give in to protestors' demands and the eradication program continued without pause.

Peru is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, U.S.-supported police academies in Santa Lucia, Mazamari, and Ayacucho graduated 874 PNP officers. An additional 600 candidates graduated from special schools that prepare students to enter the police academies; of these, 127 were women and 14 were indigenous minorities. As a result of this intensive training, by 2010, 2,048 counternarcotics police (DIRANDRO) were operating in coca source zones east of the Andes.

The Office of the Attorney General (Public Ministry) continued its efforts to strengthen its prosecutorial capacity by increasing staff and providing training on the new Criminal Procedure Code. By the end of 2010, the 2007 Code, which moves the Peruvian legal system from the inquisitorial system to the adversarial system, and is designed to expedite the way drug cases are prosecuted, had been implemented in 16 judicial districts out of 29 nationwide. Implementation in the remaining districts is expected by the

end of 2013, with Lima anticipated to be the final judicial district to implement the code. On August 31, the Minister of Justice announced the suspension of the implementation of the new code until Congress could evaluate the benefits of the code in the fight against organized crime and until more resources could be identified to aid in the rollout. At the end of September, a new calendar for the rollout was approved through Supreme Decree outlining the implementation schedule of the remaining 13 districts; however, on September 17, the Congress issued a law approving the application of the new code nationwide for all public corruption cases.

Institutional disputes affected cooperation among the Peruvian Customs (SUNAT), Coast Guard (DICAPI-Naval Maritime and Riverine Authority), Autoridad Portuaria Nacional (APN-Sea and River Ports Management Authority), and Peruvian National Police (PNP). Additional GOP resources are also needed to give the country the capability to mount a more credible interdiction force to combat maritime, land border, and airport cocaine shipments.

In 2010, the Garcia administration placed a high priority on achieving economic growth and focusing law enforcement efforts on domestic crime within its major cities and provinces as well as coca grower and Sendero Luminoso activities. The GOP placed less of an emphasis on dismantling and disrupting major drug trafficking organizations. It continued to rely heavily on USG counternarcotics assistance to maintain police academies and police bases focused on counternarcotics efforts, to fund eradication efforts, and provide aerial support and fund operations and equipment for counternarcotics police. The GOP designated approximately \$33.2 million for DEVIDA's counternarcotics programs, of which approximately \$8.2 million was intended for mobile checkpoints to control precursor chemicals in the UHV and VRAE.

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. The United States and Peru are parties to an extradition treaty that entered into force in 2003. Peruvian law requires individuals to serve sentences and any probationary period in Peru before being eligible for extradition. Among the 11 pending U.S. extradition and provisional arrests, four are related to narcotics trafficking. Five subjects of extradition requests remain at large. Three Peruvians were extradited to the U.S. on drug and money laundering charges in 2009; one Peruvian was extradited to the U.S. on drug and money laundering charges in 2010. In November 2009, Peru signed separate bilateral agreements with the Government of Mexico and the Government of Brazil to increase intelligence sharing and cooperation on counternarcotics matters.

In September 2010, one Peruvian was extradited from Peru to the U.S. for his involvement in smuggling between 15 to 20 metric tons (MT) of cocaine from Peru to Mexico between 2005 and 2007.

In September 2010, the PNP and DICAPI culminated a year-long investigation by seizing 3.1 MT of cocaine aboard a Mexican-flagged fishing vessel and arresting 23 suspects, including 10 members of Mexico's Sinaloa cartel. This was the most prominent evidence of Mexican-led maritime cocaine smuggling operations in Peru since February 2009, when Mexican police seized 7 MT of cocaine aboard the fishing vessel Polar I, which likely had been loaded in the Peruvian port of Callao. Further Mexican activity in Peru by the Los Zetas cartel was confirmed with a December 2010 seizure of 66 kg of cocaine aboard a Peruvian fishing vessel, in which four Peruvians, two Mexicans, and two Colombians were arrested.

2. Supply Reduction

The official USG estimate for 2009 indicated that 40,000 ha of coca were under cultivation in Peru, a figure slightly below the 2008 level of 41,000 ha. The United Nations Office of Drug Control (UNODC) uses a different methodology and estimates there were 59,000 ha of coca under cultivation in 2009 in

Peru. However, due to more mature coca fields, this past year estimated potential cocaine production increased to 225 MT of pure cocaine, or 245 MT of less pure export-quality cocaine. Density of coca cultivation per hectare has remained stable, as has the efficiency of alkaloid extraction from coca leaves, according to the Drug Enforcement Administration (DEA). Approximately 45 percent of coca cultivation and 59 percent of potential cocaine were found to be in Sendero Luminoso areas of operation.

In 2010, authorities eradicated 12,033 ha of illicit coca in the UHV and the Ucayali department, a figure higher than the 10,000 ha target set at the beginning of the year. Eradication efforts this year focused on the Huanuco, Ucayali, and San Martin departments in central Peru. Throughout the year, coca growers and their leadership pressured the GOP to halt or limit eradication, but their disarray made the protests more a distraction than an effective impediment to counternarcotics efforts. A week-long strike and road blocks in early October failed to bring about a cessation in eradication. Day-to-day coordination among drug police, aviation components, and eradicators permitted eradication to continue at an optimum pace, and CORAH counter-measures mitigated the possibility of attacks against eradicators.

In 2010, the PNP eradicated approximately 21.5 ha of opium poppy and seized 17 kg of opium latex. The PNP reported instances of opium latex, intercepted at Lima's international airport, being couriered by "drug mules" and/or mailed to European destinations.

2010 is the sixth year that the GOP has increased DIRANDRO personnel in source zones, contributing to more effective and sustained eradication and interdiction operations. Traffickers use large production laboratories and storage areas to prepare and store cocaine, which is then transported from coca production zones, primarily in the UHV and VRAE, to Peru's coastal and border areas for further processing and distribution.

Maritime smuggling is the primary method for transporting multi-ton loads of cocaine. Colombians and Mexicans operate drug transportation networks in Peru, shipping cocaine to Colombia, Mexico, and the Caribbean. U.S. law enforcement agencies and their host nation counterparts from Australia, Hong Kong, Japan, Malaysia, and Thailand report that Peruvian cocaine trafficking and transportation organizations also operate in the Far East.

In joint investigations with U.S. law enforcement during 2010, DIRANDRO identified and disrupted major international cocaine trafficking organizations responsible for maritime and air shipment of metric tons of cocaine to U.S., South American, and European markets, as well as cross-border trafficking over land and rivers. The PNP continues to make headway against Peru-based organizations, but sustained progress will require the expenditure of greater resources.

As reported by the Peruvian Government, by the end of November, approximately 13 MT of cocaine paste and 16 MT of cocaine hydrochloride (HCl) had been seized in 2010. Peruvian law enforcement officials also reported seizing 3.4 MT of marijuana. In addition, DIRANDRO destroyed 1,148 cocaine-production laboratories, including 18 HCl and 1,130 base laboratories in the UHV and the VRAE.

PNP and Peruvian Customs (SUNAT) authorities seized 11.1 MT of cocaine in maritime counterdrug enforcement operations during 2010. Of an estimated one million containers that passed through Peruvian ports, SUNAT personnel inspected approximately 4,500 containers, down from the 5,400 containers inspected in 2009. The decrease in container searches was due in part to SUNAT operational changes as it adjusts and develops strategies to operate non-intrusive inspection equipment. Although some inspections are conducted at random, most follow intelligence provided by a joint PNP-SUNAT manifest review task force, which analyzes export cargo and coordinates with the Public Ministry so that PNP elements can conduct counternarcotics interdiction and investigations at Peruvian ports of entry.

PNP and SUNAT also interdicted 2.18 MT of cocaine and arrested 424 individuals at Lima's Jorge Chavez International Airport, including 98 internal drug carriers. Nearly 10,000 passengers were submitted to inbound and outbound body scan x-rays searches to detect illicit narcotics and currency.

Exams are at times performed at random, but most follow intelligence provided by the joint PNP-SUNAT task force.

In addition, the PNP-SUNAT Maritime Task Force conducts profile exams from analysis of export cargo at the Callao seaport. The task force coordinates with the Public Ministry so that PNP elements can ultimately interdict narcotics at Peruvian ports of entry.

Authorities discovered narcotics concealed within 122 international air cargo shipments at SERPOST locations. Unable to confirm individuals' identity as packages are delivered for export, GOP authorities rarely arrested those responsible. SERPOST will be testing a fingerprint identification device linked to a national database (RENIEC) to confirm people's identity immediately, thus establishing ownership of the packages being mailed.

In 2010, the PNP arrested¹ high-ranking SL members, including Edgar Mejia Ascencio (aka "Izula"), believed to be the number two leader in the organization in the Huallaga Valley, and Efrain Santa Maria Trinidad (aka "Luis"). The PNP also killed several SL members during counterterrorist operations, including Victor Raul Vasquez Santa Cruz (aka "Ruben"), reputed to have assassinated political leaders in the Huallaga area, Mario Antonio Sifuentes Sandoval (aka "Sergio"), and Teodorico Penadillo Carmen (aka "Rayo"). These actions should result in reducing the operational capacity of the SL in the Huallaga Valley proper. Police also arrested the SL financial manager in the VRAE, Oscar Montes Perez (aka "Negro" or "Oscar"). In 2010, Victor Quispe Palomino and Florindo Eleuterio Flores-Hala (aka "Artemio"), leaders of Sendero Luminoso's strongest factions in the VRAE and UHV respectively, were added as targets of the State Department Narcotics Rewards Program with rewards of up to \$5 million offered for their arrest and/or conviction.

The Alternative Development (AD) element of the counternarcotics program continued to consolidate its previous gains in the coca-growing regions. A total of 28,185 farmers received technical assistance to maintain 47,190 ha of licit crops, including 12,181 ha of new crops installed in 2010. Local producer associations gained strength as membership increased with the expanding acreage of licit crops and as producers received customized technical assistance on business administration and marketing strategies. As a result, total sales of these crops were \$34 million in 2010, generating 13,865 equivalent full-time jobs, 18 percent of which were for women. More evidence of the AD impact is substantiated by a continual increase in licit incomes of participant families, which jumped by 24 percent from 2009 to 2010. Poverty levels of direct beneficiaries decreased by 25 percent, from 65.7 percent in 2008 to 49 percent in 2010. Most importantly, the commitment to leading a coca-free life has firmly taken root across a broad-section of people in AD regions, as more than 70 percent of direct beneficiaries convey that coca should be eliminated.

In light of the success in San Martin, and following the results of a recent programmatic evaluation, USAID will continue working in this region to consolidate gains, emphasizing alliances with the private sector and transferring AD activities to regional and local governments, farmer associations, and other agents. At the same time, the program's resources are being redeployed to newly eradicated areas in other regions, under the post-eradication strategy. This model is now being implemented in Ucayali, under which several dozen communities have thus far signed coca non-replanting agreements involving approximately 1,000 new families and programming the installation of 2,000 hectares of cacao.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

¹ The arrests of the individuals listed have been widely reported by various media outlets, however, a defendant is presumed innocent until and unless proven guilty beyond a reasonable doubt. An arrest or the issuances of an indictment are only evidence of an accusation.

DEVIDA is the organization responsible for various media campaigns to inform public opinion about drug abuse. Non-governmental organizations (NGOs) do most of the work educating, researching, and providing statistical 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. Abuse of marijuana, cocaine, amphetamines, and synthetic drugs (most notably Ecstasy) has been increasing in Peru in recent years. According to the Information and Education Center for the Prevention of Drug Abuse (CEDRO), a Peruvian NGO, most illegal drug use is marijuana (668,972 users), preferred by the younger population, followed by coca paste (254,846), and cocaine (191,135). While the latest (2007) GOP statistics show a slight decrease in synthetic drug abuse, a 2009 Andean Community of Nations study reported synthetic drug abuse was a growing trend among high school and university students. The number of treatment and rehabilitation centers throughout the country is low. The treatment facilities and number of beds (700) offered by the GOP Ministry of Health do not cover the number of services estimated to be required by the population of addicts (some 100,000 cocaine addicts and 130,000 marijuana addicts).

The USG funds NGOs in the development of 35 community anti-drug coalitions (CAC) targeting poor, at-risk communities in Lima, Callao, Pucallpa, Huanuco, Tingo Maria, Ayacucho, and Tocache. The CAC model is one of a formal organization of all sectors of a community working towards long-term, sustainable solutions and activities to reduce drug use at the community level. The CACs have proven effective in addressing community-specific drug demand issues, especially among youth.

The number of mental health hospitals working with drug addiction is limited. There are a growing number of private treatment and rehabilitation centers in main cities, but in most of the cases these centers lack expert supervision. There are eight private clinics that provide treatment programs for teenagers and youth, weekend services treatment, and outpatient services. There are approximately 20 formal therapeutic communities (TC) treatment centers, of which four are specifically for female addicts. It is estimated that there are about 150 informal treatment centers operated by recovered addicts with no medical or expert supervision. There are a few faith-based organizations that work with drug addicts by providing counseling services to drug users.

The GOP Ministry of Health has been working on regulations to standardize treatment and rehabilitation centers, including the professional TC services. A few major prisons have established treatment and rehabilitation programs for youth, men, women, and their children.

4. Corruption

As a matter of policy, the GOP does not encourage or facilitate the illicit production or distribution of narcotics, or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, in the Sixth National (Peru) Survey on Corruption compiled by Ipsos Apoyo in August 2010, more than half of the Peruvian population, 51 percent, thought corruption is one of the biggest problems in the country, and about 80 percent perceived the country as corrupt or very corrupt. Forty-five percent of the population believes the police are corrupt.

In January 2010, the Attorney General created a Coordination Office for the Specialized Anti-narcotics Prosecutors and an Office of Risk and Analysis. The Coordination Office will coordinate, direct, supervise and evaluate the execution of institutional policy on drug trafficking and serve as a liaison between national and international organisms. The Office of Risk and Analysis will manage information related to crimes such as drug trafficking, illegal chemical precursors and money laundering and elaborate statistics.

The Public Ministry, the judicial system, and the National Police are implementing new procedures to investigate internal corruption cases. The Ministry of Interior announced a special telephone line for the public to report cases of corruption. To reinforce the fight against corruption, the Public Ministry established a Victims and Witness Protection Program to provide assistance, such as establishing a new

identity in a new location, to prosecution witnesses and victims in serious criminal cases. New legislation also protects persons who report corruption in government, and the New Criminal Procedure Code will take effect nationwide at the end of January 2011 for crimes committed by public officials. The Peruvian Congress is in the process of investigating former Minister of Interior Fernando Barrios for corruption. His case could be prosecuted under the New Criminal Procedure Code, depending on the progress of the investigation.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The USG supports the GOP's efforts to strengthen their governmental and non-governmental institutional capacity and this includes increased GOP funding so it can assume greater responsibility for counternarcotics programs. With the GOP's strong economic growth, including foreign currency reserves of more than \$40 billion, the U.S. has proposed that the GOP increase support for counternarcotics efforts.

The first strong indication of GOP readiness to participate in this process has come from the Aviation Police (DIRAVPOL) and the Peruvian Air Force (FAP). In 2010, the GOP assumed the cost of the aviation fuel required to conduct helicopter and fixed-wing operations in support of manual eradication and interdiction. DIRAVPOL spearheaded the effort to reprogram funding and obtain the required ministerial resolutions that authorized the spending of the \$3.2 million to purchase the fuel. This nationalization effort will culminate in March 2012 with the GOP assuming full responsibility for manning and maintaining the fueling equipment and installations at all five counternarcotics operating bases.

In May 2010, the USG and GOP signed Operational Procedures, which allow the Boarding and Inspecting Vessels Suspected of Illicit Traffic in Narcotic Drugs and Psychotropic Substances between the Peruvian National Maritime Authority (Peruvian Coast Guard General Director) and the United States Coast Guard. These procedures ensure that appropriate notifications and communications are made between the participants, and established a process to board and inspect vessels suspected of illicit trafficking.

Meanwhile, the USG continues to support programs that strengthen governance and create opportunities for legal activities in areas where drug traffickers and terrorists operate. In addition, the USG assists in aggressive eradication, interdiction, and control of precursor chemicals, coupled with alternative development, 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 drug trafficking degrades the quality of their lives, damages the environment, and threatens economic development. Although there has been some growth in GOP institutions' ability to deal with narcotics issues, significant improvement still needs to be made.

In 2010, the USG continued to work with the GOP on counternarcotics operations in the major drug source zones of the UHV and the VRAE. The PNP received USG assistance to increase police presence and improve police operational capabilities in these areas by supporting and renewing existing police bases and enhancing police training. The USG also supported Peruvian Air Force (FAP) Joint Anti-Drug C-26 Air Squadron counternarcotics reconnaissance operations east of the Andes, which used Forward Looking INFRARED (FLIR) to map suspected clandestine runways and update the status of known airstrips as well as provide imaging for combined counter-drug exercises. The FAP C-26s also provided critical overhead real-time coverage for eradication workers, eradication police, and army personnel in the field.

Peru's law enforcement organizations recognize the importance of joint operations with other countries. PNP DIRANDRO units have participated in joint operations with neighboring countries and drug enforcement strategy conferences to address drug trafficking along Peru's borders with Brazil, Colombia, and Ecuador, such as the International Drug Enforcement Conference (IDEC) hosted by Brazil in 2010.

The GOP also hosted the United Nations' twentieth meeting of Heads of National Drug Law Enforcement Agencies (HONLEA) in October.

Other U.S. government-provided training included maritime law enforcement and container inspection. With U.S. support, DIRANDRO commanders and field personnel received specialized counternarcotics courses 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 contributed to regional cooperation in drug investigations and interdiction.

D. Conclusion

The GOP's assumption of financial responsibility for aviation fuel for counternarcotics operations in 2010 is a step in the right direction, but the GOP will have to devote significantly more resources of its own to fight drug trafficking and focus more efforts on dismantling and disrupting major trafficking organizations. The GOP's five-year counternarcotics strategy comes to an end in 2011, and it will develop its plan for the next five years. In that process, the USG will continue its engagement with GOP policymakers on the leading role of the GOP.

The USG encourages the GOP to maintain its core commitments to eradication, interdiction, and alternative development to reduce coca cultivation and cocaine production. The GOP's five-year counternarcotics strategy appropriately emphasized 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 results, however, have been mixed but have delivered progress in key areas. The contrast between the results in San Martin, where the eradication/alternative development model has dramatically reduced illicit coca cultivation to insignificant levels, and the unabated production in the Monzon and Apurimac and Ene River Valleys is an example.

Peru Statistics (2000-2010)

Coca	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net Cultivation* (ha)	In progress	40,000	41,000	36,000	42,000	34,000	27,500	29,250	34,700	32,100	31,700
Eradication (ha)	11,700	10,025	10,143	11,057	10,137	8,966	7,605	7,022	7,134	6,436	6,206
Leaf: Potential Harvest (MT)*	In progress	46,000	43,500	43,500	54,500	53,500	47,900	51,200	58,300	53,000	53,100
HCl: Potential (MT)*	In progress	225/245	215/235	210/235	265/305	260/295	230/265	245/295	280/345	255/315	160/190
Seizures											
Coca Leaf (MT)**	11.5	1,016**	2,090*	1,858*	14.6	11.3	7.6	11.5	7.1	6.4	9.0
Coca Paste (MT)	11.9	9.3	11.7	7.5	5.1	4.5	6.4	4.3	10.4	6.2	1.6
Cocaine (HCl) (MT)	15.4	10.41	16.2	7.9	14.1	11.7	7.3	3.5	4.1	2.9	2.8
Combined HCl & Base (MT)	27.3	19.7	27.9	15.4	19.2	16.2	13.7	7.8	14.5	7.1	4.4
Arrest/ Detentions	10,591	12,185	10,383	11,197	7,633	11,260	10,149	10,608	13,158	13,343	2,836
Total Labs Destroyed	1,148	2519	1224	665***	724	1,126	821	964	238	72	97
Cocaine HCl (labs)	18	25	19	16	11	22	11	9	0	0	0
Base (labs)	1,130	2494	1205	649***	713	1,104	810	955	238	72	97

Net cultivation, Leaf Potential Harvest, and HCl Potential figures are based on CNC estimates.

** In 2007 the basis of reporting coca leaf seizure was shifted from total for just "dry leaf" to dry leaf plus "macerated leaf."

*** Revised

Philippines

A. Introduction

The Philippines continues to face challenges in the areas of drug production, drug trafficking, and internal drug consumption. The primary drug threat faced by the Philippines continues to be the importation, manufacture, and abuse of methamphetamine hydrochloride, also known as “shabu” in the Philippines. Philippine law enforcement has been successful in eliminating the large-scale clandestine methamphetamine “super” laboratories discovered in past years during investigations against transnational drug trafficking organizations operating in the Philippines. During 2010, no “super” labs were detected; transnational criminal groups have apparently moved to establish smaller-scale clandestine methamphetamine laboratories that are typically easier to conceal. Philippine law enforcement agencies have been successful in interdicting at the Port of Manila several chemical precursor shipments suspected to be destined for these kinds of methamphetamine laboratories.

Despite the success of enforcement efforts against the domestic methamphetamine laboratories, high grade methamphetamine produced in other countries continues to be smuggled into the Philippines by transnational drug traffickers. During 2010, the majority of the seized methamphetamine in the Philippines appeared to have been of foreign origin.

Although methamphetamine remains the primary drug of choice in the Philippines, marijuana is the second-most abused drug. In addition, many drug users have shifted to using inhalants, the third most commonly abused substance.

On December 14, 2009, approximately 1.9 tons of South American cocaine was jettisoned from a Chinese vessel in international waters off Eastern Samar Province by drug traffickers, who were reportedly in fear of being apprehended after they believed they had been compromised. Community education programs and seizures by Philippine law enforcement agencies led to the recovery of approximately 584 kilograms of the cocaine during the year, but the remote nature of Samar and security concerns have hampered complete recovery efforts. (Efforts to recover the jettisoned cocaine included the government’s offer of a large sack of rice in exchange for every brick of cocaine found and surrendered to authorities.) Some of this cocaine, apparently recovered illicitly and trafficked to major urban areas, has resulted in a proliferation of cocaine use during 2010, including several high-profile smaller-scale seizures and arrests. However, the current price of cocaine (\$106 per gram) remains atypically cheaper than methamphetamine hydrochloride by weight, which continues to be the drug most commonly abused in the Philippines.

In addition to importation and consumption of illegal drugs for the domestic market, the Philippines also serves on occasion as a transshipment point. During 2010, Philippine authorities at NAIA (Manila’s Main International Airport) detected and arrested 12 couriers attempting to depart the Philippines with relatively small quantities of drugs. In August 2010, an arrest at NAIA by Bureau of Customs personnel yielded 7 kilograms of methamphetamine transiting the Philippines en route to Hong Kong. Philippine authorities worked with DEA during the year to conduct investigations into drug couriers attempting to smuggle methamphetamine from Manila to Guam.

Numerous arrests in South America and Asia during 2010 showed an increasing trend of Philippine citizens acting as drug couriers. It appears that these couriers were employed by international drug syndicates, and typically carried drugs from South America to Asia – although the drugs were generally not destined for the Philippines. As of August 2010, 626 Filipinos had been arrested for drug trafficking offenses in other countries.

During 2010, lack of judicial reform and slow progress in drug cases continued a trend of very low conviction rates for drug cases. The government recognized problems with the judicial sector and is considering several reforms. The Philippines is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Philippine government 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.

Philippine drug enforcement efforts are primarily conducted by Philippine Drug Enforcement Agency (PDEA) as the lead counternarcotics agency, with the cooperation of the Philippine National Police (PNP), the National Bureau of Investigation (NBI), and the Bureau of Customs.

During 2010, PDEA continued to establish itself as the lead drug enforcement agency by increasing coordination and cooperation with other Philippine government security forces, notably in regional offices, as well as with the U.S. and other foreign counterparts. However, PDEA continues to be hampered by lack of personnel and resources; some of its staff consists of officers on loan from other agencies. Despite the lack of resources and personnel, PDEA continues to develop as a law enforcement agency and to pursue investigations aggressively. PDEA focused on the recovery of the Samar cocaine. As of November 2010, the recovery of approximately 584 kilograms of the 1.9 MT East Samar cocaine (ca. one-quarter) has been accomplished primarily due to the PDEA-led efforts.

During 2010 the PNP continued to pursue the establishment of a permanent drug unit inside the PNP, although at present the drug investigative units remain temporary task forces, creating challenges for close coordination with PDEA. Despite its task-force status, PNP AIDSOTF continued to conduct significant and successful investigations and to cooperate effectively with U.S. and other foreign counterparts. In May 2010, a PNP AIDSOTF operation led to the seizure of two seaborne containers of chemicals and laboratory equipment intended for production of methamphetamine. An AIDSOTF operation in September 2010 resulted in the seizure of 24 kilograms of foreign origin methamphetamine in metropolitan Manila.

The NBI continued to maintain a small, but highly effective, drug unit. During 2010, they conducted investigations which revealed possible links between Filipino political figures and the Samar cocaine. In addition, NBI maintained excellent cooperation with U.S. DEA.

In an effort to increase convictions in drug cases, the Philippine Supreme Court's Judiciary Academy, in partnership with DDB, conducted a series of seminar-workshops on the Dangerous Drugs Law for judges, prosecutors, and law enforcement personnel nationwide. The workshops identified problems encountered in prosecuting drug-related cases, and presented solutions to such problems, including improved methods of identifying, gathering, handling, presenting, and using evidence, as well as training for law enforcement personnel in arrests, searches, and seizures.

In the Philippine Congress, deliberation continues on the creation of an Office of the Special Prosecutor for Dangerous Drugs (OSPDD) that would speed up judicial processes in narcotics-related cases. The OSPDD would have exclusive jurisdiction over drug cases, and be independent of political influence.

During 2010, the Philippine Congress worked to improve the Witness Protection Law, in an effort to prevent the recantation or substantial alteration of testimony by vital witnesses in criminal offenses, and to penalize law enforcement personnel and other government officials who refuse to testify as prosecution witnesses in criminal proceedings.

According to the DDB, 8 percent of drug cases are dismissed before going to trial; 7 percent result in conviction; 8 percent result in acquittal; while 76 percent remain unresolved. Drug cases are often dismissed due to technicalities such as irregularity or illegality of arrest, non-appearance of witnesses, inconsistent testimonies of witnesses, mishandling of evidence, and unreliable police laboratories. In March 2010, authorities arrested a Chinese national for drug trafficking who had been released in 2009 due to such technicalities in a 2007 drug trafficking case. In October 2010, the court permanently dismissed a two-year drug case against the son of the Mayor of Manila because witnesses failed to appear at trial.

According to the DDB and local municipal officials, drug traffickers contracted with indigenous groups in remote mountainous locations in Luzon and Mindanao to arrange contract cultivation of marijuana crops that were subsequently trafficked by the big-city criminals. In addition to conducting educational programs on the implications of marijuana cultivation, the government implemented rural development and alternative livelihood programs to offer such indigenous persons sustainable income-generating activities such as silk production, abaca farming, planting of edible malunggay trees (*Moringa oleifera*), and propagation of bamboo for the production of fiber, and fabric, and handicrafts. The success of these efforts has been limited due to lack of funds, the remoteness of the locations, and resultant poor access to markets.

During 2010, the Philippine government created the Drug Couriers' Task Force under the leadership of PDEA to stop the recruitment of overseas Filipino workers (OFWs) by international drug traffickers as drug couriers. Task Force members include the Department of Foreign Affairs, Department of Labor and Employment, Bureau of Immigration and Customs, National Bureau of Investigation, Philippine Information Agency, Manila International Airport Authority, and the Philippine Tourism Authority. This group is also tasked with conducting an anti-drug media campaign, and prosecuting members of international drug syndicates operating in the Philippines. The Drug Couriers Task Force also works with other nations' counterpart agencies to undertake bilateral or regional actions to counter the use of OFWs as drug carriers. In March 2010, PDEA coordinated an operation with authorities in Malaysia and China which resulted in arrests and drug seizures in China, but the PDEA's limited resources pose a problem for such operations in the future.

With increasing numbers of inhalant users, many of whom are unemployed and impoverished, the DDB reinforced strict implementation of a law that requires adding at least 5 percent mustard oil to toluene-based contact cement, to discourage its use as an intoxicant.

In recent years, escalating costs have been a factor in declining numbers of admissions to rehabilitation centers. During 2010, Congress worked to make rehabilitation programs free of charge for drug-abuse victims by including the cost of rehabilitation in the country's health insurance coverage (known as "Philhealth").

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 three protocols, 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.

2. Supply Reduction

PDEA reports that from January to November 2010, authorities seized 222 kilograms of methamphetamine, valued at \$49 million; 1,988 kilograms of processed marijuana leaves and buds, valued at \$2.5 million; 17,104,052 plants (including seedlings), valued at \$75.9 million; 584 kilograms of cocaine, valued at \$61.9 million; 44 tablets of Ecstasy, valued at \$1,182; and

30 grams of Ephedrine, valued at \$10,827. From January to November 2010, authorities dismantled seven clandestine laboratories, eradicated 196 marijuana plantations, and arrested 6,435 individuals for drug-related offenses. By comparison, in 2009 Philippine authorities seized \$167.1 million in narcotics, dismantled nine clandestine laboratories and three warehouses, eradicated 187 marijuana plantations, and arrested 9,052 individuals for drug-related offenses.

Based on figures for arrests, raids, and seizures, ethnic Chinese organized crime groups continued to be the primary organizers and financiers of methamphetamine trafficking in the Philippines.

In January 2010, police arrested three Chinese nationals in a raid on a small, kitchen-type clandestine laboratory in a metropolitan Manila housing subdivision. In October, 2010 a kitchen-type clandestine laboratory was discovered in a house in General Santos City, Mindanao following reports from neighbors of foul odors coming from the house. Authorities seized about one-half million dollars worth of drugs and laboratory equipment, including 300 grams of methamphetamine hydrochloride, a hydro generator capable of producing up to a kilo of narcotics at a time, and precursor chemicals. In September 2010, authorities seized some 24 kilos of high-grade methamphetamine hydrochloride worth \$2.7 million during a raid on an apartment of Chinese nationals in Quezon City, metropolitan Manila.

Smuggling of illegal drugs into the country through its international airports remains a problem. The majority of smugglers arrested were Malaysians, Koreans, and Chinese. In June 2010, a Malaysian national was arrested at the Manila airport with \$1 million dollars worth of methamphetamine hydrochloride in his bag. In August 2010, one Malaysian national was arrested and another escaped as airport authorities seized more than 14 kilograms of methamphetamine hydrochloride, worth more than \$3 million. In October, 2010, a Hong Kong resident was caught smuggling one kilo of heroin stuffed inside a children's book at Manila's international airport.

The street price of methamphetamine hydrochloride in the Philippines is \$221 per gram. According to a PDEA provincial director, the methamphetamine hydrochloride supply in the provinces comes from metropolitan Manila.

The Philippines produces and consumes marijuana. A high share of marijuana cultivation occurs in mountainous regions of Luzon and Mindanao, often in remote publicly-owned areas inaccessible to vehicles. In 2010, law enforcement achieved significant success in eradicating marijuana plantations and interdicting marijuana shipments, despite a lack of government resources.

In the Cordilleras Autonomous Region (northeastern Luzon), 14 barangays (villages) were declared free of marijuana and other illicit drugs; law enforcement authorities headed by PDEA have focused on eliminating marijuana and other drugs from an additional 81 barangays.

The "Golden Green Triangle" in mountainous northern Luzon has long been well-known for marijuana production and trafficking. For 40 years, marijuana cultivation was carried out openly in Santol, La Union (northern Luzon), which was often considered the largest source of marijuana in the Philippines. In a recent joint operation involving PDEA, PNP, AFP, and local government, an estimated 90 percent of marijuana plantations in the Santol area were neutralized. Marijuana eradication efforts in August 2010 in other areas of northern Luzon resulted in the destruction of some 539,000 marijuana plants and seedlings valued at \$2.1 million.

Throughout 2010, cocaine from the 1.9-ton cocaine shipment jettisoned in waters off the Samar coast continued to surface, and has reached metropolitan Manila, northern Luzon, and Mindanao. It is likely that drug traffickers have hidden caches from which they are supplying local drug dealers in metropolitan Manila, Cebu, Baguio, and Mindanao.

Although provincial authorities do not possess the necessary assets to exercise control over provincial shores, local leaders have teamed with law enforcement agencies, maritime police, Philippine Port Authority, and the Philippine Coast Guard to increase monitoring of coastal areas.

During August 2010, the Bureau of Customs was involved in three significant seizures of precursor chemicals at Manila's North Harbor, at least one of which was detected due to anomalies that arose during routine screening of shipping containers. The concealed chemicals were likely destined for clandestine drug laboratories in the Philippines.

Drug distributors continue to recruit and exploit children as drug runners. The law protects children below 18 years old from prosecution, and children often return to illegal drug activities after leaving youth rehabilitation centers. In addition, senior citizens were recruited and used as drug runners because of a misconception that the elderly could seek clemency and probation in case of arrest. According to PDEA, local drug groups recruit distributors from among impoverished local communities.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the latest Dangerous Drug Board (DDB) survey in 2008, the estimated number of drug users in the Philippines is 1.7 million. As of August 2010, there are 1,236 patients in drug rehabilitation centers. Approximately 68 percent are new admittances; some 16 percent are readmissions, while 17 percent are in treatment as outpatients. The Philippines has 57 residential and 4 nonresidential rehabilitation facilities; three additional rehabilitation facilities are under construction, and should be ready by early 2011. The goal of the DDB is to have a rehabilitation center in every region.

DDB continued implementing and monitoring its preventive education programs, including the national Drug Education Program, Family Drug Prevention Program, Peer Group Against Drugs program, National Youth Congress on Drug Abuse Prevention Education, Random Drug Testing Program, Drug-Free Workplace Program, and ongoing capacity-building programs. In November 2010, DDB and the Civil Service Commission initiated orientation seminar on the promotion of a drug-free workplace program for national government agencies, local government universities, state colleges, and universities. The drug-free workplace program prescribes quarterly drug tests for all employees and additional tests as a requirement for promotion; pre-employment drug testing is mandatory when there is any history of drug use, involvement in accidents, or discovery of illegal drug paraphernalia.

Throughout 2010, provincial government officials were aggressive in identifying local communities – often low-cost housing projects -- most seriously affected by the proliferation of illegal drugs. In addition to vigorous efforts on the part of law enforcement personnel, local government officials worked with the Department of Social Welfare and Development, Department of Health, Department of Education, and Department of Labor and Employment to develop a rigorous anti-drug awareness campaign in these communities.

PDEA regional offices conducted narcotics awareness seminars, conferences, local TV/radio appearances, and press releases outlining the dangers of illicit drug use. In Region I alone (Ilocos Norte/Sur, La Union, Pangasinan, in northwestern Luzon), PDEA conducted anti-drug lectures and seminars for more than 20,000 individuals between January and November, 2010.

DDB maintains a 24-hr./day hotline and walk-in center for persons with information or concerns relating to drug abuse or narcotics trafficking. There are mobile phone numbers available for anonymous reporting of drug offenses.

4. Corruption

Corruption remains a problem in the Philippines, particularly at local levels among lower-ranking government officials. During 2010, PDEA filed administrative charges against three local prosecutors because of alleged mishandling of drug cases, and assisted in numerous arrests of local elected officials

and candidates for drug trafficking. In January, a candidate for mayor of Mandaluyong City (metropolitan Manila) was apprehended while attempting to sell five packets of cocaine to an undercover agent. Reports of local law enforcement officials involved in drug trafficking continued, as demonstrated by the arrest of PNP officers for cocaine trafficking during 2010.

According to a PDEA Regional Director, 8 out of 12 candidates who were believed to be supported by persons involved in drug trafficking won elections in the Western Visayas in October 2010 barangay (village) elections. He added that there were also drug-tainted local candidates in the May 2010 national elections, but that none of those candidates had won. In the Regional Director's view, local drug-trafficking rings' assistance to sympathetic local candidates reflected a shift in strategy, from infiltrating and influencing law enforcement personnel and prosecutors, to influencing government policymakers.

The Department of Interior and Local Government (DILG) has instituted a campaign against illicit drug use via a series of seminars for newly-elected village officials, and mandated that a percentage of the village budget be appropriated for drug-abuse awareness campaigns, treatment, and rehabilitation. DILG has also instructed village officials to work with PDEA in identifying persons connected to the trafficking of illegal drugs.

The Philippines has criminalized officeholders' involvement in drug trafficking through the Comprehensive Dangerous Drugs Act, which prohibits GRP officials from laundering proceeds of illegal drug actions.

As a matter of government policy, the Philippines does not encourage or facilitate illegal activity associated with drug trafficking, and no senior Philippine government official is known to engage in such activity.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

During 2010, U.S. counternarcotics assistance primarily took the form of infrastructure projects, such as the U.S.-funded construction of a new PDEA Regional Headquarters in Butuan, Mindanao, and in the form of U.S. military/DEA training events.

In 2010, DEA conducted Airport Interdiction Training for PDEA, PNP, NBI, and Bureau of Customs officials at NAIA, in order to provide needed skills to counter the growing trend of drug couriers transiting the Philippines. This DEA-sponsored training highlighted the need for further integration of law enforcement operations at NAIA. During 2010, several sizable methamphetamine seizures at NAIA demonstrated that significant quantities of methamphetamine are transiting the airport.

DEA and JIATF-West conducted four month-long training programs in different locations in the Philippines that trained approximately 150 Philippine officers from PDEA, PNP, NBI, and Customs in basic police skills. Cebu, the nation's second-largest city and the location of an international airport and large seaport, was chosen as one training venue; DEA has identified Cebu as a strategic point for increased counternarcotics engagement.

The Interagency Counternarcotics Operations Network (ICON) was funded and constructed by JIATF West on behalf of PDEA, and consists of five facilities located throughout the Philippines that are intended to act as drug intelligence fusion centers. DEA envisions that with additional resources and greater participation of a broader spectrum of Philippine law enforcement agencies, the ICON system can be further developed to enhance interagency counternarcotics intelligence capacity and cooperation.

D. Conclusion

The Philippine government takes drug trafficking and drug abuse seriously, and has made substantial efforts to address these problems. Lack of law enforcement resources, the slow pace of judicial and investigative reform, together with a lack of interagency cooperation continue to hamper government

efforts to investigate and prosecute higher echelons of drug trafficking organizations operating in the Philippines. However, despite these resource and institutional limitations, Philippine law enforcement agencies continue to pursue drug traffickers aggressively. This effort, together with drug education and rehabilitation initiatives, has led to positive results in reducing drug abuse and drug trafficking in the Philippines.

Many observers believe that if the Philippines were to increase cooperation and coordination among Philippine drug law enforcement agencies such as PDEA and PNP at the national level, through multi-agency initiatives that can draw on different agencies' strengths and resources, it would have a very positive impact on enforcement effectiveness. One specific example of a program that might bring big dividends is an airport-focused interagency program to counter drug couriers transiting Philippine airports, and to detect and deter persons going abroad to act as drug couriers.

Portugal

Although not a center of drug production, Portugal continues to be a gateway for drugs entering Europe, particularly from South America and western Africa. Drug use remains stable, despite decriminalization of personal drug use in 2001. Portugal, which is a party to the 1988 UN Drug Convention, focuses much of its efforts on treatment and prevention. Portugal is also a member country of the Maritime Analysis and Operations Center-Narcotics (MAOC-N), headquartered in Lisbon. Few illegal drugs originate in Portugal. The vast majority of drugs used in Portugal and passing through the country originate in South America, Africa, and southwest Asia.

Drug smugglers have used Portugal as a primary gateway to Europe in recent years, a task that has been made easier by open borders among the Schengen Agreement countries and by Portugal's long coastline. However, 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, where they use "swallower mules" to enter Europe in smaller, harder to detect packages. Additionally, it is believed that traffickers are increasingly using shipping containers, where secreted drugs are harder for law enforcement officials to identify. Some traffickers reportedly use high-speed boats in attempts to smuggle drugs into the country, and some use the Azores islands as a transshipment point. The U.S. has not been identified as a significant destination for drugs transiting through Portugal. South America remains the principle source of cocaine arriving in Portugal, usually having at least transited through Brazil and/or Venezuela before passing through Portugal. For hashish, the primary source country is Morocco, 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.

Portugal decriminalized drug use for personal consumption in 2001. The law makes the "consumption, acquisition, and possession of drugs for personal use" a simple administrative offense. The decriminalization effort is widely viewed as a success. Drug use among 13- to 18-year-olds declined significantly after the new law took effect, according to the most recent national statistics (released in 2007). However, drug use did increase somewhat among older Portuguese citizens. Statistics also showed a decrease in health problems, including HIV infection, related to illicit drugs. Within the Portuguese prison system, drug use continues to be a major concern for authorities.

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 also party to the UN Convention against Transnational Organized Crime ("TOC") and its protocols against trafficking in persons and migrant smuggling. In September 2007, Portugal ratified the UN Convention against Corruption ("CAC"). 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 drug trafficking, and certain financial crimes, certain of these offenses are deemed extraditable in accordance with the terms of the 1988 UN Drug Convention, the TOC and the CAC. Portugal and the U.S. have also concluded protocols to the extradition and mutual legal assistance treaties pursuant to the 2003 U.S.-EU extradition and mutual legal assistance agreements. On September 30, 2007, Portugal – along with Ireland, the Netherlands, Spain, Italy, France, and the United Kingdom – agreed to work together as part of the MAOC-N regional initiative. As a member country, Portugal is collaborating to combat the increasing cocaine flow from South America to Europe and Africa. Since 2007, liaison officers from MAOC-N partner and observer countries, including a permanent observer from the Joint Interagency Task Force South (JIATF-South), have been bringing together their data, experiences, and contacts to coordinate counterdrug activities and provide advice on maritime and interdiction operations.

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Under the decriminalization law, drug users identified by law enforcement agencies are referred to the Drug Addiction Dissuasion Commission, consisting of multi-disciplinary teams that assess users and decide the most appropriate sanction and referral to educational or treatment programs. The Portuguese Ministry of Health's Institute on Drugs and Drug Addiction (IDT) operates 66 drug treatment centers nationwide. The IDT also has several initiatives to combat drug use and addiction. Prevention programs include training sessions, awareness-raising activities, and dissemination of information through printed material. Universal drug prevention is part of the Portuguese school curriculum. In addition, in the "Safe Schools" program, law enforcement agents patrol the areas surrounding schools to prevent and protect students from criminal activities such as drug trafficking in the surrounding area. Law enforcement also actively participates in awareness and training activities.

Russia

A. Introduction

Russia is a major destination country for heroin from Afghanistan and is a user market for opium, hashish, marijuana, synthetics, and other dangerous illegal substances. The UN Office on Drugs and Crime (UNODC) reports (June 2010) that Russia is the largest single market for Afghan-origin heroin, consuming approximately 70,000 kilograms (70 MT) per year, and has the highest national level of per capita consumption of heroin. UNODC estimates that there are 1.6-1.8 million heroin users in Russia (1.3 percent of the population), among whom HIV infection rates are up to 61 percent in some regions, according to recent epidemiological surveillance. Approximately 25 percent of Afghanistan's annual heroin production traverses neighboring Central Asian states along the so-called "northern route" to Russia. Russia's 7000-kilometer border with Kazakhstan is roughly twice the length of the U.S.-Mexican border and is sparsely patrolled, while citizens of Central Asian states bordering Afghanistan have visa-free access to Russia. Contraband is typically carried in vehicles along the region's highway system that connects populated areas of southwestern Russia and western Siberia, often bundled with loads of agricultural produce. Couriers sometimes use the region's passenger trains and incidents involving internal body carriers or "swallowers" are also common. Russia has called on the international community to recognize the production of heroin in Afghanistan as a threat to international peace and security.

Although not as significant as the use of heroin, opium and hashish, Russian counternarcotics officials have expressed concern about increased use of synthetics and other pharmacological narcotics that are inexpensive and increasingly available in Russia. One such synthetic is desomorphine, which first appeared on the Russian market in 2003, and is as addictive as, and more toxic than, heroin. Desomorphine is easily produced at home by mixing codeine-based medications, widely available in Russia without a prescription, and household chemicals. The FSKN reports that between January and through September 2010, a total of 35 kg of desomorphine was seized. The demand at Russian pharmacies for codeine-based pharmacological preparations has increased by a factor of ten in the last five years, according to Federal Narcotics Control Service (FSKN) Director Victor Ivanov, who attributed the increase directly to demand from drug-dependent abusers. Cocaine is also used in Russia, and the supply appears to be keeping pace with a growing pool of would-be users, whose affluence makes higher priced cocaine more feasible as a recreational drug. It appears that the preferred smuggling route for cocaine continues to be by sea from South America.

According to statistics from the Ministry of Internal Affairs (MVD), 2.5 million Russians (1.8 percent of its population) use illicit drugs on a regular basis. Russian officials estimate that there are 80,000 new drug users each year, and that more than 30,000 people die annually of drug overdoses and that another 70,000 deaths per year are drug-related. This translates to economic losses of up to 3 percent of gross national product per year, according to FSKN.

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. Russia is a producer of acetic anhydride (AA), which has many licit uses, but is also an essential precursor chemical for processing heroin. Currently Russia has one factory located in Dzerzhinsk that is licensed to produce AA for internal use and for export.

The Russian Government 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 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.

The United States has a bilateral Treaty for Mutual Legal Assistance with Russia, signed on June 17, 1999. The United States and Russia have exchanged evidence in the past year on one significant drug-trafficking case involving a subject who was convicted on cocaine-trafficking offenses in the United States, after having been extradited from Peru; Russia was investigating his possible involvement in trading cocaine for heroin within Russia. Russia is also a 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. Russia is also a party to the UN Convention Against Corruption and the UN Convention on Transnational Organized Crime.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Four federal agencies in Russia conduct investigations of drug trafficking: FSKN, MVD, the Federal Security Service (FSB) and the Federal Customs Service (FTS). The FSKN is the primary drug enforcement agency and has an authorized staffing level of 40,000 employees, with branch offices in every region of Russia.

The Russian Government has stepped up counternarcotics efforts in the past year, particularly in the area of international cooperation to combat drug trafficking in the region in light of the challenges posed by the “northern route” for trafficking of Afghan heroin. The Government issued its “State Counternarcotics Strategy until 2020” in June 2010 by Presidential decree. The strategy enlists all levels of government and all agencies in the fight against illicit drugs. It stipulates the roles of different government agencies in counternarcotics activities, calls for improvements in efforts to reduce the supply of illegal drugs, outlines new legislation aimed at deterring drug trafficking and discusses the requirements for reducing the demand for illegal narcotics and preventing drug use. The strategy also calls for the development of a surveillance system to track trends in illegal drug trafficking and use, better state control over legal narcotics and their precursors, more attention to the medical and social services needed in order to rehabilitate drug users and for more state funding in a number of these areas.

Regarding the issue of heroin trafficking from Afghanistan, the FSKN has stepped up efforts with regional and other partners, including the U.S., to address this problem. FSKN hosted an international conference in June 2010 aimed at galvanizing cooperative action to thwart production and trafficking of Afghan heroin. In October 2010, FSKN signed a bilateral agreement with the Narcotics Control Ministry of Pakistan on counternarcotics cooperation bringing the total number of Russian bilateral counternarcotics agreements to 35. A Russian initiative to enhance cooperation among Afghanistan, Pakistan, Tajikistan and Russia to counter heroin production and flows from Afghanistan was launched with an inaugural meeting of the counternarcotics heads of these countries in Moscow on December 8, 2009. The delegation heads signed an agreement to increase joint training and operations.

Russia continued to mount efforts within regional organizations such as CSTO and others to further multilateral counternarcotics cooperation. The FSKN has said that its drug liaison officer in Kazakhstan will work with the Central Asian Regional Information and Coordination Centre (CARICC), which has been established by the UNODC and is based in Almaty, Kazakhstan. CARICC serves 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. In addition to Russia, which joined in 2009, CARICC includes Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Russia’s ratification of the CARICC agreement, however, remains pending in the State Duma.

As part of the NATO-Russia Council's counternarcotics project, Russian trainers conducted training courses with Central Asian counterparts at the Domodedovo training centre of the Ministry of the Interior in Moscow. These training courses assist Central Asian police entities in combating major heroin trafficking organizations. Russia has also agreed to partner with the U.S. in implementing an OSCE project to step up capacity building for border guards in Tajikistan and Turkmenistan with a view toward increasing vigilance against illicit narcotics flows.

The FSKN has continued its efforts to implement effective monitoring of the chemical industry. Production, transportation, distribution, and import/export of controlled substances now require licensing from FSKN. 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 to attempt to avoid diversion for illicit drug production.

2. Supply Reduction

The total amount of narcotics, psychotropic, and dangerous substances seized from illegal circulation in connection with criminal cases by all law enforcement agencies in 2009 was 45 tons 871 kilograms (a 20.3 percent increase in comparison to the previous year) of which FSKN seized 29 tons 529.1 kilograms and MVD seized 12 tons 740.1 kilograms. In the first nine months of 2010, the FSKN seized 27.3 tons and the MVD seized 7.9 tons, for a partial-year seizure of 35.2 tons of narcotics, psychotropic, and dangerous substances. Of the total seizures in 2009, 3.152 MT was heroin, of which 1.6 MT was seized in FSKN operations, 581 kilograms in Customs enforcement actions and the remainder (unspecified) by MVD and FSB. According to the UNODC, Russian law enforcement agencies seize approximately 4 percent of the heroin reaching Russian territory. Total hashish seized was 3.984 MT, of which FSKN seized 1.405 MT. The total amount of marijuana seized was 33.4 MT, of which FSKN seized 22.9 MT. The FSB and the Federal Customs Service combined seized a total of 276 kilograms of opium and other opiates and a total of 214 kilograms of cocaine. (Data for seizures by other agencies was unavailable.) Substances seized in smaller amounts by the FSB and Federal Customs Service included amphetamines, LSD and other types of narcotics. [NOTE: Total seizure data for CY2010 was not yet available at the time of this report.]

FSKN officials continue to be concerned about the significant increase in drug trafficking into Russia along the "northern route" 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." However, seizure statistics from this operation include narcotics and weapons seized in parts of the world not applicable to the identification of smuggling trends in Russia and the Central Asian countries. [NOTE: Operation CANAL expanded its contributing members to include representation from countries such as Venezuela, Columbia., Italy, Spain, Germany, China, et al. All statistics from these countries are included in the total statistics for each phase. Unfortunately, individual country reports are not available; therefore total seizure amounts (and predictive trends for Central Asia) are skewed by inclusion of activity from non-Central Asian countries.]

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 conduct operations geared specifically to the interdiction of marijuana.

Russian counternarcotics officials continue to express concern about trends pointing toward increased use of synthetic narcotics in Russia, but little data or concrete information is available. In a September 2010 speech, FSKN Director Ivanov stated that 35 kilograms of desomorphine had been seized so far during the year, a four-fold increase over the previous year.

Russia 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 Russian Government has issued implementing regulations and provided money from the federal budget for implementation of the legislation.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

As noted above, the Russian government has begun to take steps to address the public health issues associated with drug use. Demand reduction and drug abuse prevention are addressed at length in the National Counternarcotics Strategy, issued in June 2010. The strategy outlined ongoing deficiencies in the demand reduction system, including insufficient medical treatment and social rehabilitation services, a shortage of specialized workers (doctors and social workers) and a shortage of centers serving drug abusers. The few government-supported drug addiction treatment programs that do exist are generally ineffective with high rates of recidivism.

The absence of sufficient treatment options for drug users was underscored by the case of Yegor Bychkov, an anti-drug activist in central Russia who was recently sentenced to three and a half years for kidnapping drug addicts and abusing them in the name of providing forced drug treatment at the request of the addicts' parents. This case was notable for the public outcry of support for Bychkov, who remains a controversial figure, but it also highlighted the lack of good options for drug treatment in Russia. The National Counternarcotics Strategy calls for addressing these deficiencies through augmentation and reorganization of state resources and new programs for treatment and rehabilitation of drug users.

Drug replacement therapies, such as methadone, are illegal in Russia. A few new models of cognitive therapy which expand the breadth of substance abuse programs and rehabilitation are being implemented in treatment centers in St. Petersburg and Orenburg, but substitution therapy (such as programs using methadone or buprenorphine) has not been fully explored, and remains illegal and politically sensitive. Researchers supported by the U.S. National Institutes of Health have begun work in St. Petersburg to explore alternative drug treatment regimens, such as naltrexone which might be more acceptable to Russian authorities. The U.S. Agency for International Development has also recently secured additional funding from the Office of Global AIDS Coordinator (OGAC) to develop and implement collaborative research using naltrexone.

The National Counternarcotics Strategy also notes that insufficient employment opportunities for young people contribute to the drug problem as do insufficient leisure activities for youth in many regions. Health education programs in schools and outreach programs for youth and other vulnerable populations do incorporate messages concerning the harmful effects of drug use and the links between injecting drugs and HIV/AIDS. The government sponsors a range of public health publicity campaigns that include drug use prevention messages, for example, posters in metros, billboards and other outreach efforts, but many of these efforts are viewed as only marginally effective.

Local non-government organizations (NGOs) are also active in drug prevention activities. Healthy Russia Foundation, for example, has established, with assistance from the U.S. Government and others, a peer-to-peer outreach program that targets youth in high drug use target areas through vocational schools, youth clubs, activities, summer camps and other special programs set up by regional governments to reach teenagers at greatest risk. The peer-to-peer program encourages youth to discuss the impact of substance abuse and introduces life skills to avoid drug use. Healthy Russia has also developed a Ministry of Education-sanctioned health education curriculum for high school students and training materials for teachers that incorporate demand reduction messages.

4. Corruption

Corruption among law enforcement officials in Russia continues to present major challenges. As a matter of government policy, the Russian 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 Russian 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. However, several long-running cases of arrests of counternarcotics law enforcement officials on corruption or organized crime charges remained unresolved at year's end. There were no new arrests of high-level law enforcement officials related to drug charges, but a number of lower level FSKN officials faced corruption-related charges during the year in at least 16 publicized cases. For example, the Deputy Head of the Novosibirsk Regional FSKN office was detained on suspicion of bribery and involvement in organized crime in November 2010.

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 would stand trial for abuse of power, accepting and paying bribes, illegal wiretapping and money laundering. In October 2009, the defense claimed that the Prosecutor General's Office had returned the case to the Investigative Committee "for the removal of identified shortcomings." The investigation has since been extended to January 2011 and the general has been released following two years of pre-trial detention, pending the results of the investigation.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S.-Russia counternarcotics cooperation was strengthened in 2010, particularly between DEA and FSKN, by frequent productive meetings of the Counternarcotics Working Group of the U.S.-Russian Bilateral Presidential Commission led by the U.S. Office of National Drug Control Policy (ONDCP) Director Gil Kerlikowske and FSKN Director Victor Ivanov. As a result, a number of firsts were registered during 2010, including: the first-ever participation of FSKN officers in U.S.-based DEA training programs; two successful joint efforts to dismantle cocaine smuggling operations in both Moscow and St. Petersburg; and cases in which DEA and FSKN agents worked directly together for the first time. In May 2010, U.S. and Russian counterparts established the Northern Route Working Group (NRWG), which facilitates the exchange of intelligence and furthers joint investigations among U.S., Russian, Central Asian, and Afghan counternarcotics officials. This led to a successful October 2010 operation in Afghanistan in which Russian counternarcotics officers observed an action to eliminate four clandestine labs and seize one metric ton of heroin, and; a November joint operation in Florida involving the participation of a Russian Customs Service officer that resulted in dismantlement of an illicit pharmaceuticals trafficking ring and seizure of codeine tablets, cocaine and drug paraphernalia.

In addition to operational law enforcement cooperation, the U.S. has, since 2002, conducted a range of programs to promote counternarcotics and law enforcement cooperation with the Russian Government. These programs include a counternarcotics border project to enhance capacity of drug interdiction units along the Russian-Kazakh border and programs with the Federal Customs Service in locations vulnerable to trafficking such as St. Petersburg, Kaliningrad, and Caspian and Black Sea ports. The U.S. is also

partnering with Russian institutions to provide support in the areas of criminal justice reform, mutual legal assistance, anti-corruption, and anti-money laundering.

At the October 21, 2010 meeting of the Counternarcotics Working Group, ONDCP Director Kerlikowske and FSKN Director Ivanov signed a joint protocol committing to further cooperation on: 1) suppressing drug flows from Afghanistan; 2) strengthening both bilateral and regional counternarcotics cooperation, including through efforts of the NRWG and CARICC; 3) implementation of the joint action plan to combat illicit financial flows connected to drug trafficking; 4) prevention of drug abuse and treatment and rehabilitation for those who use drugs; and 5) studying the feasibility and experience of drug courts in the U.S. and how they might be applied in Russia. All of these areas build on cooperative bilateral or multilateral programs begun or intensified in the last year and will contribute to the implementation of various aspects of Russia's national counternarcotics strategy.

D. Conclusion

Russia views counternarcotics efforts as a top national priority, issued a comprehensive National Counternarcotics Strategy in June 2010 by Presidential decree, and has strengthened and deepened its counternarcotics cooperation with the United States and other countries. The National Strategy is a positive step toward establishing and assuring the required interagency coordination, legal framework and commitment of resources that are necessary to succeed in the fight against drugs not only in Russia and the region but across all international boundaries. Russia's active participation in international, regional and bilateral counternarcotics activities and productive work in the U.S.-Russia Bilateral Presidential Commission's Counternarcotics Working Group reflects this impetus toward cooperation as do the numerous operational successes involving both U.S. and Russian law enforcement over the past year. The joint protocol signed at the October 21 meeting of the Counternarcotics Working Group lays the foundation for enhanced bilateral counternarcotics cooperation in both supply and demand reduction in the coming year. The regular high-level contacts between the Working Group's Chairpersons, ONDCP Director Kerlikowske and FSKN Director Ivanov, continue to build on the partnership. Russia's cooperation is essential to combating the scourge of international narcotics trafficking, and the United States is committed to continuing to promote both bilateral and multilateral cooperation and partnerships that bring results.

Saudi Arabia

The Kingdom of Saudi Arabia has no appreciable drug production and is not a significant transit country for drugs. Saudi Arabia's conservative cultural and religious norms discourage drug abuse. Nonetheless, drug abuse and trafficking are on the rise and are addressed as both social and law enforcement problems. This rise in trafficking and abuse has led to increased arrests and government policy initiatives, including a new drug education curriculum, ongoing expansion of drug treatment facilities, economic development and employment programs for Saudi youth, as well as better coordination on narcotics law enforcement with neighboring countries, specifically along the Saudi-Yemeni border.

The SAG places a high priority on combating narcotics abuse and trafficking, often with harsh punishments for convicted offenders. In September, the Ministry of Interior (MOI) reported 210 drug-related arrests during the previous three months, 113 of which were of Saudi citizens. 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.

SAG officials actively seek and participate in U.S.-sponsored training programs, and they are receptive to enhanced official contacts with the Department of Homeland Security (DHS) and the Drug Enforcement Administration (DEA). 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, nor does it encourage or facilitate 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.

The MOI's General Directorate for Drug Control leads and coordinates the SAG's drug interdiction efforts and has 19 overseas offices in countries representing a trafficking threat. In 2009, the government authorized Saudi participation in the Gulf Center for Criminal Intelligence, established by the Gulf Cooperation Council (GCC) to enhance counternarcotics and organized crime intelligence sharing among the six member states of the GCC. Saudi Arabia also has narcotics-related bilateral agreements with Egypt, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, and Turkey and security agreements including cooperation on drug trafficking issues with a number of other countries.

In 2010, the SAG hosted a regional symposium on drug control and information sharing. The widely-attended conference was a first for Saudi Arabia and demonstrated the SAG's commitment to countering narcotics. Throughout the year, the government also conducted drug awareness campaigns targeting schools, government ministries, and shopping malls. The government continues to block internet sites deemed to promote drug abuse. The country's influential religious establishment actively preaches against the use of narcotics and SAG treatment facilities provide free services to Saudi addicts.

The negative social perception of drug users and traffickers discourages admission of drug problems. The National Committee for Combating Drugs (NCCD) directs a 12-step rehabilitation program for Saudi addicts in each of the Kingdom's 13 provinces. The program runs between three months and two years. More than 1200 former addicts have participated in the program, which includes performing the annual pilgrimage to Mecca (*hajj*). According to the NCCD, only 20 former participants have relapsed to addiction.

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 are unable to afford treatment. There are four facilities offering free detoxification, rehabilitation, and aftercare to Saudi nationals: three Al-Amal Mental Health and

Narcotics Hospitals -- in Riyadh, Jeddah, and Dammam -- and one Al-Amal Health Clinic in Qassim Province. Most patients participate in detoxification and rehabilitation treatment for three to five weeks. In June, the Ministry of Health (MOH) announced plans to collaborate with King Saud University on a three-year study on drug addiction in the Kingdom.

According to the most recently available information, 72.8 percent of patients treated for drug problems in Saudi Arabia are addicted to amphetamines and 55.8 percent are addicted to marijuana; other abused drugs include khat, 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 (an amphetamine in pill form).

The wealthiest segments of society tend to consume the purest, most potent 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 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.

While drug use is on the rise and conservative cultural norms still discourage many addicts from seeking rehabilitation, the SAG is actively working to eliminate drug use and trafficking within the context of the 1988 UN Drug Convention through regular seizures of illegal drugs, harsh penalties for drug traffickers, including public beheadings, on occasion, and information sharing with regional governments.

Senegal

A. Introduction

Senegal, along with other West African countries, serves as a transit country for traffickers due to its location, infrastructure and porous borders. South American traffickers have taken advantage of areas in West Africa, where resource-poor central governments have limited presence, including parts of Senegal. They use these areas as warehousing/transit zones for drugs moving to European markets. Dakar's location on the west coast of Africa, its well-serviced international airport and active seaport make it an enticing transit point for drug traffickers. The Port of Dakar and the Leopold Sedar Senghor International Airport are the two primary points of entry/exit for 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. The U.S. is not a destination point for these drugs.

Cocaine abuse in Senegal is on the rise. Cannabis, a traditionally popular drug in Senegal, is cultivated in the south, in the Casamance region. According to UNODC, Senegal may become the leading producer of cannabis among the Francophone countries of West Africa and the third largest producer in West Africa after Nigeria and Ghana. Though the Government of Senegal (GOS) has in place several institutions to fight against drug trafficking, the GOS is challenged by a lack of resources and infrastructure in carrying out intended programs. Senegal is a party to the 1988 U.N Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Senegal has a national plan of action, originally created in 1998, to combat drug abuse and the trafficking of drugs. Multidisciplinary in its approach, Senegal's national plan includes objectives 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. Although Senegal appears to have the political will to combat drug trafficking and has created and improved its national plan, the government does not have the financial means to effectively counter this threat, so it frequently falls short of achieving plan objectives.

Senegal's Drug Law of 1997 is the country's basic law on drugs; it covers the entire breadth of policy from apprehending and punishing offenders to rehabilitating abusers. Senegal stiffened penalties for drug traffickers by enacting the so called "Abdoul Latif Gueye Law of 2006". Under this law convicted drug traffickers can face 10 to 20 years of hard labor and a fine that is three times the value of the drugs seized, double the former punishment. The government has also signed off on a plan called the "Dakar Initiative," which intends to tackle trafficking by strengthening the judicial system, boosting the security forces and improving international cooperation.

Senegal works with its partners in the Economic Community of West African States (ECOWAS) to combat cocaine trafficking. Specifically, Senegal, which borders Guinea-Bissau and Guinea, two countries with significant cocaine trafficking problems, participated in the fifteen country ECOWAS conference in Praia, Cape Verde on confronting drug trafficking. During the conference, the ECOWAS members discussed the various narcotics problems facing West Africa, resulting in a Political Declaration and Plan of Action adopted in December 2008.

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 to facilitate exchange of enforcement information on narcotics trafficking, among other transnational crimes. Along with members of the West African Economic and Monetary Union (WAEMU), Senegal has enacted a uniform common law against money laundering. Senegal is also a party to the ECOWAS protocol agreement,

which includes an extradition provision. Traffickers and their organizations are subject to asset seizure, imprisonment of criminal members, and permanent exclusion from Senegal if convicted.

In addition to the 1988 UN Drug Convention, Senegal is also a party to 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.

2. Supply Reduction

Between June 2009 and May 2010, Senegalese police, gendarmerie, and customs officials reported seizing 96 képas (a small packet equivalent to roughly ¼ gram=24 gm total) of heroin, 126 kg of bulk heroin, not-yet-broken-down for street sale, 10.5 tons of cannabis, and 3009 tablets of barbiturates. 1235 suspects were arrested for drug trafficking, and 1929 individuals were arrested on charges of drug use. The UN Office on Drugs and Crime (UNODC) estimates that about 40 tons of cocaine from Latin America reaches Europe via West Africa each year. UNODC also believes that a new drug route from Dakar to Istanbul is currently developing. Senegal and its neighbors are unprepared to deal with increasing levels of drug trafficking. Law enforcement officials lack the means to track smugglers, and poorly equipped local authorities face an uneven battle against the cash-wealthy traffickers.

Senegalese drug enforcement agents are posted at the international airport, but they lack the training and equipment to systematically detect illegal drugs. Senegal 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 with a positive spin-off benefit for drug trafficking enforcement through the airport. UNODC is developing a multi-agency program (Customs, Gendarmes and Ministry of Interior Police) for screening container shipments at Dakar Port. Although the USG sponsored the establishment of a Financial Intelligence Unit, with an in-country U.S. Treasury Department advisor, the unit has not yet specifically targeted drug traffickers, still its very existence will surely discourage money laundering in Senegal. European assistance efforts to combat illegal immigration, particularly to Spain have led to enhancement of Senegal's ability to mount maritime patrols which may also serve to inhibit the trafficking of narcotics.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Nongovernmental organizations, such as the *Observatoire Geostrategique des Drogues et de la Deviance* (OGDD), have taken the lead in public drug abuse education efforts in Senegal. Since 2001, OGDD has instituted a multi-phase drug abuse and awareness campaign. 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 drug cultivation, that drugs were bad for the environment and health, and that drugs were degrading the economy. Village committees have also been established to convey the above information. 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.

4. Corruption

Corruption is a problem for narcotics law enforcement all over Africa, although narcotics-related corruption does not appear to be a problem within senior levels of the Senegalese government. In 2004, the National Commission against Non-Transparency, Corruption and Misappropriation of Funds, an autonomous investigative panel, was created in Senegal. The efficacy of the commission's efforts remains an issue in Senegal, as it has no authority to investigate or to prosecute. Many observers allege that it remains inefficient in fighting corruption, and specifically prosecutes no government officials. 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. Although no senior GOS officials are known to engage in, encourage or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions, prosecutions of any suspected government official seems foreclosed at present thanks to their legal immunity. Senegalese government officials could only be indicted by the country's Senate. Criminal charges could then be brought against suspects once a high court had removed their immunity, a potentially long and difficult process.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

USG goals and objectives in Senegal are to strengthen law enforcement capabilities in counter-narcotics efforts. The USG will continue to leverage Senegal's relative stability to enhance Senegal's capacity to counter narcotics traffic. Furthermore, the U.S. Mission will seek the placement of an INL-funded Narcotics Affairs Officer and a Drug Enforcement Administration special agent based in Dakar to enhance the effort against trafficking. In 2010, the African Maritime Law Enforcement Partnership (AMLEP), a program of the Africa Partnership Station (APS) administered by AFRICOM, conducted two operations off the coast of Senegal utilizing U.S. Coast Guard and Navy vessels to expand maritime training and operations with the GOS. Additionally, a U.S. Coast Guard mobile training team conducted a two-week advanced maritime law enforcement course for the Senegalese Navy to expand maritime training and operations with the GOS.

D. Conclusion

The GOS has the political will to fight drug trafficking, though its efforts are hampered due to lack of infrastructure and funding. Its national plan to counter narcotics trafficking and its cooperation with regional neighbors are both positive and necessary steps to help the GOS in this fight. However, Senegal, like its neighbors, continues its struggle to track and prevent traffickers who have greater resources. Senegal's geographical location creates a tempting point for drug traffickers seeking to move narcotics from South America to Europe, and its proximity to Guinea-Bissau, a country plagued by a severe narco-trafficking problem, presents an ongoing challenge as Senegal tries to maintain its borders and handle illicit marijuana cultivation in the Casamance region.

Serbia

A. Introduction

The Republic of Serbia is an important transit country for narcotics and other drugs along the traditional Balkan smuggling corridor leading from Central Asia and Turkey to Central and Western Europe. Heroin grown and processed in Afghanistan is smuggled through Turkey, Bulgaria, Romania, and Kosovo into Serbia, and onward to other European markets. Large amounts of marijuana flow from Albania through Montenegro and Serbia. Limited quantities of cocaine are also smuggled into or through Serbia. The UNODC estimates that 85 tons of heroin – the most prevalent narcotic – travel along the Balkan route each year; some smugglers are reportedly shifting attention to Serbia's southern and eastern neighbors, especially European Union (EU) members. The government of Serbia has significantly improved its law enforcement cooperation with neighboring states, recognizing that regional cooperation is critical in the fight against drug trafficking and other forms of trans-national crime.

The Ministry of Interior believes that Serbian organized crime groups continue to smuggle cocaine directly from South America to Western Europe. Trafficking of synthetic drugs and precursors from Western Europe or elsewhere, either for the domestic market or transiting along a reverse Balkan route to Bulgaria and Turkey, also remains a concern. Serbia is not a major producer of organic or synthetic drugs or precursors, though Serbian authorities occasionally seize drug labs. The Serbian government estimates that relatively small amounts of internationally trafficked narcotics, mostly heroin or marijuana, remain in the country for domestic consumption. Officials believe that marijuana and synthetic drugs are the most popular drug among users.

According to the Public Health Service, there were 60,000 drug users in Serbia in 2008, with more recent estimates of addicts ranging from 30,000-100,000. Serbia's drug abuse and drug treatment capacity is limited. The only dedicated government-run drug and alcohol rehabilitation clinic treats about 1100 patients per year, and the government conducts some public outreach on prevention. As a successor state to the former Yugoslavia, the Republic of Serbia is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Ministry of Interior's Drug Smuggling Suppression Department, Drug Addiction Suppression Department, and Border Police, as well as the Ministry of Finance's Customs Administration, are responsible for combating drug-related crimes in Serbia. While these agencies report generally good operational cooperation among themselves, there is no government-wide coordinating body that has a clear lead in counter-narcotics law enforcement efforts, analogous to the U.S. DEA. The Interior Ministry is currently undergoing a strategic planning process that could result in a reorganization and centralization of counter-narcotics efforts. The Commission for the Fight against Drugs, composed of the Ministries of Health, Education and Sport, Interior, Social Welfare, and Justice, meets to develop activities to implement the National Strategy for the Fight against Drugs, and the Ministry of Health takes the lead in prevention education efforts and treatment. The government has made limited progress in implementing the National Action Plan connected to the five-year National Strategy for the Fight against Drugs, both adopted in 2009.

In 2010, the government of Serbia significantly increased law enforcement cooperation with neighboring states as part of its strategic focus on fighting organized crime and drug trafficking. Serbia concluded diverse agreements on police and customs cooperation with Albania (March 2010), Bulgaria (April 2010), and Bosnia and Herzegovina (September 2010). Serbia signed extradition agreements with Croatia in June and Montenegro in late October 2010 targeting organized crime and corruption. Serbia and Montenegro immediately acted to enforce the agreement in an attempt to arrest several suspected

international narcotics traffickers, among others. Serbian organized crime prosecutors filed charges in April 2010 against 20 suspects in connection with the seizure in October 2009 of over two tons of cocaine in international waters near Uruguay, an operation facilitated by Serbian law enforcement working in conjunction with the U.S. Drug Enforcement Administration. The trial in Belgrade opened in September 2010, though many of those indicted, including suspected ringleaders, remain at large despite ongoing apprehension efforts.

Serbian authorities cite operational cooperation with Croatia as a particular bright spot: direct and regular exchange of information includes a secure video-link publicly inaugurated by the Ministers of Interior of both countries in September 2010. The Interior Ministry conducts joint investigations with Croatia, Bosnia and Herzegovina, and Montenegro. The Serbian police provide intelligence to neighboring and Western European countries, contributing to seizures and arrests in those countries. Serbia is also working with South American countries with U.S. assistance and has signed bilateral police cooperation agreements with Argentina, Brazil (both June 2010), and Uruguay (September 2010). The Minister of Interior intends to continue to expand international cooperation with countries in Latin America and Asia.

In October 2010, the Ministries of Justice and Interior hosted a regional conference in Belgrade on the fight against organized crime for the second year in a row and signed an agreement with Albania, Bosnia and Herzegovina, Croatia, Montenegro and Macedonia to establish in Belgrade a regional office to support operational information exchange and facilitate communication in cross-border criminal investigations targeting organized crime. Serbia continued to participate in the Southeastern Europe Cooperative Initiative (SECI) Regional Center for Combating Trans-border Crime activities, as well as the associated Southeast European Prosecutors Advisory Group (SEEPAG). Ministers also frequently attended regional and European-wide conferences aimed at fostering international law enforcement and justice cooperation. Serbia hosts law enforcement liaison officers from Bulgaria, Italy, Germany, Romania, the United Kingdom, and Australia, as well as a joint office for five Scandinavian countries.

Cooperation with the Republic of Kosovo remains a significant exception to the positive trend of increased regional and international cooperation. The Serbian government does not recognize Kosovo as an independent country and therefore will not cooperate directly with representatives of Kosovo's government, permit them to attend conferences that Serbia hosts, or participate in multilateral events with Kosovo representatives. The Interior Ministry signed an agreement with the European Union Rule of Law Mission in Kosovo (EULEX) in 2009 to cooperate on law enforcement issues. The Customs Service also cooperates informally with EULEX. Direct customs and law enforcement interaction needs to increase significantly, however, in light of the continuing practical challenges.

Serbia's updated drug laws are adequate. An anticipated new law on psychotropic drugs has not yet been adopted, however. Work continues on a revised Criminal Procedure Code, which is expected to be enacted in early 2011. A new Customs Law entered into force in May 2010, while a new Customs Service Law remains under review. In combination, the new legislation would bring Serbia's Customs Service into compliance with EU standards, most importantly by giving the Customs Service law enforcement status and the ability to testify in court.

Serbia became a 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 three protocols.

2. Supply Reduction

The Ministry of Interior continues efforts linked to the nationwide "Operation Morava" launched in October 2009 to pressure street-level drug dealers throughout the country and disrupt supply flow to local markets. In October 2010, close local and international law enforcement cooperation led to the seizure by police in Belgrade of 120 kilograms of heroin bound for Central Europe – one of the largest such seizures

in the capital in many years, and more than double the total amount of heroin seized in the preceding nine months.

Serbia's Customs Administration and all Interior Ministry agencies made a total of 4186 seizures from January to September 2010. During this period, Serbia interdicted a total of 1010.4 kilograms of drugs including 108.3 kilograms of heroin, 814.3 kilograms of marijuana, 6.5 kilograms of cocaine, 23.5 kilograms plus 860 tablets of ecstasy, 4.2 kilograms plus 1025 tablets of amphetamines, and 53.3 kilograms plus 13,669 tablets of "other" illegal drugs. This is a significant overall increase in drugs seized compared to the same period in 2009 (over 50%), largely accounted for by increases in marijuana (up 62%), ecstasy (up three times), and "other" drug seizures (up six times). The amount of heroin seized was static, while seizures of cocaine were down over 30 percent. Authorities also uncovered a synthetic drug lab near the Bulgarian border in September 2010, thought to be aimed at the Bulgarian market.

Serbian law enforcement agencies report that most drug seizures are the result of international intelligence sharing, good interagency cooperation, and careful investigative work. The government is also introducing new equipment to aid in border inspections, anticipating the phased deployment of 10 mobile x-ray systems for the Customs Administration beginning in late 2010. The Customs Administration has also invested in other equipment, improved post-clearance procedures, upgraded its risk analysis system, and increased cross-border information-sharing.

Under Articles 246 and 246a of the Criminal Code (revised in September 2009), covering Production and Distribution of Narcotics and Possession of Narcotics, respectively, in the first nine months of 2010 police arrested and charged 3957 individuals, a 10 percent increase over the same period in 2009. Under Article 247, of the criminal code, entitled "Facilitating the Consumption of Narcotics," police arrested and charged 190 individuals, a 22 percent increase over the same period. In 2009, 4053 individuals were tried under both articles, and 3825 of those (94.4%) were convicted. More than half of those convicted were fined or put on probation, with nearly 40 percent sentenced to jail time.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Serbian government launched a drug abuse prevention campaign with EU assistance in November 2010 aimed at children and parents under the slogan "United Against Drugs." The government conducts an addiction prevention program in primary and secondary schools, "Drugs Zero, Life One," which includes lectures for students, parents, and teachers and referrals for families who seek help. The program is not mandatory, however, and individual schools choose whether to participate. According to a 2009 Public Health Service study, 15 percent of high school freshmen have tried narcotics. The National Network for the Fight against Drugs, a network of anti-drug NGOs, maintains a website with information about drug addiction and prevention. Serbia's only dedicated government-run drug and alcohol rehabilitation clinic provides emergency services and inpatient and outpatient detoxification using opiate receptor blockers or methadone, psychotherapy, and reintegration skills workshops to treat patients. Public hospitals, including prison hospitals, run outpatient and inpatient drug rehabilitation programs. The Health Ministry has a pilot project to provide methadone substitution in primary care clinics.

4. Corruption

As a matter of policy the Serbian government does not encourage or facilitate the 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. However, corruption in Serbia remains a concern due to low pay, inadequate working conditions and a culture of tolerance of petty corruption in certain fields of public administration, including law enforcement. The Drug Smuggling Suppression Department reported no internal police investigations into narcotics-related corruption in the first nine months of 2010. The Customs Administration reported no organized crime influence and no changes in the rate of prosecution of

officials suspected of corruption, but reported an increase in disciplinary procedures based on internal controls. The Republic of Serbia is a party to the UN Convention against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The Serbian Government works closely with the United States, the OSCE, 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 Drug Enforcement Administration, Department of Homeland Security, Department of Defense, Department of the Treasury, and the Department of State. Department of State Bureau of International Narcotics and Law Enforcement (INL) funded programs are implemented by the Department of Justice International Criminal Investigative Training Assistance Program (ICITAP) and Department of Justice Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT) and have been instrumental in providing support to the Organized Crime Police and Organized Crime Court in Serbia.

USG assistance programs are aimed at professionalizing the police and customs services, building skills for prosecution and investigation techniques provided guidance in the drafting of new legislation, 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. In 2010, OPDAT assistance focused on training prosecutors and improving capacity in plea bargaining and asset seizure, following changes to the relevant laws enacted in 2009. ICITAP sponsored a joint study visit to the U.S. for Croatian and Serbian police, prosecutors, and customs officials to observe U.S. methods for combating drug, human, and weapons trafficking.

D. Conclusion

The government of Serbia continued to undertake measures to improve domestic capacity to combat drug trafficking. Serbian authorities have also devoted significant effort and resources to fostering regional law enforcement cooperation, although more effective cooperation with Kosovo and EULEX is needed. Improved communication and strategic coordination among law enforcement and judicial bodies within Serbia is also needed to enhance the comprehensive counter-narcotics efforts. Serbia's goals for the future include passing relevant legislation, implementing judicial and law enforcement reform, strengthening interagency coordination, increasing public awareness campaigns, and fully defining the structure and activities of the Commission for the Fight against Drugs. The United States will continue to support the efforts of Serbian law enforcement to combat narcotics smuggling in the country and the region.

Seychelles

Seychelles is not a major producer or exporter of illegal drugs, or a transit route for drug trafficking. Marijuana is the only illicit drug that is locally cultivated in large quantities, but only by small groups of individuals. It is consumed locally and is not exported. Other illicit drugs, primarily: heroin and to a lesser extent marijuana are brought into Seychelles for consumption with an amount going for transshipment to other markets. In the last 5 years heroin has been introduced to Seychelles and has overtaken marijuana as the drug of choice. Seychelles has problems controlling drug trafficking as a result of limited resources to patrol its shores and waterways.

Seychelles National Drug Enforcement Agency (NDEA) of the Seychelles Police Force works closely with other law enforcement and health agencies on drug control and education/treatment programs throughout the country, and cooperates with U.S. Government agencies. The NDEA continues to look for ways to improve its resources and to build its capacity. Seychelles is a party to the 1988 UN Drug Convention.

The Government of the Seychelles does not encourage or facilitate drug trafficking as a matter of government policy, and senior officials of the government are not involved in such activity. Seychelles is a party to the UN Convention Against Corruption.

The NDEA appears on track based on data up to October 2010 to record an increase in seizures and cases filed involving illegal drugs. Seychelles customs has recorded record levels of seizures over the last three years. The NDEA and Customs credit the increase in illicit drug seizures and arrests in recent years to their ongoing operations with other units of the police force and cooperation with immigration in profiling.

The Government of Seychelles collaborates with the Drug Enforcement Administration (DEA), United Nations Office for Drugs and Crime (UNODC), and the International Narcotics Control Board. In June 2010, a month-long drug abuse awareness campaign was undertaken with the help of UNODC.

Based on narcotic seizures, arrests, and rehabilitation program participation, heroin is the most commonly consumed drug in Seychelles. NGO's believe that approximately 3000 addicts exist of which 1000 to 1500 are injecting. Seychelles has only one dedicated drug treatment facility with limited resources. A disturbing increase in Hepatitis C cases has prompted the Government to consider the use of a methadone substitute to maintain addicts during treatment and to introduce a needle exchange program. NGO's provide counseling and prevention advice to supplement government efforts.

The Government of Seychelles has clearly indicated that it will deal harshly with drug traffickers. Contract police trainers with experience working in the Irish police force have made a positive impact on the capacity of Seychelles Police to enforce the law.

The U.S. Government provides training assistance to Seychelles law enforcement agencies, including the NDEA, through the International Law Enforcement Academies (ILEAs) in Gaborone Botswana and Roswell New Mexico, and Africa Command (AFRICOM), FBI, and NCIS all provide some training.

Sierra Leone

A. Introduction

Sierra Leone has taken steps to combat illicit trafficking of narcotic drugs and psychotropic substances and has mounted efforts against drug abuse. However, the country's efforts to combat the drug flow in 2010 continue to be hampered by resource issues and limited operational sophistication. The country has limited enforcement, treatment, and rehabilitation programs, and corruption often impedes interdiction efforts. Interagency coordination among Sierra Leone's law enforcement entities has been a challenge, but the Joint Drug Interdiction Task Force, created in 2008, is now a well-functioning group that spans agencies and interests. This year, it was re-named the Trans-national Organized Crime Unit (TOCU) to reflect an expanded mandate.

Sierra Leone is a transshipment point for illegal drugs, particularly cocaine from South America. Europe is usually the final destination, often via regional neighbors such as Guinea and Guinea-Bissau. Narcotics move to Guinea primarily overland or via sea, with Konakrdee near Port Loko as the usual port of exit. Recent reports indicate that direct flights from Freetown Lungi International Airport to London and Brussels may be vulnerable. There are also unsubstantiated reports that traffickers may be using small, unmarked air strips throughout the country, as they do in near-by Guinea-Bissau. Transshipment of Southwest Asian heroin has increased with the start of direct commercial flights from East African countries. Drug trafficking rings are increasingly active in Sierra Leone, often relying on corrupted government officials, police and intelligence officers, who have accepted bribes to turn a blind eye to the traffickers' illegal activities.

Cannabis cultivation is on the rise in Sierra Leone and products like marijuana are used regularly here. Marijuana is the only drug produced in-country. However, trafficking of more serious drugs like cocaine and heroin has fueled increasing domestic consumption of these drugs, primarily among expatriates and short-term foreign visitors who can afford to pay their steep cost. Law enforcement officials are concerned that narcotics rings active in Sierra Leone are growing in size and influence. Major drug traffickers pay local accomplices in kind, and Freetown now has a "street price" of 50,000 Leones (US\$12.50) for a gram of cocaine. Diversion of precursor chemicals, on the other hand, is not a problem. Sierra Leone is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The National Drug Control Act was passed in 2008 to bring Sierra Leone into conformity with international conventions and norms. The Act expands on the Dangerous Drugs Act (1960) and the Pharmacy and Drugs Act (2001), which had major substantive drafting problems and called for inadequate punishment for narcotics abuse and trafficking. The 2008 Act established a National Drug Law Enforcement Agency (NDLEA) to serve as the focal point on narcotics policy issues and enforcement 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 was a positive step for Sierra Leone, some revisions may be required in order to increase its effectiveness. 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 address adequately prevention measures and treatment options for addicted drug abusers. The law was expected to have been revised in 2010, following the conclusion of the appeals process for individuals convicted under the Act in 2009, but as of the end of the year this has not occurred.

The NDLEA has a limited budget and staff. Sixty officers have been seconded from the Sierra Leone Police, but lack equipment and support to perform their duties effectively. The NDLEA has offices in five locations outside of Freetown, but the NDLEA is not yet operational at these locations. The NDLEA intends to increase its efforts in the area of demand reduction and public awareness.

Two new initiatives are underway. First, TOCU is creating a team comprising the Sierra Leone Police (SLP) and Office of National Security (ONS) officials to monitor all organized crime and narcotics cases charged locally to ensure that they are followed through to completion. The team will report any compromises or delays to the Attorney General and Inspector General. Second, TOCU will create a special court dedicated to organized crime and narcotics issues with specially trained judges and prosecutors. Funded by the UN Office of Drugs and Crime (UNODC), the court will fill the gap in prosecuting offenders, as TOCU and the SLP are focused primarily on law enforcement.

Government of Sierra Leone representatives participate in ECOWAS conferences and Mano River Union meetings, and are striving for better regional cooperation. Law enforcement agencies cooperate with their counterparts in neighboring countries on specific cases and trying to identify trends and methods in drug trafficking.

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. The 1931 U.S.-UK Extradition Treaty applies to Sierra Leone, but it has not been utilized since 1996. 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. Though Sierra Leone signed the UN Convention against Transnational Organized Crime in 2001, it has yet to ratify it.

2. Supply Reduction

Sierra Leone law enforcement agencies cooperated to combat narcotics trafficking through Transnational Organized Crime Unit, which includes representatives from the Sierra Leone Police, Office for National Security, NDLEA, Republic of Sierra Leone Armed Forces (RSLAF), Immigration, Civil Aviation Authority, Anti-Corruption Commission, and the National Revenue Authority. Throughout 2010, TOCU continued to expand and increase in sophistication. Thanks to significant training efforts supported by international partners, TOCU consists of 77 enforcement officers, including surveillance specialists (there is still a need for forensic capabilities). TOCU, whose management board meets on a regular basis, is now a pro-active unit which generates and shares intelligence, conducts large-scale operations, and responds quickly to emergent threats. It will continue to be the primary government agency responsible for narcotics-related crimes until the NDLEA 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 three small cutters 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 cutters have a range of 20 – 25 nautical miles; the patrol boat has a range of up to 60 nautical miles). The Chinese-built boat, despite its longer range, has a shallow draft and is unsuitable for deep water operations. Currently, only one of the cutters is operational. In 2010, the Maritime Surveillance System, donated by AFRICOM, was installed and operational, but the Joint Maritime Wing has yet to use it due to long-term sustainability issues that are currently being addressed.

The Government of Sierra Leone is working to improve the reliability of statistics maintained on arrest rates, prosecutions, and convictions. TOCU reports that since its inception in July 2008 through November 2010, they have opened 61 drug trafficking cases involving 118 suspects. Ninety-four of these suspects were convicted and either fined or jailed. The remaining 24 cases are still under investigation. Within the same period of time, TOCU seized approximately 845 kilograms of cocaine, 1598 kilograms

of cannabis, 2.96 kilograms of heroin, and 2.1 kilograms of imported hashish. In August 2010, TOCU destroyed approximately \$1 million worth of cocaine believed to be targeted for sale within Sierra Leone, as well as an estimated 6000 kilograms of cannabis still in the field.

Cannabis is widely cultivated and consumed locally, and is also transported to surrounding countries and Europe. TOCU conducted multiple raids of cannabis farms, and noted that cultivation appears to be increasing; the government is concerned that cannabis production is now one among other activities substituting for regular subsistence farming, thus threatening food security. One "joint" costs approximately 1,000 Leones, (25 U.S. cents) on the streets of Freetown. The Government of Ireland has pledged 50,000 Euros (US\$70,477) for cannabis eradication. As part of the grant procedure, TOCU has drawn up an overall strategy for cannabis eradication nation-wide targeting primarily large-scale farming operations.

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 warehoused 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 and swallowing.

Improving security at Lungi Airport has been a priority for authorities and the international airlines that use it. Individuals are now searched, as well as hand-luggage searches, which have resulted 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. In October, an Indian national was arrested at the airport for possession of five marijuana cigarettes and fined 500,000 Leones (US\$125). In November, the UK sponsored three weeks of training for the SLP and airport and customs officials in profiling and identifying passengers suspected of transporting drugs.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The NDLEA, in conjunction with civil society, conducted occasional public awareness campaigns about the dangers of drugs. This includes outreach to schools and programs broadcast over radio, and the publication of posters and pamphlets. Treatment programs are offered only at the country's one psychiatric in-patient hospital and one out-patient clinic in downtown Freetown. Approximately 80 percent of the patients at these facilities are being treated for drug-induced psychosis, primarily due to cannabis and alcohol abuse. The treatment programs include complete abstinence and administering of tranquilizing drugs plus counseling. At least 50 percent of the inmates at the Pademba Road High Security Prison in Freetown are doing time for drug offenses, and staff from the psychiatric hospital will treat prisoners upon request. The relapse rate for treated drug offenders is approximately 20 percent. The 2008 law puts treatment and rehabilitation for offenders under the purview of the Minister of Justice and an appointed treatment assessment panels. Depending on the crime, offenders may undergo treatment in lieu of prosecution, or receive a suspended sentence. Funding for treatment and facilities is provided solely by the Ministry of Health.

4. 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 required

minimum sentencing. 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 endemic poverty, as well as the large potential profits from any one drug deal. The problem with corruption was underscored in the 2008 cocaine bust at Lungi International Airport, in which, during the trial, a number of government officials and security agents were implicated, including the Minister of Transport and Aviation, who was never arrested or tried.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

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. In 2010, forty officers attended courses that included narcotics-specific and related training. TOCU and others benefited from several USG-sponsored events, including surveillance training and investigation techniques for transnational organized crime cases. For example, in November – December, TOCU's Director of Operations attended a ten-week course at the FBI National Academy.

In fiscal year 2011, AFRICOM plans to fund significant infrastructure improvements for TOCU. AFRICOM will also provide a military funding grant to repair the Joint Maritime Wing's U.S. Coast Guard-provided cutters.

Finally, in 2010, the African Maritime Law Enforcement Partnership (AMLEP), a program of the Africa Partnership Station (APS) administered by AFRICOM, conducted two separate U.S. Coast Guard operations off the coast of Sierra Leone to locate and board vessels suspected of illegally trafficking narcotics. To facilitate these operations, the United States and Sierra Leone signed a permanent bilateral maritime counterdrug agreement. APS intends to conduct similar operations in 2011.

D. Conclusion

The Government of Sierra Leone suffers no lack of political will in trying to stem the tide of organized crime that is infiltrating the region. Ongoing efforts to train and mobilize the enforcement forces, as well as willingness to collaborate with international partners, demonstrate Sierra Leone's tough stance on drugs. However, limited funding to enforce the 2008 law remains 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 Leonean 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 luxury for developing Sierra Leone. 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.

Singapore

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 narcotics, but as a major regional financial and transportation center, it is an attractive target for money launderers and drug transshipment. Singapore is ranked 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.

According to Government of Singapore (GOS) figures, during the first half of 2010, 914 drug abusers were arrested compared to 1051 arrested during the same time frame in 2009. Heroin and methamphetamine remain the top two drugs of choice in Singapore accounting for 84 percent of the drug abusers arrested. In the first half of 2010 Singapore saw an increase in seizures of almost all drug types. From January to June 2010, Singapore seized: 25.3 kg of Heroin #3, a 76 percent increase from the same time period in 2009; 5.3 kg of Cannabis, a 93 percent increase from 2009; 3.9 kg Methamphetamine, a 206 percent increase from 2009; 9.3 kg of Ketamine, a 91 percent increase since 2009; and 24,124 tablets of Nimetazepam-AKA Eremin-5, a 16 percent increase since 2009. The amounts of seized ecstasy, Yaba and Subutex decreased. According to the Singapore Central Narcotics Bureau (CNB), Singapore seized approximately S\$5.9 million (U.S. \$4.6 million) worth of drugs in the first half of 2010, which is almost S\$2 million (U.S.\$ 1.6 million) more than the same time period in 2009.

In 2010, there was no known production of illicit narcotics in Singapore. Singapore has been used as a transit point for narcotics moving to other countries such as Indonesia, China and Hong Kong via parcels, maritime containers and air cargo. Air and maritime ferry passengers have also frequently transited Singapore in possession of narcotics for delivery to other countries such as Indonesia. Points of origin have included Malaysia, India, Thailand and Pakistan. Precursor chemicals, such as acetic anhydride, have also transited Singapore from South Korea and China en route to destinations such as Pakistan. Singapore is one of the busiest transshipment ports in the world. 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.

The Government of Singapore neither encourages nor facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, nor the laundering of related proceeds.

Singapore continues to pursue a strategy of demand and supply reduction for drugs. The GOS worked closely with numerous international groups dedicated to drug education, including the "Partnership for a Drug-Free America". In addition to arresting drug traffickers, Singapore focuses on arresting and detaining drug abusers for treatment and rehabilitation, providing drug detoxification and rehabilitation, and offering vigorous drug education in its schools. Singaporeans and permanent residents are subject to random drug tests. The Misuse of Drugs Act gives the Singapore Central Narcotics Bureau (CNB) the authority to remand all drug abusers to rehabilitation centers for mandatory treatment and rehabilitation. Since 1999, individuals testing positive for consumption of narcotics have been held accountable for narcotics consumed abroad as well as in Singapore.

Singapore is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-UK Extradition Treaty. Singapore and the United States signed a Drug Designation Agreement (DDA) in November 2000, a mutual assistance agreement limited to drug cases. Singapore has signed mutual legal assistance agreements with Hong Kong and ASEAN. The United States and Singapore have

held discussions on a possible bilateral MLAT, most recently in December 2005, although there have been no formal negotiations since 2004. Singapore is a party to the UN Convention against Transnational Organized Crime and the UN Corruption Convention. In April 2006, Singapore amended domestic legislation to allow for mutual legal assistance cooperation with countries for which Singapore does not have a bilateral treaty.

Somalia

Somalia is the world's quintessential failed state. A fragile transitional federal government controls only portions of the country's capital and remote pockets of some regions. That government is besieged by a classic insurgency, led by U.S.-designated foreign terrorist organization, al-Shabaab. Many ministries exist in name only, or have non-functioning, mostly unpaid staff. There is no court system to speak of, and policing is rudimentary. Any laws that do exist are currently unenforceable given the security threat to the government and its lack of capacity. The financial system in Somalia operates almost completely outside government oversight on the black market, or via international money transfer companies known as hawalas. The USG lead for Somalia, U.S. Embassy Nairobi's Somalia Unit, has no credible state partner with which to engage on drug control issues.

Somalia does not play a major role in the production, trafficking, or consumption of illicit narcotics or precursor chemicals associated with the drug trade. Somalia's narcotics financing is centered on the khat trade. Khat is a leafy plant grown regionally and chewed by Somalis, and citizens of other regional states in the Horn of Africa and the Arabian Peninsula, as well as in parts of Asia. It imparts a mild amphetamine-like high, manifesting in excitement, euphoria, and suppressed appetite. Although it is a controlled substance in much of the world, khat is legal in Somalia, and has aspects of a local traditional practice. Khat is grown in Kenya, Ethiopia, Yemen and Uganda, imported mostly by plane, and sold throughout Somalia. Most khat proceeds go back to khat transporters based outside of Somalia in cash or via money transfer companies. It is highly unlikely that khat money is laundered in Somalia because khat proceeds are not illegal and opportunities for legal investment are few given Somalia's weak economy.

There is no information related to drug-related currency transactions through Somalia's financial institutions (such as they are). To the extent Somalis are engaged in the drug trade in the United States, some of those proceeds are probably transferred to Somalia through hawalas in the form of remittances, however, informed observers speculate that the amounts are relatively small.

There is virtually no information sharing on narcotics and terrorist financing with the United States or other developed countries. There are no joint formal investigations ongoing of which we are aware. Somalia does not officially encourage or sanction drug trafficking, and there is no evidence that senior officials are engaged in such activities. Somalia is not a party to the 1988 United Nations Drug Convention.

South Africa

A. Introduction

An expected increase in narcotics trafficking in South Africa related to the 2010 FIFA World Cup did not take place, an outcome that may be attributed in part to South African Central Drug Authority (CDA) and NGO substance abuse awareness efforts. The CDA is planning to create a national narcotics data base as the foundation for its 2012-2017 National Master Plan. While authoritative nationwide narcotics data are not yet available, available research, police statistics, and press reports confirm that South Africa continued to battle drug trafficking and abuse with uneven results.

Cannabis is the only illicit drug cultivated in South Africa, but it is widely cultivated across the country for both domestic use and export. The estimated total annual yield for cannabis cultivated in South Africa is 4528 MT. South Africa also produces significant quantities of methaqualone, methcathinone, and methamphetamine, primarily for domestic consumption. The cultivation and trafficking of khat is a growing problem in South Africa, especially among the Somali community.

South Africa's well developed financial, communications, and transport systems unquestionably facilitate drug trafficking. As drug trafficking escalates worldwide, South Africa is being drawn in as an important transshipment connection. Despite efforts to improve border control and security, South Africa is still used to transship heroin, cocaine, precursor chemicals, and amphetamine-type stimulants. South Africa remains an attractive base for organized crime groups, both domestic and foreign, including from Nigeria, Pakistan, India, Europe, and China. According to a study published in April 2010 by the Institute for Security Studies (ISS), a local think tank, organized crime in Southern Africa is on the rise, and South Africa has become the central hub for the spread of organized crime across southern Africa. The ISS study reported that South Africa's sea and airports are used as drop-off points for drugs and other illegally imported goods that are to be distributed to the rest of Southern Africa.

Substance abuse of alcohol and drugs is a major social problem in South Africa and a major factor in crime. In Western Cape Province, in particular, but also in other provinces, increased gang violence is directly linked to an illegal drug sub-culture. Methaqualone (known as Mandrax) and marijuana are widely traded in Western Cape, but the drug of choice among dealers is crystal methamphetamine, commonly known as "tik". According to CDA, citing reports from national police and the Department of Correctional Services, 60 percent of the road deaths in South Africa are related to substance abuse. There are no reliable statistics on fatalities caused by long-haul truck drivers who take stimulants to stay awake, but CDA suspects this to be a significant problem. According to CDA, 69 percent of sexual offenses and 50 percent of drowning deaths also involve substance abuse. South Africa's most widely used drug is alcohol, followed by marijuana, then by methaqualone (Mandrax), often used in combination with marijuana (locally called "white pipe"). In Kwazulu-Natal, crimes from robbery to murder in townships and informal settlements have been associated with intoxication caused by a smoked street drug concoction, known locally as "Whoonga", consisting of crushed antiretroviral drugs mixed with marijuana and rat poison. CDA also cites the abuse of prescription drugs as a growing problem in South Africa. There is a lack of information on the substance abuse problem in rural areas.

According to South Africa's crime statistics report released in September 2010, drug related crime increased nationwide. Arrests for drug-related crimes nationwide rose from 117,172 from April 2008 to March 2009 to 134,840 from April 2009 to March 2010 (ca. 15 percent). Arrests for driving under the influence of alcohol or drugs also increased from 56,165 to 62,939 for the same period. Western Cape Province was the most affected by this trend, recording 60,409 drug-related arrests between April 2009 and March 2010, 44.8 percent of all arrests and a 12 percent increase in drug-related arrests over the previous year. It is unclear whether the increased incidence of drug-related crimes was a result of more active policing in 2010 or solely of an increasing problem related to drug gang culture. The South

African Police Service (SAPS) made visible policing a priority policy in advance of the World Cup, a factor that CDA credits with helping to prevent a spike in drug crime during the World Cup. At the same time, the overall conviction rate for drug crimes remains very low as the overall narcotics crime threat continues to increase.

South Africa's Prevention of Organized Crime Act (POCA, 1988), particularly its robust asset forfeiture provisions, is proving to be a useful tool in the war against illicit drugs. South Africa is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments/Policies and Trends

1. Institutional Development

In addition to the 1988 UN Drug Convention, South Africa is party to 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 on Corruption and the UN Convention against Transnational Organized Crime and its three protocols. The U.S. and South Africa have bilateral extradition and mutual legal assistance treaties in force. The U.S. and South Africa also have a Letter of Agreement on Law Enforcement and Counter-Narcotics Assistance and a Customs Mutual Legal Assistance Agreement.

The SAPS and the CDA coordinate on a comprehensive anti-drug strategy referred to as the Mini Drug Master Plan (MDMP) and report jointly to cabinet on its implementation every year. In keeping with South Africa's international commitments, the MDMP seeks to: deter drug crime through visible policing, collect actionable intelligence on groups involved in drugs, obtain information on the movement of precursor chemicals, coordinate international cooperation to address drug trafficking, police ports of entry, and investigate transnational and domestic drug trafficking. CDA also operates under a National Master Plan 2006-2011, which featured an inter-agency approach coordinated at the provincial and national level to prevention, treatment, and intervention. CDA is working on a 2012-2017 National Master Plan that will include a nationwide data base.

2. Supply Reduction

The SAPS Cannabis Eradication Program continued to destroy cannabis crops under cultivation, particularly in the Eastern Cape and Kwa-Zulu Natal provinces. South African and Brazilian law enforcement officials have recently improved cooperation to break a significant cocaine smuggling nexus between the two countries. South Africa had increased its drug seizures of Nigerian-controlled trafficking between South America and Europe via South Africa at OR Tambo International Airport. There are promising early signs that increased control and regulation of chemical precursors, coupled with several major meth lab busts, may begin to disable the country's methamphetamine industry as uncontrolled imports of ephedrine continued to fall, while pseudoephedrine imports stabilized at low levels.

Examples of some important drug cases:

- On 29 May, the South African Press Agency (SAPA) reported that Northwest Province SAPS arrested six Nigerians from the northern suburbs of Rustenburg on illegal drugs possession charges. During the operation, police reportedly found cocaine and heroin as well as R22,000 in cash (approximately \$3,000).
- Pretoria News Online on 8 April reported that SAPS busted a suspected drug syndicate when a woman, who was allegedly raped by several of the organization's members, escaped from their Pretoria hideout and alerted police. The woman is believed to have been drugged after she befriended the teenage niece of one of the syndicate members, who allegedly operates his leg of the criminal network from a bar. The bust and the subsequent arrest of six suspects, including the teenager, her uncle and a husband and

wife, led police to the syndicate's clandestine drug laboratory in Monument Park, Pretoria, and the kingpin's hideout in La Montagne, where they seized narcotics and scheduled medicines worth R10.5 million (approximately \$1.5 million). The syndicate is believed to be made up of several well known Gauteng Province doctors and pharmacists who supply the organization with false prescriptions for scheduled medicines such as Viagra and steroids.

- SAPA on 25 August reported that police seized around 100 kg of pure cocaine from an "unusual" oil container at the Ngqura harbor in Port Elizabeth. The estimated value of the seized cocaine was R1.4 billion (about \$200,000,000). However, the SAPS suspect that the actual quantity of the substance was about 250 kilograms. The container came from South America and was destined for East Africa and likely transshipment to Europe.
- Western Cape SAPS arrested a Malaysian woman at Cape Town International Airport travelling with 1.2kg of "tik"-methamphetamine. The estimated street value of the seized narcotics was R360,000 (approximately \$52,000).
- Western Cape police arrested two Nigerian men with 12 kg of heroin valued at R3.6 million (approximately \$520,000) in Beaufort West. The two were on their way from Johannesburg to Cape Town.
- South African authorities detected 32kg of khat at Or Tambo International Airport, Johannesburg. The consignment was detected before it could be loaded onto a Cape Town-bound cargo flight on 1 March. No one was arrested in connection with the seizure.
- Many media outlets continue to cover the ongoing trial of Cheryl Cwele, the wife of State Security Minister Siyabonga Cwele, charged with recruiting drug mules to smuggle cocaine between Brazil and South Africa.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Education and the promotion of public awareness about the dangers of drug addiction remained a high priority for the government. The South African Police Force continued its visible crime deterrence policy by organizing visits and counternarcotics lectures in schools with assistance from the Department of Education and NGOs. According to statistics compiled by the South African Community Epidemiology Network on Drugs, over 75 percent of drug treatment patients nationwide are male, which suggests that substance abuse is more common among men than women, but also may suggest that women with substance abuse problems may not be getting treatment. South African National Council on Alcoholism and Drug Dependence (SANCA) programs highlighted issues that affect female addicts and break down barriers to effective substance abuse treatment for women. UNODC programs on drug prevention are targeting the unique drug gang culture of Western Cape. In keeping with the 1988 UN Drug Convention, South Africa seeks and accepts international cooperation to address more effectively the various aspects of illicit traffic in narcotics and promote drug abuse prevention.

4. Corruption

In July 2010, some two years after charges were first filed, the former national commissioner of the SAPS, Jackie Selebi, was found guilty of corruption, and subsequently sentenced to 15 years imprisonment, pending appeal. The judge who presided over the trial concluded that the prosecution had proven that Selebi received bribes from a convicted drug trafficker. The drug trafficker, who was a state witness for the prosecution, claimed to have paid over R1.2 million (approx. U.S.\$175,000) to Selebi in bribes since 2000.

The conviction of Jackie Selebi, a man who led the SAPS for nine years, was regarded in South Africa with palpable relief, yet also with some ambivalence. One casualty in the two years leading to conviction was the Directorate of Special Operations (referred to as the “Scorpions”). The Scorpions, officially disbanded on 23 October 2008, had been internationally renowned for pursuing high-profile investigations, even against powerful figures like Selebi. The Directorate for Priority Crime Investigation (DCPI), or the “Hawks,” has replaced the Scorpions. Critically, whereas the Scorpions answered to the National Prosecuting Authority (NPA), the Hawks now fall under the SAPS hierarchy. Critics have questioned if the Hawks can be as effective, and as free from political influence, as the Scorpions.

As a matter of policy, the government of South Africa 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, nor does its senior officers encourage or facilitate drug trafficking or money laundering. South Africa actively combats drug trafficking. Laws and enforcement bodies are in place to root out narcotics-related corruption. However, newspaper reports on police corruption appeared regularly, ranging from the coverage of the Selebi trial to allegations of “police gangs” at the municipal level. The frequency of corruption-related reports suggests that some degree of corruption may facilitate drug trafficking in South Africa. Local headlines also alleged nepotism, favoritism, and suspicious procurement practices among police ranks.

Bheki Cele was appointed the new National Commissioner of the SAPS in July 2009. Cele has pledged to stamp out police corruption. The fact that former Commissioner Selebi was held accountable offers a tempered success story in the fight against corruption for South Africa and the continent.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The State Department Bureau of International Narcotics and Law Enforcement is supporting a substance abuse prevention program for women in partnership with the South African National Council on Alcoholism and Drug Dependence (SANCA) and is considering collaboration with the United Nations Office of Drugs and Crime on a drug prevention initiative aimed at Western Cape Province. The Drug Enforcement Administration Pretoria Country office works in conjunction with local law enforcement to investigate and interdict cross-border narcotics trafficking, with a particular emphasis on U.S.-destined drugs.

D. Conclusion

South Africa's National Drug Master Plan 2006-2011 responds to the 1988 UN Convention on Drugs, and provides an inter-agency structure headed by the CDA in the Department of Social Development to coordinate among government departments and non-government stakeholders. The National Master Plan aims “to implement holistic and cost-effective strategies to reduce the supply and consumption of drugs and to limit the harm associated with substance use, abuse, and dependency in South Africa.” While the plan is clearly articulated and fully elaborated, implementation has lagged, due in part to the absence of reliable national statistics, but also to lack of funding and staff. CDA is going back to the drawing board to design a more robust strategy for 2012-2017 based on a national data base and to include more attention to community-based approaches and to the needs of rural South Africa. When the current plan was launched in 2006, it spoke of “a pressing need . . . for the training of doctors, nurses, social workers, and psychologists on substance abuse and other additions.” That need is more urgent in 2010 than when the plan was drafted. Similarly South Africa's need for increased interdiction, an increase in conviction rates for drug crimes, more widely available treatment, and effective prevention have outpaced efforts to address these myriad interconnected problems. Increased coordination between the Central Drug Authority and international donors, augmented by intensive provincial and local action, is urgently needed to accelerate implementation of South Africa's National Drug Master Plan. In Western Cape Province, the epicenter of the problem, over the past five years, the provincial government has appointed

a Substance Abuse Coordinator who has prepared a blueprint for establishing substance abuse policies. This stepped up effort needs to be replicated across the country.

South Korea

Narcotics production and abuse is not a major problem in South Korea. South Korea has very strict laws regarding illicit drugs. Conviction for possessing, using, or trafficking illicit drugs can result in long jail sentences and large fines. Despite its reputation for not having a drug abuse problem, however, the country has become a transshipment location for drug traffickers. With one of the region's largest ports, Busan, located on its Southeast tip, South Korea has become an attractive location for illegal drug shipments coming from countries that are more likely to attract a contraband inspection upon arrival. Reports indicate that an undetermined quantity of narcotics is smuggled through South Korea en route to the United States and other countries. South Korea is a party to the 1988 U.N. Drug Convention.

As a matter of government policy, the government of South Korea does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. According to the Korean Customs Service, there were 104 drug interdictions of persons, carriers, cargo, and mail into and out of the country in the first six months of 2010, resulting in the seizure of approximately 4.3 kg of illicit drugs worth approximately \$7.3 million. The number of interdictions increased by approximately 51 percent over the same period last year, but the dollar value of the drugs seized decreased by approximately 82 percent due to unusually large drug busts in the first six months of last year. The drugs seized included methamphetamine, marijuana, and previously rarely seen substances such as JWH-018-artificial marijuana, salvia divinorum, kratom, and triazolam.

According to the Supreme Prosecutors' Office, Korean authorities arrested 4,670 individuals for drug violations in the first six months of 2010, an approximately 15 percent decrease from 5,488 arrests in the same period last year. Of the arrests, 63.8 percent were for use, 18.1 percent were for sale, and 4.6 percent were for possession of illicit drugs. Psychotropic drugs were the most widely used illicit drugs, accounting for approximately 74 percent of drug arrests. Marijuana seizures were 36.9 kg. Each District Prosecutor's Office, in conjunction with local governments, conducts annual surveillance into suspected illicit marijuana growing areas during planting or harvesting time periods to limit possible illicit diversion. According to the Supreme Prosecutors' Office, as of September this year, Korean authorities seized 2,877 marijuana plants. Opium poppy production is illegal in South Korea, but poppy continues to be grown in Gyeonggi 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. According to the Supreme Prosecutors' Office, as of September this year, Korean authorities seized 41,294 opium poppy plants

The Ministry of Health and Welfare Affairs conducts programs to treat drug addicts at 23 hospitals nationwide. The treatment is free and patients can remain in the program for up to one year. The South Korean government also funds the primary NGO involved with drug treatment, Korean Association Against Drug Abuse (KAADA), which has twelve branches throughout the country. KAADA provides education on the risks and dangers of drugs, as well as counseling, sports therapy, and Narcotics Anonymous programs. KAADA also runs a free rehabilitation center where drug addicts may live up to a year at the center for intensive treatment and receive follow-up services after their stay.

The South Korean authorities are mindful of the challenges they face in combating transshipment of illicit drugs in and out of the country and actively engage with law enforcement authorities from other countries in drug control efforts through various regional and international organizations, including the U.N., Anti-Drug Liaison Officials Meeting for International Cooperation (a homegrown organization of drug enforcement officials posted to 20 different embassies in Seoul), and Association of Southeast Asian Nations. The Drug Enforcement Administration (DEA) Seoul Country Office and U.S. Immigration and Customs Enforcement, Homeland Security Investigations (HSI) officials continue to work closely with

South Korean narcotics law enforcement authorities on international drug interdiction, seizures of funds and assets related to illicit narcotics trafficking, and the diversion of precursor chemicals in South Korea and in the Far East region.

Spain

A. Introduction

The Spanish government ranks drug trafficking as one of its most important law enforcement objectives and Spanish drug enforcement continues to maintain excellent relations with U.S. counterparts. The 2009-2016 National Strategy on Drugs (NSD) provides the overall framework, priorities, and direction for Spain's drug-related efforts. NSD implementation is done through two broad coordinating mechanisms – the Ministry of Interior's Intelligence Center against Organized Crime (CICO in Spanish), which coordinates supply reduction initiatives, and the Ministry of Health's National Program for Drugs (PNsD in Spanish), which leads demand reduction initiatives. Overall coordination between the bodies is robust, with strategic coordination handled through the President's Council of Ministers and working-level coordination achieved through co-location of CICO and PNsD.

Spain remains the single most important entry point for cocaine imported into Europe from South and Central America. Spain is also one of Europe's most important consumption markets for cocaine. In 2010, there was a sharp upswing in containerized cocaine shipments from South America. Container seizures in the first half of 2010 exceeded all of 2009. Spain also remains a major transit point to Europe for hashish from Morocco, and Spain's North African enclaves of Ceuta and Melilla continue as principal points of departure for hashish and marijuana headed for Europe. Heroin trafficking and abuse in Spain remains relatively low, with the majority of heroin continuing to arrive via the "Balkan Route" from Turkey.

Coca leaf is not cultivated in Spain although small-scale "kitchens" for secondary extraction of cocaine from cocaine base is a growing concern, a trend borne out in the European Monitoring Centre for Drugs and Drug Addiction's (EMCDDA) 2010 report in which Spain accounted for all such dismantled labs (31) in 2008. Illicit refining and manufacturing of synthetic drugs in Spain is minimal. Between 2008 and 2010 Spanish police discovered only one MDMA-ecstasy lab. Ecstasy transshipping to the U.S. through cities in Spain remains a trickle. 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 in any case small. Precursor chemicals are effectively controlled through a variety of mechanisms, including the Ministry of Economy's Commercial Export Registry, the Voluntary Collaboration Agreement between the Government and Chemical and Pharmaceutical Industry, and CICO's national registry of pre-cursor manufacturers.

According to the EMCDDA 2010 State of the Drugs Problem in Europe report, Spain remains one of Europe's biggest cocaine consumers; however, consumption levels are declining due to effective demand reduction programs and the country's weak economy. A national Household Survey of Drugs and Alcohol in Spain 2009-2010, released in November 2010 showed that the use of cocaine among the population (15-64 years of age) declined for the first time in 15 years, falling from 3 percent to 2.6 percent. In the 2009-2010 period, Spain was among the top three consumers of cannabis in the European Union (EU), with roughly 10 percent of the Spanish population consuming it on a regular basis; with rates double that among the 15-34 age groups.

Spain is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010 inter-ministerial coordination continued to improve, the decade-long downward trend in drug-related deaths continued (9 deaths in 2010), outreach to and treatment of drug addicts remained robust (see Section Three), and overall drug interdictions increased (see Section Two). The current NSD

emphasizes citizen involvement in anti-drug campaigns to prevent and/or lower consumption and delay the age for initial consumption and takes an aggressive stance on drug addict treatment. Based on the NSD, the PNsD also has a separate three-year Plan of Action on Drugs (2009-2012) focused on demand reduction, close program coordination, and research and education.

Spain continued to upgrade and expand its Integrated External Surveillance System (Spanish acronym SIVE), adding further mobile units and opening a central command and control center in Madrid to improve SIVE coordination and communication. This high-tech system monitors the Mediterranean and Atlantic trafficking corridors for Spain with the objective of more efficient interdiction. The additional fixed radar sites previewed in the 2009 INCSR for Tarragona and Pontevedra did not become operational in 2010. Due to the investment and maintenance costs associated with fixed radar locations, the government is prioritizing mobile unit investments.

On December 23, 2009, the Council of Ministers approved the usage criteria for funds collected through the sale of seized drug-trafficking assets, and established an inter-ministerial oversight board to disburse these funds. In the first nine months of 2010, the Board collected 500,000 euro through six auctions. Funding areas include security force initiatives, drug prevention programs, awareness campaigns, drug-addict support, recovery, and reinsertion programs, and international programs to fight money laundering. CICO officials confirmed that the program has been very effective and relatively efficient, and that overall coordination of drug-related efforts has improved through the inter-ministerial mechanism.

In June 2010 Spain modified its Penal Code for drug-related offenses. The most significant change was the creation of a separate penal category for drug offenses committed by organized crime. For drugs causing serious physical harm (a distinction made under Spanish law), prison sentences range from 9-12 years with fines up to four times the value of the confiscated drugs. For all other drugs, 4.5-10 years and fines of double the drug value may be imposed. For those not connected with organized crime, Spain actually shortened the maximum incarceration period from 3-9 years (serious harm drugs) to 3-6 years and to 1-3 for other drugs. Judges now also have the option to deport foreign non-resident aliens sentenced to less than six years. Shorter sentences and deportation are designed to deal with Spain's "drug mule" phenomenon. Today, non-resident aliens account for 28 percent of the Spanish prison population.

In 2010, previously signed bilateral instruments to implement the 2003 U.S.-EU Extradition and Mutual Legal Assistance Agreements finally entered into force. The updated MLAT allows for the establishment of Joint Investigative Teams (JITs), the exchange of banking information, and video conference-based testimonies. The two countries have also signed a Customs Mutual Assistance Agreement. 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.

In 2008 Spain was added to the list of non-traditional countries authorized to export licit narcotic raw materials (NRM) for medicinal use to the United States. This enabled 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.

Spain is a UNODC Major Donor and a member of the Dublin Group, a group of countries that coordinates the provision of counternarcotics assistance.

2. Supply Reduction

Spanish National Police, Civil Guard, and Customs Services, along with autonomous regional police forces, increased their operational tempo in 2010. By June 2010, seizures of cocaine, heroin, ecstasy and “Speed” were on track to exceed 2009 figures. In addition security forces conducted a number of major operations against synthetic drug suppliers. Spain continues to account for 70 percent the hashish seizures in Western and Central Europe and is world’s fourth largest seizer of cocaine.

In 2010, Spanish authorities again benefited from close coordination with the U.S. DEA Madrid Country Office and also increased joint operations with European and Latin American nations, most notably in the area of cocaine being smuggled in commercial shipping containers. A joint operation between the Spanish Police and Italian Carabinieri in June netted 23 people involved in a drug ring and the seizure of 14 kilos of heroin, 750 kilos of hashish, smaller quantities of cocaine and marihuana and 12 vehicles. Also in June, Spain supported local authorities in Argentina and Brazil to dismantle one of the largest cocaine trafficking networks between South America and Spain, arresting 50 people in Madrid, Alicante, Galicia, and Argentina, and seizing 5.5 million Euros, 65 vehicles, and 6 fast drug smuggling boats. A total of 3,400 kilos of cocaine was seized in Argentina and Brazil. In September, Spanish Police again collaborated with local police in Argentina and Brazil in the seizure of 4,000 kilos of cocaine. In October, Spain supported Moroccan authorities to dismantle a cocaine trafficking network linked to Columbia, Venezuela, and several West African countries. Thirty-four people were arrested in the operation.

Exploiting the country’s close historic and linguistic ties with Latin America and its extensive coastlines, Spain remains the major gateway to Europe for cocaine coming from South America, especially by Colombian traffickers. The DEA office confirmed that a growing portion of Colombian cocaine continues to be sent first to Africa and then smuggled northward into Spain while the majority still enters directly into the peninsula. A recent investigation by Moroccan authorities revealed Spanish Drug Trafficking Organizations have sent Spanish operatives to Africa to oversee the receipt of large cocaine shipments in Africa as well as the subsequent distribution of those shipments into Spain and Europe. Further, Venezuela, Argentina, and Brazil emerged in 2010 as key transit zones for containerized cocaine shipments, a transport modality that increased by 20 percent 2010.

Spanish authorities recorded several large seizures of cocaine in 2010. In March Security Forces seized more than one thousand kilos of cocaine, diluted in barrels of fruit pulp that were in a container sent by boat from Colombia. Also in March, the Civil Guard seized 7.1 tons of cocaine in an action coordinated by the EUROPOL and the European Justice Cooperation Unit (EUROJUST), with U.S. cooperation. In April, another 1,425 kilos of cocaine were seized hidden inside boxes of bananas that came from Ecuador. In June, 2,656 kilos of cocaine were seized in a sail boat from Tenerife that came from Colombia, via Morocco and in September the Police intercepted a British-flag sail boat with 1,515 kilos of cocaine. In mid-October, 175 agents participated in an operation that seized 7 drug “supermarkets” in Madrid. In late November, Spanish Police and Civil Guard dismantled a cocaine transshipment network in Valencia that utilized containers, arresting 18 people and seizing a total of 2,227 kilos of cocaine.

2010 was also an active year for hashish seizures although the overall total remained consistent with previous years. All year long and across the country, Security Forces recorded large seizures of hashish in 2010, beginning with the seizure of 3,000 kilos in January, followed in March and April by seizures of 4,000 and 2,300 kilos, respectively. Two Civil Guards were arrested in the March operation. In July, there were a series of seizures, including 3,600 kilos seized in a yacht in Cartagena, 1,500 kilos in Almería, and 1,300 kilos in Alicante. In August and September, Security Forces seized 3,050 kilos in Almeria and 2,850 kilos in Gibraltar. Also in August, in the largest operation thus far in 2010, the Civil Guard seized 186,150 kilos (186.1 MT) of hashish in two boats near Málaga. In mid-November, Security Forces seized 20,000 kilos of hashish in the largest sea operation against drug trafficking in the last ten years. As part of the operation, three Dutch nationals were arrested. Hashish trafficking is controlled by

Moroccan, British, and Portuguese smugglers and, to some extent, nationals of Gibraltar and the Netherlands.

Although overall quantities remain small, Spanish law enforcement officials remain concerned about the minor increase in the quantity of heroin coming into Spain. The majority of heroin continues to arrive into the country via the “Balkan Route” from Turkey. In January, National Police intercepted a car in Tui (Pontevedra) with 12 kilos of heroin; in February, another 9.5 kilos were detected in Galicia, and in September National Police dismantled one of the largest heroin trafficking networks in Spain, seizing 30 kilos in Catalonia and the Canary Islands.

Spanish Police also had several significant successes in the disruption and seizure of synthetic drugs in 2010. In February, police dismantled the first ever “travelling” laboratory for synthetic drugs, seizing 21,000 pills and sufficient quantities of precursor chemicals to produce another 40,000 pills. In March, the Civil Guard seized 155,000 pills of ecstasy, in April, National Police seized 15,000 pills, and in August, the Civil Guard seized 38,000 pills. In June, in what the Spanish Government claims is the largest seizure of synthetic drugs in Europe in 20 years, police successfully ended an eight-month operation in Navarra, arresting 20 people and seizing 140 kilos of synthetic drugs (118 kilos of “Speed-ATS” and 21 of MDMA), enough for an estimated 1,250,000 doses. In November, security forces took down another major synthetic drug network, arresting nine people and seizing 11 kilos of MDMA and other substances.

Seizures:	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (June 30)
Heroin (kg)	631	275	242	271	174	454	227	548	300	149
Cocaine (MT)	34	18	49	33	48	47	38	28	25.3	15.8
Hashish (MT)	514	564	727	794	670	451	653	682	444.5	194
Ecstasy (pills x 1000)	860	1,400	772	797	573	408	491	535	404	313
LSD (units)									9,062	4,445
Speed (kg.)									148	141

3. Drug Abuse Awareness Demand Reduction and Treatment

Although trending downwards, usage rates of cannabis and cocaine among Spanish citizens remain amongst the highest in Europe, especially among the 15-34 age group. In this category, according to

EMCDDA's 2010 report, Spain was second to the Czech Republic in cannabis use (18.8 percent in 2008 and 13.4 percent in 2010 sample) and second to the UK in cocaine usage (5.5 percent in 2008 and 1.9 percent in 2010 sample). However, according to Spain's recently completed Household Survey of Drugs and Alcohol in Spain 2009-2010, the use of cocaine among the general population (15-64 years of age) declined for the first time in 15 years, falling from 3 percent to 2.6 percent. In contrast, the usage of synthetic drugs such as Amphetamines, ecstasy and hallucinogenic substances is not common in Spain.

Spain's NDS identifies prevention as its principal priority and uses its 3-year (2009-2012) Action Plan on Drugs as the primary operational plan, implemented through the PNsD. The PNsD closely coordinates its demand reduction programs with the Spanish National Police, Civil Guard, Ministry of Health, Ministry of Public Administration and Spain's autonomous communities, which receive central government funding and provide drug addiction treatment programs. In 2010, PNsD implemented more than 15 workshops and seminars, placing special emphasis on programs aimed at Spanish youth and school children. Within the EU, its Strengthening Families Program has been heralded as a model to reduce predictors for subsequent drug use such as disruptive behavior at school and symptoms of depression. For example, in "Support the Youth" prevention priorities, enforcement initiatives targeted small drug-dealing operations around schools and leisure areas. PNsD also works through a network of civil society organizations. In 2010, 1.873 million Euros funded the drug prevention and rehabilitation programs of 45 private non-governmental organizations (NGOs).

Through this coordination and collaboration, Spain has created a robust treatment and rehabilitation system consisting of more than 2,700 methadone dispensaries, 500 walk-in clinics, 130 community therapy centers, and 50 faith-affiliated treatment units. In addition, Spain has over 50 detoxification centers and the communities of Cataluña y Andalucía have heroin substitute (Diacetylmorphine, a chemical very close to heroin itself) trial clinics. Spain has also invested significant resources in "risk reduction" programs, including social service emergency centers that offer an array of services such as counseling, food, and laundry help; mobile treatment centers; needle exchange centers; "safe houses" which offer drug users a safe and sanitary alternative to drug houses; and special pharmacies that provide needle exchange and whose staff are specially trained to interact with drug users.

4. Corruption

Spain 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. There is no evidence of corruption of senior officials or their involvement in the drug trade, but there continue to be isolated cases involving corrupt law enforcement officials who were caught facilitating drug trafficking. On June 22, 2010, National Police arrested José Mestre Fernández, director of the cargo terminal of the Barcelona port, and President of a holding company including more than 50 companies, for his alleged involvement in a drug-trafficking operation that brought 202 kilos of cocaine into Spain. Another 14 people were arrested along with him. 2010 also saw the arrest of 2 Civil Guards arrested in Cadiz and Hulva for providing information to traffickers seeking to smuggle more than 4,000 kilos of hashish.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Spain and the U.S. enjoy a robust counternarcotics information-sharing relationship and the U.S. has excellent bilateral and multilateral cooperation with Spain. DEA worked very closely with its Spanish law enforcement counterparts during 2010, collaborating on at least a dozen cases that resulted in the seizure of more than 4,000 kilos of cocaine. In addition, plans are underway to allow Spain access to the DEA's Centers for Drug Information Database, which will further enhance coordination efforts. Spain participates in ICE's Container Security Initiative in the ports of Barcelona, Valencia, and Cadiz. Although primarily focused on counter-terrorism, the program has also proven highly effective for drug interdiction measures. ICE agents report that relations with port authorities continue to improve.

In June, the Spanish reciprocated for a September 2009 visit by senior Civil Guard officials to meet with Coast Guard and JIAFT-S officials in the U.S., by hosting JIAFT-S Commander Admiral Lloyd in June for meetings with the Civil Guard, Spanish Navy and CICO officials. Anticipated in the 2009 report, in January 2010 a delegation of senior counternarcotics officials from CICO visited JIATF-S, SouthCom, and the Drug Enforcement Administration.

D. Conclusion

Because of its geography, its proximity to Northern Africa and its strong cultural, historical, and commercial ties to South America, Spain remains an important transshipment point for narcotics entering Europe. To combat this, Spain is placing greater emphasis on international coordination and collaboration, not only with the U.S., but with other European nations and South America. The number of joint operations executed in source countries increased in 2010, thereby interdicting product before it arrives in Spain. In addition, Spain has drug liaison officers in source countries and at JAITF-S. All law enforcement organizations have special investigation units for combating drug trafficking organizations and, at the central level, coordination between CICO and PNsD, the two main Spanish counter-narcotics bodies on the supply and demand side, respectively, is very effective. With the addition of the new SIVE control center in Madrid, Spain's coastal coordination has also improved.

Sri Lanka

Sri Lanka has a relatively small-scale drug abuse problem among its population and is not a significant producer of narcotics or precursor chemicals. Sri Lanka plays only a minor role as a transshipment route for heroin from India. Government of Sri Lanka (GSL) officials work to raise awareness of and vigilance against efforts by drug traffickers attempting to use Sri Lanka as a transit point for illicit drug smuggling. The lead agency for counternarcotics efforts is the Police Narcotics Bureau (PNB). 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.

Sri Lanka is a party to the 1988 UN Drug Convention and the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances. There is a bilateral extradition treaty between the United States and Sri Lanka which entered into force on Jan 12, 2001. There is, however, no bilateral mutual legal assistance treaty between the U.S. and Sri Lanka.

In the past year, the PNB recruited more officers, resulting in increased investigations and interdictions, and trained and deployed anti-narcotics officers in all districts nationwide. 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. Over the past year, 39 drug prevention and enforcement officials from Sri Lanka participated in local and regional training opportunities. The PNB continued to cooperate closely with the Customs Service, the Department of Excise, and the Sri Lankan Police to curtail illicit drug supplies moving into and through the country. As a result, GSL officials arrested 2244 persons on charges of using or dealing heroin and 4019 persons on cannabis charges. Police and Customs seized 137 kg of heroin (including 35 kg detected at the Port of Colombo, which had arrived from Pakistan), 20,270 kg of cannabis, 23 kg of hashish and 26 kg of methamphetamines in 2010. In addition to its Colombo headquarters, the PNB has one sub-unit at the Bandaranaike International Airport near Colombo, staffed with operational personnel and a team of narcotics-detecting dogs.

Some cannabis is cultivated and used locally, but there is little indication that it is exported, and the police work to locate and eradicate cannabis crops. Police officials state that the international airport is a major entry point for the transshipment of illegal narcotics through Sri Lanka. Police note that the “party drugs” found in Colombo social venues are believed to be imported from Thailand.

The GSL welcomes U.S.-sponsored training for criminal investigative techniques and management practices. Sri Lanka also works with regional and international partners on narcotics issues, particularly the Colombo Plan, a regional organization with special expertise in drug prevention and treatment. The SAARC Drug Offense Monitoring Desk (SDOMD), located within the PNB, serves as a clearing house for SAARC countries to input, share, and review regional narcotics statistics. GSL officials maintain steady contact with counterparts in India and Pakistan, origin countries for the majority of drugs in Sri Lanka. The PNB, the National Dangerous Drugs Control Board (NDDCB) and the several NGOs carry out awareness and education programs at schools and for special at-risk populations. The NDDCB regularly conducts outreach among employee groups, school children and teachers, and community leaders. In addition, the military defeat of the Liberation Tigers of Tamil Eelam (LTTE), better known as the Tamil Tigers, in May, 2009, may have changed the dynamics of the drug trade in South Asia. Since 1983, the LTTE was involved in bulk delivery of heroin and cannabis from producing areas in Asia to consuming countries. Mumbai was the key link in the LTTE drug trade. While Sri Lanka's coast remains highly vulnerable to transshipment of heroin moving from India, observers expect a dramatic reduction in drug-related activity in the region.

The U.S. government will continue to aid the Sri Lankan police in its transition to community-focused policing techniques. The U.S. also expects to continue its support of regional and country-specific training programs, particularly through the Colombo Plan. The U.S. Drug Enforcement Administration

attaché based in New Delhi visited Colombo in March, July, and December 2010 to coordinate anti-drug trafficking activities with the local police and the Embassy. The DEA attaché also met with the Interagency Law Enforcement Working Group at the U.S. Embassy, and will continue to visit and work with Sri Lankan drug enforcement personnel.

Sudan

Sudan is not an important illicit drug-producing or drug-transit country. However, because of vast arable land, areas of lawlessness, ineffective border controls, impoverished conditions, and a vulnerability to corruption, the potential exists for Sudan to cultivate and traffic illegal drugs on a far greater scale.

In Sudan, the central government unit responsible for liaison and coordination of national drug control policy is the Drug Combat Administration. The Ministry of Health is the competent authority for the issuance of authorizations and certificates for the import and export of licit narcotic drugs and psychotropic substances. Sudan is party to the 1961 Single Convention on Narcotic Drugs as amended by the 1972 Protocol, the 1971 Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Sudan has signed cooperative agreements with Egypt, Saudi Arabia, and Turkey for fighting drug trafficking. Sudan's Narcotic Drugs and Psychotropic Substances Act, passed in 1994, is designed to fulfill that country's treaty obligations under these conventions. Sudan is also a party to the UN Convention against Transnational Organized Crime.

Sudan has a government-controlled licensing system for the manufacture, trade, and distribution of licit narcotics-based pharmaceuticals. There is a prescription requirement for supply or dispensation of preparations containing narcotic drugs and psychotropic substances. The law does not require warnings on packages or accompanying leaflet information to safeguard the users of preparations containing narcotic drugs and psychotropic substances.

Cannabis is the most prevalent illegal drug in Sudan. Other drugs abused include barbiturates, heroin and cocaine. No data relating to prevalence or use is available according to the United Nations. Cannabis is cultivated in commercial quantities in the southern areas of Darfur (the largest producing area in Sudan), southern part of Blue Nile State, in Gedaref State and in the Upper Nile and Bahr El-Ghazal regions. According to the Drug Combat Administration, Sudanese authorities in 2009 seized over 17 metric tons of cannabis and arrested over 8000 individuals on drug-related charges. The arrests were a two percent increase over 2008; seizures were down 73 percent from the 63 metric tons confiscated in 2008. Authorities from the Drug Combat Administration maintain that the increase in arrests and decrease in seizures reflects the effectiveness of a targeted campaign in certain areas of the country including the States of Khartoum, Northern Kordofan, Gedaref, El-Geziraa, Red Sea, River Nile and Southern Darfur.

Accusations by Sudanese government officials that rebels groups in the country are using the sale of narcotics drugs to finance their operations have not been substantiated. Sudan does not officially encourage or sanction drug trafficking, and there is no evidence that senior officials are engaged in such activities.

Suriname

A. Introduction

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) is limited in its capacity to adequately control its borders due to inadequate resources, scarce law enforcement training and presence, the difficulty of policing the isolated interior terrain, official corruption, and a lack of international coordination. These conditions enable traffickers to move drug shipments across international borders and within the country by land, water, and air with little resistance.

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 remote locations for delivery and temporary storage of narcotics. Cocaine shipments that enter Suriname via small aircraft land on clandestine airstrips that are cut into the dense jungle interior and/or sparsely populated coastal districts.

There is little evidence of drug production in Suriname. Limited quantities of cannabis are grown for personal use, and there is cocaine consumption among some sectors of the population.

Suriname is a party to the 1988 UN Drug Convention, but its lack of chemical precursor controls continues to keep it from full conformity with the Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Suriname held national elections in May, and swore in new President Desi Bouterse in August, 2010. A controversial figure, President Bouterse led a 1980 coup that installed a military government from 1980-89 and was convicted in-absentia, in 1999, of narcotics trafficking to the Netherlands by a Dutch court. He did not serve the 11-year sentence due to a Suriname law prohibiting the extradition of Suriname nationals. Bouterse appealed the conviction, calling it politically motivated, but it was upheld by the Dutch court system.

As a matter of policy, the GOS is committed to combating illegal narcotics trafficking. However, the GOS' practical ability to identify, apprehend, and prosecute narcotics traffickers remains inhibited by a lack of resources, inadequate legislation, drug-related corruption, bureaucratic hurdles, and an overburdened court system.

The National Anti-Drug Council (NAR) continued to make progress in the implementation of the National Drug Master Plan (2006-2010), which addresses both supply and demand reduction but did not achieve all of its goals. For instance, the GOS moved forward on, but did not complete, legislation to control precursor chemicals, with technical assistance and training from the Organization of American States' Inter-American Drug Abuse Commission (CICAD), as required by the 2006-2010 Master Plan. The GOS also has no tracking system to monitor precursor chemicals and is unable to detect the diversion of precursor chemicals for drug production.

Draft legislation on terrorist financing, which is required for Suriname to join the Egmont Group (an informal group of Financial Intelligence Units (FIUs) designed to facilitate international cooperation) remains pending approval at the National Assembly. The Unusual Transactions Reporting Center (MOT/FIU) and Financial Investigation Team (FOT), formed in 2009 to specialize in tracking illegal funding streams, received training from the U.S. government (USG) on asset forfeiture strategies.

Suriname's new government publicly supports the Plan, including the Ministries of Health and Justice and Police.

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 with the notable exception of 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. It is party to the Inter-American Convention against Corruption and Migrant Smuggling and the Inter-American Convention on Mutual Assistance in Criminal Matters. Since 1976, the GOS has been sharing narcotics information with the Netherlands pursuant to a Mutual Legal Assistance Agreement. In 1999, the U.S. and Suriname completed a comprehensive bilateral maritime counternarcotics enforcement agreement which remains in force.

Current Suriname law prohibits the extradition of its nationals and this is upheld in practice. Suriname has deported foreign nationals, including Revolutionary Armed Forces of Colombia (FARC) members to Colombia in 2008, and has cooperated with regional counterparts on ongoing drugs-for-arms network investigations. Suriname has an e-Trace agreement with the United States and the U.S. Bureau of Alcohol, Firearms and Tobacco, which conducted training in 2010 for Surinamese law enforcement and prosecutorial officials on E-Trace systems and procedures.

Suriname also has bilateral agreements to combat drug trafficking with neighboring countries Brazil, Venezuela and Colombia.

2. Supply Reduction

In 2010, the GOS seized 342.7 kilograms (kg) of cocaine, 32.5 liters of liquid cocaine, 146 kg of marijuana, 4.5 grams of hashish, and 2 grams of heroin. During 2010, 542 people were arrested for drug-related offenses, compared to 454 arrests in 2009. The GOS focuses significant narcotics interdiction resources on Suriname's western border with Guyana, a key route for cocaine trafficking by land, air, and water. In 2010 this effort yielded limited success, with fewer interdictions than in 2009. One officer posted at this checkpoint was arrested on corruption charges and this investigation is ongoing.

Officials at Suriname's international airport, Johan Adolf Pengel International, have been working with the GOS and a Canadian partner to implement an airline radar and air trafficking control system. This system will enhance capacity to track illegal flights throughout the country, and is expected to be operational in the first quarter of 2011. Training and technical assistance on this radar system is ongoing within the implementation contract.

The GOS uses a urine testing machine and three counterdrug-trained canines at the airport to identify suspected drug mules. Dutch assistance provides an additional area to monitor suspected mules and interdict the drugs they carry. A downward trend continued in the number of drug mules arrested -- from 99 in 2007, 66 in 2008, 49 in 2009 to 34 in 2010. Drug mules who evade detection in Suriname may be arrested upon arrival in Amsterdam, where inspection of all bags and passengers from Suriname is routine.

According to U.S. Drug Enforcement Administration (DEA) officials, the use of foodstuffs to move narcotics out of Suriname continued in 2010, with cocaine discovered in prunes, dried fish, souvenirs, and syrup bottles. The bulk of the cocaine movement out of Suriname to Europe and Africa is via commercial sea cargo, including both larger boats and smaller fishing vessels that carry drugs out to sea and transfer them to large freight vessels in international waters.

There were several drug seizures in 2010 of cocaine found in sea cargo originating from Suriname including: 166 kilograms from a container at the port of Tilbury, in the United Kingdom, where the drugs were concealed within industrial machinery parts; 266 kilograms discovered by Pakistani Customs at the

port of Karachi in a shipping container of plywood; and 147 kilograms of liquid cocaine discovered by Dutch Customs officials, concealed within a cargo container of syrup. Investigations into each of these seizures continued at the end of 2010.

The GOS is working to establish a Coast Guard, and at this time it has limited maritime capability to interdict drug traffickers at sea. The GOS owns ten vessels for maritime operations, but only two were operational in 2010. It does not operate a radar system to track movements at sea.

Nationalities arrested in Suriname in 2010 for drug-related offenses included Dutch, Brazilians, Colombians, Venezuelans, Guyanese, and Nigerians.

There is local cultivation of cannabis in Suriname but little data exists on the amount under cultivation. There is no evidence that it is exported in significant quantities.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2010, the NAR conducted a number of activities surrounding the International Day Against Drugs, with a specific focus on youth and at-risk groups. In reaction to several cases of youth in performance groups being arrested for smuggling narcotics into the Netherlands when traveling for cultural performances, the NAR outreach specifically targeted youth in musical groups and brass bands. In 2010 the NAR continued its efforts to raise drug awareness by creating self-help groups, workshops, and partnerships with local stakeholders on youth and community outreach initiatives.

In collaboration with CICAD and the European Union, the NAR is working to set up a Drug Treatment Court, which would specialize in hearing defendants charged with drug use and drug-related criminal offenses. The judge would have the authority to have addicts undergo mandatory rehabilitation rather than enter the regular prison system. Three GOS participants attended a USG-sponsored exchange program in 2010, touring several U.S. cities to meet with local leaders and to study the drug treatment options and prosecutorial measures applied in the United States.

There is one government detoxification center which is free; other treatment centers are run by non-governmental organizations.

4. Corruption

During 2010, the GOS publicly maintained its commitment to combat narcotics trafficking and continued to apprehend and prosecute government officials for drug-related corruption. For example, two former police officers of the police Arrest Team were prosecuted 2010 for stealing cocaine from a police vault while it was being held as evidence from a large drug bust. The trial was ongoing in 2010. As a matter of government policy, the GOS does not encourage or facilitate illicit drug production or distribution, or the laundering of proceeds from the sale of illicit drugs. Civil servants, including police and military officers, are inadequately compensated and many are open to bribery. Two high level officials have previous convictions in absentia in The Netherlands on drug trafficking charges, including President Bouterse and Member of Parliament, Ronnie Brunswijk. France also has an outstanding arrest warrant for Brunswijk.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. provides support to provide an impetus for Suriname to identify and dismantle drug trafficking operations and uphold its commitment to the 2006 anti-narcotics "Paramaribo Declaration." The USG continues to encourage Surinamese participation in bilateral and multilateral counternarcotics initiatives, including the Caribbean Basin Security Initiative.

To strengthen the counternarcotics capabilities of Suriname's Police and Customs agencies, the USG provides training and material support to several elements of the Korps Politie Suriname (KPS), Suriname's national police force. DEA also continued to provide technical assistance to the KPS in narcotics and money laundering and investigations.

D. Conclusion

The United States encourages the Government of Suriname to build on previous efforts to increase counternarcotics capacity within its Police and Customs agencies. In particular, further dialogue with neighboring countries Guyana and Brazil to share best practices and better address interdiction and border control should be a top priority. Based on the amount of arrests this past year for drug-related crimes, the initial training and assessment for establishing a Drug Treatment Court is timely and the U.S. encourages further development of this program through CICAD. Suriname is also encouraged to continue to publicly maintain its commitment to combat narcotics trafficking and continued to apprehend and prosecute government officials for drug-related corruption,

Switzerland

A. Introduction

Switzerland is both a consumer market and transit route for illicit narcotics, but it is not a significant producer of illicit drugs. Federal Police believe that the majority of drug smugglers are legal and illegal immigrants, belonging 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.

In a country of approximately 7.7 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. The latest estimates in 2007 show that 1.8 percent of the Swiss population above the age of 15 has consumed ecstasy at least once.¹ Around 2.8 percent has used cocaine and, 0.7 percent has had experience with heroin. Cannabis, cocaine, and heroin still remain popular among drug addicts. Swiss police suggest that cocaine consumption is on the rise and remains the second most consumed drug following cannabis. Young drug addicts between 18-24 years of age are the largest users of amphetamines, LSD and ecstasy. Police are also concerned about the continuing trend by casual users to mix cannabis with other drugs.

A zero tolerance law against driving while under the influence of drugs (cannabis, heroin, cocaine, ecstasy) entered into effect on January 1, 2005. Currently, there is a broad consensus among political parties that there should be no legalization of narcotics. Switzerland is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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. 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 SFr 200,000 (\$190,476) or imprisonment.

In addition to the heroin-assisted treatment (HAT) (please refer to section 3), discussions were held on the federal and cantonal level to expand the assisted treatment to cocaine. However, the discussions have not yet progressed to any concrete plans or projects. The political parties, to date, have not put forward any initiatives to legalize any drugs.

Government authorities enforce sentences against people dealing drugs such as cannabis. In August 2010, the Swiss Federal Court issued a verdict sentencing a person to 6 years of prison for having grown and sold 5 tons of cannabis. The convicted offender started a hunger strike in order to force his release. The Federal Court concluded that there is a substantial public interest in protecting the government authorities' ability to enforce a prison sentence and therefore a prisoner may be force-fed when the person is facing the threat of severe and permanent damage.

Switzerland is not a significant producer of illicit drugs, with the exception of illicit production of high THC-content cannabis. After years of hemp shops selling a variety of cannabis products, under light cover of some claimed licit use, 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 all cannabis products. Today, cannabis plantations and hemp shops no longer operate in the open, but

have moved underground. In the past few years, there have been no important cases of domestic production of ecstasy or other synthetic drugs in Switzerland.

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, that travel 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 these immigrants 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, South America, the Dominican Republic, or other European countries, most notably Spain and the Netherlands.

In 2009, 13 percent of all criminal offences in Switzerland were related to narcotics (85,742 cases). Consumption at 50 percent (43,272 cases) and possession at 38 percent (32,552 cases) dominated drug related incidents in Switzerland. Drug consumers were primarily arrested for consuming cannabis related products including marijuana (62%), stimulants including cocaine (12%), and opiates including heroin (12%). Males accounted for 76 percent of drug consumers, and 71 percent of consumers were Swiss nationals. Most of the arrests took place in Zurich, Bern, and Vaud.

Drug traffickers were primarily arrested for the sale of cannabis related products including marijuana (34%), stimulants including cocaine (31%), and opiates including heroin (18%). Males totaled 90 percent of traffickers, and 41 percent were Swiss nationals. Foreigners living permanently in Switzerland accounted for 21 percent of drug traffickers, whereas an additional 37 percent were non-resident traffickers from abroad including asylum seekers in Switzerland. The major cantons involved were Zurich, Bern and Vaud and Geneva.

A survey comparing the consumption of narcotics in 2002 and 2007 suggests that while cannabis consumption is decreasing, the consumption of cocaine is increasing. In 2002, 11.4 percent of 15 to 19 year olds indicated they had used cannabis. However, this number had dropped to 6.9 percent by 2007. During the same period, the consumption of cocaine increased from 2.5 percent (2002) to 3.8 percent (2007) for men and from 1 percent (2002) to 1.7 percent (2007) for women.

2. Supply Reduction

The Swiss government continued to focus on international cooperation in order to reduce the supply of narcotics to the Swiss territory. In response to the growing cocaine traffic to Switzerland, the Federal Criminal Police established a permanent working group with the Swiss border guards, different cantonal police forces, foreign authorities, INTERPOL and EUROPOL in 2009. The new working group focuses in particular on more efficiently combating cocaine traffickers from West Africa. The working group headed by the Federal Criminal Police coordinated 70 cases. The Federal Criminal Police supports the Cantons with operational, analytical and technical assistance in order to seek a holistic view of the cases as the investigations against smuggling and trafficking of narcotics are part of the cantonal competence.

In October 2010, Swissmedic, the Swiss agency for the authorization and supervision of therapeutic products, introduced a new category (“List E”) of narcotics. Prior to this legislation, Swissmedic required approximately one year to register new narcotics and to regulate, for example, research chemicals or

designer drugs. This new category will allow Swissmedic to quickly designate new substances, which in turn will enable customs and police to confiscate substances that were previously considered too new and lacked legal ground to be confiscated as narcotics.

In 2009 (NB: Throughout this report, the latest official statistics available are for 2009) total reported drug arrests reached 49,859, up 4.8 percent from the 47,591 cases recorded in 2008. Drug arrests peaked at just over 50,000 in 2004. Cocaine seizures reached another record by nearly doubling to 560 kg from 284 kg in 2008 (in 2005 cocaine seizures had increased by 44 percent; 2004: +91 percent). Seizures of LSD amounted to 1.1 kg and 12,500 pills, amphetamines to 5.4 kg and 16,859 pills, and methamphetamine to 0.1 kg and 46,476.5 pills. Heroin seizures increased from 135 kg in 2007 to 200 kg in 2009. Seizures of ecstasy increased by 29 percent from 19,069 pills in 2008 to 24,587 pills in 2009.

To give a sense of drug abuse developments in Switzerland, some important or typical drug-related enforcement operations in 2009 are described below:

In January 2009, the cantonal police of the canton Vaud arrested members of a network smuggling heroin from Kosovo to Switzerland. Thirteen kilograms of heroin were seized in the Canton of Neuchatel. During the investigations between December 2008 and October 2009, 15 members of the network were arrested, 13 from Kosovo, 1 from Spain and 1 from Austria.

In February 2009, investigators in Zurich detained a 40-year-old Albanian. They confiscated five containers holding 10 grams of heroin each. During a subsequent search involving a 38-year-old illegal Albanian immigrant, police found 1,500 grams of heroin, 1,800 grams of heroin extenders (i.e., inert powder used to “cut” heroin), about 125 grams of cocaine, and \$38,095 (44,000 SFr).

In March 2009, the cantonal police of Lucerne uncovered an international drug smuggling ring that had delivered approximately 5 kg of cocaine to the canton of Lucerne. The network is assumed to be based in Nigeria. The drugs were delivered from France and Holland and smuggled into the country by “body packers”. Police investigated 30 individuals allegedly related to the ring.

During a one year investigation by the Zurich cantonal police against a network from the Balkans, eight safe houses were raided and 44 people were arrested. An investigation against mainly Albanian and Serbian nationals led to the seizure of \$324,000 (340,000 SFr). A 42-year-old Serb confessed to selling 2.5 kg of cocaine to various buyers. A total of 8.1 kg of heroin, 2.7 kg of cocaine, 14.3 kg of extenders, \$490,000 (514,375 SFr), 12,000 Euros (\$16,000), 11,500 U.S. dollars (12,000 SFr) and 10 handguns were seized.

The canton of Graubunden police concluded a comprehensive investigation of a network led by two Swiss heroin traffickers. The investigation revealed that the two individuals trafficked 1,500 grams of heroin which they bought from a supplier from Eastern Europe, who was also arrested.

Investigators of the Zurich cantonal police arrested three men in Zurich-Wollishofen and seized 350 grams of heroin, 850 grams of extenders and 7,770 SFr. One of the two Albanians had previously been arrested five times since 1995. The other men arrested were illegal immigrants. In an apartment of a 55 year-old Kosovar, heroin and extenders, cash and six mobile phones were seized

In June and July 2009, German border guards stopped two drivers in the German town of Schlatt am Randen for carrying large deliveries of khat in each car. About 240 kg of the khat was destined for Zurich.

In the Canton of Aargau, three asylum seekers from Nigeria between the age of 18 and 23 years were arrested for drug trafficking. One kilogram of cocaine was seized. They received the cocaine from Spain, Holland and directly from Nigeria. The cocaine was swallowed and transported in the stomach and intestinal tract of the asylum seekers. The police believe that the drug traffickers had travelled often from France to Switzerland via Geneva by train.

In September, in Bellinzona (Canton of Ticino), police seized 14 kg of heroin and arrested 3 suspects, a 35-year-old Bulgarian, resident in Bulgaria, and a 47 year old national from Serbia, living in Serbia and a 26 year old Swiss.

In the Canton of Basel-County police discovered in September a professional-scale hemp plant in a commercial property in Allschwil. In total, 1'596 plants were seized. A 37-year-old Italian national living in the region was identified as the plant operator and arrested.

The Zurich cantonal police and prosecutor concluded a complex investigation of a network of drug dealers. During the proceedings, a total of 41 persons were investigated, and cocaine, lidocaine (a local anesthesia used as an adulterant for cocaine), marijuana and several weapons were seized. Gang members came mostly from Eastern Europe. They specialized in deceiving other drug dealers, either by failing to pay or using counterfeit Euro currency imported from Italy. The members were also charged with armed robbery, extortion, coercion and threats - mostly related to drug offenses - during the period from summer 2007 to May 2008.

Between June and September 2009, the Zurich Cantonal Police and customs seized 112 kg of cocaine and 7 kg of hashish. Twenty-eight of the seizures occurred at the Zurich airport. The traffickers used various methods to smuggle the drugs including: mailing the narcotics (9 seizures), hiding narcotics in luggage (7 seizures), attaching the narcotics to their body or carrying them in underwear (5 seizures), soaking clothes in liquid cocaine (2 seizures), and swallowing the cocaine (2 seizures). In other cases, cocaine was smuggled in hollow clothes hangers and in an air mattress. In total, 19 people were charged, 16 men and 3 women from 12 different nations and ranging in age from 22 to 73.

In December, Zurich Cantonal police arrested a 27-year-old Dominican and seized 11 kg of cocaine from him. Investigations are still ongoing.

In a complex investigation lasting 2 years, the Zurich Cantonal police arrested 44 persons for trafficking or consuming drugs worth about 830,000 Swiss SFr (\$790,000). Eleven hemp processing plants were closed down and 35 kg of marijuana were seized. The members of the group were themselves consumers of narcotics and sold hashish, marijuana, heroin, cocaine, ecstasy and amphetamines. The group consisted of 38 Swiss, 3 Germans and 3 Serbs.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Switzerland focuses heavily on prevention and early intervention to prevent casual users from developing a drug addiction.

The Heroin Assisted Treatment (HAT) programs originally intended to end in December 2004 were provisionally extended until 2009. In November 2008, a vote by Swiss citizens formally institutionalized the HAT programs indefinitely and as a consequence the Federal Law on Narcotics was modified.

According to the modified law, the Cantons issue permits which allow them to participate in the program. The Federal Council is in charge of adopting special provisions to ensure that only heroin addicts, who have participated unsuccessfully in the past in other treatments can participate in the HAT program, which distributes heroin to addicts under medically controlled conditions.

Youth programs to discourage drug use cost Swiss taxpayers 2.8 million SFr (\$ 2.67 million) annually according to the Swiss Federal Office of Public Health and focus their efforts on cannabis, alcohol and tobacco. In 2009, Swiss authorities purchased 228 kg of heroin for use by the HAT program at the 21 heroin distribution centers and 2 prisons. The heroin imported by the Swiss government costs SFr. 100-130 million (\$95 – \$124 million) each year, and originated from Tasmania, Turkey and/or France - all licit producers of opium products. The Swiss government is also treating 20,000 people with a replacement therapy of which 17,500 patients are treated with methadone.

The number of slots available in “heroin treatment centers” was 1,454. With 1,356 patients in December 2009 (+ 1.5% from 2008), the heroin distribution program was running at 92 percent of capacity. The average age of the participants was 35 years and 77 percent of the participants were men. The number of heroin addicts between 45-54 years of age is increasing and those under 35 years decreasing. Fifty percent of the patients are expected to remain in the program for at least two years and 20 percent of them at least 15 years. Sixty percent of the patients enrolled in the program were previously participating in methadone substitution programs.

Swiss officials report that in many cases, patients’ physical and mental health improved, their housing situation became considerably more stable, and they gradually managed to find employment. Numerous participants managed to reduce their debts. In most cases, contact with other addicts and the drug scene decreased. Consumption of non-prescribed substances declined significantly in the course of treatment.

Swiss authorities noted that 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 enrollment was 70 percent, the figure after 18 months in HAT was only 10 percent. According to the most recently reported statistics in 2008, 135 patients discontinued HAT, 50 percent of the patients changed the kind of treatment and 4 percent were dismissed for breaking rules of the program. Furthermore, 10 percent left the program and the “heroin treatment centers” lost touch with them, and eleven patients died.

The cost of the program during 2008 amounted to SFr 27 million (\$26 million) for the treatment of the approximate 1,300 patients. Eighty percent of the cost of the program is covered by health insurance. The HAT program decreases the cost of health care since patients of the HAT program statistically on average stay less frequently in hospitals and use less medical treatment. The current average cost per patient-day at outpatient treatment centers came to SFr 57 (\$54).

4, 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 2009.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

On March 15, 2004, Switzerland and the U.S. joined forces to curb the rise in illegal sales of prescription drugs over the Internet. The two countries called for international action in a resolution presented at the annual session of the UN Commission on Narcotic Drugs (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.

Furthermore, 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 funds from narcotics money laundering.

D. Conclusion

The decision to continue the Heroin Assisted Treatment Program indefinitely suggests that Switzerland is focused on the importance of reintegration of heroin addicts into society, and believes that this program will support that goal. The absence of political discussions on the legalization of narcotics, present during the last few years, suggests that there will be a tendency towards a stronger drug enforcement policy. One of the challenges will be to seize high content THC cannabis plants as the production of cannabis remains important for the domestic market. In regards to enforcement of trafficking, under the auspices of the Federal Police, closer cooperation between the Cantons and the Federal Police is being pursued.

Furthermore, the reduction of supplies in synthetic drugs may be improved with the new provisions offered by Swissmedic.

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<http://www.sucht-info.ch/de/infos-und-fakten/ecstasy/konsum/>

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Taiwan

A. Introduction

Taiwan is not a major transit/transshipment point for illegal drugs destined for the United States or other countries; however, there are still instances when illegal drugs transit Taiwan. Because of Taiwan's proximity to China, its long coastline, and its large container port in Kaohsiung, Taiwan is used as a transit and transshipment point for illegal drugs destined for international markets.

Taiwan continues to play an important role in international drug trafficking activities. Specifically, ethnic Chinese trafficking organizations with connections throughout Southeast Asia meet in Taiwan to discuss, plan, and organize drug shipments. Taiwanese drug traffickers operate throughout Southeast Asia, including in Hong Kong, China, the Philippines, Burma, and Thailand. Unlike large-scale drug trafficking organizations operating in other parts of the world, organizations operating at the wholesale and importation levels in Taiwan are not large, and they may be ad hoc as opposed to continuing criminal conspiracies.

Taiwan produces methamphetamine and remains a source for pseudoephedrine combination tablets destined for various Central American countries. Ketamine usage continues to increase, reflecting its popularity as a party drug among youth and because criminal penalties for ketamine usage are minimal.

Nonetheless, Taiwanese authorities continue to strengthen anti-illicit drug efforts with enhanced airport interdiction, thorough coast guard and customs inspections, surveillance, and other investigative methods.

Taiwan is not a member of the United Nations and, therefore, is not a party to the 1988 UN Convention. However, Taiwan authorities have amended and passed legislation consistent with the goals and objectives of the Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In the absence of a single drug enforcement agency such as the U.S. DEA, the Ministry of Justice continues to lead Taiwan's counternarcotics effort with respect to manpower, budgetary, and legislative responsibilities. The Ministry of Justice Investigation Bureau (MJIB), National Police Agency Criminal Investigations Bureau (CIB), Customs, and Coast Guard also contribute to counternarcotics efforts and cooperate on joint investigations, openly sharing information with DEA and other Asia Pacific law enforcement counterparts.

A Mutual Legal Assistance Agreement (MLAA) has been in place between the American Institute in Taiwan (AIT) and the Taiwan Economic and Cultural Representative Office (TECRO) since 2002, and this agreement provides for mutual assistance pertaining to the investigation, prosecution, and prevention of offenses and in proceedings related to criminal matters. This MLAA provides the primary basis for law enforcement cooperation between the U.S. and Taiwan.

2. Supply Reduction

Taiwan law enforcement agencies, including the MJIB, the CIB, Customs, and the Coast Guard Administration work together, as well as with numerous Hong Kong-based U.S. law enforcement agencies, to combat the importation of illicit drugs into Taiwan. Taiwan law enforcement officials also routinely share intelligence with regional counterparts in Japan, Hong Kong, Thailand, and the Philippines. Additionally, due to the amount of illicit drugs smuggled into Taiwan from mainland China, Taiwan authorities continue to seek increased drug enforcement cooperation with the People's Republic of

China (PRC). Authorities also seek to establish a working relationship with Indian law enforcement in order to combat the significant amounts of ketamine entering Taiwan from India.

Statistics for the first nine months of 2010 indicate a significant increase in seizures in all classes of drugs. Using seizure data from the MJIB, National Police Agency, Department of Defense Chinese Military Police, and Coast Guard Administration, Taiwan seized almost 3000 kg (3 MT) of drugs, an increase of 83.6 percent from the same period of the previous year (January to August). Authorities seized 70 kg of heroin, 227 kg of amphetamine and marijuana, 2260 kg of ketamine, and 433 kg of hydroxyl and pseudoephedrine. Whereas heroin seizures have steadily declined since 2004 highs (644 kg in 2004), ketamine seizures have markedly increased, reflecting an increased popularity of ketamine use among drug users. In addition, 39 drug manufacturing plants were also seized.

From January to September 2010, 26,529 people were convicted of drug-related crimes representing a decrease of over 7 percent compared to the same period last year. Of these convictions, 83 percent (22,006 people) were convicted of using drugs (12 percent decrease from the same period previous year) and 9 percent (2575 people) were convicted solely of manufacturing, selling, and transporting drugs (62 percent increase from the same period previous year).

The PRC, Philippines, Thailand, and Burma remain among the primary sources of drugs smuggled into Taiwan with the PRC representing 70 percent of all drugs seized from January to August. Earlier in the year, authorities seized nearly 850 kg of ketamine in Pingtung County that originated from mainland China. Authorities believe this shipment was destined for local consumption as it coincided with Lunar New Year and schools' winter breaks. In July, the Coast Guard interdicted a fishing vessel attempting to smuggle over 480 kg of ketamine with a street value of 500 million NT (\$16.5 million), believed to have originated from China. The same month, police arrested six suspects for allegedly smuggling 10 kg of ketamine stuffed into empty toner cartridge boxes from China. In November, the Coast Guard also seized 60 kg of amphetamine with a street value of 50+ million NT (\$1.6 million) at Taipei Port. Disguised as diet pills, 180,000 capsules were shipped from China via cargo ship.

CIB coordinated with U.S. and Thai police in October to break up a heroin smuggling ring in the Golden Triangle area. Arrested in Bangkok, the smugglers planned to transport a portion of the heroin to Taiwan. Thai police seized 14 kg of heroin with a street value of 100 million NT (\$3.3 million). In July, Taiwan police arrested two suspects for allegedly smuggling 17 kg of heroin from Thailand valued at over 50 million NT. The ringleader chose persons with clean backgrounds to transport the heroin and admitted to successfully bringing 7 kg into Taiwan in April using the same methodology.

There are also recent instances of Taiwanese nationals engaged in heroin smuggling activities between Taiwan and the Philippines.

The PRC, Philippines, and Malaysia are transit points for methamphetamine and synthetic drugs destined for Taiwan, such as ketamine and MDMA. India remains a source of diverted ketamine smuggled into Taiwan for local consumption.

Smugglers use different methods to bring drugs into Taiwan; however, couriers arriving at Taiwan's international airports, as well as fishing boats and cargo containers at seaports, remain the primary means of smuggling drugs into Taiwan. Intelligence indicates that the majority of drugs smuggled into Taiwan are for local consumption; the remainder is intended for distribution to international markets. In August, CIB arrested a six-person smuggling ring that successfully used instant noodle and instant coffee packs and various other containers to smuggle drugs to Japan over twenty times. In June, a Korean male was arrested at Taipei International Airport for smuggling one kg of heroin from Thailand to Taiwan, marking the first smuggling case in four years that involved a foreign national. However, in August, MJIB arrested a Singaporean at Taipei International Airport who was working for a transnational drug smuggling organization that employed foreigners to smuggle drugs as he was departing to Manila with

nearly 5 kg of amphetamine hidden in chocolate bars, soap, coffee cans, moon cake pastries, and DVD cameras.

In Taiwan, small plots of cultivated cannabis and opium poppies are occasionally found but coca plants are not cultivated. Authorities consider these small cannabis plots insignificant and make no official estimate of plot size. Authorities continue to report methamphetamine laboratory seizures. For example, in early 2010 authorities seized a methamphetamine laboratory in Kaohsiung, Taiwan and approximately 20 kg of pseudoephedrine pills, a methamphetamine precursor, in addition to equipment believed capable of producing approximately 1.5 tons of methamphetamine. Taiwan remains a source of supply for pseudoephedrine combination tablets shipped to various Central American countries. While Taiwan law enforcement is extremely vigilant in its efforts to prevent the export of large quantities of ephedrine/pseudoephedrine to countries that have banned the importation of these substances, chemical companies routinely provide false documentation in an effort to evade law enforcement. Intelligence indicates that Taiwanese chemists on occasion travel to countries such as Cambodia in order to oversee the production of methamphetamine. While some of the final product may be destined for distribution throughout Southeast Asia, there is evidence indicating a certain portion is returned to Taiwan to meet local demand.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Various agencies are cooperating to enhance Taiwan's demand reduction programs. For example, opiate addiction is viewed by many as a health, rather than legal issue. Under the law, most first-time offenders are sentenced to a treatment facility for a period of time rather than serving a prison sentence. As a result, numerous methadone maintenance treatment programs have been established in an effort to reduce the number of heroin addicts. Taiwan also utilizes long-term rehabilitative centers in hospital and prison settings in treating addicts. Private religious and civic groups also maintain various rehabilitative programs, including residential, counseling, and job placement assistance.

Taiwan's Ministry of Education and the Taiwan National Health Administration continue to forge partnerships with civic and religious groups to raise awareness about the dangers of drug use and educate the public about the availability of treatment programs. Public schools provide anti-drug education, including urine testing of students in junior high school, high school, and college. Radio, television, and film play a supportive role in drug abuse education, and the internet, is also used by Taiwan for raising public awareness. Numerous hotlines exist to report drug abuse or obtain assistance, and school teachers receive some training on how to identify potential student drug abusers.

4. Corruption

There is no indication that Taiwan law enforcement 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 illegal drug trafficking or the laundering of proceeds from illicit drug transactions were reported in 2010.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. continues to work closely with local authorities to prevent Taiwan from reverting to its earlier status as a major transit/transshipment point for U.S.-bound narcotics. Counternarcotics training and institution building remains a cornerstone for this policy. Taiwan law enforcement enjoys a close relationship with U.S. law enforcement organizations. MJIB, CIB, Customs, and the Coast Guard Administration participate in joint investigations and share intelligence with their U.S. law enforcement counterparts, resulting in several drug seizures and arrests in Taiwan each year.

D. Conclusion

Taiwan law enforcement continues to vigorously enforce drug trafficking laws. These enforcement activities yielded several particularly significant seizures, including the seizure of 847 kilograms of ketamine in January, the largest ketamine seizure in Taiwan's history. In May, officials seized 125 kilograms of ketamine believed destined for local consumption. Taiwan continues to work very closely with the DEA on drug enforcement activities including daily enforcement activities, intelligence sharing, and training opportunities. Such cooperation not only enhances Taiwan's investigative abilities, but also enhances U.S. knowledge of Taiwan-based drug trafficking trends.

The Legislative Yuan (LY) again failed to enact any new counternarcotics legislation. Legislation to permit the use of confidential sources to enable undercover operations was not enacted in 2010; however, efforts continue to encourage the LY to approve this legislation. Additionally, legislation to reclassify ketamine as a Class 2 drug also failed. Currently a Class 3 drug, ketamine trafficking carries lighter sentences and no punishment for abusers whereas reclassification as a Class 2 drug would increase sentences for traffickers as well as establish mandatory rehabilitation or sentencing for abusers. Finally, a change in electronic surveillance laws two years ago that transferred the approving authority for such operations from the Prosecutors Office to the Judiciary, thereby increasing the difficulty of obtaining electronic surveillance warrants, remains a continuing source of frustration for law enforcement.

In July, a U.S. Coast Guard request for permission to stop, board, and search a Taiwan fishing vessel for narcotics was refused by the Ministry of Foreign Affairs (MOFA), due to confusion among the Coast Guard, Fisheries Department, and MOFA on how to handle this request. DEA and the American Institute in Taiwan (AIT) will encourage Taiwan Coast Guard to develop written protocols to address future U.S. Coast Guard requests to board and search Taiwan fishing vessels for illicit drugs. In 2011, as in previous years, DEA will continue to urge Taiwan to provide Drug Signature program samples of drugs seized in Taiwan.

Tajikistan

A. Introduction

Tajikistan is not a major narcotics producer, but its border with Afghanistan makes it a favorite transit route for drug traffickers. The drug trade is a serious threat to stability and good governance in Tajikistan, and a terrorist financing concern. While Tajikistan typically interdicts as much Afghan heroin as all other Central Asian countries combined, the 1,344 kilometer border with Afghanistan is sparsely guarded, and the amount of seized narcotics is a small portion of what passes through. Afghanistan produces an estimated 90 percent of the world's opium and heroin, and an estimated 20 to 30 percent of that is smuggled through Central Asia, with the majority of those opiates passing through Tajikistan.

Poverty and high unemployment contribute to illegal narcotics trafficking. The northern drug route is facilitated by ethnic and linguistic ties between Tajiks in Tajikistan, northern Afghanistan and the migrant community between Tajikistan and Russia. Russian border guards helped secure Tajikistan's southern border until 2005, when Tajik authorities assumed control.

Domestic drug consumption in Tajikistan is relatively low, with most transited narcotics being consumed in Russia and Eastern Europe. While some sources put the figure higher, the United Nations Office on Drugs and Crime (UNODC) estimates that about 20,000 people regularly use opiates in the country. The Government of Tajikistan is concerned about the drug use problem. Effective counternarcotics cooperation with Tajikistan is one of the USG's top strategic goals. Tajikistan is party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In April of 2010, the Government of Tajikistan adopted a "National Border Management Strategy" drafted with help from the Organization for Security and Cooperation in Europe (OSCE). The strategy outlines comprehensive border management reform plans for 2010 to 2025. The aim of the strategy is to promote cooperation between all government agencies that regulate the flow of people and materials across Tajikistan's borders. The strategy addresses narcotics and precursor chemical trafficking, customs and border guard reform, corruption, improvements in training, and the use of sniffer dogs to detect narcotics and other contraband. Significant funding for implementation is expected to come from outside donors.

In September of 2010, unrest in the Rasht Valley compelled the Tajik government to divert resources from counter-narcotics activities to fighting a local conflict. The Drug Control Agency (DCA) was ordered to send a significant portion of their armed officers to the region. As a result, some of the USG training programs planned for the DCA had to be put on hold for three months. Further unrest could continue to divert the efforts of government agencies from the fight against narcotics trafficking.

While the USG, the UNODC, and the Border Management Program in Central Asia (BOMCA), have built or refurbished several border posts along Tajikistan's borders, the Tajik government has not built or refurbished any border posts in recent years. Several Tajik border posts in the eastern autonomous region of Badakhshan have been neglected or abandoned in the past year due to the logistical difficulties of staffing and supplying them.

Tajikistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1972 UN Convention on Psychotropic Substances. Tajikistan is also a party to the UN Convention Against Corruption (UNCAC) and the UN Convention against Transnational Organized Crime (UNTOC).

The OSCE funded training of Afghan law enforcement agencies on anti-trafficking techniques conducted by the Tajikistan Drug Control Agency (DCA) and the Ministry of Internal Affairs (MIA). There is still an institutional reluctance among agencies within the Tajik government to coordinate their efforts, or to work with other countries. While some U.S. and Tajik initiatives have fostered more coordination between government agencies, the counter-narcotics related institutions still struggle to cooperate consistently.

2. Supply Reduction

In the first eleven months of 2010, law enforcement agencies of the Republic of Tajikistan seized 3313.5 kg of narcotics. Of this total, authorities seized 800.3 kg of heroin, 712.7 kg of opium, and 1,800.5 kg of cannabis. During the comparable period of 2009, law enforcement agencies seized a total of 4337.2 kg of narcotics, thus 2010 seizures represent a significant decrease in drug seizures.

There has been a 23.6 percent overall reduction in drug seizures in 2010. This decrease is partly due to the blight that affected poppy plants in Afghanistan this past growing season; less poppy was produced, thus less opioids moved across borders. The Tajik Customs Service seizes less narcotics than one would expect based on their limited capacity for interdiction. For all agencies, the amount of heroin seized is the key focus, as reducing the flow of heroin through Tajikistan is a top priority for the international community. Tajikistan is not a significant producer or grower of drugs, however, in 2010, the Border Guards destroyed 11,005 plants of wild poppy and the DCA destroyed 312,867 plants.

While heroin and opium remain the primary drugs smuggled through Tajikistan, a few other varieties of dangerous drugs have been found in the last year. The MIA seized ten pills of MDMA-ecstasy, a number of pills of phenobarbital weighing 8.1 g, and over 286 kg of acetic acid, which can be converted to acetic anhydride. Acetic anhydride is a DEA List II precursor, because it is used in the synthesis of heroin. Tajikistan has not been a common transit route for precursors in the past, but signs point to increased trafficking of acetic anhydride through the country.

In September of 2010, a joint anti-drug operation called Kanal-Yug, or “Channel-South” conducted in Russia, Tajikistan and Kazakhstan led to the arrests of more than 400 individuals charged with drug-related crimes. The operation involved 35,000 police officers from Russia, Tajikistan and Kazakhstan. As a result, more than 50 kilograms of narcotics were seized. Investigative cooperation between Russia and Tajikistan also led to the arrests of 12 individuals wanted by Tajik authorities and 33 people wanted by Russian authorities. In November 2010, a DCA-led effort in coordination with the USG and the Russian anti-narcotics agency concluded with the seizure of 308 kilograms of heroin. Intelligence reports alerted the Tajik Drug Control Agency to a large shipment of Afghan heroin moving by truck from Tursunzoda to Khujand in the north of Tajikistan. The shipment of 3400 large wooden crates was searched by the DCA and the Tajik Customs, resulting in the discovery of 147 crates holding heroin in hollowed out wooden lattices. At this point, 118 kilograms of heroin were seized. Through interrogation of the traffickers, it was discovered that two other shipments were on their way to Chelyabinsk and St. Petersburg, Russia via railcar. After the DCA alerted Russian authorities, their coordinated response led to the seizure of an additional 190 kilograms of heroin.

Drug traffickers employ the full range of smuggling techniques when transporting narcotics through Tajikistan. Transport by rail is a favored method, as existing trade agreements allow sealed cargo containers to pass uninspected from Tajikistan to Russia. Some smugglers are using body concealment to transport drugs out of Tajikistan by air. When smuggling drugs from Afghanistan to Tajikistan the traffickers must pass the Pyanj-Amu Darya River. However, at many times during the year, water flowing in the river is either shallow or frozen and can be forded by traffickers. In areas where it is not easily passable, packages of narcotics are sometimes floated across. Some narcotics are transported in complicity with negligent or corrupt border guards on both sides of the Tajik-Afghan border. This means that official crossways such as bridges are also used for narcotics trafficking. Other concealment methods

employed have included hiding drugs in fruits, nuts, candies, coat linings, buttons, shoes, concrete shipments, and hollowed parts of crates. Once drugs enter Tajikistan, there are three primary onward routes that traffickers use: north through Khujand and Uzbekistan, a more eastern route to Osh and Bishkek in Kyrgyzstan, and a third route running directly west from Dushanbe through Uzbekistan.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The U.S. government has organized and sponsored drug demand reduction projects to assist efforts of the Tajik Government. An USAID HIV/AIDS program focused on injecting drug users provides funds to some drug treatment centers. Tajikistan's Ministry of Health funds five drug rehabilitation centers throughout the country, with 295 beds and 52 doctors available for patients. These centers are located in Dushanbe, Khujand, Kulob, Khorugh, and Qurghontepa. The number of registered drug addicts has decreased slightly in the past few years, but these numbers do not necessarily reflect a reduction in drug use. In 2008 there were 8645 registered drug addicts, in 2009 there were 8018, and in 2010 there are 7349. Around 80 percent of drug addicts are addicted to heroin, and addicts are predominantly male.

In 2010, the U.S. Embassy State-INL Office sponsored a Body Building Championship through the Body Building and Fitness Federation of Tajikistan dedicated to drug demand reduction and promoting a healthy lifestyle among young people in Tajikistan. Sixty young people from all regions of Tajikistan competed in the one-day tournament in Dushanbe. Winners of the competition delivered anti-drug messages to high school students. The performance of the winners and their anti-drug dialogue focused attention on the negative aspects of drug use, and the importance of a drug-free lifestyle. Another event that U.S. Embassy INL sponsored in 2010 was the National Judo Championship, and related drug prevention programs. The theme of the competition was "Sports against Narcotics and Drug Trafficking". The three-day event combined world-class judo competition with an anti-drug message to young people who might be at risk for drug influence. Teams from all provinces competed for prizes provided by both the U.S. Embassy and the Judo Federation of Tajikistan. As part of the program, competitors and coaches returned to their home towns and counseled young people from Dushanbe, Khorugh, Qurghontepa, Kulob and Khujand about the dangers of drugs.

The Tajik government has also implemented its own drug-use prevention programs, most notably, the "Joint Program for Drug Prevention and Interdiction of Illegal Drug Trafficking in the Republic of Tajikistan". With the goal of promoting healthy lifestyles, the government has organized a series of over 600 performances and public awareness programs on television, radio, and newspapers. The program has also conducted nearly 200 meetings, conversations, seminars, and round tables, along with sporting and cultural events among students, teachers, and women. Similarly, the Drug Control Agency has presented a total of 283 anti-drug presentations in the mass media. With the financial support of the OSCE, government ministries have also printed 1500 copies of the textbook "Prevention of Drug Use: General Recommendations".

4. Corruption

While there is surely lax enforcement of anti-corruption laws in Tajikistan and throughout the region, there are significant legal provisions against corruption in Tajik law. The Law on the Fight against Corruption sets out basic principles of anti-corruption and also states which legal bodies have jurisdiction over offenses. The Prosecutor General's Office (PGO) has the leading role. The PGO requires financial disclosure that seeks to prevent conflicts of interest by public officials. The Agency on State Financial Control and Fight against Corruption implements financial control and anti-corruption measures. The agency director is appointed by the President, and reports directly to him. In 2010, this agency was split into two separate agencies, one agency has jurisdiction over corruption, while the other handles financial auditing for the whole government. Despite these laws, corruption is one of the major problems facing good governance and effective counter-narcotics measures in Tajikistan. Partly due to the low salaries of civil servants, including law enforcement officers, many government workers try to supplement their

income by charging for services that are meant to be free, or by demanding money to overlook real or supposed violations of law. As a matter of policy, the government of Tajikistan 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.

During the first nine months of 2010, a total of 43 corruption crimes were registered. Additionally, 25 crimes were registered in the office of the Prosecutor General itself, while 23 crimes by 21 employees were noted in the Ministry of Defense, and additional offenders were charged at Customs, the Tax Service, and also in the courts. In April 2010, Saymuddin Mirzoev, the deputy head of the Tajik Border Guards, was charged with taking a bribe of \$15,000 in exchange for releasing a drug trafficking suspect. It was also alleged that on another occasion Mr. Mirzoev had received a bribe of \$30,000 for the same type of crime. The investigation is still underway. Occasionally, high ranking officials like Mirzoev are arrested for involvement in corruption related to the narcotics trade. Anecdotal evidence suggests that some officials who are engaged in such activity go unpunished.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Government continues to cooperate very closely with the Government of the Republic of Tajikistan in the spheres of law enforcement, security, and rule of law. In the most recent Letter of Agreement with Tajikistan, the U.S. Government pledged \$7 million in additional assistance. These funds will be used to counter and interdict the flow of narcotics into Tajikistan, improve Tajikistan's border controls, assist policing reforms, and improve Tajikistan's justice system. This will be done by assisting the Border Guards, the State Committee on National Security, the Ministry of Internal Affairs, the Drug Control Agency, the Ministry of Justice, the Prosecutor General's Office, and several other agencies. Funds will improve infrastructure and build capacity for law enforcement agencies. Training will include techniques for combating terrorism, crime, trafficking in persons and narcotics, and also develop English language curricula teaching methodology. The funds will also pay for advanced forensics equipment and training.

In April 2010, Tajikistan enacted a new Criminal Procedural Code (CPC). The INL Rule of Law program provides technical expertise in implementation of the new CPC according to international standards, and is training members of the legal community on the new law. The U.S. Government will support the implementation of the Criminal Procedure Code by raising public awareness of criminal procedures, including appropriate application of international criminal procedure standards among judges, prosecutors, law enforcement officials, students and others in the Tajik legal community. The U.S. Embassy INL Section also provides assistance to Tajik law enforcement, security and border agencies. Assistance includes reconstruction of border outposts, rehabilitation of training academies of the Ministry of Internal Affairs and Border Guards, improvements at training centers for police and judges, and actual training sessions for law enforcement officers in and out of the country.

U.S. Embassy INL continues to work with the Drug Control Agency to assist its staff to better fight against drug flow by increasing interdictions and seizures. To this aim, INL, DEA and the DCA opened the Drug Liaison Office (DLO) in Taloqan, Afghanistan to enhance cross-border cooperation between Tajikistan and Afghanistan. Several months later this office showed good results. Drug Liaison Officers assisted the Afghans in seizing 55 kilograms of heroin and 715 kilograms of opium. They assisted in arresting two individuals during the operation. In addition, officers conducted two jointly coordinated operations which led to about 100 kilograms of heroin being seized by Afghan authorities. This year, INL completed reconstruction work at the Border Guard Academy, which included the construction of a new dining facility, gym, heating system, toilets, landscaping, garages and a new ID checkpoint complete with furnishings and equipment. INL also reconstructed the Khirmanjo Border Observation Post, renovating the building with furniture, equipment, and a new well for clean water. This is the first border outpost in Tajikistan to use solar panels, which are used for hot water and for back-up lighting. INL also reconstructed the Police Academy Building #3. The renovations included new classrooms, common

rooms, a kitchen, showers, and new toilets. The classrooms were equipped with new furniture designed for law enforcement education. This will provide better living and working conditions for the law enforcement officers based there.

D. Conclusion

The United States has recently hosted an evaluation team from the United States Border Patrol (USBP) that that will prepare a report recommending improvements in the training capacity of the Border Guards. In addition to our on-going bilateral cooperation, the USG will encourage the Government of Tajikistan and other regional powers to continue to engage in cooperation on investigating transnational narcotics related crime, specifically through the support of the Central Asian Regional Information and Coordination Center (CARICC). The United States will continue working with the Government of the Republic of Tajikistan to develop its rule of law, security, law enforcement, and counternarcotics capabilities through the improvement of curriculum at the training academies and provide training courses in criminal investigation, tactical capabilities, community policing, and language skills. The USG intends to assist in creating a permanently staffed narcotics investigative training facility within the Drug Control Agency. Through these joint efforts will contribute to improvements in Tajikistan's effectiveness in interdicting narcotics, prosecuting traffickers, and delivering justice.

Tanzania

A. Introduction

Tanzania is located along drug trafficking routes linking Latin America, the Middle East, Asia, Africa, Europe, and, to a lesser extent, the United States. Tanzania's porous borders offer numerous possible points of entry for drug trafficking through its eight land borders with surrounding countries and 1,424-kilometer coastline. 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 ocean and lake ports like Tanga, Mtwara, Mwanza, and Bagamoyo. Traffickers also reportedly conduct a significant amount of narcotics smuggling offshore via dhows and small boats that avoid supervised ports. Attracted by the promise of quick cash, some Tanzanians serve as "drug mules," i.e., small-scale couriers moving narcotics through the country and elsewhere around the world. During the year, Tanzanians were arrested for drug trafficking in East Africa, Europe, and South America. In Spain, police arrested 48 members of an international drug trafficking ring, many of whom were reported to be Tanzanian. Drugs like cocaine, heroin, khat, Mandrax, and opium pass through Tanzania. In addition, the domestic production of cannabis is a significant problem, with active cultivation in many regions.

Domestic use of narcotics appears to be on the rise, although cannabis use appears to have stabilized. Because cocaine and heroin are not as affordable as cannabis or khat, they are used in smaller quantities and primarily within affluent urban areas. However, the growth of the tourism industry, particularly on Zanzibar and near Arusha, as well as increasing affluence, have increased demand for these more expensive narcotics. While the Government of Tanzania is working to build the capacity of its law enforcement and health institutions to combat drug trafficking and abuse, they are constrained by the lack of financial as well as human capital. Within the law enforcement sector and judiciary, corruption continues to erode the efficacy of existing anti-narcotics efforts. Tanzania is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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. However, the DCC continues to push for harsher penalties, including mandatory jail time. During the year, three persons were convicted and sentenced to life in prison for drug trafficking in an Mtwara court. Such tough sentences, however, are the exception rather than the rule. Magistrates typically impose fines on offenders as opposed to seeking prison sentences. The law stipulates that convicted drug traffickers be fined three times the market value of the drugs with which they are caught, but not less than Tsh 10 million (approximately \$6700). The DCC is encouraging the government to amend the Anti-Drugs Act to ensure imprisonment for drug offenders is the primary punishment. In 2009, the government drafted a national drug control policy. This policy was reviewed by the relevant ministries as well as the technical committee of the Cabinet Secretariat in 2010 and is expected to be approved by Parliament in 2011.

The anti-narcotics task force, formed in 2008 by the DCC, includes representatives from the DCC, Police, Customs, Immigration, the Revenue Authority, the Prevention and Combating of Corruption Bureau (PCCB), and the President's Office. Meeting on a weekly basis, this body facilitates interagency collaboration on narcotics issues, operating at the national, regional, and district levels to maximize the benefits of collaboration between law enforcement organs. Task force activities are funded out of the DCC's budget, which was approximately Tsh 900 million (\$600,000) in 2010. During the year, the task

force conducted several joint operations aimed at reducing domestic production of cannabis along the border with Kenya.

Law enforcement officials in the anti-narcotics unit (ANU) have successfully built international relationships that allow for information sharing regarding the movement of narcotics from one continent to another. Formal cooperation between counternarcotics police among East African Community (EAC) countries (Kenya, Uganda, Burundi, Rwanda and Tanzania) is well established. 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.

The Illicit Drugs Bill was passed by the Zanzibar House of Representatives in 2009 and signed into law in April 2010. This law enhances the powers of police officers to search and seize narcotics, while also allowing for "controlled delivery" of suspected narcotics shipments to persons suspected of transporting illegal narcotics. In addition, the law provides for the formation of a narcotics secretariat and an anti-drug commission to coordinate counter-narcotics efforts. According to the law, drug users are subject to jail terms of six months and entry into mandatory rehabilitation programs.

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. Tanzania has ratified the EAC Protocol on combating drugs in the region.

2. Supply Reduction

Due to its geographic location, porous borders, and weakly controlled seaports and airports, Tanzania has become a transit country for narcotics moving in sub-Saharan Africa. Traffickers from landlocked countries of Southern Africa, including Zambia and Malawi, and island nations, like Comoros, use Tanzania for transit. Control at the ports, especially on Zanzibar, is difficult. Internal waterways, such as Lake Victoria, also provide convenient transit routes for drug smugglers. Traffickers often cross the border at points without established posts. The volume of cargo moving through Tanzanian ports poses challenges to effective monitoring. Although the government employs scanners and dogs to assist in the detection of illicit drugs, its resources and the training of its personnel are insufficient to adequately monitor the transshipment of narcotics. For example, drug sniffing dogs are only used at the port of Dar es Salaam. Moreover, ANU in the mainland police force only has 250 officers nationwide with approximately 42 serving in Dar es Salaam.

Traffickers using forged documents and various other methods to conceal their illicit activities face poor controls and untrained and sometimes corrupt officials. Meanwhile, their smuggling techniques are becoming more sophisticated. Fraudulent documents are more widely available and are of increasingly high quality. Efforts to conceal travel to drug producing countries are more elaborate, involving multiple cross-continental trips and several different drug "mules" in some cases. In an effort to elude drug sniffing dogs, drugs are often concealed with local goods such as tea and coffee or swallowed by drug traffickers.

According to the ANU, heroin entering Tanzania from Afghanistan, Iran, and Pakistan via Dubai and other locations, often by boat, is being smuggled to China and Europe in small quantities. Cocaine enters Tanzania from Brazil, Colombia, Peru, Trinidad and Tobago, Venezuela, and Curacao in transit to South Africa, Europe, Australia and North America. The port of Dar es Salaam is also a point of entry for Mandrax (Methaqualone) from India, Nepal and Kenya headed toward South Africa. Tanzanians continue to be recruited as "drug mules" for trafficking and have been implicated by Spanish police in an international drug trafficking ring.

Traditional cultivation of cannabis takes place in remote parts of the country, mainly for domestic use. Although cannabis is produced in almost all regions, DCC and ANU officials identified the following regions as the primary production areas for cannabis: Morogoro, Iringa, Tabora, Mara, Arusha, Rukwa, Ruvuma, and Tanga. In recent years, production spread to Lindi and Mtwara due to increased demand from Mozambique. In total, police destroyed 296 acres of cannabis during the year. No figures on total production exist. The DCC's plans to conduct research to determine the extent of cultivation were halted due to financial constraints. Khat is also grown locally, primarily in Arusha and Tanga. An estimated 3,700 kilograms were seized during the year.

During the year, the ANU caught a number of individuals using diplomatic pouches to smuggle drugs into and out of the country. In March, law enforcement officials arrested traffickers from Liberia and Guinea with forged diplomatic passports, claiming to be diplomats. They had 33 kilograms of cocaine concealed in fraudulent diplomatic pouches. In April, there was a similar incident involving Ugandans posing as government employees. In addition, in March, Tanzania recorded one of its largest drug seizures. Six individuals, including one Iranian national, were arrested in the port city of Tanga with 95 kilograms of heroin valued at \$18.6 million. Between January and September 2010, mainland police arrested approximately 57 individuals for drug possession, of which 9 involved possession of heroin, 7 possession of cocaine, 26 possession of khat, and 15 possession of cannabis. In contrast to previous years, there were no arrests related to the possession of Mandrax or morphine. To date in 2010, police seized over 7,800 kilograms of drugs, including 96 kilograms of heroin, 46 kilograms of cocaine, and 4,035 kilograms of cannabis.

On October 28, the Zanzibar police arrested Miseji Hamisi Kondo at the airport with 770 grams of heroin. The case is pending. On July 2, a Zanzibar court sentenced one person to twenty years in prison for trafficking heroin. One hundred twenty seven individuals were arrested in Zanzibar for using illicit drugs during the year, but there were no convictions for personal use offenses.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Cannabis is the most commonly used drug in Tanzania. Although its use has not declined, it has at least begun to stabilize. Local use of Mandrax is limited. Since the introduction of powdered heroin in 2000, however, use of this drug has increased. Intravenous drug use is more common in Zanzibar than on the mainland. With direct flights connecting South America and Africa, cocaine use has also increased in recent years, particularly among local youth and tourists. However, prices for cocaine and heroin are lower on the streets of Tanzania than elsewhere (viz. South Africa) and thus the market is not of substantial interest to traffickers.

Through its community outreach activities, the police have worked to educate the public about the dangers of narcotics. Their activities focus on building the confidence of Tanzanians in the police's efforts to combat drug trafficking. In 2010, DCC continued its drug awareness campaign, participating in state sponsored trade fairs, national celebrations, and youth-centered events to create greater awareness about drug trafficking. In Zanzibar, narcotics officials worked with the Department of Substance Abuse Prevention and Rehabilitation of the Zanzibar Ministry of Health, conducting seminars for local leaders and the public to promote awareness and encourage citizens to support the police's efforts to catch drug traffickers.

The DCC, under the Prime Minister's Office, oversees treatment and prevention activities, coordinating with NGOs and other medical facilities. It managed a small demand reduction program, which included training courses for nurses, counselors, and teachers in regional medical facilities across the country. Limited government resources exist for specialized care for drug addiction and rehabilitation. Most treatment was provided at the local level by NGOs or at community health facilities. However, these organizations lack trained personnel to identify, assess, and assist drug addicts, particularly those in need

of psycho-social interventions. Because resources are stretched so thin, quality of care is an issue and relapse is common among drug users.

Tanzania adopted the UNODC guidelines on treatment and disseminated them to service providers during the year. Financial constraints, however, prevented widespread distribution of these resources throughout the country. The DCC also provided the UNODC training guidelines to 11 Ministry of Health trainers on the mainland and Zanzibar. During the year, DCC's Technical Working Group collaborated with Muhimbili Hospital and the Ministry of Health on the development of six manuals for service provision, including a guide for the management of drugs at primary health care centers, an outreach service guide, and a strategic framework for the prevention of HIV among IV drug users. The DCC received a grant from the UNODC and WHO to support training activities in Dar es Salaam and Zanzibar. Training will commence in early 2011. The DCC is also planning to use mobile counseling units in the Dar es Salaam area. At present, any required in-patient care is typically provided by psychiatric hospitals. Drug addicts were often hesitant to seek in-patient treatment due to the stigma associated with psychiatric facilities. There were estimated to be only six psychiatric units in the country, 20 trained psychiatrists, and fewer than five psychologists.

4. 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 within the Tanzanian police force. It is widely believed that corrupt police officials facilitate the transshipment of narcotics through Tanzania. There is no specific provision of the anticorruption laws regarding narcotics-related corruption cases.

Many believe that corruption in the courts often leads to case dismissals or light sentencing of convicted narcotics offenders. There have been reports that suspects plead "not guilty" delaying proceedings 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. policy initiatives and programs for addressing narcotics problems in Tanzania focused on training workshops and seminars for law enforcement officials. During the year, Tanzanian officers participated in a USG sponsored workshops at the International Law Enforcement Academy (ILEA) in Gaborone, Botswana; in the United States; and elsewhere in the world.

The DCC collaborates closely with the U.S. Centers for Disease Control, which helped it to develop treatment and rehabilitation protocols for blood-transmitted diseases like HIV/AIDS associated with intravenous drug abuse.

D. Conclusion

Despite its limited resources and geographic challenges, Tanzania continued to make progress in its fight against drug trafficking. The ANU and the Zanzibar police successfully intercepted sizeable shipments entering the country and worked effectively with domestic and international counterparts to track the movement of illicit narcotics. The DCC continued its efforts to increase awareness, improve treatment options, and build the capacity of organizations to provide counseling. However, Tanzania's counternarcotics efforts continue to be hampered by corruption both within the police and judiciary. Moreover, the government has been slow to respond to the DCC's request to amend the penalties for traffickers to mandate jail time. U.S.-Tanzanian cooperation will continue, with a focus on improving Tanzania's capacity to enforce its counternarcotics laws.

Thailand

A. Introduction

Small amounts of organic drugs such as opium, heroin, or cannabis, as well as synthetic drugs such as methamphetamine are produced in Thailand, but cultivation and/or production remain minimal. Each year since 1999 the United Nations opium survey has found that harvestable opium poppy cultivation in Thailand has been less than 1,000 hectares (about 2,500 acres), the U.S. statutory definition of a Major Source Country. The planting that occurs is by ethnic highland tribal peoples trying to supplement their incomes by selling locally or for their own consumption. Small quantities of cannabis are cultivated in north-eastern and southern Thailand, likewise for local consumption.

Thailand's long and porous borders are vulnerable to transnational crime, especially narcotics trafficking. Thailand remains a transshipment country as well as a target market for drugs produced in neighboring countries. Drug smugglers have adapted their routing and shipment methods in response to successful suppression efforts in the northern border areas. Heroin and especially methamphetamine continue to move from Burma directly across Thailand's remote northern border for Thai domestic consumption as well as for onward export to regional and wider international markets. Additionally, traffickers move methamphetamine and heroin from Burma into Thailand through Laos and Cambodia. Some opium and large quantities of marijuana are moved into and through Thailand from Laos, while smaller quantities of marijuana are smuggled from Cambodia. Marijuana smuggled into southern Thailand in bulk is frequently transported on to Malaysia and other regional markets.

Regional reductions in opiate production have been counter-balanced by much higher production levels of Amphetamine Type Stimulant (ATS) tablets, as well as crystal methamphetamine. Burma-based drug trafficking organizations produce hundreds of millions of tablets of methamphetamine ("yaa-baa") each year for regional export. A substantial portion of the yaa-baa produced in Burma ends up being trafficked into and through Thailand, where it remains the number one drug of abuse. Some drugs which transit Thailand reach the United States, where each year there are seizures of small quantities of opium and methamphetamine that evidently have moved through Thailand, typically mailed by relatives to individuals of Asian ethnicity in the U.S.

Crystal Methamphetamine "Ice" is brought to Thailand from Burma for domestic consumption as well as for onward regional export to Malaysia, Indonesia, Singapore, the Philippines, Taiwan, and Japan. In the past year, numerous Iranian nationals have been arrested while attempting to smuggle "Ice" through Bangkok's Suvarnabhumi International Airport. Iranian smugglers have also been arrested in neighboring Southeast Asian countries, where they capitalize on the growing methamphetamine consumer market. Much of the "Ice" smuggled into Thailand by Iranians is trans-shipped to other countries in the region.

Thailand has a small domestic consumer market for ecstasy and cocaine coming from a variety of sources and transit countries including Cambodia, Malaysia, Burma, Europe, and Canada. Ecstasy typically is smuggled into Thailand via commercial air carriers from Europe. The cocaine market in Thailand, like that for ecstasy, is primarily restricted to some affluent Thai and foreigners in large cities. While the cocaine market is still largely controlled by West African criminal organizations, South Americans have also become involved in Thailand. They are more aggressively involved elsewhere in the region, and represent a new trend in international organized criminal activity.

Marijuana is used widely in Thailand, with a steady flow entering from Laos. Some marijuana is still grown in several Thai provinces, where it is used for flavoring in food. Kratom (*Mitragyna speciosa*), a local drug with modest psychotropic properties, is grown in several provinces and is offered for sale in some of Thailand's southern provinces. Ketamine is used in Thailand and throughout Asia in both liquid and powder form. Most Ketamine used in Thailand is produced in India. Thailand-based enterprises continue to market steroids for worldwide sale, including in the U.S. and Europe. Thai-based organizations that produce steroids have been a growing target for law enforcement, with arrests made in Thailand contributing to the dismantling of steroid trafficking organizations around the world.

A new drug threat emerging from China and South Asia affects Thailand and the region at large: fake pharmaceuticals with little or no medicinal properties, yet expensively and persuasively packaged, purportedly for the relief of life-threatening conditions such as tuberculosis, malaria, and HIV/AIDS. As this began as an intellectual property issue, Immigration and Customs Enforcement has taken steps to address it in Thailand during 2010.

Although marijuana use is widespread in Thailand, methamphetamine is the number one drug threat in Thai society. Crystal methamphetamine or "Ice" production in the Shan State of Burma, although not yet widely available in the drug market, is becoming a serious concern to Thai authorities due to its highly addictive properties. It is generally smoked and costs 3,000 baht (\$88) per gram on the street. The small quantities of opium produced in Thailand are insufficient even for the demand within the dwindling population of opium smokers in northern Thailand, who must rely on imports from neighboring countries.

In southern Thailand, chewing of Kratom or mixing it in drinks is accepted in many communities. Kratom is popular due to its low cost, difficulty of detection, and broad acceptance by local village society. The Indian Ketamine used in Thailand has hallucinogenic effects and is cheaper and considered less dangerous than ecstasy. There is also significant abuse of inhalants in Thailand, such as glue, among street children and other poor people. Such inhalants are not usually controlled or treated as illicit substances. Thailand is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The uncertain political situation in Thailand has had some negative effect upon efforts to combat drugs as some enforcement units have been reassigned away from counter-narcotics investigations to focus on anti-government activities

RTG efforts to interdict illicit drugs during 2009-10 have included: a) stronger border control; b) using units of the police and army, as well as some civil service personnel, for patrolling; c) 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 and joint training initiatives 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; and j) better statistical research and measurement of drug users, traffickers, and released prisoners. The Thai Office of Narcotics Control Board (ONCB) conducts year-round surveillance in upland areas of northern Thailand, where renewed opium poppy planting could recur. The ONCB Office coordinates at least one opium eradication campaign per year, carried out by Thai 3rd Army units, specialists in this activity. These campaigns are conducted with financial support from the U.S. Mission, and are assisted in planning by information developed by DEA's Bangkok Country Office.

Thailand's counter-drug air assets are insufficient to regularly patrol the country's long and mostly remote land borders with Laos, Burma, and Cambodia. In recent years the Thai have stepped up efforts to coordinate with law enforcement entities in neighboring countries, even in times of border tension. 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 have more frequent contacts and meetings, as well as better communications tools, supporting operational cross-border communications. While still far from optimal, this enhanced level of coordination is much better than the Mekong border situation fifteen years ago, when Thai and Lao law enforcement units were likely to fire upon each other. USG support has prompted joint marine police training in counter smuggling techniques among the four neighboring countries facing the Gulf of Thailand.

Thai law enforcement authorities employ extensive field training and modern equipment to respond to the border trafficking threat. A wide range of counternarcotics tools, including confidential sources, undercover operations and controlled deliveries are commonly used in drug suppression and interdiction. A USG-funded 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 (RTP/NSB) network.

Thailand 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. 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.

2. Supply Reduction

Thai law enforcement arrests, and the Office of the Attorney General prosecutes narcotics offenders very frequently, and such cases are given wide publicity. Scarcely a day passes without some media report of drug arrests. Seizures of "ice" by Thai law enforcement agencies declined steadily between 2005 when 322 kilograms were seized and 2008 when just 48 kilograms were seized. This trend has reversed in 2009 and continued to increase throughout 2010. On the whole, counter-narcotics law enforcement is the best-developed part of the Thai criminal justice system - a result of long cooperation with DEA.

During FY 2010 there was a 13 percent increase in narcotics arrests over the previous year. Poppy production has been so effectively suppressed that there were only three crop eradication events for opium during the fiscal year.

Statistical Tables:

Drug Seizures and Arrests

All Figures in kg, Except Meth Pills-"Yaa-Baa" in Millions of Pills

YEAR	METH	CRYSTAL	KETAMINE	OPIUM	HEROIN	ECSTASY	COCAINE
2008	22.1 MIL	52.9	18.1	5708.5	199.8	11.28	11.5

2009	26.9 MIL	210.6	20	40,847	143	14.8	9.2
2010	32.1 MIL	331.5	164.6	8743.4	46.9	2.6	24.3

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Thailand carries out comprehensive demand reduction programs, by combining educational programs to discourage drug abuse with treatment for current addicts. During the past four years, the Thai government has taken steps to substitute treatment programs for prison terms in cases 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 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. The Thai Government invests substantially in building awareness of the perils of drug addiction in the schools, currently running seven such programs at various grade levels.

During 2008-09, the Thai Government ran a special demand reduction operation entitled “unity for freedom from the threat of drugs,” focusing on education of high-risk youth groups. Government officials, civic groups and local administrations and interested private citizens were deployed to monitor the drug problem. Special emphasis was given to three critical areas (Bangkok, the South, and the far North), using the methodologies offered by D.A.R.E. as well as best practices from other parts of the international drug rehabilitation community. These programs directly assisted about 300,000 persons during FY 2010, and their messages reached most of the school-age youth in the country.

The effectiveness of public education programs is difficult to gauge, but overall the Methamphetamine problem is growing rather than shrinking. Treatment data reported by both the Thai government and United Nations Office of Drugs and Crime (UNODC) indicate that “yaa baa” use remains widespread. Heroin and opium usage remained relatively low and stable during 2010. Crystal methamphetamine, “Ice” usage increased in 2010, although usage remained comparatively limited, due to the much higher cost of this drug. There are some positive points to note. Consumption rates and trafficking volumes of “yaa baa” are still below those that pertained before the controversial war on drugs of 2003, with prices today about three times higher than what they were prior to that campaign. High street prices reflect effective interdiction, but say little about the effectiveness of public education or rehabilitation. However, Thailand’s rate of drug recidivism, reflected in imprecise, but generally indicative statistics, is quite low, which does point to effective drug rehabilitation programs.

4. Corruption

Corruption is endemic in Thai society, though in recent years it has graduated from the status of a taboo topic to being openly chronicled in press reports of high-profile court cases. Public corruption is very costly to the Thai public purse; both in procurement, misappropriations, and embezzlement. Bribery of officials is widespread. Thailand has a Counter Corruption Commission, and officials are prosecuted for corrupt practices. High-profile corruption cases are always highly politicized. Police corruption is a major factor in the generally low public opinion of law enforcement, and the willingness of the Thai police to police themselves is low.

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 current senior official of the Thai government is known to have engaged in, encouraged, or facilitated the illicit production or distribution

of narcotic or psychotropic drugs or other controlled substances, or to have been involved in the laundering of proceeds from drug transactions. Reports of official corruption are rarely drug-related, but drug-related corruption at working levels is very likely, given the volume and value of drugs consumed in and moving through Thailand. While on the whole narcotics enforcement is one of the bright spots in Thailand's law enforcement record, corruption undoubtedly has a negative impact upon the effectiveness of counter-narcotics operations.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Thailand, the U.S. Government's only ally on the mainland of Southeast Asia, has entered an era of political crisis and the performance of the criminal justice system is an important factor in securing the strong support of the public for maintaining rule of law. The USG is uniquely well-situated to help with this effort.

Thailand and the United States maintain a strong long-standing partnership to combat drug trafficking and international crime, and American law enforcement is accorded high levels of willing cooperation by their Thai counterparts. 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. The American Mission pursues law enforcement and criminal justice capacity-building as a matter of policy, both to aid an allied nation at a difficult time and to sustain relationships that directly benefit American law enforcement working in the region. These programs build capacity in anti-narcotics work, as well as in many other law enforcement areas, and foster cooperation with other countries in the region on a range of narcotics control and anti-transnational crime activities.

The United States continues to provide its 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 2009-10 training programs for regional officials, 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 third-party funded training. All this is aimed at enhancing Thailand's and the region's capacity to combat the illicit drug trade and transnational and organized crime.

DEA's relationship with the Thai police has been exemplary regarding how to build and sustain a long-term and complex working law enforcement relationship. 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. This assures a cadre of competent counterparts with whom DEA works closely to target drug trafficking organizations. Four SIU teams currently operate in Thailand, focused on the most important trafficking groups in the region. In addition to these law enforcement assistance programs, the important American law enforcement presence in the Bangkok Mission produces a stream of training and other assistance to the Thai police. For example, the Regional Security Office deploys NADR funding to administer an anti-terrorism capacity-building assistance (ATA) program, with classes in a range of security and counter-terror-related topics for Thai law enforcement.

The U.S. Embassy's Transnational Crimes Affairs Section (TCAS, formerly the Narcotics Affairs Section) began a new law enforcement capacity building program in September 2008, paired with a parallel program to assist the prosecutors and the judiciary through sustained consultations with senior American counterparts. The Thai police have given considerable access to police training programs and curricula in the Thai police academy system. In addition to tactical training, TCAS assists the Royal Thai Police to improve professional standards, community policing and police ethics — matters of urgency given the unsettled political situation. These programs aim to improve Thai law enforcement competence, to instill broader respect for human rights in the law enforcement culture of the country, and to bolster the criminal justice system overall.

A U.S. Department of Justice Resident Legal Advisor (RLA), based in TCAS, works to achieve complimentary changes in prosecutorial and judicial law, practices and procedures. In addition, the U.S. Department of Justice Attaché works closely with Thai authorities to facilitate extraditions and mutual legal assistance in narcotics and transnational crime matters. These two persons are both experienced U.S. federal prosecutors who make themselves available to assist Thai prosecutors and judges. The Thai frequently avail themselves of this help.

D. Conclusion

The USG enjoys a particularly close and collaborative relationship with Thai law enforcement, and should continue to support the Thai Government's efforts to interdict illicit drugs moving through Thailand and on to the United States, as well as collaborating on a broad range of international crime control issues via material, legal, and technical support. Wherever possible, programs should also seek to bolster Thailand's position in the region and enhance coordinated law enforcement across borders. The USG has encouraged the promulgation of laws and regulations more closely aligned with international standards, and helped Thailand develop more consistent adherence to principles of rule of law, a critically important concept to foster in an allied nation undergoing political transformation. All such activities contribute to the fight against illicit drug trafficking and other transnational crime.

The U.S. can sustain the opium suppression success of the past 20 years by contributing to continued manual opium eradication programs as these occur. The U.S. can respond to high-level Thai Government interest in justice sector reform by using seconded U.S. Department of Justice personnel, American state and municipal law enforcement, as well as private sector organizations such as the American Bar Association to help achieve this goal. The Thai-U.S.-sponsored ILEA has just completed a decade of regional relationship-building, relationships crucial to the fight against crime across the porous borders of Southeast Asia. ILEA Bangkok's comprehensive program of regional law enforcement training and cooperation builds technical skills and fosters regional cooperation in law enforcement. As nearly all serious crime in the region now has a transnational dimension, the ILEA model has proven itself and this model will be emulated for as much law enforcement capacity building as is practicable.

Timor-Leste

As one of the poorest countries in Asia, Timor-Leste appears to be a relatively inconsequential side market for narcotics trafficking from neighboring Indonesia. According to the National Police of Timor-Leste (PNTL), there are four types of narcotics available in the capital city of Dili: methamphetamine, MDMA (ecstasy), marijuana and heroin. PNTL have seized small quantities of all of these narcotics in recent years. The average price of methamphetamine is \$300 per gram for high quality and between \$100-\$200 for lesser quality meth. One MDMA tablet sells for \$100. One marijuana cigarette costs \$10. Heroin costs in excess of \$300 per gram. Narcotics are smuggled over the land border at Batugade, through Dili Airport, and by small maritime vessels. Narcotics are sold in bars, karaoke lounges, massage parlors, and hotels. Narcotics are concealed in cosmetics and grocery items and in automobile and motorcycle parts as they are smuggled into Timor. The potential domestic market is limited by the low income level of the general population, but in the medium term, moderate oil and gas revenues and steady economic growth have the potential to stimulate economic development and raise income levels, thereby expanding the potential drug market, if appropriate law enforcement measures are not taken to curb narcotics trafficking.

According to available information, there is little, if any, organic narcotics production in Timor-Leste. There are unconfirmed reports, however, that there may be one or two small-scale methamphetamine production facilities in and around Dili. Methamphetamine precursor chemicals pseudoephedrine and ephedrine are readily available in numerous Dili pharmacies and there is no limit on quantity purchased per customer per day, nor is customer information registered at the time of purchase. A shortage of law enforcement capacity, including training, vehicles and resources among enforcement units, would make it fairly easy for clandestine laboratories to operate without fear of detection. Police sources indicate that there is also a strong likelihood that marijuana cultivation exists in the hill country areas of Timor-Leste. Narcotics trafficking from neighboring Indonesia appears to be taking place on a small scale, but there are no indications to date that Timor-Leste is being used as a transit point for narcotics trafficking to other countries. Commensurate with the limited production and trafficking, illegal domestic drug use appears to be low, but is probably rising.

Timor-Leste is not yet a party to the 1988 UN Convention. Law enforcement responsibilities are currently shared between the National Police of Timor-Leste (PNTL) and a United Nations police presence that is likely to remain in Timor-Leste through 2012. Local law enforcement capacity is limited, due especially to low levels of education and training among the police force and insufficient investment in infrastructure, equipment, and logistical capacity. Nevertheless, with support from international peacekeepers, the PNTL has made modest efforts to identify and raid establishments associated with narcotics trafficking. Despite a limited number of arrests, however, a similar lack of capacity in the prosecutorial and judicial system has hampered efforts to prosecute and convict those arrested. Another obstacle is the ability to analyze narcotics sample seized promptly. To date, PNTL has relied upon Australian counterparts, who send narcotics to Australian government laboratories for analysis. PNTL officials have cited delays and lack of responses as a hindrance to prosecuting suspects. In some cases, positive reactions acquired through narcotics test kits have been sufficient for prosecution.

There are no drug rehabilitation and treatment programs in Timor-Leste.

Despite these shortcomings, Timorese government policy strongly condemns and seeks to restrict and impede narcotics trafficking. Timor-Leste does not officially encourage or sanction drug trafficking; there are no indications that senior Timorese officials are involved in trafficking. To the contrary, many senior officials have spoken publicly of the dangers that narcotics present to Timorese society and of the need to undertake additional, stronger measures to counter narcotics trafficking.

Togo

A. Introduction

Togo is not a significant producer of drugs; however it plays an increasingly important role in the regional transport of narcotics. During 2009 the drug trade (particularly in hard drugs) continued to increase, and Togo is used more and more as a transit point for the inter-continental movement of drugs from South America through West Africa to Europe. Togo's capacity to address the transnational flow of drugs is undercut by its inability to control corruption, the country's extreme poverty and resultant lack of resources, staff training gaps, and long, porous borders.

The only drug cultivated in any significant quantity is cannabis, but even cannabis cultivation 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. Heroin and cocaine, while not produced in Togo, are also available. Heroin is smuggled from Afghanistan, while cocaine is transported from South America. 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. Approximately one metric ton of cannabis is seized in Togo each year. 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. Togolese traffickers have developed distribution arrangements for drugs bound for Europe. According to police, most smugglers are long-term Lebanese residents or Nigerians, but police have also recently arrested a Colombian smuggling network in Lomé. The gendarmerie is also targeting Togolese traffickers. 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, facilitated through 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 Lomé, it is now evident that the traffickers are using the Lomé international airport as well as remote airfields for flights from Latin America, and land borders for vehicular transport of narcotics. Togo is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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, leading 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. In 2010, the OCRTIDB hired additional personnel and increased its presence at the Lomé airport. In addition, a new law to facilitate the extradition of drug dealers has been proposed and awaits passage by the National Assembly.

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.

2. Supply Reduction

Bilateral and regional cooperation is strong and improving. The U.S. Navy donated two Defender boats to the Togolese Navy, which can be used for narcotics interdiction. In addition, bilateral and multilateral seminars and training opportunities increased during 2009, and included training offered by the U.S. DEA and French embassy to OCRTIDB. In January 2010, the OCRTIDB signed an accord for inter-agency information sharing and cooperation among drug enforcement units in Togo, the Dominican Republic, Jamaica, Peru, and Colombia. The number of drug-related arrests increased in 2009, and included several large seizures of and public destruction of marijuana plants. 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 make easier the interdiction of drugs arriving by sea; however, many are skeptical of the port authorities' willingness to use this tool aggressively. Arrests have been mainly at the land border crossings and in Lomé town itself; 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 nominally required to report narcotics related crimes to the Central Office, in practice there is no effective reporting, record keeping, or cross-agency communication process.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

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 organized a counternarcotics conference from December 8-14, which included experts from the EU and UN.

4. Corruption.

The Anti-Corruption Commission made no drug-related arrests of government officials. Togo's former chief narcotics officer, who was held under house arrest for several months in 2006 under suspicion that he had diverted a quantity of captured drugs being held as evidence for resale, was released in September 2006 and was assigned as the commander of a gendarme 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 tough stance on narco-trafficking. As a matter of government policy, the Government of Togo 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The primary narcotics-related policy 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 also seeks to assist local authorities to improve their capacity to prosecute suspected drug traffickers.

D. Conclusion

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 Administration 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.

That said, relations with Togolese officials in both the Ministry of Security and the OCRTIDB are excellent, and improve every time there is a training or joint operation. Access and responsiveness on the part of OCRTIDB are good and getting better. However, the overall effectiveness of its efforts is limited by endemic corruption and unwillingness/inability at senior levels of government to address the problem.

Trinidad and Tobago

A. Introduction

Trinidad and Tobago's location off the coast of Venezuela, porous air and sea borders and direct air or sea routes to Europe, West Africa, the U.S., Canada, and the Caribbean make it ideally suited for drug transshipment. Trafficking of South American cocaine and marijuana from South America and the Caribbean is prevalent, along with smaller amounts of heroin. The local petrochemical industry generates imports and exports of precursor chemicals that can be used for drug production, but the Government of Trinidad and Tobago (GOTT) has instituted controls to prevent their diversion. Trinidad and Tobago's domestic drug production and illegal drug use center on marijuana.

After elections in May 2010, a new administration took over the GOTT, and counternarcotics efforts remain a priority. However, the new government has de-emphasized regional efforts and assistance programs, including some security-related projects that would impact counternarcotics efforts, in order to focus greater attention on domestic issues. The GOTT has since signaled it will scale back previously planned maritime asset acquisitions, while undertaking efforts to restructure its security apparatus, improve law enforcement efficiency, and address internal corruption. The GOTT's overall budget for drug control is assigned to various agencies and a comprehensive total figure is not available. However, the budget for Trinidad and Tobago's Anti-Drug Plan 2008-2012 is \$50.6 million.

The GOTT struggles to effectively coordinate and implement its drug-control assets, and maintenance issues, corruption, and gaps in the legislative framework remain challenges. The GOTT continues to solicit international assistance to combat the illegal drug trade.

Trinidad and Tobago is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Trinidad and Tobago continues to be committed to narcotics control. The GOTT has dedicated resources through the Organized Crime, Narcotics, and Firearms Bureau (OCNFB), the Counter Drug and Crime Task Force (CDCTF), the Criminal Investigation Unit (CIU), the Trinidad and Tobago Coast Guard (TTCG), the Customs and Excise Marine Interdiction Unit (MIU), the National Drug Council (NDC), and the National Alcohol and Drug Abuse Prevention Programme (NADAPP).

In 2010, the GOTT continued its efforts to disrupt criminal gang activity through legislative reform. A law authorizing wire-tapping was passed in December 2010, and parliamentary committee action is pending on legislation targeting criminal organizations, proceeds of crime, bail reform and enhanced penalties for gang association and the illegal use of firearms. New rules are being implemented to address gang activity in prisons, and efforts are under way to thwart the use of cellular phones by prisoners.

The GOTT received delivery of six fast patrol craft (FPC) in early 2010 to enhance coastline patrol capability. After the mid-year elections, the new GOTT administration announced it would cancel the purchase of three 90-meter offshore patrol vessels (OPV) that were to have been delivered in 2010 and 2011, claiming defective systems and production delays. There are no plans to supplant that deepwater patrol capability in the short-term. The FPC's represent an increase in coastal interdiction potential, but human resource and maintenance capacity problems may prove to be limiting factors over time. The GOTT also increased regional radar capabilities in 2010.

The GOTT has stepped up Trinidad and Tobago Police Service (TTPS) recruiting and training, in order to stem a trend in declining forces and fill vacant positions. In an effort to improve coordination and law enforcement legitimacy, the new government plans to restructure the Special Anti-Crime Unit of Trinidad

and Tobago (SAUTT), including reducing the number of foreign contract advisors and potentially shifting some of its law enforcement functions to the TTPS.

In late 2010, three new passenger x-rays were installed in Trinidad's Piarc International Airport, replacing older models that were not fully functional. The GOTT's 2010 budget shows investment in new equipment such as radars and increased Trinidad and Tobago Defence Force (TTDF) training. The GOTT has purchased four Augusta-Westland AW139 helicopters for the Air Guard, two to be delivered in mid-2011, and the others in 2012. These will be used for surface surveillance and drug interdiction, among other functions. Lastly, the GOTT is reviewing ways to improve the Coast Guard's marine interdiction capacity, and several of its stations were allocated funds for upgrades in 2010.

Although money laundering and proceeds of crime legislation was enacted in 2009, Trinidad and Tobago's year-old Financial Intelligence Unit (FIU) is not yet fully staffed or Egmont-accredited, and no convictions have resulted from the new laws.

Trinidad and Tobago is party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Mutual legal assistance and extradition treaties with the U.S. entered into force in November 1999. A bilateral maritime counterdrug agreement between the USG and GOTT 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 a member of the Organization of American States' Inter-American Drug Abuse Commission (OAS/CICAD). In May 2009 the GOTT signed a policy agreement with the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) of the U.S. Justice Department to provide access and utilization of e-Trace services.

The GOTT continues to cooperate with the United States on extradition, mutual legal assistance, chemical controls, and general narcotics control law enforcement. Trinidad and Tobago is a party to several international, hemispheric, regional and bilateral agreements on drug control collaboration. However, weaknesses in border security, breakdowns in information-sharing, and a lack of efficient control systems pose challenges to the country's ability to effectively participate in these efforts.

2. Supply Reduction

Drug cultivation in Trinidad and Tobago is limited to marijuana. Law enforcement agencies conducted effective marijuana eradication exercises in 2010, but the number of such exercises dropped from 32 in 2009 to 19 in 2010, in part due to staffing gaps in key positions. Accordingly, while 6,050 fewer seedlings were eradicated and fewer hectares were destroyed compared to the same period in 2009, the destruction of plants increased by 13 metric tons, and year-end statistics were generally comparable to previous years.

The majority of drug seizures in Trinidad and Tobago are made at the airports and sea ports. While one notable seizure in October 2010 netted 26.3 metric tons of marijuana found inside a single cargo container in Port of Spain, cargo shipments remain largely under-screened.

GOTT officials believe there was an increase in the volume of marijuana shipments through both of Trinidad and Tobago's international airports and seaports in 2010, even as the seizure rate reported by the Organized Crime, Narcotics, and Firearms Bureau (OCNFB) declined by 245 kilograms from the same reporting period in 2009. OCNFB data indicated that cocaine seizures likewise decreased by 46 percent from 2009, and that no heroin was seized in 2010, down from 2 seizures in 2009. Other law enforcement sources reported that overall seizure rates were likely higher than OCNFB statistics, and that staffing shortfalls may account both for a reduced capacity to interdict shipments and for statistical inconsistencies.

Cocaine arriving in Trinidad from South America for transshipment to Europe, Africa, Canada and the United States is primarily smuggled via small fishing vessels known as pirogues. Pleasure boats and

commercial aircraft are also utilized. Most marijuana arrives in Trinidad and Tobago from other Caribbean islands, including as far away as Jamaica, via pirogues, loose cargo vessels and parasitic devices attached to the hulls of vessels. But as noted above, officials believe there was an increase in the frequency of marijuana shipments arriving at both of Trinidad and Tobago's international airports and its seaports in 2010, as well as in the quantities of marijuana moved.

Common drug smuggling techniques in and out of Trinidad and Tobago involve couriers ingesting or attaching drugs to their bodies, or transporting drugs in secret luggage compartments or loose in luggage. International commercial parcel delivery services are also used to transship narcotics, as are containerized and loose cargo shipping services. A relatively significant number of pleasure yachts moored in Trinidad during hurricane season present another avenue for the shipment of narcotics both in and out of the country. In September 2010, Spanish authorities, in cooperation with law enforcement officials from other countries, interdicted 1.5 metric tons of cocaine in a yacht that originated from Trinidad's marinas at Chaguaramas.

There is also a concern that contraband prescription drugs are becoming increasingly available in Trinidad and Tobago.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Trinidad and Tobago lacks data on its total addict population, but according to a CICAD (Inter-American Drug Abuse Commission) study from 2006, 11.97percent of 13-17 year olds reported having used marijuana. A 2002 NADAPP secondary school survey indicated that 13.7percent of students reported having used marijuana. Trinidad and Tobago has 29 drug rehabilitation facilities, 16 of which are in-patient. The GOTT dedicates significant resources to its National Anti-Drug Plan 2008-2012, which includes a pre-school intervention program, education at all levels of school, training for educators, anti-smuggling campaigns, and special event programs including Grand Fete and International Day Against Drugs.

Demand reduction initiatives in Trinidad and Tobago include the Police Youth Club program, organized sports, and alternative activities offered by government-sponsored training programs and NGOs. The Ministry of National Security's Citizen Security Programme (CSP) focuses resources on 22 high-needs communities in an effort to address a number of societal risk factors that contribute to crime and violence, including those associated with drug use. In 2010, the GOTT continued anti-drug programs for pre-school, primary, and secondary school children. The GOTT supports anti-drug messaging at special events, and funds demand reduction activities for youth.

4. Corruption

Trinidad and Tobago is a party to the Inter-American Convention against Corruption and the UN Convention against Corruption. During 2010, there were no charges of drug-related corruption filed against GOTT senior officials, and, as a matter of government policy, the GOTT does not encourage or facilitate the illicit production or distribution of drugs, or the laundering of proceeds from the sale of illicit drugs. The 1987 Prevention of Corruption Act and the 2000 Integrity in Public Life Act outline 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. The Integrity Commission ceased functioning for several months, but was reconstituted in March, 2010, and publicly released the names of government officials that had not met financial reporting requirements.

At the GOTT's request, the USG has assisted in the vetting of officials selected for training and those entering some elite law enforcement units, but most of Trinidad and Tobago's law enforcement and customs officials are not rigorously vetted on an ongoing basis. Among public and private sector airport employers, for example, only American Airlines uses polygraph tests in their employee vetting. Media

and anecdotal reports of corruption in the ranks of the police, the Coast Guard, customs officers, and port employees are common.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The United States and Trinidad and Tobago have a long history of cooperation on law enforcement and narcotics control. In 2010, Trinidad and Tobago signed the Inaugural Caribbean – U.S. Security Cooperation Dialogue Declaration of Principles. Trinidad and Tobago has actively participated on the planning commission for the Caribbean Basin Security Initiative (CBSI).

The USG provides training, equipment, and technical assistance to the GOTT through a number of agencies including U.S. Customs and Border Protection (CBP), the U.S. Drug Enforcement Administration (DEA), the U.S. Federal Bureau of Investigation (FBI), the U.S. Coast Guard (USCG), and the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL). In 2010, the USCG provided the Trinidad and Tobago Coast Guard with training in maritime law enforcement, small boat maintenance, port security and command and control. In 2010, the DEA assisted in 115 seizures and arrests. The GOTT-funded U.S. Customs Advisory Team continues to provide technical assistance to Trinidad and Tobago's Customs and Excise Division in tracking and intercepting marine vessels, including cargo container ships. The Bilateral Maritime Law Enforcement Agreement was used once in 2010. INL funds were used to train and equip police units and Customs enforcement units in 2010 that contributed to counternarcotics efforts, and to bolster demand reduction programs.

D. Conclusion

While Trinidad and Tobago has dedicated resources and political will to drug control efforts, overall, there does not appear to be a marked change in its drug-control performance in 2010. Some initiatives, including demand reduction programs for school children and at-risk youth, may take years to show results. Other strategies, like the deployment of new fast patrol vessels and helicopters, and improved recruitment and training of law enforcement personnel, could yield positive changes more quickly.

Border control could be improved through better surveillance coordination and increased marine interdictions. Increasing border patrols on the western side of Trinidad would make trafficking more difficult for smugglers arriving from Venezuela. At the air and sea ports, improving the level of passenger and cargo screening, including better targeting, profiling and automation of inspections, could increase seizure rates and act as a greater deterrent.

Continued progress in legislative reform should contribute to more effective detection of trafficking and improved conviction rates. For example, the new wiretap legislation may pave the way for the use of intercepted communications as evidence in court. Civil forfeiture legislation that was passed in 2010 should allow the GOTT to seize funds and assets identified as proceeds of illegal activities, and to use them to fund law enforcement efforts. Criminal enterprise legislation is needed to address criminal gang activities, and improve the ability to dismantle criminal organizations. The reintroduction of plea bargaining, and the effective use of dedicated drug courts, could streamline court processes in general, and improve the overall credibility of the criminal justice system. Resources for investigating and responding to internal fraud and bribery in the various narcotics control forces might also decrease corruption and increase their effectiveness.

Effective use of technology could also improve Trinidad and Tobago's narcotics control efforts; the use of communications tracking tools yielded direct results in 2010. Automated processing systems would allow for better tracking of shipments through the air and sea ports, people entering and leaving the country, and of prisoners entering and moving through the penal system. Better handling and wider acceptance of forensic evidence could speed court proceedings and improve conviction rates. Improved information coordination would better optimize the use of radar and other surveillance technology in order to stem the flow of drugs into the country.

Turkey

A. Introduction

Turkey is affected by three main heroin drug trafficking routes, namely: the Balkan route, the northern (Black Sea) route and the eastern Mediterranean route. Cocaine enters Turkey from South America. Cannabis enters Turkey through Lebanon, Albania and Afghanistan. Turkey acts as a transit route for opium and its derivatives originating from Afghanistan en route to Western Europe, for methamphetamine from Iran for markets in the Far East, and also acts as a transit route for captagon tablets originating in Eastern Europe en route to countries in the Middle East.

Heroin is smuggled over land from Afghanistan, sometimes through Pakistan, to Iran and then to Turkey. Opiates and hashish are also smuggled to Turkey overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia. While the Balkan Route on to Western Europe remains heavily used, intelligence and investigations suggest that traffickers also use a more northerly route through Azerbaijan, 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 Greece and 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. The total amount of opium seized in Turkey remains relatively small when compared to heroin seizures. Most of the heroin trafficked via Turkey is marketed in Western Europe, although some heroin and opium is also smuggled from Turkey to the U.S. 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.

Turkish-based traffickers control much of the heroin marketed to Western Europe. Large drug trafficking organizations and major traffickers based in Turkey are frequently involved in both heroin sales and transport, and several have also been involved in the production and/or smuggling of synthetic drugs. 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; however, in recent years, large numbers of ethnic Kurds (including smugglers) have moved to larger cities in Turkey and even to other countries in Europe. Some have continued drug smuggling in their new locations. Some criminal elements in Turkey reportedly have interests in heroin laboratories operating in Iran near the Iranian-Turkish border. In recent years, however, there appears to be more heroin arriving in Turkey as a finished product from Afghanistan. There is no appreciable cultivation of illicit narcotics in Turkey other than cannabis grown primarily for domestic consumption. Turkey and India are the 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. The Turkish Grain Board strictly and successfully controls Turkey's licit opium poppy cultivation and pharmaceutical morphine production program, with no apparent diversion into the illicit market. Drug abuse remains modest in scale in Turkey compared to other countries.

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. The

narcotics enforcement arm of Turkish 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 activities.

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.

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.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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.

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. In 2009, TADOC organized 60 training programs for 1500 local and regional law enforcement officers. A total of 51 programs for 816 foreign officers were held at TADOC in 2009, including officers from 25 countries including, Azerbaijan, Israel, Sudan, Kosovo, Lebanon, Macedonia, Kazakhstan, and Pakistan. Students from Palestine also attended the academy. These training programs focused on drug law enforcement, intelligence analysis, illegal immigration and human smuggling, interview techniques, surveillance techniques, and antiterrorism training for judges and prosecutors. TADOC also trained a total of 639 Turkish officers in computer-based training centers throughout Turkey in 2009. TADOC organized 51 programs for 800 participants from the NATO-Russia Council, UNODC, OSCE, the Turkish International Cooperations and Development Agency (TIKA) and several other mutual security cooperation activities.

Turkish law enforcement cooperates closely with European and U.S. agencies. 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.

During 2010, Turkish counternarcotics officials began a series of efforts to address the increase in narcotic smugglers using international airports to smuggle illegal drugs either from Turkey or through Turkey. Since the inception of this program in January 2010, 133 couriers were arrested and over 329 kilograms of illegal drugs were seized, a dramatic increase from the previous year.

2. Supply Reduction

The Government of Turkey (GOT) devotes significant financial and human resources to counternarcotics activities. Many Border control initiatives and upgrades were completed in the last few years, including the deployment of x-ray machines and ion scanners to the Eastern borders of Turkey.

Turkey continues to serve as a transit point for large amounts of heroin being smuggled to Western 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 Turkey from Afghanistan.

The chart below summarizes the seizures made in Turkey in the January-June 2010 period.

Heroin	8,167 kg
Hashish	26,778 kg
Opium	476 kg
Cocaine	184 kg
ATS	155 kg
Ecstasy	352,733 dosage units
Methamphetamine	87 kg

Turkish authorities reported an increase in synthetic drug seizures throughout Turkey beginning in 2005. Most of the amphetamine type stimulants (ATS) seized in Turkey is produced in Eastern Europe. Turkish law enforcement reports some synthetic drug production, primarily amphetamines such as Captagon (the brand name for fenethylamine). Amphetamine production is a relatively new phenomenon in Turkey.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Drug-related treatment in Turkey is the responsibility of the Science Committee for Methods of Drug Addiction. The main tasks of this committee are to monitor, accredit and evaluate treatment services. Drug-related treatment is provided mainly by public agencies, but private entities and NGOs supplement government efforts. Funding for drug treatment services is mainly provided by the state and through health insurance funds.

Turkey prefers treatment methods which do not rely on opiate-based replacement drugs like methadone and buprenorphine. They believe treatment structured in this way is more likely to achieve a future drug-free life for addicts. The interventions in drug-free programs consist of psychotherapeutic methods and supporting methods, with the majority of drug related treatment services taking place within inpatient settings.

Treatment usage data in Turkey is provided by the Directorate General for Treatment Services of the Ministry of Health. In 2007, data was gathered from 17 national inpatient centers, out of the 19 inpatient centers. During 2007, a total of 2,492 inpatient clients entered treatment, out of which 1,394 were first-time clients. Data regarding clients suggest that 43.7 percent of all clients entering treatment reported opiates as their primary drug of abuse, followed by 36.4 percent for cannabis and 3.9 percent for cocaine. Among first time clients, a slightly different distribution was identified, with 46.4 percent for cannabis, followed by 32.5 percent for opiates and 4.5 percent for ecstasy. Furthermore, in 2007, 34 percent of all clients entering treatment were aged less than 25 years. A higher share of young people was reported among new treatment clients, with 42 percent under the age of 25 years. As far as gender distribution is

concerned 95 percent of all clients were male percent. A similar distribution in gender was reported among first time treatment clients with 96 percent male and 4 percent female.

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. The Health Ministry does not conduct regular, periodic drug abuse surveys. The most recent European School Survey Project on Alcohol and Other Drugs (ESPAD Survey) was conducted in 2003. According to the result of this study, 5 percent of the sample reported the use of inhalants at least once in their life (lifetime prevalence), 4 percent cannabis, 2 percent ecstasy, 2 percent heroin, and 2 percent cocaine. Prevalence of cannabis use within the last year was reported as 5 percent and within the last month as 3 percent. The Ministry of Health was planning to conduct the ESPAD in 2007; however, objections from the Ministry of Education with regard to some survey questions resulted in Turkey's non-participation. The next ESPAD survey will be in 2011; it is not clear if Turkey will participate.

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.

4. 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. The Turkish Penal Code outlines specific penalties for official corruption by Turkish Government employees.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. and Turkey cooperate in law enforcement matters under a 1979 treaty on extradition and mutual assistance in legal matters. The USG wants to capitalize on Turkey's work as a regional leader in counternarcotics training and education. DEA and the US Embassy in Turkey work closely with Turkish officials to offer regional training opportunities to Turkish Law Enforcement officials throughout the country and at the TADOC center to provide additional investigative and prosecutorial tools to Turkish officials and their international counterparts. Turkey hosts several international counter narcotic forums with the goals to enhance the investigative abilities of both Turkish and other international partners, to increase their willingness to cooperate internationally on joint cases, and to build relationships between the countries' law enforcement agencies. DEA reports excellent cooperation with Turkish officials. Turkish counternarcotics forces are both professional and technically sophisticated. The U.S. will continue to try to strengthen Turkey's ability to combat narcotics trafficking, money-laundering, and financial crimes.

D. Conclusion

Turkish law enforcement agencies remain strongly committed to disrupting narcotics trafficking and we expect this commitment to continue into the future. During 2010, Turkey maintained forward momentum in the areas of institution building, supply reduction, demand reduction and treatment. The U.S. will continue to work with Turkish law enforcement agencies to strengthen Turkey's ability to combat narcotics trafficking, money-laundering, and financial crimes. Embassy Ankara will focus its efforts on utilizing Turkey's work as a regional leader in counternarcotics training and education. Turkey continues

to play a key role in Operation Containment, as well as in other regional efforts. The USG plans to offer regional training opportunities at the Turkish International Academy against Drugs and Organized Crime (TADOC) to provide additional investigative and prosecutorial tools to Turkish officials and their international counterparts. Likewise, UNODC will sponsor training sessions at the TADOC in Ankara, including programs focused on drug law enforcement, intelligence analysis, illegal immigration and human smuggling, interview techniques, surveillance techniques, and antiterrorism training for judges and prosecutors.

Turkmenistan

A. Introduction

Turkmenistan is a transshipment route for narcotics traffickers attempting to smuggle Afghan opiates to Turkish, Russian and European markets, 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.

Counternarcotics efforts continue to be a government policy priority. Internal narcotics sales have reportedly dropped since the government stopped the practice of granting pardons to prisoners previously convicted of drug-related crimes. Prices for heroin have reportedly increased, which has decreased demand.

Major developments during 2010 included the largest-ever seizure of opium trafficked from Iran, including the arrest of nine perpetrators; Operation "Goknar - 2010" (Opium Poppy - 2010) conducted against narcotics cultivation; the arrest of over 20 criminals involved in a drug-trafficking ring; and adoption of an amended Criminal Code, which eliminated punishment for consumption and possession of small amounts of drugs. According to official statistics, Turkmen authorities seized a total of 1921 kilograms of illegal narcotics during the year 2009 and 672 kilograms of drugs during the first six months of 2010.

Turkmenistan continues some cooperation with international organizations and diplomatic missions, but its law enforcement agencies are still hampered by a lack of resources, training and equipment. Turkmenistan is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The government directs the bulk of its law enforcement resources and manpower towards stopping the flow of drugs either directly from Afghanistan or via Iran. Common methods of transporting illegal narcotics include concealment in cargo and passenger vehicles, deliveries by pedestrian carriers or animal transport, and in some cases, by concealment in the body cavities or stomachs 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 for 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.

President Berdimuhamedov continued to stress at government meetings that the war against drugs should be a consistent and uncompromising priority. During the State Security Council meeting in February 2010, the president said the struggle against drugs should be a joint effort of law enforcement and all citizens, and urged provincial governors, mayors and heads of public organizations to wage a decisive battle against drug addicts and dealers. Internal narcotics sales have reportedly dropped since President Berdimuhamedov stopped the practice of granting pardons to prisoners previously convicted of drug-related crimes. Prices for heroin have reportedly increased which has decreased demand and pushed many addicts to shift to drugs like opium or hashish. As in the past, the State Counter Narcotics Service (SCNS) held a "drug burn" ceremony in June, an event that coincided with the UN International Day Against Drug Abuse and Illicit Trafficking, at which 674 kilograms of narcotics were destroyed. In October, the president promoted the Chief of the SCNS to the rank of General Major for outstanding service.

The National Program for Combating Illegal Drug Trafficking and Assistance to Drug and Psychotropic Substance Addicts, 2006 - 2010 remains in effect. Key elements of the program's agenda include increased regional cooperation, prevention of drug-related crimes committed by minors, enhanced border security, training for law enforcement agencies to combat organized crime, and increased counter-terrorism efforts. The National Program for 2011-2015 is currently under development and will focus efforts on coordination of law enforcement efforts to combat drug trafficking, treatment of drug users, and study and application of international experience.

On May 20, 2010, President Berdimuhamedov signed into law a revised Criminal Code. The revised code eliminated Article 298, which imposed fines and/or prison terms for the acquisition and/or possession of small amounts of narcotics for personal use. As a result, government authorities are able to provide treatment for drug addicts, rather than punishing them.

2. Supply Reduction

The State Drug Coordination Committee made available Turkmenistan's drug seizure data for the first six months of 2010, which included 79.1 kg of heroin; 448.3 kg of opium; Marijuana: 31 kg 510 grams; Hashish: 88 kg 769 grams; Poppy straw: 24 kg. 300 grams; Total: 672 kg. 114 grams. Additionally, the government provided full drug seizure statistics for the year 2009. Authorities seized 1921.3 kilograms of drugs in 2009.

In June, SCNS reported the largest-ever seizure of opium trafficked from Iran, including the arrest of nine perpetrators. A total of 237.4 kilograms of opium and 12.8 grams of heroin were seized during the operation. Additionally, SCNS seized several vehicles; \$337,023 and 28,722 Turkmen manats (\$10,077) in cash, and several apartments in Ashgabat that had been purchased with drug proceeds.

An operation called "Goknar - 2010" (Opium Poppy - 2010) was conducted in mid-April by special forces of the Ministry of Internal Affairs (MIA) and SCNS in the Garagum Desert villages of Darwaza, Bokurdak, Bori, Ataguyi and Yerbent, and other remote areas. The operation focused on searching for, identifying and destroying naturally growing or illegally cultivated narcotic plants, mostly opium poppy. There was no information on the quantity of drugs seized and destroyed during the course of the operation. Televised reports showed seven offenders, mostly shepherds, who were arrested for growing opium poppy plants. The youngest, a 21 year-old, confessed in the interview that he was arrested for planting 5100 poppy plants in Ishankow village in the Garagum Desert.

There is no evidence of production of synthetic drugs in the country. SCNS officers have stated that there have been no seizures of synthetic drugs.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

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. The Government of Turkmenistan released drug abuse statistics to UNODC for the first time in March 2010. The statistics included the number of registered male, female, and intravenous drug users in country for the years 1999 to 2006 and by regions for the year 2006. In 2006, the most recent year for which statistics were available, there were a total of 33, 697 registered drug users, of which 32,206 were male and 1491 female.

The reported number of intravenous drug users in 2000 was 5,223. In 2006, this figure was 8,581.

Operated by Turkmenistan Red Crescent Society, the Drug Demand Reduction Program (DDRP), funded by the Department of State (INL), has been operating in the country since August 2008. The DDRP's staff and volunteers have conducted an active outreach among young people about the risks of drug use. On the occasion of the International Day Against Drug Abuse and Illicit Trafficking in June, the DDRP conducted several public activities, including the distribution of brochures on the harmful effects of drug

abuse, drawing contests and public discussions. The events aroused much public interest, as well as enthusiasm about discussing the issue openly in public on the streets of Ashgabat and other cities.

Writings on the hazards of drugs have appeared widely in publications such as "Adalat" (Justice) and other government-owned newspapers. The Turkmen government is gradually coming to the realization that public awareness is critical to its efforts to fight drug addiction among the population.

Turkmenistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Turkmenistan is a party to the UN Convention against Corruption, the UN Convention against Transnational Organized Crime, and its three protocols.

4. Corruption

The government 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. 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.

In August, 2010, SCNS, in cooperation with the Ministry of Internal Affairs (MVD) and the Ministry of National Security (MNB), identified and detained a group of 20 criminals from Balkan, Ahal and Lebap provinces involved in a drug trafficking and distribution scheme. The group was involved in smuggling opium and heroin from Iran and distributing it through dealers in Ahal and Lebap. One of the detainees, Amanberdi Nurjanov, the chairman of the state-controlled "Dayhan" Bank branch in Etrek District, Balkan Province, was involved in the consumption and sale of opium. Narcotics (65 kilos of opium and 2.6 kilos of heroin), more than \$35,000, several vehicles, apartments, cattle and other property acquired with drug proceeds was confiscated. Following the case, President Berdimuhamedov dismissed the national chairman of the "Dayhan" Bank for "losing control over its personnel."

In early January 2010, a senior sergeant from the Military Unit of Serdar Etrap was arrested for smuggling 50 kilos of opium from Iran. The Minister of Defense reprimanded several high ranking MOD officials and dismissed the chief of the smuggler's military unit. The involvement of high-ranking military and Border Service officials in cross-border smuggling is reportedly rampant.

In late April 2010, President Berdimuhamedov reprimanded the governor of Ruhabat District in Ahal Province for the failure of law enforcement agencies to prevent the illegal cultivation of narcotic plants. The reprimand followed the president's warning to all governors that combating drug abuse should be their number one priority. There was no information about the narcotics case in Ruhabat that preceded this reprimand. It was the first reprimand given to a governor for drug enforcement-related issues. Previously, governors had not been held responsible for oversight of law enforcement activities within their districts.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

In January, State-INL launched the fourth round of English Language Training (ELT) classes for law enforcement officials, with 21 officials successfully completing the course in August. By expanding English language competency among Turkmen law enforcement officers, the course increased the potential for international cooperation, including training opportunities and information sharing.

During the year, the U.S. and Turkmen Governments signed the third and fourth Amendments to the existing bilateral Letter of Agreement (LOA) on Narcotics Control and Law Enforcement Assistance.

The Amendments indicated continued Turkmen government support for the INL-funded English Language Training, Counternarcotics Capacity Building, and Forensic Scientists and Investigators projects. The Forensic Scientists and Investigators Project will provide technical assistance, training and practical exercises for SCNS and MVD investigators and forensic specialists on evidence collection, crime scene investigation, and forensic examination.

INL organized the following training courses for Turkmen law enforcement officials: a one-week Basic Crime Scene Investigation Course for Prosecutors, Police and Counternarcotics Officers in Ashgabat with experts from U.S. Department of Justice (DOJ)/ICITAP; two one-week Drug Enforcement Seminars for 25 SCNS officers in Ashgabat and 21 SCNS officers in Turkmenabat conducted by experts from U.S. DEA's International Training Division; participation by three Turkmen Customs officers in the Commercial Vessels Boarding Program at the Federal Law Enforcement Academy in Charleston, South Carolina; and seaport antiterrorism training for a chief of the Sea Border Protection Department of the State Border Service at the Federal Law Enforcement Academy.

INL funded the participation of three government officials: a prosecutor, a chemist from SCNS, and a deputy chief of the Criminal Research Center of MVD at the 62nd Annual American Forensic Scientists meeting in Seattle.

The U.S. Government is in the final stages of preparation for the ground-breaking of a new U.S. assisted border crossing checkpoint at Sarakhs on the Iranian border. This project follows the successful completion of three similar projects on Turkmenistan's Uzbek, Afghan, and Iranian (Altyn Asyr) borders. The cost of the project estimated to be \$5.2 million. The U.S. Government also provided communications equipment and training to the Border Service and Counternarcotics Service. The Turkmen government has implemented a program to build additional border crossing checkpoints according to the specifications of the U.S.-Government-funded checkpoints and has begun to purchase radio equipment and train personnel under a "train the trainer" model introduced by the U.S program.

D. Conclusion

The Turkmen government has begun to acknowledge openly the country's drug trafficking and abuse problems. Law enforcement efforts targeting drug cultivation and drug trafficking are given high profile coverage in state-controlled media. Public awareness efforts to discourage illegal drug use have been conducted successfully throughout the country. The fact that the Turkmen government provided complete drug seizure statistics this year, something that has been a sensitive issue for years, would appear to indicate a desire for enhanced cooperation with international donors.

Remaining engaged with all of Turkmenistan's counternarcotics enforcement agencies is necessary to encourage successful interagency coordination against narcotics trafficking. The U.S. Government plans to expand counternarcotics law enforcement agency training at the working level. As both Turkmenistan and U.S. officials identify areas for improved counternarcotics efforts, the United States will provide an appropriate integrated and coordinated response. Capacity building will focus on supply reduction through interdiction training, law enforcement institution building, the promotion of regional cooperation, and exchange of drug-related intelligence. The U.S. Government will also encourage the government of Turkmenistan to intensify long-term demand reduction efforts.

United Arab Emirates

A. Introduction

Although not a narcotics-producing country, the UAE's proximity to Afghanistan, Pakistan, and Iran and its position as an international transportation hub with active air and sea ports, and laissez-faire commerce-first orientation have made the UAE a popular transshipment point for heroin and other narcotics being smuggled to Europe, Asia, and Africa. Drug seizures in the last two years indicate that trafficking groups may increasingly be using the UAE as a staging point for narcotics such as Afghan heroin and hashish. The primary drug threats in the UAE are Afghan heroin and hashish; however, counterfeit prescription pills were also seized in large quantities during the past year. Official UAE statistics show that the Emirate of Dubai in particular has seen a dramatic increase in the number of people arrested and charged on drug-related crimes. In the first nine months of 2010, Dubai Police seized more than 922 kg of drugs, nearly triple the amount seized in the same period the previous year. Despite its anti-money laundering laws, the UAE's relative political and financial stability and role as a regional financial hub make it an attractive center for money laundering by drug traffickers. The UAE is a party to the 1988 UN Drug Convention. There is no evidence of any major drug cultivation and/or production in the UAE.

High volumes of shipping through UAE ports as well as the UAE's long (700 km) coastline render the UAE vulnerable to exploitation by narcotics traffickers. Though currently designated as a transit country, there are an increasing number of cases in which trafficking groups are using the UAE as a warehousing and distribution point, as opposed to merely a transit point. In 2010, UAE enforcement made several large seizures of heroin, hashish, and the stimulant pill "Captagon." Investigations associated with these seizures revealed that the seized drugs were being staged in the UAE for further distribution to other countries.

While the rate of illegal drug use in the UAE is low by international standards, the most common drug used by residents in the Persian Gulf is "Captagon," which is a methamphetamine-related drug that is manufactured in Eastern Europe and then smuggled overland via commercial trucks to the Gulf Countries. Captagon may be the most widely available drug in the Persian Gulf countries. Anecdotal reporting suggests that there also is a substantial diverted prescription drug and counterfeit prescription drug market in the UAE.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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 (DEA) established a country office in the UAE to enhance cooperation with UAE law enforcement authorities. In 2007, the UAE was re-elected as an Asian regional representative to the UN's Commission on Narcotic Drugs (CND). The UAE's term will end in 2011.

In the summer of 2010, the United Nations Office on Drug and Crime (UNODC) opened a semi-regional office in Abu Dhabi, which followed an October 2008 agreement between the UN and UAE Ministry of Interior. The UAE government funded the estimated \$3 million cost of the office and contributed an additional \$50,000 to the UN counternarcotics program.

Since 2007, UNODC has been working on establishing the Gulf Center for Criminal Intelligence in Qatar, although it is not yet fully operational. The Center will serve as a joint operations center for sharing of law enforcement information from the six member states of the Gulf Cooperation Council: Kuwait, Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

UAE authorities also cooperate with other countries to stop narcotics trafficking. In 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. In March 2009, Dubai Police and Germany's Federal Police signed an agreement to combat organized crime, including the flow of narcotic drugs and money laundering.

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 also is a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

2. Supply Reduction

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. The UAE is also a key location for narcotics money laundering. Western Europe is the principal market for transiting drugs, and Africa is becoming an increasingly prominent market. Factors that contribute to the role of the UAE as a transshipment point are the emergence of Dubai and Sharjah as regional centers in the transportation of passengers and cargo, a porous land border with Oman, an easily accessible commercial banking system, and the fact that a number of ports in the UAE have free trade zones where transshipped cargo may not be subjected to the same inspection as goods that enter the country.

Though currently considered a transit country, drug seizures in the last two years indicate that the UAE is transitioning from a transit country to a staging point for Afghan heroin, hashish, precursor chemicals, and large quantities of illegal prescription pills. Regional drug trafficking organizations are increasingly using the UAE to stockpile drugs for future sale and re-shipment rather than simply as a transit point. Afghan drug trafficking organizations may also be using the UAE as a logistics hub for vehicles and other goods vital to the operations of the organization. Foreign drug brokers also are believed to come to the UAE to meet with regional supply organizations to negotiate international drug and pre-cursor chemical transactions that will take place outside of the UAE.

Drug traffickers use the modern and accessible facilities of the UAE's airports and sea ports to move narcotics from source countries to their destinations. Heroin has been shown to be smuggled into, or transit the UAE via its numerous airports in Dubai, Abu Dhabi, and in other Emirates, as well as via small wooden boats (dhows). Another popular method of drug smuggling is the use of human mules or carriers, who travel to Dubai, stay in the city for a day or two and then purchase a ticket to their final destination in order to frustrate inspections targeted on drug source countries at their final destinations. West African drug smuggling groups frequently use the UAE to aggregate loads and then reship the heroin onward to Europe, Asia, and Africa. The African broker then negotiates with buyers throughout the world for shipment of the heroin to its final distribution site and the heroin is sent via body couriers and express mail shipments.

Dubai Police Department figures show 922.4 kg of narcotics were seized by Dubai Police during January-September 2010 compared with 364.3 kg in the same period of 2009. Seizures included approximately 685 kg of hashish, 125 kg of heroin, 44 kg of codeine, seven kg of marijuana and other types of narcotics. On the other hand, narcotics cases dropped by 12 percent during the first half of 2010 in Sharjah, according to Sharjah Police. UAE Police arrested 1,145 people in connection with drugs, including 318 users, 194 distributors, 29 dealers and other persons caught in possession of narcotics. Asian expatriates

topped the list of those arrested on drug charges, followed by citizens from other Gulf countries (303 people), non-GCC Arab nations (72 people) and five others with unknown nationality.

A seizure of approximately 2.2 million tablets of Captagon occurred on February 15, 2010, in the Emirate of Abu Dhabi. This was the second large seizure of Captagon after approximately 4.2 million Captagon tablets, marked with the “Lexus” brand, were seized by Dubai Police in November 2009. The Captagon in that seizure was hidden between the folds of curtains imported from Syria and was being stored in a warehouse in the Emirate of Dubai when it was seized. A seizure of approximately 15 tons of acetic anhydride (AA)—the major precursor chemical to heroin—was made in June 2010. There have been several smaller seizures (totaling several hundred kilograms) of AA in the UAE.

A 1995 law stipulates capital punishment as the penalty for drug trafficking. Sentences usually are commuted to long-term imprisonment. In the first 10 months of 2010, courts across the UAE issued verdicts against 61 people accused of drug trafficking, possession, or addiction. The sentenced include Iranians, Arabs, Asians, Afghans, Pakistanis, Africans, Europeans, and several Emiratis. Notable cases included: In February 2010, Ras al Khaimah Criminal Court sentenced an Arab national and 4 Asians to the death penalty for an attempt to traffic more than 2 kilograms of opium and 1 kilogram of hashish. In March 2010, Dubai Court of First Instance sentenced three Emirati men to 5 to 25 years’ imprisonment on drug charges. In April 2010, the Federal Supreme Court upheld a sentence of 4 years’ imprisonment against a traveler for consuming hashish in a foreign country before coming to the UAE. In May 2010, a Dubai police prison guard was sentenced to three years in jail for taking a bribe of 6,000 UAE Dirhams (AED) approximately \$1,633 to smuggle hashish to an inmate. In June 2010, three Afghans and one Pakistani were sentenced to death by Abu Dhabi Criminal Court, in what court officials called Abu Dhabi’s largest heroin case. The men were charged with trafficking 16 kilograms of heroin as well as consuming drugs themselves. In July 2010, Dubai Criminal Court sentenced a British transit traveler to 10 years’ imprisonment for an attempt to smuggle 1.856 kilograms of heroin in his stomach.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The focus of the UAE's domestic drug awareness program is to reduce demand through public 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 local shopping malls to coincide with International Anti-Narcotics Day on June 26. To mark the occasion in 2010, Dubai Police held its sixth forum bringing together experts from the Arab region and Western countries. Additionally, Abu Dhabi Police held an exhibition entitled “My Family Happiness. No Drugs” which involved a number of government ministries and the private sector and included contests and brochures. Throughout the year, several UAE organizations launched awareness campaigns directed at youth, including Dubai Police launching in September an anti-drug campaign entitled “A New Person” targeted at school and university students and their parents, and the Dubai Women’s College, with sponsorship from Dubai Bank, hosting an exhibition with workshops and activities to teach students about the dangers of drugs.

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. Anecdotal reporting indicates the majority of UAE drug users take their first doses abroad, primarily because of peer pressure.

In 2008, the Abu Dhabi-based National Rehabilitation Center (NRC) announced that some 600 drug addicts had been rehabilitated over the past six years. 2010 figures published by the NRC show that 35 percent of addicts are between the ages of 17 to 26 years. In 2010, the NRC signed an MOU with UNODC to develop policies and strategies to combat the demand for addictive substances and focus on the adverse social consequences of alcohol and drug use.

The UAE has established an extensive treatment and rehabilitation program for its citizens. There is one rehabilitation center in Abu Dhabi, two in Dubai, and one each in Ajman and Sharjah for those identified as addicts. In May 2010, the NRC opened its first outpatient addiction clinic, which can accommodate 50 new patients each month. In accordance with federal law, UAE nationals who are addicted can present themselves to the police or a rehabilitation center and be exempted from criminal prosecution. Those nationals who do not turn themselves in to local authorities are referred to the legal system for prosecution. Third-country nationals or "guest workers" (who make up approximately 80 percent of the population) generally receive prison sentences upon conviction of narcotics offenses and are deported upon completing their sentences. Most UAE nationals arrested on drug charges are placed in one of the UAE's drug treatment programs. They undergo a two-year drug rehabilitation program, which includes family counseling/therapy.

4. 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.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The first DEA office in the UAE was formally established in October 2006 in Dubai and in addition to the whole of the UAE, this office is also responsible for Oman. DEA officials work with UAE authorities to combat both drug smuggling and drug related money laundering. Since 2006, DEA has been building an active working relationship with their UAE counterparts. The DEA has sponsored training events, tours of DEA facilities in the United States, and seminars attended by their UAE counterparts. In addition, the DEA office has begun inviting UAE authorities to case coordination meetings around the world if the case has UAE links. These actions have led to greater information sharing and cooperation between the DEA and UAE authorities on targeting narcotics traffickers.

The UAE's geographic position, stable government, and pro-business stance make it vulnerable to money laundering. The UAE has anti-money laundering laws; however, some cash transactions and the hawala informal banking system remain largely unregulated. The UAE is a regional financial center in the Middle East and is strategically important due to its close proximity to Iran, Pakistan, and Afghanistan. In an extremely unstable region, the political and financial stability of the UAE is a great temptation for drug traffickers searching for a safe harbor for their illicit proceeds.

D. Conclusion

The UAE is aware of the threat to its citizens and residents from drugs and has made significant commitments of both human resources and funding towards building new drug control institutions and conducting law enforcement operations. The United States and the UAE will continue to work together to discourage narcotics trafficking and related financial crimes and to protect citizens from the scourge of drug abuse. Enhanced cooperation on and investigation of transnational trafficking cases and related money laundering and bulk cash smuggling would complement existing U.S.-UAE efforts. The DEA Country Office looks forward to expanding cooperation on narcotics and related financial investigations with UAE authorities.

Uganda

Drug production and trafficking within Uganda remain relatively modest in scope. Production appears to be limited to growing of cannabis for local consumption and regional export to Kenya, Sudan, and the Democratic Republic of Congo (DRC). Cannabis cultivation occurs countrywide, and increased during the past year due to expanding regional demand and the lack of more profitable crops. Reports of illegal trafficking of drugs such as heroin and cocaine also increased as traffickers exploited Uganda's porous borders, increasingly prevalent corruption, and Ugandan law enforcement's inadequate equipment and training. Traffickers sometimes use Uganda and Entebbe International Airport as a transit route to Europe. Primary sources of drugs include Pakistan, Afghanistan, and Iran. Other reports suggest that South American drugs are also routed through Uganda. There are no national studies on the prevalence and type of drug usage in Uganda, but health care professionals, social workers, and NGOs report that marijuana is the most widely used drug due to its accessibility and relatively low cost.

Comprehensive national drug legislation remains pending in Parliament. If ratified, this legislation would increase criminal penalties for drug traffickers, enhance the government's authority to confiscate assets, and establish a national coordination body to oversee the treatment and rehabilitation of drug abusers and to manage regional and international counter narcotics cooperation efforts.

Uganda is a party to the 1988 UN Drug Convention, the 1971 UN Convention Against Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. Uganda is also a party to the UN Convention Against Transnational Organized Crime, as well as the UN Convention Against Corruption. The Ugandan Government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

The absence of national crime reporting statistics and corruption within the police and the justice system prevent an accurate accounting of regular law enforcement efforts. In 2010, the Government of Uganda's Anti-Narcotic Unit (ANU) seized eight kilograms of heroin and five kilograms of cocaine. In 2009, the ANU seized two kilograms of heroin and one kilogram of cocaine. Seizures of cannabis dropped to 894 kilograms in 2010 from 2389 kilograms in 2009. Uganda successfully prosecuted 450 people for drug-related offenses in 2010, and uprooted 25 acres of cannabis plants. Uganda's capacity to combat illicit drugs is complicated by corruption and severe resource constraints. ANU staffing for 2010 remained flat at 130 people, well short of the estimated 500 officers the ANU says it needs to effectively combat Uganda's illicit drug trade. However, the ANU plans to train an additional 300 officers in 2011. The effectiveness of the ANU's two trained drug-sniffing dogs continues to decrease due to a lack of in-service refresher training. Entebbe International Airport has no specialized x-ray machine for detecting ingested drugs, and the ANU has no reliable drug test kits to determine if suspected drugs are in fact prohibited substances.

Uganda does not have an organized campaign to sensitize the public to the dangers of drug abuse. The Ugandan Government operates one rehabilitation center at Butabika Referral Mental Hospital. Additional treatment options are provided by NGOs.

The U.S. regularly engages with the Ugandan Government on a variety of law-enforcement issues to improve Uganda's capacity to enforce its laws and investigate crime. The U.S. has assisted Uganda's counternarcotics efforts with numerous law enforcement training courses and general investigative skills training focusing on major case management and evidence collection. The U.S. is also assisting with a large scale community policing program at the National Police Training Academy. The Ugandan Police Force (UPF) is a willing partner in the fight against narcotics trafficking. However, UPF officers, along with border and airport enforcement officers, are in dire need of additional training, equipment and resources to curb the illegal drug trade. Any improvement in Uganda's capability to combat the

production, trafficking, and consumption of drugs is also dependent on Parliament passing comprehensive national drug legislation and increasing the resources and training for the ANU.

Ukraine

A. Introduction

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, move from Afghanistan through Russia, the Caucasus, and Turkey and then pass through Ukraine, destined for Western Europe. New routes for Latin American cocaine are also taking hold, as confirmed by three large seizures in the Odesa sea port in 2010 of 152 kilos of cocaine concealed in deck planks, 1,193 kilos hidden in blast furnaces, and over 582 kilos disguised in metal scrap. The shipments came from ports in Bolivia and Venezuela. But as frequently occurs in transit countries, drug addiction appears to be growing in Ukraine itself. Analysts are almost unanimous in the opinion that Ukraine is increasingly being viewed not only as a transit country, but also as a drug market in its own right.

That said, domestic drug abuse continues to be primarily focused on drugs made from narcotic plants (hemp and poppy) grown in the region, which account for approximately 85 percent of the total drug market in Ukraine. The use of synthetic drugs and psychotropic substances, especially amphetamines, has also been rapidly increasing in Ukraine over the past few years. Most of the major 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").

According to official statistics, the drug addiction level in Ukraine is approximately 34 addicts per 10,000 inhabitants. An interesting sign, however, is a continued drop in the number of registered drug addicts from 178,043 in September 2008 to 165,045 in September 2009 and 156,300 in 2010. This drop in registered drug addicts could be ascribed to the positive interventions of the government, international organizations and local NGOs. However, many experts believe that the number of unregistered drug addicts may in fact be at least twice as large as the number reported as registered, given the social stigma attached to formal registration as an addict, and that the "drop" in registered drug addicts is therefore misleading.

Ukraine is a party to the 1988 UN Drug Convention, and complies with provisions of the Convention in its counter-narcotics legislation

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Ukraine has well-developed anti-drug legislation consistent with international standards. In 2010, the Government of Ukraine (GOU) continued to implement a comprehensive anti-drug policy. The policy frankly acknowledges the growing scale of drug abuse in Ukraine and the lack of adequate prevention, education and public awareness campaigns, community prevention efforts, and treatment and rehabilitation facilities.

Ukraine's national drug control policy addresses a wide array of issues, including improvement of legislation; monitoring and prevention; interagency cooperation; development of a modern interagency data bank; increased law enforcement capacity; scientific research into the causes of drug addiction; setting up an interagency lab to research new synthetic drugs and trends; integration in 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. Some of these policy objectives have been adequately addressed, while others were accomplished with only limited success, especially those that required ample funding, but remained underfunded. The estimated funding needed for full implementation of the program is 300 million UAH (\$37.5 million); however, this amount was not allocated in the budget.

The GOU has now approved a new government concept program and action plan to address drug abuse and trafficking for 2011-2015. The key goal is to pursue a balanced but persistent policy of wide-scale prevention, control, and enforcement. The program is based on both domestic and international experience. It incorporates certain aspects of the EU Drugs Action Plan for 2009-2012 and recommendations of the Council of Europe's Pompidou Group.

The GOU has also drafted several amendments to the existing anti-drug laws to impose stricter punishment for drug abuse in public places, and lists some new psychoactive substances (biologically active additives and smoking mixes) as narcotic substances.

The Narcotics Control Committee established in 2003 in the Ministry of Health was converted into an independent agency in 2010. It will continue to monitor the licit production and use of controlled substances by licensed companies and organizations to avoid diversion to illicit uses. The monitoring is also facilitated by the National Drug Observatory. The Observatory was established at the Ministry of Health in 2006, with the assistance of an EU-funded Program, to help collect, analyze and disseminate data on drugs at the national level as well as share and improve comparability of this data at the regional level through the harmonization of key epidemiological and drug supply indicators.

Approximately three years ago, the GOU amended its laws to make illegal the non-prescribed use of strong opiate analogs, like Tramadol, because 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. As a result, Tramadol abuse has been reduced sharply. In 2010, the Government further reduced the quota for licensed production of Tramadol in Ukraine and fixed it at the level of 1,900 kilos (a 7.14% drop against 2009). However, there were continued attempts in 2010 to smuggle Tramadol into Ukraine from the bordering countries.

In 2010 the MOI (Ministry of Interior) reformed its drug enforcement branch as part of the wider ministerial reform following the accession of the new government. The central Drug Enforcement Department staff was cut by 35 percent, and 70 percent of management staff in the central and local units were replaced.

Both MOI and SBU (Security Service of the Ukraine) continued to build cooperative counter-narcotics relationships with international counterpart agencies in Western Europe, Eurasia and America. For example, in 2010 two major cocaine seizures were based on intelligence shared by U.S. Immigration and Customs Enforcement (ICE) and one major cocaine seizure was based on intelligence shared by the U.S. Drug Enforcement Administration.

Ukraine is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and to the 1971 UN Convention on Psychotropic Substances. The U.S.-Ukraine Mutual Legal Assistance Treaty came into force in February 2001. Ukraine is a party to the UN Convention against Transnational Organized Crime and its three protocols. The U.S. and Ukraine signed a Memorandum of Understanding on Law Enforcement Assistance in December 2002. This memorandum provided for State Department-funded (INL) 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 standards. The goal of this assistance program is to facilitate Ukraine's accession to Euro-Atlantic institutions such as the European Union. It has been amended regularly since

2002 to add funding and establish justice sector and law enforcement projects as agreed by Ukraine and the U.S.

2. Supply Reduction

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, an indication of the porous nature of the borders. Opium poppy is grown predominantly in western, southwestern, and northern Ukraine, while hemp cultivation is concentrated in the eastern and southern parts of the country. Poppy and cannabis are controlled plants and can be grown only by licensed farms. The Government approves cultivation quotas every year. Despite the prohibition of unauthorized cultivation, many cases of illegal cultivation in small quantities by private households are discovered. The MOI Drug Enforcement Department identified 5,700 illegal plantations of poppy and cannabis in 2010, and 3,042 criminal and 1,155 administrative cases (depending on the size of plantations) were brought against individuals. The police used small aircraft for the first time this year to expand the monitored areas.

Ukraine is predominantly a destination country for poppy straw, hemp and methamphetamine, and a transit country for heroin. 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 and permits traffickers to move larger quantities of narcotics.

In several recent years, 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 trafficking channels. Drug traffic from Asia is controlled by well-organized international criminal groups of Afghan, Pakistani, and Tajik origin that use citizens of the former Soviet republics as drug couriers.

There are signs of increasing attempts by Latin American drug dealers to develop cocaine smuggling channels into Ukraine and use it as a destination and transit point on the way to Western Europe and former Soviet countries. Three large seizures at the Odesa sea port this year included 152 kilograms of cocaine concealed in deck planks, 1,193 kilograms (approximate value \$180 million) hidden in blast furnaces, and over 582.3 kilograms hidden among metal scrap. The shipments came from ports in Bolivia and Venezuela.

Two Ukrainian sailors were sentenced in Venezuela for cocaine trafficking in 2010. They worked on a vessel that carried drugs although they maintained that they were unaware of what was in the shipment. However, this indication of involvement of Ukrainian ships' crew in trafficking from Latin America could indicate a future problem, given that many Ukrainian sailors work on private contracts overseas that may involve risky or dubious activities.

The trafficking of synthetic drugs and psychotropic substances is also growing, especially from Poland. Criminal groups of mixed origin (Ukrainians, Polish, Belarusians and Russians) that formed 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. Domestic production of synthetic drugs in undercover labs is also a steady trend despite persistent eradication efforts by law enforcement agencies.

The responsibility for counter-narcotics enforcement in Ukraine is shared by the MOI, with its primarily domestic law enforcement function, and the 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 2010, the MOI's police force seized approximately 11.6 tons of various drugs (2.3% increase over 2009), including 10.5 tons of drugs made of narcotic plants, 6.9 kilos of heroin, 2.2 kilos of cocaine and 52.3 kilos of amphetamines. It eliminated 230 clandestine labs and some 2,100 small-scale drug making labs. Police also seized 950,900 doses of diverted controlled medical drugs.

The SBU seized 7,471.2 kilos of drugs and raw narcotic material, including 2.3 kilos of heroin, 1,964 kilos of cocaine, 1.9 kilos of synthetic drugs and 64.3 kilos of various psychotropic substances and 405.6 kilos of precursors. It eliminated 6 drug labs. The largest volume of seizures by both the MOI and Security Service was opium straw.

The Ukrainian police force investigated 2,600 narcotic crimes in 2010. The Security Service investigated 762 drug crimes (through September).

Ukrainian border and customs authorities report an increasingly successful utilization of risk and criminal analysis in intercepting drugs, particularly those trafficked in shipments arriving to Ukrainian ports.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

This is the second year in a row that the number of registered drug addicts in Ukraine dropped. In 2010, there were 156,300 registered addicts as opposed to 165,045 in 2009. Although potentially a good sign, various experts estimate that the total number of actual drug addicts in Ukraine range from 300,000 to 500,000, making the decrease in registered drug addicts potentially misleading. Traditionally, the southern and eastern regions of Ukraine rate the highest in terms of drug addiction (on average 70 addicts per 10,000 individuals in contrast to 34 addicts per 10,000 individuals on average across the country). 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 per 1 ml dose) and simple production methods. The use of synthetic drugs is also on the rise with young people, in particular. Examples of drugs abused are: ephedrine, ecstasy (MDMA), LSD, amphetamines and methamphetamines. The spread of synthetic drugs is exacerbated by the rapid growth in local production. Hard drugs, such as cocaine and heroin, are still too expensive for most Ukrainian drug users. In recent years, Ukraine has also seen the growing illegal use of the legal, but restricted, prescription opiate analog, Tramadol, but has responded by making Tramadol a prescription drug and subjecting sales of Tramadol pills to stricter supervision by the government.

Government law enforcement agencies are developing stronger partnership ties with NGOs and media in order to fully engage their capacities in drug prevention. Some local MOI departments host community supervisory boards which include both law enforcement officers and community, NGO and media representatives and act as local public forums to discuss pressing needs in drug prevention and enforcement. Police also participate in the "Drug Free Life" program aimed at raising public awareness of drug abuse problems, especially among young people.

Ukraine's drug problem today is increasingly characterized by a rapidly growing HIV/AIDS-infected population 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 avoid needle sharing and 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 committed through its Global Fund Round 6 Grant to incorporate methadone, a significantly less expensive and comparably effective opiate substitute, 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, half of whom are HIV positive. It is expected that the methadone maintenance therapy will treat up to 20,000 addicts in 111 clinics countrywide by 2013. However, many opponents criticize the substitution program as a legal bypass for yet another type of drug.

Many NGOs argue that legal drugs require more stringent controls by the government. Law enforcement agencies note a serious increase in the illegal use of diverted methadone. By mid 2010 they had uncovered 173 attempts of divert licit methadone. There were several reports of methadone seizures in relatively small quantities from individuals on the border.

4. 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. Both the previous and the new government have declared the commitment to strengthen the investigation and prosecution of corruption. However, the pace of anti-corruption reform remains slow and the number of successful prosecutions of corruption cases (including those related to narcotics) is meager.

As a matter of government policy the GOU does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The Prosecutor General's Office reported 40 cases brought against 52 law enforcement officers and other civil servants in 2010 in relation to drug-related corruption offences. According to judicial authorities, Ukrainian courts heard 14,844 narcotic related criminal cases and sentenced 12,635 individuals, of which only seven were civil servants (first half of 2010). Ukraine is a party to the UN Convention against Corruption.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. narcotics policy objective is to help Ukraine bring its law enforcement and justice sector institutions up to 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 training programs have helped deepen these relationships. Similarly, the United States Coast Guard provided training in maritime boarding officer techniques, creating a basis for future cooperation..

The Department of State, through a variety of projects, also assists the MOI to build capacity while simultaneously strengthening the Ukrainian SBGS capability to control Ukraine's borders. Department of State funded 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 SCS, including video and electronic border monitoring systems, which should enhance these services' ability to detect narcotics smuggling. DoD, through the U.S. European Command, has also furnished equipment to the Ministry of Internal Affairs. 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.

D. Conclusion

Combating illegal narcotics remains a national priority for Ukraine. Ukraine's anti-drug legislation is well developed and the GOU is committed to keeping it current with the evolving threats. The Ukrainian Government attaches great importance to the prevention of narcotic addiction, but efforts in this area oftentimes prove to be under-funded. Coordination between law enforcement agencies responsible for counter-narcotics occurs, but continues to be hampered due to regulatory and jurisdictional constraints

Official statistics show a slight decrease in the number of drug related crimes and registered addicts in 2010, but these may not be accurate nor significant decreases. 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. The seizure in the Odessa sea port noted above confirms this trend. 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 and cocaine. The U.S. will continue to have a role to play in Ukraine beyond law enforcement coordination, helping the government build its counter-narcotics capacity.

United Kingdom

A. Introduction

The United Kingdom of Great Britain and Northern Ireland (UK) is a consumer country of illicit drugs. Like other developed nations, the UK faces a serious domestic drug problem. Crime syndicates from around the world exploit the underground narcotics market and use the UK as a transshipping route. Many foreign nationals and British nationals use ethnic ties to countries where drugs originate to traffic and to distribute drugs. More than 90 percent of the heroin sold in the UK is derived from Afghan opium that transits Iran, Pakistan, Turkey, and the Balkans. The UK is an active U.S. partner on counternarcotics operations in Afghanistan.

Cannabis is the most widely used drug in the UK, and the cannabis market is sizeable, with much of the sinsemilla, or “skunk,” high THC-content marijuana grown domestically. Because the supply of cannabis can be profitable, organized criminals engage in cannabis commerce to fund other illicit activities.

The Home Office reported that drug use in the UK in recent years was at its lowest level in more than a decade. The UK has a robust drug-control institutional capability and strictly enforces national precursor chemical legislation in compliance with EU regulations. The UK is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

A key piece of counternarcotics legislation is the Misuse of Drugs Act 1971 and its Regulations. The 1971 Act identifies those drugs that are “dangerous or otherwise harmful” – referred to as “controlled drugs” – and proscribes their unlawful possession, supply and production. Controlled drugs are classified in one of three categories – Class A, B or C – according to how harmful they are considered to be either to the individual or to society generally.

Class A drugs include cocaine, ecstasy, LSD, magic mushrooms, heroin, methadone and methamphetamine. Amphetamines can be either Class A or B, depending on whether they are injected or swallowed. Class C drugs include tranquilizers, some painkillers, anabolic steroids, and Ketamine.

In 2007, the Advisory Council on the Misuse of Drugs (ACMD) examined new evidence regarding the reclassification of cannabis. The Government decided to upgrade cannabis to a Class B drug against the ACMD’s recommendation that the existing classification as a Class C drug should be maintained. In January 2009, cannabis was re-classified from Class C to Class B, and in December 2009 synthetic cannabinoids such as “spice” were also classified as Class B drugs.

The UK’s coalition government intends to place temporary bans on “legal high” drugs and has asked independent experts to weigh in on the health issues associated with use of these types of drugs in order to determine whether a permanent ban is appropriate. Formerly “legal high” drugs Naphyrone (also called NRG1) and mephedrone were classified as Class B drugs earlier IN 2010.

On December 8, 2010, the government released its new comprehensive drug strategy entitled, “Drug Strategy 2010—Reducing Demand, Restricting Supply, Building Recovery—Supporting People to Live a Drug Free Life. There are four broad themes in the government’s new drug strategy: 1) prevent drug use; 2) strengthen enforcement, criminal justice and legal framework; 3) rebalance treatment to support drug free outcomes; and 4) support recovery to break the cycle of drug addiction. With the new strategy, the Home Office aims to have a more holistic approach to tackling drug misuse as well as other issues such as alcohol abuse or mental health issues and looks to devolve responsibility and budgets to local authorities

where possible. The strategy emphasizes outcome-based funding streams and reducing the costs of drug misuse.

The coalition government also published a National Security Strategy in October that identified transnational organized crime, which includes drug trafficking, as a priority. The Serious Organized Crime Agency (SOCA) is the current lead agency that tackles drug trafficking and drug-related crime. In July 2010, the Home Secretary released the government's plans, in a document entitled *Policing in the 21st Century*, to absorb SOCA into a National Crime Agency in an effort to address these issues at the national level. The changes set forth in the Home Secretary's plan will not be implemented until after 2012.

The UK is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The UK is also a party to the UN Corruption Convention and the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling. The U.S. and the UK have an extradition treaty, Mutual Legal Assistance Treaty (MLAT), and a narcotics agreement, which the UK has extended to some of its territories. In February 2010 the US-UK Instruments implementing the US-EU Extradition Agreement and MLAT entered into force.

The U.S. and the UK also have a judicial narcotics agreement and an MLAT relating to some UK territories such as the Cayman Islands, 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 U.S. Coast Guard (USCG) and the Royal Navy signed a memorandum of understanding to cooperate on issues of maritime security. In 2005, the UK signed an updated USCG 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 Bermudan 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; however, the Strategic Defense and Security Review (SDSR), released in October, included significant cuts to Royal Navy personnel and vessels which may reduce operational capacity.

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. The Government 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 Drugs in 2005. 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. UK courts can direct Community Sentences with DRRs instead of a criminal charge requiring prison, offering courts an alternative tool for tackling persistent drug offenders.

The UK is a member of the Dublin Group, a group of countries that coordinate the provision of counternarcotics assistance, the Council of Europe's Pompidou Group, Europol, the Financial Action Task Force, and is a UNODC donor. Britain is also a charter member of the Maritime Analysis and Operations Center-Narcotics (MAOC-N) in Lisbon, which aims to bolster EU capacity to protect its southwestern flank by enhancing police and intelligence cooperation amongst its members.

2. Supply Reduction

Cocaine was the most commonly seized Class A drug followed by heroin. The total number of drug seizures in 2009/2010 decreased by seven percent in England and Wales. The average purity of cocaine seized by the UK Border Agency in 2009/2010 increased slightly from 2008/2009, while the purity of cocaine seized by the police fell from 27 percent in 2008/2009 to 21 percent in 2009/2010. The difference in purity indicates that cocaine is being diluted or “cut” after importation with street purity hitting an all time low of 20 percent in March 2009.

In Northern Ireland, the police reported 3319 drug seizure incidents, an increase of 3.8 percent over last year, with an estimated street value of GBP 5,545,480 (approximately \$8,872,768). Cannabis was the most commonly seized drug, and herbal cannabis seizure incidents increased by 59.9 percent compared to last year’s figures.

According to Home Office reports, domestic cultivation of cannabis was first identified in mid-2004, and from 2004 to 2007 over 2000 cannabis grow sites were discovered in the UK, predominantly run by Vietnamese criminals. Over 70 more were discovered in Scotland. Authorities destroyed domestic marijuana crops and clandestine grow facilities as they were detected. Traditionally, cannabis was cultivated overseas and then imported into the UK from Europe in bulk by serious organized criminals. Hashish continues to come to the UK primarily from Morocco.

A new focus with political implications for the coalition government was *khat*, a plant whose fresh leaves and tops are chewed or, less frequently, dried and consumed as tea, as a euphoric stimulant. *Khat* was imported to the UK from East African nations, the Middle East, and Yemen and was not a controlled substance in the UK; however, its stimulant components, cathine and cathinone, are Class C controlled substances. Estimates for 2006 place *khat* importation levels to the UK at approximately 120 tons per month, and *khat* use among adults was 0.2 percent, according to the British Crime Survey in 2009/10. Several areas in the U.S. have been identified as areas of increased *khat* commerce and use, and DEA has identified several links between U.S. *khat* seizures and the UK. In October, the Home Office published a report on the perceptions of social harms associated with *khat* use. One of the key implications of the report was that focus group participants generally supported some level of government regulation of importation, distribution, and the availability of treatment services for *khat* users.

Synthetic drugs continued to originate from Western and Central Europe; amphetamines, ecstasy, and LSD were mainly traced to sources in Belgium, the Netherlands, and Poland, with some supplies originating in the UK. Tablet making sites have been found in the north of England, and many tablet makers rely heavily on precursor chemicals made in China and India. The UK remains one of the largest consumer markets for Netherlands-sourced ecstasy. The UK government made the “date rape” drug gamma-Hydroxybutyric acid (GHB) illegal in 2003, and gamma-Butyrolactone (GBL), a close chemical equivalent of GHB, in December 2009. The Misuse of Drugs Act also classified Benzylpiperazine (BZP), a popular club scene drug, as illegal at that time.

In recent years, UK authorities have seized several small clandestine methamphetamine laboratories in the country and law enforcement bodies have started to embrace awareness training and strategic planning. Methamphetamine use in the UK is low compared to other Class A drugs.

Steady supplies of heroin and cocaine entered the UK during 2009-2010. Approximately 90 percent of heroin in the UK came from Afghanistan. The primary heroin trafficking route to the UK is overland from Afghanistan to Europe, transiting Iran and Turkey. UK-based criminal groups with ties to Turkey handle a significant amount of the heroin eventually imported into the UK, although criminals in the Netherlands and Belgium also channel heroin to the UK from Turkey. Traffickers with ties to Pakistan 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.

While traffickers with connections to Turkey continued to dominate the supply of heroin to the UK, some heroin originated from Southeast Asia. Drug traffickers with connections to the Caribbean were also

involved in the supply and distribution of heroin and cocaine. The heroin found in the UK continues to be smuggled through ports in the southeast, although some amounts of heroin arrived through major UK airports with links to Turkey, Northern Cyprus, and Pakistan. The purity of heroin seized by UK Border Authority and police increased in 2009/2010. Heroin tainted with anthrax caused five deaths in Glasgow, Scotland in January.

Supplies of 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 Spain, Netherlands, and Belgium. 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 English 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 in container traffic or by air couriers. Crack cocaine was rarely imported, but was produced in the UK from cocaine powder.

The Caribbean was a major transshipment point for cocaine to the UK from Colombia and Venezuela. Cocaine came by both airfreight and by couriers who attempted to conceal internally by swallowing protective bags with 0.5 kg to 1 kg at a time. Over the past five years, the purity of cocaine and crack at the street level has fallen. Purity fell in England from 55 percent in 2001 to around 20 percent in March 2009. Cocaine purity in Scotland was about half that of England and Wales, suggesting that it originated in England and was then re-cut. In Northern Ireland cocaine was even less pure. Cocaine related deaths were reported in Northern Ireland for the first time in 2007.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

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. Home Office figures for England and Wales, compiled as part of the 2009/10 British Crime Survey (BCS), indicated that there has been a decline in illicit drug use between 2008/9 and 2009/10. Despite decreased use, cannabis remained the most-used illicit drug in the UK, predominantly in the 16-24 age group. Powder cocaine was the next most commonly used drug, closely followed by ecstasy, amyl nitrate and amphetamines.

Virtually all parts of the UK, including many rural areas, confronted the problem of drug addiction at least to some degree. The BCS estimated nearly 2.2 million adults, or nearly one in fifteen adults, in England and Wales used cannabis this year. The most commonly reported age for first trying cannabis was 16 years old and 18 years old for powder cocaine use. Lifestyle factors such as increased patronage of nightclubs and pubs, increased alcohol consumption, and being single had clear relationships with an increased drug use, according to the BCS. Since 1996, men in England and Wales have consistently reported higher levels of drug use than women. In 2008 in Scotland, 574 drug-related deaths were reported, and a mephedrone-related death was reported by the UK media in January 2010.

Class A drug use decreased from last year's 3.7 percent to 3.1 percent, making 2010 figures more in line with 1996 levels. Overall use of any illicit drug by 16-59 year-olds in the last year has shown an overall decrease from 11.1 percent in 1996 to 8.6 percent, due in part to successive declines in the use of cannabis over the last decade.

In recent years, the cannabis market in the UK, which used to be the largest in Europe, has seen a clear downward trend. In England and Wales cannabis use fell from a prevalence rate of 10.9 percent among the population aged 16-59 in 2002/03 to 6.6 percent in 2009/10. Annual prevalence of cannabis use among people aged 16-24 fell from 28.2 percent in 1998 to 16.1 percent in 2009/10.

In 2009/10, 7.3 percent of 16-24 year-olds reported use of any Class A drug in the past year. This figure was lower than the previous year's rate of 8.1 percent, but was not statistically significant according to the BCS. Frequent use of any illicit drugs among all 16 to 24 year-olds decreased from 11.6 percent in 2002/03 to 7.3 percent in 2009/10. Police recorded that drug possession offenses decreased by four percent in 2009/10 compared with 2008/09. Possession of cannabis offenses accounted for 69 percent of all recorded drug offenses and increased 90 percent from 2004/05 to 2009/10.

The Home Office estimates that there are 400,000 problem drug users in England, with about 156,000 using injectable drugs. 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 to use 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. Since its inception, FRANK has received over two million calls to its helpline and averaged over 500,000 hits per year on its website.

The UK has drug education programs in all schools, supported by a certificate program for teachers. In 2005, the Department for Education 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, has served over 80,000 young people since its inception with 91 projects established in regions throughout the country. The program is managed by the national charity, Catch22, but funded by the Home Office. 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 met its target of doubling the number of drug users in treatment in 2009, two years ahead of schedule. Current figures show that over 210,000 people were now receiving treatment. The so-called "pooled treatment budget" administered by the Home Office and the Department of Health was targeted to increase from \$636.8 million (GBP 398 million) nationally in 2008/09 to \$649.6 million (406 million GBP) in 2009/2010.

According to the National Treatment Agency for Substance Misuse (NTA) there were approximately 10,000 registered drug treatment workers as of 2008. The NTA estimates the average waiting time for treatment at under one week for the first intervention in 2009/2010, which is a decrease from the average time of nine weeks in 2001. Additional treatment services are provided through the National Health Service.

Crime and Disorder Reduction Partnerships (CDRPs) were established 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. Recorded crime figures for seven key offenses for each CDRP are published on the Home Office website annually.

As the UK prepares to host the Olympic Games in 2012 and the Glasgow Commonwealth Games in 2014, there will be increasing international focus on its anti-doping policies and programs. The Government has designed a strategy to work with key agencies, including the National Anti-Doping Organization, to respond to doping allegations.

4. Corruption

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. No senior government officials engaged in such activity.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The UK places a high priority on counternarcotics enforcement and enjoys excellent law enforcement cooperation with the United States. The UK honors U.S. asset seizure requests and was one of the first countries to enforce U.S. civil forfeiture judgments. 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 West Atlantic, the Caribbean and Eastern Pacific high seas. A Royal Navy Liaison Officer, seconded to the JIATF South staff, also assists in coordinating UK support to JIATF South counternarcotics operations.

The Joint Narcotics Analysis Center (JNAC), a joint U.S.-UK interagency intelligence fusion center, conducts strategic analysis, studies on the effects of the narcotic trade on governance and security in Afghanistan, and provides support to the Interagency Operations and Coordination Center (IOCC) in Kabul.

The U.S. Drug Enforcement Administration's London Country Office works closely with the Serious Organized Crime Agency (SOCA) to fight international drug trafficking, and SOCA has representatives working around the United States in tandem with U.S. officials. The DEA London Office also coordinates efforts on international investigations with other law enforcement agencies located throughout the UK.

D. Conclusion

The government estimates that 60 to 80 tons of cocaine and heroin would need to be imported into the UK annually to meet domestic demand. The UK thus continues to be – in absolute numbers – Europe's largest cocaine market, with its second highest cocaine use prevalence rate.

Trafficking in heroin and cocaine continue to pose a significant challenge to the UK. The Home Office estimates that the social harm caused by Class A drugs is approximately £13 billion (\$20.8 billion) a year.

Despite the government's robust efforts to combat drug trafficking and associated drug-related crime, the UK continues to be one of the most lucrative markets in the world for traffickers in Class A drugs and was targeted by a wide range of large-scale serious organized criminals. London, Birmingham, and Liverpool were known by UK law enforcement officials to be significant centers for the distribution of all types of drugs.

The way ahead for the UK to curb drug supply and domestic demand will largely depend on how it plans to allocate resources in accordance with the UK's new drug strategy and how the Coalition government reorganizes SOCA. Budget cuts at UK Border Authority and the Home Office may impact the UK's ability to tackle its domestic drug problem and may limit its ability to contribute to international operations. The United States will continue to cooperate closely with the UK on all counternarcotics fronts.

Uruguay

A. Introduction

Uruguay is not a major narcotics producing country, although drug traffickers, attracted to Uruguay's strategic maritime location, take advantage of porous borders with Argentina and Brazil to transit illegal substances through the country. Local consumption of the highly addictive and inexpensive cocaine base product known as "pasta base" remains a problem. Efforts to fight trafficking and domestic consumption are relatively effective, although law enforcement agencies and drug programs have limited resources.

Uruguay is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, Uruguay continued to implement its four-year National Plan Against Drug Trafficking and Money Laundering, which included the coordination of state resources to support an inter-agency governing body. Special courts for organized crime, created in 2009, continued to operate in 2010, and they handled all cases related to drug trafficking, money laundering, corruption, and banking fraud, as well as trafficking in persons. In June 2010, the House of Representatives formed a special committee on drug addiction and its societal impact; it will issue reports directly to the National Anti-Drug Secretariat. The National Drug Police (DGRTID) reported increased financial support from the Government of Uruguay (GOU) in 2010. Newly enacted asset forfeiture legislation led to \$200,000 being frozen and several prosecutions stemming from Suspicious Activity Reports (SARs).

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 United States and Uruguay are parties to an extradition treaty that entered into force in 1984, a Mutual Legal Assistance Treaty that entered into force in 1994, and 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. Uruguay is a member of the regional financial action task force Grupo de Accion Financiera de Sudamerica (GAFISUD).

2. Supply Reduction

Drug trafficking to and through Uruguay has steadily increased over the past several years as drug traffickers from Argentina, Colombia, Bolivia, Peru and Mexico capitalize on its readily exploitable infrastructure. According to GOU policies, shipping containers transiting to or from other MERCOSUR countries are rarely inspected. The vast majority of cocaine shipments enters Uruguay overland, or via small aircraft, and is taken to staging areas before departing the country via maritime shipping concealed in containerized cargo. Colombian and Bolivian traffickers continue to smuggle cocaine into Uruguay -- flying directly from Bolivia into remote northern regions in Uruguay and using make-shift airstrips located on foreign-owned residential farms. Growth in drug trafficking is evidenced by several seizures of multi-hundred kilogram quantities of cocaine since 2006.

The DGRTID seized 323 kilograms (kg) of cocaine in 2010 in both national and multi-jurisdictional counternarcotics operations involving the governments of Argentina, Brazil and Spain. In addition, the

DGRTID seized 169 kg of cocaine base, similar to its seizure amounts from 2009; and 336 kg of marijuana, down from 547 kg in 2009. Uruguay's northern frontier region continues to experience incursions from small aircraft transporting cocaine from Bolivia, as shown by a significant seizure of 176 kg of cocaine on March 31, 2010.

In April 2010, Uruguayan authorities demonstrated resolve in meeting international counter-drug agreements by arresting a Colombian wanted in the United States on drug trafficking charges while he vacationed in Uruguay. In October 2010 the DGRTID seized 25 kilos of cocaine and arrested four Colombian traffickers attempting to attach cocaine capsules to the bottom of unsuspecting cargo ships en route to Europe using specialized underwater equipment. While this technique is not new, it was the first known occurrence in Uruguay. The DGRTID's swift interdiction and arrest in this case represented an important public step in the fight against drugs.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Demand reduction continues to be a priority for the GOU and focus is placed on prevention programs, rehabilitation, and treatment, especially for consumers of cocaine base. However, resources are limited and rehabilitation and treatment centers only reach a small portion of drug addicts. The National Drug Rehabilitation Center trains health care professionals and sponsors teacher training, public outreach, and other programs in community centers and clubs. The National Anti-Drug Secretariat trains educators to run an anti-drug program for adolescents in schools across the country. The interagency treatment and prevention program "Portal Amarillo" continued to serve as a primary outlet for addicts seeking help. Portal Amarillo features drug rehabilitation clinics and a hotline, as well as services for both in-patient and out-patient drug users in northern Montevideo and in the Department of Maldonado. In March 2010 a new government-run drug rehabilitation clinic "Casa Abierta" opened in the northern region of the country and operates similarly to Portal Amarillo. In a specialized program targeting prison populations, prison personnel and inmates were trained to develop, plan, and perform activities to reduce drug abuse.

Uruguay continues to develop methods to track trends in drug use. According to the United Nations World Drug Report 2010, 6 percent of the Uruguayan population between the ages of 12 - 65 consumes marijuana on a regular basis while 1.4 percent of the same demographic consumes cocaine. In October 2010 the National Anti-Drug Secretariat published results of a 2009 survey of drug use in students. The survey results highlighted the high use of alcohol and tobacco among secondary students. A survey of drug use in the general population began in 2010 but results are not expected until 2011. The findings of both studies will shape future demand reduction programs.

4. Corruption

As a matter of policy, the Government of Uruguay does not encourage or facilitate illegal activity associated with drug trafficking and there is no evidence to suggest senior government officials are engaged in such activity. Uruguay has taken legislative and law enforcement measures to prevent and punish public corruption as related to narcotics production, processing, and shipment. Corruption cases are under the jurisdiction of the organized crime courts. 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. There were no known corruption cases in 2010.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

U.S. goals in Uruguay are to strengthen its technical and operational ability to interdict narcotics, conduct complex criminal investigations, and arrest traffickers, as well as to strengthen GOU rehabilitation and prevention programs to reduce and prevent the consumption of illegal drugs, and to assist with the reinsertion of addicts into society.

In 2010, U.S. assistance included support to demand reduction programs and narcotics interdiction operations including provision of equipment and police training. The DGRTID received USG support to purchase equipment to enhance its analytical abilities to detect and arrest drug traffickers. The equipment facilitates information sharing between DGRTID and its counterpart USG agencies that assist Uruguay in its counternarcotics strategy. The National Anti-Drug Secretariat received support to conduct a National Drug Use Survey. The goal of this project is to expand the GOU's awareness of countrywide drug abuse in order to better shape demand reduction strategies. Additionally, the Uruguayan Navy received training in maritime law enforcement, port security, leadership, and search and rescue. The Navy also participated in a Regional Small Boat Maintenance course in Argentina.

D. Conclusion

Uruguay's institutional mechanisms, including the National Plan Against Drug Trafficking and Money Laundering and its new system of organized crime courts, provide a solid foundation to combat drug trafficking. However, Uruguay needs to provide more support for police efforts to investigate and interdict narcotics shipments, including increased training and technology for border police in the northern region to help stem the inflow of drugs overland from Argentina and Brazil. Uruguay has several dedicated demand reduction programs, and needs to continue reaching out to youth and at risk groups. Improved profiling and inspection of containerized cargo would significantly reduce foreign traffickers ability to move shipments anonymously through Uruguay and serve to make Uruguay a less attractive transit point in the Southern Cone.

Uzbekistan

A. INTRODUCTION

While Uzbekistan is not a significant producer of drugs, it sits astride a major trafficking route for illegal narcotics, with an estimated 90 tons of Afghan opiates transiting the “Northern Route” through Central Asia each year. Uzbekistan shares a 137 kilometer border with Afghanistan and borders every other Central Asian republic. In addition to 134 legitimate crossing points, Uzbekistan’s borders include thousands of miles of open desert, rugged mountains, and the Amudarya River, which affords drug traffickers, terrorists, and human traffickers opportunities to enter Uzbek territory undetected. Its well-developed transport infrastructure also facilitates the movement of traffickers, and rampant corruption among government officials means that enforcement efforts may be sporadic or ineffectual.

Although the majority of narcotics transiting Uzbekistan are bound for end use markets in Europe and Russia, not the U.S., the drug trade directly affects civilian and military efforts in Afghanistan and the entire region. Terrorist and extremist groups are active throughout Central Asia, and they use the profits of the drug trade to facilitate their operations. In addition, revenue from illegal narcotics is used to influence officials and corrupt key government institutions, generally undermining the region’s security and stability.

Official data on drug use in Uzbekistan is unreliable, but the number of drug addicts is estimated to be more than 200,000 and is believed to be on the rise. Drug abuse awareness, demand reduction, and treatment programs generally are not given the attention and resources they need to operate effectively.

Uzbekistan’s leadership has recently exhibited renewed political will to deal with drug trafficking. Law enforcement officials in Uzbekistan are generally well-trained and professional, but corruption and lack of resources seriously hinder Uzbekistan’s institutional drug control capabilities. However, if the government of Uzbekistan (GOU) follows through on its latest commitments to crack down on corruption, it may have a positive impact on counternarcotics efforts.

Uzbekistan relies heavily on support and training provided by international partners. International cooperation continually ebbs and flows, but seems to be following a generally upward trend, although changing political winds dictate the pace of cooperation and joint counternarcotics efforts continue to be seriously hampered by the GOU’s onerous bureaucracy. Uzbekistan is a party to the 1988 UN Drug Convention.

B. DRUG CONTROL ACCOMPLISHMENTS, POLICIES, AND TRENDS

1. Institutional Development

In 2010, the GOU identified combating drug trafficking as one of its top three security priorities. Uzbekistan has also recently initiated new counter-corruption efforts that, if implemented properly, have the potential to drastically improve the counternarcotics situation in Uzbekistan. The GOU has also gradually ramped up cooperation with international partners.

Drug production in Uzbekistan remains negligible. The amount of drugs transiting through Uzbekistan has remained relatively constant over the last year, but unconfirmed reports suggest that consumption is rising.

A developing trend points to the presence of Iranian-made crystal methamphetamine in Uzbekistan. In 2010, several Uzbek nationals were arrested in Malaysia and Indonesia for the distribution of crystal methamphetamine, which was transported from Uzbekistan to Southeast Asia via direct flights from Tashkent.

In theory, the GOU encourages cooperation with foreign counterparts in criminal investigations, but in practice, Uzbekistan has yet to overcome huge institutional obstacles to establish healthy working relationships with its international partners. A general lack of collaboration with the neighboring countries is also a major weakness of Uzbekistan's law enforcement efforts. However, in 2010 the National Security Service (NSS) of Uzbekistan and the National Security Committee (KNB) of Kazakhstan conducted a joint operation that resulted in the seizure of more than 125 kilograms (kg) of illegal drugs and the arrest of one of the leaders of a transnational drug trafficking organization.

The U.S. Drug Enforcement Administration (DEA) reestablished a presence in Uzbekistan in November 2009. The Tashkent Country Office (CO) has been developing working relationships with its GOU counterparts; in 2010, the Tashkent CO and GOU officials participated in several international conferences focused on sharing drug-related information and breaking down regional and international barriers to cooperation. The U.S. Department of Defense (DOD) has also begun to support counternarcotics efforts in Uzbekistan through the Office of Military Cooperation (OMC).

The United Nations Office on Drugs and Crime (UNODC) worked closely with both DEA and the State Department's Bureau of International Narcotics and Law Enforcement (INL) to conduct a number of counternarcotics programs in Uzbekistan in 2010, including projects focused on precursor chemical control, controlled deliveries, and border control and interdiction.

Russia partners with Uzbekistan in counternarcotics projects through the Collective Security Treaty Organization (CSTO). Several European Union (EU) countries also support counternarcotics projects, such as the Border Management and Drug Action Program in Central Asia (BOMCA/CADAP), which is sponsored by the EU and implemented by the United Nations Development Program (UNDP).

Access to Uzbek government officials is very slow and bureaucratic, a perpetual problem for Uzbekistan's international partners. Uzbek law enforcement officers are not free to act without heavy political oversight. Most communication with Uzbek counterparts is restricted to formal diplomatic channels, which seriously limits opportunities to share investigative leads and drug-related intelligence.

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 to the UN Convention against Corruption.

Uzbekistan has signed the Central Asian Counternarcotics Memorandum of Understanding with the UNODC, and in 2006 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.

In 2006, the GOU also signed agreements on increased counternarcotics cooperation in the context of its membership in the Shanghai Cooperation Organization and the CSTO. However, to date, these agreements have produced few tangible results.

2. Supply Reduction

Uzbekistan's overall counternarcotics situation depends heavily on its geography, and regional developments can significantly affect counternarcotics efforts. Three of Uzbekistan's neighbors – Afghanistan, Kyrgyzstan, and Tajikistan – faced serious security threats in 2010. Political upheaval shook Kyrgyzstan in April 2010, and ethnic violence in southern Kyrgyzstan caused at least 100,000 refugees to cross Uzbekistan's border in June 2010. A number of events have likewise affected the security and stability of Tajikistan. The GOU believes that drug traffickers operate with impunity in both countries, and does not trust that its eastern neighbors will be able to counter threats effectively. The GOU also seems to worry that violence and unrest could spill across their borders into Uzbekistan.

The GOU has been cooperating with various international partners to implement projects that would improve regional transportation infrastructure with the ultimate goal of increasing trade. As cross-border traffic between Uzbekistan and its neighbors increases, particularly across the Uzbek-Afghan border, so too will opportunities for drug trafficking. Uzbekistan's shared border with Afghanistan is relatively short and highly militarized, but traffickers are able to exploit its weaknesses by crossing at unpatrolled sections, crossing under cover of darkness, or in some cases bribing officials. Traffickers may also move from Afghanistan into another neighboring country – Turkmenistan or Tajikistan – and then into Uzbekistan. Uzbekistan's borders with Turkmenistan, Kyrgyzstan, and Tajikistan are very long and pass through vast amounts of rough and isolated terrain.

Uzbekistan continues to work toward the goals of the 1988 UN Drug Convention on combating illicit cultivation and production of narcotics. The first phase of the annual "Black Poppy" eradication campaign involved more than 12,000 police officers and 9,000 civilians, 992 vehicles, 362 canine teams, communications equipment and helicopters. It eliminated just a small amount of illicit crops.

However, information developed in 2010 suggests that very small scale production of narcotics for local consumption may be more widespread than was previously realized.

Uzbek law enforcement seized a total of 2457 kg of illicit drugs in the first half of 2010, a 35 percent increase in comparison with the same period last year. Opium poppy straw accounted for 35 percent of the total seizure, heroin for 27 percent, cannabis for 14 percent, opium for 13 percent, and hashish for 9 percent.

According to preliminary statistics provided by the National Information Agency, in the first half of 2010, authorities opened 4584 narcotics-related criminal investigations and conducted 1973 court hearings that resulted in 2881 individuals being convicted of narcotics-related crimes. All of these statistics represent small decreases compared with the same period in 2009.

Current combat missions in Afghanistan, the eradication of poppy, and the destruction of clandestine labs in Northern Afghanistan have driven some Afghan drug traffickers towards the Uzbek border in search of safe havens. Uzbek and Tajik organizations have come to dominate trafficking operations, taking ownership of drug shipments after they depart Afghanistan and overseeing their transportation to markets in Europe and Russia.

Most analysis suggests that the modus operandi of drug traffickers in Uzbekistan has changed very little in the last five years. A few sophisticated drug trafficking organizations use large vehicles, including tanker trucks, to carry large quantities of narcotics across the border concealed in special compartments or hidden in the cargo. These significant "priority target organizations" have links to the larger Central Asia region. They are capable of paying large bribes and consequently are thought to have a higher level of protection by corrupt government officials.

However, drugs are also trafficked by independent organizations involving one or two individuals that operate between Afghanistan, Tajikistan, and Uzbekistan. These independent traffickers cross the border on foot or in cars, carrying between 20 and 50 kg of narcotics.

The southern Surkhandarya Region, bordering Afghanistan, is a major point of entry for drugs into Uzbekistan. The border is delineated by the Amudarya River. During the summer months, the river gives traffickers an easy way to cross the border without passing through the heavily guarded checkpoints around the border town of Termez. Traffickers may wade across the river when water levels are low, or use crude flotation devices such as rafts to pilot their cargo across the water.

From Surkhandarya, traffickers travel north to the capital city of Tashkent and then into Kazakhstan. The high number of seizures in southern Kazakhstan along the Uzbek border indicates that this area is becoming a major transit point for illicit drugs. In addition, narcotics are also smuggled through various Tajik-Uzbek and Kyrgyz-Uzbek border points, as well as through less guarded mountainous passes. The lightly guarded Turkmen-Uzbek border points in the Bukhara Region are also convenient transit points for traffickers.

Afghanistan is the world's leading producer of opium. Until 2003, the process of converting morphine base to heroin took place mainly in primary and secondary transit countries. However, heroin manufacturing within Afghanistan has increased over the last few years. Since Afghanistan does not produce commercial grade chemicals, illicit precursors must be smuggled in from other countries, including Uzbekistan. The last officially recorded precursor chemical seizure in Uzbekistan occurred in 2008.

Most border officials have no formal training in the detection, identification, and interdiction of precursor chemicals, and precursor chemical interdiction is not a priority for the GOU. Customs officers are not trained on risk analysis procedures, nor do they have access to a database that maintains criminal history information, which would allow them to identify linkages to other cases.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Drug abuse awareness, demand reduction, and treatment in Uzbekistan have lagged far behind the country's needs. According to the official statistics of the National Drug Control Center, there were 20,796 registered drug addicts in Uzbekistan at the beginning of 2010, a slight decrease from the previous year. However, experts believe that the problem of drug addiction is actually getting worse. International observers estimate that the actual number of addicts could be ten times higher than the official figure. Opium and heroin are the drugs of choice for almost 80 percent of addicts; other substance abuse involves marijuana, alcohol, and to a lesser degree, pharmaceuticals. Pharmacies legally dispense drugs without a doctor's prescription. Addiction is largely restricted to males; only about five percent of registered addicts are women.

Demand reduction efforts include a drug prevention component in the curriculum of public schools. Other programs are carried out in cooperation with NGOs, local youth or women's organizations, religious organizations, and the traditional "mahalla" (neighborhood) support system. Unfortunately, the GOU refused to allow a proposed UNODC program for the prevention of drug use, HIV/AIDS and crime among young people.

Treatment programs are insufficient even for officially registered addicts, and fall far short of the population's actual needs. For example, approximately 16,000 people are officially registered as opiate addicts, but programs have the capacity to treat only a few hundred. However, a few treatment centers,

such as the Tashkent City Narcological Dispensary, provide services including psychosocial and pharmacological interventions (in inpatient and outpatient settings), pharmacologically supported detoxification, relapse prevention, and social services.

For political reasons, the GOU is reluctant to approve certain internationally recognized treatments, such as the use of methadone in opium replacement therapy. Many doctors have an old-fashioned punishment mentality towards drug addiction that can result in a disregard for patients' rights. Patients may be forced to go "cold turkey" or to undergo a (reportedly very painful) treatment program that utilizes opiate antagonists.

Throughout the region, HIV and other blood-borne infections are strongly associated with the use of injected drugs. The level of awareness about the risk of infection through sharing needles and other drug paraphernalia is extremely low among drug users and the general population.

In 2010, USAID began implementing its Quality Health Care Project (QHCP) to build the capacity of public health systems to meet the health needs of vulnerable groups, including drug users.

4. Corruption

As a matter of policy, the GOU does not encourage or facilitate the production or distribution of illegal narcotics. However, corruption permeates all levels of government. Underpaid police officers expect and accept bribes to ignore infringements ranging from traffic violations to drug trafficking. It is a common practice throughout the former Soviet Union for low-ranking officers to pass a percentage of the bribes they collect to their bosses, who pass a percentage to their bosses. This "pyramid of corruption" probably reaches to the highest levels of government.

Uzbekistan has recently taken steps to implement an anticorruption program. State-INL and UNODC have worked with GOU officials to establish an anticorruption working group comprised of representatives from twelve government agencies. Uzbekistan's president also issued a decree on measures to counter corruption.

A draft anticorruption action plan sets forth goals to combat corruption on both the official and societal levels, and includes measures to transparently recruit public officials, adopt a code of conduct for public servants, simplify administrative procedures for obtaining government services, and increase public access to government information. This ambitious plan has yet to be implemented.

Based on media reports, there seemed to be a spike in the number of public officials arrested and prosecuted for corruption in 2010, though most of these were not law enforcement officials. Media outlets are tightly controlled by the government. Although increased prosecution for corruption might indicate an increase in political will for dealing with corruption, it is likely that political motivations expose some public officials to accusations of corruption while keeping others immune from prosecution.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

The U.S. Mission in Tashkent's strategic plan for counternarcotics cooperation is focused on strengthening and securing Uzbekistan's borders, promoting bilateral investigations of priority targets, and developing Uzbekistan's overall law enforcement capacity. Multiple U.S. government agencies, including DEA, DOD CENTCOM, State INL, USAID, and the State Department Bureau of Export Control and Border Security (EXBS), play a role in this strategy.

In 2010, the Tashkent CO focused its efforts on laying the foundations for broad-based cooperation with relevant GOU agencies, including the NSS, the Ministry of Interior (MVD), the State Customs Committee, the Border Guards, and the State Commission for Drug Control. The CO and its partner agencies have established protocols for sharing investigative leads, collaborating on investigations, and exchanging best practices. The CO has slowly begun to communicate with its counterparts outside the confines of formal diplomatic channels when the situation warrants it.

The Tashkent CO personnel escorted nine Uzbek officials on a ten day visit to the United States. The delegation, representing the NSS, MVD, State Border Protection Committee (SBPC), the State Customs Committee (SCC), MFA, and the NSC, visited DEA headquarters and other sites including the U.S.-Mexico border. The visit promoted interagency cooperation, showcased available counternarcotics resources, fostered regional information exchange, and facilitated discussion about law enforcement capabilities, Afghan spillover violence, bilateral priority target investigations, and best practices.

In conjunction with DEA's Special Testing and Research Laboratory, the Tashkent CO hosted a week-long seminar for Uzbek forensic chemists that included training on synthetic drug testing procedures and internationally accepted drug testing standards.

The Tashkent CO expects a Memorandum of Understanding (MOU) between DEA and the Uzbek MVD to be signed in 2011. The MOU will lay the legal foundation for bilateral investigations and counternarcotics cooperation.

In December 2010, the USG and GOU law enforcement agencies jointly sponsored a regional drug conference in Tashkent. The forum brought together 52 senior level law enforcement officials representing 15 countries. The focus of the conference was to break down barriers to communication, foster cooperation, share information, and collectively target transnational drug organizations whose activities directly impact the region. All sides hope this will significantly speed up the exchange of international drug information, best practices and training.

Going forward, the Tashkent CO, working with Uzbek counterparts, will identify, prioritize, and target the most significant international drug and chemical trafficking organizations operating within Uzbekistan and the region. Once organizations are identified, the Tashkent CO and its partners will develop and execute an investigative strategy aimed at disrupting and dismantling the organization's leadership, financial structures, and operations.

U.S. Central Command (CENTCOM), through its Office of Military Cooperation (OMC) supports activities that enhance border security and develop the counternarcotics infrastructure of the host nation. The OMC's counternarcotics assistance facilitates support for counternarcotics cooperation as it aids OMC's law enforcement partners. Currently OMC is working with the Border Guards to construct a border inspection facility on the border of Tajikistan.

D. CONCLUSION

Strengthening counternarcotics efforts in Uzbekistan is of strategic importance to the United States, particularly in the context of U.S. involvement in Afghanistan and the rest of the region. Due to its geographic position, Uzbekistan could have an immediate impact on the international effort to stem the flow of illegal narcotics and stabilize Afghanistan.

Combating drug trafficking is one of Uzbekistan's top national priorities. Officials understand that drug trafficking and illicit drug profits undermine the country's overall security and corrupt key government

institutions. Officials also acknowledge the potential for drug-financed spillover violence and are developing a campaign to address these threats. GOU law enforcement agencies are eager to cooperate with the USG and other international stakeholders, but are reluctant to do so without clear political support, which can limit the pace and extent of cooperation. Law enforcement agencies labor under an old bureaucratic infrastructure preventing the GOU from implementing an effective counternarcotics strategy and building law enforcement bridges with neighboring countries. It also prevents the USG from developing a sustained partnership.

Uzbekistan still needs to overcome corruption and the reluctance to cooperate fully and openly with international partners. Cooperation with international partners, training that meets international standards, and general exposure to international best practices will contribute to improving Uzbekistan's counternarcotics capacity.

Venezuela

A. Introduction

Venezuela is a major drug-transit country. A porous western border with Colombia, a weak judicial system, inconsistent international counternarcotics cooperation, and a generally permissive and corrupt environment have made Venezuela one of the preferred trafficking routes out of South America to the Eastern Caribbean, Central America, the United States, Europe and western Africa. The United Nations' 2010 World Drug Report described Venezuela as a major departure point for maritime cocaine shipments, and reported that between 2006 and 2008, over half the detected maritime shipments of cocaine to Europe came through Venezuela. The media reported an increased presence of Mexican drug trafficking organizations, including the Sinaloa cartel and Los Zetas, in operations to smuggle drugs through Venezuela. The President determined in 2010, as in the five previous years, that Venezuela failed demonstrably to adhere to its obligations under international counternarcotics agreements.

The Government of Venezuela's (GBRV) counternarcotics effort is led by the National Anti-Drug Office (ONA). Enforcement is principally carried out by the National Guard and the Scientific, Penal, and Criminal Investigative Body (CICPC), although state and municipal police forces also conduct counternarcotics operations. Venezuelan law enforcement lacks the equipment, training, and reach to match the resources and scope of major drug trafficking organizations. Effective prosecution of drug traffickers is hindered by corruption and a lack of judicial independence.

Some limited coca cultivation occurs along Venezuela's border with Colombia, but the levels are historically insignificant. Low-grade marijuana is grown in various parts of Venezuela but is not exported due to its poor quality.

In 2010, illegal drug use remained a significant problem, with marijuana as the most commonly consumed illicit drug in Venezuela, followed by cocaine and its "crack" derivative.

Bilateral counternarcotics cooperation between Venezuela and the United States is inadequate, and continues only on a limited, case-by-case basis. The lack of greater counternarcotics cooperation is consistent with the Venezuelan government's decision to reduce involvement with the United States across the board. Venezuela has not signed the addendum to the 1978 Bilateral Counternarcotics Memorandum of Understanding (MOU) with the United States that was negotiated in 2005. Venezuela is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The National Anti-Drug Plan for 2009-2013 includes the creation of a national anti-drug system under the ONA to consolidate and coordinate anti-drug efforts. The plan calls for more research to assess both the extent of drug abuse in Venezuela, as well as the effectiveness of drug abuse prevention programs. The plan promotes the creation of state and municipal level anti-drug offices to implement national policies. It also proposes the creation of a counternarcotics judicial jurisdiction, composed of specially trained judges and personnel, to expedite prosecution of drug-related offenses. There was no information available about the implementation of the 2009-2013 plan by year's end.

In January 2010, the government announced the creation of a National Anti-Drug Fund to finance programs to prevent drug abuse, money laundering, and narcotrafficking. It called for community councils or NGOs to implement demand reduction programs.

In September 2010, the National Assembly adopted an Organic Law on Drugs to replace the previous Organic Law on Narcotic and Psychotropic Substances. The new law increases potential penalties for

drug trafficking or related crimes to between 8-30 years imprisonment. It provides for heavy fines on media outlets that promote drug consumption in their programming or advertising and mandates creation of a holistic national plan for drug prevention and treatment programs. The new law gives the ONA the authority to seize and use assets of individuals connected with drug trafficking. The new law also amended the previous law, which required companies to donate one percent of their profits to demand reduction programs certified by the government. The new law specifies that companies with more than 50 workers must give the one percent of their profits directly to the ONA, which manages the National Anti-Drug Fund.

Venezuela is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Venezuela is a party to the UN Convention against Transnational Organized Crime and its protocols against trafficking in persons and migrant smuggling, and the UN Convention against Corruption. Venezuela is also a party to the Inter-American Convention against Terrorism, the Inter-American Convention against Corruption, and the Inter-American Convention on Mutual Assistance in Criminal Matters. It also remains an active member of the Inter-American Drug Abuse Control Commission (CICAD).

The GBRV has signed a number of bilateral agreements with the United States, including a Mutual Legal Assistance Treaty that entered into force in March 2004; a Customs Mutual Assistance Agreement; and a 1991 Ship-Boarding Agreement (updated in 1997) that authorizes the United States to board suspect Venezuelan-flagged vessels on the high seas. The continued, unimpeded use of the ship-boarding agreement has been essential to the United States in its counternarcotics efforts. While the United States and the GBRV signed a bilateral Memorandum of Understanding concerning counternarcotics cooperation in 1978, the GBRV has not signed a 2005 addendum that would extend the agreement.

The United States and Venezuela are parties to an extradition treaty that entered into force in 1923; however, the treaty has limited application due to the 1999 Venezuelan constitution, which bars the extradition of Venezuelan nationals.

2. Supply Reduction

Venezuela remains a major transit country for cocaine shipments by air, land, and sea. Suspected narcotics trafficking flights depart from the Venezuelan states bordering Colombia. Cargo containers, fishing vessels, and “go-fast” boats were used to move narcotics out of Venezuela by sea. There are approximately 250 metric tons of cocaine transiting through Venezuela annually, according to USG cocaine-movement estimates.

The vast majority of illicit narcotics that transited Venezuela were destined for the Eastern Caribbean, Central America, the United States, Europe, and western Africa.

Illegal armed groups in Colombia, including two U.S.-designated Foreign Terrorist Organizations (FTOs), the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), were linked to the most aggressive and successful drug trafficking organizations moving narcotics through Venezuela. Media reports alleged some elements of Venezuela’s security forces have directly assisted these organizations. During 2010, the media reported that Mexican drug trafficking organizations, including the Sinaloa cartel and Los Zetas, were increasingly involved in drug smuggling operations through Venezuela.

In 2010 the GBRV took delivery of radars and two new coastal patrol vessels purportedly intended for combating drug trafficking. At least six of the 10 radar systems purchased in 2007 from China reportedly were installed. These systems can be used to scan for illegal drug flights.

While the GBRV publicly reports seizures of illicit drugs, it is not part of the Cooperating Nations Information Exchange System (CNIES) partner nations and does not share the data or evidence needed to verify seizures or the destruction of illicit drugs. The Venezuelan Public Ministry reported on November

26 that the government had destroyed 127.7 MT of different drugs between 2008 and October 2010, but these figures could not be independently verified. The GBRV reported that it seized nearly 63 MT of illegal drugs in 2010. Sixty percent of the seizures were of marijuana (38 MT – compared to 32.3 MT in 2009) and 39 percent were cocaine (24 MT – compared to 27.7 MT in 2009). The remainder consisted of crack cocaine (170 kilograms), bazuco (65 kilograms), and heroin (53 kilograms – compared to 81 kilograms in 2009).

According to the ONA, in 2010 the GBRV arrested 12,376 individuals in connection with the possession or trafficking of illegal drugs; 371 of these individuals were reported to be foreign nationals. The Public Ministry also reported that between 2008 and October 2010, the government charged 23,327 individuals on drug-related offenses, 14,642 of whom were convicted. No information was available on the nature or severity of the drug offenses.

In October 2010, the GBRV announced it would reinforce “Operation Centinela,” begun in 2009 to combat the transit of narcotics through Venezuela, by sending an additional 15,000 troops to the Colombian border, but there is no confirmation from the GBRV that this took place. Counternarcotics operations under “Operation Centinela,” including drug seizures and destruction of drug labs, were reported throughout the year, and the GBRV reported it had dismantled eighteen drug processing labs in 2010 in the border state of Zulia. As a result of government interdiction efforts, in August 2010, ten Venezuelan National Guard members died in a helicopter crash while carrying out a counternarcotics mission in the border state of Apure.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Illegal drug use remains a significant problem in Venezuela. NGOs throughout the country offer drug abuse awareness, demand reduction, and treatment programs. As part of its National Plan for Integrated Prevention, the GBRV continued the Planting Values for Life program, a comprehensive drug prevention initiative. In 2010 demand reduction training was given to education professionals, representatives of parent associations, community councils and heads of education institutions. In several states, community council, university and other local leaders were trained to establish advisory groups to assist the community in soliciting funds from ONA for drug use prevention programs.

However, the ONA continues to be slow to certify NGOs implementing counter drug programs. Several NGOs claimed to have been denied ONA certification for political reasons, and NGOs receiving assistance from the United States claimed that it was difficult to receive ONA certification.

4. Corruption

Public corruption continued to be a major issue in Venezuela and appears to have contributed to drug trafficking organizations’ use of Venezuela to transit drugs in 2010. As a matter of stated government policy, the GBRV does not encourage, support, or facilitate illegal activity associated with drug trafficking. Media reports claimed that members of the Venezuelan government and security forces were allegedly engaged in or facilitated illegal activity associated with drug trafficking.

The new Organic Law on Drugs imposed additional penalties on officials from military and security forces convicted of participating or facilitating narcotics trafficking, with these additional penalties ranging from 8-18 years in prison. However, there was no public information available about investigations of senior government officials allegedly involved in narcotics trafficking.

The GBRV did not take action against government and military officials known to be linked to the FARC in 2010. For instance, in November, President Chavez promoted Henry Rangel Silva, Chief of the Armed Force’s Strategic Operation Command, who was designated under the Kingpin Act by the U.S. Treasury Department in September 2008 for materially assisting the narcotics trafficking activities of the FARC, to the four-star equivalent rank of General in Chief. Moreover, the Prosecutor General also awarded Rangel

Silva the Citizen's Merit Medal for his "service in defense of the interests of the country and the constitution."

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Since ceasing formal cooperation with the U.S. Drug Enforcement Administration (DEA) in 2005, the GBRV has maintained only limited case-by-case counternarcotics cooperation with the United States. The United States proposed that the GBRV sign a 2005 addendum to the 1978 U.S.-Venezuelan bilateral counternarcotics MOU that would have permitted expanded cooperation, but Venezuelan officials have stated publicly that Venezuela will neither sign a bilateral agreement nor cooperate with the United States on counternarcotics.

Bilateral cooperation with the United States in 2010 mainly consisted of informal information exchanges with remaining DEA representatives in Caracas, coordination of fugitive deportations from Venezuela to the United States, and maritime interdiction activities carried out by the U.S. Coast Guard (USCG).

The GBRV deported 17 fugitives wanted on narcotics trafficking-related charges during 2010, including six to the United States, four of whom were Consolidated Priority Targets. Among those deported to the United States was Carlos Renteria-Mantilla, for whom the U.S. Department of State had offered a reward of up to \$5 million for information leading to his arrest and/or conviction. The other 11 fugitives were deported to other countries, including Colombia, Peru, France, and The Netherlands.

The GBRV continued to permit the USCG boarding of Venezuelan-flagged vessels on the high seas suspected of being engaged in narcotics trafficking. During 2010, the GBRV cooperated with the USCG in nine maritime drug interdiction cases, compared to three cases in 2009. In one case, the USCG recovered 100 pounds of cocaine jettisoned by one Venezuelan pirogue but was unable to recover the suspected narcotics jettisoned overboard in two other cases. The United States is unaware of the Venezuelan Navy or Coast Guard making any at-sea drug seizures on its own in 2010.

There was no information available in 2010 about the operational status of the U.S.-funded Container Inspection Facility at Puerto Cabello; the ONA informed U.S. officials in November 2009 of its intent to activate the facility.

Interior Minister el Aissami announced in July 2009 that police officers who received training abroad without the Ministry's approval would be fired and punished, and that any foreign law enforcement experts providing training in Venezuela without authorization would face arrest. In 2010, there was little interest by Venezuelan law enforcement authorities in U.S.-funded counternarcotics training programs.

Despite the capture and deportation to Colombia of several suspected FARC and ELN members in 2010, the GBRV appeared to tolerate FARC and ELN presence and did not take significant steps to limit their ability to operate with impunity in Venezuelan territory. During the year, the Colombian government continued to accuse the GBRV of harboring the FARC and the ELN in Venezuela territory, where they were able to rest and regroup, engage in narcotics trafficking, and extort protection money and kidnap Venezuelans to finance their operations. On August 10 2010, newly-inaugurated Colombian President Juan Manuel Santos and President Chavez met in Santa Marta, Colombia, and announced the restoration of diplomatic relations, including the establishment of a bilateral commission with five working groups, including one on security. Underscoring the more cooperative relationship, in November 2010, Venezuela deported two ELN and one FARC member to Colombia. In December 2010, the GBRV captured alleged ELN leader Nilson Terán Ferre, alias "Tulio," and promised to turn him over to Colombia. Following Venezuela's capture in December of the ELN's second in command, President Santos recognized the growing cooperation on the security front.

In August, the GBRV requested the extradition from Colombia of Walid Makled, allegedly Venezuela's largest drug trafficker, shortly after he had been apprehended by Colombian security forces. In 2009, the U.S. Department of Treasury had designated Makled a Significant Foreign Narcotics Trafficker under the

Kingpin Act. Makled reportedly had connections to the FARC. Colombian President Juan Manuel Santos announced on November 16 that Makled would be returned to Venezuela after the completion of Colombia's required judicial proceedings. The GBRV reported having seized the following assets from Makled: 11 businesses, including the airline Aeropostal, one airplane, two boats, 77 trucks, and three properties.

D. Conclusion

The United States remains prepared to deepen cooperation with Venezuela to help counter the increasing flow of illegal drugs transiting Venezuelan territory. Cooperation could be improved through a formal re-engagement between Venezuelan and U.S. law enforcement agencies on counternarcotics issues. Cooperation could also be improved through the signing of the outstanding Bilateral Counternarcotics MOU addendum, which would provide funds for joint counternarcotics projects. In addition, Venezuelan port security could be enhanced through the activation of the Container Inspection Facility at Puerto Cabello, which was partially funded by the United States Government, and through the GBRV's participation in the USCG's International Port Security Program, which helps to assess a country's major seaports and to develop best practices for enhanced maritime security. The last assessment in Venezuela was conducted in 2004, but the GBRV has denied requests by the United States to return. These steps would increase the exchange of actionable intelligence, help to dismantle organized criminal networks, aid in the prosecution of criminals engaged in narco-trafficking, and help stem the flow of illicit drugs transiting Venezuelan airspace, land, and sea.

Vietnam

A. Introduction

Vietnam remains a target for drug trafficking organizations seeking to establish and expand their international smuggling routes from production sites in the Golden Triangle (Thailand, Burma, and Laos) and the Golden Crescent (Afghanistan). Vietnam's geographic location and improving, but still limited drug-enforcement capacities make it an attractive target for drug-trafficking organizations for transshipping illicit narcotics to the international market place. Vietnam continues to work with neighboring countries and regional partners to combat drugs more effectively. U.S. cooperation continues to develop with programs focusing on law enforcement training and health-related projects. In coming years, Vietnam's role as a transit country for drugs trafficked to the U.S. may become a concern as expanding trade and other ties draw the two countries closer.

According to Vietnam's Ministry of Agriculture and Rural Development (MARD), relatively small quantities of opium are still being grown in 12 northern mountainous provinces, particularly in the border provinces of Son La, Lao Cai, Yen Bai, Lai Chau, Lang Son, Gia Lai, Dak Lak, Ha Giang and Dong Nai. The United Nations Office on Drugs and Crime (UNODC) reported an increase in opium poppy seed cultivation from 37.9 hectares (ha) in 2007 to 99 ha in 2009. Despite this increase, the GVN has downplayed this trend by publicly highlighting successes such as the Nghe An Border Guard's eradication of approximately three opium fields covering thousands of square meters during the first quarter of 2010. According to state-sponsored media, growers have become more creative in concealing their illicit activities by planting opium with vegetables in remote areas so authorities only discover the cultivation after the opium has been harvested. Opium cultivation in Vietnam probably accounts for only about one percent of the total cultivation in Southeast Asia, according to law enforcement estimates, and is well below the 1000 hectares, which would make Vietnam a Major Producer under U.S. law.

According to a representative from MARD, cannabis continues to be grown in many provinces and cities, particularly in the Central Highlands, and the Northern Delta. Police have reported cases in which growers have employed modern technology such as greenhouses, hydroponic watering, and artificial light in the growing of cannabis. In February 2010, Ministry of Public Security (MPS) Counter-Narcotics Department officials publicly warned that increasing amounts of cannabis are now being cultivated by drug dealers in underground basements using modern indoor hydroponic cultivation techniques.

During 2010, the GVN continued enforcement and awareness programs aimed at avoiding a youth synthetic drug epidemic; however, the GVN counter-narcotics officials note that, as a developing country, Vietnam will continue to face resource constraints for the foreseeable future, despite annual budget increases for counter-narcotics efforts. Operational cooperation with the U.S. Drug Enforcement Administration's (DEA) Hanoi Country Office has improved, but further progress is still needed in order to achieve significant results. Vietnam is a party to the 1988 UN Drug Convention.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Overall, national drug control policy-making and coordination is the responsibility of the Vietnam National Committee for AIDS, Drugs and Prostitution Control (NCADP), which consists of 19 member ministries and is directed by an inter-ministerial management committee chaired by a Deputy Prime Minister. Deputy Chair responsibilities are shared by the Ministers of Public Security, Health (MOH), Labor, Invalids and Social Affairs (MoLISA); and a representative of the Communist Party-led "umbrella" organization, the Fatherland Front. MPS, as NCADP's standing member, has a specialized unit to combat and suppress drug crimes. The Standing Office for Drugs and Crime (SODC) under the MPS is responsible for assisting the Minister of Public Security, as NCADP Vice Chair, in advising the

Government on developing and coordinating counter-narcotics policies. The SODC also maintains an information unit for collecting and maintaining data on drug trafficking and other drug-related crimes.

The GVN has placed counter-narcotics issues high on its agenda and is committed to pursuing a comprehensive national drug control policy. In June 2009, the National Assembly passed a significant amendment to the Criminal Code that maintains severe penalties for transporting and storing narcotics -- including a mandatory death sentence for possession/trafficking of 600 grams or more of heroin or 20 kilograms of opium gum or cannabis resin -- but also ends punishment for simple use (as opposed to trafficking) of narcotics. The revised penal code has been in effect since January 1, 2010.

The GVN views drug awareness and prevention as vital tools and significant objectives in its fight against illicit narcotics trafficking and abuse, as well as integral parts of its effort to comply fully with the 1988 UN Drug Convention. The GVN relies heavily on counter-narcotics education, culminating in an annual drug awareness month in June. Officially sponsored counternarcotics activities cover every aspect of society, from schools to unions to civic organizations and government offices.

In May 2010, the Ministry of Health submitted to the government a proposal to provide methadone free of charge to 80,000 drug addicts for use during their treatment from now to 2015. The authorities hope for more effective treatment of drug addicts and they believe that methadone maintenance during treatment will reduce the spread of HIV/AIDS. Each province and city will establish 2 - 4 methadone treatment centers as part of this effort.

Despite some difficulties, Vietnam is committed to working with international partners to combat illicit drug use and is working with the UNODC to improve its counter-narcotics and interagency capabilities. In late August 2009, the MPS and the UNODC signed a project to improve Vietnam's counter-narcotics capabilities. The first phase of the project was to help train more than 200 law enforcement officials from MPS, Maritime Police, and Border Guard. The project introduced standardized interagency forms for collection, analysis and dissemination of information. During the project's first phase, 250 law enforcement officers were trained, including 12 trainers, who received training in Thailand. Upon finishing their training, these trainers helped organize training at more than 20 training workshops in Vietnam. In addition, 30 computers were provided to permit future computer based training to law enforcement officials.

Vietnam's counter-narcotics enforcement agencies/units understand the need for regional and global cooperation in investigations. They try to work with immediate neighbors and the international community to investigate narcotics cases. The GVN has signed MOUs with Cambodia and China and has a bilateral agreement with Laos. These cooperative arrangements allow for information sharing on organized criminal syndicates, wanted criminals, drugs sales and consumption, poppy cultivation, coordinating efforts on drug cases, undertaking joint investigations, and apprehending drug-related suspects. Of these bordering nations, Vietnam works closest with Cambodia in regards to curbing the trafficking of illicit drugs. According to the NCADP, cooperation between the two nations has contributed to the reduction of illicit narcotics crossing the border. Vietnam state-sponsored media reported that nearly 2000 smuggling and 600 drug related cases have been uncovered on the Vietnamese-Cambodian border in the past two years as a result of the cooperation between the two countries.

In October 2010, Vietnam hosted close to 100 delegates from over 20 Asia-Pacific countries in Hanoi to discuss and share experiences in drug prevention and control, and increase international cooperation. In early April 2010, a counter drug assistance and cooperation agreement was signed between South Korea and Vietnam. The assistance and cooperation agreement is under a \$2.9 million dollar project aimed at improving infrastructure and information technology in the fight against drugs. South Korea hopes to help the MPS build an extensive database on drug prevention and help train Vietnamese staff in data analysis techniques that can be used in tracking drug traffickers. Additionally, Vietnam has signed crime

prevention and cooperation agreements on counter drugs and money laundering with Malaysia and Germany in the first quarter of 2010.

2. Supply Reduction

During 2010, various types of Amphetamine Type Stimulants (ATS) manufactured in Cambodia, China, Laos, Burma and Thailand were smuggled into Vietnam for local consumption and further transshipment to the international market. For the first half of 2010, the Vietnam Waterway Police report executing 18 drug raids, arresting 22 Vietnamese nationals and seizing 530.5 grams of heroin in their jurisdiction. The majority of arrestees were either drug abusers or street-level dealers. The Waterway Police also reported seizures of small quantities of opium resin, dried marijuana, and MDMA-ecstasy. According to the latest figures obtained from the Border Guard Army, during the first half of 2010, the Border Guard Army investigated 59 drug cases, conducted 368 drug raids, and arrested 517 individuals. The total amount of narcotics seized from January to June 2010, includes 48 kilograms of heroin, 38,713 MDMA tablets, 1.7 kilograms of opium, 15.6 kilograms of marijuana and 694 tablets of psychotropic medicines.

ATS can now be found throughout the country, especially in places frequented by young people. ATS, such as amphetamine, ecstasy, methamphetamine (to include crystal methamphetamine or ICE), and other drugs continue to be a focus of concern for the government. These drugs are popular in major cities such as Hanoi, Hai Phong, Da Nang and HCMC. Because of the presence of ethnic Vietnamese gangs operating among the large Vietnamese populations in Canada, Australia and the U.S., Vietnam-based DTOs may start shipping precursor chemicals and ecstasy from Vietnam into Canada for eventual distribution into the U.S.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the latest available figures released by the MoLISA, there were 180,000 officially registered injecting drug users (IDU) nationwide, compared to the SODC reported 150,000 at the end of June 2009. MoLISA reports an estimated 35,000 IDUs being detained in 100 government operated rehabilitation centers. HIV infection is estimated at over 60 percent in some facilities. The most common drugs used were heroin (81.9 percent), opium (9.8 percent), synthetic drugs (3.7 percent), multi-drug use (2.8 percent), and cannabis (1 percent). The main use pattern was injection (62.2 percent), followed by inhaling (27.3 percent), smoking (6.4 percent), and ingestion (3.9 percent). Glue sniffing is an alarming new trend among many HCMC youth and teenagers.

Vietnam strives to integrate addiction treatment and vocational training to facilitate the rehabilitation of drug addicts. Vietnam has 116 provincial-level detention centers providing detention and detoxification to about 33,000 drug addicts, a significant decrease compared with the more than 100,000 in detention during 2007. The number of “unofficial” drug users is at least several times higher than registered drug users, according to many well-informed observers. Unfortunately, Vietnam’s detention treatment facilities are largely ineffective in preventing relapses. An estimated 95 percent relapse into regular drug use after leaving the centers is the norm. In order to combat the problem of failed treatment, several provinces have provided vocational training for more than 4,000 drug addicts; and facilitated 150 follow-on jobs. In September the government issued a new decree allowing for more effective treatment through community-based drug detoxification and support as opposed to focusing solely on detention centers. Each province and city will also establish 2 - 4 methadone treatment centers as part of the effort to reduce the number of drug addicts and indirectly reduce the spread of HIV/AIDS. As of November 2010 there are 13 methadone clinics in 5 provinces; more clinics are set to open in early 2011. Each clinic is providing methadone treatment for approximately 250 people although some clinics are serving up to 400 patients.

Several ministries undertake demand-reduction activities, which include the distribution of counter-narcotics leaflets and videos, and organized counter-narcotics painting contests for children. Counter-narcotics material is also available in all schools, and the Ministry of Education and Training (MOET)

sponsors various workshops and campaigns at all school levels. The UNODC assesses the GVN drug awareness efforts favorably, but considers these efforts to have had minimal impact on the existing addict and HIV/AIDS populations.

According to a report from the NCADP, the state budget for the drug control program in 2008 was 250 billion Vietnamese Dong (VND) or \$14.7 million. In 2009, the budget was increased to 345 billion VND or \$20.3 million.

4. 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. The GVN has demonstrated its willingness to prosecute some corrupt officials, although most of the targets were relatively low level.

There were no reported cases of drug related corruption within law enforcement or the government in 2010. However, on March 11, 2010, Thai Nguyen Province's People's Court initiated a 20-day trial of 21 heroin traffickers for their illicit activity in 2006 along with eight government personnel who accepted bribes in an attempt to aid defendants to evade sentencing. The eight government officials included local customs inspectors, counter-narcotics police officers, and judges.

C. National Goals, Bilateral Cooperation, and U.S. Policy Initiatives

Vietnam is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Vietnam has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Vietnam ratified the UN Corruption Convention on June 20, 2009. Vietnam issued a statement saying it would not be held to item 2, Article 66 of this convention. This item stipulates that if disputes on the explanation and application of the convention cannot be solved by negotiation or arbitrators, members have the right to bring the case to the international private law court. Vietnam also stated to it would not adhere to some optional regulations, such as criminalizing illegal money-making acts, corruption in the private sector, the use of special investigative techniques, which Vietnamese laws do not cover. In addition, Vietnam does not consider this convention as a direct legal foundation for the extradition of corruption-related criminals; extradition must be based on Vietnamese laws.

The United States counter-narcotics policy objectives in Vietnam are aimed at strengthening law enforcement cooperation and assisting Vietnam to expand the capacity of its counter-narcotics law enforcement agencies. Accordingly, in February 2010, DEA and the GVN renewed their MOU regarding counter-drug cooperation, first signed in November 2006. The MOU between the two agencies is currently the primary mechanism in place to facilitate cooperation. This MOU is a non-binding agreement intended to promote information sharing and coordinated operations between DEA and the MPS. The renewed MOU is effective for three additional years, and aims to solidify joint cooperation efforts to combat transnational drug-trafficking and money laundering. The MOU has allowed the MPS, on a case-by-case basis, to work with the USG officials where cooperation is permitted within Vietnam's existing legal and procedural framework. The MPS also appears to be more willing to provide responses to DEA requests for information. The percentage of responses to requests for information from GVN law enforcement has risen from approximately 28 percent to in excess of 51 percent in 2010. The DEA views this as an indicator of an increased willingness to cooperate in matters related to counternarcotics efforts in spite of the slow pace of legislative change which will ultimately lead to true bilateral investigations.

The USG sponsors and funds capacity-building efforts like GVN participation at international events and conferences, as well as conducting training activities. In August 2010, DEA – with funding from Joint Interagency Task Force West (JIATF-W) – sponsored training for 90 MPS officers. The course provided tactical and emergency medical training. Additionally, DEA and JIATF-W work with MPS on an infrastructure support project involving the construction of a joint training facility in Vinh Vietnam. The International Law Enforcement Academy in Bangkok provides law enforcement training to Vietnamese officers each year on a range of counter-narcotics related courses, training approximately 4 Vietnamese students per course, with a total of 60 - 100 Vietnamese officers trained per year.

In coordination with the DOS and DOD, the U.S. Coast Guard (USCG) is assisting the Government of Vietnam to enhance the capacity and capability of its maritime law enforcement organization, the Vietnam Marine Police (VMP), a unit within the Ministry of Defense. The USCG-VMP relationship began in 2009 with the introduction of entry level maritime law enforcement training delivered in multiple Vietnamese cities. Based on a very positive outcome, training was expanded to include more advance law enforcement training to VMP and several of its sister organizations (e.g. navy and customs). Vietnamese maritime officers are now regular attendees to the U.S. Coast Guard's premier international course, the International Maritime Officer Course (IMOC), in the U.S. In support of a U.S. Pacific Command (PACOM) initiative, the USCG is providing Search and Rescue training to maritime officers both in Vietnam as well as in the U.S. Looking ahead to 2011, the USCG will support a PACOM initiative to install Search and Rescue Operating System (SAROPS) in multiple locations throughout Vietnam. This state of the art computer tool, which can be used beyond SAR planning, will substantially increase the VMP's search and rescue and overall maritime planning capability. In 2011, the USCG will also begin the process of infusing its maritime law enforcement curriculum into the VMP training program in an ongoing effort to build self-sufficiency in this area. Each of the above efforts will substantially increase the VMP's overall maritime capacity/capability in law enforcement and beyond.

The Government of Vietnam and the Government of the United States work closely together to support policy reform as well as continuing to invest in training and quality assurance of technical strategies and health policies as part of PEPFAR Vietnam's goal to strengthen the country's healthcare systems. Injecting drug use is the main behavior driving HIV transmission in Vietnam. Surveillance surveys estimate that up to 40.67 percent of persons who inject drugs in high-prevalence provinces are living with HIV. While the national HIV/AIDS prevalence rate remains low at 0.43 percent, Vietnam continues to work hard to limit transmission into the general population. The Partnership Framework provides a strategic agenda for cooperation between our two governments and continues a joint commitment for the reduction of new HIV infections, improved HIV/AIDS prevention, care, and treatment services, and mitigation of the impact in Vietnam, while contributing substantially to strengthen Vietnam's health system. The Partnership Framework goals address access to and the quality and sustainability of HIV/AIDS services, through three goals: strengthen the quality of and increase access to prevention services for people at risk, and prevention, care, and treatment services for people affected by or living with HIV, these include demand reduction activities such as providing Medicated Assisted Therapy; support the provision of sustainable HIV/AIDS services through strengthening systems for people's health and related welfare; and broaden and strengthen the national response to HIV/AIDS to support people's health and related welfare.

D. Conclusion

The GVN is aware of the country's drug threat and increasing domestic drug problem and continues to develop its cooperation with foreign law enforcement to assist in its counter-narcotics efforts. During 2010, as in previous years, the GVN made progress with ongoing and new initiatives aimed at the law enforcement and social problems, e.g., drug abuse, organized crime, HIV/AIDS, stemming from the illegal drug trade. The GVN continued to show a willingness to take unilateral action against drugs and drug trafficking, but also requested assistance from foreign law enforcement organizations, although on a

case-by-case basis. U.S.-GVN operational cooperation continues to grow but could further improve if Vietnam adopts legislation permitting a binding bilateral agreement necessary to facilitate joint investigation and development of drug cases. Until there is such an agreement between the United States and Vietnam, cooperative drug enforcement will remain limited.

Zambia

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 cultivated in large quantities in Zambia, primarily by small-holder farmers. It is consumed locally and exported regionally and to Europe. Small amounts of other illicit drugs are brought into Zambia for domestic consumption or for transshipment to other markets.

The DEC (Drug Enforcement Commission) works closely with other Zambian law enforcement and health agencies on drug control and treatment programs throughout the country and has a record of good cooperation with the U.S. Government. As is true of the Zambian government generally, the DEC is hampered by a lack of resources and capacity. Zambia is a party to the 1988 UN Drug Convention, as well as to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. A 1931 extradition treaty between the United States and the UK governs extraditions from Zambia.

The DEC reported a 260 percent increase in the amount of cannabis seized in the first nine months of 2010. In the same time period, the DEC reported seizures of 537 kilograms of khat (an 82 percent increase), 21 kilograms of ephedrine, up from almost no ephedrine seized in 2009, and de minimus amounts of cocaine, heroin, and other drugs. 3,952 people have been arrested and prosecuted for drug-related crimes thus far in 2010, a 75 percent increase over the same time period in 2009.

The DEC credits the increase in illicit drug seizures and arrests to its ongoing incentive program to reward officers and informants at the conclusion of successful operations. The Commission also focused its efforts on destroying cannabis fields in partnership with tribal chiefs and village leaders in 2010.

The Zambian Government (GRZ) works closely with its neighbors and countries in the region on drug and drug trafficking issues through Joint Permanent Commissions on Defense and Security and regional organizations such as the Southern Africa Regional Police Chiefs Co-operation Group (SARPCCO) and the South African Narcotics Bureau. The GRZ also collaborates with the U.S. Drug Enforcement Administration, United Nations Office of Drugs and Crime, the International Narcotics Control Board, and Her Majesty's Customs & Excise.

Cannabis is the most commonly consumed drug in Zambia. The National Education Campaign Division (NECD) of the DEC reported that the number of Zambians receiving drug treatment rose to 446 in 2010, an almost 100 percent rise over last year. The NECD attributes this change to an increase in drug abuse in Zambia, primarily among people age 11 to 37, and to the effectiveness of the NECD itself in reaching and counseling drug abusers.

Zambia does not have dedicated drug treatment facilities. The DEC works with hospitals to provide treatment. NECD provide counseling and treatment and admission is managed by health professionals, hospitals and clinics throughout the country.

Although the DEC has played a role in Zambia's 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 mentioned in allegations of drug trafficking. The Zambian Government does not encourage drug trafficking or the laundering of the proceeds of drug trafficking as a matter of government policy.

The U.S. Government provides training assistance to Zambian law enforcement agencies, including the DEC, through the International Law Enforcement Academies in Gaborone, Botswana and Roswell, New Mexico. From 2008 to 2010, a Resident Legal Advisor was stationed in Zambia. This experienced

Federal Prosecutor provided technical assistance to Zambian criminal justice sector officials, particularly in the area of gender-based violence.



United States Department of State

*Bureau for International Narcotics and Law
Enforcement Affairs*

International Narcotics Control Strategy Report

Volume II

Money Laundering and Financial Crimes

March 2011

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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
CFT	Counter-terrorist Financing
CTR	Currency Transaction Report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DNFBP	Designated Non-Financial Businesses and Professions
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
EO	Executive Order
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FI	Financial Institution
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FSRB	FATF-Style Regional Body
GABAC	Action Group against Money Laundering in Central Africa
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

ICRG	International Cooperation Review Group
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INL	Bureau for International Narcotics and Law Enforcement Affairs
IRS	Internal Revenue Service
IRS-CID	Internal Revenue Service Criminal Investigative Division
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
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
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
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
UNDrug Convention	1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPMML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
UNTOC	United Nations Convention against Transnational Organized Crime

Common Abbreviations

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 2011 INCSR is the 28th 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 2011 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. In addition to identifying countries as major sources of precursor chemicals used in the production of illicit narcotics, the INCSR is mandated to identify major money laundering countries (FAA §489(a)(3)(C)). The INCSR is also required to report findings on each country's adoption of laws and regulations to prevent narcotics-related money laundering (FAA §489(a)(7)(C)). This report is the section of the INCSR that reports on money laundering and financial crimes.

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" (FAA § 481(e)(7)). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This 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. A government (e.g., the United States or the United Kingdom) can have comprehensive

¹ The 2011 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 2011 report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. Many agencies 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 Asset Forfeiture and Money Laundering Section (AFMLS) of Justice's Criminal Division, Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development Assistance; and, Treasury's Financial Crimes Enforcement Network, Internal Revenue Service, Office of the Comptroller of the Currency, and 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.

anti-money laundering laws on its books and conduct aggressive anti-money laundering enforcement efforts but still be classified a major money laundering 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. The following countries/jurisdictions have been identified this year in this category:

Major Money Laundering Countries in 2010:

Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bolivia, Brazil, British Virgin Islands, 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, Iraq, Isle of Man, Israel, Italy, Japan, Jersey, Kenya, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Somalia, 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

The *2011 International Narcotics Control Strategy Report, Money Laundering and Financial Crimes*, highlights the most significant steps countries and jurisdictions categorized as "Major Money Laundering Countries" have taken to improve their anti-money laundering/counter-terrorist financing (AML/CFT) regimes. The report provides a snapshot of the AML/CFT legal infrastructure of each country or jurisdiction and its capacity to share information and cooperate in international investigations. For each country where they have been completed, the write-up also provides a link to the most recent mutual evaluation performed by or on behalf of the Financial Action Task Force (FATF) or the FATF-style regional body to which the country or jurisdiction belongs. When applicable, relevant country reports also provide links to the Department of State's "Country Reports on Terrorism" so the reader can learn more about issues specific to terrorism and terrorism financing. Providing these links will allow those interested readers to find detailed information on the country's AML/CFT capacity and the effectiveness of its programs.

In addition, the report contains details of United States Government efforts to provide technical assistance and training as well as information on the multilateral organizations we support, either monetarily and/or through participation in their programs. In 2010, USG personnel leveraged their expertise to share their experience and knowledge with over 100 countries. They worked independently and with other donor countries and organizations to provide training programs, mentoring and support for supervisory, law enforcement, prosecutorial, customs and financial intelligence unit personnel as well as private sector entities. We expect these efforts, over time, will build capacity in jurisdictions that are lacking, strengthen the overall level of global compliance with international standards and contribute to an increase in prosecutions and convictions of those who launder money or finance terrorists or terrorist acts.

Money laundering continues to be a serious global threat. Jurisdictions flooded with illicit funds are vulnerable to the breakdown of the rule of law, the corruption of public officials and destabilization of their economies. The development of new technologies and the possibility of

linkages between illegal activities that generate considerable proceeds and the funding of terrorist groups only exacerbate the challenges faced by the financial, law enforcement, supervisory, legal and intelligence communities. The continued development of AML/CFT regimes to deter criminal activity and detect illicit proceeds is reflected in this report again this year. 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 the funding of terrorists and terrorism.

Bilateral Activities

Training and Technical Assistance

During 2010, 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, regulators and supervisors, 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 Affairs (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; transnational crime; 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 2010, 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, the TFWG provided in 2010 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

Money Laundering and Financial Crimes

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 and training 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/CFT 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. 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 also have been used in terrorist finance.

The success of the Caribbean Anti-Money Laundering Program (CALP) led INL to develop a similar type of program for small Pacific island jurisdictions. 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 terrorists by facilitating the prevention, investigation, and prosecution of money laundering. PALP's staff of resident mentors provides regional and bilateral AML/CFT 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. The PALP is nearing completion following its successful program, as evidenced by the new laws, increased capacity and successful investigations completed by participant jurisdictions.

INL also provided support to the UN Global Program against Money Laundering (GPML) in 2010. In addition to sponsoring money laundering conferences and providing short-term training courses, GPML instituted its mentoring program to provide advisors on a year-long basis to specific countries or regions. GPML mentors provided assistance to Horn of Africa countries targeted by the U.S. East Africa Counterterrorism Initiative as well as asset forfeiture assistance to Namibia, Botswana, and Zambia. The resident mentor based in Namibia 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 to develop viable AML/CFT regimes. GPML continues

to develop interactive computer-based programs for distribution, translated into several languages.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2010, INL supported FATF, the international AML/CFT 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 Intergovernmental Action Group against Money-Laundering in West Africa (GIABA), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the South American Financial Action Task Force (GAFISUD). In addition to providing 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 worked with the mentor to determine priorities and develop opportunities and programs. 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.

INL has supported anti-piracy efforts by substantively working with other bureaus within DOS as well as with international organizations and other countries, to look at the best way to address piracy through its financial levers – the assets assembled as a result of piracy activity, and the material support and instrumentalities of piracy – and the application of domestic and international instruments to thwart pirates as we do other criminals.

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

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

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

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

The ILEAs help develop an extensive network of alumni that exchange information with their U.S. counterparts and assist in transnational investigations. These graduates are also expected to become the leaders and decision-makers in their respective societies. The Department of State works with the Departments of Justice (DOJ), Homeland Security (DHS) and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 30,000 officials from over 85 countries in Africa, Asia, Europe and Latin America.

Africa. ILEA Gaborone (Botswana) opened in 2001. The main feature of the ILEA is a six-week intensive personal and professional development program, called the Law Enforcement Executive Development Program (LEEDP), for law enforcement mid-level managers. The LEEDP brings together approximately 45 participants from several nations for training on topics such as combating transnational criminal activity, supporting democracy by stressing the rule of law in international and domestic police operations, and raising the professionalism of officers involved in the fight against crime. ILEA Gaborone also offers specialized courses for police and other criminal justice officials to enhance their capacity to work with U.S. and regional officials to combat international criminal activities. These courses concentrate on specific methods and techniques in a variety of subjects, such as counter-terrorism, anti-corruption, financial crimes, border security, drug enforcement, firearms and many others. Instruction is provided to participants from Angola, Botswana, Burundi, Cameroon, Comoros, Djibouti, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Republic of Congo, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda and Zambia. Trainers from the United States and Botswana provide instruction. Gaborone has offered specialized courses on money laundering/terrorist financing-related topics such as Criminal Investigation and International Banking & Money Laundering Program. ILEA Gaborone trains approximately 500 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. The ILEA focuses on enhancing the effectiveness of regional cooperation against the principal transnational crime threats in Southeast Asia - illicit drug trafficking, financial crimes, and alien smuggling. The ILEA provides a core course (the Supervisory Criminal Investigator Course or SCIC) of management and technical instruction for supervisory criminal investigators and other criminal justice managers. In addition, these ILEA presents approximately 20 one-to-two-week specialized courses 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), Timor Leste and China (including Hong Kong and Macau), and the strengthening of each country's criminal justice institutions to increase their abilities to cooperate in the suppression of transnational crime. Instruction is provided to participants from Brunei, Cambodia, China, Timor Leste, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand and Vietnam. Subject matter experts from the United States, Australia, Hong Kong, Japan, Philippines, and Thailand provide instruction. ILEA Bangkok has offered specialized courses on money laundering/terrorist financing-related topics such as Computer Crime Investigations and Complex Financial Investigations. Approximately 800 students participate annually.

Europe. ILEA Budapest (Hungary) opened in 1995. Its mission has been to support the region's emerging democracies by combating an increase in criminal activity that emerged against the backdrop of economic and political restructuring following the collapse of the Soviet Union. ILEA Budapest offers three different types of programs: an eight-week Core course, regional seminars and specialized courses in a variety of criminal justice topics. Instruction is provided to participants from Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Czech Republic, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, 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 and also from Hungary, 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. ILEA Budapest trains approximately 1,000 students annually.

Global. ILEA Roswell (New Mexico) opened in September 2001. This ILEA offers a curriculum comprised of courses similar to those provided at a typical criminal justice university/college. These three-week courses have been designed and are taught by academicians for foreign law enforcement officials. This Academy is unique in its format and composition with a strictly academic focus and a worldwide student body. The participants are mid-to-senior level law enforcement and criminal justice officials from Eastern Europe; Russia; the Newly Independent States (NIS); ASEAN member countries; the People's Republic of China (including the Special Autonomous Regions of Hong Kong and Macau); member countries of the Southern African Development Community (SADC) plus other East and West African countries; the Caribbean, Central and South American countries. The students are drawn from pools of ILEA graduates from the Academies in Bangkok, Budapest, Gaborone and San Salvador. ILEA Roswell trains approximately 350 students annually.

Latin America. ILEA San Salvador (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. ILEA San Salvador normally delivers four LEMDP sessions and approximately 20 specialized courses annually, concentrating on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing and financial crimes investigations. Segments of the LEMDP focus on terrorist financing and financial evidence/money laundering application. Instruction is provided to participants from: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panamá, Paraguay, Perú, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela. ILEA San Salvador trains approximately 500 students per year.

The ILEA Regional Training Center. The Regional Training Center (RTC) in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The RTC, expected to be upgraded to a fully-operational ILEA in the future, 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)

In addition to its domestic programs to combat and deter money laundering and terrorist financing, internationally, the Board of Governors of the Federal Reserve System (FRB) conducted training and provided technical assistance to banking supervisors in anti-money laundering (AML) and counter-terrorist financing (CFT) tactics in partnership with regional supervisory groups or multilateral institutions. Countries participating in these FRB initiatives in 2010 were Armenia, Aruba, Colombia, Croatia, Czech Republic, Ghana, Hong Kong, India, Indonesia, Italy, Japan, Kenya, Kuwait, Lebanon, Mexico, New Zealand, Nigeria, Peru, Philippines, Portugal, Russia, and Turkey.

Due to the importance 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/CFT expert group (AMLEG). The FRB also is an active participant in the U.S. Treasury Department's ongoing Private Sector Dialogue conferences. Staff also meets frequently with industry groups and foreign supervisors to communicate U.S. supervisory expectations and 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), the Federal Bureau of Investigation, and the Internal Revenue Service-Criminal Investigation Division.

Federal Bureau of Investigation (FBI), Department of Justice

During 2010, with the assistance of Department of State funding, the U.S. Federal Bureau of Investigation (FBI) continued its extensive international training in combating money laundering, terrorist financing, 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 of the FBI's Counterterrorism Division, 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 financial analysts, intelligence analysts, staff operation specialists, operational Special Agents or Supervisory Special Agents, 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 2010, the FBI delivered training to 245 students from 14 countries at ILEA Budapest. At ILEA Bangkok, the FBI provided training to 55 students from ten countries in the Supervisory Criminal Investigators Course. At ILEA Gaborone, the FBI provided training to 69 students from eight African countries. At ILEA San Salvador, the FBI provided training to 140 students from 17 countries.

Also in 2010, the FBI conducted jointly with the Internal Revenue Service Criminal Investigative Division a one-week course on combating terrorist financing and money laundering for 483 international students from Algeria, Bahrain, Bosnia and Herzegovina, Burkina Faso, Cape Verde, Egypt, Gabon, Guinea-Bissau, Iraq, Jordan, Morocco, Nigeria, Republic of Congo, Saudi Arabia, Senegal, and United Arab Emirates.

At the FBI Academy, the FBI included blocks of instruction on combating terrorist financing and/or money laundering for 37 students participating in Session #14 of the Latin American Law Enforcement Executive Development Seminar; the students were from Argentina, Belize, Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Spain, Uruguay and Venezuela. The FBI included similar blocks of instruction for 18 students participating in Session #5 of the Arabic Language Law Enforcement Executive Development Seminar; the students were from Bahrain, Egypt, Iraq, Jordan, Palestine, Qatar, Saudi Arabia, and Sudan.

Also during 2010, the FBI Academy hosted the first session of the Afghan Law Enforcement Executive Development Seminar and provided blocks of instruction on terrorist financing to 23 students from Afghanistan. In addition, the FBI Academy hosted the first session of the Mexican Law Enforcement Executive Development Seminar and provided blocks of instruction on terrorist financing to 32 students from Mexico. In addition, as part of the FBI's Pacific Training Initiative Session #23, the FBI included terrorist financing instruction for 50 participants from 13 countries; the students were from Australia, Cambodia, China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and the United States.

Federal Deposit Insurance Corporation (FDIC)

In 2010, 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. These efforts were focused primarily on training and outreach initiatives. In partnership with the U.S. Department of State, the FDIC hosted three anti-money laundering and counter terrorist financing (AML/CFT) training sessions for 65 representatives from Afghanistan, Argentina, Ghana, Iraq, Jordan, Kuwait, Mali, Mauritania, Morocco, Nigeria, Pakistan, Paraguay, Qatar, Senegal, and Turkey. The training sessions addressed the AML examination process, suspicious activity monitoring, customer due diligence, and foreign correspondent banking risks and controls.

During the year, the FDIC met with 23 supervisory and law enforcement representatives from Bosnia and Herzegovina, Bulgaria, Estonia, Finland, Hungary, Italy, Kosovo, Lithuania, Namibia, Poland, Romania, Slovenia, Spain, Sweden, Ukraine and Zambia to discuss AML issues. Topics included examination policies and procedures, the USA PATRIOT Act, suspicious activity reporting requirements, and government information sharing mechanisms.

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). In 2010, FinCEN hosted representatives from a variety of foreign government agencies, focusing on topics such as money laundering trends and patterns, the Bank Secrecy Act, the USA PATRIOT ACT, communications systems and databases, and case processing. A number of these visitors were participants in the U.S. Department of State's International Visitor Leadership Program.

FinCEN assists new or developing FIUs that it is co-sponsoring for membership in 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 is currently co-sponsoring FIUs from nine jurisdictions for Egmont Group membership: China, Dominican Republic, Ghana, Jordan, Kuwait, Oman, Pakistan, Tanzania, and Yemen. As a member of the Egmont Group, FinCEN also works multilaterally through its representative on the Egmont

Training Working Group to design, implement, and instruct at Egmont-sponsored regional training programs for Egmont Group members as well as Egmont candidate FIUs.

FinCEN regularly engages with foreign FIUs in order to exchange information on operational practices and issues of mutual concern. 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. In 2010, FinCEN conducted analyst exchanges with the FIUs of Afghanistan, Brazil, Paraguay, the Philippines, and Senegal.

Immigration and Customs Enforcement, Department of Homeland Security (DHS)

During Fiscal Year 2010, ICE-Homeland Security Investigations (HSI), the investigative arm of the U.S. Department of Homeland Security (DHS), continued its commitment to providing financial investigative training to countries around the world. The HSI Financial, Narcotics, and Special Operations Division, in conjunction with the HSI Office of International Affairs conducted and/or participated in training to foreign law enforcement, regulatory agencies, and bank and trade officials in 13 foreign countries. Utilizing their broad experience and expertise in conducting international financial investigations, HSI designed the training to provide the attendee with the critical skills necessary to successfully identify and investigate financial crimes and included such topics as an introduction to money laundering, bulk cash smuggling, asset forfeiture, unlicensed money services business/informal value transfer systems, prepaid access devices, and interviewing techniques.

Bulk Cash Smuggling

Using primarily U.S. Department of State funding, HSI provided bilateral and multilateral training and technical assistance to host nations which consisted of blocks of training detailing the various aspects of money laundering and the interdiction and investigation of bulk cash smuggling (BCS) for over 591 representatives from 13 countries. Notably, Nigeria, Saudi Arabia, Egypt, Indonesia, Algeria, India, Morocco, the Dominican Republic and HSI personnel participated in one of the first money laundering training seminars ever conducted in Sana'a, Yemen.

Through the U.S. Department of State's International Law Enforcement Academy (ILEA) programs, HSI conducted 16 financial investigations and anti-money laundering training programs for over 700 participants at various ILEA Training Centers located in Peru, Botswana, El Salvador, and Thailand.

In FY10, HSI continued its partnership with the Organization of American States (OAS) and the United Nations Office on Drugs and Crime (UNODC). HSI participated in a sub-regional workshop in Lima, Peru dedicated to the interdiction and investigation of cross border bulk cash smuggling. More than 40 financial intelligence analysts from financial intelligence units, immigration and customs officials, and prosecutors from Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay participated in the workshop.

Trade Transparency Units (TTUs)

Trade Transparency Units (TTUs) are designed to help identify significant disparities in import and export trade documentation and identify anomalies related to cross-border trade that are indicative of international 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 financing. TTUs generate, initiate, and support investigations and prosecutions related to trade-based money laundering, the illegal movement of criminal proceeds across international borders, the abuse of alternative remittance systems, and other financial crimes. By sharing trade data, HSI 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. The number of trade-based money laundering investigations emerging from TTU activity continues to grow.

The United States established a TTU within DHS/HSI that generates both domestic and international investigations. With funding from the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL), HSI worked to expand the network of operational TTUs beyond Colombia, Brazil, Argentina, Paraguay and Mexico. In 2010, Panama officially became the newest member of the TTU network. As part of this new TTU initiative, HSI provided IT equipment and training as well as increased support to this newly established TTU to ensure its successful development.

In 2010, HSI updated the technical capabilities of existing TTUs and trained new and existing TTU personnel from Brazil, Colombia, Paraguay, Argentina, Mexico, and Panama, as well as members of their financial intelligence units. Additionally, HSI strengthened its relationship with the TTUs by deploying temporary and permanent personnel overseas to work onsite and provide hands-on training. These actions have continued to facilitate information sharing between the USG and foreign TTUs in furtherance of ongoing joint criminal investigations.

Other HSI Programs

In 2010, HSI expanded its highly successful Operation Firewall, a joint strategic bulk cash smuggling initiative with U.S. Customs and Border Protection (CBP) to provide hands-on training and capacity building to law enforcement officials around the globe. Operation Firewall was designed to address the threat posed by the bulk cash smuggling via the key facets of transportation to include movement within the continental United States and cross-border smuggling through the various air, sea, and land ports of entry. In FY 2010, Operation Firewall resulted in 1,367 seizures totaling in excess of \$133 million in U.S. currency and negotiable instruments and to date has resulted in the seizure of more than \$411 million dollars.

Under the HSI Cornerstone initiative, training was designed and developed 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 the Cornerstone initiative, HSI has dedicated field and headquarters agents who are charged with providing training to the financial and trade communities on identifying and preventing exploitation by criminal and terrorist organizations. In FY 2010, HSI Cornerstone liaisons conducted 2,419 outreach presentations for more than 45,179 industry professionals in the U.S. and abroad.

Internal Revenue Service (IRS), Criminal Investigative Division (CID), Department of Treasury

In 2010, the U.S. Internal Revenue Service (IRS) Criminal Investigation Division continued its involvement in international training and technical assistance efforts designed to assist international law enforcement officers in detecting tax, money laundering, and terrorist financing

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crimes. To complement its independent programs, IRS-CID partnered with several USG and multilateral organizations, including agencies and offices of the U.S. Departments of State, Justice, Treasury and Defense; INTERPOL; the Organization for Economic Co-operation and Development (OECD); and the governments of Greece, Norway and South Korea to deliver a variety of programs. Training consisted of Basic and Advanced Financial Investigative Techniques, and topics addressing the detection and deterrence of money laundering and terrorist financing. Each course was tailored to meet the needs of the relevant participating countries, with varying emphasis on drug trafficking, corruption, methods of proof, tax crimes, customs violations and mock investigations.

Financial Investigative Techniques Training

IRS-CID conducted Financial Investigative Techniques (FIT) courses in the following locations:

Bosnia and Herzegovina –Participants included 57 representatives from the Prosecutor’s Office, Financial Intelligence Department, State Investigative and Protection Agency, Financial Police, Tax Authorities and other police organizations.

Indonesia –Seventy-two participants from the Indonesia National Police, Attorney General’s Office, Financial Transaction Reports and Analysis Center, Immigration, and Corruption Commission attended this training. Additionally, prosecutors from Timor-Leste participated.

South Africa – Ninety-two participants from the South African Revenue Service received training in Pretoria, Capetown and Johannesburg.

Albania –Attendees included 34 participants assigned to the Albanian Joint Investigative Units. Another course included 30 members of the newly formed Criminal Investigations section of the Albanian Tax Authority.

Colombia –The 29 participants included investigators from the Colombian National Police, members of the Attorney General’s investigative body and analysts from the Colombian Financial Investigative Unit.

Cambodia –Approximately 35 members of the National Police Counter Drugs Force, Financial Institutions, Financial Investigative units and Anti-Corruption units from Cambodia received training.

Mexico – The training was presented to 53 Mexican Federal Police officers, investigators, prosecutors, and investigative analysts. The course is part of the Merida initiative which supports bilateral cooperation between the US and Mexico. Also, two advanced FIT classes were delivered to 52 Mexican prosecutors, accountants, investigative analysts and federal agents.

Estonia – A modified FIT training course was delivered to investigators from the Estonia Tax and Customs Board and prosecutors. The training was provided at the request of the Estonian Tax and Customs Board.

Norway – A course funded by the government of Norway was presented to 24 participants, including police investigators, customs officers, and investigators/advisers to the Norwegian Tax Directorate that specialized in economic crimes, customs violations, and/or tax crimes.

Greece – Approximately 60 participants from the Hellenic National Police and the SDOE, a Special Financial Investigative Unit, participated in FIT courses based on a direct agreement with the government of Greece.

South Korea – IRS-CID trained 30 participants from the National Tax Service in cooperation with the South Korean government.

Other Training Initiatives

Various non-FIT training initiatives were delivered by IRS-CID in conjunction with other agencies. These include:

Thailand - The Transnational Crime Affairs Section sponsored three Complex Financial Investigations (CFI) courses given to a total of 159 participants. Participants included members of the Anti-Money Laundering Office (AMLO), bank examiners, the Royal Thai Police, and Thailand Border Patrol.

Mexico -- The International Money Laundering/Criminal Organizations and Illicit Financing course introduced 215 Mexican federal prosecutors, accountants, and law enforcement officials to various aspects of the U.S. judicial system including: money laundering, direct examination, Ponzi schemes, and forfeiture.

Two sessions of Evidence Seizure and Chain of Custody introduced Mexican law enforcement officials to the U.S. based legal system for executing search warrants, seizing evidence, and preserving the chain of custody. The goal is to help prepare Mexican federal officials to investigate and prosecute criminal cases using the accusatorial system.

An Electronic Crimes and Financial Crime Scene presentation was given to money laundering investigators of the Federal Police Anti-Money Laundering Unit and Ministry of Justice Judicial Police.

IRS-CID participated in delivering training to combat terrorist financing and money laundering in Algeria, Bosnia and Herzegovina, Egypt, Iraq, Jordan, Morocco, Nigeria, Philippines, Senegal, and United Arab Emirates.

International Law Enforcement Academy Training

IRS-CID provided instructor and course delivery support to the State Department International Law Enforcement Academies (ILEA) located in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador.

At ILEA Bangkok: IRS-CID participated in one Supervisory Criminal Investigator Course. IRS-CID also participated in three sessions of Complex Financial Investigations. The 159 participants represented various law enforcement agencies from the following countries: Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, Timor-Leste and Vietnam.

At ILEA Budapest: IRS-CID participated in delivering five sessions of Financial Investigative Techniques training. Participating countries included: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Kosovo, Macedonia, Moldova, Montenegro, Serbia, Slovenia, Tajikistan and Ukraine. IRS-CID provided a class coordinator for ILEA 78 who was responsible for coordinating and supervising the participants' daily duties and activities. IRS-CID also provided the key note speaker for the graduation of ILEA 78.

At ILEA Gaborone: IRS-CID participated in four Law Enforcement Executive Development programs. Countries that participated were Angola, Botswana, Cameroon, Djibouti, Ethiopia, Ghana, Guinea, Mauritius, Mozambique, Republic of Congo, Seychelles, South Africa, Uganda and Zambia.

At ILEA San Salvador: IRS-CID assisted in the delivery of four FIT courses for the Law Enforcement Management Development Programs (LEMDP). Participating countries were Antigua and Barbuda, Argentina, Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica,

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Dominica, El Salvador, Grenada, Guatemala, Mexico, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Uruguay.

IRS-CID led a Financial Investigative Techniques/Money Laundering course funded by the ILEA at the Regional Training Center in Lima, Peru. The 33 participants from Argentina, Brazil, Chile, and Peru were members of their respective national police agencies and prosecutors' offices.

Non-routine Training Events

Employees of IRS-CID International Operations also completed several non-routine training events.

Members from IRS-CID International Operations attended a joint Mexico-US workshop that focused on arms trafficking and money laundering by Mexican narcotics cartels. The conference sponsored by the U.S. Ambassador to Mexico, brought together high ranking law enforcement, prosecutorial and regulatory officials from both countries.

In conjunction with the Office of Economic Development and Cooperation (OECD) and the Treasury Executive Office for Asset Forfeiture, IRS-CID led a multi-national training team to develop and present a three-day training symposium in Washington D.C. The symposium consisted of money laundering and bribery awareness for tax examiners. The course was attended by 58 examiners and auditors of 20 countries. IRS-CID also attended an OECD meeting in Paris, France.

Members of International Operations participated in meetings with the International Criminal Police Organization (INTERPOL) and with a delegation from South Korea. INTERPOL's working group on Money Laundering and Terrorist Financing met to provide advice on developing INTERPOL's ability to facilitate money laundering and terrorist financing investigations through effective information sharing. The meeting with officials from South Korea culminated in the signing of a Simultaneous Criminal Investigation Program between the IRS and the National Tax Service of South Korea.

IRS-CID Narcotics and Counterterrorism (NCT) participated in the South Asia Regional Workshop held in Kathmandu, Nepal. NCT discussed domestic/international coordination of investigations and how IRS-CID can add value to terrorism investigations.

A tax and fraud training session organized by the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training Resident Legal Advisor together with the Georgian Ministry of Justice Prosecutor's Service was held in the Republic of Georgia. The training, presented to 120 Ministration of Finance prosecutors and investigators, focused on case development, case assessment and evidence gathering.

IRS-CID attaché in Australia participated in two training sessions. A seminar for the International Association of Financial Crime Investigators focused on the IRS investigative mission and the benefits of law enforcement working together on a global level. Attendees included 130 participants from various Australian agencies and other fraud investigative entities. Another session presented to the Australian Taxation Office (ATO) provided an overview of the IRS and CID's international mission. This training included approximately 50 participants from several sections within ATO.

Assessments

Training assessments for Bosnia and Herzegovina, Cambodia and the Philippines were completed during 2010.

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) works with other federal banking agencies to provide training to foreign banking supervisors. The OCC sponsored several initiatives to provide anti-money laundering/counter-terrorist financing (AML/CFT) training to foreign banking supervisors in 2010. The OCC organized and conducted its annual AML/CFT School in Washington, D.C. The school is designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing typologies and improve their ability to detect these activities, thus strengthening their national AML/CFT regimes. Banking supervisors from 12 countries, including Australia, Brazil, China, India, Indonesia, Italy, Malaysia, Netherlands, Philippines, South Korea, Sri Lanka, Turkey, and Uruguay attended the school held at the OCC's Washington, D.C., headquarters. OCC officials also met with a delegation of South Korean FIU supervisors who visited Washington. Discussions focused on the U.S. bank supervision system, the OCC's risk based supervisory approach, and AML enforcement. The OCC also hosted two foreign bank regulators from Uruguay and Argentina to participate in a three week OCC AML examination.

OCC continued its industry outreach efforts to the International banking community. OCC officials delivered AML/CFT presentations at the MoneyLaundering.com 15th Annual Anti-Money Laundering Conference, attended by more than 1,000 AML professionals from 50 countries; and the Institute of International Bankers Annual Anti-Money Laundering Seminar, hosting attendees from 30 countries. OCC also participated in an AML/CFT presentation and conducted a separate workshop at the Kuwait Anti-Money Laundering Conference. The OCC also provided instructors for a workshop organized by the Association of Banking Supervisors of the Americas (ASBA) and hosted by the Superintendencia de Banca y Seguros, Peru that was attended by 29 supervisors from Argentina, Bolivia, Brazil, Ecuador, Paraguay, and Peru.

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/counter-terrorist financing (AML/CFT) expertise within DOJ, including that of the Asset Forfeiture and Money Laundering Section of DOJ's Criminal Division (AFMLS/Criminal Division), the Counterterrorism Section (CTS) and the Office of Law and Policy of the National Security Division¹ (collectively, "NSD"), and U.S. Attorney's Offices to train and advise foreign AML/CFT partners. Much of the assistance provided by OPDAT, AFMLS, NSD and other DOJ components is provided with funding from the U.S.

¹ The mission of the National Security Division is to combat terrorism and other threats to national security.

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Department of State; funds are also provided by the U.S. Agency for International Development and the Millennium Challenge Corporation.

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 to work directly with counterparts in foreign 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, and judges. RLAs also work in collaboration with DOJ's International Criminal Investigative Training Assistance Program (ICITAP) to train police and other investigative officials. OPDAT's work is coordinated closely with that of other donors and multilateral organizations. For all programs, OPDAT draws upon expertise from DOJ's Criminal Division, NSD, AFMLS, and other DOJ components as needed.

In 2010, OPDAT, AFMLS, and CTS met with and provided presentations to more than 244 international visitors from more than 20 countries on AML and/or CFT topics. Presentations covered U.S. policies to combat terrorism, U.S. legislation, issues raised in implementing new legislative tools, and the changing relationship of criminal and intelligence investigations. The meetings also covered money laundering and material support statutes, and the Classified Information Procedures Act. Of great interest to visitors is the balancing of civil liberties and national security issues, which is also addressed.

Money Laundering/Asset Forfeiture/Fraud

In 2010, OPDAT organized training for foreign judges; prosecutors; other law enforcement officials; legislators; customs, supervisory, and FIU personnel; and private sector participants, 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 2010 include the investigation and prosecution of complex financial crimes, economic crimes, money laundering, and corruption; the use of asset forfeiture as a law enforcement tool; counterfeiting; health care fraud; and international mutual legal assistance.

OPDAT-provided Training and Technical Assistance

In 2010, OPDAT led or participated in training programs and seminars addressing the following topics, all tailored to the region or individual country: asset forfeiture seminars for Southeast Europe, Indonesia, Cameroon, Moldova, Montenegro, and Mexico; complex financial crime investigation and prosecution programs for Jordan, Bangladesh, Turkey, Indonesia, Ukraine, Kosovo, Albania and Mexico; anti-corruption programs for Indonesia, Georgia, Kyrgyzstan, Albania, Montenegro, Armenia, Kazakhstan, Ukraine, Serbia, Tajikistan, Yemen, Liberia, Cameroon, Rwanda, Uganda, Tanzania, and Sierra Leone; mutual legal assistance programs for Ukraine and Southeast Europe, Indonesia, and Mexico; and AML/CFT-related seminars for Saudi Arabia, Jordan, Uganda, Bangladesh, Indonesia, Kuwait and Turkey. Additionally, Turkish, Bangladeshi and Indonesian officials participated in study tours to the United States to observe how the U.S. investigates and prosecutes complex financial crimes and corruption.

In February and September 2010, with support from NSD, OPDAT organized conferences in Turkey designed to promote regional counter-terrorism cooperation. The first conference consisted of representatives from Albania, Bulgaria, Greece, Macedonia, and Turkey, while the second conference included representatives from Egypt, Jordan, Lebanon, and Turkey.

In March, OPDAT, again with the support of NSD, hosted a study visit to Washington for Turkish Ministry of Justice and financial crimes agency officials charged with drafting and refining legislation related to criminalizing terrorist financing, freezing terrorist assets, and designating terrorist organizations.

In May, OPDAT hosted a Southeast Asia Regional Asset Forfeiture Conference in Jakarta for representatives from twelve Southeast Asian Countries (Vietnam, Laos, Thailand, Bangladesh, Malaysia, Indonesia, Hong Kong, Taiwan, Timor Leste, France, United States and Australia). The conference focused on encouraging countries in the region to enact asset forfeiture legislation and use it effectively through international cooperation.

In June, OPDAT co-sponsored a bulk cash smuggling training program for Turkish law enforcement officers in Istanbul, Turkey. The training focused on the interdiction and investigation of cross-border bulk cash smuggling, with emphasis on money laundering and terrorist financing.

In July, OPDAT co-sponsored two sessions of a workshop focusing on enforcement measures against money laundering, terrorist finance, and other financial crimes for Jordanian officials in Amman, Jordan. The program emphasized the respective roles of financial crimes analysts, investigators, prosecutors and judges in addressing financial crimes.

In September, OPDAT co-sponsored with the Treasury Department a regional workshop examining the roles of the financial intelligence unit, law enforcement officers, and prosecutors in Amman, Jordan for officials from Jordan, Egypt, Saudi Arabia, Iraq, Lebanon, Yemen, and the Palestinian Authority. The program provided a framework for discussion of stakeholder roles in money laundering efforts, financial investigative techniques, and international cooperation.

Terrorism/Terrorist Financing

OPDAT, AFMLS, and CTS/NSD, with the assistance of other DOJ components, play a central role in providing technical assistance to foreign counterparts to attack the financial underpinnings of terrorism and to build legal infrastructures to combat it. In this effort, OPDAT, CTS/NSD, 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).

OPDAT-Provided Training and Technical Assistance

The TFWG supports four RLAs assigned overseas, located in Bangladesh, Kenya, Turkey, and the United Arab Emirates (UAE). The RLA for the UAE is stationed at the U. S. Embassy in Abu Dhabi, UAE, and is responsible for OPDAT program activities in the UAE, Saudi Arabia, Kuwait, Qatar, Jordan, Yemen, Oman, and Bahrain. The TFWG also supports OPDAT implemented projects in Indonesia, working through the INL-funded RLA posted there. The activities of the RLAs consist not only of capacity-building with host country justice sectors. Working in countries deemed to be vulnerable to terrorist financing, RLAs focus on money laundering and financial crimes and developing counter-terrorism legislation that criminalizes terrorist acts, terrorist financing, and the provision of material support or resources to terrorist

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organizations. The RLAs implement these programs by providing training, assistance in legislative drafting and support for the country's AML/CFT efforts. Some highlights of the RLAs' efforts in 2010 include:

In Bangladesh, OPDAT organized a U.S.-based study visit for senior members of Bangladesh's law enforcement community and provided technical assistance to the Bangladeshi National Coordinating Committee formed to combat financial crimes by reviewing Bangladesh's AML/CFT legislation. The US visit helped to facilitate a better understanding between the US and Bangladesh of their respective anti-terror efforts, enhanced multi-lateral counter-terrorism ties, and stimulated possible future actions related to anti-money laundering; combating terrorism and terrorist financing; and asset recovery and mutual legal assistance.

In Indonesia, the RLA continued to engage the Attorney General's Terrorism and Transnational Crime Task Force, which OPDAT has supported since its establishment 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.

In Turkey, the RLA hosted regional conferences designed to promote regional counter-terrorism cooperation. In this ongoing project, the RLA continues to focus on regional, pro-active strategies to fight terrorism and its related crimes. This project is designed to foster mentoring relationships among law enforcement of the respective participating countries.

In Kenya, the RLA provided support to the Kenyan government, U.S. authorities, and the international community in the prosecutions of Somali pirates. The RLA addressed Kenya's piracy law, criminal elements of piracy, best practices in these cases, and the need for modernizing evidence practice in Kenya through multiple training sessions delivered in Kenya. The RLA also delivered counter-piracy training programs to officials from the Seychelles and Mauritius.

In the UAE and Gulf Region, the RLA focused on initiatives involving enforcement measures against money laundering and financial crimes in Jordan, and assistance to regulators, customs personnel and prosecutors to combat bulk cash smuggling in the UAE. These efforts are part of a region-wide initiative to address threat finance and money laundering.

In 2010, in addition to the programs listed under the Money Laundering/Asset Forfeiture/Fraud section, the RLAs conducted or participated in the following training programs and seminars: international cooperation in combating terrorism in Uganda, terrorist financing investigations and prosecutions in Qatar, Saudi Arabia, Bangladesh, and Indonesia; and counter-piracy seminars in Kenya, Mauritius, Seychelles and Tanzania.

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. The economic crimes program offers technical assistance to combat money laundering, terrorist financing, and other financial crimes.

Fifty-three experienced Resident Advisors and Intermittent Advisors comprise the Economic Crimes Team (ECT). These advisors provide diverse expertise in the development of anti-money laundering/counter-terrorist financing (AML/CFT) regimes, and the investigation and prosecution of complex financial crimes. The ECT is divided into three geographic areas, each

of which is managed by a full-time Regional Advisor: Europe and Asia, Africa and the Middle East, and the Americas.

OTA receives direct appropriations funding from the U.S. Congress, and funding from the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs, 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 training or technical assistance, OTA Economic Crimes Advisors conduct comprehensive assessments to identify needs and to formulate responsive assistance programs. These needs assessments examine legislative, regulatory, law enforcement, and judicial components, 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 2010, OTA conducted assessments and/or developed new technical assistance plans in Bosnia and Herzegovina, Costa Rica, El Salvador, Georgia, Guatemala, Guyana, Honduras, and Uruguay.

Regional and Resident Advisors

OTA Regional Advisors and Resident Advisors continued international support in the areas of money laundering and terrorist financing through conducting bilateral assessments; organizing and participating in regional training events and international workshops and seminars; working collaboratively with international donors; and supporting FATF-style regional bodies in the delivery of technical assistance and other direct and indirect technical assistance activities.

Africa and Middle East: The Regional Advisor serves as the U.S representative for the MENA FATF Technical Assistance and Topology Working Group and is a member of U.S. delegations to three FATF-style regional bodies in his region. The region has resident advisors in Botswana, Jordan, Iraq, Ghana and Morocco and intermittent projects in Sao Tome and Principe, Lesotho, Palestine, Algeria and Saudi Arabia.

In Eastern and Southern Africa, OTA placed a resident advisor in Botswana to work with the newly established financial intelligence unit (FIU) and to also provide assistance on an intermittent basis to Lesotho as that country implements its AML/CFT legislation and establishes an FIU. In Lesotho, OTA provided assistance in identifying required amendments to AML/CFT legislation, drafted implementing AML/CFT regulations, drafted a position description for the FIU Director's position, reviewed the proposed FIU budget, and assisted in planning outreach activities for public and private institutions. In Botswana the OTA resident has finalized an AML/CFT technical assistance work plan, trained FIU staff, assisted in the development of a 2011 budget for the FIU, and played a key role in getting an interim FIU Director appointed.

In West Africa, a resident advisor was placed in Ghana and is co-located in the FIU, providing assistance to bring it to an operational level and to address deficiencies in the country's AML/CFT regime. In 2010, the advisor focused on assisting the FIU with the FATF International Cooperation Review Group (ICRG) monitoring process, assisted in the 2011 budget

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development, improved the FIU data management process, assisted in the development of a currency declaration form, and coordinated an OTA Information Technology (IT) assessment to initiate the IT development process for the FIU.

In North Africa, a resident advisor was placed in Morocco in December 2010 to provide technical assistance to the FIU, Central Bank and other AML/CFT stakeholders. Technical assistance to Algeria will continue and focus on AML/CFT gaps identified in its recently adopted mutual evaluation report.

In the Middle East, a resident advisor was placed in Iraq with a focus to work with Iraq's Money Laundering Reporting Office (MLRO) and other AML/CFT stakeholders in passing new legislation and improving regulatory, investigative and prosecutorial capacity to combat serious financial crimes. OTA participated in anti-money laundering and anti-corruption workshops for Iraqi officials and mentored investigators and prosecutors on complex money laundering and terrorist financing cases.

Europe and Asia: OTA's Regional Advisor for is a member of the US delegation to the Asia Pacific Group on Money Laundering (APG) and actively participates in the activities of the APG's Technical Assistance and Training group. In early 2010, OTA placed two additional resident advisors in Afghanistan: one with the Major Crimes Task Force (MCTF); and one banking AML/CFT specialist to work with the AML/CFT section of the supervisory section of the Central Bank. OTA also placed Economic Crimes RAs in Vietnam and Kosovo in early 2010.

The RA in Afghanistan continued to focus on development of the Afghan FIU. OTA placed a second advisor with the Afghan MCTF to teach financial investigative techniques, mentor investigation of economic crimes, mentor processes associated with asset seizure, and orient investigative conduct toward prosecution. The MCTF's responsibility for economic crimes investigations was expanded in 2010 to include tax evasion by individual and commercial entities in which the FIU occupies a critically supportive role. Two one week bulk cash smuggling & money laundering training courses were developed and conducted for the MCTF as part of joint OTA/DHS Immigration and Customs Enforcement-Homeland Security Investigations training endeavors. Significant improvement, regarding the extent and quality of routine coordination occurring between the MCTF and FIU, was achieved in 2010. OTA also helped prepare the Afghan Government for the IMF mutual evaluation of its AML/CFT regime. OTA placed a third advisor in the supervision department of Afghanistan's Central Bank (DAB) to provide mentoring on hawala licensing and bank and hawala examination procedures. This advisor has developed and conducted training on bank AML/CFT inspection procedures for DAB staff.

OTA placed a new resident advisor in Kosovo in early 2010. The OTA resident advisor provided assistance in the drafting and reviewing of Kosovo's Law on the Prevention of Money Laundering and Terrorist Financing, which was passed by Parliament and subsequently signed by the President in November 2010. OTA continues to provide mentoring, advice, and other development assistance to FIU management, analysts and other staff. OTA initiated a working group to develop a Suspicious Activities Report awareness training program that will be delivered to Kosovo's financial institutions.

The resident advisor in the Mekong Region continued to deliver resident-based TA to Vietnam, Cambodia, and Laos according to assessed needs in each jurisdiction.

Western Hemisphere: During 2010 OTA substantially increased its presence in the Western Hemisphere, placing resident advisors in Mexico (March), Costa Rica (June), Guatemala

(August), and Honduras (September). In Mexico, OTA continued its work with that country's law enforcement community providing Financial Investigative Techniques as well as workshops to foment interagency coordination in advanced money laundering investigations. Additionally, OTA began work in earnest with Mexico's Tax and National Bank authorities in the development of a supervisory regime for money remitters. OTA continued its work with the FIUs of Mexico and Uruguay by providing training seminars and mentoring.

OTA's resident advisor in Paraguay continued work with Customs to enhance its capacity to fight smuggling and tax evasion, and the undervaluation and under-registration of goods, improve its internal control and investigation capability and, as a result, reduce corruption in the customs sector. Controls over the importation and exportation of goods have been substantially enhanced; opportunities for corruption substantially decreased; and, customs revenues have increased. OTA also continued work in Paraguay to help that country's FIU renew and stand up its IT system.

AML/CFT Training

OTA specialists delivered AML/CFT courses and other advice-based services 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 non-bank financial institutions and the gaming sector, 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, mutual legal assistance and cooperation, search, and seizure, and asset seizure and forfeiture procedures.

In Sao Tome and Principe OTA continues implementation of an MCC-funded project with customs authorities to modernize operations. Efforts have led to the passage of a modern and internationally compliant Customs law, and work is progressing on 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 counter smuggling.

In Algeria, Palestine, and Saudi Arabia advisors provided technical assistance to enhance the operational capacity of FIUs. This assistance involved institutional building, analytical training, IT assessments, budget and facilities development, strategy development, legislative review, regulation drafting, mentoring, cross border monitoring and outreach to public and private institutions on AML/CFT responsibilities. During 2010, OTA worked with prosecutors from the Palestinian Attorney General's office providing mentoring in complex financial crimes cases. A Financial Investigative Techniques Course (FIT) was conducted for the Saudi Arabia FIU and other officials in September 2010. A regional FIU workshop focusing on the FIU relationship with law enforcement and international cooperation was conducted for officials from Jordan, Saudi Arabia, Egypt, Palestine Authority, Yemen, and Iraq in September 2010. A study tour visit was organized for Jordanian FIU officials to visit the Lebanese Special Investigation Commission (SIC), Lebanon's FIU.

A regional Middle East North Africa AML/CFT training project, initiated in 2007 and funded by USAID, concluded in September 2010 after conducting eight major regional events covering topics such as corruption, bulk cash smuggling, task force investigations, financial analysis, financial investigations, targeted economic sanctions, FIU operations and international cooperation. Approximately 235 individuals participated in these training events.

In Vietnam, suspicious activity reporting training was delivered to compliance and executive staff of all 84 licensed banks, AML examination training was delivered to the State Bank of Vietnam, and mentoring was delivered to FIU staff. Development of internal financial investigation training curricula commenced with OTA assistance at the Ministry of Public Security's Police Academy, as well as at the State Customs Academy. In Cambodia, OTA is assisting with development of an electronic reporting system for suspicious activity and large cash transaction reports. In Laos, OTA conducted a legislative assessment with the Laotian Anti-Money Laundering Intelligence Unit (AMLIU). OTA assisted Laos in preparing for its APG mutual evaluation, funding translation of the mutual evaluation questionnaire and other key documents, and delivering preparatory training for completion of the questionnaire in conjunction with APG and UNODC.

In Georgia, OTA conducted a FIT course for law enforcement investigators and prosecutors. Due to the high level of interest, OTA delivered three separate FIT courses and two separate Advanced Money Laundering Analysis courses to Kosovo's enforcement and regulatory agencies. Technical assistance was provided to the Kosovo Tax Administration in drafting the criminal tax amendment and OTA is also assisting in drafting the new criminal tax procedures manual.

In the Americas during 2010, OTA delivered technical assistance in Argentina, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, Paraguay, and Uruguay. In Argentina, OTA delivered a workshop focused on money laundering through the Securities Sector to staff of the National Banking and Securities Commission, Argentine prosecutors, financial crimes investigators and FIU staff members plus Uruguayan officials. In Uruguay, OTA led a workshop focused on the Enterprise Theory of Investigation for Organized Crime; there were participants from Paraguay. OTA also continued to work closely with the Mexican tax authority and the Mexican banking securities supervisor to assist their efforts to develop a regulatory and supervisory regime for money service businesses. In Haiti, OTA continued its program to assist the Government of Haiti draft reforms for its outdated Criminal and Criminal Procedural and Tax Codes, as well provide continued training and mentoring for analysts at its financial intelligence unit and analysts, investigators and prosecutors in a companion financial crimes investigative task force unit. Finally, OTA continued its work in the IT area, assisting the Haiti FIU in its efforts to obtain appropriate IT systems to receive reports from obligated entities.

OTA continued to offer train-the-trainer courses throughout its programs so that the basic skills taught in investigative courses can be passed on by the recipients to their agency colleagues.

Financial Analysis Techniques Training

Globally, OTA delivered the Financial Analysis Training Course (FATC) to analysts in the financial intelligence units of Georgia, Jordan, Kosovo, Mexico, Pakistan, Singapore, Uruguay, and Vietnam. Regional training co-sponsored with the IMF in Singapore included participants from Cambodia, Indonesia, Laos, Malaysia, Nepal, Pakistan, Thailand, and Vietnam.

Looking forward, and in response to a demand for advanced training, OTA continued development of its Advanced FATC, adding modules on: corruption; international cooperation; the black market peso exchange system; advanced transactional analysis and targeting. In anticipation of using these and other FATC modules in Central America, the foregoing materials have been translated into Spanish. OTA is working on translating these same materials into French for use in francophone Africa. This course was presented to analysts from Jordan, Kosovo, Palestine and Vietnam.

Casinos and Gaming

In 2010 the Casino Gaming Group (CGG) experts from OTA's Economic Crimes program provided technical assistance to the international community in the area of gaming industry regulation. The CGG provides assistance in the drafting of gaming legislation and implementing regulations, and trains gaming regulators and FIU personnel to develop the capacity for implementing AML programs, conduct pre-licensing investigations, and audit and inspect casino operations and all games of chance.

In 2010 the CGG followed up on assistance provided in 2009 to both Costa Rica and Guatemala in the creation of draft gaming laws. In both countries the draft laws are before the National Assemblies and, in 2010, CGG advisors worked with both governments and legislators resolving issues and answering questions. It is anticipated that both laws will be enacted in 2011. In the current form both laws would meet international standards. Additionally, meetings have been held with regulators in Argentina, Ecuador and Mexico to work toward enhancing gaming regulations.

The draft Kosovo Law on Games of Chance was submitted to the Minister, Ministry of Economy and Finance in February 2010. The CGG worked extensively with the Ministry in the creation of this law. Following subsequent submission and review of alternative proposals, a meeting between OTA and Kosovar authorities is scheduled for January 2011 to finalize the law for presentation to the Minister.

CGG conducted assessments of the casino regulatory systems and gaming laws in Armenia and Georgia.

Insurance

In 2010 OTA in conjunction with the New York Insurance Commission provided separate week long insurance fraud training courses to insurance regulators in Egypt and Jordan. This followed assistance to the Egypt Insurance Supervisory Authority (EISA) in planning and conducting its first insurance AML/CFT examination.

Treaties and Agreements

Treaties

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and related 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, are in force with the following countries: Antigua & Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Belize, Brazil, Canada, Cyprus, Czech Republic, Dominica, Egypt, Estonia, France, Germany, Greece, Grenada, Hong Kong, Hungary, India, Ireland, Israel, Italy, Jamaica, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malaysia, Mexico, Morocco, the Kingdom of the Netherlands (including Aruba, Curacao, and St. Maarten), Nigeria, Panama, Philippines, Poland, Romania, Russia, St. Lucia, St. Kitts & Nevis, St. Vincent & the Grenadines, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Trinidad & Tobago, Turkey, Ukraine, United Kingdom (including the Isle of Man, Cayman Islands, Anguilla, British Virgin Islands, and Montserrat), Uruguay, and Venezuela. In addition, on February 1, 2010, 27 U.S.-EU Instruments/Agreements/Protocols entered into force that either supplemented existing MLATs

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or created new mutual legal assistance relationships between the United States and every member of the EU. Mutual legal assistance agreements have been signed by the United States but not yet brought into force with the following countries: Algeria, Bermuda, and Colombia. The United States is engaged in negotiating additional MLATs with countries around the world. The United States also has signed and ratified the Inter-American Convention on Mutual Legal Assistance of the Organization of American States, the United Nations Convention against Corruption, the United Nations Convention Against Transnational Organized Crime, the International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention.

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, Mexico, and Monaco.

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, Bermuda, Bulgaria, Canada, Cayman Islands, Chile, Columbia, Croatia, Cyprus, France, Guatemala, India, Indonesia, Italy, Japan, Macedonia, Malaysia, Mexico, Montenegro, Moldova, the Netherlands, Netherlands Antilles, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Serbia, 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 that include asset forfeiture. To date, the Bahamas, Canada, Cayman Islands, Hong Kong, Jersey, Liechtenstein, Luxembourg, Singapore, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From 1989 through October 2010, the international asset sharing program, administered by the Department of Justice, shared \$233,042,355 with 36 foreign governments that cooperated and assisted in investigations. In 2010, the Department of Justice agreed to transfer \$2,946,237 in forfeited proceeds to the Government of United Mexican States. 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, Germany, Greece, Guatemala, Guernsey, Honduras, Hong Kong, 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 2010, the international asset-sharing program administered by the Department of Treasury shared \$30,321,113 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2009, the Department of Treasury transferred \$1,500.235 in forfeited proceeds to Vietnam (\$12,882), Japan (\$381,608), Brazil (\$1,038,976), Malta (\$50,000) and Canada (\$16,768.46). 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 36 members, comprising 34 member countries and territories and two regional organizations, as follows: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, India, Ireland, Italy, Japan, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Peoples Republic of China, Portugal, Republic of Korea, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, the United States, the European Commission and the Gulf Cooperation Council. FATF admitted India in June 2010.

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 on Money Laundering (APG)

The Asia/Pacific Group on Money Laundering (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 40 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, Papua New Guinea, Philippines, People's Republic of China, Samoa, Singapore, Solomon Islands, South Korea, Sri Lanka, Thailand, Timor Leste, Tonga, United States, Vanuatu, and Vietnam.

The Caribbean Financial Action Task Force (CFATF)

The Caribbean Financial Action Task Force (CFATF) was established in 1992. CFATF has 29 members: Anguilla, Antigua & Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curacao, Dominica, Dominican Republic, El Salvador,

Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Nicaragua, St. Kitts & Nevis, St. Lucia, St. Maarten, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago, Turks & Caicos Islands, and Venezuela. In 2010, Costa Rica and Panama left the group, and, in November 2010, Curacao and St. Maarten become individual members after the dissolution of the Netherlands Antilles.

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 28 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, Malta, Moldova, 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 currently Austria and the United Kingdom.

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)

The Eastern and Southern Africa 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 in 2004, and has nine members: Belarus, India, Kazakhstan, Kyrgyzstan, People's Republic of China, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan. India and Turkmenistan became the newest members of the group in 2010.

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 in 2000 by the ten original member states of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay. Costa Rica and Panama joined the group in 2010, bringing total membership to 12.

Inter-Governmental Action Group against Money Laundering in West Africa (GIABA)

The Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) was formally established in 1999. GIABA consists of 15 countries: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, 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) was formally established in 2004. MENAFATF has 18 members: Algeria, Bahrain, Egypt, Iraq, Jordan,

Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen.

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, through its Inter-American Drug Abuse Control Commission (OAS/CICAD), is responsible for combating illicit drugs and related crimes, including money laundering. In 2010, CICAD continued to carry out its activities in anti-money laundering and combating the financing of terrorism (AML/CFT) throughout Latin America and the Caribbean. CICAD's AML/CFT 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 Affairs (INL) provided full or partial funding for many of the CICAD training programs in 2010.

Expert Group

The expert group, which met twice in 2010, has two working groups: one dealing with seizure and forfeiture of assets and their management, coordinated by Costa Rica, and another that deals with coordination and integration of law enforcement agencies and financial intelligence units (FIUs), coordinated by Chile. The two groups deliberated and met in plenary to deal with building consensus on proposals to put before the full CICAD Commission. Discussion also focused on streamlining working group methodology and strategic planning. The expert group designated Uruguay as its representative in a regional initiative to draft model legislation on seized and forfeited assets for the region, sponsored by the United Nations Office on Drugs and Crime (UNODC)-Colombia.

Seized and Forfeited Assets

After completing the project's two-year pilot phase in Argentina, Chile and Uruguay in December 2009, the Seized and Forfeited Assets Management Program of Latin America (BIDAL, from the Spanish acronym) project shifted to a different regional focus, working with the governments of the Dominican Republic, El Salvador, Guatemala, and Panama to implement asset recovery management programs. As an initial step for each of these four countries, the project carried out an assessment of existing legislation on asset investigation and seized and forfeited asset administration systems before determining the work plan for each country. The CICAD Executive Secretariat worked to help member states implement the guidelines and recommendations that have emerged from the BIDAL project and the Expert Group, on topics such as the recovery of stolen assets, asset tracing, capital asset investigations, mutual legal assistance (MLA), and asset management. The CICAD Executive Secretariat has also drawn on the asset management expertise of the US Marshalls, the National Narcotics Directorate of Colombian and the Costa Rican Institute on Drugs.

Capacity Building

The Anti-Money Laundering Section organized a total of 17 seminars and workshops in 14 countries in 2010, training nearly 700 judges, prosecutors, law enforcement officers, financial intelligent unit analysts and forfeited assets administration officers, among other participants. It partnered with the UNODC, the Stolen Assets Recovery (StAR) Initiative of the World Bank, the

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World Bank Institute, the Ministry of Interior of the Government of Spain and INL of the Department of State, as well as the OAS's Inter-American Committee Against Terrorism (CICTE) and the governments of CICAD member states.

CICAD also coordinated with the UNODC Legal Assistance Program for Latin America and the Caribbean (LAPLAC/UNODC), INTERPOL, and the South American Financial Action Task Force (GAFISUD) in setting up the Asset Recovery Network of GAFISUD (RRAG per its Spanish abbreviation) as a vehicle for exchanging information about the identification and recovery of assets, products or instruments of transnational illicit activities. This initiative is based on the guidelines of the CARIN Network (CAMDEN Assets Recovery Inter-Agency Network in Europe).

The Anti-Money Laundering section continued with its project backed by LAPLAC/UNODC, the Government of Spain and INL to train judges, prosecutors, police investigators, and financial analysts through mock trials and investigations of money laundering cases. Costa Rica, Dominican Republic, El Salvador, Guatemala, Nicaragua and Panama benefited from the program in 2010.

Joint efforts with the OAS CICTE and UNODC (Vienna), funded by INL, among others, led to two regional workshops in 2010 on the financing of terrorism for legislators, prosecutors, police and financial analysts in Costa Rica (six countries) and The Bahamas (13 countries). CICAD joined follow-up missions with CICTE and UNODC to Bolivia, Costa Rica, Ecuador and Paraguay to discuss implementation of legislation and adjustments in law enforcement.

The Narcotics Affairs Section of the U.S. Embassy in Lima underwrote a comprehensive program to train Peruvian judges, prosecutors, public defenders, law enforcement officers and financial analysts in the techniques and tools for dealing with money laundering and the financing of terrorism. Workshops were held on special investigation techniques, incriminating evidence, and the analysis of financial links and relationships. The Section is also working to develop a methodological plan of investigation for prosecutors and investigators, as well as holding mock investigations and mock trials to give participants hands-on experience. In December, the Superintendence of Banks and Insurance of Peru signed an agreement with the CICAD Executive Secretariat to establish a training center specialized in the control of money laundering and the financing of terrorism.

Pacific Anti-Money Laundering Program (PALP)

The Pacific Anti-Money Laundering Program (PALP), which commenced in September 2006, is a joint initiative between the UN Office on Drugs and Crime (UNODC) and the U.S. Department of State. The PALP was conceived by and is funded by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs. The PALP is a 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, implementing and strengthening their anti-money laundering and combating the financing of terrorism (AML/CFT) regimes. The 14 members of the Pacific Islands Forum that receive PALP assistance are the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. The PALP is coordinated and managed by the United Nations Office on Drugs and Crime, Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism (GPML).

The PALP uses resident in-country mentors and intermittent mentors who visit participating jurisdictions to provide tailor-made advice and assistance on establishing viable AML/CFT regimes, including assistance with legal, law enforcement, regulatory, and financial intelligence unit (FIU) development. PALP's strength lies in the extensive knowledge and years of operational experience of each of the mentors. This wealth of experience means that the PALP mentors are ideally positioned to give participating countries sound advice based upon expert knowledge and practical know-how.

In 2010, the PALP continued to provide assistance on a wide range of AML/CFT issues, including legislative drafting, capacity building, and very importantly, case support. During 2010 a number of jurisdictions passed or amended their AML/CFT legislations and/or regulations. National trainings were also conducted for FIU staff, prosecutors, customs officers and law enforcement officials.

The PALP works in close cooperation with the Asia/Pacific Group against Money Laundering (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 presentations during the regional training in Kuala Lumpur on Strategic Implementation Planning. This training was supported by APG, Malaysia and Canada, and was provided to 25 FIU personnel, prosecutors, and investigators.

Case Support

Strong case support was provided in Palau. Assistance was provided by three GPML mentors to the Assistant Attorney General, the Attorney General and the Independent Counsel in relation to and at different stages of ongoing investigations surrounding the collapse of a major bank in Palau. Case support also took place in other jurisdictions. Mentoring investigators and prosecutors is an effective way to ensure that the new knowledge and skills gained through attendance at formal training events is put into operation. Coaching by the PALP mentors builds confidence within officials who are charged with undertaking money laundering investigations and prosecutions.

PALP will continue to provide an on-site and intermittent support to a number of Pacific countries with a focus on Cook Islands; the Republic of Marshall Islands; Samoa; the Kingdom of Tonga; and Vanuatu. The Program will continue to deliver its technical assistance and training efforts on AML/CFT through the work of its FIU mentor, regulatory mentor and legal mentor. Many countries now have legislation in place and have officers trained in basic identification and investigation of AML/CFT related crimes. PALP will focus its work on assisting responsible agencies to undertake successful investigations and prosecutions and to confiscate criminal assets as well as development of AML/CFT supervision programs. The Program is expected to conclude in the third quarter of 2011.

United Nations Global Programme against Money Laundering, Proceeds of Crime, and the Financing of Terrorism (GPML)

The United Nations is one of the most experienced global providers of anti-money laundering (AML) training and technical assistance and, since 9-11, countering financing of terrorism (CFT) training and technical assistance. The United Nations Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism (GPML), part of the United Nations Office on Drugs and Crime (UNODC), was established to assist member states to

comply with the UN Conventions and other instruments that deal with money-laundering and terrorist financing. These now include the United Nations Convention against Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 Vienna Convention), the United Nations International Convention for the Suppression of the Financing of Terrorism (the 1999 Convention), the United Nations Convention against Transnational Organized Crime (the 2000 Palermo Convention), and the United Nations Convention against Corruption (the 2003 Merida Convention).

In March 2008, GPML's scope and objectives were widened to meet the growing needs and demands of the international community for tailor-made assistance in the effective implementation of these UN instruments and other international anti-money laundering/countering the financing of terrorism (AML/CFT) standards, and to use AML/CFT systems as effective tools to achieve better financial transparency, integrity and good governance, thereby increasing investment prospects. GPML 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.

GPML is the focal point for AML policy and activities within the UN system and a key player in strengthening efforts to counter terrorist financing. GPML provides technical assistance and training in the development of related legislation, infrastructure and skills, directly assisting member states in the detection, seizure, and confiscation of illicit proceeds. Since 2001, GPML's technical assistance work on CFT has also received priority. GPML now incorporates a focus on CFT in all its technical assistance work, in particular its financial investigations and financial analysis training tools.

In 2010, GPML provided long-term assistance in the development of viable AML/CFT regimes in six regions, to 44 countries. GPML also delivered 26 training events worldwide, in partnership with other agencies and organizations where possible; and trained 1,250 representatives of law enforcement agencies, financial intelligence units (FIUs), judicial authorities and reporting entities.

An independent evaluation of GPML was conducted throughout the second half of 2010. The evaluators concluded that GPML "has been successful in influencing the adoption of national legislation and the establishment of law enforcement institutions and procedures through its mentoring, training and information support systems."

The Mentoring Program

GPML's mentoring program is one of the most successful and well-known activities of international AML/CFT technical assistance and training, and is increasingly serving as a model for other organizations' initiatives. It is one of the core activities of the GPML technical assistance program and is highly regarded by the AML/CFT community. The GPML Mentoring Program provides targeted on-the-job training that adapts international standards to specific local/national situations, rather than the traditional training seminar. 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. By giving in-depth support upon request, the mentors have gained the confidence of the recipient institutions, which enables the achievement of concrete and significant outputs. In many countries, GPML mentors are the only locally placed AML/CFT experts, hence they are heavily relied upon by local offices of donor countries and organizations for advice in the creation and delivery of other donor AML/CFT projects.

The GPML Asset Forfeiture Mentor based in the Prosecutor General's Office of Namibia provides assistance for the development and strengthening of asset forfeiture mechanisms in Southern Africa. The mentor 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 the National Prosecuting Authority (NPA) in South Africa. In 2010, two Namibian prosecutors were successfully placed, impacting positively on the management of large corruption cases in Namibia. In Botswana, a multi-agency agreement on new confiscation legislation has been reached and in Zimbabwe, with mentor's assistance, agreement was reached to establish a specialized asset forfeiture unit within the office of the Director of Public Prosecution.

In West Africa, GPML's main achievements in 2010 include the strengthening of the FIU operational capacities in Côte d'Ivoire, Guinea Bissau, Mali, Senegal and Sierra Leone, through the delivery of both training and equipment; and outreach to reporting entities in Côte d'Ivoire and Mali. Activities were completed in coordination with the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA).

The World Bank/GPML mentor based in Hanoi continued to strengthen operational capacities in Vietnam, Laos, and Cambodia. In Laos, the mentor took part in the drafting of the memorandum of understanding (MOU) for exchange of intelligence between the FIU and other authorities. Also, following the delivery of financial investigation courses, the number of corruption cases being investigated in Vietnam has increased, and case management and witness handling techniques have been adopted in Cambodia.

In October 2008, GPML assumed the coordination and administration of the Pacific Anti-Money Laundering Program (PALP), which provides AML/CFT advice, training and technical assistance to support the establishment, development and implementation of AML/CFT systems to 14 Pacific Island Forum.

In collaboration with the World Bank, GPML continued providing support to their joint AML/CFT mentor for Central Asia. In 2010, the main focus of the mentor's work was capacity building related to the FIUs of Kazakhstan, Turkmenistan, Uzbekistan, and Tajikistan as well as domestic and international interagency cooperation. As a result of this work, the Kazakh FIU became an observer to the Egmont Group and the Uzbek FIU is also considering becoming an observer to the Egmont Group in 2011. In January 2010, Tajikistan established a FIU and with the mentor's assistance adopted its organizational structure and prepared a new draft AML/CFT law.

In Central America and the Caribbean, GPML contributed in 2010 to the Public-Private Partnership against Money Laundering. This innovative program, which is being piloted in Colombia, aims to integrate AML/CFT measures into business management. The alliance includes more than 20 members from the public (justice and regulators) and private (financial and commerce) sectors.

Mentoring & Financial Intelligence Units

GPML mentors worked extensively on the development and the implementation phases of FIUs in several countries in the Eastern Caribbean; Western, Southern and Eastern Africa; the Pacific; Central Asia; and the Mekong region. A major initiative that could have global implications for many FIUs is the development by the UNODC Information Technology Service, with substantive inputs from GPML, of an analytical and integrated database and intelligence analysis system for operational deployment in FIUs, called goAML (<http://goaml.unodc.org>). It is an IT

solution for FIUs to manage their activities, particularly data collection, analysis, and dissemination. Version one of goAML is fully developed and is being installed in Namibia, Kosovo, Palestine, Nigeria, Tanzania, Bermuda, Denmark, Netherlands, Morocco and South Africa.

Financial Intelligence Unit Analyst Course

GPML” Financial Intelligence Unit Analyst Course is an opportunity for FIU analysts to develop knowledge and skills in the analysis process and the development of financial intelligence. The course focuses on analysis of suspicious transactions related to possible money laundering and terrorist financing; and addresses relationships between the FIU and agencies responsible for investigation of money laundering and terrorist financing. In 2010, the training was delivered in the Maghreb region with the following participating countries: Mauritania, Morocco, Tunisia and Algeria.

Other GPML Initiatives

Mock Trials: The AML/CFT Mock Trial Program is a key training activity, designed to support and enhance judiciary capacities in dealing with complex financial crime cases. Its long-term objective is also to develop a methodology and a prototype of mock trials that could be used in other developing countries. In 2010, GPML replicated the Latin American training in Kazakhstan and Cambodia.

Financial Investigation Course: GPML also developed a Financial Investigation Course that aims to provide an opportunity for investigators to develop their knowledge and skills in financial investigation and to raise awareness of terrorist financing and money laundering methods. This course has a practical focus and is designed upon legal and procedural processes in the country of training. It gives participants the opportunity to learn the legislative aspects of financial crime, understand their powers, conduct searches and undertake interviews. The training was delivered in Vietnam, Cambodia, and Tanzania in 2010.

Illicit Financial Flows: 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 since January 2008 in a new initiative on “Financial flows to and from Afghanistan linked to the illicit drug production and trafficking”. In 2010, GPML developed a questionnaire to assess the proportion of money flows to/from Afghanistan and determine the destination and transit countries involved in the financial flows derived from Afghan opiates production and trafficking.

GPML is also working on a study on the illicit financial flows linked to cocaine production and trafficking in West Africa, with a view to determining their possible destabilizing effect on regional economies.

StAR: 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 AML system forms an integral part of good governance policy and asset recovery strategy, GPML participated in the development of several knowledge products including the Study on Barriers to Return of Stolen Assets and the Handbook on Asset Recovery which were both finalized in 2010.

Manual on Financial Instruments: *The Manual for users and Employees of Financial Institutions on the Risks of Money laundering through Financial Instruments* was developed in

2009 jointly with the UNODC Legal Advisory Programme for Latin America and the Caribbean (LAPLAC). The English version of the Manual was launched at the 18th EGMONT Plenary 2010, the CFATF XXXI Plenary, and at the International Conference on Financial Crime and Terrorism Financing 2010. Training modules based on the Manual and addressed to judges and prosecutors, were held within the StAR initiative in Colombia and Argentina and the Mock Trials on Money Laundering Program held in Bolivia. The manual is available in Spanish and English versions; Russian and French versions are being developed.

IMoLIN/AMLID: AMOLIN is a one-stop AML/CFT research resource, which is administered and managed by GPML on behalf of eleven partner organizations. Within IMoLIN is the Anti-Money Laundering International Database (AMLID), a unique password-protected service cataloguing AML/CFT laws on a global basis in an easily searchable format. The database has a collection (and analysis) of legislation from 102 jurisdictions. AMLID also provides an overview of the status of a country or territory in relation to the international conventions applicable to AML/CFT as well as the status of a country or territory in relation to bilateral/multilateral treaties or agreements on mutual legal assistance in criminal matters and extradition.

Cash Couriers: In November 2010, GPML conducted an expert working group on cash couriers with participants from Interpol, OSCE, WCO as well as representatives of FIUs, customs and other government agencies from 12 jurisdictions. The meeting focused on the development of a training program to be employed in the course of technical assistance to countries which have basic legislative structures in place to deal with the cross-border movement of cash, but lack the structural awareness and experience to effectively intercept cash couriers.

Development of AML/CFT Experts/Trainers: GPML commenced its project to imbed AML/CFT curricula into police and prosecution training institutions. This initiative involves design and development of AML/CFT training modules and the development of national AML/CFT subject matter experts, through a series of train-the-trainer and technical workshops. The final workshop involves national trainers delivering the course. Bangladesh is the pilot country for this project.

Computer Based Training: The Computer Based Training (CBT) includes high-quality voice, pictures, graphics, interactive video and animation, simulation and student tests. The AML CBT training is currently available in ten languages: Spanish, French, Russian, Arabic, Chinese (Mandarin), Amharic, Bahasa, Thai, English, and Vietnamese. In 2010, GPML, in partnership with the British High Commission, funded the establishment of a new CBT centre in Fiji.

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 2011 INCSR identifies 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.

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“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 International Cooperation Review Group (ICRG) exercise, which focuses on a jurisdiction’s compliance with stated criteria regarding its legal and regulatory framework, international cooperation, and resource allocations. 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.

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.” While the actual money laundering problem in jurisdictions classified as “Jurisdictions of Concern” is not as acute as in those considered to be of “Primary Concern,” 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 non-bank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, in particular where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing, and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to Basel Committee’s “Core Principles for Effective Banking Supervision,” especially in jurisdictions where the monetary or bank supervisory authority is understaffed, under-skilled or uncommitted.
- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Jurisdictions where charitable organizations or alternative remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering or terrorist financing.

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- 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 2011

Jurisdictions moving from the “Jurisdiction of Concern” column to the “Primary Concern” column:

British Virgin Islands and Iraq

New jurisdiction in “Primary Concern” column (first time in report):

Somalia

Jurisdictions moving from the “Other Jurisdictions Monitored” column to the “Jurisdiction of Concern” column:

Kazakhstan, Kosovo, and Montenegro

Jurisdiction moving from the “Jurisdiction of Concern” column to the “Other Jurisdictions Monitored” column:

Uzbekistan

New jurisdiction in “Other Jurisdictions Monitored” column (first time in report):

Sudan

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” category.

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Countries and Jurisdictions Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Liechtenstein	Albania	Moldova	Andorra	Madagascar
Antigua and Barbuda	Luxembourg	Algeria	Monaco	Anguilla	Malawi
Australia	Macau	Angola	Montenegro	Armenia	Maldives
Austria	Mexico	Argentina	Morocco	Benin	Mali
Bahamas	Netherlands	Aruba	Nicaragua	Bermuda	Malta
Belize	Nigeria	Azerbaijan	Palau	Bots wana	Marshall Islands
Bolivia	Pakistan	Bahrain	Peru	Brunei	Mauritania
Brazil	Panama	Bangladesh	Poland	Burkina Faso	Mauritius
British Virgin Islands	Paraguay	Barbados	Portugal	Burundi	Micronesia FS
Burma	Philippines	Belarus	Qatar	Cameroon	Mongolia
Cambodia	Russia	Belgium	Romania	Cape Verde	Montserrat
Canada	Singapore	Bosnia and Herzegovina	Samoa	Central African Republic	Mozambique
Cayman Islands	Somalia	Bulgaria	Saudi Arabia	Chad	Namibia
China, People Rep	Spain	Chile	Senegal	Congo, Dem Rep of	Nauru
Colombia	Switzerland	Comoros	Serbia	Congo, Rep of	Nepal
Costa Rica	Taiwan	Cook Islands	Seychelles	Croatia	New Zealand
Cyprus	Thailand	Cote d'Ivoire	Sierra Leone	Cuba	Niger
Dominican Republic	Turkey	Curacao	Slovakia	Denmark	Niue
France	Ukraine	Czech Rep	South Africa	Djibouti	Norway
Germany	United Arab Emirates	Ecuador	St. Kitts & Nevis	Dominica	Oman
Greece	United Kingdom	Egypt	St. Lucia	East Timor	Papua New Guinea
Guatemala	United States	El Salvador	St. Maarten	Equatorial Guinea	Rwanda
Guernsey	Uruguay	Ghana	St. Vincent	Eritrea	San Marino
Guinea-Bissau	Venezuela	Gibraltar	Suriname	Estonia	Sao Tome & Principe
Haiti	Zimbabwe	Grenada	Syria	Ethiopia	Slovenia
Hong Kong		Guyana	Tanzania	Fiji	Solomon Islands
India		Honduras	Trinidad and Tobago	Finland	Sri Lanka
Indonesia		Hungary	Turks and Caicos	Gabon	Sudan
Iran		Ireland	Vanuatu	Gambia	Swaziland
Iraq		Jamaica	Vietnam	Georgia	Sweden
Isle of Man		Jordan	Yemen	Guinea	Tajikistan
Israel		Kazakhstan		Iceland	Togo
Italy		Korea, North		Kyrgyz Republic	Tonga
Japan		Korea, South		Lesotho	Tunisia
Jersey		Kosovo		Liberia	Turkmenistan
Kenya		Kuwait		Libya	Uganda
Latvia		Laos		Lithuania	Uzbekistan
Lebanon		Malaysia		Macedonia	Zambia

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, 2010, 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 the drug trade.
- 2. “Criminalized Beyond Drugs”: The jurisdiction has enacted laws criminalizing the offense of money laundering related to crimes other than the drug trade.
- 3. “Know Your Customer Provisions”: By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know Your Customer/Customer Due Diligence programs for their customers or clientele.
- 4. “Report Large Transactions”: By law or regulation, banks and/or other covered entities are required to report large transactions in currency or other monetary instruments to designated authorities.
- 5. “Report Suspicious Transactions”: By law or regulation, banks and/or other covered entities are required to report suspicious or unusual transactions to designated authorities. On the Comparative Table the letter “Y” signifies mandatory reporting; “P” signifies reporting is not required but rather is permissible or optional; “N” signifies no reporting regime.
- 6. “Maintain Records over Time”: By law or regulation, banks and/or other covered entities are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
- 7. “Disclosure Protection - ‘Safe Harbor’”: By law, the jurisdiction provides a “safe harbor” defense to banks and/or other covered entities and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
- 8. “Criminalize ‘Tipping Off’”: By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.
- 9. “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 in order to counter money laundering. An asterisk reflects those jurisdictions that are not members of the Egmont Group.
- 10. “Cross-Border Transportation of Currency”: By law or regulation, the jurisdiction has established a declaration or disclosure system for persons transiting the jurisdiction's borders, either inbound or outbound, and carrying currency or monetary instruments above a specified threshold.

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- 11. “International Law Enforcement Cooperation”: Jurisdiction cooperates with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data, upon request. No known legal impediments to cooperation exist in current law.
- 12. “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.
- 13. “System for Identifying and Forfeiting Assets”: The jurisdiction has established a legally authorized system for the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.
- 14. “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.
- 15. “Criminalized the Financing of Terrorism”: The jurisdiction has criminalized the provision of material support to terrorists, terrorist activities, and/or terrorist organizations as required by the UN International Convention for the Suppression of the Financing of Terrorism and UN Security Council Resolution 1373.
- 16. “Report Suspected Terrorist Financing”: By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.
- 17. “States Party to 1988 UN Drug Convention”: States party to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 18. “States Party to the UN International Convention for the Suppression of the Financing of Terrorism”: States party to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 19. “States Party to the UN Convention against Transnational Organized Crime”: States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 20. “States Party to the UN Convention against Corruption”: States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 21. “US or International Sanctions/Penalties”: The US, another jurisdiction and/or an international organization, e.g., the UN or FATF, has imposed sanctions or penalties against the jurisdiction. A country’s inclusion in the FATF’s International Cooperation Review Group exercise is not considered a sanction or penalty unless the FATF recommended counter-measures against the country/jurisdiction.

Comparative Table

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
	Govt/Jurisdiction																				
Afghanistan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Algeria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Andorra	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Argentina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	Y	Y	Y	N
Aruba	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Albania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Algeria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Angola	Y	Y	Y	N	Y	Y	Y	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	N
Anguilla ¹	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Antigua and Barbuda	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Armenia	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Austria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Australia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Azerbaijan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Bahamas	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bahrain	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Bangladesh	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Barbados	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Belarus	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Belize	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Benin	Y	Y	N	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of Terrorism has not yet been so extended.

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Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Bermuda ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	
Bolivia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	N	N	Y	Y	Y	Y	
Bosnia & Herzegovina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	
Botswana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	N	
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	
British Virgin Islands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	
Brunei Darussalam	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	N	
Bulgaria	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	
Burkina Faso	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	N	
Burma	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	N	N	Y	Y	Y	Y	
Burundi	Y	Y	Y	N	Y	Y	N	N	N	Y*	Y	Y	N	N	Y	Y	Y	Y	Y	N	
Cambodia	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	N	N	Y	Y	Y	Y	Y	N	
Cameroon	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	
Cape Verde	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	
Cayman Islands ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	
Central African Republic	Y	Y	Y	Y	Y	Y	N	Y	N	N	N	N	Y	N	Y	N	Y	Y	Y	N	
Chad	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	N	N	N	N	N	Y	Y	Y	Y	
Chile	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	
China	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N	Y	Y	Y	Y	Y	N	
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	
Comoros	Y	Y	Y	Y	Y	N	N	N	Y	Y*	Y	Y	N	N	N	N	Y	Y	Y	N	
Congo, (Dem Republic)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Congo, Republic of	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Cook Islands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Costa Rica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Cote d'Ivoire	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Croatia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Cuba	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Curacao	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cyprus ¹ (1)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Denmark	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Djibouti	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Dominica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Dominican Republic	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Ecuador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Egypt	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
El Salvador	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Equatorial Guinea	Y	Y	Y	Y	N	Y	N	N	N	N	N	N	N	N	N	N	N	Y	Y	N	N
Eritrea	N	N	N	Y	Y	Y	N	N	Y	Y*	Y	N	N	N	N	N	Y	N	N	N	Y
Estonia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Ethiopia	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	U	Y	Y	Y	N	Y	Y	N
Fiji	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N

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Area administered by Turkish Cypriots	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	N	Y	N	Y	Y	N/A	N/A	N/A	N/A	N
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Money Laundering and Financial Crimes

Actions by Governments	Criminalized Drug Money Laundering																				
	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Finland	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
France	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Gabon	Y	Y	Y	N	Y	Y	N	N	N	N	Y	N	N	N	Y	Y	Y	Y	Y	Y	N
Gambia	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	Y	N	N
Georgia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Germany	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Ghana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Gibraltar	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N
Greece	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Grenada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	N
Guatemala	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Guernsey ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Guinea	Y	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	Y	Y	Y	N	N
Guinea-Bissau	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	Y	Y	Y	N	Y	N	N	N	Y
Guyana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Haiti	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	N	N	Y	N
Honduras	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Hong Kong ¹	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Hungary	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Iceland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
India	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Indonesia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Isle of Man ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Iran	Y	Y	Y	N	Y	Y	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	Y
Iraq	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	Y	Y	Y	N	Y	Y	N
Ireland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Israel	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N

¹ 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 ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Italy	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Jamaica	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Japan	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Jersey ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Jordan	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	N	Y	N	N	Y	Y	Y	Y	Y	Y	N
Kazakhstan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Kyrgyz Republic	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Kenya	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N
Korea (DPRK)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Korea, Republic of	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Kosovo	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	N	Y	N	Y	Y	N	N	N	N	N
Kuwait	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	Y	N	N	Y	N	Y	Y	N
Laos	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	N	N	Y	N	Y	Y	Y	Y	N
Latvia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Lebanon	Y	Y	Y	N	Y	Y	Y	N	N	Y	Y	N	Y	N	Y	Y	Y	N	Y	Y	N
Lesotho	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Liberia	Y	Y	Y	Y	N	Y	N	N	N	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y
Libya	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	N	N	N	N	N	Y	Y	Y	Y	N
Liechtenstein	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Lithuania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Luxembourg	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Macau ¹	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Macedonia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Madagascar	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Malawi	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Malaysia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	Y	N	Y	N	N	N	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N

Money Laundering and Financial Crimes

Actions by Governments																					
	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Mali	Y	Y	Y	N	Y	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Malta	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Marshall Islands	Y	Y	N	N	N	N	N	N	N	N	Y	Y	Y	N	Y	N	N	Y	N	N	N
Mauritania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mauritius	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Mexico	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Micronesia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	N	N
Moldova	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Monaco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Mongolia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Montenegro	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Montserrat ¹	Y	Y	Y	N	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Morocco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Mozambique	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Namibia	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	N	Y	Y	Y	N	N	Y	N	Y	Y	N
Nauru	Y	N	Y	Y	Y	Y	Y	Y	Y	Y*	N	N	Y	N	Y	Y	N	Y	N	N	N
Netherlands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Nepal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	N	N	N
New Zealand	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Nicaragua	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Niger	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	N	N	Y	N	Y	Y	Y	Y	Y	Y	N
Nigeria	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Norway	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Oman	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	Y	N	N
Pakistan	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	N	N	N	N	Y	Y	Y	Y	Y	Y	N
Palau	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	Y	Y	N	Y	N	N	N

Actions by Governments																					
	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Panama	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Papua New Guinea	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	N	Y	N	N	N	N	Y	N	Y	N
Paraguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N
Peru	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Philippines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Poland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N
Portugal	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Qatar	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Romania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Russia	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Rwanda	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Sao Tome & Principe	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	Y	N
St. Kitts and Nevis	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	N
St. Lucia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	N	N	N
St. Vincent and the Grenadines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Samoa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
San Marino	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Saudi Arabia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
Senegal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Serbia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Seychelles	Y	Y	N	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Sierra Leone	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	N	Y	Y
Singapore	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Money Laundering and Financial Crimes

Actions by Governments																					
	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Slovak Republic	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Slovenia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Solomon Islands	Y	Y	N	N	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	Y	Y	N	Y	N	N	N
Somalia	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
South Africa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Spain	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Sri Lanka	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Sudan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	N	N	Y	Y	N	N	N	N
Swaziland	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	N	N	Y	Y	Y	Y	Y	N
Sweden	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Switzerland	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Syria	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Tajikistan	Y	Y	Y	N	N	N	Y	N	Y	Y*	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
Taiwan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N*	N*	N*	N*	N
Tanzania	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Thailand	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Timor-Leste	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y	N
Togo	Y	Y	Y	Y	Y	N	N	N	Y	Y*	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Tonga	Y	Y	Y	Y	P	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Trinidad & Tobago	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Tunisia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Turkey	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Turkmenistan	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
Turks and Caicos ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N
Ukraine	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
UAE	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
United Kingdom	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
United States	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Uganda	Y	N	Y	N	N	Y	N	N	N	N	Y	N	N	N	Y	N	Y	N	N	Y	N
Uruguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Uzbekistan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Vanuatu	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Vietnam	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	N	N	N	N	Y	N	Y	Y	N	N	N
Venezuela	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Yemen	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Zambia	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Zimbabwe	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y

INCSR Volume II Template Key

1. INTRODUCTORY PARAGRAPH

This section provides a historical and economic picture of the country or jurisdiction, particularly relating to the country's vulnerabilities to money laundering/terrorist financing (ML/TF). Information on the extent of organized criminal activity, corruption, drug-related money laundering, financial crimes, smuggling, black market activity and terrorist financing should be included.

This section should also include a brief summary of the scope of any offshore sector, free trade zones, the informal financial sector, alternative remittance systems or other prevalent area of concern or vulnerability. Discussion of deficiencies in any of these areas should be further discussed in item 9, below.

2. DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: (Y/N)

This question addresses whether the jurisdiction's financial institutions engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States or that otherwise significantly affect the United States.

3. CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes:

Legal persons covered: criminally: (Y/N) civilly: (Y/N)

In general, two methods of designating money laundering predicate crimes are in use. The response to this question indicates which method of designation the country uses - does the country list specific crimes as predicate crimes for money laundering in its penal code? Conversely, does it use an "all serious crimes" approach, stating that all crimes with penalties over a specified amount or that carry a threshold minimum sentence are money laundering predicate crimes?

Are legal persons, that is, corporations, partnerships, or any legal entity, liable for money laundering/terrorist financing activity by law? Are they subject to criminal penalties, such as fines? Are they subject to civil or administrative penalties, such as civil money penalties, or suspension or loss of license?

4. CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: (Y/N)

UN lists of designated terrorists or terrorist entities distributed to financial institutions: (Y/N)

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>).

The seizure and forfeiture of assets (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, other property) belonging to terrorists or terrorist organizations can be important elements in efforts to control the financing and perpetration of terrorist acts and terrorism.

Does the government have an independent national system and mechanism for freezing terrorist assets in a timely manner?

Does the government distribute to financial institutions the names of suspected terrorists and terrorist organizations listed on the United Nations 1267 Sanctions Committee's consolidated list as being linked to Usama bin Ladin, members of the al-Qaida organization or the Taliban?

The link to the Department of State's Country Reports on Terrorism will appear if a submission for the country/jurisdiction appears in that report.

5. *KNOW-YOUR-CUSTOMER RULES:*

Covered entities: A list of the types of financial institutions and designated non-financial businesses and professions covered by KYC rules

Enhanced due diligence procedures for PEPs: Foreign: (Y/N) ***Domestic:*** (Y/N)

Customer due diligence (CDD) or know your customer (KYC) programs should apply not only to banks or financial institutions but also to designated non-financial businesses and professions (DNFBPs). Covered institutions should be required to know, record, and report the identity of customers engaging in significant transactions. Entities such as securities and insurance brokers, money exchanges or remitters, financial management firms, gaming establishments, lawyers, real estate brokers, high-value goods dealers and accountants, among others, should all be covered by such programs.

Countries should be using a risk-based approach to CDD or KYC. Using that approach, types of accounts or customers may be considered either less or more risky and be subject to varying degrees of due diligence. Politically exposed persons (PEPs) should be considered high risk and should be subject to enhanced due diligence and monitoring. PEPs are those individuals who are entrusted with prominent public functions in a country, for example, heads of state; senior politicians; senior government, judicial or military officials; senior executives of state-owned corporations; important political party officials. Does the country apply enhanced due diligence procedures to foreign and/or domestic PEPs?

6. *SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:*

Covered entities: A list of the types of financial institutions and designated non-financial businesses and professions covered by reporting rules

Number of STRs received and time frame:

Number of CTRs received and time frame:

Suspicious transaction reporting requirements should apply not only to banks or financial institutions but also to DNFBPs. Entities such as securities and insurance brokers, money exchanges or remitters, financial management firms, gaming establishments, lawyers, real estate brokers, high-value goods dealers and accountants, among others, should all be covered by such programs.

If available, the report will include the number of suspicious transaction reports (STRs) received by the designated government body and the time frame during which they were received. The most recent information available, preferably the activity in 2010, will be included.

Similarly, if the country has a large currency transaction reporting requirement, whereby all currency transactions over a threshold amount are reported to a designated government body, the report will include the number of currency transaction reports (CTRs) received by the designated government body and the time frame during which they were received. The most recent information available, preferably the activity in 2010, will be included. The report should not include information on CTRs not required to be forwarded to a designated government body but held in institutions for government review.

7. MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: (Number and time frame)

Convictions: (Number and time frame)

Assets forfeited: criminally: (amount and time frame) **civilly:** (amount and time frame)

The seizure and forfeiture of assets (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and other property) derived from the international drug trade, money laundering, or other serious crimes can be important elements in efforts to control criminal activity. If the jurisdiction has enacted laws authorizing the seizure and forfeiture of assets identified as relating to or generated by money laundering activities, the report will indicate the dollar equivalent of assets subject to criminal forfeiture and the relevant time frame. Similarly, if the country has a non-conviction based or civil asset forfeiture regime, the dollar equivalent of assets forfeited civilly and the relevant time frame will be included.

If available, the report will include the numbers of prosecutions and convictions and the relevant time frames. The most recent information available, preferably the activity in 2010, will be included.

8. RECORDS EXCHANGE MECHANISM:

With U.S.: (Y/N)

With other governments/jurisdictions: (Y/N)

Does the country/jurisdiction have in place treaties, memoranda of understanding or other agreements to share information related to financial crimes, money laundering, and terrorist financing with the United States? With other governments?

The report will indicate if the country/jurisdiction is a member of the Financial Action Task Force (FATF) or a FATF-style regional body. A link to the website with its most recent mutual evaluation will be shown.

9. ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Information in this section should include: changes in policy, law, and implementation of regulations occurring since January 1, 2010, and any issues or deficiencies noted in the country/jurisdiction's AML/CFT program. These may include the following: resource issues, legislative deficiencies, and/or implementation deficiencies; information on any U.S. or international sanctions against the country/jurisdiction; whether the country has cooperated on important cases with USG agencies or has refused to cooperate with foreign governments, as well as any actions taken by the USG or any international organization to address such obstacles, including the imposition of sanctions or penalties; any known issues with or abuse of non-profit organizations, alternative remittance systems, offshore sectors, free trade zones, bearer shares, or other specific sectors, or situations; any other information which impacts on the country's/jurisdiction's ability to successfully implement a comprehensive AML/CFT regime or provides information on successful, innovative policies or procedures.

Countries/Jurisdictions of Primary Concern

Afghanistan

Afghanistan's formal financial system is no longer rapidly expanding while traditional informal financial systems, particularly regional hawala networks, remain significant in reach and scale. Afghanistan currently is experiencing large gross outflows of currency. Annually, hundreds of millions of dollars are transported out of the country through a variety of means. Terrorist and insurgent financing, money laundering, cash smuggling, informal value transfer systems and other activities designed to finance organized criminal activity continue to pose a serious threat to the security and development of Afghanistan. Afghanistan remains a major drug trafficking and drug producing country. The illicit narcotics trade, corruption and contract fraud are major sources of laundered funds. Despite ongoing efforts by the international community to build the capacity of Afghan police and customs forces, Afghanistan is unable to consistently uncover and disrupt financial crimes because of limited resources, little expertise, and corruption and insufficient political will. Proposed reforms often conflict with legal, historical, and cultural factors.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Central Bank of Afghanistan (DAB), banks, money service providers, insurance companies, dealers in precious metals and stones, lawyers, accountants, securities dealers, and real estate agents

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions and money service businesses including informal funds transfer providers such as hawaladars.

Number of STRs received and time frame: 598 from June 2006 to October 2010

Number of CTRs received and time frame: 1,744,169, from June 2006 to October 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Afghanistan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. It is scheduled to undergo its first mutual evaluation late in 2010.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2010 Afghanistan became a member of the Egmont Group of Financial Intelligence Units.

Money laundering and terrorist financing investigations in Afghanistan have been hampered by a lack of capacity, awareness, and political commitment, particularly involving prosecutors and the courts. Corruption permeates all levels of Afghan government and society and has a direct impact on the lack of financial crimes enforcement. Afghanistan ranked 176 out of 178 countries surveyed in Transparency International's 2010 Corruption Perception Index.

Border security continues to be a major issue throughout Afghanistan. In 2008 there were 14 official border crossings that came under central government control, utilizing international 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 particularly susceptible to illicit cross-border trafficking, trade-based money laundering, and bulk cash smuggling. Furthermore, officials estimate there are over 1,000 unofficial border crossings along Afghanistan's porous borders. Customs authorities, with the help of outside assistance, have made improvements, but much work remains to be done.

It is estimated that five percent or less of the Afghan population uses banks. Afghanistan is widely served by the traditional and deeply entrenched hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. It is estimated 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 such as the UAE, Iran and Pakistan with weak regulatory regimes for informal remittance systems), micro and trade finance, as well as some deposit-taking activities. 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 to settle their balances with other hawaladars abroad, while banks will occasionally use hawaladars to transmit funds to hard-to-reach areas within Afghanistan. There are approximately 250 known hawala dealers in Kabul, and approximately 1,500 dealers that vary in size and reach spread throughout Afghanistan's 34 provinces. Given how widely used the hawala system is in Afghanistan, it undoubtedly is involved, intentionally or inadvertently, in financial crimes; however, only a few STRs have been submitted by money service providers (MSPs), including licensed hawaladars. This needs to be addressed immediately, while continuing to license the remaining 50 percent - 60 percent of MSPs still operating outside the formal sector.

The Afghan government has no formal extradition or mutual legal assistance arrangements with the United States. In the absence of a formal bilateral agreement between Afghanistan and the United States, requests for extradition and mutual legal assistance have been processed on an ad hoc basis, largely with the assistance of the Afghan Attorney General's Office. The 2005 Afghan Counter Narcotics law, however, allows the extradition of drug offenders under the 1988 UN Drug Convention.

Antigua and Barbuda

Antigua and Barbuda is a significant offshore center that despite recent improvements 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.

Antigua and Barbuda uses the East Caribbean (EC) dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). Seven other island economies are also members of the ECCB: Anguilla, Dominica, Grenada, Montserrat, St Kitts and Nevis, St. Lucia, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

As of 2010, Antigua and Barbuda has 15 international banks, one international trust, three offshore insurance companies, 3,497 international business corporations (IBCs), ten interactive gaming companies, six interactive wagering companies, eight money services businesses, and 25 corporate management and trust services providers. In addition, there are five casinos. Bearer shares are permitted for international companies but 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 are required to be disclosed. Registered agents or service providers are required by law to know the names of beneficial owners. 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. Internet gaming companies are required to incorporate as IBCs, to report all payouts over \$25,000 to Antigua and Barbuda's Office of National Drug and Money Laundering Control Policy (ONDCP), and to have a physical presence, meaning the primary servers and the key person are resident in Antigua and Barbuda.

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. Internet gaming companies are required to submit quarterly and annual audited financial statements and maintain records relating to all gaming and financial transactions of each customer for six years.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, and money exchangers; notaries; domestic and Internet gaming centers; real estate and travel agents; company service providers; lawyers; accountants; dealers in autos, precious metals and stones, and other high-value goods; insurance brokers; and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, and money exchangers; notaries; domestic and Internet gaming centers; real estate and travel agents; company service providers; lawyers; accountants; dealers in autos, precious metals and stones, and other high-value goods; insurance brokers; and securities dealers

Number of STRs received and time frame: 145, January to December 2010

Number of CTRs received and time frame: No information available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One in 2009

Convictions: None

Assets forfeited: criminally: \$23,000 (In addition, \$1, 379,120 was confiscated on behalf of US authorities.) *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Antigua and Barbuda is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Antigua_and_Barbuda_3rd_Round_MER_Final\(Eng\).pdf](http://www.cfatf-gafic.org/downloadables/mer/Antigua_and_Barbuda_3rd_Round_MER_Final(Eng).pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

During the year, the Prevention of Terrorism (Amendment) Act was passed, making further explicit provisions for the de-listing of specified entities; however, deficiencies remain.

The Government of Antigua and Barbuda (GOAB) does not have a unified regulatory structure or uniform supervisory practices for its domestic and offshore banking sectors. Currently, the ECCB supervises Antigua and Barbuda's domestic banking sector. The Registrar of Insurance supervises and examines domestic insurance agencies. The Financial Services Regulatory Commission is responsible for the regulation and supervision of all IBCs, including offshore banks and all aspects of offshore gaming; this includes conducting examinations and reviews of offshore financial institutions as well as some domestic financial entities, such as insurance companies and trusts. The director of the ONDCP supervises all financial institutions for compliance with suspicious transaction reporting requirements. Only gaming institutions are required to file large currency transaction reports.

The GOAB has taken steps to combat money laundering by passing relevant legislation that applies to both domestic and offshore financial institutions, and establishing a thorough regulatory regime. The GOAB should implement and enforce all provisions of its AML/CFT legislation. The ONDCP should be given direct access to financial institution records in order to effectively assess their AML/CFT compliance. 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.

Australia

Australia is one of the major centers for capital markets in the Asia-Pacific region. While narcotics offenses provide a substantial source of proceeds of crime, the majority of illegal proceeds are derived from fraud-related offenses. The Government of Australia (GOA) maintains a comprehensive system to detect, prevent, and prosecute money laundering. The last few 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters, including electronic funds transferors; insurers and insurance intermediaries; securities or derivatives dealers; registrars and trustees; issuers, sellers or redeemers of travelers checks, money orders or similar instruments; preparers of payroll in whole or in part from currency on behalf of other persons; currency couriers

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters, including electronic funds transferors; insurers and insurance intermediaries; securities or derivatives dealers; registrars and trustees; issuers, sellers or redeemers of travelers checks, money orders or similar instruments; preparers of payroll in whole or in part from currency on behalf of other persons; currency couriers

Number of STRs received and time frame: 47,386 - 2009-2010

Number of CTRs received and time frame: 3,375,447 - 2009-2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 88 indictments - July 2009 - June 2010

Convictions: 50 in 2009 - 2010

Assets forfeited: *criminally:* \$7,691,800 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Australia is a member of the Financial Action Task Force (FATF). It also serves as permanent co-chair, and hosts and funds the Secretariat of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent mutual evaluation can be found here:

<http://www.fatf-gafi.org/dataoecd/60/33/35528955.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The formal and informal money remittance sector is vulnerable to the risk of being exploited for criminal purposes. Additionally, the majority of designated non-financial businesses and professions (DNFBPs), such as real estate agents, dealers in precious stones and metals, and specified legal, accounting, trust, and company service providers are not yet covered by reporting and record keeping requirements of Australia's AML/CFT laws, nor are politically exposed persons subject to enhanced due diligence procedures. This lack of coverage leads to increased vulnerabilities in these entities. Australia should amend its legislation, as necessary, to cover all DNFBPs.

In comparison to the size of the Australian economy and the comprehensive anti-money laundering countermeasures in place, the number of convictions for money laundering remains very low.

Austria

Austria is a major regional financial center and Austrian banking groups control significant shares of the banking markets in Central, Eastern, and Southeastern Europe. Money laundering occurs within the Austrian banking system as well as in non-bank financial institutions and businesses. Money laundered by organized crime groups derives primarily from serious fraud, smuggling, corruption, narcotics-trafficking, and trafficking in persons. Theft, drug trafficking and fraud are the main predicate crimes in Austria according to the statistics of convictions and investigations. Austria is not an offshore jurisdiction and has no free trade zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT

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AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and credit institutions, financial institutions, leasing and exchange businesses, safe custody services, portfolio advisers, brokers, securities firms, money transmitters, insurance companies and intermediaries, casinos, all dealers including those in high value goods, auctioneers, real estate agents, lawyers, notaries, certified public accountants, and auditors.

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and credit institutions, financial institutions, leasing and exchange businesses, safe custody services, portfolio advisers, brokers, securities firms, money transmitters, insurance companies and intermediaries, casinos, all dealers including those in high value goods, auctioneers, real estate agents, lawyers, notaries, certified public accountants, auditors, and customs officials.

Number of STRs received and time frame: 1,385 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 289 in 2009

Convictions: Five in 2009

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Austria is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/22/50/44146250.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Numerous legal amendments to bring Austria's AML/CFT regime more in line with FATF standards were adopted by Parliament on May 20, 2010, and entered into force July 1, 2010. Those amendments strengthen regulatory standards, give more power and responsibility to bank compliance officers and regulators (in particular Austria's FIU), and make asset seizure easier in AML/CFT cases. New paragraph 165 of the Austrian Penal Code extends the scope of money laundering offenses to "self-laundering" of illicit proceeds. Austria has a combination of both an

“all serious crimes” approach plus a list of predicate offenses which do not fall under the domestic definition of serious crimes, but which Austria includes to comply with international legal obligations and FATF standards.

Since July 1, 2010, asset freezes pursuant to UN and European Union (EU) sanctions are based on Austria’s new Sanctions Law (previously, the Foreign Exchange Act). The new Sanctions Law significantly expands and improves implementation of UNSCR and European financial sanctions on terrorists, including measures set forth in directly applicable EU Regulations. Asset freezes now apply not just to financial funds but to all economic resources including real estate, companies, and vehicles. The law provides for bans on travel and bans on rendering services to designated entities; it also establishes administrative and criminal penalties.

The Government of Austria has committed to sharply restrict the issuance and use of bearer shares. Draft legislation eliminating bearer shares for all companies except those listed on the stock exchange has been circulated for comment.

Even absent a specific suspicion, new regulations require tax authorities to inform the FIU of all cases where private foundations do not disclose the founding deed including all appendices and supplementary documentation, as well as beneficial owners of hidden trusteeships.

In June 2010, the United States and Austria signed a bilateral asset sharing agreement to share assets seized from convicted criminals.

Bahamas

The Commonwealth of The Bahamas is an important regional and offshore financial center. The economy of the country is heavily reliant upon tourism, tourist-driven construction and the offshore sector. The Bahamas is a transshipment point for cocaine bound for the United States and Europe. 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. Drug traffickers and other criminal organizations take advantage of the large number of international business companies and offshore banks registered in The Bahamas to launder significant sums of money despite strict KYC and transaction reporting requirements.

The country has one large free trade zone, Freeport Harbor. This zone is managed by a private entity called the Freeport Harbor Company, which is owned and operated through a joint venture between Hutchison Port Holdings (HPH) and The Port Group (The Grand Bahama Port Authority). Businesses at the harbor include private boat, ferry and cruise ship visits, roll-on/roll-off facilities for containerized and LTL cargo, and car transshipment. Freeport Harbor has the closest offshore port to the United States and the entire country is relatively accessible by medium sized boats. This makes smuggling and bulk cash money laundering relatively easy. While it is illegal for citizens of the Bahamas to gamble, gambling is legal for tourists and there are three main casinos.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach.

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Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, financial and corporate service providers, cooperatives, societies, casinos, lawyers, accountants, real estate agents, and company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, financial and corporate service providers, cooperatives, societies, casinos, lawyers, accountants, real estate agents, and company service providers

Number of STRs received and time frame: 138 STRs in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: criminally: \$0 in 2010 *civilly:* \$0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Bahamas is a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/The_Bahamas_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/The_Bahamas_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the Commonwealth of the Bahamas should provide adequate resources to its law enforcement, judicial, and prosecutorial bodies in order to enforce existing legislation and safeguard the financial system from possible abuses. The Bahamas should continue to enhance its anti-money laundering/counter-terrorist financing regime by implementing the National Strategy on the Prevention of Money Laundering; by ensuring full compliance with UNSCRs 1267 and 1373; and by implementing a system to collect and analyze information on the cross border transportation of currency. It should also ensure there is a public registry of the beneficial owners of all entities licensed in its offshore financial center.

Additional gaps in the country's legislation include a failure to criminalize participation in an organized criminal group and to tighten the currency transaction reporting system to track people arriving and leaving to all destinations.

Belize

Belize is not a major regional financial center but is an offshore 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, including offshore banks, insurance companies, trust service providers, mutual fund companies, and international business companies. 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, which represents a potential vulnerability for money laundering.

Most money laundering is largely thought to be related to proceeds from U.S. residents participating in unlawful internet gaming. Belize is a transshipment point for marijuana and cocaine. There is a growing indication that money laundering proceeds are related to proceeds from the trafficking of illegal narcotics, psychotropic substances, and chemical precursors, and that they are controlled by local drug trafficking organizations and organized criminals.

Belizean officials suspect that money laundering occurs primarily within the free trade zones. Belizean officials believe the large Corozal Commercial Free Zone (CFZ) that operates at the border with Mexico is involved in trade-based money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks; venture risk capital; money broker, exchange and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions and building societies; trust and safekeeping services

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks; venture risk capital; money broker, exchange and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions and building societies; trust and safekeeping services

Number of STRs received and time frame: 67, January 1 through December 13, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six, January 1 through December 13, 2010

Convictions: Five, January 1 through December 13, 2010

Assets forfeited: *criminally:* None *civilly:* \$510,000

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Belize is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation cannot be found on the CFATF website. A Report on the Observance of Standards and Codes prepared by the IMF can be found at: <http://www.imf.org/external/pubs/ft/scr/2004/cr04373.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Belize lacks the resources to effectively enforce anti-money laundering rules. Belize's Financial Intelligence Unit (FIU) has a broad mandate and is severely understaffed. The FIU staff does not have sufficient training or experience in identifying, investigating, reviewing, and analyzing evidence in money laundering cases. Prosecutors and judges also need additional training on financial crimes, including money laundering. Prosecutors assigned to the FIU could also assist with cases going to court, as the FIU is currently forced to contract outside attorneys to prosecute its cases. If implemented, an arrangement for asset sharing may provide additional resources to the FIU.

While it is widely believed that abuse occurs within the offshore sector and in the free trade zones, no one from these organizations has been charged with a financial crime. Belize should require the Commercial Free Zones (CFZ) to be reporting entities. The GOB should become a party to the UN Convention against Corruption.

Bolivia

Bolivia is not a regional financial center, but money laundering activities continue to take place. These illicit financial activities are related primarily to narcotics trafficking, corruption, tax evasion, and smuggling and trafficking of persons. Hotels, currency exchange houses, casinos, cash transporters, informal exchange houses, and wire transfer businesses are not subject to anti-money laundering controls. The Bolivian financial system is highly dollarized, with approximately 50% of deposits and loans distributed in U.S. dollars rather than Bolivianos, the local currency (down from 90% in 2004). Bolivia has 13 free trade zones, located in El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, and Desaguadero, for commercial and industrial use.

Bolivia was suspended from the Egmont Group of Financial Intelligence Units (the Egmont Group) in July 2007 because Bolivia has not criminalized terrorist financing. In December of 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach.

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/2009/140888.htm>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, insurance companies, securities brokers and financial intermediaries

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies, securities brokers and financial intermediaries

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: Not available

Bolivia is a member of the Financial Action Task Force of South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/pdf/InformeBolivia.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The expulsion of the U.S. Drug Enforcement Administration from Bolivia in November 2008 has diminished the effectiveness of several financial investigative groups operating in the country, including Bolivia’s Financial Investigative Team, the Bolivian Special Counternarcotics Police, and the Bolivian Special Operations Force. Most money laundering investigations continue to be in the Department of Santa Cruz and are associated with narcotics trafficking organizations.

Bolivia’s expulsion from the Egmont Group bars the UIF from participating in Egmont Group meetings or using the Egmont Secure Web (the primary means of information exchange among Egmont Group member FIUs).

New legislation introduced in March of 2010 provides for money laundering to be treated as an autonomous offense. The law also expands the list of predicate offenses for money laundering but still does not include all offenses recommended in the international standards. The predicate

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offenses for money laundering should cover all serious offenses, and Bolivia should seek to extend its laws to the widest range of predicate offenses.

In September 2010, a draft law to criminalize terrorist financing was provided to the Council of Ministers for approval. This draft law also includes provisions addressing the freezing, seizure and confiscation of terrorist-related assets; and gives authority to the FIU to freeze for 48 hours the execution of a transaction suspected of being related terrorist financing. It appears the proposed criminalization of TF requires “intent”. This may pose difficulties in the application and interpretation of the provision. The provision seems to require that the funds are actually used to carry out or attempt a terrorist act. Separately, obligated entities should be required by law or regulation to report to the FIU information related to terrorist financing.

The continued lack of personnel, combined with inadequate resources and weaknesses in Bolivia’s basic legal and regulatory framework, limits the UIF’s reach and effectiveness. Given the UIF’s limited resources relative to the size of Bolivia’s financial sector, compliance with reporting requirements is extremely low. The exchange of information between the UIF and appropriate police investigative entities is also limited, although the UIF does maintain a database of suspect persons that financial entities must check before conducting business with clients.

Brazil

Brazil is the world’s fifth largest country in size and population, and as of 2010, the eighth largest economy in the world. Brazil is considered a regional financial center for Latin America. It is a major drug-transit country, as well as one of the world’s largest consumer countries. Brazil maintains 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, gambling, and trade in various types of contraband. Laundering channels include the use of banks, real estate investment, financial asset markets, luxury goods, remittance networks, informal financial networks, and trade-based money laundering.

Sao Paulo and the Tri-Border Area (TBA) of Brazil, Argentina, and Paraguay are particular areas that possess high risk factors for money laundering. 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. In addition to Sao Paulo and the TBA, other areas of the country are also of growing concern. The Government of Brazil (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 Brazil’s western border states.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial and savings banks and credit unions; insurance companies and brokers; securities, foreign exchange, and commodities brokers/traders; real estate brokers; credit card companies; money remittance businesses; factoring companies; gaming and lottery operators and bingo parlors; dealers in jewelry, precious metals, art and antiques

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Commercial and savings banks and credit unions; insurance companies and brokers; securities, foreign exchange, and commodities brokers/traders; real estate brokers; credit card companies; money remittance businesses; factoring companies; gaming and lottery operators and bingo parlors; dealers in jewelry, precious metals, art and antiques

Number of STRs received and time frame: 56,371 in 2009

Number of CTRs received and time frame: 1,746,494 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Brazil is a member of the Financial Action Task Force (FATF) and the FATF of South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here: www.fatf-gafi.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOB achieved visible results from investments in border and law enforcement infrastructure that were executed with a view to gradually control the flow of goods, both legal and illegal across Brazil's land borders. Anti-smuggling and law enforcement efforts by state and federal agencies have increased. Brazilian Customs and the Brazilian Tax Authority (Receita Federal) continue to take effective action to suppress the smuggling of drugs, weapons, and contraband goods along the border with Paraguay. According to the Receita Federal, in 2009 the agency interdicted a large volume of smuggled goods, including drugs, weapons, and munitions.

Because of the effective crackdown on the Friendship Bridge connecting Foz do Iguaçu, Brazil, and Ciudad del Este, Paraguay, most smuggling has migrated to other sections of the border. The Federal Police have Special Maritime Police Units that aggressively patrol the maritime border areas.

Money Laundering and Financial Crimes

Legal persons are not subject to direct civil or administrative liability for committing money laundering (ML) offenses. Corporate criminal liability is not possible due to fundamental principles of domestic law. Natural and legal persons are not subject to effective sanctions for ML because systemic problems in the court system seriously hamper the ability to obtain final convictions and sentences, and legal persons are not subject to direct civil/administrative sanctions for committing a ML offense. Very few final convictions for ML and convictions in the first instance are low given the level of ML risk and size of the financial sector. The GOB should take legislative action to establish direct civil or administrative corporate liability for ML and ensure that effective, proportionate and dissuasive sanctions may be applied to legal persons. Brazil also should continue to support the Specialized Federal Courts and other measures to ameliorate the negative impact of some of the systemic problems in the court system which are undermining the ability to effectively apply final sanctions for ML. The GOB should continue taking measures to ensure that the overlapping jurisdiction among federal and state law enforcement authorities does not impede the effectiveness of their ability to investigate ML. Brazil should also continue the PNLD training program and extend it as widely as possible to ensure that police, prosecutors and judges at both the state and federal levels have sufficient training in the investigation and prosecution of ML cases.

Most high-priced goods in the TBA are paid for in US dollars, and cross-border bulk cash smuggling is a major concern. Large sums of US dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay through Uruguay and Brazil to banking centers in the United States.

In February 2006, U.S. Immigration and Customs Enforcement established a Brazil-based partner Trade Transparency Unit (TTU) to aggressively analyze, identify, and investigate companies and individuals involved in trade-based money laundering activities between Brazil and the United States. As a result of the TTU, Brazil has identified millions of dollars of lost revenue.

The GOB has generally responded to U.S. efforts to identify and block terrorist-related funds. None of the individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list has been found to be operating or executing financial transactions in Brazil, and the GOB has frequently insisted that there is no evidence of terrorist financing within Brazil. However, in December 2010, the U.S. Treasury Department designated Bilal Mohsen Wehbe, Hizballah's chief representative in South America, as a Specially Designated Global Terrorist (SDGT) under Executive Order 13224. Wehbe has been involved in transferring funds collected in Brazil to Hizballah in Lebanon. In 2009, based on information provided by the F.B.I., a man was arrested in Sao Paulo on suspicion that he was connected to the Jihad Media Battalion, a known terrorist organization with possible ties to Al Qaeda. However, a Brazilian judge ordered his release after several weeks, and the GOB has taken the position he had no demonstrable ties to any terrorist activity.

Although Brazil is a party to the United Nations International Convention for the Suppression of the Financing of Terrorism, it has not criminalized terrorist financing in a manner that is consistent with international standards. Terrorist financing is a predicate offense for money laundering but is not an autonomous offense in Brazil; however, a bill awaiting legislative action contains language that could resolve this gap.

British Virgin Islands

The British Virgin Islands (BVI) is a United Kingdom (UK) overseas territory with a population of approximately 22,000. The economy depends greatly on tourism and its offshore financial sector. As of September 2010, there were 456,547 active companies, 237 licensed banks and 2,951 mutual funds registered with the BVI Financial Services Commission (FSC). BVI's unique share structure that does not require a statement of authorized capital as well as the lack of mandatory filing of ownership, pose significant money laundering risks. Tourism accounts for 45 percent of the economy and employs the majority of the workforce. Financial services are very important, however, contributing over half of government revenues. BVI remains vulnerable to money laundering practices through its drug trafficking trade and the exploitation of its offshore financial services. BVI's proximity to the U.S. Virgin Islands and the use of the U.S. dollar for its currency pose risk factors for money laundering. The BVI are a major target for drug traffickers, who use the area as a gateway to the United States. Drug trafficking in general is a serious problem.

BVI is a well established center offering accounting, banking and legal services; captive insurance; company incorporations; mutual funds administration; trust formation; and shipping registration. The FSC is the sole supervisory authority responsible for the licensing and supervision of financial institutions under the relevant statutes.

While gaming is prohibited in the Virgin Islands, casinos have been incorporated in the definition of relevant business under the AML/CFT regime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; currency exchanges; charities and nonprofit associations; dealers in autos, yachts, and heavy machinery; dealers in precious metals and stones; and leasing companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; currency exchanges; charities and nonprofit associations; dealers in autos, yachts, and heavy machinery; dealers in precious metals and stones; and leasing companies

Number of STRs received and time frame: 191 in 2010

Money Laundering and Financial Crimes

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: criminally: 0 civilly: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

BVI is a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:

<http://www.cfatf->

[gafic.org/downloadables/mer/Virgin_Islands_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Virgin_Islands_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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 U.S. and the British Virgin Islands established a Tax Information Exchange Agreement (TIEA) in 2006. Application of the US - UK mutual legal assistance treaty (MLAT) concerning the Cayman Islands was extended to the BVI in 1990. 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.

While BVI legislation has strengthened due diligence requirements where a representative is acting on another person's behalf or when the customer is resident in another country which does not fully comply with FATF rules, and has extended regulation to money value transfer service operators these laws are too new to be evaluated. The FSC should increase its staffing in order to meet the recommended inspection and reporting requirements, especially in light of the new entities covered under the law. The lack of prosecutions for money laundering and a reported decline in number of inspections suggests that the FSC should work closely with law enforcement and other authorities. In addition, while real estate agents, lawyers, other independent legal advisers, accountants, dealers in precious metals and stones are covered by the AML/CFT regulations, there appears to be no effective mechanism to ensure compliance with AML/CFT requirements.

The British Virgin Islands is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the BVI's international affairs and may arrange for the ratification of any convention to be extended to the BVI. The 1988 Drug Convention was extended to the BVI in 1995. The UN Convention against Corruption was extended to the BVI in 2006. The International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime have not yet been extended to the BVI.

Burma

Burma is not a regional or offshore financial center. Its strategic geographic location, prolific drug production, and lack of transparency make it an attractive transit country for money laundering. While its underdeveloped economy is not adequate as a destination to harbor funds, the low risk of enforcement and prosecution make it appealing to the criminal underground. Drug trafficking, human trafficking, and public corruption are major sources of illicit proceeds. Money launderers also exploit the illegal trade in wildlife, gems, and timber, and trade-based money laundering is of increasing concern.

Burma is second only to Afghanistan in opium production, and is increasingly a source of methamphetamine and amphetamine type substances. Its long, porous borders are poorly patrolled. In some remote regions where smuggling is active, ongoing ethnic tensions, and in some cases armed conflict, impede government territorial control. In other areas, political arrangements between traffickers and Burma's ruling military government allow organized crime groups to function with minimal risk of interdiction.

The Government of Burma (GOB) dominates the economy. State-owned enterprises and military holding companies control a substantial portion of Burma's resources. A move toward privatization in 2010 transferred significant assets to private parties; however, most new owners appear to be business associates of the ruling generals, and some are allegedly connected to drug trafficking.

Corruption is endemic in both business and government. Transparency International's 2010 Corruption Perception Index ranked Burma 176 out of 178 countries. This extensive corruption and overall lack of governmental transparency has stymied the GOB's gestures toward financial reforms. The GOB enacted several reforms in the past several years to reduce vulnerability to drug money laundering in the banking sector. However, connections to powerful patrons still outweigh rule of law, and Burma continues to face significant risk of drug money being funneled into commercial ventures.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: None

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Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, customs officials, state-owned insurance company and small loans enterprise, securities exchange, the Andaman Club Resort Hotel (the only licensed money changer) accountants, the legal and real estate sectors and dealers of precious metals and stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Burma is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. Its most recent evaluation can be found at:

<http://www.apgml.org/documents/docs/17/Myanmar%202008.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Burma's financial sector is extremely underdeveloped and most currency is held outside the formal banking system. The informal economy generates few reliable records, and the GOB makes no meaningful efforts to ascertain the amount or source of income or value transfers. The GOB's lack of engagement extends to its financial institutions. Some Burmese financial institutions may engage in currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency. However, the absence of publicly available GOB information on this issue precludes confirmation of such conduct. Burmese law does not contain any customer due diligence requirements, although some entities follow such procedures under other, non-AML related legal provisions.

Corruption is pervasive in every level of government. Senior military officials are essentially above the law and free to engage in a range of activities designed to enrich themselves and maintain their hold on power. Government workers do not receive a living wage and may seek bribes as additional "compensation." Officials who resist the rampant corruption are impeded by the military's control over all civilian authority, including the police. The GOB should end all policies that facilitate corrupt practices, including strengthening its oversight of the formal financial sector and implementing a transparent transaction reporting regime. The FIU should become a fully funded independent agency that functions without interference, and the GOB should supply adequate resources to administrative and judicial authorities for their enforcement of government regulations. The GOB should become a party to the UN Convention against Corruption.

Cambodia

Cambodia is neither a regional nor an offshore financial center. Cambodia's fledgling anti-money laundering regime; cash-based, dollarized economy with an active informal banking system; porous borders; loose oversight of casinos; and limited capacity of the National Bank of Cambodia to oversee the fast growing financial and banking industries contribute to a significant money laundering risk.

Cambodia has a significant black market for smuggled goods, including drugs and imported substances for local production of the methamphetamine ATS. Both licit and illicit transactions, regardless of size, are frequently done outside of formal financial institutions, and are difficult to monitor. Proceeds from crime are readily channeled into land, housing, luxury goods or other forms of property. The majority of real estate transactions are done without a registered real estate agent, and buyers and sellers determine the price of the property without reference to an independent valuation system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; micro-finance institutions; credit cooperatives; security brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals, stones and gems; post office operating payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; non-governmental organizations (NGOs) and foundations doing business and raising funds; and any other institutions or professions designated by the Financial Intelligence Unit to fall within the scope of the present law

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; micro-finance institutions; credit cooperatives; security brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals, stones and gems; post office operating payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; NGOs and foundations doing

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business and raising funds; and any other institutions or professions designated by the Financial Intelligence Unit to fall within the scope of the present law

Number of STRs received and time frame: 96 (January through October 2010)

Number of CTRs received and time frame: 359,599 (January through October 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Cambodia is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Cambodia%20World%20Bank%20DAR%20July%2007.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Cambodia (GOC) has not fully implemented its current AML/CFT legislation, and its list of covered entities is incomplete. The GOC should issue additional decrees, mandating compliance of designated non-financial businesses and professions with the reporting requirements established by the AML/CFT law, and provide training to commercial bankers. Given the high level of corruption in Cambodia, the GOC should also require special due diligence for domestic politically exposed persons (PEPs). Cambodia does not have, and has not offered, a safe harbor provision. The government should propose such a provision in the short term.

By regulation, banks are individually responsible for maintaining and monitoring the list of designated terrorists or terrorist entities; however, the GOC does not distribute the UN lists.

The GOC should also expand the authorities of the Cambodian Financial Intelligence Unit (CAFIU). At present, the CAFIU lacks the power to enforce AML/CFT laws. As a result, few covered entities follow STR reporting guidelines.

While Article 30 of the AML/CFT law provides for the confiscation of property in cases where someone is found guilty of money laundering as stipulated in the penal code, the law is vague, and does not describe a system of asset forfeiture. Cambodia should clearly define the system of asset forfeiture, and establish a regulation to implement the system.

Law enforcement capacity remains quite limited, and is hindered by corruption and a weak investigative and prosecutorial infrastructure. There have been no money laundering prosecutions or convictions since 2007, when two suspects were arrested but not convicted. Elements of the Ministry of Finance, the new Anti-Corruption unit, and the Cambodian National Police are receiving training on complex financial crimes. While the law enforcement training plan is long term and progressive, until the GOC fully implements AML/CFT legislation and addresses corruption, Cambodia will remain a high-risk environment for money laundering operations.

Canada

Money laundering in Canada is primarily associated with drug trafficking and financial crimes, particularly those related to fraud. With roughly \$1.4 billion in trade crossing the United States and Canadian borders each day, both governments share concerns about illicit cross-border movements of currency, particularly the proceeds of drug trafficking. Organized criminal groups are involved in drug trafficking, contraband smuggling, illegal arms sales, migrant smuggling and white-collar crimes. The Criminal Intelligence Service Canada estimates that over 900 organized crime groups operate in Canada, with the vast majority involved in the illicit drug trade.

Money laundering generally occurs through the following methods: smuggling; money service businesses and currency exchanges; casinos; purchase of real estate; wire transfers; establishment of offshore corporations; credit cards, stored value cards and new payment methods. Criminals have also used internet payments or gold bullion to move funds.

Casinos now are required to report large disbursements and suspicious transactions. In 2010, the first year of reporting, 43,752 casino disbursement reports were filed. Alternative remittance systems, such as hawala, hundi, and chitti are also required to report.

There are no free trade zones or offshore financial institutions.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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; casinos; lawyers; notaries (in Québec and British Columbia only) and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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; casinos; lawyers; notaries (in Québec and British Columbia only) and dealers in precious metals and stones

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Number of STRs received and time frame: 64,240 April 2009 through March 2010

Number of CTRs received and time frame: 6,868,506 April 2009 through March 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 211 April 2005 through March 2006

Convictions: Ten April 2005 through March 2006

Assets forfeited: *criminally:* \$17.5 million *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Canada is a member of the Financial Action Task Force (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). Both APG and CFATF are FATF-style regional bodies. Canada's most recent published mutual evaluation can be found here:

http://www.fatf-gafi.org/document/58/0,3343,en_32250379_32236963_40199098_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Lawyers in several provinces have successfully challenged the applicability of the AML law to them based upon common law attorney-client privileges, therefore, lawyers are not completely covered by the AML provisions.

The United States and Canada signed a memorandum of understanding (MOU) in November 2010 to track the movement of illicit currency by sharing data on currency seized at the border. The MOU will significantly enhance the ability of law enforcement officers in both countries to investigate and track illicit cash movements and disrupt the flow of funds that support the activities of criminals and terrorists.

Money laundering offenses have a higher threshold for prosecution and conviction than the offense of benefiting from the proceeds of crime. Criminals appear willing to forfeit assets and plead guilty to lesser charges to avoid prosecution under AML and proceeds of crime statutes.

While the law provides sufficient powers to Canadian law enforcement to pursue money launderers, the budget for relevant law enforcement authorities has not increased; additional resources could increase the effectiveness of existing laws. Provincial and federal statistics should be tracked jointly. Appropriately tracking these cases could reveal a more robust rate of money laundering related convictions.

Canada should continue oversight and increase follow-up of the relatively new AML/CFT measures within the casino industry; reduce the length of time needed for FINTRAC to prepare reports used by law enforcement authorities (average number of days for a report dropped from 82 to 68 from 2009-2010); and maintain the monitoring of the money services business registry. Canada also should continue to ensure its privacy laws do not excessively prohibit provision of information to domestic and foreign law enforcement that might lead to prosecutions and convictions.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory is an offshore financial center. Most money laundering that occurs in the Cayman Islands is primarily related to fraud and drug trafficking. Due to its 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, investment funds, various types of trusts, and company formation and management. As of December 2010, the banking sector had \$1.73 trillion in assets. There were approximately 245 banks, 150 active trust licenses, 738 captive insurance companies, eight money service businesses, and more than 85,000 companies licensed or registered in the Cayman Islands. According to the Cayman Islands Monetary Authority (CIMA), at year end 2010, there were approximately 9,400 mutual funds. 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 do not permit the registration of offshore gaming entities. There are no free trade zones and the authorities do not see risks from bulk cash smuggling related to the large number of cruise ships that dock at the island.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, trust companies, investment funds, fund administrators, insurance Companies and managers, money service businesses, corporate and trust service providers, money transmitters, dealers of precious metals and stones, and the real estate industry

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, trust companies, investment funds, fund administrators, insurance Companies and managers, money service businesses, corporate and trust service providers, money transmitters, dealers of precious metals and stones, and the real estate industry

Number of STRs received and time frame: 308 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Eight 2003 - 2010

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Convictions: Six 2003 - 2010; only one since 2006

Assets forfeited: *criminally:* Approximately \$6 million *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Cayman_Islands_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Cayman_Islands_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

While the country has increased both its regulatory and law enforcement staffing, the number of prosecutions and convictions is extremely low given the vast scale of the country's financial sector; only six successful prosecutions for money laundering, and only one in the last four years.

Private trust companies and individuals who carry on trust businesses or act as trustees are exempt from licensing requirements and the AML requirements. In addition, the lack of penalties for failing to report ownership and identity information undermines the effectiveness of these obligations. This is a problem in particular for an estimated 3,000 unregulated mutual funds resident in the Cayman Islands. In addition, there appear to be no requirements for companies, trusts and partnerships to retain records for at least five years.

The Cayman Islands should continue to computerize various registrations, such as those for mutual funds. There is a need to pay greater attention to the risks and proper supervision of non-profit organizations.

In January 2010, an anti-corruption law took effect which criminalizes bribery and formalizes international cooperation. Amendments to the Criminal Justice (International Co-operation) Act were passed in February 2010. These laws provided measures for investigation, prosecution and confiscation of the proceeds of all serious crimes and broadened international assistance to include not only drug trafficking but all serious crimes, including official corruption and other types of transnational crime.

In 1986, the United States and the United Kingdom signed a Mutual Legal Assistance in Criminal Matters Treaty (MLAT) concerning the Cayman Islands. By a 1994 exchange of notes, Article 16 of that treaty has been deemed to authorize asset sharing between the United States and the Cayman Islands.

The Cayman Islands is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the Cayman Islands' international affairs and may arrange for the ratification of any Convention to be extended to the Cayman Islands. The 1988 Drug Convention was extended to the Cayman Islands in 1995 and is implemented through several laws. The UN Convention against Corruption and the UN Convention against Transnational Organized Crime have not yet been extended to the Cayman Islands. However, the full implementation platform for the anti-corruption convention exists under current Cayman law. A 2002 request for extension of the International Convention for the Suppression of the Financing of Terrorism to the Cayman

Islands has not yet been finalized by the UK, although the provisions of the Convention also are implemented by domestic laws.

China, People's Republic of

China is a major global financial center, with a rapidly growing economy and increased integration in the international market. The primary sources of criminal proceeds are corruption, narcotics and human trafficking, smuggling, economic crimes, intellectual property theft, counterfeit goods, crimes against property, and tax evasion. Money is generally laundered through bulk cash smuggling, trade-based fraud (over/under pricing of goods, falsified bills of lading and customs declarations, counterfeit import/export contracts), and both the formal and underground banking systems. The use of cash-intensive, non-financial sectors such as real estate has increased, as has the use of e-currency, online exchanges, and the exploitation of investment vehicles such as forward exchange rate contracts and financial derivatives.

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.

Chinese authorities have observed that the increase in AML efforts by banks has been accompanied by increased laundering through the underground banking system and trade fraud. 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.

China has multiple Special Economic Zones (SEZs) and other designated development zones at the national, regional, and local levels. SEZs include Shenzhen, Shantou, Zhuhai, Xiamen, and Hainan, along with 14 coastal cities and over 100 designated development zones. It is not a major offshore financial center.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities dealers, insurance companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Money Laundering and Financial Crimes

Covered entities: Banks, securities dealers, and insurance companies

Number of STRs received and time frame: 42,933,226 in 2009

Number of CTRs received and time frame: China does not separate STRs and CTRs

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 10,674 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

China is a member of the Financial Action Task Force (FATF), as well as the Asia/Pacific Group on Money Laundering (APG) and the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG), both of which are FATF-style regional bodies (FSRB). Its most recent mutual evaluation can be found here:

<http://www.fatf-gafi.org/dataoecd/33/11/39148196.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of China (GOC) has strengthened the legal framework for its overall AML/CFT regime, notably by clarifying the suspicious transaction reporting obligations of Chinese banks and by increasing the number of money laundering investigations, prosecutions, and convictions. However, even though it is mandatory, the courts do not systematically pursue the confiscation of criminal proceeds, which undermines any disincentive to commit the crime. The GOC should ensure that all courts are aware of the mandatory confiscation laws, and ensure uniform implementation.

China's terrorist financing legislation has significant gaps, including the inability to freeze terrorist assets without delay. China should enact comprehensive terrorism and terrorist financing legislation and create a mechanism to freeze terrorist assets without delay. China should also enhance coordination between its financial regulators and law enforcement bodies to better investigate and prosecute offenders.

Chinese financial regulators have made progress in recent years in applying AML/CFT controls to China's developing financial system; however, enforcement efforts need strengthening to keep pace with the sophistication and reach of criminal and terrorist networks.

The GOC has become more open to working across borders on money laundering and terrorist financing investigations. However, U.S. law enforcement agencies note that the GOC has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information. The GOC should expand cooperation with counterparts in the United States and other countries and pursue international linkages in AML/CFT efforts more aggressively. U.S. agencies have continued to seek to expand cooperation with Chinese counterparts on AML/CFT matters and to strengthen both policy- and operational-level cooperation in this critical area.

Colombia

The Government of Colombia (GOC) is a regional leader in the fight against money laundering. The GOC has a forceful anti-money laundering/counter-terrorist financing (AML/CFT) regime. However, the laundering of money from Colombia's illicit cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. Both drug and money laundering organizations use a variety of methods to repatriate their illicit proceeds to Colombia. These methods include the Black Market Peso Exchange, trade based value transfer, bulk cash smuggling, *reintegró* (wire transfers), remittances, smuggled merchandise (contraband) and more recently, electronic currency and prepaid debit cards.

In addition to drug-related money laundering, laundered funds are also derived from commercial smuggling for tax and import duty evasion, kidnapping, arms trafficking, and terrorism connected to violent, illegally-armed groups and guerrilla organizations. Further, money laundering is carried out to a large extent by U.S. Government-designated terrorist organizations. Criminal elements have used the banking sector, including exchange houses, to launder money. Money laundering also has occurred via trade and the non-bank 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. Casinos, free trade zones and the postal money order market 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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

Enhanced due diligence procedures for PEPs: Foreign: Not available *Domestic:* Not available

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Money Laundering and Financial Crimes

Covered entities: 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

Number of STRs received and time frame: 9,600 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 408 investigations and/or prosecutions in 2009

Convictions: 54 in 2009

Assets forfeited: *criminally:* Approximately \$1.3 million in 2009 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Colombia is a member of the Financial Action Task Force (FATF) of South America (GAFISUD) a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/home.htm>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In the Black Market Peso Exchange (BMPE), goods from abroad, particularly the United States, are bought with drug dollars. Many of the goods are either smuggled into Colombia or brought directly into Colombia's customs warehouses, thus avoiding various taxes, tariffs and legal customs duties. In other trade-based money laundering schemes, goods are over-or-under invoiced to transfer value. Reportedly, evasion of the normal customs charges is frequently facilitated by the drug and money laundering groups corrupting Colombian oversight authorities.

To help combat BMPE and other financial crimes, in 2005, a Colombian-based trade transparency unit (TTU) was created by U.S. Immigration and Customs Enforcement to analyze, identify and investigate companies and individuals involved in trade-based money laundering activities between Colombia and the United States. In the past year, the Colombian TTU has worked to enhance the quality and quantity of trade data shared, expanding its investigative capacity.

While the Colombian financial system has banking controls and governmental regulatory processes in place, it is reported that drug and money laundering groups have influenced high level bank officials in order to circumvent both established anti-money laundering controls and government regulations. Official corruption has also aided money laundering and terrorist financing in geographic areas controlled by the Revolutionary Armed Forces of Colombia (FARC).

According to the Prosecutor General's Office, 236 people were arrested in 2009 for money laundering crimes connected to drug trafficking, terrorism, and other felonies. The GOC cooperates extensively with U.S. law enforcement agencies to identify, target and prosecute groups and individuals engaged in financial and drug crimes. Colombia is working with other member countries of GAFISUD to develop a common PEP standard and to share its PEP list with other financial intelligence units.

The Colombian government regularly carries out asset seizure operations against a myriad of drug trafficking and other criminal organizations throughout Colombia. Freezing assets is very quick and efficient under Colombian law, while forfeiture can take between 1-3 years. The biggest difficulty in Colombia is administering seized assets. The National Drug Directorate

(DNE) – as a legal institution – lacks the technical expertise to administer seized assets. The proceeds from asset seizures or forfeitures are by law used to fund various projects, such as the construction of new high-security prisons, low-income government housing, or specific educational initiatives. However, many assets have lost their value over time due to poor administration, and the National Drug Directorate (DNE) has been unable to conduct studies to evaluate and monitor the impact of its efforts.

Colombian law is unclear on the government’s authority to block assets of individuals and entities on the UN 1267 Sanctions Committee consolidated list. In addition to the UN lists, banks also monitor the Office of Foreign Assets Control’s publication of Specially Designated Narcotics Traffickers, pursuant to Executive Order (EO) 12978, and the Foreign Narcotics Kingpin Designation Act, and Specially Designated Global Terrorists, pursuant to E.O. 13224.

Costa Rica

While Costa Rica is not a major regional financial center, it remains vulnerable to money laundering and other financial crimes. Illicit proceeds from fraud, trafficking in persons, arms, narcotics trafficking (mainly cocaine), and corruption are laundered in Costa Rica. To a limited extent, money laundering/terrorist financing occurs across the formal financial sector, within the free trade zones (FTZs), and in the non-bank financial system. Costa Rica has 33 FTZs, used by approximately 270 companies. In addition, Costa Rica has a sizeable internet gaming industry which in practice is almost unregulated. While local criminals are active, the majority of laundered criminal proceeds derive from foreign criminal activity. Costa Rica does not have a significant market for smuggled goods, however, criminal organizations involved in fraud, trafficking in persons, arms, narcotics trafficking, and corruption are known to utilize the international trade system to move and launder their criminal proceeds.

The Government of Costa Rica (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 banks established in offshore financial centers. Nicaraguans residing in Costa Rica send approximately \$200 million in remittances annually to family members in their home country, much of which is sent via unlicensed money remitters. These unregulated businesses are a significant risk for money laundering and a potential mechanism for terrorist financing.

Costa Rica has demonstrated a genuine commitment to strengthening its anti-money laundering/counter-terrorist financing (AML/CFT) regime. As a result of a law passed in 2009, in 2010 Costa Rica continued implementing new regulations directed at combating money laundering, terrorist financing, and organized crime. Costa Rica also created a new National Anti-Drug Commissioner position that is responsible for monitoring and evaluating the GOCR’s policies and plans to combat money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Money Laundering and Financial Crimes

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and savings and loan cooperatives; pension funds; money exchangers or remitters; investment fund and safekeeping companies; credit institutions; issuers, sellers or redeemers of travelers checks and postal money orders; and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and savings and loan cooperatives; pension funds; money exchangers or remitters; fiduciary trust, investment fund and safekeeping companies, and asset managers; credit institutions; issuers, sellers or redeemers of travelers checks and postal money orders; securities dealers; and real estate agents

Number of STRs received and time frame: 304 from January to December 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Ten - January through October 2010

Assets forfeited: criminally: \$9,693,214.00 in FY2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In December 2010, the Financial Action Task Force of South America (GAFISUD) admitted Costa Rica as a member, formally marking its departure from the Caribbean Financial Action Task Force (CFATF). Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money laundering cannot be charged as an additional offense to the predicate crime (e.g., a drug dealer who is convicted on drug charges cannot also be prosecuted for laundering the drug proceeds). In addition, criminal liability does not extend to legal persons.

There are over 250 Internet sports book companies registered to operate in Costa Rica. The industry transacts approximately \$12 billion annually and employs 10,000 people. This industry in practice is almost unregulated. The FIU reports that Costa Rican attorneys oftentimes conduct cash purchases of real estate on behalf of persons located in the U.S. The FIU has had significant difficulties verifying the identity and source of funds for those purchases.

The FIU does not directly receive cash transaction reports (CTRs). Each supervisory entity that receives CTRs holds them unless it determines that further analysis is required or the FIU requests the reports.

Costa Rica fully cooperates with appropriate United States government law enforcement agencies investigating financial crimes related to narcotics and other crimes. Additionally, Costa Rica has a tax information exchange agreement with the U.S.

Law 8719 authorizes the FIU to administratively freeze assets or accounts that are subject to an ongoing money laundering or narcotics investigation by the host government authority without a prior Court order (a judicial order must be obtained within 5 days after the seizure). This provision was used in several money laundering cases involving bulk cash smuggling during 2010. Although the GOCR enacted a provision to allow for civil forfeitures in 2009, no case has been pursued by prosecutors. The prosecutors state they have been reluctant to try cases under this law, because they fear these cases will not hold up in court. Based on the non-use of this provision, it is unclear whether the GOCR will assist other countries in obtaining non-conviction-based forfeiture.

Several pieces of real property were identified and frozen by the U.S. Office of Foreign Asset Control (OFAC) owned by a Colombian National that resides in Costa Rica and uses his farms to launder funds for the FARC. This subject and his property were named as a second tier in the King-Pin Act with money laundering ties to the FARC. Shortly after the OFAC report was publicized in Costa Rica the subject fled Costa Rica and returned to Colombia.

Cyprus

Cyprus has been divided since 1974. 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 section of the report discusses the area controlled by the ROC. A separate section on the area administered by Turkish Cypriots follows at the end.

Cyprus is a major regional financial center with a robust financial services industry and a significant amount of nonresident businesses. A number of factors have contributed to the development of Cyprus as a financial center: a preferential tax regime; double tax treaties with 44 countries (including the United States, several European Union (EU) nations, and former Soviet Union nations); a sophisticated telecommunications infrastructure; and EU membership. In 2003, Cyprus introduced tax and legislative changes effectively abolishing all legal and substantive distinctions between domestic and offshore companies. Cyprus has also lifted the prohibition from doing business domestically and companies formerly classified as offshore are now free to engage in business locally. International business companies are allowed to be registered in Cyprus but their ultimate beneficial ownership must be disclosed to the authorities. There are over 220,000 companies registered in Cyprus, many of which are non-resident. The same disclosure, reporting, tax and other laws and regulations apply equally to all registered companies.

Like any financial center, Cyprus remains vulnerable to money laundering and illicit finance activities. Simple financial crime constitutes the biggest threat for domestic money laundering and tax evasion internationally. There is no significant black market for smuggled goods in Cyprus. What little black market trade exists is usually related to small scale transactions, typically involving fake clothing, pirated CDs/DVDs and cigarettes moved across the UN-patrolled buffer zone separating the ROC from the “TRNC”.

Cyprus has three free trade zones (FTZs). Two, located in the main seaports of Limassol and Larnaca, are used only for transit trade, while the third, located near the international airport in

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Larnaca, can also be used for repacking and reprocessing. These areas are treated as being outside normal EU customs territory. Consequently, non-EU goods placed in FTZs are not subject to any import duties, VAT or excise tax. FTZs are governed under the provisions of relevant EU and Cypriot legislation. The Department of Customs has jurisdiction over all three areas and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, securities and insurance firms, money transfer services, international financial services and trust companies, auditors, tax advisors, accountants, real estate agents, dealers in precious stones and gems, and in certain cases, attorneys

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; credit institutions; issuers or servicers of credit or payment cards, and traveler’s checks; financial leasing companies; securities and insurance brokers and firms; money transfer or brokerage services; financial advisors, international financial service providers, and trust and safekeeping companies; auditors, tax advisors, and accountants; real estate agents; dealers in precious stones and gems; and in certain cases, attorneys

Number of STRs received and time frame: 428 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 30 in 2009

Convictions: Five in 2009

Assets forfeited: criminally: Euros 5.5 million (approximately \$7.1 million in 2009)

civilly: Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

***With other governments/jurisdictions:* YES**

Cyprus 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 Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Cyprus_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are no legal issues hampering Cyprus' ability to assist foreign governments in mutual legal assistance requests. Cypriot law allows MOKAS, the Cypriot financial intelligence unit (FIU) to share information with other FIUs without benefit of a memorandum of understanding (MOU).

Cyprus has enacted comprehensive legislation and established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets and assets derived from other serious crimes. Like most EU countries, though, Cyprus has no provisions allowing civil forfeiture of assets without a criminal case. The police and the FIU are responsible for tracing, seizing and freezing assets and they fully enforce existing legislation. Cyprus has an independent national system and mechanism for freezing terrorist assets, and has also engaged in bilateral and multilateral negotiations with other governments to enhance its asset tracking and seizure system.

Amending legislation that came into force in June 2010 strengthened the 2007 Law for the Prevention and Suppression of Money Laundering Activities (LPSMLA), e.g., by requiring a timely response to FIU enquiries, and criminalizing the provision of false or misleading information.

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 in recent years with the passage of "laws" better regulating the onshore and offshore banking sectors and casinos. There are currently 22 domestic banks in the area administered by Turkish Cypriots and Internet banking is available. The offshore sector consists of 13 banks and 34 companies. The offshore banking sector remains a concern. The offshore banks may not conduct business with residents of the area administered by Turkish Cypriots and may not deal in cash. Under revised "laws" passed in 2008, the "Central Bank" took over the regulation and licensing of offshore banks from the "Ministry of Finance" thereby improving oversight. The "Central Bank" audits the offshore entities, which must submit an annual report on their activities. The new "law" permits only banks previously licensed by Organization for Economic Co-operation and Development (OECD)-member nations or Turkey to operate an offshore branch in northern Cyprus. Despite the 2009 promulgation of more strict "laws," the 23 operating casinos remain essentially unregulated due to the lack of an enforcement or investigative mechanism by the casino regulatory body and efforts to de-criminalize any failure by casinos to follow KYC regulations.

The Turkish Cypriot community is not part of any FSRB and thus is not subject to normal peer evaluations. Turkish Cypriot authorities have taken steps to address the risk of financial crime, including enacting an "anti-money laundering law (AMLL)" for the area and formally establishing an FIU equivalent. 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 Euros (approximately \$13,000). Under the "AMLL," banks must report to the "Central

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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 “law,” banks, nonbank financial institutions, and foreign exchange dealers must report all currency transactions over 10,000 Euros (approximately \$13,000) and suspicious transactions in any amount to the “Money and Exchange Bureau”. Banks must follow a KYC policy and require customer identification. Banks and other designated entities also must submit STRs to a five-member “Anti-Money Laundering Committee” 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 Economy”. According to the Turkish Cypriot authorities, 102 STRs were received by the “FIU” in 2009.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, cooperative credit societies, finance companies, leasing/factoring companies, portfolio management firms, investment firms, jewelers, foreign exchange bureaus, real estate agents, retailers of games of chance, lottery authority, accountants, insurance firms, cargo firms, antique dealers, auto dealers, lawyers

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cooperative credit societies, finance companies, leasing/factoring companies, portfolio management firms, investment firms, jewelers, foreign exchange bureaus, real estate agents, retailers of games of chance, lottery authority, accountants, insurance firms, cargo firms, antique dealers, auto dealers, lawyers

Number of STRs received and time frame: 106 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: None ***civilly:*** None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES, with Turkey

The area administered by Turkish Cypriots is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Turkish Cypriot "AMLL" provides better banking regulations than were in force previously, but without ongoing enforcement its objectives cannot be met. 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. Amendments that would essentially decriminalize failure to implement KYC rules are currently being considered to a "law" to regulate potential AML activity in casinos. The largely unregulated consumer finance institutions and currency exchange houses are also of concern. The Turkish Cypriot authorities should continue efforts to enhance the "FIU," and adopt and implement a strong licensing and regulatory environment for all obligated institutions, in particular casinos and money exchange houses. Turkish Cypriot authorities should stringently enforce the cross-border currency declaration requirements. Turkish Cypriot authorities should continue 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.

Dominican Republic

In spite of having the largest economy in the Caribbean, the Dominican Republic (DR) is not a major regional financial center. The DR continues to be a major transit point for the transshipment of illicit narcotics destined for the United States and Europe. The existence of six international airports, six major seaports, and a poorly controlled frontier with Haiti present the authorities with serious challenges. The existence of corruption within the government and the private sector, an organized crime presence (primarily illicit trafficking in narcotics and persons), a fragile economy and a large informal economy make the DR vulnerable to money laundering and terrorist financing threats. The major sources of laundered proceeds stem from illicit trafficking activities, tax evasion and fraudulent financial activity, particularly transactions with forged credit cards.

The DR is a major bulk cash smuggling hub. 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 DR. Once in the DR, currency exchange houses, money remittance companies, real estate and construction companies, and casinos are commonly used to facilitate the laundering of illicit funds. The lack of a single recognized financial intelligence unit exacerbates the problem, and the proposed creation of an offshore financial center may worsen the DR's vulnerability to money laundering.

There is a significant market for illicit or smuggled goods in the Dominican Republic; the funding sources are unclear, as is the destination of the proceeds. Authorities say the under-invoicing of imports and exports by Dominican Republic businessmen is still a relatively common practice. The primary goal for businessmen who engage in such activity is reportedly to avoid taxes and customs fees. Customs fraud and invoice manipulation are also found in regional value transfer schemes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.? YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchange houses, stockbrokers, securities brokers, 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 and precious metals

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, and securities dealers

Number of STRs received and time frame: 45 from January to August 2010

Number of CTRs received and time frame: 138 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 4 from January 2009 to October 2010

Convictions: 0

Assets forfeited: criminally: Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Dominican Republic is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Limited resources hamper the Government of the Dominican Republic’s (GODR) ability to enforce the anti-money laundering (AML) regulations. Institutions and personnel lack the training and capacity to fully enforce the law and its attendant regulations. Earlier resistance in the judiciary and among prosecutors to applying AML has evaporated, and authorities effectively apply the AML and regulations when able to gather proper evidence. The lack of data and

systematic study make it difficult for the Federal Police to identify trends in money laundering. The system of asset forfeiture is largely ineffective.

The AML law excludes from the list of covered entities dealers of art, antiques, and other high-valued consumer goods; entities dealing with jewelry and precious metals; and attorneys, financial management firms and travel agencies. These entities are not required to maintain customer information or report suspicious activity. Additionally, accountants and auto dealers are excluded from the STR requirement. PEPs are addressed in a circular issued by the Superintendency of Banks and in force since September 7, 2010; while this is a step forward, the circular does not address all elements in the international standards and does not apply to all pertinent entities. Covered non-bank businesses and professions are to be inspected by the Tax Authority. However, in practice, such inspections rarely occur.

The decision to replace the UIF financial intelligence unit (FIU), which became a member of the Egmont Group in 2000, with the Financial Analysis Unit (UAF) caused the Dominican Republic to lose its Egmont membership. Although the UAF is now recognized as the GODR's financial intelligence unit, it appears there is still confusion among obligated entities regarding their reporting requirements. 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, the GODR passed law 480/08 allowing the creation of "International Financial Zones" (IFZs) where the full range of financial services can be conducted separately from traditional monetary, banking and financial regulatory oversight. Sections of Law 480/08 would allow the IFZs to have their own regulatory and supervisory authority, independent from that of the domestic financial system. This Law creates a new entity called the Financial Investigations Department (DIF) created within the NCIFZ. The creation of the DIF within the NCIFZ, with specified roles, gives such a unit the same functions as the UAF. This situation is unacceptable, because two FIUs cannot coexist within a jurisdiction. Law 480/08 has not been implemented nor have any IFZs been established. Members of the Dominican Congress are trying to amend Law 480/08 to correct this risk. The Dominican Republic has approximately 50 free trade zone parks, focused on textiles, tobacco, small electric devices, and medical and pharmaceutical products.

The GODR should bolster the operational capacity of the UAF, which is the single, unified FIU. The UAF should have budgetary independence. There should be enhanced supervision of money service businesses. Authorities should identify, investigate and prosecute organized criminal groups involved with bulk cash smuggling and trade-based money laundering. The GODR should not establish International Financial Zones, which will greatly increase the risk of all-source money laundering. Specific steps should be taken to combat corruption within both government and industry.

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.

France can designate portions of its customs territory as free trade zones and free warehouses in return for commitments in favor of employment. France has taken advantage of these regulations in several specific instances. The French Customs Service administers these zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES **civilly:** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, money-issuing institutions, investment firms, money exchangers, investment management companies, mutual insurers and benefit institutions, insurance intermediaries, insurance dealers, notaries, receivers and trustees in bankruptcy, financial investment advisors, real estate brokers, chartered accountants, auditors, dealers in high-value goods, auctioneers and auction houses, bailiffs, lawyers, participants in stock exchange settlement and delivery, commercial registered office providers, gaming centers, companies involved in sports bets and horse-racing tips, and casinos

Enhanced due diligence procedures for PEPs: Foreign: YES **Domestic:** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, money-issuing institutions, investment firms, money exchangers, investment management companies, mutual insurers and benefit institutions, insurance brokers and intermediaries, notaries, receivers and trustees in bankruptcy, financial investment advisors, real estate brokers, chartered accountants, auditors, dealers in high-value goods, auctioneers and auction houses, bailiffs, lawyers, participants to stock exchange settlement and delivery and commercial registered office providers, gaming centers, companies involved in sports bets and horse-racing tips, and casinos

Number of STRs received and time frame: 17,310 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 225 in 2009

Assets forfeited: criminally: Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

France is a member of the Financial Action Task Force (FATF), and 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), two FATF-style regional bodies. The International Monetary Fund (IMF) prepared a Report on the Observance of Standards and Codes. This report can be found here:

<http://www.imf.org/external/np/fsap/fsap.asp#> . France was evaluated by the FATF in 2010; once finalized the evaluation report may be found here: http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

France applies the 2006/70/CE European Union (EU) directive by which politically exposed persons from the EU states may benefit from simplified vigilance procedures, but only in a limited number of cases.

France and the United States have exchanged large amounts of data in connection with money laundering and terrorist financing.

France does not have the capacity to share forfeited assets with other jurisdictions.

The Government of France (GOF) has established a comprehensive anti-money laundering/counter-terrorist financing (AML/CFT) 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.

Germany

Germany is one of the largest financial centers in Europe. 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 a significant source of money laundering in Germany. Trends in money laundering in Germany cited in 2009 include trade in CO₂ emission certificates, cash and gold transactions, and commercial websites that did not ship goods after receiving payment. Germany is not an offshore financial center. Free Trade Zones of control type I exist in Bremerhaven, Cuxhaven, and Hamburg. Deggendorf and Duisburg are control type II Free Trade Zones (unfenced inland ports).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

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(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Credit institutions, financial services institutions, financial enterprises, insurance companies, insurance intermediaries, investment companies, lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents, trust or company service providers, real estate agents, casinos, persons trading in goods

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit institutions, financial services institutions, financial enterprises, insurance companies, insurance intermediaries, investment companies, lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents, trust or company service providers, real estate agents, casinos, persons trading in goods

Number of STRs received and time frame: 9,046 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 518 in 2009

Convictions: 416 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Germany is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/44/19/44886008.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2009, suspicious transaction reports increased 23% compared to 2008. The increase mostly comes from an increased number of "financial agents," i.e., persons who are solicited to make their private accounts available for money laundering transactions. Authorities confirmed the suspicion of a criminal act in about half of the reports (46%). While Germany has no automatic CTR requirement, large currency transactions frequently trigger a report.

Tipping off is a criminal offense only if it is committed with the intent to support money laundering or obstruct justice and applies only to previously-filed reports. Otherwise, it is an administrative offense that carries a fine of up to € 50,000 (approximately \$64,900) under the Money Laundering Act. Legal persons are only covered by the Administrative Offenses Act, and are not criminally liable under the Criminal Code.

In July 2010, Germany banned the Frankfurt-based Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH) because it "knowingly and deliberately supports organizations that either are under Hamas control or support Hamas themselves". According to the German Interior Ministry, the German-based IHH, which ostensibly split from the Turkish IHH, funneled money to Hamas.

The numbers of prosecutions and convictions included in this report only reflect cases in which the money laundering violation carried the highest penalty of all the crimes of which the offender was convicted. A trial continued in 2010 against seven persons accused of laundering money from cocaine sales throughout Europe by transporting it to Lebanon. According to the press, in May 2008 customs officers found € 8.7 million (approximately \$11.3 million) hidden in luggage at Frankfurt Airport. A police search of the subject men's apartment unearthed an additional €500,000 (approximately \$649,300). Additional arrests were made in October 2009.

Germany has no statistics on assets forfeited in criminal money laundering cases, as money laundering is usually only one of the charges leading to conviction. Assets can be forfeited as part of a criminal trial or through administrative procedures such as claiming back taxes.

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

Greece

Greece is considered to be a regional financial center in the developing Balkans, as well as a bridge between Europe and the Middle East. Official corruption, the presence of organized crime, and a large shadow economy make the country vulnerable to money laundering and terrorist financing. Greek law enforcement proceedings indicate that Greece is vulnerable to narcotics trafficking, trafficking in persons and illegal immigration, prostitution, smuggling of cigarettes and other contraband, serious fraud or theft, illicit gaming activities, and large scale tax evasion. Anecdotal evidence of illicit transactions suggests an increase in financial crimes in the past few years and that criminal organizations (some with links to terrorist groups) increasingly are trying to use the Greek banking system to launder illicit proceeds. Criminally-derived proceeds historically are most commonly invested in real estate, the lottery, and the stock market. Criminal organizations from southeastern Europe and the Balkan region are responsible for a large percentage of the crime that generates illicit funds. The widespread use of cash facilitates a gray economy as well as tax evasion, though as part of Greece's three-year €110 billion (approximately \$143 billion) European Union (EU)-IMF program, the government is trying to crack down on both trends. Due to the large informal economy – estimated by the Organization for Economic Co-operation and Development and others to be between 25 and 37 percent of GDP – it is difficult to determine the value of goods smuggled into the country, including whether any of the smuggled goods are funded by narcotic or other illicit proceeds. There is increasing evidence that domestic terrorist groups are involved with drug trafficking.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: A combination of a “list” of predicate offenses and a threshold approach

Legal persons covered: *criminally:* NO *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

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Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>.

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, *bureaux de change*, and postal companies; stock brokers, investment services firms, and collective and mutual funds; life insurance companies and insurance intermediaries; accountants, auditors, and audit firms; tax consultants, tax experts and related firms; real estate agents and companies; casinos (including internet casinos) and entities engaging in gaming activities; auction houses; and dealers in high value goods and auctioneers; notaries and lawyers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, *bureaux de change*, and postal companies; stock brokers, investment services firms, and collective and mutual funds; life insurance companies and insurance intermediaries; accountants, auditors, and audit firms; tax consultants, tax experts and related firms; real estate agents and companies; casinos (including internet casinos) and entities engaging in gaming activities; auction houses; and dealers in high value goods and auctioneers; notaries and lawyers

Number of STRs received and time frame: 2,392 through December 28, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 42 in 2008; more recent data not available

Convictions: 34 in 2008; 20 through June 2009

Assets forfeited: *criminally:* Not available *civilly:* Not Applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Greece is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/document/23/0,3343,en_32250379_32236963_38916695_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Greece ratified the United Nations Convention against Transnational Organized Crime in August 2010, and amended its anti-money laundering/countering the financing of terrorism (AML/CFT) law to adequately criminalize and widen the scope of the terrorist financing offense. The Government of Greece (GOG) also improved the supervisory capacity of its key supervisors.

Despite continued improvements in Greece's AML/CFT regime, a number of deficiencies remain, and Greece continues to be subject to enhanced follow-up by the FATF.

The GOG has been working to improve the effectiveness of the Greek financial intelligence unit; however, deficiencies pertaining to staffing and information technology remain. While the Greek authorities have hired more staff and ensured that STR analysis is carried out only by full-time FIU staff, the total number of employees still appears insufficient to carry out the extensive

functions with which the FIU is tasked. The GOG should make available adequate human and financial resources to ensure the FIU is able to fulfill its responsibilities, ensure its powers are in-line with the international standards related to a financial intelligence unit, and ensure its technical and data management systems and capacities support its functions.

Greece should ensure that its confiscation regime is more effectively implemented and used. While the 2008 AML/CFT law contains provisions allowing civil asset forfeiture, Greek authorities advise it is not practical to launch civil procedures and currently do not do so. The government also should develop an arrangement for the sharing of seized assets with third party jurisdictions that assist in the conduct of investigations.

Although the law provides for the freezing, seizure and confiscation of terrorist assets, Greece has a limited ability to freeze funds in accordance with UNSCR listings of designated terrorists outside of the EU listing system. In the absence of a comprehensive listing and freezing regime, Greece uses an administrative procedure for freezing assets of suspected terrorists designated as such domestically or upon request from a foreign authority. While the GOG advises it is not necessary to open a criminal investigation to use this procedure, it is not clear how quickly it works, and whether all supervised entities are complying. The GOG does not provide guidance to financial institutions and designated non-financial businesses and professions on freezing assets without delay, and does not monitor for compliance. In July 2010 the Bank of Greece introduced sanctions for credit and financial institutions for failure to promptly apply freezing requests or respond without delay to such requests. The GOG advises it is in the process of drafting legislation that would introduce a comprehensive system for suspected terrorists' designation and listing, and asset freezing in accordance with UNSCRs 1267 and 1373.

While Greece has made positive strides in the supervision area, particularly with its recent move to transfer supervisory powers over the insurance sector to the Bank of Greece, a shortage of personnel at the Hellenic Capital Markets Commission (which supervises securities firms, brokers, other financial intermediaries, and clearing houses) remains and continues to challenge its effectiveness. In addition, it is not clear whether the Ministry of Justice has enough resources available to deal with ML or TF related cases.

The GOG should adopt regulations to report large currency transactions and explicitly abolish company-issued bearer shares. It 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. Greece also should ensure that companies operating within its free trade zones are subject to the same AML/CFT requirements and customer due diligence provisions as other sectors and work steadfastly to bring charitable and nonprofit organizations under the AML/CFT regime.

Guatemala

Guatemala is not considered a regional financial center. It continues to be a transshipment route for South American cocaine and heroin destined for the United States and for returning cash to South America. Open source reports suggest that the narcotics trade is increasingly linked to arms trafficking.

Historically weak law enforcement and judiciary systems coupled with endemic corruption and increasing organized crime activity contribute to a favorable climate for significant money laundering in Guatemala. According to law enforcement agencies, narcotics trafficking and corruption are the primary sources of money laundered in Guatemala; however, the laundering of proceeds from other illicit activities, such as human trafficking, contraband, kidnapping, tax

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evasion, and vehicle theft, is substantial. There is no indication of terrorist financing activities.

Guatemala's geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders without passing through immigration or customs inspection. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime.

There are free trade zones operating in the country. There are no reported hawala or other similar alternative remittance systems operating in Guatemala. A significant number of remittances are transferred through banks and appear to pose little risk for money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; pawnbrokers; notaries and accountants; tax advisors and lawyers; casinos, raffles and games of chance; dealers in motor vehicles, precious metals and stones, and art and antiquities; and real estate agents

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; pawnbrokers; notaries and accountants; tax advisors and lawyers; casinos, raffles and games of chance; dealers in motor vehicles, precious metals and stones, and art and antiquities; and real estate agents

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 13 in 2009

Convictions: 11 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Guatemala is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Guatemala_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Guatemala_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are relatively few convictions for money laundering, most of which are for the illegal transport of cash. The number of staff at the FIU and the capacity of law enforcement officials may hamper the ability of the authorities to prosecute more cases.

Former President Alfonso Portillo was indicted in the United States in December 2009 with one count of conspiracy to commit money laundering. Both a Guatemalan trial and appellate court have approved his extradition to the United States and the case is currently on appeal before the Guatemalan Supreme Court.

Law enforcement agencies report that money laundering has increased during the year, especially by groups of air travelers heading to countries such as Panama with slightly less than the amount of the Guatemalan reporting requirement (\$10,000), and a large number of small deposits in banks along the Guatemalan border with Mexico. A new law regarding asset seizures, passed by Congress in December 2010, will take effect in June 2011 and allows Guatemalan authorities to seize cash in structuring transactions and transfer it to the state without first having to obtain a criminal conviction against the courier. The same law will also prevent new businesses from issuing bearer shares of stock. The law requires any existing business with bearer shares to convert the shares to nominative by June 2013, but it is not clear what the consequences will be for failure to do so.

In October, Guatemalan monetary authorities approved a regulation to establish limits for cash transactions in foreign currency to reduce money laundering and terrorism financing risks. The law states that deposits totaling over \$3,000 in any given month will be subject to additional requirements.

Casinos are not legal in Guatemala, however, a number of casinos, games of chance and video lotteries operate, both onshore and offshore. There is no regulatory oversight or legal framework for casino operation, although they are listed as covered entities under the AML law. Attempts by the government to enforce requirements are not successful. Lotteries and raffles are subject to local jurisdiction licensing but are not subject to AML/CFT supervision. Unsupervised gaming activity represents a significant money laundering risk.

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, it relies on the United Kingdom (UK) for its defense and international relations. Alderney and Sark have their own separate parliaments and civil law systems. Guernsey's parliament legislates in matters of criminal justice for all of the islands in the Bailiwick. The Bailiwick is a sophisticated financial center and, as such, it continues to be vulnerable to money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: All financial services businesses; lawyers, accountants and estate agents; and eGambling services

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All businesses

Number of STRs received and time frame: 673 in 2010

Number of CTRs received and time frame: 105 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two

Convictions: Two in 2010

Assets forfeited: *criminally:* \$1,567,265 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The IMF’s December 2010 “Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism” for the Bailiwick of Guernsey can be found at: <http://www.imf.org/external/pubs/ft/scr/2011/cr1112.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Bailiwick has been actively involved in the provision of formal mutual legal assistance for many years. The authorities consider themselves able to provide assistance without the need to enter into mutual legal assistance treaties, and this has enabled compliance with requests from a wide range of jurisdictions, including the US, using the full range of investigatory powers in the law.

Guernsey’s comprehensive AML/CFT legal framework provides a sound basis for an effective AML/CFT regime, and most shortcomings are technical in nature. Money laundering and the financing of terrorism are criminalized fully in line with the FATF standard and the legal framework provides an ability to freeze and confiscate assets in appropriate circumstances.

While no shortcomings have been identified in the legal framework, concerns remain with respect to the implementation of the money laundering provisions. Given the size of the Bailiwick's financial sector and its status as an international financial center, the modest number of cases involving money laundering by financial sector participants and the small number of money laundering cases resulting in convictions raises questions concerning the effective application of money laundering provisions.

Guernsey is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so. Rather, the UK is responsible for the Bailiwick's international affairs and, at Guernsey's request, may arrange for the ratification of any Convention to be extended to the Bailiwick. The UK's ratification of the 1988 UN Drug Convention was extended to include the Bailiwick on April 3, 2002; its ratification of the UN Convention against Corruption was extended to include Guernsey on November 9, 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to Guernsey on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to the Bailiwick

Guinea-Bissau

The Government of Guinea-Bissau is not in full compliance with international conventions against money laundering and terrorist financing because of inadequate resources, weak border controls, and competing national priorities. Of all West African countries, none has been so thoroughly penetrated and corrupted by Latin American drug cartels as Guinea-Bissau. Drug barons from Latin America and their collaborators from the region and other parts of the world have taken advantage of the extreme poverty, unemployment, political instability, lack of effective customs and law enforcement, and general insecurity to make the country a major transit point for cocaine destined to consumer markets, mainly in Europe. One of the poorest countries in the world, the value of the illicit narcotics trade in Guinea-Bissau is much greater than its national income. Using threats and bribes, drug traffickers infiltrate state structures and operate with impunity.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, microfinance institutions, exchange houses, securities firms, insurance companies, casinos, brokerages, charities, nongovernmental organizations (NGOs), and intermediaries such as lawyers, accountants, notaries and broker/dealers

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Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, microfinance institutions, exchange houses, securities firms, insurance companies, casinos, brokerages, charities, nongovernmental organizations (NGOs), and intermediaries such as lawyers, accountants, notaries and broker/dealers

Number of STRs received and time frame: 0 in 2009

Number of CTRs received and time frame: 0 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Guinea Bissau is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In April, 2010, the United States Treasury froze the assets of two top Guinea-Bissau military officers and designated them as major drug kingpins.

Reportedly, banks are reluctant to file STRs because of the fear of “tipping off” by an allegedly indiscrete judiciary. Article 26 of National Assembly Resolution No. 4 of 2004 stipulates that if a bank suspects money laundering it must obtain a declaration of all properties and assets from the subject and notify the Attorney General, who must then appoint a judge to investigate. The bank’s solicitation of an asset list from its client could also amount to “tipping off” the subject.

Although the law establishes asset forfeiture authorities and provides for the sharing of confiscated assets, a lack of coordination mechanisms to seize assets and facilitate requests for cooperation in freezing and confiscation from other countries hampers cooperation.

The Government of Guinea-Bissau (GOGB) should continue to work with its partners in GIABA, the Economic Community of West African States (ECOWAS) and others to establish and implement an effective anti-money laundering/counter-terrorist financing (AML/CFT) regime. The government needs urgent help to restore sovereignty, administer justice and regain control of its borders. The GOGB should ensure the sectors covered by its AML law have implementing regulations and competent authorities to ensure compliance with the law’s requirements. It should also amend its terrorist financing law to comport with international standards. The GOGB 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. Guinea-Bissau should undertake efforts to eradicate systemic corruption. The GOGB should 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.

Haiti

International donors reacted to the Haitian earthquake, tropical storms and cholera epidemic of 2010 by pumping much-needed currency and investments for disaster relief and reconstruction into the country. The earthquake impacted all aspects of Haitian life including ripple effects in the banking, commercial and criminal justice institutions. Despite improving financial intelligence and enforcement capacity, the weakness of the Haitian judicial system and prosecutorial mechanism continues to leave the country vulnerable to corruption and money laundering. Haitian organized crime groups are engaged in drug trafficking and other criminal and fraudulent activity, but do not appear to be involved in terrorist financing. Haiti is the poorest country in the Western Hemisphere and relies heavily on remittances from the large expatriate Haitian community.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and non-bank financial institutions including casinos and money remittance institutions

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks

Number of STRs received and time frame: Nine in an unknown time frame

Number of CTRs received and time frame: 146,627 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 14 houses confiscated and slated for sale; five houses confiscated and donated to GOH law enforcement agencies; \$2,000,000 currency seized

civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Haiti is a member of the Caribbean Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.cfatf-gafic.org/index.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Haiti suffered a devastating earthquake on January 12, 2010 which destroyed 28 of 29 Haitian ministry buildings and the Presidential Palace. In addition, an outbreak of cholera, floods and a contested Presidential election were all contributing factors slowing, but not stopping, the activities of the key institutions involved in financial intelligence, anti-money laundering enforcement, and asset forfeiture and seizure.

The Government of Haiti (GOH) remains hampered by ineffectual and outdated criminal and criminal procedural codes, and by the inability of judges and courts to address cases referred for prosecution. A Presidential commission has drafted new criminal and criminal procedural codes that require parliamentary approval. The anti-terrorist legislation drafted and submitted to Parliament is also awaiting Parliamentary approval.

Following the January 2010 earthquake, banks, with the exception of the Central Bank, could not transmit reports to UCREF. The UCREF also lost office space as a result of the earthquake and, together with a few other law enforcement agencies, has relocated to a building confiscated from a Colombian drug dealer. The UCREF is making plans to review casino operations in Haiti and ensure that casinos are properly licensed and are made aware of their responsibilities as defined in the GOH anti-money laundering legislation.

BAFE, a unit within the Haitian National Police continues to work closely with the DEA to seize and confiscate properties owned by convicted drug traffickers serving prison sentences in the United States.

Haiti is not a party to the International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime.

Hong Kong

Hong Kong, a Special Administrative Region of the People's Republic of China, is a major international financial and trading center. As of December 2010, Hong Kong's stock market was the world's seventh largest and Asia's third largest with total market capitalization of \$2.71 trillion. Already the world's 15th largest banking center and sixth largest foreign exchange trading center, Hong Kong continued its expansion as an offshore Renminbi (RMB) financing center, accumulating in 2010 over \$48 billion in RMB-denominated deposits at authorized institutions. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes.

Hong Kong's low and simplified tax regime, coupled with its sophisticated banking system, shell company formation agents, free port status, and the absence of currency and exchange controls, present vulnerabilities for money laundering, including trade-based money laundering. The primary sources of laundered funds in Hong Kong are corruption, tax evasion, fraud, illegal gambling and bookmaking, prostitution, loan sharking, commercial crimes, and intellectual property rights infringement. Criminal proceeds laundered in Hong Kong are derived from local

and overseas criminal activities, but Hong Kong law enforcement authorities attribute only a small percentage of these laundered funds to drug-trafficking organizations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance entities, and money exchangers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All persons, irrespective of entity or amount of transaction involved

Number of STRs received and time frame: 19,690 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 332 in 2010

Convictions: 279 in 2010

Assets forfeited: *Criminally:* As of December 2010, \$9.33 million was under a court confiscation order but not yet paid to the government *Civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Hong Kong is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/19/38/41032809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

U.S. government agencies enjoy excellent working relationships with Hong Kong’s law enforcement personnel and financial regulators. Cooperation includes joint investigative efforts, information exchange, training, and extraditions.

In October 2010, the Government of Hong Kong introduced to the legislature a draft bill that, if passed, would provide statutory backing to existing financial regulatory guidelines, provide for

administrative and criminal sanctions authority, and establish a regulatory regime for money changers.

In April 2010, the Government of Hong Kong initiated a study to evaluate the implementation of a cross-border currency reporting system. The government's work plan calls for an evaluation of the feasibility of tracking and monitoring currency movements in/out of its borders, including necessary legislative and resource requirements.

Hong Kong still needs to institute mandatory oversight for designated non-financial businesses and professions, and implement mandatory cross-border currency reporting requirements, both potential loopholes for money launderers and terrorist financiers. Hong Kong should also establish threshold reporting requirements for currency transactions and put in place "structuring" provisions to counter evasion efforts. As a major trading hub, Hong Kong should also closely examine trade-based money laundering.

India

India's economic and demographic expansion makes it both a regional financial center and an increasingly significant target for money launderers and terrorist groups. India's extensive informal economy and remittance systems, porous borders, strategic location, persistent corruption, and historically onerous tax administration contribute to its vulnerability to financial and terrorist-related crimes.

Tax avoidance and the proceeds of economic crimes (including fraud, cyber crime and identity theft) are still the mainstay of money launderers in India, but laundered funds are also derived from human and narcotics trafficking, transnational organized crime, illegal trade, particularly in endangered wildlife and illegal gems (principally diamonds), and corruption. India also faces an increasing inflow of high-quality counterfeit currency, which is produced primarily in Pakistan but smuggled to India through multiple international routes. Criminal networks exchange counterfeit currency for genuine notes, which not only facilitates money laundering, but also represents a threat to the Indian economy.

India's location between heroin producing countries in the Golden Triangle and Golden Crescent, along with its porous borders, make it a frequent transit point for drug trafficking. Additionally, India is a major producer of licit acetic anhydride, the precursor chemical required to convert morphine base into heroin, making producers susceptible to abuse by illicit networks. India is also a significant target for terrorist groups, both external and domestic. Most terrorist activities are conducted by international terrorist groups and entities linked to the global jihad, with the support of both state and non-state external actors. In addition, several domestic separatist and insurgent groups are active. Terrorist groups often use counterfeit currency and hawaladars, as well as physical cross-border currency smuggling, to move funds from external sources to finance their activities in India.

India licenses seven offshore banking units (OBUs) to operate in the Special Economic Zones (SEZ). The OBUs are prohibited from engaging in cash transactions and are restricted to lending to the SEZ wholesale commercial sector. Although located in India, OBUs essentially function like foreign branches of Indian banks, but with defined physical boundaries and functional limits. As such, they are subject to the same anti-money laundering/counter-terrorist financing (AML/CFT) provisions as the domestic sector. SEZs were established to promote export-oriented commercial businesses, including manufacturing, trading and services (mostly information technology), and access is controlled by Customs officers. As of December 2010,

about 122 SEZs were operating and more than 575 SEZs had been formally approved throughout India.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and merchant banks; insurance companies; housing and non-banking finance companies; casinos; payment system operators; authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; intermediaries; stock brokers; sub-brokers; share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; depositories and depository participants; foreign institutional investors; credit rating agencies; venture capital funds; collective schemes including mutual funds; and the post office

Enhanced due diligence procedures PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and merchant banks; insurance companies; housing and non-banking finance companies; casinos; payment system operators; authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; intermediaries; stock brokers; sub-brokers; share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; depositories and depository participants; foreign institutional investors; credit rating agencies; venture capital funds; collective schemes including mutual funds; and the post office

Number of STRs received & time frame: 10,067 (April 2009 - March 2010)

Number of CTRs received & time frame: 6,690,000 (April 2009 - March 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six (April 2006 - December 2009)

Convictions: Zero

Assets forfeited: criminally: Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

India is a member of the Financial Action Task Force (FATF) and two FATF-style regional bodies: the Asia/Pacific Group on Money Laundering (APG) and the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG). Its most recent mutual evaluation is available here:

<http://www.fatf-gafi.org/dataoecd/60/56/45746143.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

India's low number of money laundering convictions and the financial sector's low number of terrorism-related suspicious transaction reports (STRs) are not commensurate with the size of India's economy or its threat profile. Additionally, the lack of severe penalties imposed by regulators against banks and financial institutions, coupled with the low statistics, may indicate a lack of appropriate due diligence procedures and/or weaknesses in the transaction monitoring systems. The Government of India (GOI) should ensure reporting entities fully implement appropriate due diligence procedures, to include both computerized tracking systems and active engagement by trained frontline personnel. The GOI should also emphasize the importance of human intervention and analysis in terrorist financing cases, as the varied profiles of these cases may not trigger an automated report.

The GOI issued circulars requiring financial institutions to examine more closely transactions involving higher risk jurisdictions. The circular requires that written reports be available to competent authorities and auditors. As of December 31, 2010, the AML/CFT Regulatory Framework Assessment Committee finished its evaluation of the institutional framework and began drafting a report on appropriate countermeasures for countries that do not conform to the FATF Recommendations.

The GOI has taken action against certain hawala activities, but its successes generally stem from prosecuting legitimate businesses that conduct hawala transactions on the side. Hawaladars operating entirely outside of the formal economy are difficult to trace, and provide money launderers and terrorist organizations ready access to an extensive but unmonitored network in India. The GOI's liberalization of the foreign exchange regime has helped otherwise legitimate actors move out of hawala and into the formal sector. However, the GOI no longer criminalizes operating a money transfer business without a license. The remaining administrative penalties do not serve as a sufficient deterrent to those engaged in criminal activity. The GOI should re-criminalize operating without a license.

The GOI should also facilitate the development of alternative money transfer services, including mobile banking. This expansion of legitimate, accessible services would allow broader financial inclusion of legitimate individuals and entities, and reduce AML/CFT vulnerabilities by shrinking the informal network.

The GOI should press for presidential approval to implement the Foreign Contribution (Regulation) Act 1976, which would extend foreign contribution reporting requirements to any non-profit organization that has a political, cultural, economic, educational or social focus and automate notification of suspicious transactions to the FIU. The GOI should also extend the Prevention of Money Laundering Act to include gem and precious-metals dealers, real estate agents, lawyers, notaries, other independent legal professionals, accountants, and commodity futures brokers and to clearly add a safe harbor provision for those filing STRs in good faith.

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, extensive use of cash in the economy, a lack of effective law enforcement, and the wide-ranging tactics of major indigenous terrorist groups, such as Jemaah Islamiyah, and their financiers from abroad. Most money laundering in the country is connected to non-drug criminal activity such as corruption, illegal logging, theft, bank fraud, credit card fraud, maritime piracy, sale of counterfeit goods, gambling and prostitution. Indonesia has a long history of smuggling, a practice facilitated by thousands of miles of unpatrolled coastline, weak law enforcement, and poor customs infrastructure. The proceeds of illicit activities are easily moved offshore and repatriated as needed for commercial and personal needs. Although Indonesia's corruption indicators are improving, corruption remains a major issue for all aspects of Indonesian society and a challenge for anti-money laundering/counter-terrorist financing (AML/CFT) implementation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, insurance companies and insurance brokerage companies, pension fund financial institutions, securities companies, investment managers, providers of money remittance and foreign currency traders

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financing companies, insurance companies and insurance brokerage companies, pension fund financial institutions, securities companies, investment managers, custodians, trustees, postal services as providers of fund transfer services, foreign currency changers (money traders), providers of instruments of payment using cards, providers of e-money or e-wallet, cooperatives doing business as savings and loans, pawnshops, companies doing business in commodity futures trading, and providers of money remittance. Property companies, property agents, car dealers, dealers of precious stones and jewelry/precious metals, art and antique dealers, and auction houses became subject to STR reporting in 2010

Money Laundering and Financial Crimes

Number of STRs received and time frame: 17,348 in 2010

Number of CTRs received and time frame: 1,461,883 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 36 - January through November 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdiction: YES

Indonesia is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.apgml.org/documents/docs/17/Indonesia%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On October 22, the president signed Law No. 8 of 2010 on the Prevention and Eradication of the Crime of Money Laundering. This law expands the list of agencies permitted to conduct money laundering investigations; increases the ability of the independent Financial Intelligence Unit (PPATK) to examine suspicious financial transactions; expands institutions authorized to obtain results of PPATK analysis or examination of transactions; creates a streamlined mechanism to seize and freeze criminal assets; expands the entities which must file reports with PPATK and increases some criminal penalties for money laundering offenses. The law designates non-financial businesses, in addition to Indonesian banks and providers of financial services, which are required to report suspicious transactions to PPATK.

The Central Bank issued new regulations, effective December 1, 2010, applying to rural banks and rural Shariah banks, which contain more extensive requirements for customer due diligence, enhanced due diligence for high-risk customers and politically exposed persons, and checks against the Central Bank's Terrorist List, as part of Indonesia's AML/CFT program.

Indonesia continues to lack an effective mechanism to implement UNSCR 1267 and 1373, though it recently passed AML legislation that will provide for the freezing of terrorist assets linked to the UN List of designated terrorists and terrorist organizations. The government also appointed a drafting team to prepare draft terrorist financing legislation that would expand criminal liability, create a better mechanism to freeze and seize terrorist assets and subject non-governmental organizations (NGOs) to PPATK regulation. This draft legislation is expected to be submitted to the legislature in 2011.

In 2010, Indonesian prosecutors brought their first terrorism case based solely on terrorist financing grounds. The Saudi national defendant charged with financing the July 17, 2009 twin Jakarta hotel bombings was acquitted of the terrorist finance charge on June 28, 2010, but found guilty of immigration violations and sentenced to 18 months' imprisonment. In addition, as of mid-December 2010, there are three indictments under Article 11 of the 2003 Anti-Terrorism law, which proscribes intentionally providing or collecting funds to be used partly or wholly for acts of terrorism.

On July 7, 2010, the Government of Indonesia completed a domestic review of its non-profit sector and the Coordinating Ministry of Politics, Law and Security Affairs is expected to submit to the President recommendations regarding NGO section supervision.

Indonesia has mutual legal assistance treaties with several countries but not the U.S. It shares law enforcement information with the U.S. through memoranda of understanding.

Iran

Iran is not a regional financial center. Its economy is marked by a bloated and inefficient state sector and over-reliance on the petroleum industry. A combination of price controls and subsidies continue to weigh down the economy, although the Iranian government began a broad subsidy reform in 2010. Widespread corruption has also undermined the potential for private sector-led growth. The United States lists Iran as a state-sponsor of terrorism and the Financial Action Task Force (FATF) has repeatedly warned of Iran's failure to address the risks of terrorist financing, urging jurisdictions around the world to impose effective countermeasures to protect their financial sectors from the dangers of illicit finance emanating from Iran. Iran has a large underground economy, spurred by restrictive taxation, widespread smuggling, currency exchange controls, capital flight, and a large Iranian expatriate community.

Iran has established an international banking network, with many large state-owned banks that have foreign branches and subsidiaries in Europe, the Middle East, Asia, and the Western Hemisphere. In 1994, Iran authorized the creation of private credit institutions; licenses for these banks were first granted in 2001. In a number of cases, Iran has used its state-owned banks to channel funds to terrorist organizations and finance its nuclear and ballistic missile programs. The United States has designated a total of 20 Iranian-linked banks and subsidiaries under its counter-proliferation and terrorism authorities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: Unknown

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
Not available

KNOW-YOUR-CUSTOMER RULES:

Covered entities: The Central Bank, banks, financial and credit institutions, insurance companies (including the state regulator and reinsurance provider), interest-free funds, charity organizations and institutions, municipalities, notaries, lawyers, accountants, auditors, authorized specialists of the Justice Ministry, and official inspectors

Enhanced due diligence procedures for PEPs: *Foreign:* Unknown *Domestic:* Unknown

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Money Laundering and Financial Crimes

Covered entities: The Central Bank, banks, financial and credit institutions, insurance companies (including the state regulator and reinsurance provider), interest-free funds, charity organizations and institutions, municipalities, notaries, lawyers, accountants, auditors, authorized specialists of the Justice Ministry, and official inspectors

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: None

Assets forfeited: criminally: Not available

civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: Unknown

Iran is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 1984, the Department of State designated Iran as a state sponsor of terrorism. Iran continues to provide material support, including resources and guidance, to multiple terrorist organizations and other groups that undermine the stability of the Middle East and Central Asia. Hamas, Hizballah, and the Palestinian Islamic Jihad (PIJ) maintain representative offices in Tehran in part to help coordinate Iranian financing and training. 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.

Since 2006, the U.S. has taken a number of targeted financial actions against key Iranian financial institutions, entities, and individuals under non-proliferation, counter-terrorism, human rights, and Iraq-related authorities, i.e., Executive Order 13382, Executive Order 13224, Executive Order 13553, and Executive Order 13438, respectively. To date, the Departments of the Treasury and State have designated over 240 Iranian entities and individuals for proliferation-related activity under Executive Order 13382.

The following are some examples of notable designations under Executive Orders: Twenty Iranian-linked banks (including Bank Sepah, Bank Melli, Bank Mellat, and Export Development Bank of Iran, plus Post Bank, Ansar Bank, Mehr Bank, and Europaisch-Iranische Handelsbank in 2010), located in Iran and overseas, have been designated in connection with Iran’s proliferation activities. One state-owned Iranian bank (Bank Saderat and its foreign operations) was designated for funneling money to terrorist organizations. The Qods Force, a branch of the Iranian Revolutionary Guard Corps (IRGC), was designated for providing material support to the Taliban, Lebanese Hizballah, and Palestinian Islamic Jihad. The Martyrs Foundation (also known as Bonyad Shahid), an Iranian parastatal organization that channels financial support from Iran to several terrorist organizations in the Levant, including Hizballah, Hamas, and the Palestinian Islamic Jihad (PIJ), has been designated along with Lebanon- and U.S.-based affiliates. Another Iranian parastatal, Bonyad Taavon Sepah, was designated in 2010 for its ties

to the IRGC. The United States also designated the Islamic Republic of Iran Shipping Lines (IRISL) as a proliferator in 2008 and Iran's Moallem Insurance Company in 2010 for providing marine insurance to vessels owned by IRISL.

Since July 2006, the United Nations Security Council (UNSC) has passed six related resolutions (UNSCRs), four of which imposed financial sanctions on Iran. The most recent of these, UNSCR 1929, was adopted by the UNSC in June 2010.

In October 2007, the Financial Action Task Force (FATF) issued its first public statement expressing concern that Iran's lack of a comprehensive framework to counter money laundering and terrorist financing represents a significant vulnerability to the international financial system. In February 2009, the FATF urged all jurisdictions to apply effective countermeasures to protect their financial sectors from the money laundering/terrorist financing risks emanating from Iran and also stated that jurisdictions should protect against correspondent relationships being used to bypass or evade countermeasures or risk mitigation practices. The FATF reiterated its call for countermeasures most recently in October 2010. The FATF urges Iran to immediately and meaningfully address its anti-money laundering/counter the financing of terrorism (AML/CFT) deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements.

Since February 2007, the European Union (EU) has also adopted numerous measures to implement the UNSCRs on Iran and further protect the EU from Iranian risks. For example, in 2010, the EU adopted significant new measures against Iran, including new sanctions on several Iranian banks, the IRGC, and IRISL; enhanced vigilance by way of additional reporting and prior authorization for any funds transfers to and from an Iranian person, entity, or body above a certain threshold amount; a prohibition on the establishment of new Iranian bank branches, subsidiaries, joint ventures, and correspondent accounts; and other restrictions on insurance, bonds, energy, and trade.

Numerous countries around the world have also restricted their financial and business dealings with Iran in response to both the UNSC measures on Iran as well as the FATF statements on Iran's lack of adequate AML/CFT controls. A growing number of governments have moved to designate Iranian banks, and many of the world's leading financial institutions have voluntarily chosen to reduce or cut ties with Iranian banks. South Korea, Japan, Australia, Canada, Norway, India and others undertook extensive additional listings of Iranian entities and individuals and implemented new systemic measures in 2010.

Iran is ranked 146 out of 178 countries listed in Transparency International's 2010 Corruption Perception Index. There is pervasive corruption within the ruling and religious elite, government ministries, and government-controlled business enterprises.

In Iran and elsewhere in the region, proceeds from narcotics sales are sometimes exchanged for trade goods via value transfer. Illicit proceeds from narcotics trafficking are used to purchase goods in the domestic Iranian market; those goods are often exported and sold in Dubai. 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 bazaaris are linked directly to the regional hawala hub in Dubai. Over 300,000 Iranians reside in Dubai, with approximately 8,200 Iranian-owned companies based there.

Iran's real estate market is also often used to launder money. Frequently, real estate settlements and payments are made overseas. In addition, there are reports that billions of dollars in Iranian capital has been invested in the United Arab Emirates, particularly in Dubai real estate.

In 2010, the Government of the Islamic Republic of Iran teamed with United Nations Office on Drugs and Crime to establish a financial intelligence unit (FIU) that will analyze suspicious financial transactions, particularly those dealing with illicit narcotics proceeds. However, no independent assessment has been conducted to assess if the FIU meets international standards.

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. There is a large market in Iraq for stolen automobiles from Europe and the United States. Bulk cash smuggling, counterfeit currency, trafficking in persons, and intellectual property rights violations are also major problems. Ransoms from kidnappings and extortion are often used to finance terrorist networks. There are credible reports of counterfeiting. 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 illicit purposes. Regulation and supervision of the formal and informal financial sectors is still quite limited and enforcement is subject to political constraints, resulting in weak private sector controls. Corruption is a major challenge and is exacerbated by weak financial controls in the banking sector and weak links to the international law enforcement community. Transparency International's 2010 International Corruption Perception index ranked Iraq as 175 out of 178 countries, demonstrating a slight decline from the previous year.

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 (FTZ) Authority Law, goods imported or exported from the FTZ 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 FTZ 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. Iraq is investigating the application of a new customs tariff regime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; investment funds managers; life insurance companies and those which offer or distribute shares in investment funds; securities dealers; money transmitters, hawaladars, and issuers or managers of credit cards and travelers checks; foreign currency exchange houses; asset managers, transfer agents, investment advisers, securities dealers; and, dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; investment funds managers; life insurance companies and those which offer or distribute shares in investment funds; securities dealers; money transmitters, hawaladars, and issuers or managers of credit cards and travelers checks; foreign currency exchange houses; asset managers, transfer agents, investment advisers, securities dealers; and, dealers in precious metals and stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: None civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Iraq is a member of MENAFATF, a Financial Action Task Force (FATF)-style regional body. Iraq has not yet undergone a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

CPA Law 93, AML Act of 2004, the only anti-money laundering statute in Iraq, takes an "all serious crimes" approach although the statute itself references "proceeds of some form of unlawful activity...." Although the statute seems to broaden itself even beyond serious crime, the criminalization under CPA Law 93 is that of a misdemeanor. Thus, Iraq will not prosecute cases under this law because the law does not effectively criminalize money laundering. Iraq should become a party to the UN Convention for the Suppression of the Financing of Terrorism.

Iraq's legal framework needs to be strengthened, either by amendment or redrafting of new AML/CFT legislation. Until the parliamentarians change the law and adequately criminalize

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money laundering, there will be a lack of political will in enforcing it. In addition, Iraqi ministries need to support a viable AML/CFT regime with cooperation across ministries. The lack of implementation of legislation and weak enforcement by the Money Laundering Reporting Office (MLRO) housed in the Central Bank of Iraq undermine its ability to be a stalwart counterforce to terrorist financing and money-laundering. The MLRO does not appear to take action to gather financial intelligence on suspected criminal activity to shore up law enforcement efforts or assist in obtaining relevant information to support ongoing investigations from foreign jurisdictions. The Government of Iraq should ensure the MLRO has the capacity, resources and authorities to serve as the central point for collection, analysis and dissemination of financial intelligence to law enforcement and to provide international assistance.

Investigators, prosecutors and judges all need support from their principals to move farther with pursuing AML/CFT cases. Prosecutors and investigators are frustrated because their cases are not pursued by judges; similarly, judges claim the cases they receive are of poor quality and not prosecutable. Senior level support and increased capacity for all parties are necessary to ensure AML/CFT cases can be successfully prosecuted in Iraq.

In practice, despite customer due diligence requirements, most banks open accounts based on the referral of existing customers and/or verification of a person's employment. Actual application of the rules varies widely across Iraq's 39 state-owned and private banks. Also, rather than file STRs in accordance with the law, most banks either do internal investigations or contact the FIU, which does an account review to resolve any questionable transactions. In practice, very few STRs are filed. US dollars are widely accepted and are used for many payments made by the US military, and assistance agencies and their contractors.

Banks do receive the UNSCR 1267 Committee list of designated terrorists and terrorist organizations, although the current process for distribution is very inefficient and inconsistent.

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. 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; building societies; credit issuers; financial leasing companies; money exchanges and remitters; issuers of checks, traveler's checks, money orders, electronic money, or payment cards; guarantors; securities and commodities futures brokers; safekeeping, portfolio and asset managers; estate agents; auditors, accountants, lawyers and notaries; insurance companies and intermediaries; casinos and bookmakers; high-value goods dealers and auctioneers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; building societies; credit issuers; financial leasing companies; money exchanges and remitters; issuers of checks, traveler's checks, money orders, electronic money, or payment cards; guarantors; securities and commodities futures brokers; safekeeping, portfolio and asset managers; estate agents; auditors, accountants, lawyers and notaries; insurance brokers and companies and intermediaries; casinos and bookmakers; high-value goods dealers and auctioneers

Number of STRs received and time frame: 1,435

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 15 in 2010

Convictions: 13 in 2010

Assets forfeited: criminally: \$510,381 *civilly:* \$94,903

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Compliance with international standards was evaluated in a report prepared by the International Monetary Fund's Financial Sector Assessment Program. The report can be found here: <http://www.imf.org/external/pubs/ft/scr/2009/cr09275.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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. In 2003, the U.S. and the UK agreed to extend to the IOM the U.S.-UK Treaty on Mutual Legal Assistance in Criminal Matters.

The Terrorism (Finance) Act 2009 allows the IOM authorities to compile their own list of suspects subject to sanctions when appropriate.

IOM is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so. Rather, the UK is responsible for IOM's international affairs and, at IOM's request, may arrange for the ratification of any Convention to be extended to the Isle of

Man. The UK's ratification of the 1988 UN Drug Convention was extended to include IOM on December 2, 1993; its ratification of the UN Convention against Corruption was extended to include the IOM on November 9, 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to IOM on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to the IOM.

Israel

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. Criminal groups in Israel, either home-grown or 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. The Minister of Public Security recently announced that domestic revenue from the drug trade is in the billions of dollars. Seizures by the police have increased dramatically over 2009, with increased manpower and cooperation at key border points. 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.

Black market penetration in Israel remains low and is comparable in scale to that of Western, industrialized nations. 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 regionally-focused, with Israel as more of a transit country than a stand-alone significant market. Concern from the authorities is growing relative to illegal pharmaceuticals sales, some retail businesses which are suspected money-laundering enterprises, and corruption accusations against some public officials which may or may not be politically-motivated. Bilateral cooperation between United States and Israeli law-enforcement authorities is very high, including joint repatriations, training exercises and sharing of information where relevant.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, members of the Tel Aviv Stock Exchange, portfolio managers, insurers and insurance agents, provident funds and the companies who manage them, providers of currency services, money services businesses and the Postal Bank

Number of STRs received and time frame: 27,332 (January – November 2010)

Number of CTRs received and time frame: 960,316 (January – November 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 19 (January – August 2009)

Convictions: 13 (January – August 2009)

Assets forfeited: criminally: civilly:

Combined total assets forfeited (criminally and civilly): 1,927,000 NIS (approximately \$550,571) January – August 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Israel has observer status with MONEYVAL (the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism). Its most recent mutual evaluation can be found here: www.coe.int/moneyval.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

A scathing report by the State Comptroller to the Knesset in May 2009 cited Israel's failure to effectively organize and fight the scourge of organized crime. While the police did get credit for pursuing and arresting many leading mafia figures despite lack of resources, the report pointed out that the State would have to do a better job of targeting and weakening the financial foundation of organized crime, and there was considerable lack of cooperation, coordination of activity, and sharing of information among relevant agencies, and ineffective leveraging of current legislation, including anti-money laundering laws. With an established director of the Israeli Money Laundering Authority in September 2010, the hope is that a key source of internal lack of coordination which has plagued some sensitive operations will be reduced.

In July 2009, the Ministry of Finance announced that a special unit would be established alongside the Tax Authority to coordinate the economic side of the fight against organized crime, including better tracking of money laundering. As of November 2010, this unit still has not been established. The Israeli National Police established the Lahav 433 special unit to target organized crime, which had many notable successes in arresting senior members of crime families. While significant resources and attention exist within the GOI to fight terrorist-related money laundering, the lack of resource allocation and follow-through on non-terror related financial crimes still lags significantly *versus* the scope of the problem. Organized crime has existed in Israel for many years, although it is only within the last couple of years that there has been formal acknowledgement by the authorities of the scope of the problem, or existence of crime families. The State of Israel convicted a businessman and former mayoral candidate in Jerusalem for laundering over 650 million shekels (approximately \$183.8 million).

Israel's "right of return" laws for citizenship have meant that crime figures can and have continued to operate in their home countries while having easy access into and out of the country. Israeli citizenship for those "making aliyah" does not require strong ties to Israel such

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as proof of continuous residency. Therefore it is not uncommon for some crime figures suspected of money laundering to hold passports in a home country, a third country for business, and Israel without necessarily having established ties here.

U.S. law enforcement has a robust relationship with the Israel Tax Authority's (ITA's) Anti Drug and Money Laundering Unit. A customs mutual assistance agreement between the U.S. and Israel allows for the exchange of information between Customs services in support of joint financial investigations, and the U.S. and ITA routinely coordinate to target illicit finance and bulk cash smuggling between the two countries. In addition, U.S. and Israeli law enforcement officials cooperate on extradition requests for individuals accused of crimes such as money laundering. For example, Itzhak Abergil, a U.S.-designated Consolidated Priority Organization Target (CPOT), and several other Israeli nationals recently lost their appeal fighting extradition to the United States, where they now face a host of charges including money laundering, and drug trafficking.

Italy

Italy 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. 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. 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. 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 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. Phishing more than tripled from 2008 to 2009 (from 791 to 2,687 instances) for an overall amount increase from 3 to 8 million euros (approximately \$3.9 to \$10.4 million). Italy's financial intelligence unit (FIU) also reported a reduction among suspicious cash transactions, but an increase in wire transactions and money transfers.

Money laundering occurs to some extent in both the regular banking sector and the nonbank financial system, including casinos, money transfer houses, and the gold market. 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 15-17 percent of Italian GDP, totaling about 233 to 264 billion euros (approximately \$304 billion to \$344 billion), though a substantial fraction of this total is related to tax evasion of otherwise legitimate commerce.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crime

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, Italian postal services, electronic money institutions, investment firms, asset management companies, insurance companies, agencies providing tax collection services, stock brokers, financial intermediaries, trust companies, lawyers, accountants, auditors, and casinos

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, Italian postal services, electronic money institutions, investment firms, asset management companies, insurance companies, agencies providing tax collection services, stock brokers, financial intermediaries, trust companies, lawyers, accountants, auditors, and casinos

Number of STRs received and time frame: 37,114 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Italy is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/52/29/36221355.pdf>.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Given the relatively low number of STRs being filed by non-bank financial institutions, Italy should improve its training efforts and supervision in this sector and should clarify attorney/client privilege. Italy should take steps to allow for civil forfeiture of criminal proceeds. 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. 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/CFT regimes.

Japan

Although the Japanese government continues to strengthen legal institutions to permit more effective enforcement of anti-money laundering/counter-terrorist financing (AML/CFT) laws, Japan still faces substantial risk of money laundering by organized crime (including Boryokudan, Japan's organized crime groups, and Iranian drug trafficking organizations), extremist religious groups, and other domestic and international criminal elements. The major sources of money laundering proceeds include drug trafficking, fraud, loan-sharking (illegal money lending), remittance frauds, the black market economy, prostitution, and illicit gambling. In the past year, there has been an increase in financial crimes by citizens of West African countries, such as Nigeria and Ghana, who are resident in Japan. There is not a significant black market for smuggled goods, and the existence of alternative remittance systems is believed to be very limited in Japan.

Japan is not an offshore financial center. It has one free-trade zone, the Okinawa Special Free Trade Zone, established in 1999 in Naha, to promote industry and trade in Okinawa. The zone is regulated by the Department of Okinawa Affairs in the Cabinet Office. Japan also has two free ports, Nagasaki and Niigata. Customs authorities allow the bonding of warehousing and processing facilities adjacent to these ports on a case-by-case basis.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, real estate agents and professionals, precious metals and stones dealers, antique dealers, postal service providers, lawyers, judicial scriveners, certified administrative procedures specialists, certified public accountants, certified public tax accountants, trust companies

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, real estate agents and professionals, precious metals and stones dealers

Number of STRs received and time frame: 268,582 for January-November 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: ***criminally:*** approximately ¥2.7 billion (approximately \$33 million)
January 1-December 31, 2009 ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Japan's compliance with international standards is notably deficient on recommendations specific to financial institutions. While Japan has legal requirements for customer due diligence (CDD) programs in its institutions, the CDD provisions are severely lacking, and 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. Japan should strengthen its CDD provisions to include specific requirements for due diligence by financial institutions and to require financial institutions to collect information about business accounts and transactions.

The Government of Japan (GOJ) has not implemented a risk-based approach to AML/CFT, and there is no mandate for enhanced due diligence for higher-risk customers, business relationships, and transactions. The current regulations do not authorize simplified due diligence, though there are exemptions to the identification obligation on the grounds that the customer or transaction poses no or little risk of money laundering or terrorist financing. Japan should implement a risk-based approach to its AML/CFT regime.

The GOJ's number of investigations, prosecutions, and convictions for money laundering in relation to the number of drug and other predicate offenses is low, despite the GOJ's many legal tools and programs to combat these crimes. The National Police Agency (NPA) provides very limited cooperation with other GOJ agencies, and most foreign governments, on nearly all criminal, terrorism, or counter-intelligence-related matters. The NPA's minimal level of cooperation has caused the law enforcement offices of nearly all other industrialized countries to either leave Japan or significantly reduce their presence. The GOJ should develop a robust program to investigate and prosecute money laundering offenses, and require enhanced cooperation by the NPA with its counterparts in the GOJ and foreign missions.

The GOJ's system does not allow the freezing of terrorist assets without delay, and in practice the Ministry of Finance has never actually frozen or confiscated any terrorist assets. Japan's system does not cover assets raised by a non-terrorist for use by a terrorist or terrorist organization, and reaches only funds, not other kinds of assets. The GOJ should enact legislation to allow terrorist assets to be frozen without delay, and to expand the scope of assets to include non-financial holdings.

Japan should provide more training and investigatory resources for AML/CFT law enforcement authorities, establish an effective CDD regime, and consider implementing a system to report large currency transactions. As Japan is a major trading power, the GOJ should take steps to identify and combat trade-based money laundering. Japan should also become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption,

and should fully implement the freezing obligations for terrorist funds, according to the UN Convention for the Suppression of the Financing of Terrorism.

Jersey

The Island of Jersey, the largest of the Channel Islands, is an international financial center offering a sophisticated array of offshore services. Jersey is a British crown dependency but has its own parliament, government, and laws. The United Kingdom (UK) remains constitutionally responsible for its defense and international representation but has entrusted Jersey to negotiate and sign tax information exchange agreements directly with other jurisdictions and regulate its own financial service sector. The financial services industry is a key sector, with banking, investment services, and trust and company services accounting for approximately half of Jersey's total economic activity. As a substantial proportion of customer relationships are established with nonresidents, most of the illicit money in Jersey is derived from foreign criminal activity. In particular, the Island's financial services industry continues to be vulnerable to the laundering of the proceeds of foreign political corruption in industries such as oil, gas and transportation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, travelers' checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, and portfolio managers; insurance companies and brokers; fund products and fund operators; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high-value goods; notaries, accountants, lawyers and legal professionals

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, travelers' checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, and portfolio managers; insurance companies and brokers; fund products and fund operators; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high-value goods; notaries, accountants, lawyers and legal professionals

Number of STRs received and time frame: 1,854 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One prosecuted to judgment in 2010

Convictions: One in 2010

Assets forfeited: criminally: £7,454,250 (approximately \$11,299,600) in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In lieu of a mutual evaluation, a report was prepared by the International Monetary Fund's Financial Sector Assessment Program. The report can be found here:

<http://www.imf.org/external/pubs/ft/scr/2009/cr09280.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although not yet used in practice, Jersey has an ability to designate persons and freeze their assets in conformity with UNSCR 1373. No formal procedure is in place to receive and assess requirements based on a foreign request, as required by UNSCR 1373. Additionally, the definition of "funds" subject to freezing does not expressly refer to assets "jointly" or "indirectly" owned or controlled by designated or listed persons.

The Jersey Financial Services Commission (JFSC) website contains a link to the United Kingdom Consolidated List of asset freeze targets, as designated by the United Nations, European Union and United Kingdom. It does not use other means to distribute UN lists of designated terrorists or terrorist entities.

Jersey does not enter into bilateral mutual legal assistance treaties. Instead it is able to provide mutual legal assistance to any jurisdiction, including the US, in accordance with the Criminal Justice (International Co-operation) (Jersey) Law 2001 and the Civil Asset Recovery (International Co-operation) (Jersey) Law 2007. Jersey has granted U.S. requests for assistance in criminal matters. Jersey signed a Tax Information Exchange Agreement with the United States in 2002. In 2009, the JFSC signed a statement of cooperation with the Board of Governors of the Federal Reserve System, Office of the Comptroller of Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision. This statement is in addition to existing memoranda of understanding with the Securities and Exchange Commission and Commodity Futures Trading Commission.

Jersey is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so, as is the case with tax information exchange agreements. Rather, the UK is responsible for Jersey's international affairs and, at Jersey's request, may arrange for the ratification of any Convention to be extended to Jersey. The UK's ratification of the 1988 UN Drug Convention was extended to include Jersey in July 1998; its ratification of the UN Convention against Corruption was extended to include Jersey in November 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to Jersey on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to Jersey.

Jersey authorities have a continuing concern regarding the increasing incidence of domestic drug related crimes. The customs and law enforcement authorities devote considerable resources to countering drug-related crime. Jersey should continue to maintain and enhance its level of compliance with international standards to assist those efforts. The Financial Services Commission should ensure its AML Unit has enough resources to continue to function effectively, and to provide outreach and guidance to the sectors it regulates, especially the newest entities required to file reports. The Commission also should distribute the UN lists of designated terrorists and terrorist organizations to the obligated entities and not expect the entities to stay current through their own Internet research.

Kenya

Kenya is a major money laundering country. Kenya's use as a transit point for international drug traffickers continues to increase. The laundering of funds related to Somali piracy, corruption, smuggling, the misuse of casinos and other assorted crimes is a substantial problem. Reportedly, Kenya's financial system may be laundering over \$100 million each year, including an undetermined amount of narcotics proceeds and Somali piracy-related funds. As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has large formal and informal sectors. Although banks, wire services, and other formal channels execute funds transfers, there are also thriving, unregulated 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial and non-bank financial institutions engaging in one or more of the following: accepting deposits; lending; financial leasing; transferring funds or value; issuing and managing means of payment; financial guarantees and commitments; trading in money market instruments, foreign exchange, exchange, interest rate and index funds, transferable securities, and commodity futures; participation in securities issues; individual and collective portfolio or fund management; safekeeping and asset administration; underwriting and sales of life insurance and other investment related insurance; and/or money and currency changing; also, casinos; real estate agencies; accountants; and dealers in precious metals or stones

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial and non-bank financial institutions engaging in one or more of the following: accepting deposits; lending; financial leasing; transferring funds or value; issuing and managing means of payment; financial guarantees and commitments; trading in money market instruments, foreign exchange, exchange, interest rate and index funds, transferable securities, and commodity futures trading; participation in securities issues; individual and collective portfolio management; safekeeping and administering cash or liquid assets on behalf of other persons; investing, administering, or managing funds on behalf of other persons; underwriting and placement of life insurance and other investment related insurance; and/or money and currency changing; also, casinos; real estate agencies; accountants; and dealers in precious metals or stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 civilly: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Kenya is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. No mutual evaluation report is available at this time.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Proceeds of Crime and Anti-Money Laundering Act (PCAMLA), which came into force in June 2010, has a number of deficiencies. While the PCAMLA does take an “all crimes” approach to money laundering predicate offenses, the Act has never been used to prosecute any crimes. Kenya’s criminal justice system remains open to interference and corruption and combating money laundering has not been given priority. The PCAMLA contains sanctions that are proportionate and meet the international standard but have not yet been operationalized with implementing regulations. The PCAMLA does not mention or criminalize terrorism or terrorist financing. The legislation does not explicitly authorize the seizure of legitimate businesses used to launder money. A number of amendments to the law appear to have made the PCAMLA less powerful than earlier drafts. The Central Bank of Kenya (CBK) is relying on the future Financial Intelligence Centre (FIC), the financial intelligence unit, for implementation, as the police lack institutional capacity to handle complex financial crimes analysis and investigation. Although authorized under the PCAMLA, the FIC has not yet been established.

The GOK did not report any money laundering or terrorist financing arrests, prosecutions, or convictions from 2007 through 2010. Kenya lacks the institutional capacity, investigative skill, and equipment to conduct complex investigations independently. There is also insufficient political will to address these crimes. Kenya ranks 154 out of 178 countries on the 2010 Transparency International Corruption Perceptions Index.

There is a black market for smuggled goods in Kenya, which serves as the major transit country for Uganda, Tanzania, Rwanda, Burundi, northern Democratic Republic of Congo (DRC), and Southern Sudan. While goods marked for transit avoid Kenyan customs duties, authorities acknowledge these goods are often sold in Kenya. Many entities in Kenya are involved in exporting and importing goods, including nonprofit entities. Trade-based money laundering is a serious problem in Kenya. Trade goods are often used to provide counter-valuation in regional hawala networks.

Kenya has no straightforward legal mechanism to freeze or seize criminal or terrorist accounts. 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. Because of corruption and leaks, the confidentiality of this process is difficult to maintain. The Central Bank does not distribute UN lists to financial institutions. Instead, it refers all banks to the public lists posted on the Internet. Two times per year, each bank is required to confirm to the Central Bank that they have ensured none of their clients are on any of the lists.

Latvia

Latvia is a regional financial center that has a large number of commercial banks with a sizeable nonresident deposit base. Latvia is among the European economies most affected by the global financial turmoil. To ease the situation, the Government of Latvia (GOL) sought external financial support and agreed to an international stabilization program. Despite the on-going economic crisis in Latvia, total bank deposits have increased in the past year.

Authorities report that the largest sources of money laundered in Latvia are tax evasion and other forms of financial fraud. Lesser sources include smuggling (primarily cigarettes) and public corruption. Local officials do not consider proceeds from illegal narcotics to be a major source of laundered funds in Latvia. According to regulators and law enforcement officials, most of the laundered funds derived from financial fraud - and a sizeable portion of the funds derived from tax evasion - originate outside of Latvia. Reportedly, Russian and Latvian organized crime groups are active in Latvia, and authorities believe that a significant portion of all criminal proceeds originating domestically is generated by these groups. Although Latvian regulatory agencies closely monitor financial transactions to identify instances of terrorist financing, no prosecutions or penalties have been initiated based on this monitoring in recent memory.

Four special economic zones provide a variety of significant tax incentives for manufacturing, outsourcing, logistics centers, and the 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 reports of cigarette smuggling through the free trade zones, there have been no confirmed cases of the zones being used for money laundering schemes or by terrorist financiers. The zones are covered by the same regulatory oversight and enterprise registration regulations that exist for other areas.

Latvian officials maintain that the country is experiencing an overall decrease in financial crimes. While acknowledging that the total amount of assets seized and frozen declined in 2010 (compared to prior years), they observe that transactions tend to be smaller, which they claim is largely attributable to the economic crisis. Meanwhile, statistics for investigations initiated, transactions reports received, and convictions all trended upward in 2010, despite resource limitations which affected all regulatory and law enforcement agencies. GOL officials note that Latvia's updated "Law on the Prevention of Laundering the Proceeds from Criminal Activity

(Money Laundering) and of Terrorist Financing” (amended December 2009) provides a more robust statute for those investigating, interdicting and prosecuting financial crimes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, including credit institutions, life insurance companies and brokers, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, money transmission or remittance offices; tax advisors, external accountants, sworn auditors, sworn notaries, advocates, and other independent legal professionals; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; and other legal or natural persons involved in trading real estate, transport vehicles, items of culture, precious metals, precious stones and articles thereof, or as intermediaries in such transactions

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, including credit institutions, life insurance companies and brokers, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, money transmission or remittance offices; tax advisors, external accountants, sworn auditors, sworn notaries, advocates, and other independent legal professionals; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; and other legal or natural persons involved in trading real estate, transport vehicles, items of culture, precious metals, and precious stones

Number of STRs received and time frame: 19,907 from January through November 2010

Number of CTRs received and time frame: 8,354 from January through November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 26 persons (involving 62 separate charges) from January through November 2010

Convictions: Seven (involving 14 individuals) from January through November 2010

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Assets forfeited: **criminally:** Approximately \$2.46 million from January 1 through November 30, 2010 **civilly:** None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Latvia is a member of the Council of Europe 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. Its most recent mutual evaluation report can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Latvia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Current laws do not require enhanced due diligence procedures for domestic PEPs, however, they allow discretion to any institution or professional covered by KYC rules to apply enhanced due diligence, based on its risk assessment for a particular customer.

Approximately \$2.1 million was frozen by the FIU through November 30, 2010. Additionally, approximately \$472,000 in assets was seized by law enforcement officials during the same time period.

In April 2005, the United States outlined concerns in a Notice of Proposed Rulemaking against VEF Banka, under Section 311 of the USA PATRIOT Act. The bank was found to lack adequate AML/CFT controls and was used by criminal elements to facilitate money laundering, particularly through shell companies. In August 2006, the United States issued a final rule imposing a special measure against the VEF Banka, as a financial institution of primary money laundering concern. This measure is still in effect. Following the Latvian authorities' revocation of the bank's license in May 2010, a lawsuit was filed asserting this action was not legal; that suit was resolved in the Government of Latvia's favor on November 15, 2010. According to Latvian authorities, this resolution means the bank's license cannot be reactivated.

In January 2010, legislative amendments establishing mechanisms for sharing assets with non-EU countries and regarding the application of the EU Framework Decision on the application of mutual recognition of confiscation orders took effect. Latvian officials have cooperated with USG law enforcement agencies to investigate numerous financial narcotics-related crimes. The Latvian Financial and Capital Market Commission regularly exchanges information with the U.S. Securities and Exchange Commission. More broadly, officials in Latvia are also able to provide assistance outside of the formal mutual legal assistance process in accordance with current AML/CFT laws.

Law enforcement and regulatory agencies have a heavy workload and their budgets, salaries, and in some cases, personnel have been reduced due to the severe economic crisis. Despite these constraints, the Latvian FIU referred a total of 256 cases to other investigative agencies in 2010 (through November 30), roughly 80% more than in all of 2009. Of this total, approximately half were related to cases involving tax evasion. In one notable recent case, the Latvian Financial Police - a subordinate agency of the State Revenue Service - performed more than 60 searches in one day in investigating a series of real estate deals allegedly involving Latvian and Russian criminal groups and officials at Latvian credit institutions. This investigation is reportedly tied to approximately \$3.76 million in unpaid taxes and led to the freezing of 60 separate bank accounts. Authorities note increased activity by regulators and law enforcement officials over

the past year. They observe that questionable transactions tend to be smaller and conclude that the overall monetary value of money laundering may be decreasing due to the economic crisis.

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. Lebanon faces significant money laundering and terrorist financing challenges. For example, Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by the World Bank at \$8.2 billion per year. It has been reported that a number of Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities.

Laundered criminal proceeds come primarily from foreign criminal activity and organized crime. 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.

Although offshore banking, trust and insurance companies are not permitted in Lebanon, the government has provisions regarding activities of offshore companies and transactions conducted outside Lebanon or in the Lebanese Customs Free Zone. Offshore companies can issue bearer shares. There are also 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Bank; money exchanges; private couriers who transfer currency for money service businesses such as Western Union and Money Gram; and charitable and nonprofit organizations

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: financial institutions, exchange offices, financial intermediation companies, leasing companies, mutual funds, insurance companies, companies promoting and selling real

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estate and construction, and dealers and companies engaged in transactions for high-value items (i.e., precious metals, antiquities, etc.)

Number of STRs received and time frame: 179 from January through November 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 11 as of November 2010

Convictions: One between January and November 2010

Assets forfeited: criminally: 0 **civilly:** 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Lebanon is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. Its most recent evaluation is posted at www.menafatf.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Lebanon's financial intelligence unit (FIU), the Special Investigations Commission (SIC) is seeking to finalize amendments to Central Bank Circular 83. One amendment would enhance due diligence procedures for foreign PEPs. In the first 11 months of 2010, the SIC investigated 179 allegations of money laundering and terrorist financing activities, a sharp rise from 116 cases during all of 2009. Although the number of filed STRs and subsequent money laundering investigations coordinated by the SIC have steadily increased, prosecutions and convictions are still lacking.

Customs is required to inform the FIU of suspected TBML or terrorist financing; however, high levels of corruption within Customs create vulnerabilities for TBML and other threats.

In addition to the names of suspected terrorist individuals and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, the SIC circulates to all financial institutions the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224, and entities designated by the European Union under its relevant authorities.

The Government of Lebanon (GOL) should encourage more efficient cooperation between financial investigators and other relevant agencies such as Customs and the Internal Security Force. Lebanon should increase efforts to disrupt and dismantle terrorist financing efforts, including those carried out by Hizballah, which the GOL does not consider a terrorist group. The GOL should consider amending its legislation to allow a greater ability to provide forfeiture cooperation internationally and also provide authority for the return of fraudulent proceeds. The GOL should pass legislation to mandate and enforce cross-border currency reporting. The trading of bearer shares of unlisted companies remains a vulnerability, and the GOL should take action to immobilize those shares as well as to criminalize "tipping off".

In addition, there should be more emphasis on linking predicate offenses to money laundering and not an over-reliance on suspicious transaction reports (STRs) filed by financial institutions to initiate investigations. Existing safeguards do not address the issue of the laundering of diamonds and value transfer through Lebanon directly or by Lebanese buying agents in Africa. Lebanese law enforcement authorities should examine domestic ties to the international network

of Lebanese brokers and traders who are commonly found in underground finance, trade fraud, and TBML.

Finally, the GOL should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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 both licit and illicit funds from abroad. Liechtenstein's financial services sector includes 16 banks, 102 asset management companies, 41 insurance companies and 70 insurance intermediaries, 33 pension schemes and five pension funds, 395 trust companies and 27 fund management companies with approximately 411 investment undertakings (funds), and 1,448 other financial intermediaries. The three largest banks control 85 percent of the market.

In recent years the Principality has made continued progress in its efforts against money laundering. In 2009, the Liechtenstein Government recognized the OECD standard as the global standard in tax cooperation and as a result renegotiated a series of Double Taxation Agreements to include administrative assistance on tax evasion cases.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance brokers; money exchangers or remitters; financial management firms and investment and real estate companies; dealers in high value goods; insurance companies; lawyers; money exchangers or remitters; casinos; the Liechtenstein Post Ltd.; or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, investment companies, real estate companies, dealers in high valued goods, insurance companies, lawyers, money exchangers or remitters, casinos, the

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Liechtenstein Post Ltd.; or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Number of STRs received and time frame: 235 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Seven between September 1, 2008 and October 18, 2010

Convictions: Two between September 1, 2008 and October 18, 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Liechtenstein is a member of Moneyval, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Liechtenstein_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Liechtenstein has shown an important effort to improve deficiencies in money laundering. The 2009 reporting year saw a new record high number of suspicious activity reports (SARs) at 235, an increase of 24.3% compared to 189 SARs in 2008: 57.9% of the SARs were based on fraud; 11.5% on money laundering; and 30.6% on the other enumerated offense categories. No SARs were submitted for suspected terrorist financing. In 2009, 74% of Liechtenstein's SARs were forwarded to the Office of the Public Prosecutor (in 2010, so far 82% have found their way to the Office of the Public Prosecutor).

In practice, many of the customer characteristics considered high-risk in the international standards, including non-resident and trust or asset management accounts, are considered routine, subject only to normal customer due diligence procedures. Liechtenstein also decided not to include entities with bearer shares, trusts and foundations, or entities registered in privately-held databases in the high-risk category. The present SAR reporting requirements do not clearly indicate whether "attempted transactions" relating to funds used in connection with terrorism are covered.

There are reportedly no abuses of non-profit organizations, alternative remittance systems, offshore sectors, free trade zones, bearer shares, or other specific sectors.

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. It also operates as 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. 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, pension funds, insurance brokers, undertakings for collective investment (UCIs), management companies, external auditors, accountants, notaries, lawyers, casinos, gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, and insurance providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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, and insurance providers

Number of STRs received and time frame: 4,866

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 107

Convictions: 51

Assets forfeited: criminally: 26.8 million EUR (approximately \$36 million) *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: Not available

Luxembourg is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/40/7/44655591.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Law of 3 March 2010 introduces the criminal liability of legal persons into the Penal Code and into the Code of Criminal Procedure,

A Grand-Ducal Decree from February 2010 sets out several provisions concerning inter alia a) prohibition of accounts opened in fictitious names and specifications on numbered accounts; b) the verification of the powers of the natural person purporting to act on behalf of the customer; c) the identification of the beneficial owner; d) the determination of whether the customer is acting on behalf of another person; e) the scope of simplified due diligence; f) the regime of enhanced

due diligence by specifying the measures and the risk management applicable to non face-to-face clients and transactions, correspondent banking and politically exposed persons; and, g) the specification of the obligation to report suspicious transactions.

The horizontal Law of 27 October 2010 entered into force on November 7, 2010. The Law introduces a considerable number of changes to the existing AML/CFT provisions and proposes to bring changes to as many as 20 existing Laws. The Law strengthens the existing AML/CFT provisions by extending the coverage of the money laundering and terrorist financing offenses and the asset forfeiture regime; clarifying and enhancing know-your-customer procedures; increasing sanctions and penalties; providing a supervisory regime for real estate agents, dealers in high-value goods, and trust and company service provider; establishing a cross-border currency declaration system; and strengthening the authority and access to information of the FIU.

Macau

Macau, a Special Administrative Region (SAR) of the People's Republic of China (PRC), is not a significant regional financial center. Banks and insurance companies mainly offer traditional products and services to the local population. However, as the world's biggest gambling market by revenue, benefiting from millions of visitors - mostly from nearby mainland China - Macau is vulnerable to becoming a hub for the laundering of criminal proceeds. Reported annual gaming revenues for 2010 were over \$23.5 billion, although observers note that the amount of unreported illegal side-betting could be as much as ten times reported revenues. In addition to the existence of casinos, close proximity border with PRC and Macau's open economy, including lack of controls on cross border physical movement of cash, are factors that create a risk of money laundering and terrorist financing activities. The primary sources of criminal proceeds in Macau are drug-related crimes, organized crime, and illegal gambling. Networks spanning across Macau's boundary with mainland China account for much of the criminal activity.

Loosely-regulated gaming promoters, known as junket operators, profit from sourcing the majority of Macau's VIP players who contribute to over 80 percent of gaming revenues. They finance gamblers while in Macau, assuming credit risk and mingling customer funds in a consolidated junket account, and supply them to the casinos on commission. Junkets are increasingly popular among gamblers seeking anonymity and among casinos aiming to reduce credit default risk. This inherent conflict of interest, together with anonymity provided through use of the junket operator to transfer funds, presents significant challenges to anti-money laundering measures in the gaming sector.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay:: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit and insurance entities, casinos, gaming intermediaries, remittance agents and money changers, cash couriers, trust and company service providers, realty services, pawn shops, traders in high-value goods (e.g., jewels, precious metals, vehicles, etc.), notaries, registrars, commercial offshore service institutions, lawyers, auditors, accountants, and tax consultants

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All persons, irrespective of entity or amount of transaction

Number of STRs received and time frame: 1,220 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two (January to September 2010)

Convictions: 0

Assets forfeited: criminally: \$806,000* (January to November 2010) *civilly:* Not applicable

* Forfeited assets credited to Macau Government in 2010 from a 2008 conviction.

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Macau is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: <http://www.apgml.org/documents/docs/17/Macao%20ME2%20-%20FINAL.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although Macau has no formal law enforcement cooperation agreements with the United States, informal cooperation between the two routinely takes place. U.S. government agencies work closely with Macau counterparts in capacity building measures, information exchange, and investigations. Macau's Financial Intelligence Unit (FIU) has been an essential component in coordinating AML/CFT efforts. The Government of Macau (GOM) established the FIU in 2006 as a non-permanent government entity in order to avoid having to seek legislative approval. The FIU's current term expires in August 2012. The GOM should permanently institutionalize it without term limits, given the FIU's crucial role in sustaining a long-term AML/CFT infrastructure.

The AML law does not require currency transaction reporting (CTR). However, gaming entities are subject to threshold reporting under the supplementary guidelines of the Gaming Inspection and Coordination Bureau (GICB). Currently, the GICB only shares statistical data on CTR filings with the Financial Intelligence Unit (FIU). To enhance the FIU's ability to detect and deter illicit activity, the FIU should have full access to CTR reports collected by GICB.

Money Laundering and Financial Crimes

Under current regulatory guidelines, financial institutions are obligated and do identify and freeze suspect bank accounts or transactions. However, the GOM cannot provide mutual legal assistance on AML/CFT under existing legislation. Macau should enhance its ability to support international efforts by developing its legal framework to facilitate the freezing and seizure of assets. The GOM can provide mutual legal assistance on criminal matters, even without a formal agreement, and cooperation between the GOM and the United States routinely takes place.

Macau continues making considerable efforts to develop an AML/CFT framework that meets international standards. It should continue to strengthen interagency coordination to prevent money laundering in the gaming industry, especially by introducing robust oversight of junket operators. It also should implement mandatory cross-border currency reporting requirements.

Mexico

Mexico is a major drug-producing and drug-transit country. Proceeds from the illicit drug trade leaving the United States are the principal source of funds laundered through the Mexican financial system. Other significant sources of illegal proceeds being laundered include corruption, kidnapping, and trafficking in firearms and persons. Sophisticated and well-organized drug trafficking organizations based in Mexico take advantage of the extensive U.S.-Mexico border and the large flow of legitimate remittances to Mexico. The smuggling of bulk shipments of U.S. currency into Mexico and the repatriation of the funds into the United States via couriers, armored vehicles, and wire transfers remain favored methods for laundering drug proceeds. The combination of a sophisticated financial sector, a large cash-based informal sector, and insufficiently implemented regulatory controls further complicates the problem. According to US authorities, drug trafficking organizations send between \$19 and \$29 billion annually to Mexico from the United States. Mexico has seized over \$457.5 million in bulk currency shipments since 2002. In 2010, bulk-cash seizures amounted to \$32.4 million in U.S. dollars and 87.3 million (approximately \$7 million) in pesos.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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 (unlicensed foreign exchange centers)

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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.

Number of STRs received and time frame: 34,511 January through September 2010

Number of CTRs received and time frame: 3.2 million January through September 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 162 from September 2009 to July 2010

Convictions: 17 (37 individuals) from September 2009 to July 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Mexico is a member of the Financial Action Task Force (FATF), of which Mexico currently holds the presidency (until July 2011), and the Financial Action Task Force for South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here:

http://www.fatf-gafi.org/document/20/0,3343,en_32250379_32236963_41911956_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The number of casas de cambio has declined due to actions the Mexican authorities have taken against those with serious AML/CFT violations and the closure of correspondent accounts in the United States. Unlike regulated casas de cambio – of which there are only nine – there are over 4000 centros cambiarios, which are largely unregulated, and approximately 1200 registered money transmitters. Commercial banks, foreign exchange companies, and general commercial establishments also may offer money exchange services. The Government Secretariat 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 AML reporting requirements. Legislation to regulate these non-financial entities has been proposed and remains pending in Congress.

The Government of Mexico (GOM) has made fighting money laundering and drug trafficking one of its top priorities, and has made progress in combating these crimes over the course of 2010. Mexico has adopted a national anti-money laundering strategy, increased the capacity of law enforcement and supervisors, and established a vetted police unit. The Mexican government works very closely with U.S. law enforcement on transnational cases. From September 2009 to July 2010, Mexican judges convicted 37 individuals on money laundering charges. Given that from 2004 to 2007, only 17 criminals were convicted of money laundering, this is a notable improvement.

However, Mexico continues to face challenges with respect to its AML/CFT 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 terrorist financing. Mexico should also amend its terrorist financing legislation to fully comport with the UN Convention for the Suppression of the Financing of Terrorism; and enact legislation and procedures to freeze without delay terrorist assets of those designated by the UN

1267Sanctions Committee. To create a more effective AML/CFT 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 cambiarios and gambling centers, and extend AML/CFT requirements to designated non-financial businesses and professions. While some of these issues are addressed in pending AML legislation, the fate of some of the proposals is uncertain as they must pass an opposition-dominated Congress.

On June 15, 2010 the Finance Ministry announced new regulations imposing limits on U.S. dollar (USD) transactions in Mexico. The caps, which were eased on December 3 for border areas, are applicable to cash transactions from dollars to pesos, including deposits, credit payments, and service fees. In addition to limiting transaction amounts for individuals, all USD transactions are prohibited by the regulation for corporate entities and trusts (including account and non-account holding entities), except for those which are account-holders located in border or tourist areas, for which transactions are limited.

On August 26, 2010 the GOM stepped up its AML efforts and announced the National Strategy for the Prevention and Elimination of Money Laundering and Financing for Terrorism along with a package of bills currently pending in Congress. The package includes nine reforms and three modifications to federal codes, as well as the creation of the Law to Prevent and Identify Operations with Illegal Origins and Terrorism Financing.

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). Financial fraud, especially tax-evasion, is believed to generate a considerable portion of domestic money laundering, and there is increasingly less 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. In 2009, the number of suspicious transfers was at the lowest level in seven years. Although under the Schengen Accord there are no formal controls on national borders within the European Union (EU), the Dutch authorities run special operations in the border areas with Germany and Belgium to keep smuggling to a minimum.

Six islands in the Caribbean fall under the jurisdiction of the Netherlands. Bonaire, St. Eustasius, and Saba are special municipalities of the country the Netherlands. Aruba, Curacao, and St. Maarten are countries within the Kingdom of the Netherlands.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally: YES* *civilly: NO*

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO
(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange offices, casinos, money service businesses, lawyers, notaries, tax specialists, accountants, life insurers, trust and company service providers, credit card companies

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, securities institutions, investment institutions, money transaction offices, providers of money transaction services, life insurers and insurance brokers, credit card companies, casinos, traders in high-value goods, other traders, accountants, lawyers, business economic consultants, tax consultants, real estate brokers, estate agents, civil-law notaries, independent legal consultants, trust and asset administrative companies

Number of STRs received and time frame: 164,000 in 2009

Number of CTRs received and time frame: 32,100 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 770 January through June 2009

Convictions: 328 January through June 2009

Assets forfeited: criminally: 50 million euro (approximately \$64.9 million) in 2009
civilly: Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Netherlands is a member of the Financial Action Task Force (FATF). In lieu of an evaluation by the FATF, the International Monetary Fund (IMF) prepared a Report on the Observance of Standards and Codes (ROSC). The ROSC can be found here: <http://www.imf.org/external/pubs/ft/scr/2004/cr04312.pdf> The Netherlands underwent a new FATF evaluation in 2010; once finalized the evaluation report may be found here: http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In June 2008, the Netherlands Court of Audit published its investigation of the Government of the Netherlands' 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 Netherlands has established an "unusual transaction" reporting system. Designated entities are required to file unusual transaction reports (UTRs) with the Netherlands' financial intelligence unit (FIU) on any transaction that appears unusual (applying a broader standard than "suspicious") or when there is reason to believe that a transaction is connected with money

laundering or terrorist financing. The FIU investigates UTRs and forwards them to law enforcement for criminal investigation; once the FIU forwards the report, the report is then classified as a suspicious transaction report (STR).

The United States enjoys strong cooperation with the Netherlands in fighting international crime, including money laundering. The Netherlands has ratified the bilateral implementing instruments for the U.S.-EU mutual legal assistance agreement (MLAT) and extradition treaties. The U.S.-EU MLAT came into force in February 2010. One provision included in the U.S.-EU MLAT will facilitate the exchange of information on bank accounts. The Dutch Ministry of Justice and the National Police work together with U.S. law enforcement authorities in the Netherlands on operational money laundering initiatives.

While historically Dutch public prosecutors have moved to seize assets in only a small proportion of money laundering cases, the recent assignment of two dedicated money laundering prosecutors is slowly bringing change. The limited asset seizure 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. In order to further increase the confiscation of criminal assets, the Dutch Minister of Justice has introduced a new law, currently before Parliament, that introduces confiscation as a standard procedure of any money driven criminal case, increasing the capacity within law enforcement agencies to take such actions.

Financial institutions do not receive the UN list of designated terrorists directly from the Dutch government, but the Dutch Central Bank holds them responsible for implementing the EU 'Freeze list' (the Combined Targeted Financial Sanctions List).

In 2009, the Public Prosecution Office served a summons to suspects of money laundering offenses in 779 cases. The Netherlands Court of Audit reported in June 2009 that 87 percent of money laundering cases referred to the Office of Public Prosecution resulted in a conviction.

In a notable conviction, a Rotterdam court sentenced seven men in April 2009 for cocaine trafficking and laundering at least 22 million Euros (approximately \$31,650,000). Authorities confiscated twenty properties as well as \$3.6 million and 900,000 Euros (approximately \$1,295,000) in cash. In August 2009, the Public Prosecutor's office in Maastricht confiscated 134 properties and pieces of land from a real estate dealer suspected of money laundering, cannabis cultivation and tax fraud. This is reportedly the largest judicial seizure of property ever in the Netherlands.

Nigeria

Nigeria is a major drug trans-shipment point and a significant center for criminal financial activity. Individuals and criminal organizations take advantage of the country's location, porous borders, weak laws, corruption, lack of enforcement, and poor socio-economic conditions to launder the proceeds of crime. The proceeds of illicit drugs in Nigeria derive largely from foreign criminal activity rather than domestic activities. One of the schemes used by drug traffickers to repatriate and launder their proceeds involves the importation of various commodities, predominantly luxury cars and other items such as textiles, computers, and mobile telephone units.

Proceeds from drug trafficking, oil theft or bunkering, bribery and embezzlement, contraband smuggling, theft, corruption, and financial crimes, such as bank fraud, real estate fraud, and identity theft, constitute major sources of illicit proceeds in Nigeria. Advance fee fraud, also known as "419" fraud in reference to the fraud section in Nigeria's criminal code, remains 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; deposits in foreign bank accounts; use of professional services, such as lawyers, accountants, and investment advisers; and cash smuggling. Nigerian criminal enterprises use a variety of ways to subvert international and domestic law enforcement efforts and evade detection.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING: NO

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, community banks, mortgage institutions, development finance banks, financial service companies, *bureaux de change*; the insurance, and securities and investment industries; discount houses; finance companies; money brokerages; factoring, project and export financing, and equipment leasing; debt and pension fund administration; fund and investment management; private ledger services; project consultancy; estate agents; lawyers; accountants; and, casinos

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, community banks, mortgage institutions, development finance banks, financial service companies, *bureaux de change*; the insurance, and securities and investment industries; discount houses; finance companies; money brokerages; factoring, project and export financing, and equipment leasing; debt and pension fund administration; fund and investment management; private ledger services; project consultancy; estate agents; lawyers; accountants; and, casinos

Number of STRs received and time frame: 2,084 in 2010

Number of CTRs received and time frame: 13,575,712 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Ten in 2010

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Nigeria is a member of the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.giaba.org/index.php?type=c&id=49&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Corruption continues to be a significant problem. Weak law enforcement and long delays within the justice sector have hindered the progress of many prosecutions and investigations.

Additionally, Nigerian legislation does not provide safe harbor for financial institutions, or their employees, who file STRs in good faith. The GON should amend its legislation to include safe harbor provisions. In 2010, there were no money laundering convictions. The National Assembly should adopt the proposed Special Courts Bill that will establish a special court with specific jurisdiction and trained judges to handle financial crimes, and should consider passing amendments to the Money Laundering Prohibition Act, 2004.

Nigeria does not have an asset forfeiture fund. Consequently, seized assets remain in the custody of the seizing agency until they revert to the Government of Nigeria (GON). Due to lack of proper accountability, forfeited assets are sometimes lost or stolen.

Nigeria's failure to criminalize terrorist financing limits its ability to inhibit terrorism-related activity. Additionally, Nigeria is not able to freeze terrorist assets in accordance with UNSCR 1267. The GON should enact appropriate laws, such as the Prevention of Terrorism Bill, to correct these deficiencies.

Pakistan

Pakistan continues to suffer from financial crimes related to narcotics trafficking, terrorism, smuggling, tax evasion, corruption, counterfeit goods and fraud. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. The abuse of the charitable sector, trade-based money laundering, use of hawala/hundi, and physical cross-border cash transfers are common methods used to launder money and finance terrorism in Pakistan and the region. Pakistan's real estate sector is also a popular destination for illicit funds, as many real estate transactions are poorly documented. Pakistan does not have firm control of its borders with Afghanistan, Iran or China, which facilitates the flow of smuggled goods to and from the Federally Administered Tribal Areas (FATA) and Baluchistan. Some consumer goods transiting Pakistan duty-free under the Afghan Transit Trade Agreement are funneled off to be sold illegally in Pakistan. As madrassas (Islamic schools) lack oversight, they have been used as training grounds for terrorists and for terrorist funding, which allows terrorist and militant organizations to receive financial support under the guise of support of Islamic education.

Money laundering and terrorist financing often occur in Pakistan via an overlap of the hundi/hawala alternative remittance system and the formal banking system. The State Bank of Pakistan (SBP) requires all hawaladars to obtain licenses and meet minimum capital requirements. Despite this requirement, few hawalas have been registered by the authorities, and unlicensed hawaladars continue to operate illegally throughout Pakistan (particularly Peshawar and Karachi). Fraudulent invoicing is typical in hawala/hundi counter-valuation schemes. Legitimate remittances from Pakistani expatriates residing abroad now flow mostly through the

formal banking sector and through licensed money transmitting businesses. According to authorities, in calendar 2010, remittances through formal channels totaled \$9.7 billion, out of an estimated total of \$14 billion.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: ***criminally:*** YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks (conventional and Islamic, micro-finance banks, development finance institutions), exchange companies, securities markets, non-bank financial companies, and insurance companies

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Any institution accepting deposits; lending; financial leasing; issuing and managing of means of payment, including credit and debit cards and electronic money; transferring money or value; changing money or currency; participating in share issues and providing services in relation to share issues; engaging in portfolio management; conducting insurance transactions; or carrying out business as an intermediary

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: ***criminally:*** None ***civilly:*** None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Pakistan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://apgml.org/documents/docs/17/Pakistan%20MER%20-%20final%20version.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Pervasive corruption and a lack of political will continue to be the two primary obstacles to an effective anti-money laundering and counter-terrorist financing regime in Pakistan. Pakistan ranks 143 out of 178 countries surveyed in Transparency International's 2010 International Corruption Perception Index. Considering the extent of the financial crime and terrorist financing challenges facing Pakistan, the absence of prosecutions and convictions is telling.

During 2010, the FATF identified Pakistan as a jurisdiction with significant AML/CFT vulnerabilities. In response, the Pakistani government expressed high-level political commitment to address deficiencies in its AML/CFT regime. Despite the passage of the Anti-Money Laundering Act of 2010, legislative shortcomings are pervasive and should be addressed accordingly. Additionally, Pakistan's lack of police and judicial capacity contributes to its lack of prosecutions and convictions. Pakistan's financial intelligence unit (FIU) must be strengthened and should be given operational autonomy. The FIU also needs a strong information technology infrastructure to aid in the core functions of collection, analysis and dissemination of financial intelligence. Suspicious and currency transaction reporting should be fully implemented, comprehensive and actionable. 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 and terrorist financing in their field investigations. Restrictive information-sharing rules both within the interagency and with foreign counterparts hinder international cooperation.

The Anti-Terrorist Act (ATA) allows the Pakistani government to ban a fund, entity or individual on the grounds of involvement with terrorist activity and permits freezing of accounts. Although legally allowed, there have been deficiencies concerning the timeliness and thoroughness of the asset freezing regime and no formal system is in place to implement an asset forfeiture regime. Section 11B of the ATA specifies that an organization is proscribed or listed if and when the GOP has reason to believe it is involved with terrorism. In light of the role private charities have played in terrorist financing, Pakistan must work quickly to conduct outreach, supervise, and monitor charitable organizations and their activities. Meaningful action should be taken to shut down internationally designated charities and prevent their reopening.

At present there is no requirement to declare inbound currency. Pakistan's relatively strict currency exportation requirements may lead hawaladars to export foreign currency out of the country by other means, including smuggling it across the porous border with Afghanistan. Pakistan should implement and enforce inbound and outbound cross-border currency reporting requirements and focus greater efforts on identifying and targeting illicit cash couriers.

Panama

Panama's strategic geographic location and its economic openness make it a natural location for laundering money derived from drug sales. However, location is only one reason for Panama's attractiveness for money launderers. Panama is promoting itself as the new hub for Central America because it is a leader in developing the physical and financial infrastructure that go with that role. The Colon Free Trade Zone is the second largest free trade zone in the world and the major airline, Copa, is expanding international and local flights. The financial sector is increasing direct marketing efforts to attract regional financial institutions. This current and future access to infrastructure and global connections attracts international clients who know how to use financial and commercial accounts for money laundering.

During 2010, Panama made progress on the policy front in improving the transparency of its financial system. The Government of Panama (GOP) is working diligently to ensure its removal

from the OECD's grey list by signing a Tax Information Exchange Agreement (TIEA) with the United States in November and signing Double Taxation Treaties (DTTs), which include similar information exchange provisions, with 13 other OECD members. It is drafting new anti-money laundering legislation and strengthening its financial intelligence unit's authority. Panama still has unregulated parallel market exchanges like hawalas.

Unfortunately, the lack of enforcement of Panamanian banking and anti-money laundering laws undercuts the policy progress the GOP has made. The very factors that contribute to Panama's economic growth and financial sector sophistication – the dollar-based economy, the large number of offshore banks and shell companies, loosely regulated free trade zones, and sustained growth in the ports and maritime industries – are also mechanisms that are vulnerable to abuse for money laundering and other illicit financial activities. Legislation that allows bearer share corporations remains in effect and provides a near impenetrable corporate veil for shareholders. In addition, corruption and weak regulatory bodies impede Panama's progress toward a more transparent economy.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.?: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, savings cooperatives, savings and mortgage banks, and money exchanges; investment houses and brokerage firms; insurance and reinsurance companies; fiduciaries; casinos; free trade zones; finance companies; and real estate brokers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cooperatives, and money exchanges, casinos, fiduciaries; insurance companies, government entities focused on the lottery, and investment houses

Number of STRs received and time frame: 944 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 0

Assets forfeited (seized): criminally: \$41 million in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In July 2010 Panama became a member of the Financial Action Task Force on money laundering in South America GAFISUD, a Financial Action Task Force (FATF)-style regional body. It moved from the Caribbean Financial Action Task Force to the GAFISUD because the authorities felt it shared more goals and problems with the GAFISUD members. Its most recent mutual evaluation report can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Panama_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Panama_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Panama allows the use of bearer shares and shell company structures based on bearer shares to provide privacy for share holders. These structures are very vulnerable to abuse by criminal groups to launder funds. Panama took steps in 2010 to enhance the transparency of its financial system. In addition to the signature of the TIEA with the U.S. and DTTs with other OECD members, the GOP enacted legislation (Law 33 of July 2010) which requires banks and law firms to share transaction and ownership information with the GOP and authorizes the sharing of such information with foreign tax authorities pursuant to TIEA requests. Law 33 complements existing “know your customer” requirements.

Panama allows the transfer of seized assets to other countries when the seizure occurs in the course of an investigation conducted pursuant to a mutual legal assistance request. One asset transfer example occurred in April 2010 in a New York investigation led by the United States Department of Justice which led to the seizure of approximately \$40 million worth of gold, jewelry and assorted gemstones. The assets were seized by the GOP at the request of the U.S. Government, and eventually repatriated to the U.S. Government in recognition of forfeiture orders entered by the United States Attorney’s Office for the Southern District of New York.

Panama’s judicial system has not sentenced anyone under the current money laundering laws. In October, 2010, a former municipal employee and accomplices were brought up on charges of laundering approximately \$2 million using a corporate entity. Other recent cases were either dismissed or are still under investigation.

The Colon Free Trade Zone (CFZ) continues to be vulnerable to illicit financial activities in part because of the following practices: the ease of third party payments made by an intermediary apparently unrelated to the seller or purchaser; use of amended internal credit documents without reasonable justification; customers not required to produce appropriate documentation (e.g., invoice) to support a requested transaction; significant discrepancies exist between transport document information and the invoice; the long-awaited electronic transaction recording information system is operational but not widely used – a total of 5,000 keys to the electronic system were provided to CFZ companies, but most continue to submit transaction information in hard-copy format ; and, the ease with which bulk cash can be brought into Panama through the main international airport by declaring it is for use in the CFZ.

The several anti-money laundering regulatory bodies do not communicate well. Panama’s FIU (the UAF), Superintendencia, Banker’s Association, Customs, Consejo and the Judiciary branches do not know each other’s roles and responsibilities.

The UAF is overworked and lacks adequate resources to process, let alone enforce the required reporting. UAF is developing new software that will allow covered entities to submit their STRs

electronically. Submissions currently must be made in hard copy with supporting electronic documentation included in CD format.

Money laundering, in and of itself, is still not a priority with the Panamanian Customs Authority. As long as money is properly declared, it flows easily across Panama's borders. U.S. law enforcement agencies believe millions of dollars in cash and monetary instruments are declared openly upon entry at Panama's airport without prompting further investigation by Panama's Customs Authority. There were numerous press reports on corrupt customs/immigration officials during 2010. In October, Panama passed Law 67 which, among other actions, now requires the declaration of cash valued at \$10,000 or over when leaving the country.

Panama cooperates with U.S. law enforcement agencies. There is increasing bilateral cooperation such as maritime operations and the partnership of the Panamanian and US Trade Transparency Units (TTU). Established in 2010 by U.S. Immigration and Customs Enforcement, the Panamanian TTU is a vetted unit whose data mining efforts have provided investigative assistance and insights for many GOP agencies, like the UAF and Panama's tax authority. Some examples of the TTU's successes include: the discovery of a network of banks and exchange houses that moved euros from Colombia, using Panamanian banks, to the U.S. and Europe; the use of harmonized tariff codes for perfumes, video gaming and precious metals to identify several companies in the CFZ involved in commercial fraud and possible trade-based money laundering; and, information that reveals possible export tax incentive fraud.

Panama's regulated financial institutions are generally not believed to be willingly involved in transactions related to the proceeds from serious crime. If the GOP continues its efforts to improve its anti-money laundering legal framework, particularly eliminating bearer shares, criminalizing "tipping off," initiating efforts to increase prosecutions and convictions, and creating a more transparent financial network, money laundering will become more difficult within Panama's borders.

Paraguay

Paraguay is a major drug transit country and money laundering center. A multi-billion dollar contraband trade, fed in part by endemic, institutional corruption, occurs in the border region shared with Argentina and Brazil (the Tri-Border Area) and facilitates much of the money laundering in Paraguay. While the Government of Paraguay (GOP) suspects 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 or is controlled by drug trafficking organizations, organized crime, or terrorist groups operating locally. Trade-based money laundering and the trafficking in counterfeit goods are widespread. Weak controls in the financial sector, open borders, bearer shares, casinos, a surfeit of unregulated exchange houses, lax or non-enforcement of cross-border transportation of currency and negotiable instruments, ineffective and/or corrupt customs inspectors and police, and minimal enforcement activity for financial crimes allows money launderers, transnational criminal syndicates, and possible terrorist financiers to take advantage of Paraguay's financial system.

Ciudad del Este, 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 with the illicit proceeds from these crimes a source of laundered funds. Some proceeds of these illicit activities have been supplied to terrorist organizations. A wide variety of counterfeit goods, including household electronics,

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cigarettes, software, computer equipment, video games, and DVDs are imported from Asia and transported across the border into Brazil. A small amount remains in Paraguay for sale in the local economy.

Many high-priced goods in Paraguay are paid for in U.S. dollars. In addition to bulk cash smuggling, the non-bank financial sector, particularly exchange houses, is often used to move illicit proceeds both from within and outside Paraguay into the U.S. banking system. Large sums of dollars generated from normal commercial activity and suspected illicit commercial activity are also transported physically from Paraguay through Uruguay and Brazil to banking centers in the United States. The Government of Paraguay (GOP) is in the early stages of recognizing and addressing the problem of the international transportation of currency and monetary instruments derived from illegal sources, so determining what portion of U.S. dollars are related to narco trafficking is problematic.

As a land-locked nation, Paraguay does not have an offshore sector. However, Paraguay's port authority manages free trade ports and warehouses in neighboring countries' seaports, which are used for the reception, storage, handling, and transshipment of merchandise transported to and from Paraguay. Such free trade ports are located in Argentina (Buenos Aires and Rosario); Brazil (Paranagua, Santos, and Rio Grande do Sul); Chile (Antofagasta and Mejillones); and Uruguay (Montevideo and Nueva Palmira). About three-fourths of all goods entering and exiting Paraguay are transported by barge on the large river system that connects Paraguay with Buenos Aires (Argentina) and Montevideo (Uruguay).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, insurance companies, exchange houses, stock exchanges and securities dealers, investment companies, trust companies, mutual and pension fund administrators, credit and consumer cooperatives, gaming entities, real estate brokers, nongovernmental organizations, pawn shops, and dealers in precious stones, metals, art, and antiques.

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, finance companies, insurance companies, exchange houses, stock exchanges and securities dealers, investment companies, trust companies, mutual and pension fund administrators, credit and consumer cooperatives, gaming entities, real estate brokers, nongovernmental organizations, pawn shops, and dealers in precious stones, metals, art, and antiques

Number of STRs received and time frame: 781 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 9 in 2010

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Paraguay is a member of the Financial Action Task Force against Money Laundering in South America (GAFISUD), a Financial Action Task Force-style regional body, of which Paraguay assumed the pro tempore Presidency in December 2010. Its most recent mutual evaluation can be found here: <http://www.imf.org/external/pubs/ft/scr/2009/cr09235.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOP took a huge step forward in regard to money laundering in June 2010 when it passed an anti-terrorism law making terrorism financing an illegal act punishable by five to fifteen years in prison.

Paraguay has shown a great deal of cooperation with U.S. law enforcement agencies. In March 2007, U.S. Immigration and Customs Enforcement created a Paraguay-based Trade Transparency Unit (TTU) to aggressively analyze, identify and investigate companies and individuals involved in trade-based money laundering activities between Paraguay and the United States. As a result of the TTU, Paraguay has identified millions of dollars of lost revenue and has helped target a criminal organization accused of supporting a terrorist entity.

Paraguay is a member of the “3 + 1” Security Group with the United States and the Tri-Border Area countries. Paraguayan and U.S. law enforcement agencies cooperate on a case-by-case basis. To date, the Paraguayan financial intelligence unit (FIU) has signed 29 MOUs with other FIUs and is in the process of signing eight more.

Prosecutors handling financial crimes have limited resources to investigate and prosecute. In addition, the selection of judges, prosecutors and public defenders is largely based on politics, nepotism, and influence peddling. The lack of interagency cooperation throughout Paraguay, and particularly within law enforcement, is an impediment to effective enforcement, prosecution, and reporting efforts.

Asset forfeiture legislation is desperately needed in Paraguay. Paraguayan law does not provide for freezing or seizure of many criminally derived assets. Law enforcement can only freeze 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. Enforcement agencies have limited authority to seize or forfeit assets of suspected money launderers. Assets seized or forfeited are limited to transport vehicles, such as planes and cars, and normally do not include bank accounts. When a

seizure does occur, law enforcement authorities cannot dispose of these assets until a defendant is convicted. A draft bill requesting power be granted to the Secretariat for the Prevention of Money or Property Laundering (SEPRELAD) to administratively freeze assets without judicial approval is currently being reviewed by the Paraguayan Presidency. However, the administrative freeze would only be temporary unless either extended by a court order, or finalized through a conviction.

The non-bank financial sector operates in a weak regulatory environment with limited supervision. The organization responsible for regulating and supervising credit unions, the National Institute of Cooperatives, lacks the capacity to enforce compliance. Exchange houses are another non-bank sector where enforcement of compliance requirements remains limited.

There are no laws that regulate the amount of currency that can be brought into or out of Paraguay. Required customs declaration reports are seldom checked. Customs operations at the airports or overland entry points provide no control of cross-border cash movements.

Philippines

The Republic of the Philippines is not a regional financial center. Despite its developed financial system, the Philippines is still a heavily cash-based economy, with substantial remittances from its large expatriate community. Nonetheless, money launderers generally use formal financial institutions to conceal proceeds of crime, and the weak national ID system makes implementing a robust “know your customer” system difficult.

The principle sources of criminal proceeds are human and drug trafficking, official corruption, and investment scams. The Philippines’ geographic position makes it attractive to human and narcotics traffickers; and relatively open sea borders complicate enforcement of currency controls. 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 and the trafficking of narcotics and arms, and engage in money laundering through ties to organized crime. Smuggling, including bulk cash smuggling, continues to be a problem.

There are free trade zones and four offshore banking units (OBUs). The Central Bank exercises regulatory supervision over OBUs and requires them to meet reporting provisions and other banking rules and regulations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, quasi banks, trust entities, and all other institutions and their subsidiaries/affiliates supervised/regulated by the Philippine Central Bank; insurance and pre-need companies; securities dealers, brokers/sales representatives, investment houses, mutual funds, and other entities managing securities as agents/consultants; foreign exchange dealers, money changers, remittance/transfer agents; and, entities dealing in valuable objects, currency, financial derivatives, cash substitutes, and similar monetary instruments.

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, quasi banks, trust entities, and all other institutions and their subsidiaries/affiliates supervised/regulated by the Philippine Central Bank; insurance and pre-need companies; securities dealers, brokers/sales representatives, investment houses, mutual funds, and other entities managing securities as agents/consultants; foreign exchange dealers, money changers, remittance/transfer agents; and, entities dealing in valuable objects, currency, financial derivatives, cash substitutes, and similar monetary instruments.

Number of STRs received and time frame: 6,298 (January 1-November 30, 2010)

Number of CTRs received and time frame: 35,924,241 (January 1-November 30, 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 33 as of November 30, 2010

Convictions: One as of November 30, 2010

Assets forfeited: *criminally:* None *civilly:* approximately \$20,592,909 as of November 30, 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Philippines is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent evaluation can be found here: <http://www.apgml.org/documents/docs/17/The%20Philippines%20DAR%20-%20Final%2020210809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Philippines' financial intelligence unit (FIU) investigations are severely constrained by limited authority to access bank information. Except in instances of serious offenses such as kidnapping for ransom, drugs and terrorism-related activities, the FIU is required to secure a court order to examine bank deposit accounts related to unlawful activities enumerated in the Anti-Money Laundering Act. In addition, a Supreme Court ruling prevents ex parte inquiry into bank accounts. The FIU can, however, seek an ex parte freeze order from the Court of Appeals before seeking authorization to inquire into bank deposits. The FIU also must obtain a court order to freeze assets, including those of terrorists and terrorist organizations placed on the UN 1267 Sanctions Committee's consolidated list and the lists of foreign governments. This requirement is inconsistent with the international standard, which calls for the preventative freezing of terrorist assets "without delay" from the time of designation. The Government of the

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Philippines (GOP) should enhance the FIU's access to financial records, and ensure it can rapidly freeze terrorist assets.

Terrorist financing is not a stand-alone offense under Philippine law and therefore not a predicate crime under the Anti-Money Laundering Act. A person who finances the commission of terrorism may be prosecuted 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. However, this approach requires a terrorist act to have occurred and does not encompass general financial support to terrorist entities for other purposes (recruiting, training, social welfare projects, etc.). The GOP should criminalize terrorist financing as a stand-alone offense, and enhance training on its connection to money laundering.

The GOP has cooperated with the USG to share assets. However, the GOP should formalize asset sharing arrangements, and clearly designate which agencies have authority over this process.

Russia

The current administration aspires to establish the capital, Moscow, as an international financial center. However, money laundering (ML) and terrorist financing (TF) are prevalent in Russia, where there is a high level of organized crime and corruption. Domestic sources of laundered funds include organized crime, evasion of tax and customs duties, fraud, public corruption, and smuggling operations. Criminal elements from Russia and neighboring countries continue to use Russia's financial system and foreign legal entities to launder money. Criminals invest and launder their proceeds in real estate and security instruments, or use them to buy luxury consumer goods. Russia has been a repeated victim of terrorism, and some TF schemes involve the misuse of alternative remittance networks by foreign and North Caucasian terrorist groups. Despite making progress in combating financial crimes, Russia remains vulnerable to such activities. Russia's risk factors, such as the many large-scale financial transactions associated with its vast natural resources; the state's major role in the economy; the country's porous borders and its role as a geographic gateway between Europe and Asia; and chronic under-funding and lack of capacity of regulatory and law enforcement agencies, create an environment in which corruption and financial crimes flourish.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or list approach to predicate crimes: All crimes

Legal persons covered: criminally: NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered Entities: Banks and credit institutions; Russia Post; payment acceptance and money transfer services; securities, insurance and leasing companies; investment and non-state pension funds; casinos and gambling outlets, dealers in precious metals and stones, real estate agents, and pawnshops

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and credit institutions, securities markets, investment and pension funds, Russian Post, insurance sector, leasing companies, dealers in precious metals and stones, casinos, real estate agents, lawyers, notaries, and persons providing legal or accounting services

Number of STRs received and time frame: 3,147,937 - January 1 to October 1, 2010

Number of CTRs received and time frame: 5,030,727 - January 1 to October 1, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 50 - January 1, 2010 to October 1, 2010; 208 in 2009

Convictions: 110 in 2009

Assets forfeited: *criminally:* \$9.6 million - 2009 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Russia is a member of the Financial Action Task Force (FATF). It also is a member of two FATF-style regional bodies: the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG). Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Russia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Through aggressive enactment and implementation of comprehensive anti-money laundering/combating the financing of terrorism (AML/CFT) legislation, Russia has established much of the legal and enforcement framework to deal with money laundering and terrorist financing. On July 23, 2010, Russia adopted amendments that improve legislation on AML/CFT. These amendments focus on three main areas: expanding AML/CFT coverage, clarifying legal definitions, and improving administrative oversight for enforcement of AML/CFT legislation. AML/CFT coverage has been expanded to subsidiary branches, representative offices, and affiliates of financial institutions located outside the Russian Federation. Furthermore, microfinance and short-term loans, which have grown significantly in Russia, are now subject to AML/CFT laws. In addition to expanding AML/CFT coverage, the new amendments clarify definitions critical to enforcement, such as “beneficiary,” “organization of internal control,” “conduct of internal control,” “customer,” “identification,” and “data recording.”

Amendments to the Code of Administrative Infringements improve regulatory oversight for violation of AML/CFT legislation. These amendments broaden the authority of the FIU (Rosfinmonitoring) and the Central Bank of Russia to conduct investigations of ML violations.

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Order 203, issued August 3 by Rosfinmonitoring, replaces Order 256 regarding the obligation to conduct staff training on AML issues. Directive 967-R sets forth requirements for all non-banking organizations concerning the development of ML internal control rules. The Code of Administrative Offenses now specifies five types of “ML safety” violations, instead of grouping all violations under one general offense.

It is too early to assess the impact of the 2010 amendments to the AML/CFT Law. Implementing regulations have not been issued for critical components of the new law, such as monitoring of affiliates’ operations outside the Russian Federation. Furthermore, it will take time for private sector entities to incorporate the clarified definitions into their AML/CFT practices. Reforms to the Code of Administrative Infringements do not address the full array of regulatory oversight challenges for enforcement of AML/CFT liability.

Russia takes an “all crimes” approach to money laundering predicate offenses, with the exception of six financial crimes, such as insider trading and stock market manipulation. To address these exceptions, Law 241-FZ was passed on October 30, 2009 to criminalize insider trading, stock market manipulation, and other similar crimes, but it does not take effect until 2014. Under Russian law, corporations cannot be held criminally liable; only a natural person is subject to criminal liability. Additionally, “tipping off” by bank directors and employees is not explicitly prohibited; the relevant section of the legislation only criminalizes revealing “measures taken against money laundering and terrorist financing”. Some new payment mechanisms, such as certain internet-based payment systems, are not covered by Russia’s AML/CFT controls.

Although Russia continues to establish and develop anti-corruption measures, corruption continues to be a problem. The Government of Russia should continue to aggressively pursue corruption; similarly, it should continue to pursue increased transparency in the financial sector and ensure that domestic PEPs are monitored with the same scrutiny as foreign PEPs.

Russia has successfully spread awareness of AML/CFT in its financial sector and has weeded out noncompliant financial institutions; however, significant discrepancies still remain between the standards of international and local domestic banks. Further attempts should be made to bring the AML efforts of all Russian banks to a more sophisticated level, including continued enhancement of the compliance training and certification process.

Russia hosts and funds the Secretariat of the EAG, and through this effort has contributed to improving the region’s AML/CFT capacity. Russia should continue to play a leadership role through sustained involvement in the regional and international bodies focusing on AML/CFT regime implementation.

Singapore

Singapore is a significant international financial and investment center as well as a major offshore financial center. The structural gaps in Singapore’s financial regulations make it vulnerable to money launderers, and its financial crimes enforcement should be strengthened. Stringent bank secrecy laws and the lack of routine currency reporting requirements make Singapore a potentially attractive destination for drug traffickers, transnational criminals, foreign corrupt officials, terrorist organizations and their supporters seeking to launder money or fund terrorist activities. Authorities have taken action against Jemaah Islamiyah and its members and have identified and frozen terrorist assets held in Singapore. Terrorist financing in general remains a risk.

As of December 2009, there were 38 offshore banks in operation, all foreign-owned. Singapore has increasingly become a center for offshore private banking and asset management. Total assets under management in Singapore increased 40 percent in 2009 to S\$1.2 trillion (approximately \$861 billion). Singapore does not permit shell banks.

Singapore has eight free trade zones (FTZs), six for seaborne cargo and two 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial institutions, finance companies, merchant banks, life insurers, brokers, securities dealers, investment advisors, futures brokers and advisors, trust companies, approved trustees, and money changers and remitters

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, auditors, financial advisors, capital market service licensees and exempt persons, finance companies, lawyers, notaries, merchant banks, life insurers, trust companies, approved trustees, real estate agents and money changers and remitters

Number of STRs received and time frame: 11,004 in 2009

Number of CTRs received and time frame: Not available. Reporting began in 2010.

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 23 in 2008

Convictions: 24 in 2008

Assets forfeited: criminally: \$10,962,377 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Singapore is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/36/42/40453164.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Singapore's rigid bank secrecy is sometimes an impediment to effective international cooperation in financial crimes enforcement. Less rigid bank secrecy restrictions would enhance Singapore's law enforcement cooperation in areas such as information sharing and conformance to international standards and best practices.

Singapore's legal system generally provides for the investigation and prosecution of money laundering offenses. However, the implementation of these laws is uneven, particularly in prosecuting money laundering as a stand-alone offense, and investigating foreign-sourced cases. Singaporean police are fairly successful at identifying domestic predicate offenses, and include ancillary money laundering charges as appropriate. Singapore should more aggressively pursue domestic stand-alone money laundering offenses as well.

Singapore's large, stable, and sophisticated financial center may be attractive as a conduit for laundering proceeds generated by foreign criminal activities, including official corruption. The Suspicious Transaction Reporting Office (STRO) and criminal investigators are encouraged to identify money laundering that originates from foreign predicate offenses, and use stand-alone money laundering charges to prosecute third-party offenders in Singapore.

Somalia

There is no recognized central government of Somalia. The Transitional Federal Government (TFG) controls only portions of the country's capital and remote pockets of some regions. The TFG is besieged by an insurgency that is led by international terrorist organization al-Shabaab. Many ministries exist in name only, or have non-functioning, mostly unpaid staff. There is no court system to speak of, and policing is rudimentary. The laws that exist - anti-money laundering (AML), counter-terror financing (CFT), or otherwise - are effectively unenforced given the security threats in Somalia and lack of capacity. Corruption is rampant. The financial system in Somalia operates almost completely outside of any system of oversight, either on the black market or via international money transfer companies/hawalas.

Due to its lack of a public regulatory system and its inaccessibility to international diplomats and law enforcement, little is known about money laundering in Somalia. No information is available on drug-related currency transactions channeling through Somali financial institutions. Because Somalia's narcotics trade is centered on khat, a controlled substance in much of the world but legal in Somalia, the proceeds are not illegal. Thus, it is not likely that khat money is laundered in Somalia. Most khat proceeds go back to khat transporters based outside Somalia in cash or via money transfer companies.

Pirates mostly launder their ransoms in northern Somalia, as well as perhaps in neighboring countries, the Middle East, or Europe. The ransoms are delivered through cash drops to pirates holding ships off Somalia's coast and divided among the pirates and those in their support networks. Officials in Somalia's northern region of Puntland reportedly benefit from pirate ransoms. They may facilitate ransom laundering or the transfer of ransom money to neighboring countries or globally. In this manner, public corruption significantly facilitates money laundering. Much of the ransom reportedly remains in cash. Anecdotal reports indicate that ransom money finances real estate, luxury goods and businesses.

Smuggling is rampant. Somalia has one of the longest land borders and the longest coastline in Africa. The TFG and local officials control almost none of its borders, and goods flow into and out of Somalia with no TFG knowledge. There are occasional but unverified reports of U.S. dollar counterfeiting in al-Shabaab-controlled areas.

Somalia is a center for terrorism financing. Al-Shabaab is headquartered here and financed by contributions from terrorist financiers outside the region, including from the global Somali diaspora and business community. Some of the funds enter Somalia as cash, but a significant portion likely passes through hawalas. Al-Shabaab operations are also financed through extortion of private citizens and local businesses, revenue from seaports under their control, and to an unknown extent by diversion of humanitarian and development assistance.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not applicable

Legal persons covered: *criminally:* NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: None

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: None

Number of STRs received and time frame: Not Applicable

Number of CTRs received and time frame: Not Applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Somalia is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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Somalia has been without a functioning central government since 1991. There are no AML/CFT laws, and the financial regulations that do exist go unenforced given the lack of policing and investigative capacity and Somalia's insecurity. International standards, to the extent they are recognized, are self imposed in Somalia by hawalas and other financial entities that must meet international rules and regulations to do business elsewhere in the world. The lack of laws, regulatory bodies, and enforcement mechanisms to counter money laundering and financial crimes is likely due to a lack of capacity, and not a lack of political will. Obstacles to enacting AML/CFT laws include the TFG's lack of territorial control, threats to the government by the al-Shabaab insurgency, and lack of capacity and resources at all levels of government.

There were no arrests for money laundering in 2010. There was one interdiction of a suspected terrorist financier's couriating cash illegally into Somalia. However, interdictions such as this often result in an arrest, followed by indefinite detentions or releases given Somalia's inadequate judicial system. In one case, incoming counterfeit U.S. dollars were seized at Mogadishu International Airport. It is not clear what happened to the perpetrator.

There are no government entities charged with, or capable of tracking, seizing, or freezing illegal assets or terrorist funds. Somalia has no laws requiring forfeiture of laundered assets or of terrorist finances, and laws that could lend themselves to AML/CFT are not enforced.

The TFG has called on regional governments to help stem the flow of terrorist financing, including requesting that local governments trace, freeze, and seize funds and finances related to and supporting al-Shabaab. Somalia has cooperated with USG law enforcement on numerous occasions, most recently investigations concerning suspected terrorists and kidnapping, piracy and acts of terror committed inside and outside Somalia, but there has been no known assistance with regard to investigations involving financial crimes.

Spain

Spain is a major European center of money laundering activities as well as an important gateway for illicit narcotics entering Europe. Drug proceeds from other regions enter Spain as well, particularly proceeds from Afghan hashish from Morocco, cocaine entering Latin America, and, in significantly lower volume, heroin from Turkey and the Netherlands. 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. Colombian cartels allegedly use proceeds from drug sales in Spain to purchase goods in Asia that are subsequently sold legally in Colombia or 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, though less so since the speculative real estate bubble burst in 2008. Up to twenty percent of the 500 euro notes in use in Europe were reported to be in circulation in Spain during 2009, directly linked to the purchase of real estate to launder money. Efforts by Spain's tax authority to deter fraudulent activity involving these large bank notes have kept the number of 500 euro notes at October 2008 levels (around 110 million notes).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on terrorism, which can be found at <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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; individuals and unofficial financial institutions exchanging or transmitting money; realty agents; dealers in precious metals, stones, antiques and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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; individuals and unofficial financial institutions exchanging or transmitting money; realty agents; dealers in precious metals, stones, antiques and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos

Number of STRs received and time frame: 2,904 in 2008 (most recent available figures)

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Spain is a member of the Financial Action Task Force (FATF) and a cooperating and supporting nation to the Caribbean Financial Action Task Force, a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/52/3/37172019.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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

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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 financial assistance 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.

Spanish authorities recognize the presence of alternative remittance systems. Informal non-bank 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.

On April 29, 2010, Spain enacted Law 10/2010, on preventing money laundering and terrorist financing. The new law incorporates and enhances Law 19/1993 on preventing money laundering, and supersedes Law 12/2003, on preventing terrorist financing, which was never fully implemented. Law 10/2010 introduces a risk-based approach to preventing money laundering and terrorist financing and imposes stringent requirements on financial institutions as well as designated non-financial businesses and professionals (DNFBP). Additionally, implementation of Law 10/2010 will greatly enhance authorities’ capacity to combat terrorist financing by placing greater requirements, with stiffer penalties for non-compliance, on financial institutions and other businesses, and by strengthening monitoring and oversight. The new law entered into force immediately; however, implementing regulations will not be approved until 2011; until then, many of its provisions are not being implemented.

The Government of Spain should clarify whether its laws allow civil forfeiture. Spain should maintain and disseminate statistics on investigations, prosecutions, and civil asset forfeiture. More generally, the government needs to review the resources available for industry supervision and ensure that the FIU has the independence and resources it needs to effectively discharge its responsibilities.

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 Russia, the Balkans, Eastern Europe, South America and West Africa, 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 not only contribute to Switzerland’s success as a major international financial center, but also expose Switzerland to potential money laundering abuse.

***DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO
CRIMINALIZATION OF MONEY LAUNDERING:***

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, investment companies, insurance companies, casinos, or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, casinos, or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Number of STRs received and time frame: 896 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 269 individuals in 2009

Convictions: 172 individuals in 2009

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Switzerland is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: (<http://www.fatf-gafi.org/dataoecd/53/52/43959966.pdf>)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Swiss money laundering regime is generally perceived to conform to international standards and Swiss authorities are regularly updating their legislation. For instance, on October 1, 2010, a new law on PEPs was issued and will reportedly be put into force on January 20, 2011. Additionally, on January 1, 2011, the 26 cantonal codes of criminal procedure were replaced with regulations in the Swiss Penal Code (“Strafgesetzbuch”), designed to unify procedural rules and facilitate international cooperation.

The anti-money laundering (AML) law does not explicitly cover real estate brokers and dealers of arts, antiquities and other high-value goods. Also, for terrorist financing reporting, Swiss

authorities distinguish the obligation to communicate (reasonable suspicion) and the right to communicate (simple suspicion) given the degree of suspicion that prevails.

Under the law, measures for insurance companies and other financial intermediaries (excluding banks) are not sufficiently elaborated. Additionally, several measures have been implemented for anonymous companies, but some deficiencies remain as the competent authorities do not have access to the register of the shareholders. Furthermore, a lack of transparency exists in relation to foundations run by non professionals. The Swiss Financial Market Supervisory Authority (FINMA) is not authorized to impose pecuniary sanctions; it can only issue administrative ones. Furthermore, the breadth of the sanctions may not always take into account the gravity of the crime.

In 2009, approximately 65% of filed suspicious activity reports (SARs) came from the banking sector and seven SARs were linked to suspected terrorist financing. The number of SARs hit an all-time high in 2009. Fraud (37%), embezzlement (10%), organized crime (9%), and money laundering (9%) were the most common predicate/suspected criminal offenses, and nearly two-thirds of all SARs were generated by media reports, third-party information and information from prosecuting authorities. No particular money laundering issues about non-profit organizations, alternative remittance systems, offshore sectors, free trade zones or bearer shares have occurred.

Switzerland has returned more money to the countries of origin than any other financial centre, amounting to a total of \$1.8 billion. Furthermore, Switzerland is involved in many multilateral fora related to asset recovery, corruption and development.

Taiwan

Taiwan's modern financial sector, strategic location on international shipping lanes, and role as an international trade hub make it vulnerable to transnational crimes, including money laundering, drug trafficking, trade fraud, and smuggling. Though illegal in Taiwan, a significant volume of informal financial activity takes place through unregulated non-bank channels. In recent years Taiwan has taken steps to shift much of this activity into official, regulated financial channels. Taiwan has five free trade zones and a growing offshore banking sector. There is no significant black market for smuggled goods in Taiwan.

Domestic money laundering is generally related to tax evasion, drug trafficking, public corruption, and a range of economic crimes. An emerging trend in money laundering is the use of jewelry stores as a type of underground remittance system. Jewelers convert illicit proceeds into precious metals, stones, and foreign currency, and generally move them using cross-border couriers. The tradition of secrecy in the precious metals and stones trade make it difficult for law enforcement to detect and deter money laundering in this sector.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit co-operative associations, credit departments of Farmers' Associations and Fishermen's Associations, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit co-operative associations, credit departments of Farmers' Associations and Fishermen's Associations, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, jewelry stores, and members of the National Real Estate Broking Agencies Association

Number of STRs received and time frame: 1,845 (January - December 2009)

Number of CTRs received and time frame: 2,963, 282 (January - December 2009)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 39 persons (January - December 2010)

Convictions: 11 persons (January - December 2010)

Assets forfeited: criminally: NT\$593.8 million (approximately \$20.1 million) (January - December 2010) *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Taiwan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.apgml.org/documents/docs/17/Chinese%20Taipei%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Taiwan continues to strengthen its AML/CFT regime. However, the government has not passed legislation that would address weaknesses in terrorist financing prevention measures, despite numerous draft laws over the past several years. While the financing of terrorist activities in Taiwan is a criminal offense, it is not an autonomous offense, and does not specifically cover the financing and support of terrorist activities overseas. Taiwan should pass legislation to criminalize terrorism and terrorist financing as an autonomous crime, and clarify that the law covers such activities overseas.

Many types of designated non-financial businesses and professions are not subject to AML/CFT requirements. The lack of reporting, customer due diligence and recordkeeping requirements makes these entities particularly vulnerable to money laundering/terrorist financing activity.

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Taiwan should take steps to amend its legislation and regulations, as necessary, to bring all DNFBPs, as listed in the international standards, within the scope of its AML/CFT coverage.

Foreign politically exposed persons (PEPs) are not subject to enhanced due diligence. Taiwan's Financial Supervisory Commission, the top financial regulator in Taiwan, is establishing a databank for "high profile politicians" in an effort to prevent money laundering. Once established, financial institutions will be required to identify, record, and report the identities of high-profile customers engaging in significant or suspicious transactions.

Taiwan is unable to ratify UN conventions because of long-standing political issues. However, it has enacted domestic legislation to implement the standards in the key AML/CFT UN Conventions. Amendment of the money laundering legislation incorporated related laws to fully implement the provisions of the Vienna, Palermo and terrorist financing conventions and resolutions.

Taiwan should raise awareness of the vulnerabilities of non-profit organizations to terrorist financing, and should exert more authority over this sector. The government should abolish all shell companies and prohibit the establishment of new shell companies of any type. Given the increasing threat of alternative remittance centers such as the precious metals and stones sector, Taiwan's law enforcement should enhance investigations of underground financial systems.

Taiwan began to draft new legislation of the Mutual Assistance Act for Criminal Justice in January of 2010. In the draft legislation, mutual legal assistance request doesn't need to initiate judicial proceedings as precondition in requesting jurisdiction.

Thailand

Thailand is a centrally located, middle-income 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 non-bank financial institutions and businesses to move the profits of narcotics trafficking and other criminal enterprises. In the informal money changing sector there is an increasing hawala-type money shop presence servicing Middle Eastern travelers in Thailand, most of them arriving to avail themselves of the country's comparatively inexpensive medical services. The Thai banking regulations cover these institutions adequately, but effective oversight of the least formal operations is difficult to achieve.

Thailand is a source, transit, and destination 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 gaming, corruption, underground lotteries, and prostitution are all problems. Thailand's criminal justice system has low capacity to deal with these challenges but is improving.

***DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.?: NO
CRIMINALIZATION OF MONEY LAUNDERING:***

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks (including state banks), finance companies, securities dealers, insurance companies, money exchanges and remitters, asset management companies, jewelry and gold shops, automotive hire-purchase businesses or car dealers, real-estate agents/brokers, antique shops, personal loan businesses, electronic card and credit-card businesses, electronic payment businesses, and deposit/lending cooperatives

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks (including state banks); finance and factoring companies; securities dealers; insurance companies; money exchanges and remitters; asset management companies; financial management firms; jewelry and gold shops; automotive hire-purchase businesses or car dealers; real-estate agents/brokers; antique shops; personal loan businesses; electronic payment, card and credit-card businesses; deposit/lending cooperatives; and the Ministry of Interior’s Department of Lands

Number of STRs received and time frame: 616,148 from January 1 – October 31, 2010

Number of CTRs received and time frame: 522,318 from January 1 – October 31, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 15 from October 2007 – March 2008

Convictions: Not available

Assets forfeited: criminal: None *civil:* \$529,000 from October 2007 – March 2008

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Thailand is a member of Asia/Pacific Group against Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: www.apgml.org/documents/docs/17/thailand

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Thai law does not provide for enhanced due diligence for politically exposed persons nor does it adequately prohibit “tipping off,” leaving financial institutions and their employees subject to potential liability for filing STRs. Furthermore, there is no comprehensive cross-border currency reporting or seizure system. The Government of Thailand should amend its legislation as necessary to ensure these deficiencies are corrected.

There have been no prosecutions since 2008. Both the AML Board and Transaction Committee were dissolved several years ago. The Transaction Committee approves seizures for civil forfeiture. Thailand has had no seizures for forfeiture since the Transaction Committee was disbanded. A new AML Board was appointed in November, 2010.

Thailand should become a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

During 2010, the FATF identified Thailand as a jurisdiction with significant AML/CFT vulnerabilities. In response, the Thai government expressed high-level political commitment to address deficiencies in its AML/CFT regime, and reported taking steps to address these deficiencies. For example, the Thai government drafted a proposed Counter-Terrorism Financing Act which, in part, would criminalize the collection or provision of funds for the purpose of supporting terrorist acts or organizations. However, important actions are still pending, including passage of key amendments and regulations which will augment the current AML/CFT regime. The Thai FIU lacks clear leadership, with a new Secretary General yet to be appointed. For AMLO to become a sophisticated agency able to take substantial casework, it will need to build extensive institutional capacity and political will.

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. While the vast majority of Turkey's economy is legitimate, money laundering is a problem. Turkey continues to be a major transit route for Southwest Asian opiates moving to Europe. However, narcotics trafficking is only one source of the funds laundered in Turkey. Other significant sources of laundered funds include invoice fraud and tax evasion, and to a lesser extent, smuggling, counterfeit goods, and forgery. 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, non-bank financial institutions, and the underground economy. The World Bank estimates as much as 30 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 transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and regulated financial institutions, including the Central Bank; securities companies; post office banks; Islamic financial houses; and exchange offices

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; card issuers; consumer finance, financial leasing and factoring companies; insurance companies, lotteries, vehicle sales outlets, antique dealers, pension and mutual funds, exchange houses, dealers in art, high-value goods, precious stones and precious metals, and precious metals exchange intermediaries, notaries, sports clubs, real estate companies, capital and portfolio management companies, postal service and cargo companies

Number of STRs received and time frame: 9,823 in 2009; 6,718 through August 24, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 279 from 1997-2009; 15 in 2009

Convictions: 22 from 1997-2009; three in 2009

Assets forfeited: criminally: Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Turkey is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/14/7/38341173.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Turkish Criminal Court records are closed to the public. According to statistics from Turkey's financial intelligence unit, Financial Crimes Investigation Board (MASAK), between 2005 and 2009, 342 money laundering cases were referred for further investigation, but only 22 cases resulted in convictions. In 2009, the 15 prosecutions resulted in three convictions. There are still 188 cases pending in the courts. Moreover, all of the convictions are reportedly under appeal. There is a lack of specialization and understanding of anti-money laundering/counter-terrorist financing (AML/CFT) provisions among relevant authorities, which has contributed to the high number of acquittals in money laundering cases.

Turkey and the United States cooperate closely on narcotics and money laundering investigations.

Although legal persons are subject to criminal liability, the sanctions against such entities are limited. There is no mandated enhanced due diligence for PEPs; banks are simply encouraged to give closer scrutiny to such customers.

The Government of Turkey's (GOT) non-profit sector is likely vulnerable to abuse by terrorist financing. The Turkish government is still developing the investigative skills, law enforcement

expertise, financial oversight and outreach necessary to effectively counter this threat. The nonprofit sector is not audited on a regular basis for counter-terrorist finance vulnerabilities and does not receive adequate AML/CFT outreach or guidance from the GOT. The General Director of Foundations issues licenses for charitable foundations and oversees them. However, there are a limited number of auditors to cover more than 70,000 institutions.

Laws related to terrorist financing are limited to acts committed by members of organizations operating against the Turkish Republic, so 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 threat. While the GOT has implemented UNSCR 1267, it has not yet established punishment or sanctions for institutions that fail to observe a freezing order, and it has not yet 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.

In February 2010, the FATF identified Turkey as a jurisdiction with significant AML/CFT vulnerabilities, chief among them Turkey's lack of adequate criminalization of terrorist financing and national asset freezing mechanisms. The GOT adopted an action plan designed to commit to a timeline for implementing new legislation. A draft law on the "Prevention of Terrorism Financing" intended to address the CFT deficiencies is currently within the Prime Ministry where it is being reviewed by experts.

Ukraine

In Ukraine, high risks of money laundering have been identified in foreign economic activities, credit and finance, the fuel and energy industry, and the metal and mineral resources market. Illicit proceeds are primarily generated through corruption; fictitious entrepreneurship; fraud; trafficking in drugs, arms, and persons; organized crime; prostitution; and tax evasion. Various laundering methodologies are used, including real estate, insurance, bulk cash smuggling, and through financial institutions. There is a significant market for smuggled goods and a large informal financial sector. These activities are linked to the evasion of taxes and customs duties.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, non-bank financial institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawnshops, mail service operators and other money transfer services, real estate traders, certain traders of precious metals and stones, notaries, auditors, lawyers and leasing providers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, non-bank financial institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawnshops, mail service operators and other money transfer services, real estate traders, certain traders of precious metals and stones, notaries, auditors, lawyers, and leasing providers.

Number of STRs received and time frame: See below

Number of CTRs received and time frame: 728,799 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 48 from January 1 to April 1, 2010

Assets forfeited: *criminally:* \$94 million in 2009 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Ukraine is member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Evaluation_reports_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On May 18, 2010, Ukraine's Parliament passed amendments to Ukraine's anti-money laundering/counter-terrorist financing (AML/CFT) legislation. The amendments are a significant step forward. The new legislation replaces and significantly improves Ukraine's basic AML/CFT Law, and amends relevant portions of the criminal code to bring them into greater compliance with international standards. Among other improvements, the May 18, 2010 amendments require enhanced due diligence procedures for PEPs. However, the procedure of informing primary financial monitoring agencies about the list of foreign PEPs is yet to be developed.

While it does not appear that significant narcotic proceeds are laundered through Ukraine's financial institutions, the rise of cybercrime and related transnational organized crime would suggest that significant amounts of U.S. currency are diverted to this region.

Through their regulatory agencies, banks and non-bank financial services receive the U.S. designations of suspected terrorists and terrorist organizations under Executive Order 13224 and other U.S. authorities and are instructed to report any transactions involving designated individuals or entities. According to the new anti-money laundering law, the financial institution or FIU has the power to suspend suspicious transactions for a limited amount of time (up to 14 days). Afterwards, assets may only continue to be held if law enforcement bodies initiate a criminal case or if it can be established that the assets are related to terrorist activity, in which case they can be held indefinitely. The need to initiate criminal cases might provoke serious delays that would allow the assets to be transferred before action could be taken to freeze the accounts. Draft legislation will address additional details of terrorist assets freezing, such as an

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enhanced definition of terrorist assets, procedures for seizing assets of individuals designated on international terrorist lists; and the procedural prerequisites to seizing terrorist assets.

While Ukraine has signed and ratified the necessary treaties, in many instances they are not applied or are applied poorly. Furthermore, while Ukraine is a party to UNCAC and UNTOC, the provisions of these conventions are not implemented or are not working properly in Ukraine.

Ukraine has remained on the FATF list of countries with “strategic deficiencies” since February 2010. The remaining deficiencies include poor terrorist asset freezing provisions, inadequate criminalization of market manipulation and insider trading, and the absence of corporate criminal liability for terrorist financing. Ukraine also lacks any functional regime for locating or seizing forfeitable assets.

Although, the current legislation does not provide for autonomous prosecution of money laundering, Ukraine continues to take measures to improve it. There were two cases of autonomous investigations and prosecutions of money laundering. Ukraine should place additional emphasis on developing these capabilities.

Most importantly, while Ukraine's legislation has been significantly modernized, Ukraine lacks examples of successful prosecutions of money laundering. This is due to the lack of specialized expertise among prosecutors in handling complex financial cases, corruption within law enforcement and the courts, and poor coordination among prosecutors, investigators, and the FIU. Ukraine has taken steps to improve the technical expertise of the Prosecutor General's Office through training of its law enforcement and prosecutors. This training should be continually developed, placing an emphasis on the systematic use of financial investigations, the use of existing tools and investigative techniques, analysis and use of computer techniques, and by providing relevant guidance.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Middle East region. Dubai, in particular, is a major international banking and trading center. The country also has a growing offshore financial center and 38 free trade zones. 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 money laundering activities. The UAE also is vulnerable to money laundering due to its geographic location as the primary transportation and trading hub for the Persian 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 cash couriers, hawala, trade based money laundering, smuggling, the real estate sector, and the misuse of the international gold and diamond trade.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE

Number of STRs received and time frame: 2,711

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

The United Arab Emirates is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.menafatf.org/images/UploadFiles/UAEoptimized.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the UAE has shown some progress in enhancing its AML/CFT program. In August 2009, the Central Bank issued a circular instructing local banks not to handle accounts belonging to politically exposed persons (PEPs). Information sharing between the UAE’s financial intelligence unit (FIU), the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU), and some foreign FIUs has substantially improved.

Several areas requiring further action by the UAE Government (UAEG) remain. The UAE should increase the capacity and resources it devotes to investigation of AML/CFT both federally at the AMLSCU and at emirate-level law enforcement. AMLSCU needs to improve its timely financial information sharing capability to conform to international standards. Law enforcement and customs officials should proactively develop cases based on investigations,

rather than wait for STR-based case referrals from the AMLSCU. Law enforcement and customs officials should conduct more thorough inquiries into large declared and undeclared cash imports into the country, as well as require - and enforce - outbound declarations of cash and gold utilizing existing smuggling laws. Currently the law only requires the disclosure of inbound cash above the delineated threshold.

Although UAE legislation includes a provision prohibiting “tipping off,” the provision is very narrow and does not appear to address the disclosure of STR filings to third parties. Additionally, the Central Bank regulations appear to require institutions to notify customers of suspicions regarding their accounts. This would appear to contradict any “tipping off” prohibitions.

All facets of trade-based money laundering should be given greater scrutiny by UAE customs and law enforcement officials, including customs fraud, the trade in gold and precious gems, commodities used as counter-valuation in hawala transactions, and the misuse of trade to launder narcotics proceeds. The UAEG should expand follow-up with financial institutions and the Ministry of Social Affairs regarding regulations on charities to ensure their registration at the federal level. The UAE should also continue its regional efforts to promote sound charitable oversight. The cooperation between the Central Bank and the offshore Dubai Financial Services Authority (DFSA) needs improvement, with lines of authority clarified. Moreover, the absence of meaningful statistics across all sectors is a significant hindrance to the assessment of the effectiveness of the AML/CFT program.

United Kingdom

The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although narcotics are still a major source of illegal proceeds for money laundering, the proceeds of other offenses, such as financial fraud and the smuggling of people and goods, have become increasingly important. The past few years have seen an increase in the movement of cash via the non-bank financial system, as banks and mainstream financial institutions have tightened their controls and increased their vigilance. The use of *bureau 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. Also on the rise are credit/debit card fraud, use of the internet for fraud, and the purchasing of high-value assets to disguise illegally obtained money. A July 2009 Home Office report estimates that the total cost of the economic and social harm caused to the UK by serious organized crime is around GBP 68.4 billion (approximately \$107.75 billion) per year.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial and credit institutions, independent legal professionals, auditors, accountants, tax advisors, auditors, insolvency practitioners, estate agents, casinos, high value goods dealers, and trust or company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial and credit institutions, independent legal professionals, auditors, accountants, tax advisors, auditors, insolvency practitioners, estate agents, casinos, high value goods dealers, and trust or company service providers

Number of STRs received and time frame: 240,582 (October 1, 2009 – September 30, 2010)

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The United Kingdom is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: www.fatf-gafi.org/dataoecd/44/8/44048060.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The United Kingdom has a comprehensive range of anti-money laundering/countering the financing of terrorism (AML/CFT) laws. It is an active participant in multilateral efforts to meet AML/CFT threats. The UK engages in efforts to freeze the assets of persons who commit terrorist acts, as required by the United Nations. In January 2010, the United Kingdom Supreme Court held that the government had earlier exceeded its authority by imposing asset freezing orders that went beyond the requirements of Security Council Resolution 1373. The Supreme Court reinstated temporary asset freezing regulations as an interim measure following the judgment. In December 2010, the United Kingdom replaced the temporary provisions with a new legislative framework that raises the burden of proof for freezing assets from "reasonable suspicion" to "reasonable belief".

Uruguay

Uruguay remains vulnerable to the threats of money laundering (ML) and terrorist financing (TF). Uruguay has a highly dollarized economy with about 80 percent of deposits and 70 percent of credits denominated in U.S. dollars. The U.S. dollar is often used as a business currency and many goods and services, including real estate and vehicles, are quoted and sold in

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dollars. Officials from the Uruguayan police and judiciary assess that there is a growing presence of Mexican and Colombian criminal organizations in the Southern Cone and are concerned they could begin operating in Uruguay. Drug dealers are slowly starting to participate in other illicit activities like car theft and trafficking in persons. The Government of Uruguay (GOU) acknowledges there is a growing risk of money laundering in the real estate sector, in free zones and in bureaus that administer corporations, and in late 2010, passed a decree to improve controls in those areas.

The vast majority of money laundering cases that have become public have been related to drugs. Uruguay has porous borders with Argentina and Brazil, and there is a market for smuggled goods that is greatly determined by price differentials between Uruguay and its neighbors. Trade-based money laundering is likely to occur but specialists do not identify it as a major source of risk.

The six offshore banks operating in Uruguay are subject to the same laws, regulations, and controls as local banks, with the GOU requiring they be licensed through a formal process that includes a background investigation of the principals. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank.

There are 13 free trade zones (FTZs) located throughout the country. While most are dedicated solely to warehousing, two were created exclusively for the development of the paper and pulp industry, and three accommodate a wide variety of tenants offering a wide range of services, including financial services. Some of the warehouse-style FTZs have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay. A decree passed in November 2010 discourages shell companies from establishing a presence in FTZs.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchange houses, stockbrokers, pension funds, insurance companies, casinos, art dealers, real estate and fiduciary companies, lawyers, accountants, and other non-banking professionals that carry out financial transactions or manage commercial companies on behalf of third parties

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; currency exchange houses; stockbrokers and pension funds; insurance companies; businesses that perform safekeeping, courier or asset transfer services; professional trust managers; investment advisory services; casinos; real estate brokers and intermediaries; notaries; auctioneers; dealers in antiques, fine art and precious metals or stones; FTZ operators; and natural or judicial persons who carry out transactions or administer corporations on behalf of third parties

Number of STRs received and time frame: 195 - January 1–December 16, 2010

Number of CTRs received and time frame: One - January 1–December 16, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Four in 2009

Convictions: Five in 2009

Assets forfeited: **criminally:** Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The GOU is a member of the Organization of American States Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. Uruguay is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/pdf/InformeEMUruguay09.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Uruguay has significantly upgraded its anti-money laundering legislation in recent years and improved its enforcement actions. Law 18.494, passed in 2009, gives national authorities more flexibility to fight money laundering and terrorist financing, and Decree 226/10, passed in December 2010, includes detailed provisions for non-financial sector entities obliged to report suspicious transactions. Decree 226/10 stipulates risk-based customer due diligence (CDD) procedures, sets *de minimis* procedures, and establishes CDD thresholds in specific activities: casinos (over \$3,000), and art dealers and auctioneers (over \$15,000). The decree also provides for enhanced due diligence (EDD) for high risk customers, such as those involving non-residents from countries that fail to apply international standards. Real estate brokers must apply EDD procedures in transactions over \$15,000 and notaries and auctioneers must apply them in transactions over \$200,000 (or over \$100,000 in cash). While Decree 226/10 does not distinguish between local and foreign PEPs, it appears to be focused on locals. A list of about 5,000 local PEPs is available on the Central Bank's website.

Decree 226/010 mandates obligated entities to establish internal procedures that would enable them to detect goods or transactions related to individuals or terrorist organizations included in the UN list. The financial intelligence unit publishes the UN 1267 Sanctions Committee list on its website but does not distribute it to financial institutions. It does not send the USG lists of terrorists to financial institutions but includes them in its database and runs name checks against it. There have been no reported cases or investigations related to terrorist financing.

In 2010 Uruguay joined the Egmont Group of Financial Intelligence Units. Tax evasion is not an offense in Uruguay, which limits cooperation possibilities because the financial intelligence unit cannot share tax-related information with its regional counterparts.

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In an ongoing high-profile case, 14 people were indicted in September 2006 for a money laundering charge tied to the largest cocaine seizure in Uruguay at that time; in June 2008 the kingpin was convicted and in November 2009 five individuals, including a well known attorney, were prosecuted. Through 2009 the GOU had frozen assets totaling \$20 million, of which \$17 million were frozen in 2009 alone. The Anti-Money Laundering Secretariat seeks to create awareness about the importance of seizing assets as well as imprisoning criminals.

The GOU should enhance its regulation and monitoring of the real estate sector and sports industries.

Venezuela

Venezuela is one of the principal drug-transit countries in the Western Hemisphere. Cocaine produced in Colombia is trafficked through Venezuela to the Eastern Caribbean, Central America, the United States, Europe, and western Africa. In 2010, Mexican drug trafficking organizations gained an increased presence in Venezuela. Venezuela's proximity to drug producing countries, weaknesses in its anti-money laundering regime, limited bilateral cooperation, and alleged substantial corruption in law enforcement and other relevant sectors continue to make Venezuela vulnerable to money laundering. The main sources of money laundering are proceeds generated by drug trafficking organizations and illegal transactions that exploit Venezuela's currency controls and its various exchange rates

Money laundering occurs through commercial banks, exchange houses, gambling sites, fraudulently invoiced foreign trade transactions, smuggling, real estate (in the tourist industry), agriculture and livestock businesses, securities transactions, and trade in precious metals. Venezuela is not a regional financial center and does not have an offshore financial sector, although many local banks have offshore affiliates in the Caribbean. 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 regional narcotics proceeds. It is reported that many black market traders ship their goods through Margarita Island's free port.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: The Fund of Deposit Guaranty and Bank Protection; universal, commercial, mortgage, investment, and development banks; representative offices of foreign banks; leasing financiers; money market funds; savings and loan entities; exchange houses; foreign exchange operators; credit card issuers; societies and funds of reciprocal guaranties; municipal institutes or credit businesses; insurance companies; casinos; real estate agents; construction companies; car dealerships; hotels, travel agents, and the tourism industry; and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: The Fund of Deposit Guaranty and Bank Protection, banks, leasing financiers, money market funds, savings and loan entities, exchange houses, financial groups, frontier exchange operators, credit card issuers, societies and funds of reciprocal guaranties, municipal institutes or businesses of credit, funds and societies of capital risk, representative offices of foreign banks, insurance and reinsurance companies, casinos, real estate agents, construction companies, car dealerships, hotels and the tourism industry, travel agents, and dealers in precious metals and stones

Number of STRs received and time frame: 1,086 through October 31, 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Ten 2006-2010

Convictions: Seven 2006-2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Venezuela is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://cfatfgafic.org/downloadables/mer/Venezuela_3rd_Round_MER_%28Final%29_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There is little evidence the Government of Venezuela (GOV) has made enforcement of anti-money laundering laws and regulations a priority. Reportedly, many, if not most, judicial and law enforcement officials remain ignorant of anti-money laundering countermeasures. Additionally, although the law includes many financial institutions and designated non-financial businesses and professions as covered entities, no implementing regulations have been developed and, in practice, the majority of entities are not subject to mandatory reporting and customer due diligence requirements. The insurance and securities sectors and the Venezuelan Association of Currency Exchange Houses, which counts all but one of the country's money exchange companies among its membership, voluntarily comply with the STR reporting requirements.

In 2010, the FATF identified Venezuela as a country with strategic anti-money laundering and counter-terrorist financing (AML/CFT) deficiencies. The resulting action plan includes

adequately criminalizing terrorist financing; establishing and implementing adequate procedures to identify and freeze terrorist assets; ensuring a fully operational and effectively functioning financial intelligence unit; implementing adequate customer due diligence guidelines for all sectors, including the securities sector; and establishing adequate STR reporting obligations for money laundering and terrorist financing.

Corruption is a very serious problem in Venezuela and appears to be worsening. Transparency International's Corruption Perception Index for 2010 ranks Venezuela at 164 of 178 countries on the index. Venezuela has laws to prevent and prosecute corruption, and accepting a bribe is a criminal act. However, the judicial system has been ineffective historically and is accused of being overtly politicized. The current regime of price and foreign exchange controls also has provided opportunities for corruption. Trade-based money laundering and value transfer is a significant problem in Venezuela. In March 2010, 16 individuals were indicted in Miami on charges of conspiracy to launder narcotics proceeds. The case involved trade-based money laundering focused on Venezuela.

Venezuela and the United States signed a Mutual Legal Assistance Treaty (MLAT) in 1997. The Financial Crimes Enforcement Network (FinCEN) suspended the exchange of information with Venezuela's National Financial Intelligence Unit (UNIF) in January 2007 due to the unauthorized disclosure of information provided by FinCEN, and the relationship has not resumed to date. In 2009 and 2010, there was no money laundering information exchange between Venezuela and the United States.

Zimbabwe

Zimbabwe is not a regional financial center, but it faces problems related to money laundering and official corruption. Regulation and enforcement in the financial sector are weak, mainly due to a lack of trained regulators and investigators and limited asset seizure authority. These deficiencies expose the country to money laundering abuses, but there are no data on the extent of money laundering in Zimbabwe. The exposure is greatest within the financial sector, which includes both formal and informal institutions. Commercial banks, building societies, moneylenders, insurance brokers, realtors, and lawyers in Zimbabwe are all vulnerable to exploitation by money launderers. Financial crime may also be magnified by opportunities to smuggle diamonds.

Anti-money laundering laws are sometimes abused for political purposes. More broadly, corruption sometimes impedes application of Zimbabwe's anti-money laundering mechanisms.

Nearly all transactions in Zimbabwe are now carried out with either the U.S. dollar or the South African rand. The Government of Zimbabwe's (GOZ) switch to this "multi-currency regime" dramatically reduced opportunities for money laundering and financial crime, thereby eliminating multiple exchange rates and opaque foreign-exchange controls. Of late, the parliamentary committee on mining has held officials to account for GOZ actions in the Marange diamond fields, and the minister of finance has implemented a new law to improve accountability at the Reserve Bank of Zimbabwe (RBZ).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change*, insurance companies, and finance houses

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change* and cash dealers, insurance companies, finance houses, lawyers, accountants, pension funds, casinos, moneylenders, estate agents, import/export businesses, and trust management and service providers

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: None in 2010

Assets forfeited: criminally: None in 2010 *civilly:* None in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Zimbabwe is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.esaamlg.org/userfiles/Zimbabwe_detailed_report.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Zimbabwe’s law provides for freezing and forfeiture of assets, and the banking system can quickly freeze deposits. Law enforcement and regulatory agencies lack the resources to combat money laundering vigorously. For example, financial institutions typically receive information related to designations from private sources, not from government agencies. The capacity for broader freezing or forfeiture of terrorist assets is untested.

Zimbabwe does have broad legislation on mutual legal assistance in both civil and criminal cases, and there are no legal or practical impediments to rendering assistance, provided both Zimbabwe and the requesting country criminalize the activity.

Money Laundering and Financial Crimes

The United States, Canada, Australia, and the European Union have imposed targeted financial sanctions and travel restrictions on political leaders and others believed to have been complicit in human rights abuses.



United States Department of State

*Bureau for International Narcotics and Law
Enforcement Affairs*

Money Laundering and Financial Crimes Country Database

May 2011

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Money Laundering/Financial Crimes 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 *2011 International Narcotics Control Strategy Report, Money Laundering and Financial Crimes*, highlights the most significant steps countries and jurisdictions categorized as "Major Money Laundering Countries" have taken to improve their anti-money laundering/counter-terrorist financing (AML/CFT) regimes. The report provides a snapshot of the AML/CFT legal infrastructure of each country or jurisdiction and its capacity to share information and cooperate in international investigations. For each country where they have been completed, the write-up also provides a link to the most recent mutual evaluation performed by or on behalf of the Financial Action Task Force (FATF) or the FATF-style regional body to which the country or jurisdiction belongs. When applicable, relevant country reports also provide links to the Department of State's "Country Reports on Terrorism" so the reader can learn more about issues specific to terrorism and terrorism financing. Providing these links will allow those interested readers to find detailed information on the country's AML/CFT capacity and the effectiveness of its programs.

In addition, the report contains details of United States Government efforts to provide technical assistance and training as well as information on the multilateral organizations we support, either monetarily and/or through participation in their programs. In 2010, USG personnel leveraged their expertise to share their experience and knowledge with over 100 countries. They worked independently and with other donor countries and organizations to provide training programs, mentoring and support for supervisory, law enforcement, prosecutorial, customs and financial intelligence unit personnel as well as private sector entities. We expect these efforts, over time, will build capacity in jurisdictions that are lacking, strengthen the overall level of global compliance with international standards and contribute to an increase in prosecutions and convictions of those who launder money or finance terrorists or terrorist acts.

Money laundering continues to be a serious global threat. Jurisdictions flooded with illicit funds are vulnerable to the breakdown of the rule of law, the corruption of public officials and destabilization of their economies. The development of new technologies and the possibility of linkages between illegal activities that generate considerable proceeds and the funding of terrorist groups only exacerbate the challenges faced by the financial, law enforcement, supervisory, legal and intelligence communities. The continued development of AML/CFT regimes to deter criminal activity and detect illicit proceeds is reflected in this report again this year. 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 the funding of terrorists and terrorism.

Money Laundering and Financial Crimes

Countries and Jurisdictions Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Afghanistan	Liechtenstein	Albania	Moldova	Andorra	Malawi
Antigua and Barbuda	Luxembourg	Algeria	Monaco	Anguilla	Maldives
Australia	Macau	Angola	Montenegro	Armenia	Mali
Austria	Mexico	Argentina	Morocco	Benin	Malta
Bahamas	Netherlands	Aruba	Nicaragua	Bermuda	Marshall Islands
Belize	Nigeria	Azerbaijan	Palau	Botswana	Mauritania
Bolivia	Pakistan	Bahrain	Peru	Brunei	Mauritius
Brazil	Panama	Bangladesh	Poland	Burkina Faso	Micronesia FS
British Virgin Islands	Paraguay	Barbados	Portugal	Burundi	Mongolia
Burma	Philippines	Belarus	Qatar	Cameroon	Montserrat
Cambodia	Russia	Belgium	Romania	Cape Verde	Mozambique
Canada	Singapore	Bosnia and Herzegovina	Samoa	Central African Republic	Namibia
Cayman Islands	Somalia	Bulgaria	Saudi Arabia	Chad	Nauru
China, People Rep	Spain	Chile	Senegal	Congo, DemRep of	Nepal
Colombia	Switzerland	Comoros	Serbia	Congo, Rep of	New Zealand
Costa Rica	Taiwan	Cook Islands	Seychelles	Croatia	Niger
Cyprus	Thailand	Cote d' Ivoire	Sierra Leone	Cuba	Niue
Dominican Republic	Turkey	Curacao	Slovakia	Denmark	Norway
France	Ukraine	Czech Rep	South Africa	Djibouti	Oman
Germany	United Arab Emirates	Ecuador	St. Kitts & Nevis	Dominica	Papua New Guinea
Greece	United Kingdom	Egypt	St. Lucia	Equatorial Guinea	Rwanda
Guatemala	United States	El Salvador	St. Maarten	Eritrea	San Marino
Guernsey	Uruguay	Ghana	St. Vincent	Estonia	Sao Tome & Principe
Guinea-Bissau	Venezuela	Gibraltar	Suriname	Ethiopia	Slovenia
Haiti	Zimbabwe	Grenada	Syria	Fiji	Solomon Islands
Hong Kong		Guyana	Tanzania	Finland	Sri Lanka
India		Honduras	Trinidad and Tobago	Gabon	Sudan
Indonesia		Hungary	Turks and Caicos	Gambia	Swaziland
Iran		Ireland	Vanuatu	Georgia	Sweden
Iraq		Jamaica	Vietnam	Guinea	Tajikistan
Isle of Man		Jordan	Yemen	Iceland	Timor-Leste
Israel		Kazakhstan		Kyrgyz Republic	Togo
Italy		Korea, North		Lesotho	Tonga
Japan		Korea, South		Liberia	Tunisia
Jersey		Kosovo		Libya	Turkmenistan
Kenya		Kuwait		Lithuania	Uganda
Latvia		Laos		Macedonia	Uzbekistan
Lebanon		Malaysia		Madagascar	Zambia

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, 2010, 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 the drug trade.
- 2. "Criminalized Beyond Drugs": The jurisdiction has enacted laws criminalizing the offense of money laundering related to crimes other than the drug trade.
- 3. "Know Your Customer Provisions": By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know Your Customer/Customer Due Diligence programs for their customers or clientele.
- 4. "Report Large Transactions": By law or regulation, banks and/or other covered entities are required to report large transactions in currency or other monetary instruments to designated authorities.
- 5. "Report Suspicious Transactions": By law or regulation, banks and/or other covered entities are required to report suspicious or unusual transactions to designated authorities. On the Comparative Table the letter "Y" signifies mandatory reporting; "P" signifies reporting is not required but rather is permissible or optional; "N" signifies no reporting regime.
- 6. "Maintain Records over Time": By law or regulation, banks and/or other covered entities are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
- 7. "Disclosure Protection - 'Safe Harbor'": By law, the jurisdiction provides a "safe harbor" defense to banks and/or other covered entities and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
- 8. "Criminalize 'Tipping Off'": By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.
- 9. "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 in order to counter money laundering. An asterisk reflects those jurisdictions that are not members of the Egmont Group.
- 10. "Cross-Border Transportation of Currency": By law or regulation, the jurisdiction has established a declaration or disclosure system for persons transiting the jurisdiction's borders, either inbound or outbound, and carrying currency or monetary instruments above a specified threshold.
- 11. "International Law Enforcement Cooperation": Jurisdiction cooperates with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data, upon request. No known legal impediments to cooperation exist in current law.

Money Laundering and Financial Crimes

- 12. “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.
- 13. “System for Identifying and Forfeiting Assets”: The jurisdiction has established a legally authorized system for the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.
- 14. “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.
- 15. “Criminalized the Financing of Terrorism”: The jurisdiction has criminalized the provision of material support to terrorists, terrorist activities, and/or terrorist organizations as required by the UN International Convention for the Suppression of the Financing of Terrorism and UN Security Council Resolution 1373.
- 16. “Report Suspected Terrorist Financing”: By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.
- 17. “States Party to 1988 UN Drug Convention”: States party to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 18. “States Party to the UN International Convention for the Suppression of the Financing of Terrorism”: States party to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 19. “States Party to the UN Convention against Transnational Organized Crime”: States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 20. “States Party to the UN Convention against Corruption”: States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 21. “US or International Sanctions/Penalties”: The US, another jurisdiction and/or an international organization, e.g., the UN or FATF, has imposed sanctions or penalties against the jurisdiction. A country’s inclusion in the FATF’s International Cooperation Review Group exercise is not considered a sanction or penalty unless the FATF recommended counter-measures against the country/jurisdiction.

Comparative Table

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Govt/Jurisdiction																					
Afghanistan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Albania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Algeria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Andorra	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Angola	Y	Y	Y	N	Y	Y	Y	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	N
Anguilla ¹	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Antigua and Barbuda	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Argentina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	Y	Y	Y	N
Armenia	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Aruba ²	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Australia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Austria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Azerbaijan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Bahamas	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bahrain	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Bangladesh	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Barbados	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Belarus	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Belize	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Benin	Y	Y	N	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N

¹The UK extended its application of the 1988 UN Drug Convention to Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Bailiwick of Jersey, Gibraltar, Montserrat, and Turks and Caicos. The International Convention for the Suppression of Terrorism Financing has been extended to Gibraltar, Guernsey, Isle of Man, and Jersey. The UNCAC has been extended to British Virgin Islands, Gibraltar, Guernsey, Isle of Man, and Jersey. The UNTOC has been extended to Gibraltar.

²The Netherlands extended its application of the 1988 UN Drug Convention and the International Convention for the Suppression of Terrorism Financing to Aruba and Curacao. The UNTOC has been extended to Aruba.

Money Laundering and Financial Crimes

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Bermuda ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Bolivia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	N	N	Y	Y	Y	Y	Y
Bosnia & Herzegovina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Botswana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
British Virgin Islands ¹	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N
Brunei Darussalam	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Bulgaria	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	y	Y	Y	Y	Y	Y	Y	Y	N
Burkina Faso	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Burma	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	N	N	Y	Y	Y	N	Y
Burundi	Y	Y	Y	N	Y	Y	N	N	N	Y*	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N
Cambodia	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N
Cameroon	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cape Verde	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cayman Islands ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N
Central African Republic		Y	Y	Y	Y	Y	N	Y	N	N	N	N	Y	N	Y	N	Y	Y	Y	Y	N
Chad	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	N	N	N	N	N	Y	Y	Y	N	Y
Chile	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
China	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	N	Y	N	N	Y	Y	Y	Y	Y	Y	N
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Comoros	Y	Y	Y	Y	Y	N	N	N	Y	Y*	Y	Y	N	N	N	N	Y	Y	Y	Y	N
Congo, (Dem Republic)	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N

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Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Congo, Republic of	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Cook Islands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Costa Rica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Cote d'Ivoire	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Croatia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Cuba	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Curacao ²	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cyprus ³	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Denmark	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Djibouti	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Dominica	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Dominican Republic	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Ecuador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Egypt	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
El Salvador	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Equatorial Guinea	Y	Y	Y	Y	N	Y	N	N	N	N	N	N	N	N	N	N	N	Y	Y	N	N
Eritrea	N	N	N	Y	Y	Y	N	N	Y	Y*	Y	N	N	N	N	N	Y	N	N	N	Y
Estonia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Ethiopia	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	U	Y	Y	Y	N	Y	Y	N
Fiji	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N

³ Area administered by Turkish Cypriots	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	N	Y	N	Y	Y	N/A	N/A	N/A	N/A	N
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Money Laundering and Financial Crimes

Actions by Governments	Money Laundering and Financial Crimes																				
	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Finland	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
France	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Gabon	Y	Y	Y	N	Y	Y	N	N	N	N	Y	N	N	N	Y	Y	Y	Y	Y	Y	N
Gambia	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	Y	N	N
Georgia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Germany	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Ghana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N
Gibraltar ¹	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N
Greece	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Grenada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	N
Guatemala	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Guernsey ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Guinea	Y	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	Y	Y	Y	N	N
Guinea-Bissau	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	Y	Y	Y	N	Y	N	N	N	Y
Guyana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Haiti	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	N	N	Y	N
Honduras	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Hong Kong ⁴	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Hungary	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Iceland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
India	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Indonesia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Iran	Y	Y	Y	N	Y	Y	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	Y
Iraq	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	Y	Y	Y	N	Y	Y	N
Ireland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y	N	N
Isle of Man ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N
Israel	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N

⁴ The People's Republic of China extended the 1988 Drug Convention, the International Convention for the Suppression of Terrorism Financing, UNCAC and UNTOC to the Special Administrative Regions of Hong Kong and Macau.

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Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Italy	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Jamaica	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Japan	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Jersey ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Jordan	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	N	Y	N	N	Y	Y	Y	Y	Y	Y	N
Kazakhstan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Kenya	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N
Korea (DPRK)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Korea, Republic of	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Kosovo	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	Y	Y	N	N	N	N	N
Kuwait	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	Y	Y	N	N	Y	N	Y	Y	N
Kyrgyz Republic	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Laos	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	N	N	Y	N	Y	Y	Y	Y	N
Latvia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Lebanon	Y	Y	Y	N	Y	Y	Y	N	N	Y	Y	N	Y	N	Y	Y	Y	N	Y	Y	N
Lesotho	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Liberia	Y	Y	Y	Y	N	Y	N	N	N	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y
Libya	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	N	N	N	N	N	Y	Y	Y	Y	N
Liechtenstein	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Lithuania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Luxembourg	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Macau ⁴	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Macedonia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Madagascar	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Malawi	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Malaysia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	Y	N	Y	N	N	N	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N

Money Laundering and Financial Crimes

Actions by Governments	Criminalized Drug Money Laundering	Criminalized ML Beyond Drugs	Know-Your-Customer Provisions	Report Large Transactions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Disclosure Protection - "Safe Harbor"	Criminalize "Tipping Off"	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	Mutual Legal Assistance	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	States Party to 1988 UN Drug Convention	States Party to Intl. Terror Finance Conv.	States Party to UNTOC	States Party to UNCAC	US or Intl Org Sanctions/Penalties
Mali	Y	Y	Y	N	Y	Y	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Malta	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Marshall Islands	Y	Y	N	N	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Mauritania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Mauritius	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Mexico	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Micronesia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	N	N
Moldova	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Monaco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Mongolia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Montenegro	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Montserrat ¹	Y	Y	Y	N	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Morocco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Mozambique	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Namibia	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	N	Y	Y	Y	N	N	Y	N	Y	Y	N
Nauru	Y	N	Y	Y	Y	Y	Y	Y	Y	Y*	N	N	Y	N	Y	Y	N	Y	N	N	N
Nepal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	N	N	N
Netherlands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
New Zealand	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Nicaragua	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Niger	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	N	N	Y	N	Y	Y	Y	Y	Y	Y	N
Nigeria	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Niue	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	Y	N	N	N	N	N	N	N	N
Norway	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Oman	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	N	Y	N	N
Pakistan	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	N	N	N	N	Y	Y	Y	Y	Y	Y	N

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Palau	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	Y	Y	N	Y	N	N	N
Panama	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Papua New Guinea	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	N	Y	N	N	N	N	Y	N	Y	N
Paraguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N
Peru	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Philippines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Poland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N
Portugal	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Qatar	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Romania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Russia	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Rwanda	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
Samoa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
San Marino	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Sao Tome & Principe	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y	Y	Y	N
Saudi Arabia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N
Senegal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Serbia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Seychelles	Y	Y	N	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Sierra Leone	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	N	Y	Y
Singapore	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Slovak Republic	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Slovenia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Solomon Islands	Y	Y	N	N	Y	Y	Y	Y	Y	Y*	Y	N	Y	N	Y	Y	N	Y	N	N	N

Money Laundering and Financial Crimes

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Somalia	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
South Africa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Spain	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Sri Lanka	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
St. Kitts and Nevis	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	N
St. Lucia	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	N	N	N
St. Vincent and the Grenadines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Sudan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y
Suriname	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	N	N	Y	Y	N	N	N	N
Swaziland	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	N	N	Y	Y	Y	Y	Y	N
Sweden	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Switzerland	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Syria	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y
Tajikistan	Y	Y	Y	N	N	N	Y	N	Y	Y*	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
Taiwan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N
Tanzania	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Thailand	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Timor-Leste	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	Y	N
Togo	Y	Y	Y	Y	Y	N	N	N	Y	Y*	Y	N	Y	N	Y	Y	Y	Y	Y	Y	Y
Tonga	Y	Y	Y	Y	P	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	N	N	N
Trinidad & Tobago	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Tunisia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Turkey	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Turkmenistan	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
Turks and Caicos ¹	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Uganda	Y	N	Y	N	N	Y	N	N	N	N	Y	N	N	N	Y	N	Y	N	N	Y	N
Ukraine	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N

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UAE	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y	N
United Kingdom	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
United States	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Uruguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Uzbekistan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N
Vanuatu	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Venezuela	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Vietnam	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	N	N	N	N	Y	N	Y	Y	N	N	N
Yemen	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
Zambia	Y	Y	N	N	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Zimbabwe	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y

All Money Laundering and Financial Crimes Countries/Jurisdictions

Afghanistan

Afghanistan's formal financial system is no longer rapidly expanding while traditional informal financial systems, particularly regional hawala networks, remain significant in reach and scale. Afghanistan currently is experiencing large gross outflows of currency. Annually, hundreds of millions of dollars are transported out of the country through a variety of means. Terrorist and insurgent financing, money laundering, cash smuggling, informal value transfer systems and other activities designed to finance organized criminal activity continue to pose a serious threat to the security and development of Afghanistan. Afghanistan remains a major drug trafficking and drug producing country. The illicit narcotics trade, corruption and contract fraud are major sources of laundered funds. Despite ongoing efforts by the international community to build the capacity of Afghan police and customs forces, Afghanistan is unable to consistently uncover and disrupt financial crimes because of limited resources, little expertise, and corruption and insufficient political will. Proposed reforms often conflict with legal, historical, and cultural factors.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

Please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Central Bank of Afghanistan (DAB), banks, money service providers, insurance companies, dealers in precious metals and stones, lawyers, accountants, securities dealers, and real estate agents

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions and money service businesses including informal funds transfer providers such as hawaladars.

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Number of STRs received and time frame: 598 from June 2006 to October 2010

Number of CTRs received and time frame: 1,744,169, from June 2006 to October 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Afghanistan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. It is scheduled to undergo its first mutual evaluation late in 2010.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2010 Afghanistan became a member of the Egmont Group of Financial Intelligence Units. Money laundering and terrorist financing investigations in Afghanistan have been hampered by a lack of capacity, awareness, and political commitment, particularly involving prosecutors and the courts. Corruption permeates all levels of Afghan government and society and has a direct impact on the lack of financial crimes enforcement. Afghanistan ranked 176 out of 178 countries surveyed in Transparency International's 2010 Corruption Perception Index.

Border security continues to be a major issue throughout Afghanistan. In 2008 there were 14 official border crossings that came under central government control, utilizing international 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 particularly susceptible to illicit cross-border trafficking, trade-based money laundering, and bulk cash smuggling. Furthermore, officials estimate there are over 1,000 unofficial border crossings along Afghanistan's porous borders. Customs authorities, with the help of outside assistance, have made improvements, but much work remains to be done.

It is estimated that five percent or less of the Afghan population uses banks. Afghanistan is widely served by the traditional and deeply entrenched hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. It is estimated 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 such as the UAE, Iran and Pakistan with weak regulatory regimes for informal remittance systems), micro and trade finance, as well as some deposit-taking activities. 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 to settle their balances with other hawaladars abroad, while banks will occasionally use hawaladars to transmit funds to hard-to-reach areas within Afghanistan. There are approximately 250 known hawala dealers in Kabul, and approximately 1,500 dealers that vary in size and reach spread throughout Afghanistan's 34 provinces. Given how widely used the hawala system is in Afghanistan, it undoubtedly is involved, intentionally or inadvertently, in financial crimes; however, only a few STRs have been submitted by money service providers (MSPs), including licensed hawaladars. This needs to be addressed immediately, while continuing to license the remaining 50 percent - 60 percent of MSPs still operating outside the formal sector.

Money Laundering and Financial Crimes

The Afghan government has no formal extradition or mutual legal assistance arrangements with the United States. In the absence of a formal bilateral agreement between Afghanistan and the United States, requests for extradition and mutual legal assistance have been processed on an ad hoc basis, largely with the assistance of the Afghan Attorney General's Office. The 2005 Afghan Counter Narcotics law, however, allows the extradition of drug offenders under the 1988 UN Drug Convention.

Albania

Albania is not considered an important regional financial or offshore center. As a transit country for trafficking in narcotics, arms, contraband, and humans, Albania remains at significant risk for money laundering. The major sources of criminal proceeds in the country are trafficking offenses, official corruption and fraud. Corruption and organized crime are likely the most significant sources of money laundering, but the exact extent to which these various illegal activities contribute to overall crime proceeds and money laundering is unknown.

Criminals frequently invest tainted money in real estate and business development projects. Albania has a significant black market for certain smuggled goods, mainly tobacco, jewelry, and mobile phones because of its high level of consumer imports and weak customs controls. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries and often return their illicit gains to Albania. The proceeds from these activities are easily laundered in Albania because it is still fundamentally a cash economy and money flows from abroad in the form of remittances are common.

The Albanian cash-based economy is particularly vulnerable to money laundering activity. According to the Bank of Albania, the Central Bank, about 20 percent of the money in circulation is outside of the banking system. However, the use of cash cards and Point of Sales Terminals (POS) is growing. In October 2009 there were 670,000 cash and debit cards and 4,800 POS. The monthly transaction totals of these cards have reached \$100 million, or about 1.4% of the retail bank deposits. Despite the expansion of the banking sector, a significant portion of remittances enters the country through unofficial channels. It is estimated that only half of total remittances enter Albania through banks or money transfer companies. The Bank of Albania estimated that in 2009 remittances comprised nearly nine percent of Albania's annual gross domestic product (GDP). Similarly, the Government of Albania (GOA) estimated that proceeds from the informal sector account for approximately 30-60 percent of Albania's GDP.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

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KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, life insurance companies, money exchangers, accountants, notaries, lawyers, gaming centers, casinos, auto dealers, postal services, securities dealers, real estate agents and travel agencies

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: commercial banks; non-banking financial institutions; foreign exchange offices; savings and credit companies and their unions; postal services that perform payment services; every person who issues or manages debit and credit cards, checks, traveller's checks, payment orders, electronic money or other similar instruments; stock markets, agents, and brokers; life insurance or re-insurance companies, their agents or intermediaries; pension funds; the State Authority Responsible for the Administration and Sale of Public Property; games of chance, casinos and hippodromes of any form; lawyers, notaries and other legal representatives; real estate agents and appraisers; accountants, and financial consultants; and the Agency of Legalisation, Urbanisation and the Integration of Informal Constructions/Zones

Number of STRs received and time frame: 146 January - November 2010

Number of CTRs received and time frame: 821,696 January - November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 15 from January to October 2010

Convictions: 0

Assets forfeited: *criminally:* \$0 in 2010 *civilly:* \$160,000 January to December 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Albania is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Albania_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Some Albanian courts require a conviction for the predicate offense before issuing an indictment for money laundering. Currently, no law criminalizes negligence by financial institutions in money laundering cases.

Albania places suspicious transaction reporting (STR) requirements on both financial institutions and individuals. Individuals and entities reporting transactions are protected by law if they cooperate with and provide financial information to the financial intelligence unit (FIU) and law enforcement agencies. Reportedly, however, leaks of financial disclosure information from other agencies compromise the entities' client confidentiality.

It is the responsibility of the licensing authority to supervise intermediaries for compliance. Although regulations also cover nonbank financial institutions, enforcement remains poor in practice. The Bank of Albania has established a task force to confirm banks' compliance with customer verification rules. While

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the Albanians have established a registry, there is no legislation providing for supervision of the non-profit sector.

Individuals must report to customs authorities all cross-border transactions that exceed approximately U.S. \$10,000. Albania provides declaration forms at border crossing points, and the law does not distinguish between an Albanian and a foreign visitor. However, customs controls on cross-border transactions lack effectiveness due to a lack of resources, poor training and, reportedly, corruption of customs officials.

In an effort to increase corruption and money laundering prosecutions, in May 2007, Albania established the Joint Investigative Unit to Fight Economic Crime and Corruption (JIU) in the Tirana District Prosecution Office. This unit focuses efforts and builds expertise in the investigation and prosecution of financial crimes and corruption cases by bringing together members of the General Prosecutors Office, the Albanian State Police Financial Crimes Sector, the Ministry of Finance's Customs Service and Tax Police, and the National Intelligence Service. The JIU also has liaisons for cooperation from the FIU, High State Audit, and the High Inspectorate for the Declaration and Audit of Assets. The JIU prosecutes money laundering cases within the District of Tirana. Six additional regional JIUs were established and began operation in the fall of 2009. These units have jurisdiction over corruption, money laundering, and other types of economic crime.

In 2010, Albania had its first conviction in a terror finance case against the administrator of designated terrorist financier Yassin Al-Kadi on charges of hiding funds used to finance terrorism.

Although there are continuing initiatives to improve Albania's capacity to deal with financial crimes and money laundering, the lack of positive results and apparent inability to adequately address the deficiencies in the programs continue to hamper progress. Albania should ensure that those charged with pursuing financial crime increase their technical knowledge to include modern financial investigation techniques. Albania should provide its police force with a central database. Investigators and prosecutors should implement case management techniques, and prosecutors and judges need to become more conversant with the nuances of money laundering. Albania should clarify the law to make clear that conviction for the predicate offense is not a prerequisite for a conviction for money laundering. The Government of Albania should also improve the enforcement and enlarge the scope of its asset seizure and forfeiture regime, including fully funding and supporting the Agency for the Administration of the Sequestration and Confiscation of Assets. Albania should also incorporate into anti-money laundering legislation specific provisions regarding negligent money laundering, comprehensive customer identification procedures, and the adequate oversight of money remitters and charities. Albania should enact the draft laws on terrorist financing and money-laundering.

Algeria

The extent of money laundering through formal financial institutions in Algeria 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 Banque Nationale Algerienne (Algeria's central bank) to monitor all international financial operations carried out by public and private banking institutions. Notable criminal activity includes trafficking, particularly of drugs and cigarettes, but also arms; kidnapping; theft; trafficking in stolen vehicles; extortion; and embezzlement. Public corruption remains a major concern as does terrorism. Algerian 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; abuse of real estate transactions; 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

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black economies. Al-Qaida in the Islamic Maghreb (AQIM), which originated in Algeria, has a history of terrorist activities in Algiers and elsewhere in the country, including suicide attacks, kidnappings for ransom, roadside bomb attacks, and assassinations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial leasing institutions, investment and shareholding companies

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financial leasing institutions, investment and shareholding companies, the post office, insurance companies, gaming establishments, investment houses, exchange offices, attorneys and notaries, accountants, real estate agents, customs agents, public officers (translators, judicial officers, auctioneers, receivers) and dealers of gems, precious metals, antiques and artwork

Number of STRs received and time frame: 260 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One in 2009

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Algeria is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation is not yet available online, but will be posted here: <http://www.menafatf.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Algeria has taken many steps to enhance its statutory regime against money laundering and terrorist financing. It needs to move forward to implement those laws and eliminate bureaucratic barriers among various government agencies. However, deficiencies remain that must be addressed, particularly in the coverage of know-your-customer and compliance programs. The Algerian authorities should promote interagency cooperation between all stake holders. The Algerian Financial Intelligence Processing Cell, (CTRF) - the financial intelligence unit - should be the focal point for receiving and analyzing reports, and information exchange of suspicious transactions related to anti-money laundering/counter-terrorist financing activity (AML/CFT). This would require the CTRF to develop in-house analytical and information technology capabilities. The CTRF should continue outreach to the formal and informal financial sectors and continue efforts to adhere to international standards. In addition, given the scope of Algeria's informal economy, new efforts should be made to identify value transfer mechanisms not covered in Algeria's anti-money laundering/counter-terrorist finance (AML/CFT) legal and regulatory framework. 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.

Andorra

Andorra has a well developed financial infrastructure. In 2009, the Organization for Economic Co-operation and Development designated and subsequently delisted Andorra as a tax haven due to its low or nonexistent taxes, and maintains that Andorra still needs to make its banking system more transparent.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and non-bank credit institutions; fund and asset management firms; money exchanges and remitters; life insurance companies; financial intermediaries and advisors; trust and company service providers; dealers in precious metals and stones and high-value goods; bingo establishments; real estate agents; lawyers, accountants, notaries and auditors

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and non-bank credit institutions; fund and asset management firms; money exchanges and remitters; life insurance companies; financial intermediaries and advisors; trust and company service providers; dealers in precious metals and stones and high-value goods; bingo establishments; real estate agents; lawyers, accountants, notaries and auditors

Number of STRs received and time frame: 84 in 2010
Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 12 in 2010
Convictions: Six in 2010

Assets forfeited: criminally: \$40,340,983 in 2010 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES
With other governments/jurisdictions: YES

Andorra is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Andorra_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Andorra's legal and financial systems are increasingly transparent. The INAF (*Institut Nacional Andorrà de Finances*) is an independent monitoring body, responsible for overseeing and supervising the financial system, management of public debt, carrying out field inspections, and taking disciplinary action. Andorra should continue to improve its anti-money laundering and counter-terrorist financing countermeasures. The Government of Andorra should become a party to the UN Conventions against Corruption and Transnational Organized Crime.

Angola

Angola is not a regional financial center and has not prosecuted any cases of money laundering. It does not produce significant quantities of drugs although it continues to be a transit point for drug trafficking, particularly from drugs brought in from Brazil and South America destined for Europe. Angola's borders are porous and vulnerable to movements of small arms, diamonds, human trafficking and general smuggling. Angola has a high rate of U.S. dollar cash flow. The laundering of funds derived from widespread corruption is a concern. A law criminalizing money laundering was passed in 2010, and is still being implemented. Angola's capacity to investigate financial crimes is limited.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Credit institutions, financial groups, insurers, pension fund management groups, stock markets, casinos, currency exchange agencies, services for the issuance and management of paychecks, individual and collective estate management groups, accountants, auditors, notaries, registrars, attorneys, solicitors and other independent professionals

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit institutions, financial groups, insurers, pension fund management groups, stock markets, casinos, currency exchange agencies, services for the issuance and management of paychecks, individual and collective estate management groups headquartered in Angola, accountants, auditors, notaries, registrars, attorneys, solicitors and other independent professionals

Number of STRs received and time frame: None

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Angola is not a member of a Financial Action Task Force-style regional body (FSRB). Angola is an observer of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FSRB.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In February 2010, the Financial Action Task Force (FATF) International Cooperation Review Group (ICRG) publicly identified Angola as a country which had significant deficiencies in its anti-money laundering/counter-terrorist financing (AML/CFT) regime. Angola put together an Action Plan and made a high-level political commitment to address these deficiencies.

Since that time, Angola has made significant progress in improving its AML/CFT regime. In June, it enacted Law 12/10 which criminalizes money laundering and terrorist financing. Angola also ratified the UN Convention on Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism, though the latter is still awaiting publication in the official register. The Angolan Central Bank, which has primary responsibility for money laundering issues, has prepared an implementation plan for the new law.

In January 2011, the Council of Ministers is expected to approve a Presidential Decree establishing Angola's financial intelligence unit (FIU) and clarifying and expanding on matters addressed in the June AML/CFT law. The Decree is expected to bring Angola's regime further into line with international

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AML/CFT standards. While recognizing the challenges posed in recruiting and training staff and creating and integrating the necessary software systems for the FIU, the Central Bank aims to have it fully operational by mid-2012.

Corruption permeates Angolan business, government, and most sectors of society. Angola is rated 168 out of 178 countries surveyed in Transparency International's International Corruption Perception Index. The Angolan definition of politically exposed persons (PEPs) covers only domestic PEPs residing outside the country.

Anguilla

Anguilla is a United Kingdom (UK) overseas territory with a population of approximately 12,900. There are very few offenses committed on the island by the local populace that generate substantial monies or profits from crime. The economy depends greatly on its growing offshore financial sector and tourism. The financial sector is small in comparison to other jurisdictions in the Caribbean, but the ability to register companies online and the use of bearer shares make Anguilla vulnerable to money laundering. The biggest perceived money laundering threat in the coming years will continue to come from abuses of the offshore industry in relation to mutual funds, trusts, and international business companies (IBCs). The Proceeds of Crime Act 2009 along with its attendant Code and Regulations make company service providers and others more accountable.

Anguilla uses the East Caribbean dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). Seven other island economies are also members of the ECCB: Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St. Lucia, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combined approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks, money transfer agents, insurance companies, mutual funds and fund intermediaries, company managers and service providers, trusts, securities brokers and dealers, dealers in precious metals and stones and high-value goods, lawyers, accountants, notaries, and real estate agents

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Money Laundering and Financial Crimes

Covered entities: Domestic and offshore banks, money transfer agents, insurance companies, mutual funds and fund intermediaries, company managers and service providers, trusts, securities brokers and dealers, dealers in precious metals and stones and high-value goods, lawyers, accountants, notaries, and real estate agents

Number of STRs received and time frame: 26 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 14 in 2010

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Anguilla is a member of the Caribbean Financial Action Task Force (CFATF), a FATF style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Anguilla_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Anguilla_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Anguilla continues to make progress in enforcement and implementation. The 2009 Proceeds of Crime Act included extending the prohibition of anonymous accounts to include numbered accounts. However, Anguilla continues to target the world of offshore financial business, offering favorable business and tax structures and company formation. The same things that make the country attractive to legitimate and high value international customers with legitimate requirements for offshore structures also make it attractive to money launderers attempting to layer monies through systems that allow some degree of anonymity. IBCs can be incorporated by company service providers in Anguilla without the requirement to publicly register shareholders or directors. Once incorporated, an IBC is capable of holding assets and operating bank accounts, both on Anguilla and in other jurisdictions. There have been cases where IBCs were used as “flow through” accounts, facilitating the mingling of monies, confusing money trails and generally assisting the layering process in money laundering; there has only been one instance where the money from suspected IBC abuse has remained in Anguilla. IBC abuse is responsible for 33% of all suspicious activity reports (17 of 51) since 2008. Analysis shows the majority of IBC abuse is related to fraud in one form or another.

While Anguilla’s present currency declaration system went into place in 2009, it has remaining deficiencies and ambiguities that need to be clarified and/or corrected.

The Criminal Justice (International Co-operation) (Anguilla) Act, 2000 enables Anguilla to directly cooperate with other jurisdictions through mutual legal assistance. The US/UK mutual legal assistance treaty concerning the Cayman Islands was extended to Anguilla in November 1990. Anguilla is also subject to the U.S. /UK Extradition Treaty.

Anguilla is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for Anguilla’s international affairs and may arrange for the ratification of any convention to be extended to Anguilla. The 1988 Drug Convention was extended to Anguilla in 1995. The UN Convention against Corruption, the International Convention for

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the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime (UNTOC) have not yet been extended to Anguilla.

Antigua and Barbuda

Antigua and Barbuda is a significant offshore center that despite recent improvements 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.

Antigua and Barbuda uses the East Caribbean (EC) dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). Seven other island economies are also members of the ECCB: Anguilla, Dominica, Grenada, Montserrat, St Kitts and Nevis, St. Lucia, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

As of 2010, Antigua and Barbuda has 15 international banks, one international trust, three offshore insurance companies, 3,497 international business corporations (IBCs), ten interactive gaming companies, six interactive wagering companies, eight money services businesses, and 25 corporate management and trust services providers. In addition, there are five casinos. Bearer shares are permitted for international companies but the names and addresses of directors (who must be naturalized persons), the activities the corporation intends to conduct, the names of shareholders, and the numbers of shares they will hold are required to be disclosed. Registered agents or service providers are required by law to know the names of beneficial owners. 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. Internet gaming companies are required to incorporate as IBCs, to report all payouts over \$25,000 to Antigua and Barbuda's Office of National Drug and Money Laundering Control Policy (ONDCP), and to have a physical presence, meaning the primary servers and the key person are resident in Antigua and Barbuda.

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. Internet gaming companies are required to submit quarterly and annual audited financial statements and maintain records relating to all gaming and financial transactions of each customer for six years.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, and money exchangers; notaries; domestic and Internet gaming centers; real estate and travel agents; company service providers; lawyers; accountants; dealers in autos, precious metals and stones, and other high-value goods; insurance brokers; and securities dealers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, and money exchangers; notaries; domestic and Internet gaming centers; real estate and travel agents; company service providers; lawyers; accountants; dealers in autos, precious metals and stones, and other high-value goods; insurance brokers; and securities dealers

Number of STRs received and time frame: 145, January to December 2010

Number of CTRs received and time frame: No information available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One in 2009

Convictions: None

Assets forfeited: criminally: \$23,000 (In addition, \$1, 379,120 was confiscated on behalf of US authorities.) ***civilly:*** None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Antigua and Barbuda is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Antigua_and_Barbuda_3rd_Round_MER_Final\(Eng\).pdf](http://www.cfatf-gafic.org/downloadables/mer/Antigua_and_Barbuda_3rd_Round_MER_Final(Eng).pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

During the year, the Prevention of Terrorism (Amendment) Act was passed, making further explicit provisions for the de-listing of specified entities; however, deficiencies remain.

The Government of Antigua and Barbuda (GOAB) does not have a unified regulatory structure or uniform supervisory practices for its domestic and offshore banking sectors. Currently, the ECCB supervises Antigua and Barbuda's domestic banking sector. The Registrar of Insurance supervises and examines domestic insurance agencies. The Financial Services Regulatory Commission is responsible for the regulation and supervision of all IBCs, including offshore banks and all aspects of offshore gaming; this includes conducting examinations and reviews of offshore financial institutions as well as some domestic financial entities, such as insurance companies and trusts. The director of the ONDCP supervises all financial institutions for compliance with suspicious transaction reporting requirements. Only gaming institutions are required to file large currency transaction reports.

The GOAB has taken steps to combat money laundering by passing relevant legislation that applies to both domestic and offshore financial institutions, and establishing a thorough regulatory regime. The GOAB should implement and enforce all provisions of its AML/CFT legislation. The ONDCP should be given direct access to financial institution records in order to effectively assess their AML/CFT

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compliance. 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 not a significant regional financial center. Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial system. It is believed that most money laundering operations in Argentina are conducted through transactions involving specific offshore centers. The most common money laundering operations in the non-financial sector involve transactions made through attorneys, accountants, and corporate structures. The widespread use of cash may also leave Argentina vulnerable to money laundering. 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. There is also a risk of terrorist financing;

Argentina was subject to two major terrorist attacks in the early 1990's. Despite these money laundering/terrorist financing (ML/TF) risks, there were only four ongoing prosecutions and no convictions for ML.

Although Argentina has traditionally been a transit country for drugs from Bolivia, Peru, and Colombia to Europe and the United States, it is also a source country for precursor chemicals. Domestic drug consumption and production have increased, especially of a cheap substance known locally as PACO (made from the by-products of cocaine). Argentine officials have also identified smuggling, corruption and different types of fraud as major sources of illegal proceeds. The number of corruption investigations has been increasing steadily since 2002, with 7,033 in the first half of 2009, although only 12 cases were presented for public prosecution during that time.

In addition to tax evasion and drugs, a substantial portion of illicit revenue comes from black market peso exchanges or informal value transfers. Unregistered importers, for example, may use entities that move US currency in bulk to neighboring countries where it is deposited and wired to US accounts or wired from Argentina to offshore destinations. Products from the US are often smuggled into Argentina or the manifests are changed to disguise the importer and merchandise. The tri-border area (Argentina, Paraguay and Brazil) is considered a major source of smuggling, especially of pirated products. Through the Three Plus One Initiative Argentine authorities cooperate with Brazil and Paraguay as well as with the United States to address security issues in this region.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial companies, credit unions, tax authority, customs, currency exchange houses, casinos, securities dealers and intermediaries, insurance companies and brokers, postal money transmitters, accountants, notaries public, and dealers in art, antiques and other high-value goods

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financial companies, credit unions, tax authority, customs, currency exchange houses, casinos, securities dealers and intermediaries, insurance companies, postal money transmitters, accountants, notaries public, and dealers in art, antiques and other high-value goods

Number of STRs received and time frame: 879 from January to June 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Four (ongoing)

Convictions: 0

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Argentina is a member of the Financial Action Task Force (FATF) and the FATF on Money Laundering in South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/3/60/46695047.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The basis of Argentina's anti-money laundering/countering the financing of terrorism (AML/CFT) system is Law 25 246 which criminalizes money laundering. There are a number of deficiencies in the legislation, including an insufficient asset forfeiture regime and the lack of coverage of self laundering and legal persons. Additionally, although tipping off is criminalized, the provision is weak and does not effectively prevent the practice. Challenges remain in closing legal and regulatory loopholes and improving interagency cooperation. The Financial Information Unit, Azerbaijan's financial intelligence unit (FIU), is legally limited to processing cases involving a limited number of predicate offenses pertaining to only certain money laundering activities.

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The legal financial preventive measures in Argentina are basic and limited to general provisions relating to customer identification, record keeping and suspicious transaction reporting (STR) requirements. There are a number of important deficiencies that apply to all sectors, such as the lack of adequate requirements for beneficial ownership, politically exposed persons, correspondent banking, and reliance on third parties. Secrecy provisions also inhibit effective compliance with international standards. Furthermore, cooperatives, mutual associations, stock exchange market, lawyers, real estate agents and dealers in precious stones and metals are not satisfactorily included in the AML/CFT Law. Argentina's STR reporting obligations only cover a small range of predicate offenses, the TF-related transaction reporting obligation is only implicit, and the low quality of STRs does not allow the FIU to conduct adequate analyses to generate successful prosecutions.

In 2009, FinCEN, the United States' FIU, suspended information sharing with the Argentine FIU after information given to the FIU was leaked to the local press. The Argentine FIU and government are working to reestablish the exchange of data.

Because of Argentina's poor compliance with international standards in its most recent mutual evaluation, the FATF gave the Government of Argentina (GOA) 100 days to devise a credible action plan to reform its AML/CFT system or face heightened scrutiny and potentially be the subject of public warnings about the potential risk of conducting transactions with the country's financial institutions.

In December 2010, the Argentine government passed Decree 1936 which assigns to Argentina's FIU a national AML/CFT coordination role. The decree also appoints the FIU as the only entity within the GOA with legal authority to issue regulations implementing Argentina's AML/CFT law.

Armenia

Armenia is not a regional financial center and is not believed to be at major risk for money laundering and terrorist financing. However, governmental corruption, an organized crime presence and a large shadow economy make the country vulnerable. The major sources of laundered proceeds stem from tax evasion and fraudulent financial activity, particularly transactions with forged credit cards. Money laundering in Armenia generally takes place through the banking system, through informal remittances from Armenians living abroad, and through high-value transactions such as real estate purchases.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; exchange houses; real estate agents; notaries, lawyers, accountants, and auditors; dealers in precious metals and stones, and artworks organizers of auctions casinos, prize games, and lotteries; trust and company service providers; State Cadaster, and the State Registry

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; exchange houses; real estate agents; notaries, lawyers, accountants, and auditors; dealers in precious metals and stones, and artworks organizers of auctions casinos, prize games, and lotteries; trust and company service providers; State Cadaster, and the State Registry

Number of STRs received and time frame: 420 in 2010

Number of CTRs received and time frame: 132,249 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Nine in 2010

Convictions: Two in 2010

Assets forfeited: criminally: \$1,433,194 in 2010 **civilly:** 0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Armenia is a member of the 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. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Moldova_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2009, Armenia achieved its first successful money laundering prosecutions, as courts convicted four defendants in three cases. Money laundering prosecutions have continued in 2010. There have been no known cases of terrorist financing in Armenia. Armenia should prohibit bearer bank books, certificates of deposit and other bearer securities, and should criminalize tipping off. Armenia has prepared a package of legislative amendments to 17 laws to correct several deficiencies regarding its money laundering and terrorist financing offenses and customer due diligence procedures.

Aruba

Aruba is not considered a regional financial center but has sought to diversify its economy by developing offshore activities through the limited licensing of offshore banks and companies. These offshore vehicles pose risks for misuse by money launderers and tax evaders. Because of its location, Aruba is a transshipment point for drugs from South America bound for the United States and Europe and the transshipment of currency in the reverse direction. Money laundering is primarily related to proceeds from illegal narcotics. Other sources of illicit proceeds include revenue from tax offenses, public corruption and the offshore financial sector. Bulk cash smuggling is a continuing problem due to the close proximity of Aruba to South America.

Aruba has three free economic zones. It is believed "contrabanding" (using smuggled bulk cash to buy products which are shipped to South America and sold) could be a problem. There are at least eleven

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casinos, and online gaming is allowed. Bearer shares are permitted, but legislation is being considered to both ban future issuance and phase out existing shares.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, life insurance companies, money transfer companies, lawyers, civil notaries, accountants, tax advisors, casinos, dealers in jewels and precious metals, realtors and high-worth dealers in art, antiques, vehicles, aircraft and ships

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, life insurance companies, money transfer companies, lawyers, civil notaries, accountants, tax advisors, casinos, dealers in jewels and precious metals, realtors and high-worth dealers in art, antiques, vehicles, aircraft and ships

Number of STRs received and time frame: 4,931 from January – November 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Aruba is a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Aruba continues to work on the improvement of its AML/CFT framework. It should be noted that Aruba's efforts are coordinated by the AML/CFT Strategy Group, chaired by the Prime Minister, which

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has met regularly and ensures a high level political commitment. Various important legislative changes have been introduced, such as the independent criminalization of terrorist financing, the introduction of an asset freezing regime, and the designation of the Central Bank of Aruba (CBA) as the sole supervisory authority for AML/CFT matters. On March 5, 2010, Aruba modified the Criminal Code of Aruba to include an article criminalizing terrorist financing as a separate and independent offense. Also, based on the Sanctions State Decree to Combat Terrorism and Terrorist Financing, which entered into force on June 25, 2010, Aruba is able to freeze terrorist assets in a timely manner. In addition, authorities are working on a new and comprehensive state ordinance on the application of customer due diligence and the reporting of unusual transactions by financial institutions and designated non-financial businesses and professions. The CBA has created a separate Integrity Unit with additional staff that will focus specifically on AML/CFT-related issues, while the financial intelligence unit (FIU) has hired additional staff. Furthermore, the Public Prosecutor's Office now has more prosecutors available to properly carry out its tasks.

Banks or other financial institutions regulated by the CBA, except for trust company service providers, are allowed to issue bearer shares. However, all persons or entities holding 5% or more of the issued shares or voting rights must obtain prior written approval from the CBA for such shareholding. Thus, all persons or entities with such holdings are identified and subject to the fit and proper criteria laid down in the supervisory laws. Legislation has been drafted to ban the issuance of new bearer shares while phasing out existing bearer shares over a fixed period of time. This new legislation is expected to be enacted in 2011.

With regard to the non-profit sector, a quick scan of this sector was performed in 2010 to determine the sector's size, the type of non-profit organizations present, and the scope of their activities, in order to assess the measures necessary to properly regulate the sector.

Aruba's money laundering laws do not cover proceeds generated from counterfeiting and piracy of products, insider trading and market manipulation, many types of environmental crimes, or fraud. Aruba does not have a suspicious transactions reporting system, but a broader unusual transactions reporting (UTR) system.

Pursuant to a change in the relevant legislation, as of July 1, 2010, travelers carrying checks, gift cards, and other goods worth more than \$11,000, that could be converted easily to cash, are obliged to declare their possession at Customs. Credit and debit cards are exempted from the new legislation.

The Kingdom of the Netherlands, of which Aruba is an autonomous constituent part, extended the application to Aruba of the 1988 UN Drug Convention 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 the application of the UN Convention against Corruption to Aruba.

Australia

Australia is one of the major centers for capital markets in the Asia-Pacific region. While narcotics offenses provide a substantial source of proceeds of crime, the majority of illegal proceeds are derived from fraud-related offenses. The Government of Australia (GOA) maintains a comprehensive system to detect, prevent, and prosecute money laundering. The last few 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters, including electronic funds transferors; insurers and insurance intermediaries; securities or derivatives dealers; registrars and trustees; issuers, sellers or redeemers of travelers checks, money orders or similar instruments; preparers of payroll in whole or in part from currency on behalf of other persons; currency couriers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters, including electronic funds transferors; insurers and insurance intermediaries; securities or derivatives dealers; registrars and trustees; issuers, sellers or redeemers of travelers checks, money orders or similar instruments; preparers of payroll in whole or in part from currency on behalf of other persons; currency couriers

Number of STRs received and time frame: 47,386 - 2009-2010

Number of CTRs received and time frame: 3,375,447 - 2009-2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 88 indictments - July 2009 - June 2010

Convictions: 50 in 2009 – 2010

Assets forfeited: criminally: \$7,691,800 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Australia is a member of the Financial Action Task Force (FATF). It also serves as permanent co-chair, and hosts and funds the Secretariat of the Asia/Pacific Group on Money Laundering (APG), a FATF-style

regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/60/33/35528955.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The formal and informal money remittance sector is vulnerable to the risk of being exploited for criminal purposes. Additionally, the majority of designated non-financial businesses and professions (DNFBPs), such as real estate agents, dealers in precious stones and metals, and specified legal, accounting, trust, and company service providers are not yet covered by reporting and record keeping requirements of Australia's AML/CFT laws, nor are politically exposed persons subject to enhanced due diligence procedures. This lack of coverage leads to increased vulnerabilities in these entities. Australia should amend its legislation, as necessary, to cover all DNFBPs.

In comparison to the size of the Australian economy and the comprehensive anti-money laundering countermeasures in place, the number of convictions for money laundering remains very low.

Austria

Austria is a major regional financial center and Austrian banking groups control significant shares of the banking markets in Central, Eastern, and Southeastern Europe. Money laundering occurs within the Austrian banking system as well as in non-bank financial institutions and businesses. Money laundered by organized crime groups derives primarily from serious fraud, smuggling, corruption, narcotics-trafficking, and trafficking in persons. Theft, drug trafficking and fraud are the main predicate crimes in Austria according to the statistics of convictions and investigations. Austria is not an offshore jurisdiction and has no free trade zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and credit institutions, financial institutions, leasing and exchange businesses, safe custody services, portfolio advisers, brokers, securities firms, money transmitters, insurance companies and intermediaries, casinos, all dealers including those in high value goods, auctioneers, real estate agents, lawyers, notaries, certified public accountants, and auditors

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks and credit institutions, financial institutions, leasing and exchange businesses, safe custody services, portfolio advisers, brokers, securities firms, money transmitters, insurance companies and intermediaries, casinos, all dealers including those in high value goods, auctioneers, real estate agents, lawyers, notaries, certified public accountants, auditors, and customs officials

Number of STRs received and time frame: 1,385 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 289 in 2009

Convictions: Five in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Austria is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/22/50/44146250.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Numerous legal amendments to bring Austria's AML/CFT regime more in line with FATF standards were adopted by Parliament on May 20, 2010, and entered into force July 1, 2010. Those amendments strengthen regulatory standards, give more power and responsibility to bank compliance officers and regulators (in particular Austria's FIU), and make asset seizure easier in AML/CFT cases. New paragraph 165 of the Austrian Penal Code extends the scope of money laundering offenses to "self-laundering" of illicit proceeds. Austria has a combination of both an "all serious crimes" approach plus a list of predicate offenses which do not fall under the domestic definition of serious crimes, but which Austria includes to comply with international legal obligations and FATF standards.

Since July 1, 2010, asset freezes pursuant to UN and European Union (EU) sanctions are based on Austria's new Sanctions Law (previously, the Foreign Exchange Act). The new Sanctions Law significantly expands and improves implementation of UNSCR and European financial sanctions on terrorists, including measures set forth in directly applicable EU Regulations. Asset freezes now apply not just to financial funds but to all economic resources including real estate, companies, and vehicles. The law provides for bans on travel and bans on rendering services to designated entities; it also establishes administrative and criminal penalties.

The Government of Austria has committed to sharply restrict the issuance and use of bearer shares. Draft legislation eliminating bearer shares for all companies except those listed on the stock exchange has been circulated for comment.

Even absent a specific suspicion, new regulations require tax authorities to inform the FIU of all cases where private foundations do not disclose the founding deed including all appendices and supplementary documentation, as well as beneficial owners of hidden trusteeships.

In June 2010, the United States and Austria signed a bilateral asset sharing agreement to share assets seized from convicted criminals.

Azerbaijan

Azerbaijan is a rapidly growing economy, at the crossroads of Europe and central Asia, with extensive hydrocarbon resources. The majority of international trade and foreign investment takes place in the energy sector. All other sectors lag energy in growth and sophistication, including the financial sector. This gap, coupled with Azerbaijan's shared history, long-standing trade relationships, and common border with Iran, makes Azerbaijan's financial institutions vulnerable to being used by foreign entities looking to conduct money laundering/terrorist financing transactions involving Iran. Over the past year, Azerbaijan has made visible progress in addressing this vulnerability by creating a Financial Monitoring Service (FMS), and implementing regulations in line with international standards.

The major source of criminal proceeds in Azerbaijan is endemic corruption which cuts across all sectors of the economy and all layers of society. International reports also identify Azerbaijan as a transit country for the Afghan drug trade; Azerbaijani authorities suspect this illicit drug trade generates a significant amount of illicit funds. Other generators of illicit funds include robbery, tax evasion, smuggling, trafficking, and organized crime. Money laundering likely occurs in the formal financial sector, non-bank financial systems, alternative remittance systems, and the construction industry. There is a significant black market for smuggled goods in Azerbaijan, which serves as a transit country for illicit goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S. OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; insurance and reinsurance companies and intermediaries; notaries, lawyers and auditors; company formation agents and asset managers; real estate brokers and agents; pawnshops; securities brokers and investment funds; lotteries; the National Post; non-governmental organizations

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money remitters; insurance and reinsurance companies and intermediaries; securities brokers and investment funds; leasing companies; company formation agents and asset managers; lawyers and auditors; company formation agents and asset managers; real estate brokers and agents; lotteries; dealers of precious metals and stones; pawnshops; non-governmental organizations

Number of STRs received and time frame: 6,607 January 1 through December 14, 2010

Number of CTRs received and time frame: 35,872 January 1 through December 14, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six in 2010

Convictions: One in October 2009

Assets forfeited: *criminally:* 58,000 EUR (approximately \$75,400) in October 2009 *civilly:*
Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Azerbaijan is a member of MONEYVAL, a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Evaluation_reports_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The AML law excludes from the list of covered entities travel agencies; auto dealers; and dealers of art, antiques, and other high-value consumer goods. These entities are not required to maintain customer information or report suspicious activity.

The FMS is a dynamic but very young organization. It is in the process of building a database and the expertise with which to systematically study and identify trends in money laundering. Currently, inadequate interagency cooperation and training significantly diminish its investigative abilities. The FMS has concluded information exchange agreements with a number of regional financial intelligence units.

Recently, intergovernmental discussions of draft amendments to the Criminal Code and Code of Criminal Procedure were finalized. In particular, the draft amendments include corporate criminal liability in relation to money laundering and terrorist financing offenses, and special confiscation procedures with an all crimes approach which will make it possible to confiscate proceeds for all forms of offenses.

Bahamas

The Commonwealth of The Bahamas is an important regional and offshore financial center. The economy of the country is heavily reliant upon tourism, tourist-driven construction and the offshore sector. The Bahamas is a transshipment point for cocaine bound for the United States and Europe. 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. Drug traffickers and other criminal organizations take advantage of the large number of international business companies and offshore banks registered in The Bahamas to launder significant sums of money despite strict KYC and transaction reporting requirements.

The country has one large free trade zone, Freeport Harbor. This zone is managed by a private entity called the Freeport Harbor Company, which is owned and operated through a joint venture between Hutchison Port Holdings (HPH) and The Port Group (The Grand Bahama Port Authority). Businesses at the harbor include private boat, ferry and cruise ship visits, roll-on/roll-off facilities for containerized and

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LTL cargo, and car transshipment. Freeport Harbor has the closest offshore port to the United States and the entire country is relatively accessible by medium sized boats. This makes smuggling and bulk cash money laundering relatively easy. While it is illegal for citizens of the Bahamas to gamble, gambling is legal for tourists and there are three main casinos.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, financial and corporate service providers, cooperatives, societies, casinos, lawyers, accountants, real estate agents, and company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, financial and corporate service providers, cooperatives, societies, casinos, lawyers, accountants, real estate agents, and company service providers

Number of STRs received and time frame: 138 STRs in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: criminally: \$0 in 2010 *civilly:* \$0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Bahamas is a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/The_Bahamas_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/The_Bahamas_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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The Government of the Commonwealth of the Bahamas should provide adequate resources to its law enforcement, judicial, and prosecutorial bodies in order to enforce existing legislation and safeguard the financial system from possible abuses. The Bahamas should continue to enhance its anti-money laundering/counter-terrorist financing regime by implementing the National Strategy on the Prevention of Money Laundering; by ensuring full compliance with UNSCRs 1267 and 1373; and by implementing a system to collect and analyze information on the cross border transportation of currency. It should also ensure there is a public registry of the beneficial owners of all entities licensed in its offshore financial center.

Additional gaps in the country's legislation include a failure to criminalize participation in an organized criminal group and to tighten the currency transaction reporting system to track people arriving and leaving to all destinations.

Bahrain

Bahrain is a leading financial center in the Gulf region. In contrast with its Gulf Cooperation Council (GCC) neighbors, Bahrain has a primarily service-based economy, with the financial sector providing more than 20 percent of GDP. It hosts a diverse group of financial institutions, including 189 banks, 22 moneychangers and money brokers, and several other investment institutions, including 89 insurance companies. The greatest risk of money laundering stems from illicit proceeds of foreign origin that transit 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. Bahrain does not have a significant black market of smuggled goods or known linkages to drug trafficking.

Khalifa bin Salman Port, Bahrain's major port, provides a free transit zone to facilitate the duty-free import of equipment and machinery. Another free zone is located in the North Sitra Industrial Estate. Raw materials intended for processing in Bahrain, and machinery imported by Bahraini-owned firms, are also exempt from duty; the imported goods may be stored duty-free. These free-zones are not a significant source for money laundering/terrorist financing. The informal and non-bank financial sector are regulated and investigated similarly to the formal sector.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks and all other financial institutions, investment houses, insurance firms, money exchangers, brokers/dealers, real estate brokers, gold dealers, financial intermediaries, and attorneys

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and all other financial institutions, investment houses, insurance firms, money exchangers, brokers/dealers, real estate brokers, gold dealers, auto dealers, jewelers, and attorneys

Number of STRs received and time frame: 319 from January to September 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 0 in 2010

Assets forfeited: *criminally:* Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

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. Its most recent mutual evaluation can be found here: <http://www.menafatf.org/images/UploadFiles/MutualEvaluationReportOfBahrain.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Ministry of Social Development increased supervision over non-profit organizations and charities in 2010. In September 2010, the Ministry forced all charities to transfer their legal status to that of "society;" this classification allows the Ministry to oversee all financial transactions. The Ministry circulated an order to freeze twenty charities until they amended their status to that of a society.

There is an over-reliance on suspicious transaction reporting to initiate money laundering investigations. Awareness within the capital markets and designated non-financial businesses and professions regarding STR reporting obligations is inconsistent. Cash transaction reporting is not separated from suspicious transaction reporting requirements. Tipping off is not prohibited.

Bahrain uses a controversial definition of terrorism. One 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.

Bahrain does not have a mutual legal assistance agreement with the United States. Information is exchanged on a case-by-case basis.

Bangladesh

Bangladesh is not a regional financial center. Pervasive corruption, drug trafficking, and human trafficking are the principal sources of criminal proceeds; securities fraud; embezzlement; and extortion are also notable sources of illicit proceeds. Bangladesh's geographic location, including its seaports and long porous borders with India and Burma, makes it a key transshipment point for drugs produced in both the 'golden triangle' and 'golden crescent' regions, with drugs ultimately bound for markets in Europe, the United States and Canada. Bangladesh has a relatively low terrorist financing profile. However, Bangladesh-based terrorist organization Jamaat ul-Mujahideen Bangladesh (JMB) has publicly claimed to receive funding from Saudi Arabia.

The Bangladeshi economy is cash based, and relies heavily on remittances from expatriate Bangladeshi workers. Money transfers outside of the formal banking sector, the post office, and licensed foreign exchange houses are illegal. Nevertheless, the majority of remittances are done through the underground "hawala" or "hundi" system. Informal systems are used to avoid taxes, customs duties, and currency controls, and criminals and criminal organizations exploit these systems as a low-risk avenue to conceal the proceeds of crime and to send illicit funds abroad.

Bangladesh is not an offshore banking center and has no international free trade zones. The Central Bank reports a considerable increase in remittances sent through official channels, reaching approximately \$10.99 billion between January and December 2010. 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 and black market money exchanges remain popular due to the non-convertibility of the local currency and the intense scrutiny on foreign currency transactions in formal financial institutions.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial institutions, insurance companies, money changers and remitters; institutions conducting business under approval of Bangladesh Bank; stock dealers and brokers, portfolio managers, merchant banks, securities custodians, asset managers; and non-profit and non-governmental organizations

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financial institutions, insurance companies, money changers and remitters; institutions conducting business under approval of Bangladesh Bank; stock dealers and brokers, portfolio managers, merchant banks, securities custodians, asset managers; and non-profit and non-governmental organizations

Number of STRs received and time frame: 44 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Five in 2010

Convictions: One in 2010

Assets forfeited: ***criminally:*** 2.32 crore Taka (approximately \$336,200) ***civilly:*** Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Bangladesh is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Bangladesh%20ME2%20-%20final120809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Bangladesh (GOB) has demonstrated a strong policy level commitment to cooperate with international partners and strengthen its AML/CFT regime, but effective implementation remains a significant issue. In late 2010, the GOB worked with the U.S. Department of Justice to draft stronger AML/CFT legislation. Also in 2010, the GOB assisted a U.S. federal court with an asset forfeiture case with ties to Bangladesh and Singapore. The GOB should continue its work on the amendments to the Money Laundering Prevention Act (MLPA) and the Anti-Terrorism Act (ATA), including implementing mechanisms, and should continue to improve investigation, prosecution, supervision, and enforcement capacity.

The GOB acknowledges corruption is pervasive in Bangladesh, and that it undermines effective implementation of AML/CFT measures. Investigations are compromised by corruption in many law enforcement organizations, including police and customs. The GOB has made combating corruption a national priority and has had success in investigating and prosecuting straightforward corruption cases. However, the GOB does not yet have sufficient training or experience to comprehensively pursue complex cases involving both corruption and money laundering through foreign jurisdictions or multi-layered investment schemes. The GOB should continue its aggressive investigations into corruption and enhance training of investigators so they better understand its relationship to money laundering and related crimes.

The GOB should amend its legislation, as necessary, to prohibit “tipping off” and to provide a safe harbor for financial institutions and their employees who report suspicious activity to the GOB in good faith. Additionally, Bangladesh should become a party to the UN Convention against Transnational Organized Crime.

Barbados

Barbados is a major offshore center with a large international business company (IBC) presence. The country is 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 November 2010, there are six commercial banks in Barbados. The offshore sector includes 2,643 IBCs, 161 exempt insurance companies and 76 qualified exempt insurance companies, ten mutual fund companies and one exempt mutual fund company, nine trust companies, five finance companies and 53 offshore banks. There are no free trade zones and no domestic or offshore casinos. Offshore banks are subject to the same supervision as domestic banks. Additionally, permission must be obtained from the Central Bank to move currency abroad. IBCs are subject to enhanced due diligence requirements for IBC license applications and renewals. Bearer shares are not permitted, and financial statements of IBCs are audited if total assets exceed \$500,000.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchangers, accountants, notaries, gaming centers, auto dealers and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, and securities dealers

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Barbados is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Barbados_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Barbados_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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 terrorism or terrorist financing. 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

There is a general lack of transparency and accountability throughout the Belarusian financial sector. Corruption and illegal narcotics trafficking are primary sources of illicit proceeds. Due to excessively high taxes, an intricate taxation system, underground markets, and the “dollarization” and “eurozation” of the economy, a significant volume of foreign-currency cash transactions eludes the banking system. Illicit proceeds and assets are sometimes laundered in Belarus through the sale of stolen cars using forged paperwork; depositing illicit funds into operating accounts of businesses in the form of contributions increasing authorized capital; the sale of illicitly acquired assets through retail networks; and the transfer of assets to balance sheets of front companies. The concentration of power in the hands of the Presidency and the lack of a system of checks and balances between the various branches of government are the greatest hindrances to the rule of law and transparency of governance. Economic decision-making in Belarus is highly concentrated within the top levels of government and financial institutions have little autonomy.

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. Banks in the zones are currently subject to all regulations that apply to banks outside the zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

INCSR 2011 Volume II Country Database

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: *criminally:* NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and non-bank financial credit institutions; professional operators of the securities market; persons engaged in exchange transactions, including commodity exchanges; insurance firms and insurance brokers; postal service operators; and property leasing firms

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and non-bank financial credit institutions; professional operators of the securities market; persons engaged in exchange transactions, including commodity exchanges; insurance firms and insurance brokers; postal service operators; and property leasing firms

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Belarus is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force-style regional body. Its mutual evaluation can be found here:

<http://www.eurasiangroup.org/en/mers.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In April, 2006, the United States issued an advisory to U.S. financial institutions, which remains in effect, alerting them to guard against a potential money laundering threat involving Belarusian government senior regime elements (including senior executives in state-owned enterprises), acting individually or through government agencies and associated front companies, seeking to move misappropriated Belarusian state assets as well as proceeds from illicit arms sales to or through the U.S. financial system. In June 2006, the United States imposed targeted financial sanctions on these Belarusian government senior regime elements. In addition, in April 2004, Infobank, Minsk (renamed PJSC Trustbank) was designated under section 311 of the USA PATRIOT Act as of primary money laundering concern. In 2007, the United States imposed sanctions on the state petrochemical conglomerate, Belneftekhim, which U.S. officials believe is personally controlled by President Alexander Lukashenko. The company accounts for about one-third of Belarus' foreign currency earnings. In 2008, the U.S. suspended the

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sanctions on two Belneftekhim subsidiaries, but as of yearend 2010, continued sanctions against all other Belneftekhim entities.

The Government of Belarus (GOB) has taken steps to construct a legal and regulatory framework to fight money laundering and terrorist financing, including amending its AML law in 2010, strengthening basic customer due diligence (CDD) requirements, introducing special CDD procedures for politically exposed persons, and criminalizing insider trading. Despite these efforts, serious deficiencies remain, and in many instances, implementation falls below international standards. The GOB should focus on the full implementation of existing legislation and enact amendments to its laws, where necessary, to accomplish the following: implement strict regulation of industries operating within the FEZ areas; reinstate the identification requirement for foreign currency exchange transactions; extend anti-money laundering/counter-terrorist financing (AML/CFT) laws and regulations to governmental transactions that are currently exempted under the law; and hone its guidance on and enforcement of suspicious transaction reporting. The GOB should ensure the regulations and guidance provided by the National Bank and other regulators are legally binding.

Insufficient resources are allocated for supervision and enforcement, and regulatory authorities lack sufficient independence. 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 provide law enforcement agencies and the judiciary with appropriate resources and training to increase their capacity to investigate and prosecute money laundering and terrorist financing offenses. The GOB should provide adequate staff, tools, training and financial resources to the Financial Monitoring Department at the State Control Committee – the financial intelligence unit (FIU) – so that it can operate effectively. The GOB must work to further improve the coordination among agencies responsible for enforcing AML/CFT measures.

International cooperation is poor. Belarus does not have an adequate system in place to freeze terrorist assets without delay. Belarus's cross-border currency declaration system does not cover bearer negotiable instruments and is not structured and implemented with the goal of combating money laundering. The GOB should take serious steps to combat corruption in commerce and government. The GOB also should take steps to ensure the AML/CFT framework operates more objectively and less as a political tool.

Belgium

Belgium's banking industry is of medium size, with assets of over \$2 trillion dollars in 2010. Illicit funds, formerly consisting mostly of narcotics trafficking proceeds, now derive mainly from serious forms of financial crime, including tax crime. Authorities note that criminals are increasing their use of remittance transactions and shell companies, and are abusing non-financial sectors, in particular lawyers, real estate and nonprofit organizations to launder money. In 2010, the Belgian financial intelligence unit also noted an increase in money laundering via "money mules" and internet scams as well as an increase in the number of cases involving fraud through the European carbon market. The Belgian diamond industry also has been used to launder money.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

INCSR 2011 Volume II Country Database

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, estate agents, private security firms, funds transporters, diamond merchants, notaries, bailiffs, auditors, chartered accountants, tax advisors, certified accountants, surveyors, lawyers and casinos

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, estate agents, private security firms, funds transporters, diamond merchants, notaries, bailiffs, auditors, chartered accountants, tax advisors, certified accountants, surveyors, lawyers and casinos

Number of STRs received and time frame: 17,170 for 2009

Number of CTRs received and time frame: 9,973 for 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 60 in 2009

Convictions: 39 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Belgium is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/40/39/42761756.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Belgium permits bearer shares for individuals as well as for banks and companies.

Belgian authorities are working to address implementation issues in two sectors, phone shops and the diamond industry. Phone shops allow customers to make inexpensive phone calls and access the internet. Only a quarter of approximately 3,000 phone shops are formally licensed, and raids on these shops have uncovered evidence of money laundering operations. Authorities report challenges for officials trying to collect tax revenues and police money laundering operations, because phone shops often declare bankruptcy and later reopen under new management. Belgian authorities recognize the particular importance and special challenges for law enforcement of the diamond industry, as well as the potential vulnerabilities it presents to the financial sector, as 80 percent of the world's rough diamonds and 50

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percent of polished diamonds pass through Belgium. Authorities have transmitted a number of cases relating to diamonds to the public prosecutor.

Belize

Belize is not a major regional financial center but is an offshore 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, including offshore banks, insurance companies, trust service providers, mutual fund companies, and international business companies. 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, which represents a potential vulnerability for money laundering.

Most money laundering is largely thought to be related to proceeds from U.S. residents participating in unlawful internet gaming. Belize is a transshipment point for marijuana and cocaine. There is a growing indication that money laundering proceeds are related to proceeds from the trafficking of illegal narcotics, psychotropic substances, and chemical precursors, and that they are controlled by local drug trafficking organizations and organized criminals.

Belizean officials suspect that money laundering occurs primarily within the free trade zones. Belizean officials believe the large Corozal Commercial Free Zone (CFZ) that operates at the border with Mexico is involved in trade-based money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks; venture risk capital; money broker, exchange and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions and building societies; trust and safekeeping services

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks; venture risk capital; money broker, exchange and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions and building societies; trust and safekeeping services

Number of STRs received and time frame: 67, January 1 through December 13, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six, January 1 through December 13, 2010

Convictions: Five, January 1 through December 13, 2010

Assets forfeited: *criminally:* None *civilly:* \$510,000

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Belize is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation cannot be found on the CFATF website. A Report on the Observance of Standards and Codes prepared by the IMF can be found at: <http://www.imf.org/external/pubs/ft/scr/2004/cr04373.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Belize lacks the resources to effectively enforce anti-money laundering rules. Belize's Financial Intelligence Unit (FIU) has a broad mandate and is severely understaffed. The FIU staff does not have sufficient training or experience in identifying, investigating, reviewing, and analyzing evidence in money laundering cases. Prosecutors and judges also need additional training on financial crimes, including money laundering. Prosecutors assigned to the FIU could also assist with cases going to court, as the FIU is currently forced to contract outside attorneys to prosecute its cases. If implemented, an arrangement for asset sharing may provide additional resources to the FIU.

While it is widely believed that abuse occurs within the offshore sector and in the free trade zones, no one from these organizations has been charged with a financial crime. Belize should require the Commercial Free Zones (CFZ) to be reporting entities. The GOB should become a party to the UN Convention against Corruption.

Benin

Benin is not a financial center. It is a regional re-export hub, particularly for trafficked vehicles. A large percentage of motor fuels sold in Benin is informally imported from Nigeria. There is also significant informal trade in consumer goods with Nigeria, including medicines and vegetable oil. Internet and other fraud schemes are common. Benin is a transit point for cocaine and heroin moving from Latin America to Europe. Human trafficking and corruption are also concerns. There is no indication the informal markets are funded through narcotics proceeds. While some money laundering may occur through Benin's banking system, Government of Benin (GOB) officials believe money laundering is undertaken primarily through the purchase of assets such as real estate, shipment of used vehicles for resale, and front companies.

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate offenses: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, cash couriers, casinos, insurance companies, post office, real estate agents, lawyers, notaries, non-governmental organizations, travel agents, and dealers of precious metals, stones and artifacts

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cash couriers, casinos, insurance companies, post office, real estate agents, lawyers, notaries, non-governmental organizations, travel agents, and dealers of precious metals, stones and artifacts

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Twelve over the last three years

Convictions: None

Assets forfeited: criminally: None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Benin is a member of the Inter Governmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/index.php?type=c&id=38&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although the GOB has taken specific steps to construct an anti-money laundering/counter-terrorist financing (AML/CFT) regime, its level of compliance and implementation measured against international standards is low. There is a lack of overall AML/CFT countermeasures by both industry and responsible government agencies. AML measures suffer from lapses of information sharing and cooperation between government agencies and departments. Benin law enforcement is hindered by a lack of financial crimes expertise. There is little data to reliably measure progress in combating money laundering.

Know your customer and suspicious transaction reporting requirements are not routinely implemented. With the exception of cash couriers, who must declare the transfer of funds equal to or exceeding 2,000,000 FCFA (approximately \$4,000) across borders, AML/CFT controls are not applied to non-bank financial institutions (NBFI), despite their coverage under the law. Benin customs authorities do not evaluate cross-border currency declarations for money laundering purposes and do not share the data with the financial intelligence unit. The GOB should work with regional partners and international donors and provide AML training and awareness to those with responsibilities under the law.

Bermuda

An overseas territory of the United Kingdom (UK), Bermuda is a major offshore financial center. It is the third largest reinsurance center in the world and the second largest captive insurance domicile. Bermuda is not considered a major drug transit country; however, the majority of the money laundering that occurs in Bermuda is believed to be related to the domestic drug trade. Money laundering proceeds are controlled primarily by gangs, which have proliferated in recent years. There is no significant black market for smuggled goods in Bermuda.

There are no free trade zones, hawalas or other informal financial sector entities in Bermuda in which money laundering/terrorist financing occurs. However, there are cases where domestic criminals utilize the formal financial sector for money laundering purposes. Bermuda does not permit offshore banks; a foreign bank may establish a subsidiary as a Bermuda company with its own board of directors, but may not establish a branch. Bermuda does not permit bearer shares, nor does it permit shell companies.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, trustees, investment businesses (including securities brokers and financial management firms), long-term insurance companies, money service businesses, insurance managers and brokers, fund administrators, and investment fund operators

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All persons have a duty to report any suspicion of money laundering that comes to their attention in the course of their ‘trade, profession, business or employment’

Number of STRs received and time frame: 166 from January through September 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Nine in 2010

Convictions: Three in 2010

Assets forfeited: criminally: Over \$ 350,000 in 2010 *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Bermuda is a member of Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Bermuda_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Bermuda_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Minister of Justice issued an Order in August 2010 that expands the sanctions regime relating to Iran and allows for the implementation of both UN and EU sanctions on designated persons and entities.

Legislative amendments in 2010 create new regulations for wire transfers and make it easier for law enforcement authorities to track funds transferred electronically. The law also establishes the statutory framework for supervising designated non-financial businesses and professions (DNFBPs). The change includes lawyers and accountants, corporate service providers, real estate dealers, high value goods dealers, and dealers in precious metals and stones. DNFBPs will be subject to coverage in the first half of 2011. In addition, the Act requires accountants who are members of the Institute of Chartered Accountants of Bermuda and lawyers who are members of the Bermuda Bar Association, as well as other 'regulated non-financial businesses and professions' to be subject to know your customer rules in 2011.

The Government of Bermuda should ensure its offshore sector and exempt companies are subject to appropriate safeguards to prevent their misuse as potential conduits of money laundering, tax evasion, and other financial crimes. The low number of money laundering prosecutions and convictions suggests an over-reliance on STRs to initiate investigations. More emphasis should be given to the police and customs to identify and pursue financial crimes investigations proactively.

Bermuda is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the Bermuda's international affairs and may arrange for the ratification of any convention to be extended to Bermuda. The 1988 Drug Convention was extended to Bermuda in 1995. The UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime have not yet been extended to Bermuda.

Bolivia

Bolivia is not a regional financial center, but money laundering activities continue to take place. These illicit financial activities are related primarily to narcotics trafficking, corruption, tax evasion, and smuggling and trafficking of persons. Hotels, currency exchange houses, casinos, cash transporters, informal exchange houses, and wire transfer businesses are not subject to anti-money laundering controls. The Bolivian financial system is highly dollarized, with approximately 50% of deposits and loans distributed in U.S. dollars rather than Bolivianos, the local currency (down from 90% in 2004). Bolivia has 13 free trade zones, located in El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, and Desaguadero, for commercial and industrial use.

Bolivia was suspended from the Egmont Group of Financial Intelligence Units (the Egmont Group) in July 2007 because Bolivia has not criminalized terrorist financing. In December of 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.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach.

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/2009/140888.htm>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, insurance companies, securities brokers and financial intermediaries

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies, securities brokers and financial intermediaries

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: Not available

Bolivia is a member of the Financial Action Task Force of South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/pdf/InformeBolivia.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The expulsion of the U.S. Drug Enforcement Administration from Bolivia in November 2008 has diminished the effectiveness of several financial investigative groups operating in the country, including Bolivia’s Financial Investigative Team, the Bolivian Special Counternarcotics Police, and the Bolivian Special Operations Force. Most money laundering investigations continue to be in the Department of Santa Cruz and are associated with narcotics trafficking organizations.

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Bolivia's expulsion from the Egmont Group bars the UIF from participating in Egmont Group meetings or using the Egmont Secure Web (the primary means of information exchange among Egmont Group member FIUs).

New legislation introduced in March of 2010 provides for money laundering to be treated as an autonomous offense. The law also expands the list of predicate offenses for money laundering but still does not include all offenses recommended in the international standards. The predicate offenses for money laundering should cover all serious offenses, and Bolivia should seek to extend its laws to the widest range of predicate offenses.

In September 2010, a draft law to criminalize terrorist financing was provided to the Council of Ministers for approval. This draft law also includes provisions addressing the freezing, seizure and confiscation of terrorist-related assets; and gives authority to the FIU to freeze for 48 hours the execution of a transaction suspected of being related terrorist financing. It appears the proposed criminalization of TF requires "intent". This may pose difficulties in the application and interpretation of the provision. The provision seems to require that the funds are actually used to carry out or attempt a terrorist act. Separately, obligated entities should be required by law or regulation to report to the FIU information related to terrorist financing.

The continued lack of personnel, combined with inadequate resources and weaknesses in Bolivia's basic legal and regulatory framework, limits the UIF's reach and effectiveness. Given the UIF's limited resources relative to the size of Bolivia's financial sector, compliance with reporting requirements is extremely low. The exchange of information between the UIF and appropriate police investigative entities is also limited, although the UIF does maintain a database of suspect persons that financial entities must check before conducting business with clients.

Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) is a primarily cash-based economy and is not an international or regional financial center. Most money laundering activities in BiH are for purposes of evading taxes. A lesser portion involves concealing the proceeds of illegal activity such as trafficking, drugs, and corruption. BiH authorities have had some success in clamping down on money laundering in the formal banking system. However, with porous borders and weak enforcement capabilities, BiH is a significant market and transit point for smuggled commodities including cigarettes, narcotics, firearms, counterfeit goods, lumber, and fuel oils. The cash-based economy and weak border controls on bulk cash couriers also contribute to making BiH an attractive venue for organized criminal elements and potential terrorist financiers. There is no indication law enforcement has taken action to combat the trade-based money laundering likely to be occurring in BiH. Corruption is endemic, affecting all levels of the economy and society.

There are four active free trade zones in BiH, with production based mainly on automobiles and textiles. There have been no reports that these areas are used in trade-based money laundering. The Ministry of Foreign Trade and Economic Relations is responsible for monitoring free trade zone activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

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Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and currency exchange offices; financial leasing firms; insurance companies; post offices; investment and mutual pension companies; stock exchanges and stock exchange agencies; casinos and gaming enterprises; dealers in vehicles, art, precious metals and stones; lawyers, notaries, auditors, and accountants; real estate brokers; company formation agents, trust and asset managers; pawnshops; travel agents; auctioneers; and charities

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and currency exchange offices; financial leasing firms; individuals; post offices, investment and mutual pension companies, stock exchanges and stock exchange agencies, insurance companies, casinos and gaming enterprises; dealers in vehicles, art, precious metals and stones; lawyers, notaries, auditors, and accountants; real estate brokers; company formation agents, trust and asset managers; pawnshops; travel agents; auctioneers; and charities

Number of STRs received and time frame: None in 2010

Number of CTRs received and time frame: 227,077 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Three against seven persons and four legal entities in 2010

Convictions: 13 - 2009 – 2010; one was overturned on appeal

Assets forfeited: criminally: approximately \$225,000 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

BiH is a member of Moneyval, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

www.coe.int/t/dghl/monitoring/moneyval/Countries/BH_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

BiH's political structure and ethnic politics hinder its anti-money laundering/counter-terrorist financing (AML/CFT) regime. Coordination of financial law enforcement among the multiple jurisdictional levels in BiH -- the State, the two entities (the Federation of Bosnia and Herzegovina and the Republika Srpska), and Brcko District -- is improving. The jurisdictions maintain separate financial supervision and enforcement bodies. The State, the two entities, and Brcko District should move quickly to prepare and adopt a national action plan or strategy to address the AML/CFT deficiencies. Although State-level

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institutions are becoming more firmly grounded and are gaining increased authority, overlapping responsibilities regarding investigation of money laundering and terrorist financing cause confusion and impede efforts to improve operational capabilities.

BiH law enforcement and customs authorities should take additional steps to control the integrity of the borders and limit smuggling. BiH law requires customs officials and the Indirect Tax Administration (ITA) to report to the financial intelligence unit (FIU) all cross-border transportation of cash and securities in excess of KM 10,000 (approximately \$6,800). However, due to confusing and possibly conflicting laws at the state and entity levels, weak enforcement and corruption, large amounts of currency leave and enter the country undetected. In addition, the ITA has no authority to seize currency from the carrier upon discovery of a false declaration or suspicion of illegal activity. Although the Government of BiH recognizes the threat of money laundering posed by bulk cash couriers, it has been unable to manage the problem.

In practice, most of the institutions subject to the STR requirements, other than commercial banks, have not received guidance and, consequently, do not understand their obligations or comply with the law. Neither the securities sector nor the insurance sector has submitted any STRs recently. Officially, the FIU has access to other Government entities' records, and formal mechanisms for interagency information-sharing are in place. In practice, however, the FIU has only limited access to the full range of databases required to perform proper analysis, and cooperation between the FIU and other Government agencies – particularly the different police forces -- is weak, with little information shared among agencies. Since June 2010, following the installation of a new department head, the level of cooperation with the agencies has improved and information has been shared in both directions.

The Government of BiH 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, the FIU, like many State institutions, remains under-funded and under-resourced. The Government of BiH should amend its Law on Money Laundering and Terrorist Financing to clarify the FIU's obligation to disseminate information outside the organization and increase independence of the organization. Although prosecutors, financial investigators, and tax administrators have received training on tax evasion, money laundering, and other financial crimes, BiH should enhance the 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.

BiH should take specific steps to completely implement its anti-corruption strategy and to combat corruption at all levels of commerce and government. The government should enact implementing legislation for the international conventions to which it is a party.

BiH and all entities have laws which address asset forfeiture. However, the Republika Srpska is the only entity with specific legislation addressing the management of property obtained through asset forfeiture. BiH authorities rarely use these forfeiture provisions and their interpretation is subject to great debate. BiH should adopt a comprehensive asset forfeiture law that provides a formal mechanism for the administration of seized assets.

Botswana

The majority of crime in Botswana does not generate significant proceeds. Money laundering in Botswana, to the extent that it occurs, is not primarily related to proceeds from drugs. However, there is some indication of an increase in drug trafficking in recent years and observers have noted an increase in the sophistication and level of organization of cross-border crime. There has been an increase in the

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amount and frequency of major fraud committed against large organizations, e.g., banks or government departments, typically with the collusion of an employee. It is not known whether the laundering of the proceeds of these crimes takes place in-country or involves transport of proceeds across borders. The Government of Botswana (GOB) has established the fundamentals of an anti-money laundering (AML) regime through various legislative and regulatory instruments.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, building societies, collective investment undertakings, the Botswana Savings Bank, post offices, registered stockbrokers, long-term insurance business, a licensed person who transacts foreign exchange, and an international financial services center certification committee

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, building societies, collective investment undertakings, the Botswana Savings Bank, post offices, registered stockbrokers, long-term insurance business, a licensed person who transacts foreign exchange, and an international financial services center certification committee

Number of STRs received and time frame: 99 in 2006 - no additional data available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two

Convictions: Two

Assets forfeited: criminally: The only criminal forfeiture is under appeal ***civilly:*** Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

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Botswana is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.esaamlg.org/reports/view_me.php?id=167

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although the key components of the institutional framework for anti-money laundering are in place, only the Central Bank enforces AML requirements. Implementation of the AML regime has been slow. Botswana has yet to undertake an in-depth review of money laundering and terrorism financing risks and vulnerabilities. The country's Financial Intelligence Agency, though legally established, is not yet operational. Domestic coordination between agencies needs improvement. Enforcement agencies need to be sensitized to financial crimes and trained in investigation techniques.

Terrorist financing is not criminalized as a specific offense in Botswana. However, acts of terrorism and related offenses, such as aiding and abetting, can be prosecuted under the Penal Code and under the Arms and Ammunitions Act.

Botswana enjoys a relatively low level of corruption compared to other African states, and the Directorate on Corruption and Economic Crime is actively investigating an increasing number of cases. The Department of Public Prosecution regularly prosecutes corruption offenses committed by politically important persons.

Brazil

Brazil is the world's fifth largest country in size and population, and as of 2010, the eighth largest economy in the world. Brazil is considered a regional financial center for Latin America. It is a major drug-transit country, as well as one of the world's largest consumer countries. Brazil maintains 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, gambling, and trade in various types of contraband. Laundering channels include the use of banks, real estate investment, financial asset markets, luxury goods, remittance networks, informal financial networks, and trade-based money laundering.

Sao Paulo and the Tri-Border Area (TBA) of Brazil, Argentina, and Paraguay are particular areas that possess high risk factors for money laundering. 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. In addition to Sao Paulo and the TBA, other areas of the country are also of growing concern. The Government of Brazil (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 Brazil's western border states.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: NO civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial and savings banks and credit unions; insurance companies and brokers; securities, foreign exchange, and commodities brokers/traders; real estate brokers; credit card companies; money remittance businesses; factoring companies; gaming and lottery operators and bingo parlors; dealers in jewelry, precious metals, art and antiques

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Commercial and savings banks and credit unions; insurance companies and brokers; securities, foreign exchange, and commodities brokers/traders; real estate brokers; credit card companies; money remittance businesses; factoring companies; gaming and lottery operators and bingo parlors; dealers in jewelry, precious metals, art and antiques

Number of STRs received and time frame: 56,371 in 2009

Number of CTRs received and time frame: 1,746, 494 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Brazil is a member of the Financial Action Task Force (FATF) and the FATF of South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here:

www.fatf-gafi.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOB achieved visible results from investments in border and law enforcement infrastructure that were executed with a view to gradually control the flow of goods, both legal and illegal across Brazil's land borders. Anti-smuggling and law enforcement efforts by state and federal agencies have increased. Brazilian Customs and the Brazilian Tax Authority (Receita Federal) continue to take effective action to suppress the smuggling of drugs, weapons, and contraband goods along the border with Paraguay. According to the Receita Federal, in 2009 the agency interdicted a large volume of smuggled goods, including drugs, weapons, and munitions. Because of the effective crackdown on the Friendship Bridge connecting Foz do Iguacu, Brazil, and Ciudad del Este, Paraguay, most smuggling has migrated to other

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sections of the border. The Federal Police have Special Maritime Police Units that aggressively patrol the maritime border areas.

Legal persons are not subject to direct civil or administrative liability for committing money laundering (ML) offenses. Corporate criminal liability is not possible due to fundamental principles of domestic law. Natural and legal persons are not subject to effective sanctions for ML because systemic problems in the court system seriously hamper the ability to obtain final convictions and sentences, and legal persons are not subject to direct civil/administrative sanctions for committing a ML offense. Very few final convictions for ML and convictions in the first instance are low given the level of ML risk and size of the financial sector. The GOB should take legislative action to establish direct civil or administrative corporate liability for ML and ensure that effective, proportionate and dissuasive sanctions may be applied to legal persons. Brazil also should continue to support the Specialized Federal Courts and other measures to ameliorate the negative impact of some of the systemic problems in the court system which are undermining the ability to effectively apply final sanctions for ML. The GOB should continue taking measures to ensure that the overlapping jurisdiction among federal and state law enforcement authorities does not impede the effectiveness of their ability to investigate ML. Brazil should also continue the PNLD training program and extend it as widely as possible to ensure that police, prosecutors and judges at both the state and federal levels have sufficient training in the investigation and prosecution of ML cases.

Most high-priced goods in the TBA are paid for in US dollars, and cross-border bulk cash smuggling is a major concern. Large sums of US dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay through Uruguay and Brazil to banking centers in the United States.

In February 2006, U.S. Immigration and Customs Enforcement established a Brazil-based partner Trade Transparency Unit (TTU) to aggressively analyze, identify, and investigate companies and individuals involved in trade-based money laundering activities between Brazil and the United States. As a result of the TTU, Brazil has identified millions of dollars of lost revenue.

The GOB has generally responded to U.S. efforts to identify and block terrorist-related funds. None of the individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list has been found to be operating or executing financial transactions in Brazil, and the GOB has frequently insisted that there is no evidence of terrorist financing within Brazil. However, in December 2010, the U.S. Treasury Department designated Bilal Mohsen Wehbe, Hizballah's chief representative in South America, as a Specially Designated Global Terrorist (SDGT) under Executive Order 13224. Wehbe has been involved in transferring funds collected in Brazil to Hizballah in Lebanon. In 2009, based on information provided by the F.B.I., a man was arrested in Sao Paulo on suspicion that he was connected to the Jihad Media Battalion, a known terrorist organization with possible ties to Al Qaeda. However, a Brazilian judge ordered his release after several weeks, and the GOB has taken the position he had no demonstrable ties to any terrorist activity.

Although Brazil is a party to the United Nations International Convention for the Suppression of the Financing of Terrorism, it has not criminalized terrorist financing in a manner that is consistent with international standards. Terrorist financing is a predicate offense for money laundering but is not an autonomous offense in Brazil; however, a bill awaiting legislative action contains language that could resolve this gap.

British Virgin Islands

The British Virgin Islands (BVI) is a United Kingdom (UK) overseas territory with a population of approximately 22,000. The economy depends greatly on tourism and its offshore financial sector. As of September 2010, there were 456,547 active companies, seven licensed banks, 230 fiduciary services, and 2,951 mutual funds registered with the BVI Financial Services Commission (FSC). BVI's unique share structure that does not require a statement of authorized capital as well as the lack of mandatory filing of ownership, pose significant money laundering risks. Tourism accounts for 45 percent of the economy and employs the majority of the workforce. Financial services are very important, however, contributing over half of government revenues. BVI remains vulnerable to money laundering practices through its drug trafficking trade and the exploitation of its offshore financial services. BVI's proximity to the U.S. Virgin Islands and the use of the U.S. dollar for its currency pose risk factors for money laundering. The BVI are a major target for drug traffickers, who use the area as a gateway to the United States. Drug trafficking in general is a serious problem.

BVI is a well established center offering accounting, banking and legal services; captive insurance; company incorporations; mutual funds administration; trust formation; and shipping registration. The FSC is the sole supervisory authority responsible for the licensing and supervision of financial institutions under the relevant statutes.

While gaming is prohibited in the BVI, casinos have been incorporated in the definition of relevant business under the AML/CFT regime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; currency exchanges; charities and nonprofit associations; dealers in autos, yachts, and heavy machinery; dealers in precious metals and stones; and leasing companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; currency exchanges; charities and nonprofit associations; dealers in autos, yachts, and heavy machinery; dealers in precious metals and stones; and leasing companies

Number of STRs received and time frame: 191 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: *criminally:* 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

BVI is a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Virgin_Islands_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Virgin_Islands_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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 U.S. and the British Virgin Islands established a Tax Information Exchange Agreement (TIEA) in 2006. Application of the US - UK mutual legal assistance treaty (MLAT) concerning the Cayman Islands was extended to the BVI in 1990. 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.

While BVI legislation has strengthened due diligence requirements where a representative is acting on another person's behalf or when the customer is resident in another country which does not fully comply with FATF rules, and has extended regulation to money value transfer service operators these laws are too new to be evaluated. The FSC should increase its staffing in order to meet the recommended inspection and reporting requirements, especially in light of the new entities covered under the law. The lack of prosecutions for money laundering and a reported decline in number of inspections suggests that the FSC should work closely with law enforcement and other authorities. In addition, while real estate agents, lawyers, other independent legal advisers, accountants, dealers in precious metals and stones are covered by the AML/CFT regulations, there appears to be no effective mechanism to ensure compliance with AML/CFT requirements.

The British Virgin Islands is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the BVI's international affairs and may arrange for the ratification of any convention to be extended to the BVI. The 1988 Drug Convention was extended to the BVI in 1995. The UN Convention against Corruption was extended to the BVI in 2006. The International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime have not yet been extended to the BVI.

Brunei

Brunei is not a regional financial center. Brunei's proximity to high crime regions, along with its large foreign worker population and limited AML/CFT controls, make it vulnerable to cross-border criminal activity. Domestically, Brunei is a generally low threat country for money laundering and terrorist financing, and proceeds of crime generally originate in fraud, gambling, the drug trade, and fuel

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smuggling. Brunei has experienced an increase in cyber crime and financial fraud such as pyramid schemes and e-mail scams.

While Brunei criminalized money laundering and terrorist financing, law enforcement and prosecutors are hampered by a lack of capacity and gaps in the legal framework. Brunei lacks an effective method to monitor cross-border currency and bearer instruments, and both domestic and cross-border wire transfers are not comprehensively monitored. Brunei has a small offshore center, with weak AML/CFT controls, and no free trade zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks, insurance companies, finance companies, money exchanges and remitters, and securities broker/dealers

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks, insurance companies, finance companies, money exchanges and remitters, and securities broker/dealers

Number of STRs received and time frame: 24 in 2010

Number of CTRs received and time frame: 3,068 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: Not applicable civilly: Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Brunei is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Brunei's most recent mutual evaluation can be found here:

http://www.apgml.org/documents/docs/17/Brunei%20Darussalam%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Brunei's weak AML/CFT controls and lack of institutional capacity to enforce AML/CFT compliance have been of particular concern given its proximity to countries with high money laundering and terrorist financing profiles. The Government of Brunei (GOB) committed to strengthening its AML/CFT regime by approving an order in July 2010, which includes stronger KYC rules. The order is to be implemented on January 1, 2011. The GOB should make implementation of the KYC rules a priority. As this order does not address designated non-financial businesses and professions (DNFBPs), the GOB should draft notices to cover DNFBPs as well.

Only money changer and remittance companies are obliged to report cash transactions above B\$5,000 (approximately \$3,850). New reporting procedures for banks have been proposed.

The GOB issued a notice to banks to conduct enhanced due diligence on politically exposed persons (PEPs); however, the official GOB order instituting enhanced due diligence for PEPs is not yet in force. The GOB should ensure the order covering PEPs is gazetted as soon as possible in 2011.

Brunei should establish cross-border currency requirements and strengthen its actions against investment fraud and illegal deposit taking. Intellectual property theft generates significant proceeds but is not a priority for authorities. The GOB should ensure intellectual property crimes are fully criminalized, and effective controls are in place to prevent theft and prosecute offenders.

Bulgaria

Bulgaria is not considered an important regional financial center. However, it has a well-developed financial sector in comparison to other Balkan countries and relatively lax regulatory controls. The country's large gray economy and the prevalence of cash transactions make it especially vulnerable to money laundering. 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. According to Bulgarian law enforcement, the main sources of laundered funds in 2010 were from both domestic and foreign criminals engaging in drug trafficking, smuggling, human trafficking, tax fraud, credit card fraud, and internet fraud. Public corruption is a pervasive problem in Bulgaria, and many suspect that some public tenders were used to conceal money laundering. The government has made significant efforts to curb corruption and prosecuted several high-level public officials, including former ministers.

Numerous high-profile anti-smuggling operations have generally had a deterrent effect on contraband. However, smuggling, particularly of cigarettes, alcohol, and fuel, remains a serious problem, reportedly sustained by corrupt Bulgarian businessmen and politicians trying to avoid paying value added taxes and excise duties. Despite law enforcement efforts, cigarette smuggling remains rampant due to the crisis-driven fall in disposable income and the government's increase of excise duties. Contraband, including stolen cars, and clothes, also generates funds laundered through the financial system.

As organized crime groups move into legitimate business operations, money laundering is becoming more sophisticated and difficult to trace. Criminals invest laundered money in casinos, night clubs, and dealerships selling expensive cars, boats, and other luxury goods imported from the United States and Europe. Despite a dramatic slowdown in construction due to the economic crisis, the tourism sector continues to be one of the favorite money laundering routes for organized criminal groups.

There are six free trade zones in Bulgaria that are supervised by the Ministry of Finance. The free trade zones are located in Burgas, Vidin, Ruse, Svilengrad, Plovdiv and Dragoman. The goods produced in these zones are exported without duties. Although this is becoming a less common scheme due to

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Bulgaria's European Union (EU) membership, some still believe that free trade zones are used to avoid paying customs fees, especially on gas derivatives and cigarettes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchangers; insurance companies, brokers and agents; investment brokers, dealers, funds and managers; trust and company service providers; notaries, lawyers, auditors, and accountants; gaming businesses; real estate brokers; dealers in precious metals and stones; the postal service; political parties; and sport clubs

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchangers; insurance companies, brokers and agents; investment brokers, dealers, funds and managers; trust and company service providers; notaries, lawyers, auditors, and accountants; gaming businesses; real estate brokers; dealers in precious metals and stones; the postal service; political parties; and sport clubs

Number of STRs received and time frame: 1,380 (January – November 2010)

Number of CTRs received and time frame: 182,332 (January – November 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 83 (2009); 75 (January – October 2010)

Convictions: 18 against 37 people (2009); 15 against 28 people (January – October 2010)

Assets forfeited: criminally: \$10,360,000 (January – October 2010) *civilly:* \$500,000 (January – November 2010)

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Bulgaria is a member of the Council of Europe's Committee of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval), a Financial Action Task Force (FATF)-style regional body. Its most

recent mutual evaluation can be found here:

http://www.coe.int/t/dgh/moneyval/Countrie/Bulgaria_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Bulgaria has undertaken steps to deter financial crimes and continues to maintain the numbers of money laundering prosecutions. In May 2010 the Bulgarian government closed a loophole in reporting requirements by issuing new guidance requiring banks to track previously unreported cash withdrawals. This new guidance came into force in December 2010. The government is also seeking to amend its asset forfeiture law to allow civil asset forfeiture independent of a criminal conviction. The amendments would also expand the scope of the law to allow forfeiture proceedings against third persons and legal entities possessing property acquired through criminal activity. If passed, these changes would greatly speed up the process and make it more difficult for criminals to hide and launder illegal assets.

In March 2010, a trial court convicted six members of a high-profile criminal group for laundering EU assistance funds. The court sentenced the group to a total of 42 years of imprisonment and confiscated property worth approximately \$8.2 million. The money was laundered through a U.S.-registered offshore company and then reinvested in resorts on the Bulgarian sea coast. This is the first case in Bulgaria in which the defendants were convicted of money laundering prior to obtaining a conviction for the predicate crime.

Due to a 2007 restructuring, the Financial Intelligence Directorate (FID), Bulgaria's FIU, is now a directorate within the State Agency for National Security (DANS); it is no longer an individual legal entity with its own budget. The FID has 32 memoranda of understanding with Financial Intelligence Units (FIU)'s from Europe, the Americas, and Australia. Since moving to DANS, the FID has not been authorized to sign any additional or updated memoranda of understanding to exchange financial intelligence with its counterpart FIUs in other countries. Due to DANS' legal requirements, FID's yearend statistics are also no longer released to the public.

Given the size of Bulgaria's financial system and the sophistication of money laundering schemes, staffing in the FID is not commensurate with Bulgaria's money laundering problems. As part of DANS, the FID is not able to fill temporary vacancies and currently Bulgaria only has five individuals conducting onsite inspections. Also, in part due to its staffing shortages, the FID has been criticized for not effectively analyzing the information it receives from reporting entities.

The FID 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 United States pursuant to Executive Order 13224, and those designated by the relevant EU authorities. At the end of 2010, the FID was examining two reports of potentially terrorist-related assets.

Reporting compliance by non-bank financial institutions, especially by exchange bureaus, casinos and notaries, continues to be very low. This can be attributed to numerous factors, including a lack of understanding of, or respect for the legal requirements; lack of inspection resources; and the general absence of effective regulatory control over the non-bank financial sector. The government should systematically track non-bank transactions as well as cross-border electronic currency transactions to prevent Bulgaria from being an entry point to funnel illicit money into the European financial system.

Burkina Faso

Burkina Faso is not a regional financial center. Its economy is primarily cash-based, and most economic activity takes place in the informal sector. Only an estimated six percent of the population has bank accounts. Burkina Faso lacks the resources necessary to protect its borders adequately and to monitor the movement of goods and people. Because the country's borders tend to be largely unregulated, illegal narcotics operations and black market currency exchanges easily flow in an unregulated manner in and out of the country and from one country to another within the region. Regional corruption, a lack of resources, and overburdened and weak judicial and law enforcement systems are also major challenges.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: The Public Treasury, Central Bank of West African States (BCEAO), financial organizations, independent legal professionals involved in financial transactions, auditors, real estate agents, fund transporters, owners of casinos and lotteries, travel agencies, NGOs

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: The Public Treasury, BCEAO, financial organizations, independent legal professionals involved in financial transactions, auditors, real estate agents, fund transporters, owners of casinos and lotteries, travel agencies, NGOs

Number of STRs received and time frame: 40 from January 2009 to November 2010

Number of CTRs received and time frame: 0

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Burkina Faso is a member of the Inter Governmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/index.php?type=c&id=39&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Central Bank of West African States (BCEAO) is working at the regional level to draft revised anti-money laundering (AML) regulations. Limited resources hamper the Government of Burkina Faso's (GOBF) ability to enforce current AML laws and regulations. The newly created financial intelligence unit (CENTIF) is not yet fully operational and is still working to establish itself as an institution. All six staff members of the CENTIF have been nominated and have started work but lack the training and capacity to fully enforce the law and its attendant regulations.

There is little enforcement and no formal method for tracking the movement of goods and money into and out of the country at border checkpoints or at either of the country's two commercial airports. CENTIF, law enforcement agencies and customs do not have the means and expertise to control the widespread informal monetary and commercial sectors. Informal money exchange and transfers are common and not currently monitored.

Records exchange with countries outside of the WAEMU region is possible via bilateral agreement. The GOBF continued its cooperation with the United States on counterterrorism efforts and also participated in numerous regional efforts to combat terrorism.

Burma

Burma is not a regional or offshore financial center. Its strategic geographic location, prolific drug production, and lack of transparency make it an attractive transit country for money laundering. While its underdeveloped economy is not adequate as a destination to harbor funds, the low risk of enforcement and prosecution make it appealing to the criminal underground. Drug trafficking, human trafficking, and public corruption are major sources of illicit proceeds. Money launderers also exploit the illegal trade in wildlife, gems, and timber, and trade-based money laundering is of increasing concern.

Burma is second only to Afghanistan in opium production, and is increasingly a source of methamphetamine and amphetamine type substances. Its long, porous borders are poorly patrolled. In some remote regions where smuggling is active, ongoing ethnic tensions, and in some cases armed conflict, impede government territorial control. In other areas, political arrangements between traffickers and Burma's ruling military government allow organized crime groups to function with minimal risk of interdiction.

The Government of Burma (GOB) dominates the economy. State-owned enterprises and military holding companies control a substantial portion of Burma's resources. A move toward privatization in 2010 transferred significant assets to private parties; however, most new owners appear to be business associates of the ruling generals, and some are allegedly connected to drug trafficking.

Corruption is endemic in both business and government. Transparency International's 2010 Corruption Perception Index ranked Burma 176 out of 178 countries. This extensive corruption and overall lack of governmental transparency has stymied the GOB's gestures toward financial reforms. The GOB enacted several reforms in the past several years to reduce vulnerability to drug money laundering in the banking

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sector. However, connections to powerful patrons still outweigh rule of law, and Burma continues to face significant risk of drug money being funneled into commercial ventures.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: None

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, customs officials, state-owned insurance company and small loans enterprise, securities exchange, the Andaman Club Resort Hotel (the only licensed money changer) accountants, the legal and real estate sectors and dealers of precious metals and stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Burma is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. Its most recent evaluation can be found at:

<http://www.apgml.org/documents/docs/17/Myanmar%202008.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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Burma's financial sector is extremely underdeveloped and most currency is held outside the formal banking system. The informal economy generates few reliable records, and the GOB makes no meaningful efforts to ascertain the amount or source of income or value transfers. The GOB's lack of engagement extends to its financial institutions. Some Burmese financial institutions may engage in currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency. However, the absence of publicly available GOB information on this issue precludes confirmation of such conduct. Burmese law does not contain any customer due diligence requirements, although some entities follow such procedures under other, non-AML related legal provisions.

Corruption is pervasive in every level of government. Senior military officials are essentially above the law and free to engage in a range of activities designed to enrich themselves and maintain their hold on power. Government workers do not receive a living wage and may seek bribes as additional "compensation." Officials who resist the rampant corruption are impeded by the military's control over all civilian authority, including the police. The GOB should end all policies that facilitate corrupt practices, including strengthening its oversight of the formal financial sector and implementing a transparent transaction reporting regime. The FIU should become a fully funded independent agency that functions without interference, and the GOB should supply adequate resources to administrative and judicial authorities for their enforcement of government regulations. The GOB should become a party to the UN Convention against Corruption.

The GOB has the power to freeze accounts without having a basis in law, as all institutions in the country are subordinate to the military. However, Burma's AML measures do not address funds derived from legitimate sources that may be used to finance acts of terrorism. The GOB should enact legislation that specifically criminalizes terrorist financing, designates it as one of the predicate offenses to money laundering, and makes it an extraditable offense. The GOB should also require designated entities to report suspected terrorist financing.

The GOB should strengthen its customs procedures, and authorities should monitor more carefully trade-based money laundering and its use as a counter-valuation for informal economic networks. The GOB should also take serious steps to combat the smuggling of contraband and its link to pervasive governmental corruption.

Burma signed the ASEAN Treaty on Mutual Legal Assistance in Criminal Matters in 2006. However, records exchange, as with most information sharing arrangements involving the GOB, appears to be conducted on an ad hoc basis. The GOB should formalize information sharing arrangements as part of its efforts to integrate into the international community.

Burundi

Burundi is not considered a significant center for money laundering and terrorist financing. The Government of Burundi (GOB) has created anti-money laundering/ counter-terrorist financing (AML/CFT) laws and signed conventions but has yet to commit funding, provide training, implement policies, or demonstrate the political will to counter money laundering. Enforcement of laws in general is hindered by a dysfunctional and corrupt administration and a severe lack of capacity in supervisory, investigative and enforcement bodies. Neither the Financial Crime Unit (FCU) of the Burundian National Police nor the Financial Intelligence Unit (FIU) of the Ministry of Finance has conducted any investigations. Corruption is a significant problem in Burundi and corrupt Burundian politicians are adept at devising methods of laundering Burundian assets abroad, enjoying near impunity of their thefts of public funds.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach to predicate crimes: Not available

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Not available

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Not available

Number of STRs received and time frame: None

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Burundi is not a member of a Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Central Bank supervises and examines financial institutions for compliance with AML/CFT laws and regulations. A law requiring banks to report large deposits or transactions to the police is under consideration, but banks and financial institutions are currently not required to report individuals engaging in significant transactions.

There are significant problems that deter effective AML/CFT efforts. Although laws exist, there appears to be little political will to prosecute or commit the resources to investigate crimes, particularly those that could implicate high-level government officials. Burundi is listed 170 out of 178 countries surveyed in

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Transparency International's International Corruption Perception Index. Furthermore, Burundian law enforcement officials lack training and expertise in investigating financial crimes. The GOB should develop an oversight capability and provide sufficient resources, funding, and training to the new Financial Intelligence Unit and the Financial Crime Unit. The GOB should ratify the UN International Convention for the Suppression of the Financing of Terrorism and become a party to the UN Convention against Transnational Organized Crime.

Cambodia

Cambodia is neither a regional nor an offshore financial center. Cambodia's fledgling anti-money laundering regime; cash-based, dollarized economy with an active informal banking system; porous borders; loose oversight of casinos; and limited capacity of the National Bank of Cambodia to oversee the fast growing financial and banking industries contribute to a significant money laundering risk.

Cambodia has a significant black market for smuggled goods, including drugs and imported substances for local production of the methamphetamine ATS. Both licit and illicit transactions, regardless of size, are frequently done outside of formal financial institutions, and are difficult to monitor. Proceeds from crime are readily channeled into land, housing, luxury goods or other forms of property. The majority of real estate transactions are done without a registered real estate agent, and buyers and sellers determine the price of the property without reference to an independent valuation system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; micro-finance institutions; credit cooperatives; security brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals, stones and gems; post office operating payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; non-governmental organizations (NGOs) and foundations doing business and raising funds

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks; micro-finance institutions; credit cooperatives; security brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals, stones and gems; post office operating payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; NGOs and foundations doing business and raising funds

Number of STRs received and time frame: 96 (January through October 2010)

Number of CTRs received and time frame: 359,599 (January through October 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Cambodia is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Cambodia%20World%20Bank%20DAR%20July%2007.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Cambodia (GOC) has not fully implemented its current AML/CFT legislation, and its list of covered entities is incomplete. The GOC should issue additional decrees, mandating compliance of designated non-financial businesses and professions with the reporting requirements established by the AML/CFT law, and provide training to commercial bankers. Given the high level of corruption in Cambodia, the GOC should also require special due diligence for domestic politically exposed persons (PEPs). Cambodia does not have, and has not offered, a safe harbor provision. The government should propose such a provision in the short term.

By regulation, banks are individually responsible for maintaining and monitoring the list of designated terrorists or terrorist entities; however, the GOC does not distribute the UN lists.

The GOC should also expand the authorities of the Cambodian Financial Intelligence Unit (CAFIU). At present, the CAFIU lacks the power to enforce AML/CFT laws. As a result, few covered entities follow STR reporting guidelines.

While Article 30 of the AML/CFT law provides for the confiscation of property in cases where someone is found guilty of money laundering as stipulated in the penal code, the law is vague, and does not describe a system of asset forfeiture. Cambodia should clearly define the system of asset forfeiture, and establish a regulation to implement the system.

Law enforcement capacity remains quite limited, and is hindered by corruption and a weak investigative and prosecutorial infrastructure. There have been no money laundering prosecutions or convictions since 2007, when two suspects were arrested but not convicted. Elements of the Ministry of Finance, the new Anti-Corruption unit, and the Cambodian National Police are receiving training on complex financial crimes. While the law enforcement training plan is long term and progressive, until the GOC fully

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implements AML/CFT legislation and addresses corruption, Cambodia will remain a high-risk environment for money laundering operations.

Cameroon

A major regional financial center within the context of Central Africa, Cameroon is increasingly involved in international financial transactions. Most financial crimes occurring in Cameroon are derived from domestic corruption and embezzlement rather than external malfeasance. However, instability in neighboring countries has resulted in Cameroon being used as a conduit to move funds from those countries to Europe. Cameroon is not a major narcotics destination. Cameroon's economy is heavily cash dependent and trade-based money laundering is widespread. Cameroon has porous borders and customs enforcement is weak. Cameroon is particularly vulnerable to cross-border bulk currency transactions and to companies transferring money internationally. Laundering money through investment in real estate is a growing problem.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions; money changers; casinos and gaming institutions; notaries; real estate agents; money transfer companies; travel agencies; auditors and accountants; dealers in precious metals and stones, works of art, and automobiles

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions; money changers; casinos and gaming institutions; notaries; real estate agents; money transfer companies; travel agencies; auditors and accountants; dealers in precious metals and stones, works of art, and automobiles

Number of STRs received and time frame: 124 in 2010

Number of CTRs received and time frame: More than 2 million in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Cameroon is not a member of a Financial Action Task Force (FATF)-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2010, the National Financial Investigations Agency (ANIF), Cameroon's financial intelligence unit (FIU), became a member of the Egmont Group.

As a member of the Economic and Monetary Community of Central African States (CEMAC), Cameroon shares a regional central bank (Bank of the States of Central Africa – BEAC) with other member countries. Within CEMAC, there is the Banking Commission of Central Africa (COBAC) and the Action Group against Money Laundering in Central Africa (GABAC). Although there is no recognized FSRB in the region, GABAC is working with banks and member states to ensure implementation of international FATF recommendations through two formalized relationships. GABAC works directly with the ANIF in each member state. GABAC also engages with all banking institutions to urge them to become members of COBAC and then ensures that the banks are implementing and enforcing due diligence procedures, as outlined in the international standards.

The Government of Cameroon (GRC) should work with BEAC, COBAC, and the ANIF to fully develop and implement applicable regulations to establish a complete anti-money laundering/counter-terrorist financing regime that adheres to international standards. These same agencies should also provide training and outreach to covered entities regarding their legal requirements and obligations. ANIF should work to improve coordination with law enforcement and judicial authorities, with the objective of enhancing investigations and obtaining convictions, including tracking law enforcement statistics. The GRC should work to mitigate its vulnerabilities, including enacting cross-border currency reporting requirements and training its agents at points of entry in the identification and interdiction of cash smuggling. The Ministry of Justice should begin tracking cases more closely and providing closer cooperation with ANIF to improve STR information gathering. There is a lack of money laundering prosecutions and convictions. The Ministry of Justice should explore training needs for prosecutors and magistrates.

Canada

Money laundering in Canada is primarily associated with drug trafficking and financial crimes, particularly those related to fraud. With roughly \$1.4 billion in trade crossing the United States and Canadian borders each day, both governments share concerns about illicit cross-border movements of currency, particularly the proceeds of drug trafficking. Organized criminal groups are involved in drug trafficking, contraband smuggling, illegal arms sales, migrant smuggling and white-collar crimes. The Criminal Intelligence Service Canada estimates that over 900 organized crime groups operate in Canada, with the vast majority involved in the illicit drug trade.

There are no free trade zones or offshore financial institutions. Money laundering generally occurs through the following methods: smuggling; money service businesses and currency exchanges; casinos; purchase of real estate; wire transfers; establishment of offshore corporations; credit cards, stored value cards and new payment methods. Criminals have also used internet payments or gold bullion to move funds.

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Casinos now are required to report large disbursements and suspicious transactions. In 2010, the first year of reporting, 43,752 casino disbursement reports were filed. Alternative remittance systems, such as hawala, hundi, and chitti are also required to report.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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; casinos; lawyers; notaries (in Québec and British Columbia only) and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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; casinos; lawyers; notaries (in Québec and British Columbia only) and dealers in precious metals and stones

Number of STRs received and time frame: 64,240 April 2009 through March 2010

Number of CTRs received and time frame: 6,868,506 April 2009 through March 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 211 April 2005 through March 2006

Convictions: Ten April 2005 through March 2006

Assets forfeited: criminally: \$17.5 million ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Canada is a member of the Financial Action Task Force (FATF) as well as the Asia/Pacific Group on Money Laundering (APG), and is a supporting nation of the Caribbean Financial Action Task Force

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(CFATF). Both APG and CFATF are FATF-style regional bodies. Canada's most recent published mutual evaluation can be found here:

http://www.fatf-gafi.org/document/58/0,3343,en_32250379_32236963_40199098_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Lawyers in several provinces have successfully challenged the applicability of the AML law to them based upon common law attorney-client privileges, therefore, lawyers are not completely covered by the AML provisions.

The United States and Canada signed a memorandum of understanding (MOU) in November 2010 to track the movement of illicit currency by sharing data on currency seized at the border. The MOU will significantly enhance the ability of law enforcement officers in both countries to investigate and track illicit cash movements and disrupt the flow of funds that support the activities of criminals and terrorists.

Money laundering offenses have a higher threshold for prosecution and conviction than the offense of benefiting from the proceeds of crime. Criminals appear willing to forfeit assets and plead guilty to lesser charges to avoid prosecution under AML and proceeds of crime statutes.

While the law provides sufficient powers to Canadian law enforcement to pursue money launderers, the budget for relevant law enforcement authorities has not increased; additional resources could increase the effectiveness of existing laws. Provincial and federal statistics should be tracked jointly. Appropriately tracking these cases could reveal a more robust rate of money laundering related convictions.

Canada should continue oversight and increase follow-up of the relatively new AML/CFT measures within the casino industry; reduce the length of time needed for FINTRAC to prepare reports used by law enforcement authorities (average number of days for a report dropped from 82 to 68 from 2009-2010); and maintain the monitoring of the money services business registry. Canada also should continue to ensure its privacy laws do not excessively prohibit provision of information to domestic and foreign law enforcement that might lead to prosecutions and convictions.

Cape Verde

As a small archipelago nation off the west coast of Africa, Cape Verde is not known as a regional financial center. Nevertheless, given its location between Latin America and Africa, its significant coastline, and a large shadow economy, Cape Verde remains vulnerable to money laundering operations and terrorist financing. At present, the vast majority of laundered proceeds come from narcotics trafficking.

While the government of Cape Verde has demonstrated a strong political commitment to combat both money laundering and terrorist financing, more needs to be done to investigate and prosecute cases in a timely, consistent manner. The main government entities searching for money laundering and terrorist financing are understaffed and could respond if Cape Verde were to become a true destination for laundered or terrorist-related funds.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

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“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchangers; accountants and fiscal consultants; notaries; insurance companies; lawyers; real estate or property brokers; dealers in precious metals, stones and vehicles; gaming centers; and securities dealers

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchangers; accountants and fiscal consultants; notaries; insurance companies; lawyers; real estate or property brokers; dealers in precious metals, stones and vehicles; gaming centers; and securities dealers

Number of STRs received and time frame: 52 in an unknown timeframe

Number of CTRs received and time frame: 0

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Cape Verde is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found at: www.giaba.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Limited resources hamper the government’s ability to enforce AML regulations. The Financial Information Unit (FIU) lacks both financial and human resources to support basic functioning. In particular, the FIU has a restrictive budget, shared facilities, and a part-time staff. Law enforcement and customs have little experience with financial crimes enforcement. These constraints limit Cape Verde's ability to respond to existing cases of money laundering and to deter future use of local entities for laundering purposes.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory is an offshore financial center. Most money laundering that occurs in the Cayman Islands is primarily related to fraud and drug trafficking. Due to its 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, investment funds, various types of trusts, and company formation and management. As of December 2010, the banking sector had \$1.73 trillion in assets. There were approximately 245 banks, 150 active trust licenses, 738 captive insurance companies, eight money service businesses, and more than 85,000 companies licensed or registered in the Cayman Islands. According to the Cayman Islands Monetary Authority (CIMA), at year end 2010, there were approximately 9,400 mutual funds. 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 do not permit the registration of offshore gaming entities. There are no free trade zones and the authorities do not see risks from bulk cash smuggling related to the large number of cruise ships that dock at the island.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, trust companies, investment funds, fund administrators, insurance companies and managers, money service businesses, corporate and trust service providers, money transmitters, dealers of precious metals and stones, and the real estate industry

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, trust companies, investment funds, fund administrators, insurance companies and managers, money service businesses, corporate and trust service providers, money transmitters, dealers of precious metals and stones, and the real estate industry

Number of STRs received and time frame: 308 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Eight 2003 - 2010

Convictions: Six 2003 - 2010; only one since 2006

Assets forfeited: *criminally:* Approximately \$6 million *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), a FATF-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Cayman_Islands_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Cayman_Islands_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

While the country has increased both its regulatory and law enforcement staffing, the number of prosecutions and convictions is extremely low given the vast scale of the country's financial sector; only six successful prosecutions for money laundering, and only one in the last four years.

Private trust companies and individuals who carry on trust businesses or act as trustees are exempt from licensing requirements and the AML requirements. In addition, the lack of penalties for failing to report ownership and identity information undermines the effectiveness of these obligations. This is a problem in particular for an estimated 3,000 unregulated mutual funds resident in the Cayman Islands. In addition, there appear to be no requirements for companies, trusts and partnerships to retain records for at least five years.

The Cayman Islands should continue to computerize various registrations, such as those for mutual funds. There is a need to pay greater attention to the risks and proper supervision of non-profit organizations.

In January 2010, an anti-corruption law took effect which criminalizes bribery and formalizes international cooperation. Amendments to the Criminal Justice (International Co-operation) Act were passed in February 2010. These laws provided measures for investigation, prosecution and confiscation of the proceeds of all serious crimes and broadened international assistance to include not only drug trafficking but all serious crimes, including official corruption and other types of transnational crime.

In 1986, the United States and the United Kingdom signed a Mutual Legal Assistance in Criminal Matters Treaty (MLAT) concerning the Cayman Islands. By a 1994 exchange of notes, Article 16 of that treaty has been deemed to authorize asset sharing between the United States and the Cayman Islands.

The Cayman Islands is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the Cayman Islands' international affairs and may arrange for the ratification of any Convention to be extended to the Cayman Islands. The 1988 Drug Convention was extended to the Cayman Islands in 1995 and is implemented through several laws. The UN Convention against Corruption and the UN Convention against Transnational Organized Crime have not yet been extended to the Cayman Islands. However, the full implementation platform for the anti-corruption convention exists under current Cayman law. A 2002 request for extension of the International Convention for the Suppression of the Financing of Terrorism to the Cayman Islands has not yet been finalized by the UK, although the provisions of the Convention also are implemented by domestic laws.

Chad

Chad is not a regional financial center. It is largely a cash economy with minimal transactions passing through financial institutions. The lack of sophisticated financial products makes the country relatively unattractive to money launderers and terrorist financiers. There is little indication of money laundering or terrorist financing within Chad although government officials are aware of the threat and desire stronger legal tools to address it. Corruption is a significant problem in Chad.

Chad has several different types of smuggling. Along the borders that surround the lower two-thirds of the country, the smuggled goods market consists largely of basic foodstuffs, cigarettes, fuel, and household items smuggled to avoid import duties. Across the country's northern third, which is sparsely populated and transected by historic Sahelian trade routes, smuggled items are generally more illicit, including drugs and weapons. These items generally transit Chad and are not destined for domestic use.

Since the smuggled household goods are for domestic use in a cash economy and the country does not have a significant domestic illegal drug problem, there is no indication that this market is financed by proceeds from narcotics or other illicit activities. Similarly, end users for smuggled drugs and weapons are not domestic, and proceeds of these activities do not enter Chad's financial system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: **criminally:** YES **civilly:** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial banks

Enhanced due diligence procedures for PEPs: **Foreign:** YES **Domestic:** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Commercial banks

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: **criminally:** Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Chad is not a member of a Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Chad is a member of the six-country Central African Economic and Monetary Union (CEMAC). Within CEMAC, there is the Banking Commission of Central Africa (COBAC) and the Action Group against Money Laundering in Central Africa (GABAC). Although a FATF-style regional body does not cover the region, GABAC is working with banks and member states to ensure implementation of international standards through two formalized relationships. GABAC works directly with the National Financial Investigative Agency (ANIF) in each member state. GABAC also engages with all banking institutions to urge them to become members of COBAC and then ensures the banks are implementing and enforcing due diligence procedures, as outlined in the international standards.

Chad ranks 171 out of 178 countries surveyed in Transparency International's 2010 Corruption Perception Index. Law enforcement and customs need training in financial crimes enforcement. Chad should become a party to the UN Convention against Corruption.

Chile

Chile has a large and well-developed banking and financial sector with an established anti-money laundering/counter-terrorism financing (AML/CFT) regime. Systematic vulnerabilities in Chile's regime include stringent bank secrecy laws and 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 more than 50 countries. Increased trade and currency flows, combined with an expanding economy, could attract illicit financial activity and money laundering.

Chile's largely unregulated free trade zones present an additional vulnerability, given the country's extensive trading partnerships and long, difficult to monitor borders. Illicit proceeds from limited drug trafficking and domestic consumption are laundered in the country.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks (checking but not savings accounts) and other financial institutions, credit unions, pension funds, mutual fund administrators, brokers and dealers, leasing and factoring companies, credit card issuers and operators, insurance companies, insurance brokers

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; savings and loan associations; financial leasing companies; general, mutual funds and investment funds managers; pension fund administration companies; the Foreign Investment Committee; money exchange firms and other entities authorized to receive foreign currencies; factoring firms; credit card issuers and operators; money transfer and transportation companies; stock exchanges; stock exchange brokers; securities companies and agents; insurance companies; forwards and options markets operators; tax-free zones' legal representatives; casinos; gambling houses and horse tracks; customs general agents; auction houses; realtors and land developers; notaries and registrars; and sports clubs

Number of STRs received and time frame: 617 (January through September 2010)

Number of CTRs received and time frame: 1,027 (January through June 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 34 (January through September 2010)

Convictions: Seven (January through September 2010)

Assets forfeited: *criminally:* \$184,773.87 (January through September 2010) *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Chile is a member of the Financial Action Task Force of South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.gafisud.info/microsite/index.htm>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Chile's "list" approach only includes some of the recommended predicate offenses for money laundering. Chile has yet to widen the scope of the money laundering offense to apply it to crimes such as trafficking in persons, intellectual property rights violations, and extortion.

It is not common for all sectors of the financial system to be obliged to retain customer information for five years after the account was closed or the commercial relationship ended. Separately, there is no clear definition of politically exposed person (PEP). Existing laws do not clearly establish that STRs need to be submitted for the financing of terrorism or for the attempt to conduct a suspicious transaction even though the actual transaction is not realized/finalized. In addition the current legislation does not expressly specify that the UAF (Chilean financial intelligence unit) has competency to receive STRs related to the financing of terrorism.

The most significant obstacle to money laundering investigations is bank secrecy. 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

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legal representative). Law 707 states 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/CFT 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 court orders to provide prosecutors with additional information. Judges can detain the bank's general manager until all information is disclosed, but this tool is rarely used. In December, 2009, a legislative reform allowed tax authorities access to bank information without a judicial order under certain circumstances.

Chile's anti-money laundering efforts continue to mature. At the same time, the GOC can still do more to investigate complex money laundering schemes, such as trade-based money laundering. Law No. 20,393, which entered into force in December 2009, makes it a crime for corporations to engage in money laundering, as well as bribe public officials and finance terrorism.

The GOC can improve its AML/CFT regime by: expanding the list of predicate crimes for money laundering to include all serious crimes; establishing regulatory control over non-bank institutions such as money exchange houses and charities; expanding customer due diligence requirements to cover all recommended entities and mandating enhanced due diligence procedures for politically exposed persons; and passing the draft law currently pending in the Senate to allow for the lifting of bank secrecy and the freezing of assets to bring Chile closer to compliance with its UNSCR 1267 obligations and international standards.

China, People's Republic of

China is a major global financial center, with a rapidly growing economy and increased integration in the international market. The primary sources of criminal proceeds are corruption, narcotics and human trafficking, smuggling, economic crimes, intellectual property theft, counterfeit goods, crimes against property, and tax evasion. Money is generally laundered through bulk cash smuggling, trade-based fraud (over/under pricing of goods, falsified bills of lading and customs declarations, counterfeit import/export contracts), and both the formal and underground banking systems. The use of cash-intensive, non-financial sectors such as real estate has increased, as has the use of e-currency, online exchanges, and the exploitation of investment vehicles such as forward exchange rate contracts and financial derivatives.

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. Chinese authorities have observed that the increase in AML efforts by banks has been accompanied by increased laundering through the underground banking system and trade fraud. 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.

China has multiple Special Economic Zones (SEZs) and other designated development zones at the national, regional, and local levels. SEZs include Shenzhen, Shantou, Zhuhai, Xiamen, and Hainan, along with 14 coastal cities and over 100 designated development zones. It is not a major offshore financial center.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities dealers, insurance companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities dealers, and insurance companies

Number of STRs received and time frame: 42,933,226 in 2009

Number of CTRs received and time frame: China does not separate STRs and CTRs

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 10,674 in 2009

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

China is a member of the Financial Action Task Force (FATF), as well as the Asia/Pacific Group on Money Laundering (APG) and the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG), both of which are FATF-style regional bodies (FSRB). Its most recent mutual evaluation can be found here:

<http://www.fatf-gafi.org/dataoecd/33/11/39148196.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of China (GOC) has strengthened the legal framework for its overall AML/CFT regime, notably by clarifying the suspicious transaction reporting obligations of Chinese banks and by increasing the number of money laundering investigations, prosecutions, and convictions. However, even though it is mandatory, the courts do not systematically pursue the confiscation of criminal proceeds, which undermines any disincentive to commit the crime. The GOC should ensure that all courts are aware of the mandatory confiscation laws, and ensure uniform implementation.

China's terrorist financing legislation has significant gaps, including the inability to freeze terrorist assets without delay. China should enact comprehensive terrorism and terrorist financing legislation and create

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a mechanism to freeze terrorist assets without delay. China should also enhance coordination between its financial regulators and law enforcement bodies to better investigate and prosecute offenders.

Chinese financial regulators have made progress in recent years in applying AML/CFT controls to China's developing financial system; however, enforcement efforts need strengthening to keep pace with the sophistication and reach of criminal and terrorist networks.

The GOC has become more open to working across borders on money laundering and terrorist financing investigations. However, U.S. law enforcement agencies note that the GOC has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information. The GOC should expand cooperation with counterparts in the United States and other countries and pursue international linkages in AML/CFT efforts more aggressively. U.S. agencies have continued to seek to expand cooperation with Chinese counterparts on AML/CFT matters and to strengthen both policy- and operational-level cooperation in this critical area.

Colombia

The Government of Colombia (GOC) is a regional leader in the fight against money laundering. The GOC has a forceful anti-money laundering/counter-terrorist financing (AML/CFT) regime. However, the laundering of money from Colombia's illicit cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. Both drug and money laundering organizations use a variety of methods to repatriate their illicit proceeds to Colombia. These methods include the Black Market Peso Exchange, trade based value transfer, bulk cash smuggling, *reintegro* (wire transfers), remittances, smuggled merchandise (contraband) and more recently, electronic currency and prepaid debit cards.

In addition to drug-related money laundering, laundered funds are also derived from commercial smuggling for tax and import duty evasion, kidnapping, arms trafficking, and terrorism connected to violent, illegally-armed groups and guerrilla organizations. Further, money laundering is carried out to a large extent by U.S. Government-designated terrorist organizations. Criminal elements have used the banking sector, including exchange houses, to launder money. Money laundering also has occurred via trade and the non-bank 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. Casinos, free trade zones and the postal money order market 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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

Enhanced due diligence procedures for PEPs: *Foreign:* Not available *Domestic:* Not available

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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

Number of STRs received and time frame: 9,600 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 408 investigations and/or prosecutions in 2009

Convictions: 54 in 2009

Assets forfeited: *criminally:* Approximately \$1.3 million in 2009 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Colombia is a member of the Financial Action Task Force (FATF) of South America (GAFISUD) a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/home.htm>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In the Black Market Peso Exchange (BMPE), goods from abroad, particularly the United States, are bought with drug dollars. Many of the goods are either smuggled into Colombia or brought directly into Colombia's customs warehouses, thus avoiding various taxes, tariffs and legal customs duties. In other trade-based money laundering schemes, goods are over-or-under invoiced to transfer value. Reportedly, evasion of the normal customs charges is frequently facilitated by the drug and money laundering groups corrupting Colombian oversight authorities.

To help combat BMPE and other financial crimes, in 2005, a Colombian-based trade transparency unit (TTU) was created by U.S. Immigration and Customs Enforcement to analyze, identify and investigate companies and individuals involved in trade-based money laundering activities between Colombia and the United States. In the past year, the Colombian TTU has worked to enhance the quality and quantity of trade data shared, expanding its investigative capacity.

While the Colombian financial system has banking controls and governmental regulatory processes in place, it is reported that drug and money laundering groups have influenced high level bank officials in

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order to circumvent both established anti-money laundering controls and government regulations.

Official corruption has also aided money laundering and terrorist financing in geographic areas controlled by the Revolutionary Armed Forces of Colombia (FARC).

According to the Prosecutor General's Office, 236 people were arrested in 2009 for money laundering crimes connected to drug trafficking, terrorism, and other felonies. The GOC cooperates extensively with U.S. law enforcement agencies to identify, target and prosecute groups and individuals engaged in financial and drug crimes. Colombia is working with other member countries of GAFISUD to develop a common PEP standard and to share its PEP list with other financial intelligence units.

The Colombian government regularly carries out asset seizure operations against a myriad of drug trafficking and other criminal organizations throughout Colombia. Freezing assets is very quick and efficient under Colombian law, while forfeiture can take between 1-3 years. The biggest difficulty in Colombia is administering seized assets. The National Drug Directorate (DNE) – as a legal institution – lacks the technical expertise to administer seized assets. The proceeds from asset seizures or forfeitures are by law used to fund various projects, such as the construction of new high-security prisons, low-income government housing, or specific educational initiatives. However, many assets have lost their value over time due to poor administration, and the National Drug Directorate (DNE) has been unable to conduct studies to evaluate and monitor the impact of its efforts.

Colombian law is unclear on the government's authority to block assets of individuals and entities on the UN 1267 Sanctions Committee consolidated list. In addition to the UN lists, banks also monitor the Office of Foreign Assets Control's publication of Specially Designated Narcotics Traffickers, pursuant to Executive Order (EO) 12978, and the Foreign Narcotics Kingpin Designation Act, and Specially Designated Global Terrorists, pursuant to E.O. 13224.

Comoros

The Union of the Comoros (Comoros) consists of three islands: Ngazidja (Grande Comore), Anjouan and Moheli, and claims a fourth (Mayotte), which France governs. Although Comoros lacks homegrown narcotics, the islands are used to transit drugs, mainly from Madagascar and continental Africa. Comoros is not a financial center for the region. The fact the Comoran financial system is relatively underdeveloped minimizes the risk of some ML activities. Neither Union nor island government authorities have the means to estimate the income gained from predicate offenses committed within the country. Nevertheless, due to the low level of development in Comoros, illicit income seems to have been limited compared to the sums generated in other countries. The main income-producing predicate offenses seem to be narcotics trafficking, migrant smuggling, and corruption.

Comoros has introduced a number of measures to establish an anti-money laundering/combating the financing of terrorism (AML/CFT) regime. However, the legal framework has many shortcomings and is generally not effectively implemented. Generally, Comoros is not in compliance with international standards. A grossly inadequate budget, dysfunctional ministries, and a nonfunctioning judiciary limit effectiveness of Comoran AML/CFT efforts, despite apparent high-level political support.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and designated non-financial businesses and professions (DNFBP)

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and DNFBPs

Number of STRs received and time frame: None

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Comoros is not a member of a FATF-style regional body but is an observer of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). No mutual evaluation has been done of Comoros.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

A financial intelligence unit (FIU) was authorized in 2008, and a March 2009 ordinance expanded the scope of the AML/CFT preventive measures and covered the financing of terrorism. However, there have been no investigations or convictions for money laundering or terrorist financing.

The recent enactment of a law on economic citizenship might be attractive to criminals. The authorities have indicated they have implemented strict control measures intended to prevent abuses, but concerns regarding the possible misuse of this arrangement for criminal purposes do remain.

Thus far, most institutions subject to the law have not yet put AML/CFT policies and procedures in place. Although the Central Bank has begun to monitor implementation of the AML/CFT preventive measures, limited resources hamper the government's ability to enforce the AML regulations, and local institutions and personnel lack the training and capacity to fully enforce the law. Comoran government security forces have limited resources and training in money laundering, counter-terrorist financing and maritime security.

Congo, Democratic Republic of

The Democratic Republic of Congo (DRC) is not considered a regional financial center. The DRC's economy remains highly dollarized, and its parallel foreign exchange market is large and tolerated by the government. There is a preponderance of fiduciary/paper currency in all financial transactions. The DRC does not have any areas designated as free trade zones or have any free ports.

Due to its large geographic size, lack of a functional judicial system and dominant informal sector, the DRC is particularly vulnerable to money laundering. The DRC covers an area of almost 1 million square kilometers (400,000 sq. mi), and has 7,000 km of porous borders with nine countries. Administration of the country is weak because of its vast geographic territory and dilapidated infrastructure, among other challenges. Most economic activity in the DRC takes place in the informal sector, estimated to be up to ten times the size of the formal sector, with most transactions, even those of legitimate businesses, carried out in cash. The accurate reporting of revenues is thus very difficult. Major sources of money laundering in the DRC include illegal import/export activities, customs and tax fraud, tax evasion, misappropriation of public funds, exploitation of minerals and other valuable materials, casinos, the sale of prohibited products and services, and chronically low wages which force people to resort to bribery. Money laundering in the DRC is neither primarily nor significantly related to narcotics proceeds.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S., OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Congolese Central Bank (BCC), banks, credit institutions, money transfer institutions, financial companies, microfinance institutions, money exchangers, insurance companies, leasing companies, financial intermediaries, postal checking systems, transferable securities and stock exchange market operations, gaming companies, notaries, members of independent legal professions, real estate agencies, funds conveyors, travel agencies, auditors, certified public accountants, external auditors, tax consultants, sellers of art, antiques and precious stones

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Congolese Central Bank (BCC), banks, credit institutions, money transfer institutions, financial companies, microfinance institutions, money exchangers, insurance companies, leasing companies, financial intermediaries, postal checking systems, transferable securities and stock

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exchange market operations, gaming companies, notaries, members of independent legal professions, real estate agencies, funds conveyors, travel agencies, auditors, certified public accountants, external auditors, tax consultants, sellers of art, antiques and precious stones

Number of STRs received and time frame: 0

Number of CTRs received and time frame: 0

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

The DRC is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS

The Government of the Democratic Republic of the Congo (GDRC) passed legislation in July 2004 criminalizing money laundering and terrorist financing. Banks and non-banking financial institutions are required to report all transactions over \$10,000. Banks find this requirement burdensome, since 90 percent of transactions using the banking system meet this threshold. New computerized communications and accounting networks have been installed in banks, which will make it easier to trace formal financial transactions. In September 2008, the GDRC established a Financial Intelligence Unit (CENAREF) to combat money laundering and misappropriation of public funds. CENAREF is responsible for collecting and analyzing information on money laundering and terrorist financing cases. CENAREF also investigates persons accused of money laundering and terrorist financing, conducts periodic studies on these subjects and advises the GDRC on how to combat money laundering related crimes. However, limited resources hamper the government's ability to implement and enforce anti-money laundering regulations, and local institutions and personnel lack training and capacity to fully enforce the law and its attendant regulations. Lack of funding continues to prevent CENAREF from fully carrying out its responsibilities. Inefficient and burdensome customs and tax policies, a weak judicial system and widespread corruption also negatively impact enforcement. The DRC is ranked 164 out of 178 countries surveyed in Transparency International's 2010 International Corruption Perception Index.

The DRC should become a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

Congo, Republic of

The Republic of the Congo (ROC) is not a regional financial center. The Bank of Central African States (BEAC) -- the regional Central Bank of the Economic and Monetary Community of Central African States (CEMAC) to which the ROC belongs -- supervises the Congo's banks. The state of the country's financial institutions remains weak following the Congo's period of civil unrest in the 1990s and early 2000s, resulting in limited bank loans and infrequent issuances of new bank licenses.

The ROC strengthened its laws against money laundering in 2007. As a member of the CEMAC, the country adopted the regional community's April 2007 regional anti-money laundering/counter-terrorist

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financing (AML/CFT) regulations. These rules establish penalties of both fines and imprisonment for money laundering and terrorist financing, and also regulate the operations of banks, money changers, and casinos.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, money exchangers, accountants, notaries, thrifts and money remitters

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money exchangers, accountants, notaries, thrifts and money remitters

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Republic of the Congo is not a member of a Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

A 2008 Presidential decree called for the creation of a National Financial Investigation Agency (ANIF). Due to delays the agency was not created until mid-2010. ANIF’s operations are not yet fully functional. Similar offices to ANIF were created in Cameroon and Gabon. The Central African Republic, Chad and Equatorial Guinea are also expected to create equivalent agencies. In partnership with the Congo and within the regional framework of GABAC, each of the national agencies is expected to coordinate anti-money laundering and counter-terrorist financing activities. Pursuant to the decree that established the

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agency, ANIF is financially independent and its budget is derived from three sources: the ROC national budget, CEMAC institutions, and development partners. Although the agency is financially autonomous, ANIF is under the supervision of the Minister of Finance. Consequently, the objectiveness and independence of the new agency could be hampered. Efforts should be made to strengthen the expertise of law enforcement, customs, prosecutorial and judicial authorities in financial crimes. The Republic of the Congo should continue to work with the CEMAC and regional partners to strengthen its AML/CFT efforts.

Within CEMAC, there is the Banking Commission of Central Africa (COBAC) and the Action Group against Money Laundering in Central Africa (GABAC). Although there is no recognized FATF-style regional body in the region, GABAC is working with banks and member states to ensure implementation of international FATF recommendations through two formalized relationships. GABAC works directly with the National Financial Investigative Agency (ANIF) in each member state. GABAC also engages with all banking institutions to urge them to become members of COBAC and then ensures that the banks are implementing and enforcing due diligence procedures, as outlined in the international standards.

Cook Islands

The Cook Islands is not a regional financial center and has no free trade zones. The Cook Islands substantial offshore financial sector is an important part of the country's economy, but also represents its most significant vulnerability to money laundering and terrorist financing activities. The Government of the Cook Islands (GOCI) has taken steps to reduce the risks presented by both the offshore sector and its small domestic financial sector. The GOCI has significantly enhanced supervision of both sectors in the past three years, including the performance of annual on-site examinations of all domestic and offshore financial institutions.

The large offshore financial sector developed from legislation enacted in the early 1980s, which allowed the operation of international companies and trusts, including offshore banks and insurance companies. All offshore business conducted from the Cook Islands must be channeled through registered trustee companies. Currently there are six registered trustee companies and four international banks. One of the domestic banks also has an international license. The industry provides a wide range of trustee and corporate services to offshore investors with a tax rate for all offshore entities of zero, guaranteeing tax neutrality.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: banks (domestic and offshore), offshore insurers and trustee companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: banks (domestic and offshore), offshore insurers and trustee companies

Number of STRs received and time frame: 58

Number of CTRs received and time frame: 1,845

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Cook Islands is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.apgml.org/documents/docs/17/Cook%20Islands%20MER-%20final%20140809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Cook Islands has a generally well-supervised financial industry. Large cash transactions involving locally generated funds are immediately apparent, and suspicious transactions are reported to the CIFIU for further review. The proceeds of domestic crime are generally small. There is evidence of concealment stemming from drug and misappropriation cases, with total proceeds that are significant relative to the size of the economy.

The Cook Islands tightened its legislation and regulations to more closely reflect international standards. GOCI officials note that the remaining money laundering and terrorist financing risks stem from the lower Know Your Customer (KYC) standards and the provision of false information to Cook Islands financial institutions by businesses and customers in other jurisdictions, particularly in Asia.

The Cook Islands should become party to the UN Convention against Corruption, and ensure that the UN lists of designated terrorists or terrorist entities are distributed to financial institutions regularly.

Costa Rica

While Costa Rica is not a major regional financial center, it remains vulnerable to money laundering and other financial crimes. Illicit proceeds from fraud, trafficking in persons, arms, narcotics trafficking (mainly cocaine), and corruption are laundered in Costa Rica. To a limited extent, money laundering/terrorist financing occurs across the formal financial sector, within the free trade zones (FTZs), and in the non-bank financial system. Costa Rica has 33 FTZs, used by approximately 270 companies. In addition, Costa Rica has a sizeable internet gaming industry which in practice is almost unregulated. While local criminals are active, the majority of laundered criminal proceeds derive from foreign criminal activity. Costa Rica does not have a significant market for smuggled goods, however, criminal organizations involved in fraud, trafficking in persons, arms, narcotics trafficking, and corruption are known to utilize the international trade system to move and launder their criminal proceeds.

The Government of Costa Rica (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 banks established in offshore financial centers. Nicaraguans residing in Costa Rica send approximately \$200 million in remittances annually to family members in their home country, much of which is sent via unlicensed money remitters. These unregulated businesses are a significant risk for money laundering and a potential mechanism for terrorist financing.

Costa Rica has demonstrated a genuine commitment to strengthening its anti-money laundering/counter-terrorist financing (AML/CFT) regime. As a result of a law passed in 2009, in 2010 Costa Rica continued implementing new regulations directed at combating money laundering, terrorist financing, and organized crime. Costa Rica also created a new National Anti-Drug Commissioner position that is responsible for monitoring and evaluating the GOCR's policies and plans to combat money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and savings and loan cooperatives; pension funds; money exchangers or remitters; investment fund and safekeeping companies; credit institutions; issuers, sellers or redeemers of travelers checks and postal money orders; and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and savings and loan cooperatives; pension funds; money exchangers or remitters; fiduciary trust, investment fund and safekeeping companies, and asset managers; credit institutions; issuers, sellers or redeemers of travelers checks and postal money orders; securities dealers; and real estate agents

Number of STRs received and time frame: 304 from January to December 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Ten - January through October 2010

Assets forfeited: criminally: \$9,693,214.00 in FY2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In December 2010, the Financial Action Task Force of South America (GAFISUD) admitted Costa Rica as a member, formally marking its departure from the Caribbean Financial Action Task Force (CFATF). Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money laundering cannot be charged as an additional offense to the predicate crime (e.g., a drug dealer who is convicted on drug charges cannot also be prosecuted for laundering the drug proceeds). In addition, criminal liability does not extend to legal persons.

There are over 250 Internet sports book companies registered to operate in Costa Rica. The industry transacts approximately \$12 billion annually and employs 10,000 people. This industry in practice is almost unregulated. The FIU reports that Costa Rican attorneys oftentimes conduct cash purchases of real estate on behalf of persons located in the U.S. The FIU has had significant difficulties verifying the identity and source of funds for those purchases.

The FIU does not directly receive cash transaction reports (CTRs). Each supervisory entity that receives CTRs holds them unless it determines that further analysis is required or the FIU requests the reports. Costa Rica fully cooperates with appropriate United States government law enforcement agencies investigating financial crimes related to narcotics and other crimes. Additionally, Costa Rica has a tax information exchange agreement with the U.S.

Law 8719 authorizes the FIU to administratively freeze assets or accounts that are subject to an ongoing money laundering or narcotics investigation by the host government authority without a prior Court order (a judicial order must be obtained within 5 days after the seizure). This provision was used in several money laundering cases involving bulk cash smuggling during 2010. Although the GOCR enacted a provision to allow for civil forfeitures in 2009, no case has been pursued by prosecutors. The prosecutors state they have been reluctant to try cases under this law, because they fear these cases will not hold up in court. Based on the non-use of this provision, it is unclear whether the GOCR will assist other countries in obtaining non-conviction-based forfeiture.

Several pieces of real property were identified and frozen by the U.S. Office of Foreign Asset Control (OFAC) owned by a Colombian National that resides in Costa Rica and uses his farms to launder funds for the FARC. This subject and his property were named as a second tier in the King-Pin Act with money laundering ties to the FARC. Shortly after the OFAC report was publicized in Costa Rica the subject fled Costa Rica and returned to Colombia.

Croatia

Croatia is not considered an off-shore financial center. Croatian authorities consider most money laundering in the country to be of domestic origin, involving the proceeds of illegal domestic narcotics sales and economic crimes, such as fraud and tax evasion. Although Croatia is part of a major transit route for drugs entering Europe, there is little evidence that these networks have utilized Croatia's financial systems. Public corruption has been linked to money laundering, but no proof of the association exists. Alleged money laundering connected to public corruption has not, however, been linked to terrorist financing. Money laundering in Croatia occurs primarily through non-resident accounts,

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transfers to off-shore banks using counterfeit documents, and deposits on foreign currency accounts, and has often been linked to the real estate market and the purchase of high-end automobiles.

Croatia does not represent a sizeable market for smuggled goods, but is used as a transit route for goods destined for other countries in the region. There is not a significant black market in Croatia. There is no indication that trade-based money laundering exists in Croatia.

Croatia has 15 free trade zones, 13 of which are presently in operation. Companies operating in the zones benefit from lower taxes and customs and value-added free import of input materials. Companies operating in free trade zones are subject to the same regulation and supervision as all other businesses in the country.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, and financial leasing entities; savings banks; credit unions; companies performing payment option services; the Croatian Post Office; investment fund managers, guarantors, and asset managers; pension companies; insurance companies and intermediaries; companies dealing with the issuance of electronic money; authorized exchange offices; gaming-related providers; pawnshops, auctioneers, and traders of precious metals and gems, fine arts, and antiquities; lawyers, notaries public, auditors, accountants and tax advisors

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, finance companies, and financial leasing entities; savings banks; credit unions; companies performing payment option services; the Croatian Post Office; investment fund managers, guarantors, and asset managers; pension companies; insurance companies and intermediaries; companies dealing with the issuance of electronic money; authorized exchange offices; gaming-related providers; pawnshops, auctioneers, and traders of precious metals and gems, fine arts, and antiquities; lawyers, notaries public, auditors, accountants and tax advisors

Number of STRs received and time frame: 404 in 2010

Number of CTRs received and time frame: 57,648 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 11 – January - June 2010

Convictions: Five – January - June 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Croatia is a member of the Council of Europe's Select Committee of Experts (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Croatia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Croatia is a signatory to bilateral agreements with 32 FIU counterparts and is also party to a number of bilateral agreements on law enforcement cooperation with its neighbors. The country actively cooperates with its Balkan neighbors in the law enforcement arena, especially in the fight against money laundering. Croatia worked to establish a regional working group to address money laundering.

The FIU has the authority to freeze assets and can do so with relatively little difficulty for an initial 72-hour period. Obtaining an extension is slightly more complicated, with the Prosecutor's Office requiring either an international instrument or a formal legal request for an extended asset freeze. Therefore, if assets identified by authorities do not relate to an individual or entity cited by the UN, it is more difficult for the Prosecutor's Office to obtain a long-term freeze. According to a FIU representative, every request to extend an asset freeze has been granted by court order and remained in effect through the end of the proceedings. Croatia should ensure it has all the legal and regulatory measures in place to meet the international standards on national asset freezing mechanisms.

The Government of Croatia has sufficient mechanisms in place and tools at its disposal to effectively combat money laundering and financial crimes, and incidences of these activities remain rare. A lack of expertise in financial crimes matters among the police and judiciary stands in the way of an even more efficient system, but attempts at education in this area have proved helpful. As a candidate for EU accession, Croatia's ability to successfully combat money laundering and financial crimes is under scrutiny, which has and should continue to lead to further efforts to better develop its capacities in this area.

Cuba

The Cuban Assets Control Regulations, 31 CFR Part 515, were issued by the U.S. Government on July 8, 1963, under the Trading With the Enemy Act. The regulations impose restrictions on travel and remittances to Cuba and prohibit import of products of Cuban origin or, with some exceptions, export of goods from the U.S. to Cuba. Additionally, all assets of the Cuban government or Cuban nationals in the U.S. are frozen. In 2009, some of the restrictions related to family travel and remittances were relaxed, however, the broad trade embargo enforced by the regulations remains in place.

Cuba is not considered a regional financial center. Cuban financial practices and U.S. sanctions prevent Cuba's banking system from fully operating in the international financial system. The government-controlled banking sector, low internet and cell phone usage rates, and threat of seizures related to the U.S. embargo all render Cuba an unattractive location for money laundering. There is a significant black market in Cuba that operates as a supply and demand market parallel to the heavily subsidized and rationed formal market controlled by the state. The black market, including mostly goods obtained locally but also some smuggled goods, is primarily funded by the nearly \$1 billion in remittances sent to

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Cuba every year. These funds, mostly in US dollars or euros, are traded for Cuban pesos at government foreign exchange houses. Most of these remittances come from Cuban-Americans and are delivered to family members. Cuba continues to have one of the most secretive and non-transparent national banking systems in the world.

During 2010 there were no significant changes in the Government of Cuba's (GOC) policies or regulations concerning anti-money laundering/combating the financing of terrorism (AML/CFT). There were no reports of new arrests, seizures, or prosecutions. Cuba's non-transparent national banking system hampers efforts to monitor the effectiveness and progress of Cuba's AML/CFT regime. The GOC claims to be in full compliance with international counter-terrorism conventions and to have taken into account the international standards.

Cuba's significant black market and geographic location between drug-supplying and drug-consuming countries present challenges for authorities. Cuba has few international businesses, no offshore casinos or internet gambling sites, and no free trade zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Not available

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, money exchangers, remitters, financial management firms

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money exchangers, remitters, financial management firms

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: Not available

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There have been no known instances of investigations or prosecutions related specifically to money laundering. As of 2001, Cuba has bilateral agreements with a number of countries related to combating drug trafficking. It is unclear whether any of these agreements include mechanisms to share information related to financial crimes or money laundering.

On December 20, 2010, a prominent U.S. money remitting company in Cuba began disbursing to customers “Cuban Convertible Pesos” (CUC) instead of U.S. dollars. Therefore, Cuban customers of the company no longer have to pay the 10% fee for cash exchanges into CUC from dollars. This may encourage an increase from the approximately \$1 billion in current annual remittances from the U.S. to Cuba, as well as shift from couriers carrying hard currency toward more electronic fund transfers.

Cuba should increase the transparency of its financial sector and increase its engagement with the anti-money laundering/counter-terrorist financing community in order to increase its capacity to fight these illegal activities.

Curacao

In October 2010 Curacao became a new autonomous entity within the Kingdom of the Netherlands. Curacao has inherited much of the financial and business operations of the former Netherland Antilles. Curacao is a regional financial center and a transshipment point for drugs from South America bound for the United States and Europe. Money laundering is primarily related to proceeds from illegal narcotics. Money laundering organizations can take advantage of banking secrecy and use offshore banking and incorporation systems, economic zone areas, and resort/casino complexes to place, layer and launder drug proceeds. Bulk cash smuggling is a continuing problem due to the close proximity of Curacao to South America.

Curacao has two free economic zones. It is not known to what extent “contrabanding” (using bulk cash to buy actual products which are shipped to South America and sold, thus legitimizing the profits) occurs but it was a problem in an economic zone in the Netherlands Antilles. There have been limited seizures of bulk cash 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. Structuring was a relatively common occurrence in the Netherlands Antilles and may continue. Another possible area of money laundering activity may be through wire transfers between the island and the Netherlands.

The extent of Curacao’s offshore financial sector, which previously consisted of trust service companies providing financial and administrative services to an international clientele, including offshore companies, mutual funds, and international finance companies, is not clear; but it has declined significantly in recent years. Previous regulations on bank supervision required that international banks must have a physical presence and maintain records on the island. Bearer shares of international companies must be kept in custody and onshore companies are not allowed to have bearer shares. At least seven Internet gaming companies operate in Curacao.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

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“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Onshore and offshore banks, saving banks, money remitters, credit card companies, credit unions, life insurance companies and brokers, trust companies and other service providers, casinos, customs, lawyers, notaries, accountants, tax advisors, jewelers, car dealers, real estate agents, administration offices, tax advisors, lawyers, and accountants

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Onshore and offshore banks, saving banks, money remitters, credit card companies, credit unions, life insurance companies, trust companies and other service providers, casinos, customs, lawyers, notaries, accountants, tax advisors, jewelers, car dealers, real estate agents, administration offices

Number of STRs received and time frame: 20,042 Unusual Transactions in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Curacao has become a member of the Caribbean Financial Action Task Force, (CFATF), a Financial Action Task Force-style regional body. It will undergo its first mutual evaluation sometime after signing a memorandum of understanding in May 2011.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Until a mutual evaluation is completed, it is difficult to evaluate the effectiveness of Curacao's anti-money laundering/counter-terrorist financing regime. When part of the Netherland Antilles, Curacao had no previous evaluation of its financial system. On September 28, 2010, the government implemented UNSCRs 1267, 1333, 1363, 1368, 1373, 1390 and 1526. The supervisory authority refers all financial institutions to the UN list and other relevant lists such as the U.S. Department of the Treasury Office of Foreign Assets Control list.

In cooperation with Antillean authorities, Dutch officials from the Netherlands established the Hit and Run Money Laundering (HARM) Team in 2003. Since its inception, the team has concentrated on

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identification of the most prominent launderers, their means of laundering money, and law enforcement cooperation. The HARM team is incorporated into the Financial Investigation Department BFO (Bureau Financieel Onderzoek) and is now called “BFO-HARM”.

Most money laundering cases involve international cooperation among law enforcement authorities in affected countries. The Curacao Kings Cross investigation has been used as a case study example of trade-based money laundering/Black Market Peso Exchange. The Kings Cross investigation demonstrates a connection between organized crime and transactions involving a company based in the Free Zone in Curacao. The investigators discovered a variant on the Black Market Peso Exchange in which the Curacao-based business operated as a currency exchanger for narcotics traffickers.

The Mutual Legal Assistance Treaty between the Kingdom of the Netherlands (KON) and the U.S. applies to Curacao; however, the treaty is not applicable to requests for assistance relating to fiscal offenses addressed to the Netherlands Antilles. A tax information exchange agreement between the KON and the U.S. with regard to Curacao entered into force in March 2007.

Curacao is part of the Kingdom of the Netherlands and cannot sign or ratify international conventions in its own right. Rather, the Netherlands may arrange for the ratification of any convention to be extended to Curacao. The 1988 Drug Convention was extended to Curacao in 1999. The International Convention for the Suppression of the Financing of Terrorism was extended to the Netherlands Antilles, and as successor, to Curacao on March 22, 2010. The UN Convention against Transnational Organized Crime and the UN Convention against Corruption have not yet been extended to Curacao.

The previous Government of the Netherlands Antilles had demonstrated a commitment to combating money laundering. Curacao should ensure that it continues its regulation and supervision of the offshore sector and free trade zones, as well as pursuing money laundering investigations and prosecutions. Curacao should work to fully develop its capacity to investigate and prosecute money laundering and terrorist financing cases.

Cyprus

Cyprus has been divided since 1974. 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 section of the report discusses the area controlled by the ROC. A separate section on the area administered by Turkish Cypriots follows at the end.

Cyprus is a major regional financial center with a robust financial services industry and a significant amount of nonresident businesses. A number of factors have contributed to the development of Cyprus as a financial center: a preferential tax regime; double tax treaties with 44 countries (including the United States, several European Union (EU) nations, and former Soviet Union nations); a sophisticated telecommunications infrastructure; and EU membership. In 2003, Cyprus introduced tax and legislative changes effectively abolishing all legal and substantive distinctions between domestic and offshore companies. Cyprus has also lifted the prohibition from doing business domestically and companies formerly classified as offshore are now free to engage in business locally. International business companies are allowed to be registered in Cyprus but their ultimate beneficial ownership must be disclosed to the authorities. There are over 220,000 companies registered in Cyprus, many of which are non-resident. The same disclosure, reporting, tax and other laws and regulations apply equally to all registered companies.

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Like any financial center, Cyprus remains vulnerable to money laundering and illicit finance activities. Simple financial crime constitutes the biggest threat for domestic money laundering and tax evasion internationally. There is no significant black market for smuggled goods in Cyprus. What little black market trade exists is usually related to small scale transactions, typically involving fake clothing, pirated CDs/DVDs and cigarettes moved across the UN-patrolled buffer zone separating the ROC from the "TRNC".

Cyprus has three free trade zones (FTZs). Two, located in the main seaports of Limassol and Larnaca, are used only for transit trade, while the third, located near the international airport in Larnaca, can also be used for repacking and reprocessing. These areas are treated as being outside normal EU customs territory. Consequently, non-EU goods placed in FTZs are not subject to any import duties, VAT or excise tax. FTZs are governed under the provisions of relevant EU and Cypriot legislation. The Department of Customs has jurisdiction over all three areas and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, securities and insurance firms, money transfer services, international financial services and trust companies, auditors, tax advisors, accountants, real estate agents, dealers in precious stones and gems, and in certain cases, attorneys

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; credit institutions; issuers or servicers of credit or payment cards, and traveler's checks; financial leasing companies; securities and insurance brokers and firms; money transfer or brokerage services; financial advisors, international financial service providers, and trust and safekeeping companies; auditors, tax advisors, and accountants; real estate agents; dealers in precious stones and gems; and in certain cases, attorneys

Number of STRs received and time frame: 428 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 30 in 2009

Convictions: Five in 2009

Assets forfeited: criminally: Euros 5.5 million (approximately \$7.1 million in 2009)

civilly: Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Cyprus 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 Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Cyprus_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are no legal issues hampering Cyprus' ability to assist foreign governments in mutual legal assistance requests. Cypriot law allows MOKAS, the Cypriot financial intelligence unit (FIU) to share information with other FIUs without benefit of a memorandum of understanding (MOU).

Cyprus has enacted comprehensive legislation and established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets and assets derived from other serious crimes. Like most EU countries, though, Cyprus has no provisions allowing civil forfeiture of assets without a criminal case. The police and the FIU are responsible for tracing, seizing and freezing assets and they fully enforce existing legislation. Cyprus has an independent national system and mechanism for freezing terrorist assets, and has also engaged in bilateral and multilateral negotiations with other governments to enhance its asset tracking and seizure system.

Amending legislation that came into force in June 2010 strengthened the 2007 Law for the Prevention and Suppression of Money Laundering Activities (LPSMLA), e.g., by requiring a timely response to FIU enquiries, and criminalizing the provision of false or misleading information.

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 in recent years with the passage of "laws" better regulating the onshore and offshore banking sectors and casinos. There are currently 22 domestic banks in the area administered by Turkish Cypriots and Internet banking is available. The offshore sector consists of 13 banks and 34 companies. The offshore banking sector remains a concern. The offshore banks may not conduct business with residents of the area administered by Turkish Cypriots and may not deal in cash. Under revised "laws" passed in 2008, the "Central Bank" took over the regulation and licensing of offshore banks from the "Ministry of Finance" thereby improving oversight. The "Central Bank" audits the offshore entities, which must submit an annual report on their activities. The new "law" permits only banks previously licensed by Organization for Economic Co-operation and Development (OECD)-member nations or Turkey to operate an offshore branch in northern Cyprus. Despite the 2009 promulgation of more strict "laws," the 23 operating casinos remain essentially unregulated due to the lack of an enforcement or investigative mechanism by the casino regulatory body and efforts to de-criminalize any failure by casinos to follow KYC regulations.

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The Turkish Cypriot community is not part of any FSRB and thus is not subject to normal peer evaluations. Turkish Cypriot authorities have taken steps to address the risk of financial crime, including enacting an "anti-money laundering law (AMLL)" for the area and formally establishing an FIU equivalent. 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 Euros (approximately \$13,000). 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 "law," banks, nonbank financial institutions, and foreign exchange dealers must report all currency transactions over 10,000 Euros (approximately \$13,000) and suspicious transactions in any amount to the "Money and Exchange Bureau". Banks must follow a KYC policy and require customer identification. Banks and other designated entities also must submit STRs to a five-member "Anti-Money Laundering Committee" 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 Economy". According to the Turkish Cypriot authorities, 102 STRs were received by the "FIU" in 2009.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, cooperative credit societies, finance companies, leasing/factoring companies, portfolio management firms, investment firms, jewelers, foreign exchange bureaus, real estate agents, retailers of games of chance, lottery authority, accountants, insurance firms, cargo firms, antique dealers, auto dealers, lawyers

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cooperative credit societies, finance companies, leasing/factoring companies, portfolio management firms, investment firms, jewelers, foreign exchange bureaus, real estate agents, retailers of games of chance, lottery authority, accountants, insurance firms, cargo firms, antique dealers, auto dealers, lawyers

Number of STRs received and time frame: 106 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* Nil *civilly:* Nil

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES, with Turkey

The area administered by Turkish Cypriots is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Turkish Cypriot "AMLL" provides better banking regulations than were in force previously, but without ongoing enforcement its objectives cannot be met. 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. Amendments that would essentially decriminalize failure to implement KYC rules are currently being considered to a "law" to regulate potential AML activity in casinos. The largely unregulated consumer finance institutions and currency exchange houses are also of concern. The Turkish Cypriot authorities should continue efforts to enhance the "FIU," and adopt and implement a strong licensing and regulatory environment for all obligated institutions, in particular casinos and money exchange houses. Turkish Cypriot authorities should stringently enforce the cross-border currency declaration requirements. Turkish Cypriot authorities should continue 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 a small, open, export-oriented economy. However, the Czech Republic's central location in Europe and its status as a market economy leave it vulnerable to money laundering. The economy is still heavily cash-based despite the development of modern payment techniques, and cash transactions in some sectors enable the mixing of criminal proceeds with legitimate profits. Various forms of organized crime (narcotics trafficking, trafficking in persons, fraud, counterfeit goods, embezzlement, and smuggling) are the primary sources of laundered assets in the country. Other sources of criminal proceeds include criminal offenses against property, insurance fraud, and credit fraud.

Domestic and foreign organized crime groups target Czech financial institutions for laundering activity, most commonly by means of financial transfers through the Czech Republic. Links between organized crime and money laundering are present mainly in the activities of foreign groups, in particular from the former Soviet republics, the Balkan region, and Asia.

The Czech Republic is home to a significant black market for smuggled cigarettes and other tobacco products, as well as pirated products from Asia, including CDs, DVDs, and counterfeit designer goods. The Czech Customs Administration has found that Asian criminal groups use a portion of the illegal funds from contraband smuggling for the purchase of real properties, which they then use for business activities. There are ten free trade zones operating in the Czech Republic, but Czech authorities do not consider them a money laundering vulnerability.

Banks, investment companies, real estate agencies, currency exchange offices, casinos, and other gaming establishments have all been used to launder criminal proceeds. Aspects of the gambling industry and the way it is regulated have been highlighted in the past as vulnerable to money laundering, as has the widespread use of freely transferable bearer shares among Czech companies. Bearer shares pose an obstacle to law enforcement during financial investigations and obscure true ownership.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons/entities covered: *criminally:* NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchanges, insurance companies, the Czech Consolidation Agency, the holder of a postal license, securities dealers and exchanges, gaming enterprises, attorneys, trusts and company service providers, realtors, notaries, accountants, tax advisors, auditors, pawnshops and dealers of secondhand goods, including vehicles, and of precious metals and stones

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, currency exchanges, insurance companies, the Czech Consolidation Agency, the holder of a postal license, securities dealers and exchanges, gaming enterprises, attorneys, trusts and company service providers, realtors, notaries, accountants, tax advisors, auditors, pawnshops and dealers of secondhand goods, including vehicles, and of precious metals and stones

Number of STRs received and time frame: 1,711 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 44 in 2010

Convictions: 16 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Czech Republic is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Czech_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Despite an environment of fiscal austerity in which most government ministries are facing significant budget cuts, the Financial Intelligence Unit (FIU) and the Police Unit for Combating Corruption and Financial Crimes, two of the Czech Republic's key bodies for combating money laundering, are seeing their budgets and staff increased, signaling the importance the current government places on combating financial crimes. With the additional staff they will gain, the police plan to focus on increasing the volume of seized assets, which have remained steady on an annual basis. While the additional resources should contribute to the quality of the unit's investigative work, the unit faces instability in terms of leadership. Since 1991 the Unit for Combating Corruption and Financial Crimes has had eight directors, four of them within the past four years. Maintaining the unit's stability at the director level would improve operations and should be a goal of Czech authorities.

The new Criminal Code, which came into force on January 1, 2010, simplifies the definition of money laundering and decreases evidence requirements. The new definition removes the previous clause addressing the perpetrator's intent; consequently, it is no longer necessary to prove the intention of the perpetrator, which should assist prosecutors in obtaining convictions. The new criminal code also imposes tougher sentences for money laundering and criminalizes the legalization of criminal proceeds by negligence. As of December 2010, the Czech Government is considering a measure that would introduce the criminal liability of legal entities.

CZK 1.31 billion (approximately \$69 million) was forfeited in 2009; however, stand-alone statistics exclusive to assets forfeited in money laundering cases are not available.

The Czech Republic permits bearer shares, which are widely used by Czech companies; thus there is not an adequate level of reliability of registered information and of ownership transparency. Although know your customer rules require companies to provide financial institutions with evidence of the identities of beneficial owners holding more than a 25% stake in the company, the reliability of company-provided data is in some cases questionable. Law enforcement personnel acknowledge that bearer shares are obstacles in their financial investigations because they obscure true ownership. Czech government officials suggest that until the EU abolishes them throughout its territory, individual countries, including the Czech Republic, are unlikely to ban them. About 51% of Czech companies reportedly issue bearer shares.

The gambling industry in the Czech Republic is also potentially vulnerable to money laundering. The Czech gaming industry is represented by a powerful lobby and has succeeded in blocking most new regulation of the sector during the past twenty years. Casinos file a relatively small number of STRs. Other gaming entities, including bars and restaurants with electronic games and slot machines, are not considered obliged entities and consequently are not subject to the Anti-Money Laundering Act (AMLA) requirements. Without robust oversight and the applicability of the AMLA to all gaming establishments, the potential exists for money laundering to become more significant in the gaming sector.

The Government of the Czech Republic should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Denmark

Denmark is not a major financial center, and although authorities do not believe Denmark is often viewed as a particularly attractive place for money laundering, there have been some instances of placement of criminal proceeds in banks in situations where neither the victim nor the perpetrator resided in Denmark. Major sources for proceeds are drug trafficking and economic crimes, particularly VAT and investment frauds, smuggling of goods, and violations of intellectual property rights. Outlaw motorcycle gangs have been involved in a range of offenses, including narcotics-related offenses, smuggling of goods, and various financial crimes. Denmark is geographically vulnerable to serving as a transit country for smuggling into Sweden and Norway. The proceeds of crime are typically transferred out of Denmark soon after offenses occur.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and electronic money institutions, and currency exchanges; insurance brokers and intermediaries; pension and mutual funds; securities brokers and dealers; safekeeping, portfolio, asset and capital managers; financial leasing and factoring entities; issuers and processors of credit cards, traveler’s checks, and money orders; accountants and auditors; real estate agents; trust and company service providers; attorneys; real estate agents; and casinos

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and electronic money institutions, and currency exchanges; insurance brokers and intermediaries; pension and mutual funds; securities brokers and dealers; safekeeping, portfolio, asset and capital managers; financial leasing and factoring entities; issuers and processors of credit cards, traveler’s checks, and money orders; accountants and auditors; real estate agents; trust and company service providers; attorneys; real estate agents; and casinos

Number of STRs received and time frame: 2,095 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 306 in 2009

Convictions: 158 in 2009

Assets forfeited: *criminally:* approximately \$41 million in 2009 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Denmark is a member of the Financial Action Task Force (FATF). Its most recent Mutual Evaluation Report can be found here: <http://www.fatf-gafi.org/dataoecd/1/26/37588381.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Denmark has a comprehensive anti-money laundering/counter-terrorist financing (AML/CFT) regime and should continue to enhance its laws and regulations as necessary to adhere to international standards. Denmark should extend its AML/CFT requirements to cover gaming establishments and Internet gaming providers.

Djibouti

Djibouti is one of the most stable countries in the Horn of Africa. It is a minor financial hub in the sub-region, thanks to its U.S. dollar-pegged currency and its unrestricted foreign exchange. Over the past five years, Djibouti's economy has undergone a substantial transformation due to a surge in foreign direct investment inflows – primarily from the countries of the Gulf Cooperation Council (GCC) – in the port, construction, and tourism sectors. The Djibouti Free Zone, managed by Dubai's Jebel Ali Free Zone and inaugurated in 2004, has now almost reached capacity. A new larger free zone and separate heavy equipment and automobile free zone are under construction. Officials from the Central Bank have not reported any instances of money laundering. Informal and black markets for goods remain important. Smuggled goods consist primarily of highly taxed cigarettes and alcohol. Due to Djibouti's strategic location in the Horn of Africa and its cultural and historical trading ties, Djibouti-based traders and brokers are active in the region. Djibouti currently hosts no offshore banks; however, its banking laws explicitly permit offshore institutions. The number of locally operating banks has increased from two to ten in the past six years.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Credit establishments, financial institutions and intermediaries, and any individual or entity that carries out, controls or gives advice on transactions involving deposits, exchanges, investments, conversion or any other movements of capital

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit establishments, financial institutions and intermediaries, and any individual or legal entity that carries out, controls or gives advice on transactions involving deposits, exchanges, investments, conversion or any other movements of capital

Number of STRs received and time frame: 12

Number of CTRs received and time frame: Two

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Djibouti is not a member of a Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Expertise in investigating and prosecuting financial crimes is minimal. Although Djibouti enacted its anti-money laundering (AML) law in 2002 and later established a financial intelligence unit (FIU), enforcement of the law continues to be a major challenge. Though Djibouti makes an effort to control all formal transaction points, greater resources and independence would improve the oversight capabilities of the Central Bank and the FIU. With an increasing number of banks operating in Djibouti, and the introduction of bank-free cash transfers via mobile phones, additional training and resources for the FIU continue to be critical needs.

Corruption is also a concern. While customs transparency has greatly improved under Dubai Ports World management of the customs service, the Government of Djibouti should continue to focus on improving customs controls on cross-border currency movements, especially at land borders. Finally, Djibouti must also ensure its AML regime is effectively applied in all current and planned free zones, and to all professionals involved in financial matters.

The AML law stipulates that Djibouti will cooperate with other countries by exchanging information, assisting in investigations, providing mutual technical assistance and facilitating the extradition process in money laundering cases. At the regional level, the Fraud Investigation Unit, Djibouti's FIU, works in collaboration with FIUs from member states of the Intergovernmental Authority on Development (IGAD). Although the UN lists of designated terrorists and terrorist entities are not distributed by the Central Bank, banks and financial institutions are encouraged to retrieve the updated list regularly from the internet.

Dominica

Dominica is a major offshore center with a large international business company (IBC) presence and internet gaming. Dominican officials believe most of the money laundering cases under investigation involve external proceeds from fraudulent investment schemes. There has also been evidence of advance fee fraud schemes. Domestically driven money laundering primarily has a nexus to drug-related activities. Money remitters have been used to transfer funds to questionable locations, and there has been a surge in the placement of euros in the banking system related to questionable activities in Guadeloupe and Martinique

Dominica's financial sector includes two offshore banks, 15,321 IBCs, twenty insurance companies, nine money services businesses, four internet gaming companies and one building and loan society. There are no free zones in Dominica. Shell companies are not permitted. Bearer shares are permitted; however, these shares are immobilized by the requirement that the beneficial owners of the bearer shares must be disclosed.

Under Dominica's Economic Citizenship Program, individuals can obtain citizenship for approximately \$75,000 for an individual and \$100,000 for a family of up to four persons. There is no residency requirement and passport holders may travel to most Commonwealth countries without a visa. An application for economic citizenship must be made through a government approved local agent and requires a fee for due diligence or background check purposes. An in-person interview is also required.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchangers, accountants, notaries, gaming centers, auto dealers and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, and securities dealers

Number of STRs received and time frame: 63 from January to September 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

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Prosecutions: Two

Convictions: None

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Dominica is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here [http://www.cfatf-gafic.org/downloadables/mer/Dominica_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Dominica_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In the past, subjects of United States criminal investigations have been identified as exploiting Dominica's Economic Citizenship Program. However, Dominica has made a concerted effort to improve the regulation of this program.

The Government of the Commonwealth of Dominica (GOCD) should fully implement and enforce the provisions of its legislation and provide additional resources for regulating offshore entities and stringently regulating internet gaming entities. Additional awareness training for on-financial businesses and professions, to ensure their understanding and compliance of STR reporting requirements, would significantly strengthen the GOCD's regulatory framework. The GOCD should also move expeditiously to become a party to the UN Convention against Transnational Organized Crime.

Dominican Republic

In spite of having the largest economy in the Caribbean, the Dominican Republic (DR) is not a major regional financial center. The DR continues to be a major transit point for the transshipment of illicit narcotics destined for the United States and Europe. The existence of six international airports, six major seaports, and a poorly controlled frontier with Haiti present the authorities with serious challenges. The existence of corruption within the government and the private sector, an organized crime presence (primarily illicit trafficking in narcotics and persons), a fragile economy and a large informal economy make the DR vulnerable to money laundering and terrorist financing threats. The major sources of laundered proceeds stem from illicit trafficking activities, tax evasion and fraudulent financial activity, particularly transactions with forged credit cards.

The DR is a major bulk cash smuggling hub. 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 DR. Once in the DR, currency exchange houses, money remittance companies, real estate and construction companies, and casinos are commonly used to facilitate the laundering of illicit funds. The lack of a single recognized financial intelligence unit exacerbates the problem, and the proposed creation of an offshore financial center may worsen the DR's vulnerability to money laundering.

There is a significant market for illicit or smuggled goods in the Dominican Republic; the funding sources are unclear, as is the destination of the proceeds. Authorities say the under-invoicing of imports and exports by Dominican Republic businessmen is still a relatively common practice. The primary goal for businessmen who engage in such activity is reportedly to avoid taxes and customs fees. Customs fraud and invoice manipulation are also found in regional value transfer schemes.

Money Laundering and Financial Crimes

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.? YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchange houses, stockbrokers, securities brokers, 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 and precious metals

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, and securities dealers

Number of STRs received and time frame: 45 from January to August 2010

Number of CTRs received and time frame: 138 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 4 from January 2009 to October 2010

Convictions: 0

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Dominican Republic is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Limited resources hamper the Government of the Dominican Republic's (GODR) ability to enforce the anti-money laundering (AML) regulations. Institutions and personnel lack the training and capacity to fully enforce the law and its attendant regulations. Earlier resistance in the judiciary and among prosecutors to applying AML has evaporated, and authorities effectively apply the AML and regulations

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when able to gather proper evidence. The lack of data and systematic study make it difficult for the Federal Police to identify trends in money laundering. The system of asset forfeiture is largely ineffective.

The AML law excludes from the list of covered entities dealers of art, antiques, and other high-valued consumer goods; entities dealing with jewelry and precious metals; and attorneys, financial management firms and travel agencies. These entities are not required to maintain customer information or report suspicious activity. Additionally, accountants and auto dealers are excluded from the STR requirement. PEPs are addressed in a circular issued by the Superintendency of Banks and in force since September 7, 2010; while this is a step forward, the circular does not address all elements in the international standards and does not apply to all pertinent entities. Covered non-bank businesses and professions are to be inspected by the Tax Authority. However, in practice, such inspections rarely occur.

The decision to replace the UIF financial intelligence unit (FIU), which became a member of the Egmont Group in 2000, with the Financial Analysis Unit (UAF) caused the Dominican Republic to lose its Egmont membership. Although the UAF is now recognized as the GODR's financial intelligence unit, it appears there is still confusion among obligated entities regarding their reporting requirements. 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, the GODR passed law 480/08 allowing the creation of "International Financial Zones" (IFZs) where the full range of financial services can be conducted separately from traditional monetary, banking and financial regulatory oversight. Sections of Law 480/08 would allow the IFZs to have their own regulatory and supervisory authority, independent from that of the domestic financial system. This Law creates a new entity called the Financial Investigations Department (DIF) created within the NCIFZ. The creation of the DIF within the NCIFZ, with specified roles, gives such a unit the same functions as the UAF. This situation is unacceptable, because two FIUs cannot coexist within a jurisdiction. Law 480/08 has not been implemented nor have any IFZs been established. Members of the Dominican Congress are trying to amend Law 480/08 to correct this risk. The Dominican Republic has approximately 50 free trade zone parks, focused on textiles, tobacco, small electric devices, and medical and pharmaceutical products.

The GODR should bolster the operational capacity of the UAF, which is the single, unified FIU. The UAF should have budgetary independence. There should be enhanced supervision of money service businesses. Authorities should identify, investigate and prosecute organized criminal groups involved with bulk cash smuggling and trade-based money laundering. The GODR should not establish International Financial Zones, which will greatly increase the risk of all-source money laundering. Specific steps should be taken to combat corruption within both government and industry.

Ecuador

Ecuador is a major drug transit country. With a dollarized economy and geographic location between two major drug producing countries, Ecuador is highly vulnerable to money laundering. Corruption is a significant problem in Ecuador and facilitates money laundering. Because only 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. There is evidence that money laundering is taking place through trade and commercial activity, as well as through cash couriers. Large amounts of unexplained currency entering and leaving Ecuador indicate that transit of illicit cash is a significant activity. Weakly regulated casinos and deficient financial supervision serve as additional vulnerabilities for money laundering.

Money Laundering and Financial Crimes

On February 18, 2010, the Financial Action Task Force (FATF) issued a Public Statement identifying Ecuador as having strategic Anti-Money Laundering/Counter-Terrorist Financing (AML/CFT) deficiencies and as not having delivered a clear high-level political commitment to address these deficiencies. In June 2010, after the Ecuadorian government provided a written high-level political commitment to address the identified deficiencies, including by tabling a revised AML/CFT law, FATF upgraded Ecuador to a list of countries that have strategic AML/CFT deficiencies for which they have developed a corrective action plan.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Unknown

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, insurance providers (including private insurance), cooperatives, trust and fund managers, money transfer companies and parallel couriers, brokerages, casinos and gaming halls

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, savings and credit institutions; investment companies, stock exchanges, and mutual funds; exchange houses; credit card administrators; money transmitters; mortgage companies; insurance and reinsurance companies trusts; fund managers; sellers of vehicles, aircraft, and watercraft; brokerages; couriers; real estate agents; casinos and other gambling enterprises; dealers of precious metals and stones

Number of STRs received and time frame: 36 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Ecuador is a member of the Financial Action Task Force (FATF) for South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here:

<http://www.gafisud.info/home.htm>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On December 30, 2010, Law 2010-352, reforming existing anti-money laundering legislation and the Penal Code, entered into force. The law contains a number of provisions aimed at strengthening the criminalization of money laundering and terrorist financing, and also strengthening Ecuador's financial intelligence unit (FIU) (renamed the Financial Analysis Unit). In addition to strengthening border controls on cash movements at air and seaports, the new legislation expands penalties, removes the \$5,000 minimum threshold for money laundering, and includes crimes committed outside of Ecuador. The law also appears to strengthen the mandate of Ecuador's FIU and expands the role of the National Anti-Money Laundering Council, which oversees the FIU. Although, on balance, the legal reform strengthens Ecuador's legislation with regard to financial crimes, the law includes new language that could potentially complicate seizures of illicit funds, either as part of money laundering investigations or bulk cash transfers. For example, the new language states the Attorney General is responsible for demonstrating the illicit origin of seized funds. Explicitly placing the burden of proof on the Government of Ecuador (GOE) could make it easier for plaintiffs in money laundering or smuggled cash cases to avoid conviction.

Law 2010-352 also includes provisions that seek to criminalize terrorist financing, by creating an autonomous offense of the financing of crimes (including terrorism, acts of terrorism, and organized terrorism) listed in the Penal Code. The new law adds a new article to the Penal Code to criminalize the financing of any of the acts listed in the Penal Code's section under "Crimes of Sabotage and Terrorism." The new law does not contain an explicit reference to "terrorist financing," does not define "funds" or "assets," does not appear to cover attempts to commit the offense, and appears to require a connection to an act of terrorism. As such, Ecuador's strengthened AML/CFT legal regime does not yet fully meet international standards.

The GOE should continue to work to ensure its AML/CFT legislation, and especially the criminalization of the financing of terrorism, adheres to international standards. The GOE should harmonize its legislation to eliminate conflicts that hinder successful money laundering investigations and prosecutions. The GOE should ensure the FIU becomes fully functional and meets international standards, and should also ensure that reporting requirements – covering an expanded group of obligated parties -- are enforced. The GOE should make a dedicated effort to train judges, prosecutors and investigators so they understand the country's applicable AML/CFT legislation and regulations. It is important for the GOE to take all necessary steps to comply fully with international AML/CFT standards to which it has formally committed through its membership in the UN, the OAS, and GAFISUD.

Egypt

Egypt is not considered a regional financial center or a major hub for money laundering. Egypt still has a large informal cash economy, and many financial transactions are undocumented or do not enter the banking system. Cash remains by far the preferred means of payment in Egypt and, despite efforts by the Egyptian authorities, modern means of payment remain underdeveloped. Reportedly, there is evidence that arms are being smuggled across Egypt's border with Gaza. The funding source is unclear, as is the destination of the proceeds. Authorities report the under-invoicing of imports and exports, or trade-based

Money Laundering and Financial Crimes

money laundering, is common, reportedly to avoid taxes and customs fees. Tax evasion is common. Customs fraud and invoice manipulation are also found in regional value transfer schemes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** Unknown

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, foreign exchange companies, money transfer companies, the post office, insurance companies, security firms, leasing companies, factoring companies, and mortgage financing companies

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, foreign exchange companies, money transfer companies, the post office, insurance companies, security firms, leasing companies, factoring companies, and mortgage financing companies

Number of STRs received and time frame: 275 - January - June 2008

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two in 2007

Convictions: Not available

Assets forfeited: criminally: Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Egypt is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.menafatf.org/images/UploadFiles/MER_Egypt_ForPublication.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Egypt (GOE) should address asset identification, seizure and forfeiture. The GOE also should improve its ability to pursue suspicious financial activities and transactions throughout the entire investigative and judicial process. Egypt should work to increase the number of successful money laundering investigations and prosecutions and improve its enforcement of cross-border currency controls.

El Salvador

El Salvador has an unusually rapidly growing banking system with little, other than its dollarized economy and remittance flow, to support such growth. The country is part of the transshipment route for South American cocaine and heroin destined for the United States and returning cash to South America. Money laundering is primarily related to proceeds from illegal narcotics and organized crime. There is no indication that money laundering is being used to fund terrorist activities. The U.S. dollar is the main currency in El Salvador. The country's dollarized economy and geographic location make it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of citizens of these countries across their respective borders without passing through immigration or customs inspection. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime.

There are 16 free trade zones operating in the country. There are no reported hawala or other similar alternative remittance systems operating in El Salvador. A significant number of remittances are transferred through banks and appear to pose little risk for money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: *criminally:* NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchanges, accountants, notaries, gaming centers, auto dealers, and securities dealers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Money Laundering and Financial Crimes

Covered entities: Banks, agricultural credit institutions, money exchanges, accountants, notaries, gaming centers, auto dealers, and securities dealers

Number of STRs received and time frame: 1,152 in 2010

Number of CTRs received and time frame: 2,562 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 29 in 2010

Convictions: Three in 2010

Assets forfeited: criminally: \$14,655,926 in 2010 (one seizure totaled \$14,000,000)

civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

El Salvador is a member of the Caribbean Financial Action Task Force, a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/El_Salvador_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/El_Salvador_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The number of prosecutions relative to the number of crimes which generate illicit funds is low. In addition, there are relatively few asset seizures incident to AML investigations. Funds seized in drugs cases are returned to law enforcement. In 2010, the government passed asset forfeiture legislation that allows the government to sell property seized in conjunction with narcotics arrests and to use the profits for counter-narcotics efforts. The regulatory institutions with regard to money laundering are weak and lack both human resources and sufficient regulatory powers.

There are no indications that the government or its officials facilitate or launder funds from illicit drug transactions. Salvadoran law severely penalizes abuse of an official position in relation to the commission of a drug offense, including accepting or receiving money or other benefits in exchange for an act of commission or omission relating to official duties.

El Salvador needs to provide a clear prohibition against “tipping off” in its legislation and regulations, and clarify and enforce its provisions regarding criminal liability for legal persons.

Equatorial Guinea

Equatorial Guinea (EG) is not a regional financial center. Implementation of its anti-money laundering laws is not complete, and EG is vulnerable to money laundering and terrorist financing. EG’s greatest concern in terms of money laundering and terrorist financing is cross-border currency transactions and the illegal international transfer of money by companies or by corrupt individuals. Corruption at all levels of government and commerce is a severe problem in EG. The Government of Equatorial Guinea is a member of the Economic and Monetary Community of Central Africa States (CEMAC) and shares a regional Central Bank (BEAC) with other CEMAC members.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: criminally: Not available *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: Foreign: Not available *Domestic:* Not available

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Not applicable

Number of STRs: Not applicable

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Equatorial Guinea is not a member of a Financial Action Task Force (FATF)-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Equatorial Guinea should work with the CEMAC and BEAC to establish a viable anti-money laundering/counter-terrorist financing (AML/CFT) regime. Within CEMAC, there is the Banking Commission of Central Africa (COBAC) and the Action Group against Money Laundering in Central Africa (GABAC). Although there is no recognized FSRB in the region, GABAC is working with banks and member states to ensure implementation of international FATF recommendations through two formalized relationships. If established, GABAC works directly with the National Financial Investigative Agency (ANIF) in each member state. GABAC also engages with all banking institutions to urge them to become members of COBAC and then ensures the banks are implementing and enforcing due diligence procedures, as outlined in the international standards.

The EG should become a party to the 1988 UN Drug Convention and the UN Convention against Corruption.

Eritrea

Eritrea is not a regional financial center. The Government of Eritrea (GOE) is highly autarchic and has created a strict command economy with nearly every significant economic entity controlled by the government/military. Exports are miniscule, generating little hard currency (although they are expected to grow with development of the mining sector). Eritrea has spurned assistance from traditional donors. Aid from its largest benefactors, Qatar and China, is not transparent. The level of cross border trafficking of narcotics is not known, but, given the government's tight control of its borders, Eritrea is not believed to be a significant market or transit route for narcotics. However, due to its informal cash economy, limited regulatory structure, lack of enforcement and proximity to regions where terrorist and criminal organizations operate, Eritrea is vulnerable to money laundering, trade-based value transfer, underground finance, terrorist financing and related activities.

The Eritrean legal and regulatory systems are undeveloped and non-transparent. The constitution, ratified in 1997, has yet to be implemented. Currently, all laws are issued by proclamation from the GOE. Regulations and procedures seem to be haphazardly created and irregularly enforced. Obtaining information about financial regulations is difficult; Eritrea is one of a few countries that do not publish their national accounts, budget, and trade statistics. Eritrean officials will not discuss the country's anti-money laundering/counter-terrorist financing (AML/CFT) regime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Not available

Legal persons covered: criminally: Not available *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: Not available

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Not available

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Not available

Enhanced due diligence procedures for PEPs: Foreign: Not available *Domestic:* Not available

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Not available

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

INCSR 2011 Volume II Country Database

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Eritrea is not a member of a Financial Action Task Force-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Eritrea (GOE) should seek international assistance to help structure an AML/CFT regime that adheres to international standards.

Estonia

Estonia has one of the most transparent, developed banking systems of the new European Union (EU) members. Estonia has adopted the universal banking model, which enables credit institutions to participate in a variety of activities such as leasing, insurance, and securities. Transnational and organized crime groups are attracted to the territory due to its location between Eastern and Western Europe. Analysis of suspicious transaction reports (STRs) discloses some incidents of transferring the proceeds of Internet crime to Estonia. There have been no reports of terrorist financing in Estonia.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Credit and financial institutions, lottery/gambling institutions, real estate firms, traders who receive payments in cash that exceed 200,000 kroons (approximately \$20,000), pawnbrokers, auditors and accountants, tax advisors, service providers for trust funds and business associations, notaries, attorneys and legal advisors, bailiffs, and trustees in bankruptcy

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

Money Laundering and Financial Crimes

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit and financial institutions, lottery/gambling institutions, real estate firms, traders who receive payments in cash that exceed 200,000 kroons (approximately \$20,000), pawnbrokers, auditors and accountants, tax advisors, service providers for trust funds and business associations, notaries, attorneys and legal advisors, bailiffs, and trustees in bankruptcy

Number of STRs received and time frame: 3,475 from January to September 2010 (714 related to terrorist financing)

Number of CTRs received and time frame: 6,777 from January to September 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 29 persons from January to November 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Estonia is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round3/MONEYVAL%282008%2932Rep-EST3_en.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Estonia is member of the EU, and on January 1, 2011, joined the euro zone. On March 8, 2010, the Auditors Activities Act came into effect, and on October 5, 2010, the International Sanctions Act took effect. On April 12, 2010, Estonia became a party to the UN Convention against Corruption. Estonia should continue to enhance its AML/CFT regime, as necessary.

Ethiopia

Due primarily to its unsophisticated financial systems and pervasive government controls, Ethiopia is not considered to be a regional financial center. Ethiopia's location within the Horn of Africa region makes it vulnerable to money laundering-related activities perpetrated by transnational criminal organizations, terrorists, and narcotics trafficking organizations. Sources of illegal proceeds include corruption, smuggling and trafficking in narcotics, persons, arms, and animal products. As the economy grows and becomes more liberalized, law enforcement sources believe bank fraud, electronic/computer crimes and money laundering activities will continue to rise. The financial services sector remains closed to foreign investment.

Since strict foreign exchange controls limit possession of foreign currency, most of the proceeds of contraband smuggling and other crimes are not laundered through the official banking system. High tariffs also encourage customs fraud and trade-related money laundering. Law enforcement sources indicate that alternative remittance systems, particularly hawala, are widely used. The Ethiopian Government has closed a number of illegal hawala operations and attempts to monitor hawala networks within the country.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, money transfer agents, foreign exchange bureaus, financial leasing companies, Ethiopian Revenue and Customs Authority, notary offices, licensing authorities, Ethiopian Investment Agency, non-governmental organizations, auditors, accountants, persons engaged in real estate business, precious metal dealers, and broker/investment advisors

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, money transfer agents, foreign exchange bureaus, financial leasing companies, Ethiopian Revenue and Customs Authority, notary offices, licensing authorities, Ethiopian Investment Agency, non-governmental organizations, auditors, accountants, persons engaged in real estate business, precious metal dealers, and broker/investment advisors

Number of STRs received and time frame: None

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One pending

Convictions: Unknown

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Ethiopia is not a member of a Financial Action Task Force (FATF)-style regional body (FSRB). Ethiopia has applied to be an observer of the Eastern and Southern Africa Anti-Money Laundering Group.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money Laundering and Financial Crimes

The lack of data and systematic study make it difficult for the federal police to identify trends in money laundering. Further, inadequate police training and lack of resources significantly diminish its investigative abilities.

In February 2010, the FATF International Cooperation Review Group (ICRG) publicly listed Ethiopia as a country deficient in its AML/CFT regime. In June 2010, Ethiopia's Finance Minister confirmed his government's commitment to an action plan to improve the country's anti-money laundering/counter-terrorist financing (AML/CFT) regime. The action plan includes: (1) implementing UN Security Council Resolutions 1267 and 1373 through law to ensure there are appropriate procedures to freeze, seize, and confiscate terrorist funds; (2) introducing implementing regulations/directives for the new AML law; (3) establishing a fully operational and effectively functioning financial intelligence unit (FIU); (4) seeking technical assistance to conduct a review of AML/CFT laws; (5) raising awareness of AML/CFT issues within the law enforcement community; (5) implementing effective, proportionate and dissuasive sanctions in order to deal with natural or legal persons that do not comply with the national AML/CFT requirements; and (6) obtaining full membership in a FSRB and submitting to a mutual evaluation.

Ethiopia has made progress in improving its AML/CFT regime, but has yet to make its FIU operational or implement various specific directives in accordance with its November 2009 Prevention and Suppression of Money Laundering and Financing of Terrorism law. In March 2010, the Central Bank issued the only relevant directive to date, mandating customer due diligence requirements for banks only. Ethiopia established its nascent FIU--the Financial Intelligence Center (FIC)--in early 2010 with the appointment of a Director General, but the FIC has not hired additional staff to date. The FIC reports directly to the Prime Minister, but the Finance Minister chairs an inter-ministerial committee formed to address Ethiopia's AML/CFT deficiencies. The FIC has sought donor technical assistance.

Fiji

Fiji is a small country with a population of less than 1 million. It is not a regional financial center but suffers from a relatively high level of crime. The country's geographical location makes it a convenient potential staging post for Australia and New Zealand. This has been demonstrated by some significant drug related cases and a noted increase in the number of human smuggling cases. Cross-border crime gangs involving individuals from neighboring Asian countries are operating within Fiji.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, foreign exchange dealers, money remittance service providers, law firms, real estate agencies, accountants

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, foreign exchange dealers, money remittance service providers, law firms, real estate agencies, accountants

Number of STRs received and time frame: 629 in 2010

Number of CTRs received and time frame: 133,487 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Fiji is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation report can be found here:

<http://www.apgml.org/documents/docs/17/Fiji%20DAR%20Final.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The financial intelligence unit does not have budgetary independence. Fiji should continue to implement anti-money laundering and counter-terrorist financing measures that adhere to international standards.

Finland

Finland is not a regional financial center. Over the past decade, Finland repeatedly has placed first or second on Transparency International's Corruption Perceptions Index (CPI); in 2010, Finland ranked fourth on the list. The major sources of illegal proceeds in Finland relate to financial crimes and the majority of suspicious financial activities investigated have an international dimension. These funds are normally laundered through currency exchanges and gambling establishments. The number of organized crime groups has grown slightly in the past few years, as has the number of their members. Terrorism related fund-raising, to the extent it exists, appears to be less of a problem than in other European countries.

Finland has free zones in Hanko, Hamina, Lappeenranta and Turku, and free warehouse areas in Kemi and Oulu. Goods may be stored for an unlimited time in these zones without customs clearance, but they may not be consumed or sold on a retail basis. The same tax and labor laws apply to free zones/free warehouses as to other workplaces in Finland.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

Money Laundering and Financial Crimes

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and financing institutions and financial holding companies; investment firms; fund management companies and custodians; the central securities depository; book entry registrars; real estate agents and apartment rental agencies; gaming entities; insurance companies and intermediaries, and local mutual insurance associations; pawnshops, auctioneers, and dealers in vehicles and high value goods; auditors, accountants, and lawyers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit and financial institutions, investment and fund management companies; insurance brokers and insurance companies; real estate agents and apartment rental agencies; betting services and casinos; management companies; custodians of mutual funds; auditors, lawyers, tax advisors, and accountants, auctioneers, pawn shops, and dealers in vehicles and high value goods; businesses and professions that perform other payment transfers, such as hawala; repossession agents and bankruptcy ombudsmen

Number of STRs received and time frame: 12,375 January - June 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 18 in 2008

Convictions: None

Assets forfeited: *criminally:* Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Finland is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/document/58/0,3343,en_32250379_32236963_39535482_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Finland has a comprehensive anti-money laundering/counter-terrorist financing regime and should continue to enhance its laws and regulations as necessary to adhere to international standards.

Finland has, in conjunction with the other Nordic Countries, prepared and concluded treaties with certain offshore financial centers concerning the exchange of information on tax related matters. The treaties are part of the tax haven project, set out by The Nordic Council of Ministers. Finland has signed bilateral treaties on information exchange and taxation with Montserrat and Liberia (November 2010), Vanuatu (October 2010), Marshall Islands (September 2010), Belize (September 2010), Monaco (June 2010), Antigua and Barbuda, Dominica, Grenada, Saint Lucia (May 2010), St. Vincent and the Grenadines, St Kitts and Nevis, Bahamas (March 2010), Andorra (February 2010), San Marino (January 2010), Cook Islands, Samoa, Turks & Caicos, Anguilla (December 2009), Gibraltar (October 2009), Aruba and Netherlands Antilles (September 2009), British Virgin Islands (May 2009), Bermuda and Cayman Islands (April 2009), Jersey and Guernsey (October 2008) and Isle of Man (October 2007).

In June 2010 the Financial Supervision Authority (FSA) issued updated customer due diligence standards effective September 1, 2010, applicable to all entities regulated by the FSA.

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.

France can designate portions of its customs territory as free trade zones and free warehouses in return for commitments in favor of employment. France has taken advantage of these regulations in several specific instances. The French Customs Service administers these zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, money-issuing institutions, investment firms, money exchangers, investment management companies, mutual insurers and benefit institutions, insurance intermediaries, insurance dealers, notaries, receivers and trustees in bankruptcy, financial investment advisors, real estate brokers, chartered accountants, auditors, dealers in high-value goods, auctioneers and auction houses, bailiffs, lawyers, participants in stock exchange settlement and delivery, commercial registered office providers, gaming centers, companies involved in sports bets and horse-racing tips, and casinos

Money Laundering and Financial Crimes

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, money-issuing institutions, investment firms, money exchangers, investment management companies, mutual insurers and benefit institutions, insurance brokers and intermediaries, notaries, receivers and trustees in bankruptcy, financial investment advisors, real estate brokers, chartered accountants, auditors, dealers in high-value goods, auctioneers and auction houses, bailiffs, lawyers, participants to stock exchange settlement and delivery and commercial registered office providers, gaming centers, companies involved in sports bets and horse-racing tips, and casinos

Number of STRs received and time frame: 17,310 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 225 in 2009

Assets forfeited: criminally: Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

France is a member of the Financial Action Task Force (FATF), and 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), two FATF-style regional bodies. The International Monetary Fund (IMF) prepared a Report on the Observance of Standards and Codes. This report can be found here: <http://www.imf.org/external/np/fsap/fsap.asp#> . France was evaluated by the FATF in 2010; once finalized the evaluation report may be found here: http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

France applies the 2006/70/CE European Union (EU) directive by which politically exposed persons from the EU states may benefit from simplified vigilance procedures, but only in a limited number of cases.

France and the United States have exchanged large amounts of data in connection with money laundering and terrorist financing.

France does not have the capacity to share forfeited assets with other jurisdictions.

The Government of France (GOF) has established a comprehensive anti-money laundering/counter-terrorist financing (AML/CFT) 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.

Gabon

Gabon is not a regional financial center. Despite the abundance of natural resources, poor fiscal management and widespread corruption hobble the economy. Embezzlement of state funds, including by politically exposed persons, frequently gives rise to money laundering. Gabon also suffers from porous borders. General smuggling is widespread and is facilitated by organized criminal groups.

The Bank of Central African States (BEAC), a regional central bank that serves six countries of Central Africa, supervises Gabon's banking system. The actual monitoring of financial transactions is conducted by the Economic Intervention Service that harmonizes the regulation of currency exchanges in the member States of the Central African Economic and Monetary Community (CEMAC).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Not available

Legal persons covered: criminally: Not available *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: Not available

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Not available

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange houses, stock brokerages, casinos, insurance companies, lawyers, and accountants

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, exchange houses, stock brokerages, casinos, insurance companies, lawyers, and accountants

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Gabon is not a member of a Financial Action Task Force (FATF)-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In September 2005, the Government of Gabon (GOG) created the National Financial Investigations Agency (ANIF), a body designed to lead the fight against money laundering and terrorist financing. Though ANIF is now functional, it lacks the necessary resources (both human and financial) to be effective in its mission.

The gendarme and police have an anti-narcotics unit, the Central Anti-Drug Office dedicated to investigation and arrests. The unit is under-equipped and under-funded and lacks necessary training to operate at a high level of functionality.

The judiciary remains inefficient and susceptible to inappropriate influence. Police inefficiency, corruption, and impunity remain serious problems. Additionally, official corruption is widespread. Oversight efforts to reign in corruption are weak, making it possible for public officials to exploit their positions for personal enrichment. The National Commission of the Fight Against Illicit Enrichment, a government anti-corruption organization, enjoys a high profile but has not prosecuted many alleged criminals identified as taking bribes or committing other malfeasance.

There is a large Lebanese expatriate community in Gabon engaged in the timber industry, construction, and general trade. In order avoid tight fiscal controls for the repatriation of profits, many Lebanese families have obtained Gabonese nationality. Hawala and trade are also used to transfer funds and value from Gabon to Lebanon.

The GOG should work with the CEMAC, BEAC, and international organizations to establish a viable anti-money laundering/counter-terrorist financing regime. Within CEMAC, there is the Banking Commission of Central Africa (COBAC) and the Action Group against Money Laundering in Central Africa (GABAC). Although there is no recognized FSRB in the region, GABAC is working with banks and member states to ensure implementation of international FATF recommendations through two formalized relationships. GABAC works directly with the ANIF in each member state. GABAC also engages with all banking institutions to urge them to become members of COBAC and then ensures the banks are implementing and enforcing due diligence procedures, as outlined in the international standards.

Gambia

The Gambia is not a regional financial center, although it is a regional re-export center. Goods and capital are freely and legally traded in the Gambia, and, as is the case in other re-export centers, smuggling of goods occurs. Customs officials cooperate with counterparts in Senegal to combat smuggling along their common border, although The Gambia has limited capacity to fully monitor its porous borders. The lack of resources hinders law enforcement's ability to combat possible smuggling despite political will. The Gambia is not a known money laundering hub in the region. It is unknown to what extent laundering is related to narcotics, but the seizure of more than two tons of cocaine in May and June 2010 has heightened concerns that some drug-related money may be getting into the country. The rapid growth of commercial banks entering the local market in the past few years, currently 14, also raises possible money laundering concerns.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: **criminally:** YES **civilly:** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and insurance companies

Enhanced due diligence procedures for PEPs: **Foreign:** YES **Domestic:** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies, money exchanges, money transfer agencies, real estate agencies, credit unions, casinos, and lotteries

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 12 in 2010

Convictions: Three - May to December 2010

Assets forfeited: **criminally:** \$24,358 in 2010 **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Gambia is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/index.php?type=c&id=42&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of The Gambia (GOTG) should examine its re-export sector to determine whether it is being used to launder criminal proceeds. The 2003 Money Laundering Act, currently under review, should be expanded to include a comprehensive range of predicate offenses and designated non-financial businesses and professions. The GOTG should provide adequate resources and capacity to its law enforcement, supervisory and customs personnel so they are able to effectively fulfill their responsibilities. Its fledgling financial intelligence unit should be given autonomy and should be strengthened both in terms of personnel and training to help it operate effectively. The GOTG should

become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption.

Georgia

Illegal income in Georgia originates from corruption, auto theft, narcotics trafficking, smuggling and counterfeiting. According to the Georgian Financial Monitoring Service (FMS), the bulk of criminal proceeds laundered in Georgia are derived from domestic criminal activity, in most cases related to tax evasion. South Ossetia and Abkhazia fall outside the control of Government of Georgia authorities and are not subject to Georgian monitoring or law enforcement.

There is a small black market for smuggled goods in Georgia. There is little evidence to suggest it is significantly funded from narcotics proceeds. Goods are brought in illicitly and sold in black or gray markets to avoid tax and customs duties. The extent of black market trading in the breakaway territories of Abkhazia and South Ossetia is unknown.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial banks, currency exchange bureaus, non-bank depository institutions and microfinance organizations; entities performing money remittance services; broker companies and securities' registrars; insurance companies and non-state pension scheme founders; organizers of lotteries and other commercial games; dealers of precious metals, precious stones and products thereof, as well as antiquities; customs authorities; entities engaged in extension of grants and charity assistance; notaries; and National Agency of the Public Registry

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Commercial banks, currency exchange bureaus, non-bank depository institutions and microfinance organizations; entities performing money remittance services; broker companies and securities' registrars; insurance companies and non-state pension scheme founders; organizers of lotteries and other commercial games; dealers of precious metals, precious stones and products thereof, as well as antiquities; customs authorities; entities engaged in extension of grants and charity assistance; notaries; and National Agency of the Public Registry

Number of STRs received and time frame: 7,701 from January through August 2010

Number of CTRs received and time frame: 69,043 from January through August 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 28 from January to November 2010

Convictions: 19 from January to November 2010

Assets forfeited: **criminally:** Not available **civily:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Georgia is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Georgia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

As per information supplied by the Financial Monitoring Service (FMS) money laundering investigations and prosecutions increased in 2010. Most of the money laundering prosecutions are autonomous, with no conviction for a predicate crime. Most of these autonomous money laundering cases derive from various forms of corruption and fraud. Investigations into narcotics, extortion, weapons of mass destruction, and smuggling rarely have a financial component as law enforcement agencies in Georgia do not routinely link traditional investigations into criminal enterprises with money laundering. This is particularly alarming in light of the large number of casinos in Georgia. While casinos are required to report cash transactions over 30,000 GEL (approximately \$17,000), there were only eight reports in 2010 and two reports in 2009. There were no suspicious transaction reports (STRs) for casinos in either year.

Banks, notaries, broker companies and micro finance organizations do file a relatively high number of currency transaction reports (CTRs) and STRs with FMS. Yet there are very few investigations by law enforcement based on these reports. The data compiled by FMS is an untapped tool for discovering predicate money laundering crimes.

There has also been a lack of coordination between various Georgian enforcement agencies, including customs. There have been virtually no seizures of bulk currency leaving Georgia.

Germany

Germany is one of the largest financial centers in Europe. 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 a significant source of money laundering in Germany. Trends in money laundering in Germany cited in 2009 include trade in CO₂ emission certificates, cash and gold transactions, and commercial websites that did not ship goods after receiving payment. Germany is not an offshore financial center. Free Trade Zones of control type I exist in Bremerhaven, Cuxhaven, and Hamburg. Deggendorf and Duisburg are control type II Free Trade Zones (unfenced inland ports).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: *criminally:* NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Credit institutions, financial services institutions, financial enterprises, insurance companies, insurance intermediaries, investment companies, lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents, trust or company service providers, real estate agents, casinos, persons trading in goods

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit institutions, financial services institutions, financial enterprises, insurance companies, insurance intermediaries, investment companies, lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents, trust or company service providers, real estate agents, casinos, persons trading in goods

Number of STRs received and time frame: 9,046 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 518 in 2009

Convictions: 416 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Germany is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/44/19/44886008.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2009, suspicious transaction reports increased 23% compared to 2008. The increase mostly comes from an increased number of "financial agents," i.e., persons who are solicited to make their private accounts available for money laundering transactions. Authorities confirmed the suspicion of a criminal

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act in about half of the reports (46%). While Germany has no automatic CTR requirement, large currency transactions frequently trigger a report.

Tipping off is a criminal offense only if it is committed with the intent to support money laundering or obstruct justice and applies only to previously-filed reports. Otherwise, it is an administrative offense that carries a fine of up to € 50,000 (approximately \$64,900) under the Money Laundering Act. Legal persons are only covered by the Administrative Offenses Act, and are not criminally liable under the Criminal Code.

In July 2010, Germany banned the Frankfurt-based Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH) because it “knowingly and deliberately supports organizations that either are under Hamas control or support Hamas themselves”. According to the German Interior Ministry, the German-based IHH, which ostensibly split from the Turkish IHH, funneled money to Hamas.

The numbers of prosecutions and convictions included in this report only reflect cases in which the money laundering violation carried the highest penalty of all the crimes of which the offender was convicted. A trial continued in 2010 against seven persons accused of laundering money from cocaine sales throughout Europe by transporting it to Lebanon. According to the press, in May 2008 customs officers found € 8.7 million (approximately \$11.3 million) hidden in luggage at Frankfurt Airport. A police search of the subject men's apartment unearthed an additional € 500,000 (approximately \$649,300). Additional arrests were made in October 2009.

Germany has no statistics on assets forfeited in criminal money laundering cases, as money laundering is usually only one of the charges leading to conviction. Assets can be forfeited as part of a criminal trial or through administrative procedures such as claiming back taxes.

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

Ghana

Ghana is not a regional financial center, but as it develops economically 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, Iran and Afghanistan to Europe and the United States. Public corruption is a major source of money laundering in Ghana, occurring mainly through public procurements and the award of licenses. Criminals also launder illicit proceeds through investment in banking, insurance, real estate, automotive import, and general import businesses, and reportedly, donations to religious institutions. Financial crimes such as advance fee fraud, known as Sakawa in Ghana, stolen credit and ATM cards originating in Ghana, and check cloning continue to increase.

Informal financial activity accounts for about 45 percent of the total Ghanaian economy. Some traders import counterfeit goods or smuggle goods to evade taxes. In most cases the smugglers bring the goods into the country in small quantities, and Ghanaian authorities have no indication these smugglers have links to criminals who want to launder proceeds from narcotics or corruption. Trade-based money laundering is sometimes used to repatriate “profit” and also for payment of lower customs duties and other taxes.

In September 2007, following amendments to the Banking Act, Barclays Bank set up the first offshore banking facility in Ghana. Regulations governing domestic and offshore banks are largely similar. Both are required to perform customer due diligence and file suspicious transaction reports (STRs). Ghana has designated four free trade zone (FTZ) areas, but the Tema Export Processing Zone is currently the only

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active FTZ. Ghana also licenses factories outside the FTZ 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. There are identification requirements for companies, individuals, and their vehicles in the free zone; however, monitoring and due diligence procedures are lax.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Both

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, insurance and securities firms, casinos, auctioneers, notaries, lawyers, non-governmental organizations, accountants, religious bodies, real estate developers, operators of games of chance, trust and company service providers, businesses engaged in providing financial services that involve the remittance or exchange of funds, dealers in motor vehicles, dealers in precious minerals and stones

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance and securities firms, casinos, auctioneers, notaries, lawyers, non-governmental organizations, accountants, religious bodies, real estate developers, operators of games of chance, trust and company service providers, businesses engaged in providing financial services that involve the remittance or exchange of funds, dealers in motor vehicles, dealers in precious minerals and stones

Number of STRs received and time frame: 50 from January 2010 to November 2010

Number of CTRs received and time frame: 0 from January 2010 to November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 ***civilly:*** 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Ghana is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: www.giaba.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are six law enforcement agencies involved in investigating money laundering and financial crimes.

In 2010, the Government of Ghana (GOG) took significant steps to establish its Financial Intelligence Center, and passed an Economic and Organized Crime Office Act and Mutual Legal Assistance Act. To remedy deficiencies, the GOG is working to pass subsidiary legislation, which should improve capacity among the agencies impacted. 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. Additionally, the GOG should fully implement its customer due diligence and reporting requirements across all covered sectors and institute a beneficial ownership identification requirement, requiring the true names of all onshore and offshore entities and their beneficial owners to 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) and has been part of the European Union since 1973. A November 2006 referendum resulted in constitutional reforms transferring powers exercised by the UK government to Gibraltar. Gibraltar has an international financial center which is small internationally, but large in comparison to its domestic economy. The financial services sector has strong ties to London, the Crown Dependencies, Israel and other financial centers. Located at the southern tip of the Iberian Peninsula, bordering Spain and near the north coast of Africa, Gibraltar is adjacent to known drug trafficking and human smuggling routes and is heavily policed on land and at sea because of the risk of these activities occurring within its borders or territorial waters.

Gibraltar is exposed to money launderers located in drug producing centers in Morocco and drug consumption and distribution networks in Spain. With the establishment of organized criminal activities from Eastern Europe into southern Spain, there is potential for launderers to use Gibraltar as a base for money laundering. These risks are mitigated by the small coastline and effective policing. Border controls between Gibraltar and Spain also help deter potential money launderers wishing to use Gibraltar for their activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: *criminally:* Not available *civily:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, mutual savings companies, insurance companies, financial consultants, investment business, postal services, exchange bureaus, attorneys, accountants, financial regulatory agencies, unions, casinos, lotteries, charities, car dealerships, yacht brokers, company formation agents, political parties, real estate agents, notaries, and dealers in gold bullion and high value goods

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Any person, whether or not they conduct financial services business

Number of STRs received and time frame: 339 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One in 2010

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Gibraltar has a comprehensive range of anti-money laundering/countering the financing of terrorism (AML/CFT) laws. The criminal laws on money laundering have been consolidated in draft form, and powers presently available only in drug-related money laundering cases are being extended to money laundering cases involving the proceeds of other crimes. The Financial Services Commission (FSC), a unified regulatory and supervisory authority for financial services, notes the increasing sophistication of money launderers and should continue to review regulatory and supervisory practices to keep pace with new developments.

Gibraltar, as a UK overseas territory, cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for Gibraltar's international affairs and may arrange for the ratification of any convention to be extended to Gibraltar. The UN Convention against Transnational Organized Crime was extended to Gibraltar in 2007. The 1988 Drug Convention, the International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption have not yet been extended to Gibraltar.

Greece

Greece is considered to be a regional financial center in the developing Balkans, as well as a bridge between Europe and the Middle East. Official corruption, the presence of organized crime, and a large shadow economy make the country vulnerable to money laundering and terrorist financing. Greek law

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enforcement proceedings indicate that Greece is vulnerable to narcotics trafficking, trafficking in persons and illegal immigration, prostitution, smuggling of cigarettes and other contraband, serious fraud or theft, illicit gaming activities, and large scale tax evasion. Anecdotal evidence of illicit transactions suggests an increase in financial crimes in the past few years and that criminal organizations (some with links to terrorist groups) increasingly are trying to use the Greek banking system to launder illicit proceeds. Criminally-derived proceeds historically are most commonly invested in real estate, the lottery, and the stock market. Criminal organizations from southeastern Europe and the Balkan region are responsible for a large percentage of the crime that generates illicit funds. The widespread use of cash facilitates a gray economy as well as tax evasion, though as part of Greece's three-year €110 billion (approximately \$143 billion) European Union (EU)-IMF program, the government is trying to crack down on both trends. Due to the large informal economy – estimated by the Organization for Economic Co-operation and Development and others to be between 25 and 37 percent of GDP – it is difficult to determine the value of goods smuggled into the country, including whether any of the smuggled goods are funded by narcotic or other illicit proceeds. There is increasing evidence that domestic terrorist groups are involved with drug trafficking.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination list and threshold approach

Legal persons covered: *criminally:* NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>.

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, *bureaux de change*, and postal companies; stock brokers, investment services firms, and collective and mutual funds; life insurance companies and insurance intermediaries; accountants, auditors, and audit firms; tax consultants, tax experts and related firms; real estate agents and companies; casinos (including internet casinos) and entities engaging in gaming activities; auction houses; and dealers in high value goods and auctioneers, whenever the transaction value exceeds EUR 15,000 (approximately \$19,500); notaries and lawyers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, *bureaux de change*, and postal companies; stock brokers, investment services firms, and collective and mutual funds; life insurance companies and insurance intermediaries; accountants, auditors, and audit firms; tax consultants, tax experts and related firms;

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real estate agents and companies; casinos (including internet casinos) and entities engaging in gaming activities; auction houses; and dealers in high value goods and auctioneers, whenever the transaction value exceeds EUR 15,000 (approximately \$19,500); notaries and lawyers

Number of STRs received and time frame: 2,304 in 2009; 2,392 through December 28, 2010.

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 42 in 2008; more recent data not available

Convictions: 34 in 2008; 20 through June 2009

Assets forfeited: criminally: Not available *civilly:* Not Applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Greece is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: [http://www.fatf-](http://www.fatf-gafi.org/document/23/0,3343,en_32250379_32236963_38916695_11_1_1,00.html)

[gafi.org/document/23/0,3343,en_32250379_32236963_38916695_11_1_1,00.html](http://www.fatf-gafi.org/document/23/0,3343,en_32250379_32236963_38916695_11_1_1,00.html)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Greece ratified the United Nations Convention against Transnational Organized Crime in August 2010, and amended its anti-money laundering/countering the financing of terrorism (AML/CFT) law to adequately criminalize and widen the scope of the terrorist financing offense. The Government of Greece (GOG) also improved the supervisory capacity of its key supervisors.

Despite continued improvements in Greece's AML/CFT regime, a number of deficiencies remain, and Greece continues to be subject to enhanced follow-up by the FATF.

The GOG has been working to improve the effectiveness of the Greek financial intelligence unit; however, deficiencies pertaining to staffing and information technology remain. While the Greek authorities have hired more staff and ensured that STR analysis is carried out only by full-time FIU staff, the total number of employees still appears insufficient to carry out the extensive functions with which the FIU is tasked. The GOG should make available adequate human and financial resources to ensure the FIU is able to fulfill its responsibilities, ensure its powers are in-line with the international standards related to a financial intelligence unit, and ensure its technical and data management systems and capacities support its functions.

Greece should ensure that its confiscation regime is more effectively implemented and used. While the 2008 AML/CFT law contains provisions allowing civil asset forfeiture, Greek authorities advise it is not practical to launch civil procedures and currently do not do so. The government also should develop an arrangement for the sharing of seized assets with third party jurisdictions that assist in the conduct of investigations.

Although the law provides for the freezing, seizure, and confiscation of terrorist assets, Greece has a limited ability to freeze funds in accordance with UNSCR listings of designated terrorists outside of the EU listing system. In the absence of a comprehensive listing and freezing regime, Greece uses an administrative procedure for freezing assets of suspected terrorists designated as such domestically or upon request from a foreign authority. While the GOG advises it is not necessary to open a criminal

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investigation to use this procedure, it is not clear how quickly it works, and whether all supervised entities are complying. The GOG does not provide guidance to financial institutions and designated non-financial businesses and professions on freezing assets without delay, and does not monitor for compliance. In July 2010 the Bank of Greece introduced sanctions for credit and financial institutions for failure to promptly apply freezing requests or respond without delay to such requests. The GOG advises it is in the process of drafting legislation that would introduce a comprehensive system for suspected terrorists' designation and listing, and asset freezing in accordance with UNSCRs 1267 and 1373.

While Greece has made positive strides in the supervision area, particularly with its recent move to transfer supervisory powers over the insurance sector to the Bank of Greece, a shortage of personnel at the Hellenic Capital Markets Commission (which supervises securities firms, brokers, other financial intermediaries, and clearing houses) remains and continues to challenge its effectiveness. In addition, it is not clear whether the Ministry of Justice has enough resources available to deal with ML or TF related cases.

The GOG should adopt regulations to report large currency transactions and explicitly abolish company-issued bearer shares. It 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. Greece also should ensure that companies operating within its free trade zones are subject to the same AML/CFT requirements and customer due diligence provisions as other sectors and work steadfastly to bring charitable and nonprofit organizations under the AML/CFT regime.

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.

Grenada uses the East Caribbean dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). The ECCB has supervision responsibility for Grenada's commercial banks. Seven other island economies are also members of the ECCB: Anguilla, Antigua and Barbuda, Dominica, St. Lucia, Montserrat, St Kitts and Nevis, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

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, as of November 2008, there were 1,580 international business companies (IBCs); however, in 2010 the GOG reported only 73 IBCs. 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.

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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchangers, accountants, notaries, gaming centers, auto dealers and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; agricultural credit institutions; money exchangers and remitters; casinos and gaming centers; securities dealers; the stock exchange; insurance; precious gem dealers; real estate intermediaries; and lawyers, notaries, and accountants

Number of STRs received and time frame: 100 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Four in 2008, two still pending in 2010

Convictions: 0

Assets forfeited: criminally: Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Grenada is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Grenada_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Grenada_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Grenada should become a party to the UN Convention against Corruption.

The anti-money laundering guidelines, such as STR reporting requirements, beneficial ownership identification, and record keeping, should become mandatory rules.

The Government of Grenada should establish an asset forfeiture and confiscation regime and establish mechanisms to identify and regulate alternative remittance systems. It should also increase due diligence requirements and require banks to gather information about their correspondent banks; establish large currency transaction reporting requirements and a cross-border currency declaration system; and explicitly prohibit shell banks. Dealers in precious metals and jewelry should become subject to AML

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reporting requirements. To improve the conduct of money laundering investigations, the FIU should improve coordination with other law enforcement bodies.

To strengthen its legal framework against money laundering, Grenada should move expeditiously to become a party to the UN Convention against Corruption and should be very cautious if it decides to redevelop its offshore financial sector.

Guatemala

Guatemala is not considered a regional financial center. It continues to be a transshipment route for South American cocaine and heroin destined for the United States and for returning cash to South America. Open source reports suggest that the narcotics trade is increasingly linked to arms trafficking.

Historically weak law enforcement and judiciary systems coupled with endemic corruption and increasing organized crime activity contribute to a favorable climate for significant money laundering in Guatemala. According to law enforcement agencies, narcotics trafficking and corruption are the primary sources of money laundered in Guatemala; however, the laundering of proceeds from other illicit activities, such as human trafficking, contraband, kidnapping, tax evasion, and vehicle theft, is substantial. There is no indication of terrorist financing activities.

Guatemala's geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders without passing through immigration or customs inspection. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime.

There are free trade zones operating in the country. There are no reported hawala or other similar alternative remittance systems operating in Guatemala. A significant number of remittances are transferred through banks and appear to pose little risk for money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Money Laundering and Financial Crimes

Covered entities: Banks; finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; pawnbrokers; notaries and accountants; tax advisors and lawyers; casinos, raffles and games of chance; dealers in motor vehicles, precious metals and stones, and art and antiquities; and real estate agents

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; pawnbrokers; notaries and accountants; tax advisors and lawyers; casinos, raffles and games of chance; dealers in motor vehicles, precious metals and stones, and art and antiquities; and real estate agents

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 13 in 2009

Convictions: 11 in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Guatemala is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

[http://www.cfatf-gafic.org/downloadables/mer/Guatemala_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Guatemala_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are relatively few convictions for money laundering, most of which are for the illegal transport of cash. The number of staff at the FIU and the capacity of law enforcement officials may hamper the ability of the authorities to prosecute more cases.

Former President Alfonso Portillo was indicted in the United States in December 2009 with one count of conspiracy to commit money laundering. Both a Guatemalan trial and appellate court have approved his extradition to the United States and the case is currently on appeal before the Guatemalan Supreme Court.

Law enforcement agencies report that money laundering has increased during the year, especially by groups of air travelers heading to countries such as Panama with slightly less than the amount of the Guatemalan reporting requirement (\$10,000), and a large number of small deposits in banks along the Guatemalan border with Mexico. A new law regarding asset seizures, passed by Congress in December 2010, will take effect in June 2011 and allows Guatemalan authorities to seize cash in structuring transactions and transfer it to the state without first having to obtain a criminal conviction against the courier. The same law will also prevent new businesses from issuing bearer shares of stock. The law requires any existing business with bearer shares to convert the shares to nominative by June 2013, but it is not clear what the consequences will be for failure to do so.

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In October, Guatemalan monetary authorities approved a regulation to establish limits for cash transactions in foreign currency to reduce money laundering and terrorism financing risks. The law states that deposits totaling over \$3,000 in any given month will be subject to additional requirements.

Casinos are not legal in Guatemala, however, a number of casinos, games of chance and video lotteries operate, both onshore and offshore. There is no regulatory oversight or legal framework for casino operation, although they are listed as covered entities under the AML law. Attempts by the government to enforce requirements are not successful. Lotteries and raffles are subject to local jurisdiction licensing but are not subject to AML/CFT supervision. Unsupervised gaming activity represents a significant money laundering risk.

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, it relies on the United Kingdom (UK) for its defense and international relations. Alderney and Sark have their own separate parliaments and civil law systems. Guernsey's parliament legislates in matters of criminal justice for all of the islands in the Bailiwick. The Bailiwick is a sophisticated financial center and, as such, it continues to be vulnerable to money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: All financial services businesses; lawyers, accountants and estate agents; and eGambling services.

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All businesses

Number of STRs received and time frame: 673 in 2010

Number of CTRs received and time frame: 105 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two

Convictions: Two in 2010

Assets forfeited: *criminally:* \$1,567,265 *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The IMF's December 2010 "Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism" for the Bailiwick of Guernsey can be found at:

<http://www.imf.org/external/pubs/ft/scr/2011/cr1112.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Bailiwick has been actively involved in the provision of formal mutual legal assistance for many years. The authorities consider themselves able to provide assistance without the need to enter into mutual legal assistance treaties, and this has enabled compliance with requests from a wide range of jurisdictions, including the US, using the full range of investigatory powers in the law.

Guernsey's comprehensive AML/CFT legal framework provides a sound basis for an effective AML/CFT regime, and most shortcomings are technical in nature. Money laundering and the financing of terrorism are criminalized fully in line with the FATF standard and the legal framework provides an ability to freeze and confiscate assets in appropriate circumstances. While no shortcomings have been identified in the legal framework, concerns remain with respect to the implementation of the money laundering provisions. Given the size of the Bailiwick's financial sector and its status as an international financial center, the modest number of cases involving money laundering by financial sector participants and the small number of money laundering cases resulting in convictions raises questions concerning the effective application of money laundering provisions.

Guernsey is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so. Rather, the UK is responsible for the Bailiwick's international affairs and, at Guernsey's request, may arrange for the ratification of any Convention to be extended to the Bailiwick. The UK's ratification of the 1988 UN Drug Convention was extended to include the Bailiwick on April 3, 2002; its ratification of the UN Convention against Corruption was extended to include Guernsey on November 9, 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to Guernsey on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to the Bailiwick.

Guinea

Guinea is not a regional financial center. In the past three years, Guinea has undergone profound political change, which has seen it go from a country heavily focused on narcotics control and anti-money laundering, to a country where these issues take a back seat to more pertinent issues such as democratization and macroeconomic reform. Guinea's economy is weak and largely cash-dependant and its fragile banking sector is an unlikely conduit for large-scale money laundering activities. However, due to its history of political instability, high corruption, and neighbors such as Guinea-Bissau, Guinea has been an historical hub of drug trafficking. The scale of trafficking and level of funding that trafficking funnels into other spheres, such as international terrorism, is unknown. Reliable figures and estimates are unavailable, as Guinea's security forces are ill-equipped and disorganized, relying upon international institutions to carry out large-scale investigations into trafficking activities.

Because of the weak banking institutions and reliance on hard-currency, the Guinean black market is a thriving and vital part of the economy. Contraband is common, with estimates that up to 70-80% of all

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pharmaceutical goods sold in Guinean markets are counterfeit. Foreign currency exchange is a popular activity in the black market, as the official state sanctioned exchange rate for the local Guinean Franc (GnF) to the US dollar or euro does not come close to the actual exchange rate. Almost all major commercial activities are completed in foreign currency. The mining sector accounts for more than 70% of exports. Long-run improvements in government fiscal arrangements, literacy, and the legal framework are needed if the country is to move out of poverty.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: ***criminally:*** YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Public Treasury, Central Bank, financial institutions, real estate and travel agencies, auditors, service companies, cash couriers, casinos, NGOs, lawyers, accountants, brokers, dealers, notaries

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Public Treasury, Central Bank, financial Institutions, real estate and travel agencies, auditors, service companies, cash couriers, casinos, NGOs, lawyers, accountants, brokers, dealers, notaries

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Guinea is a member of the Intergovernmental Action Group against Money Laundering and the Financing of Terrorist in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Guinea has not yet undergone a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Effective enforcement of the existing laws continues to be the largest issue in Guinea. During 2009, Guinea was run by a military junta which frequently created charges of drug trafficking to arrest, intimidate, and steal from political enemies and wealthy citizens and businesses. In the few instances where individuals did go to trial, the proceedings amounted to little more than a show-trial, and final rulings were rarely announced.

In February 2010, the junta government was replaced by a Transition Government, which governed Guinea until democratic elections in June and November, 2010. The Transition Government suffered from a severe lack of funds and an overwhelming concentration on organizing presidential elections, leaving money laundering and trafficking issues to become relegated to non-priority topics.

Although there are institutions in place to investigate money laundering and financial irregularities, they are severely limited in authority and scope. For example, the financial intelligence unit, headquartered in the Central Bank, is hampered by a lack of resources, corruption, and political instability.

The Guinean security forces are also ill-equipped and under-trained. For the last several years, they have been reliant upon outside assistance and training in matters of money laundering and prosecution. In cases where legal means do take their proper course, the proceedings are usually derailed at the judicial level— or within higher government ranks. Transparency International's 2010 Corruption Perceptions Index ranks Guinea as the 164 of 178 countries worldwide.

Guinea-Bissau

The Government of Guinea-Bissau is not in full compliance with international conventions against money laundering and terrorist financing because of inadequate resources, weak border controls, and competing national priorities. Of all West African countries, none has been so thoroughly penetrated and corrupted by Latin American drug cartels as Guinea-Bissau. Drug barons from Latin America and their collaborators from the region and other parts of the world have taken advantage of the extreme poverty, unemployment, political instability, lack of effective customs and law enforcement, and general insecurity to make the country a major transit point for cocaine destined to consumer markets, mainly in Europe. One of the poorest countries in the world, the value of the illicit narcotics trade in Guinea-Bissau is much greater than its national income. Using threats and bribes, drug traffickers infiltrate state structures and operate with impunity.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

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KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, microfinance institutions, exchange houses, securities firms, insurance companies, casinos, brokerages, charities, nongovernmental organizations (NGOs), and intermediaries such as lawyers, accountants, notaries and broker/dealers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, microfinance institutions, exchange houses, securities firms, insurance companies, casinos, brokerages, charities, nongovernmental organizations (NGOs), and intermediaries such as lawyers, accountants, notaries and broker/dealers

Number of STRs received and time frame: 0 in 2009

Number of CTRs received and time frame: 0 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Guinea Bissau is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In April, 2010, the United States Treasury froze the assets of two top Guinea-Bissau military officers and designated them as major drug kingpins.

Reportedly, banks are reluctant to file STRs because of the fear of “tipping off” by an allegedly indiscrete judiciary. Article 26 of National Assembly Resolution No. 4 of 2004 stipulates that if a bank suspects money laundering it must obtain a declaration of all properties and assets from the subject and notify the Attorney General, who must then appoint a judge to investigate. The bank’s solicitation of an asset list from its client could also amount to “tipping off” the subject.

Although the law establishes asset forfeiture authorities and provides for the sharing of confiscated assets, a lack of coordination mechanisms to seize assets and facilitate requests for cooperation in freezing and confiscation from other countries hampers cooperation.

The Government of Guinea-Bissau (GOGB) should continue to work with its partners in GIABA, the Economic Community of West African States (ECOWAS) and others to establish and implement an effective anti-money laundering/counter-terrorist financing (AML/CFT) regime. The government needs urgent help to restore sovereignty, administer justice and regain control of its borders. The GOGB should ensure the sectors covered by its AML law have implementing regulations and competent authorities to ensure compliance with the law’s requirements. It should also amend its terrorist financing law to comport with international standards. The GOGB 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. Guinea-Bissau should undertake efforts to eradicate systemic corruption. The GOGB should 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 an increasingly serious problem and has been linked to narcotics (principally cocaine), and possibly firearms transshipments between Latin America, Europe, and North America. Guyanese media routinely link high-level public officials to trafficking and money laundering operations. Corruption and fraud are also problems. Guyana's informal cash-based economy appears to involve significant amounts of contraband goods and narcotics. Proceeds from contraband are laundered primarily through non-bank money-transfer operations. Additionally, large sums of cash are being taken out of the country. Not only does this cash out-flow come from illegal activity, but also from legitimate businesses seeking to avoid taxes and the restrictions and costs of banks. The Government of Guyana made one arrest and prosecution for money laundering in 2010, compared to none in 2009.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Depository institutions; lending institutions; financial leasing entities; money transfer services; money exchangers; pawn brokers; credit issuers; guarantors; traders of foreign exchange, futures, options and securities; underwriters; financial advisers; money brokers; credit unions; portfolio managers; administrators of securities; gaming centers and lotteries; insurance entities; venture risk capital; trusts or company service providers; legal professionals; real estate agents; dealers in precious metal and stones; and registered charities

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Depository institutions; lending institutions; financial leasing entities; money transfer services; money exchangers; pawn brokers; credit issuers; guarantors; traders of foreign exchange, futures, options and securities; underwriters; financial advisers; money brokers; credit unions; portfolio managers; administrators of securities; gaming centers and lotteries; insurance entities; venture risk capital; trusts or company service providers; legal professionals; real estate agents; dealers in precious metal and stones; and registered charities

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Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One in 2010

Convictions: One in 2010

Assets forfeited: criminally: 0 in 2010 *civilly:* 0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Guyana is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.cfatf-gafic.org/reports-a-documents/cat_view/22-english/23-annual-reports.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Implementation of the 2007 Anti-Money Laundering and Countering the Financing of Terrorism legislation (enacted in 2009) continues at a slow and steady pace. The legislation and accompanying regulations (issued in September 2010) provide for an expanded financial intelligence unit (FIU) and law enforcement authority in order to fight money laundering and terrorist financing.

The Government of Guyana (GOG) is highly centralized and hierarchical; most significant decisions require presidential approval. This discourages individual initiative and the exercise of individual discretion. Consequently, the progress of projects can be frustratingly slow. Thus awareness and understanding of the anti-money laundering regime and the anti-money laundering/counter-terrorist financing (AML/CFT) law are limited. Agencies with capacity to investigate money laundering cases tend to pass such matters on to the FIU for handling. These agencies do not understand the FIU's role, or how to investigate AML/CFT crimes. Further, there is an overall lack of awareness of the provisions of the law – and the importance of combating money laundering, in general. The judicial system is insufficiently prepared for money laundering enforcement; the United Kingdom provided assistance in the only AML/CFT prosecution. GOG officials have expressed a desire to increase the capacity and effectiveness of their anti-money laundering regime.

Haiti

International donors reacted to the Haitian earthquake, tropical storms and cholera epidemic of 2010 by pumping much-needed currency and investments for disaster relief and reconstruction into the country. The earthquake impacted all aspects of Haitian life including ripple effects in the banking, commercial and criminal justice institutions. Despite improving financial intelligence and enforcement capacity, the weakness of the Haitian judicial system and prosecutorial mechanism continues to leave the country vulnerable to corruption and money laundering. Haitian organized crime groups are engaged in drug trafficking and other criminal and fraudulent activity, but do not appear to be involved in terrorist financing. Haiti is the poorest country in the Western Hemisphere and relies heavily on remittances from the large expatriate Haitian community.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

Money Laundering and Financial Crimes

US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and non-bank financial institutions including casinos and money remitters

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks

Number of STRs received and time frame: Nine in an unknown time frame

Number of CTRs received and time frame: 146,627 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 14 houses confiscated and slated for sale; five houses confiscated and donated to GOH law enforcement agencies; \$2,000,000 currency seized ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Haiti is a member of the Caribbean Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafig.org/index.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Haiti suffered a devastating earthquake on January 12, 2010 which destroyed 28 of 29 Haitian ministry buildings and the Presidential Palace. In addition, an outbreak of cholera, floods and a contested Presidential election were all contributing factors slowing, but not stopping, the activities of the key institutions involved in financial intelligence, anti-money laundering enforcement, and asset forfeiture and seizure.

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The Government of Haiti (GOH) remains hampered by ineffectual and outdated criminal and criminal procedural codes, and by the inability of judges and courts to address cases referred for prosecution. A Presidential commission has drafted new criminal and criminal procedural codes that require parliamentary approval. The anti-terrorist legislation drafted and submitted to Parliament is also awaiting Parliamentary approval.

Following the January 2010 earthquake, banks, with the exception of the Central Bank, could not transmit reports to UCREF. The UCREF also lost office space as a result of the earthquake and, together with a few other law enforcement agencies, has relocated to a building confiscated from a Colombian drug dealer. The UCREF is making plans to review casino operations in Haiti and ensure that casinos are properly licensed and are made aware of their responsibilities as defined in the GOH anti-money laundering legislation.

BAFE, a unit within the Haitian National Police continues to work closely with the DEA to seize and confiscate properties owned by convicted drug traffickers serving prison sentences in the United States. Haiti is not a party to the International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime.

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.

Honduras's geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders without passing through immigration or customs inspection. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime.

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. Laundered proceeds typically pass directly through the formal banking system, but laundering funds through remittance companies, currency exchange houses, the construction sector, and automobile and real estate front companies may be increasing. These factors, combined with the country's lack of resources for investigations and analysis, and 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; however, there is some smuggling of items such as firearms, gasoline, illegally caught lobster and cigarettes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, lending companies, and financial service companies; checks cashers; issuers or processors of financial instruments, traveler's checks, or money orders; money transfer businesses; and casinos and gaming establishments

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; insurance companies; money exchange or remittance services; cooperative institutions and financial societies; credit card issuers; securities firms; private pension funds; notaries; real estate intermediaries; car dealers; dealers in precious metals, jewels, art and antiquities; and lotteries and casinos

Number of STRs received and time frame: 320 from January to November 2010

Number of CTRs received and time frame: 46 from January to November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 42 in 2010

Convictions: Ten in 2010

Assets Forfeited: criminally: Approximately \$2,890,000 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Honduras is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.cfatf-gafic.org/downloadables/mer/Honduras_3rd_Round_MER_%28Final%29_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Lack of data and systematic analysis make it difficult for the Honduran government to identify trends in money laundering. Inadequate training coupled with insufficient funding significantly diminishes the Honduran government's ability to investigate and bring to successful prosecution money laundering offenses. Furthermore, limited resources hamper the government's ability to enforce the law and its attendant regulations.

While mechanisms are in place to freeze terrorist assets, systematic issues and lack of capacity hinder timely action.

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In July 2010, Honduras passed a new Asset Forfeiture Law. Since the law went into force, Honduran police seized three properties, collectively worth over \$15 million. Nevertheless, Honduras does not yet have the infrastructure necessary for fully effective implementation of the new law. In November, the Emergency Seized Assets Availability Law authorized the immediate disbursement of seized assets.

In May 2010, the National Banking and Insurance Commission imposed enhanced due diligence requirements for PEPs.

The legality of bearer shares presents a significant money laundering vulnerability. Insurance brokers, lawyers and accountants are exempted from reporting requirements, posing an additional money laundering vulnerability.

Hong Kong

Hong Kong, a Special Administrative Region of the People's Republic of China, is a major international financial and trading center. As of December 2010, Hong Kong's stock market was the world's seventh largest and Asia's third largest with total market capitalization of \$2.71 trillion. Already the world's 15th largest banking center and sixth largest foreign exchange trading center, Hong Kong continued its expansion as an offshore Renminbi (RMB) financing center, accumulating in 2010 over \$48 billion in RMB-denominated deposits at authorized institutions. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes.

Hong Kong's low and simplified tax regime, coupled with its sophisticated banking system, shell company formation agents, free port status, and the absence of currency and exchange controls, present vulnerabilities for money laundering, including trade-based money laundering. The primary sources of laundered funds in Hong Kong are corruption, tax evasion, fraud, illegal gambling and bookmaking, prostitution, loan sharking, commercial crimes, and intellectual property rights infringement. Criminal proceeds laundered in Hong Kong are derived from local and overseas criminal activities, but Hong Kong law enforcement authorities attribute only a small percentage of these laundered funds to drug-trafficking organizations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance entities, and money exchangers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All persons, irrespective of entity or amount of transaction

Number of STRs received and time frame: 19,690 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 332 in 2010

Convictions: 279 in 2010

Assets forfeited: Criminally: As of December 2010, \$9.33 million was under a court confiscation order but not yet paid to the government *Civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Hong Kong is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/19/38/41032809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

U.S. government agencies enjoy excellent working relationships with Hong Kong's law enforcement personnel and financial regulators. Cooperation includes joint investigative efforts, information exchange, training, and extraditions.

In October 2010, the Government of Hong Kong introduced to the legislature a draft bill that, if passed, would provide statutory backing to existing financial regulatory guidelines, provide for administrative and criminal sanctions authority, and establish a regulatory regime for money changers.

In April 2010, the Government of Hong Kong initiated a study to evaluate the implementation of a cross-border currency reporting system. The government's work plan calls for an evaluation of the feasibility of tracking and monitoring currency movements in/out of its borders, including necessary legislative and resource requirements.

Hong Kong still needs to institute mandatory oversight for designated non-financial businesses and professions, and implement mandatory cross-border currency reporting requirements, both potential loopholes for money launderers and terrorist financiers. Hong Kong should also establish threshold reporting requirements for currency transactions and put in place "structuring" provisions to counter evasion efforts. As a major trading hub, Hong Kong should also closely examine trade-based money laundering.

Hungary

Hungary is not considered a major financial center and is not generally viewed as a high-risk country for money laundering; however, its pivotal location in Central Europe - as a European Union (EU) member, but also a link between the former Soviet Union and Western Europe - as well as its cash-based economy

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and well-developed financial services industry make it attractive to foreign criminal organizations. The preponderance of money laundering cases appears to stem from financial and economic crimes, such as fraud, embezzlement, tax evasion, and tax and social security fraud, although narcotics trafficking, prostitution, trafficking in persons, and organized crime also contribute. Other prevalent economic and financial crimes include real estate fraud and the copying/theft of bankcards. There have been several cases involving foreign organized crime groups from Russia, Ukraine, Lithuania, China and Vietnam. There is a sizeable black market for smuggled goods in Hungary, primarily related to customs, excise, and value-added tax evasion. Illegal products are currently estimated to account for ten percent of the market. No international terrorist groups are known to operate in Hungary. Funding sources for the extreme right-wing Hungarian Arrows are currently unknown but under investigation.

There are numerous indicators that trade-based money laundering occurs in Hungary. Several Hungarian-based companies engaged in trading commodities such as natural gas, metals, and fertilizer, as well as a large pharmaceutical firm, are owned by offshore entities where beneficial ownership information is unclear, or whose owners have reported ties to individuals associated with Russian and Ukrainian-based organized crime groups, reportedly entrenched in Hungary, and/or with high-ranking politicians in Russia, Ukraine, and/or Hungary. Several of these companies employ transfer pricing and/or intercompany loan schemes involving networks of similarly shadowy international companies to obscure the sources of funds and the true beneficiaries of their profits. Several such companies also maintain relationships with banks in Hungary.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, investment services, insurance services, insurance intermediary services or employer pension services, commodity exchange services, domestic and international postal money orders, mutual insurance fund services, real estate or brokering services, auditing services, accountancy, bookkeeping, tax consultant services, casinos, precious metals, trading of high-value goods, lawyers or notaries

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, investment services, insurance services, insurance intermediary services or employer pension services, commodity exchange services, domestic and international postal money

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orders, mutual insurance fund services, real estate or brokering services, auditing services, accountancy, bookkeeping, tax consultant services, casinos, precious metals, trading of high-value goods, lawyers or notaries

Number of STRs received and time frame: 6518 (January 1, 2010 - November 30, 2010)

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Nine

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Hungary is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Hungary_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Hungary has worked continuously to improve its money laundering enforcement regime, in particular to strengthen its legal and institutional framework. The Government of Hungary (GOH) is also committed to international cooperation in the fight against the financing of terrorism, and opened a new Counter Terrorism Center on September 1, 2010. Despite these areas of progress, there is more room to improve cooperation and coordination among law enforcement entities and the prosecution service to more effectively investigate and prosecute money laundering cases. There are still very low numbers of prosecutions for money laundering and of orders to confiscate assets after 16 years of criminalization. The GOH should insure that the physical elements of money laundering are in line with international standards.

Of particular concern is the continued existence of anonymous savings accounts, although their issuance was stopped in 2001. Hungary should immediately convert these anonymous accounts, given the risk they pose to the overall AML/CFT regime.

The Hungarian Financial Intelligence Unit (HFIU) lacks independence and autonomy and its legislation does not allow for the HFIU to have direct or indirect access, on a timely basis, to information to properly undertake its functions other than suspicious transaction report (STR) analysis. However, as of January 2011, due to a new law on national tax and customs authorities, there will be a separate law enforcement authority within the Hungarian Finance and Customs Guard (under the authority of which the HFIU operates), that will have its own legal jurisdiction. While the HFIU will not have a separate budget, it will have a larger influence on budgetary decisions. The GOH should strengthen Hungary's FIU by insuring that the head of the HFIU has control over the budget allocated for the FIU, the power to challenge decisions concerning information dissemination, and the authority to sign memoranda of understanding with other FIUs. The HFIU also should conduct outreach to obligated entities to ensure that STRs are provided for both money laundering and terrorist financing purposes, not just for tax-related reasons.

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Hungary should increase training for prosecutors, judges, and law enforcement personnel who require enhanced knowledge to promote the successful prosecution of money laundering cases. Improved supervision, outreach and guidance by Hungary's supervisory bodies, particularly with regard to designated non-financial business and professions, would help ensure that STR reporting obligations are fulfilled. Increased AML/CFT training for employees of financial institutions and other obligated entities is also necessary to further improve the quality of filed STRs, in particular, those related to terrorist financing.

Iceland

Iceland is not considered a regional financial center. Money laundering in Iceland is related primarily to narcotics smuggling and trading and is not considered a major problem. Criminal proceeds tend to derive from domestic organizations with some linkages to foreign groups. As of late 2010, investigators continued to look into the 2008 collapse of Iceland's financial system and to re-examine allegations that its banks may have been involved in money laundering. Documents relating to such allegations have circulated among officials in Iceland, Denmark, Luxembourg and the Serious Fraud Office in London.

A wide-ranging inquiry into the collapse of Iceland's banks has started to unravel a complicated network of unconventional loan agreements between the banks and high-level business people. A Special Investigation Commission (SIC) delivered a report to the Icelandic parliament in April 2010 concluding that former ministers, the former executive board of the Central Bank, and the former chairman of the Financial Supervisory Authority had made mistakes and showed negligence in their positions. The report states also that the three major banks bear legal responsibility for the crash; they were too large, grew too fast, granted bank owners easy access to loans, and loaned bank employees capital to buy shares of the banks themselves.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; currency exchanges; attorneys; auditors; real estate dealers; trust, safekeeping, and company service providers; life insurance companies and pension funds; insurance brokers and intermediaries; securities brokers; and dealers in vessels or any high-value items

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

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SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; currency exchanges; attorneys; auditors; real estate dealers; trust, safekeeping, and company service providers; life insurance companies and pension funds; insurance brokers and intermediaries; securities brokers; and dealers in vessels or any high-value items

Number of STRs received and time frame: 494 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two in 2009

Convictions: None in 2009

Assets forfeited: criminally: 725,308,744 ISK (approximately \$4 million) in 2009 ***civilly:*** Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Iceland is a member of the Financial Action Task Force. Its latest mutual evaluation report can be found here: <http://www.fatf-gafi.org/dataoecd/54/38/37706239.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Iceland (GOI) has improved its anti-money laundering/counter-terrorist financing (AML/CFT) system through the enforcement of existing laws, and review and implementation of international standards. A domestic mechanism should be implemented to allow designation of terrorists at a national level as well as to give effect to designations and asset freeze requests from other countries. The GOI should continue to enhance its AML/CFT program, as appropriate. Iceland should become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

India

India's economic and demographic expansion makes it both a regional financial center and an increasingly significant target for money launderers and terrorist groups. India's extensive informal economy and remittance systems, porous borders, strategic location, persistent corruption, and historically onerous tax administration contribute to its vulnerability to financial and terrorist-related crimes.

Tax avoidance and the proceeds of economic crimes (including fraud, cyber crime and identity theft) are still the mainstay of money launderers in India, but laundered funds are also derived from human and narcotics trafficking, transnational organized crime, illegal trade, particularly in endangered wildlife and illegal gems (principally diamonds), and corruption. India also faces an increasing inflow of high-quality counterfeit currency, which is produced primarily in Pakistan but smuggled to India through multiple international routes. Criminal networks exchange counterfeit currency for genuine notes, which not only facilitates money laundering, but also represents a threat to the Indian economy.

India's location between heroin producing countries in the Golden Triangle and Golden Crescent, along with its porous borders, make it a frequent transit point for drug trafficking. Additionally, India is a major producer of licit acetic anhydride, the precursor chemical required to convert morphine base into heroin, making producers susceptible to abuse by illicit networks. India is also a significant target for terrorist

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groups, both external and domestic. Most terrorist activities are conducted by international terrorist groups and entities linked to the global jihad, with the support of both state and non-state external actors. In addition, several domestic separatist and insurgent groups are active. Terrorist groups often use counterfeit currency and hawaladars, as well as physical cross-border currency smuggling, to move funds from external sources to finance their activities in India.

India licenses seven offshore banking units (OBUs) to operate in the Special Economic Zones (SEZ). The OBUs are prohibited from engaging in cash transactions and are restricted to lending to the SEZ wholesale commercial sector. Although located in India, OBUs essentially function like foreign branches of Indian banks, but with defined physical boundaries and functional limits. As such, they are subject to the same anti-money laundering/counter-terrorist financing (AML/CFT) provisions as the domestic sector. SEZs were established to promote export-oriented commercial businesses, including manufacturing, trading and services (mostly information technology), and access is controlled by Customs officers. As of December 2010, about 122 SEZs were operating and more than 575 SEZs had been formally approved throughout India.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and merchant banks; insurance companies; housing and non-banking finance companies; casinos; payment system operators; authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; intermediaries; stock brokers; sub-brokers; share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; depositories and depository participants; foreign institutional investors; credit rating agencies; venture capital funds; collective schemes including mutual funds; and the post office

Enhanced due diligence procedures PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and merchant banks; insurance companies; housing and non-banking finance companies; casinos; payment system operators; authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; intermediaries; stock brokers; sub-brokers; share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; depositories and depository participants; foreign

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institutional investors; credit rating agencies; venture capital funds; collective schemes including mutual funds; and the post office

Number of STRs received & time frame: 10,067 (April 2009 - March 2010)

Number of CTRs received & time frame: 6,690,000 (April 2009 - March 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six (April 2006 - December 2009)

Convictions: Zero

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

India is a member of the Financial Action Task Force (FATF) and two FATF-style regional bodies: the Asia/Pacific Group on Money Laundering (APG) and the Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG). Its most recent mutual evaluation is available here:

<http://www.fatf-gafi.org/dataoecd/60/56/45746143.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

India's low number of money laundering convictions and the financial sector's low number of terrorism-related suspicious transaction reports (STRs) are not commensurate with the size of India's economy or its threat profile. Additionally, the lack of severe penalties imposed by regulators against banks and financial institutions, coupled with the low statistics, may indicate a lack of appropriate due diligence procedures and/or weaknesses in the transaction monitoring systems. The Government of India (GOI) should ensure reporting entities fully implement appropriate due diligence procedures, to include both computerized tracking systems and active engagement by trained frontline personnel. The GOI should also emphasize the importance of human intervention and analysis in terrorist financing cases, as the varied profiles of these cases may not trigger an automated report.

The GOI issued circulars requiring financial institutions to examine more closely transactions involving higher risk jurisdictions. The circular requires that written reports be available to competent authorities and auditors. As of December 31, 2010, the AML/CFT Regulatory Framework Assessment Committee finished its evaluation of the institutional framework and began drafting a report on appropriate countermeasures for countries that do not conform to the FATF Recommendations.

The GOI has taken action against certain hawala activities, but its successes generally stem from prosecuting legitimate businesses that conduct hawala transactions on the side. Hawaladars operating entirely outside of the formal economy are difficult to trace, and provide money launderers and terrorist organizations ready access to an extensive but unmonitored network in India. The GOI's liberalization of the foreign exchange regime has helped otherwise legitimate actors move out of hawala and into the formal sector. However, the GOI no longer criminalizes operating a money transfer business without a license. The remaining administrative penalties do not serve as a sufficient deterrent to those engaged in criminal activity. The GOI should re-criminalize operating without a license.

The GOI should also facilitate the development of alternative money transfer services, including mobile banking. This expansion of legitimate, accessible services would allow broader financial inclusion of

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legitimate individuals and entities, and reduce AML/CFT vulnerabilities by shrinking the informal network.

The GOI should press for presidential approval to implement the Foreign Contribution (Regulation) Act 1976, which would extend foreign contribution reporting requirements to any non-profit organization that has a political, cultural, economic, educational or social focus and automate notification of suspicious transactions to the FIU. The GOI should also extend the Prevention of Money Laundering Act to include gem and precious-metals dealers, real estate agents, lawyers, notaries, other independent legal professionals, accountants, and commodity futures brokers and to clearly add a safe harbor provision for those filing STRs in good faith.

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, extensive use of cash in the economy, a lack of effective law enforcement, and the wide-ranging tactics of major indigenous terrorist groups, such as Jemaah Islamiyah, and their financiers from abroad. Most money laundering in the country is connected to non-drug criminal activity such as corruption, illegal logging, theft, bank fraud, credit card fraud, maritime piracy, sale of counterfeit goods, gambling and prostitution. Indonesia has a long history of smuggling, a practice facilitated by thousands of miles of unpatrolled coastline, weak law enforcement, and poor customs infrastructure. The proceeds of illicit activities are easily moved offshore and repatriated as needed for commercial and personal needs. Although Indonesia's corruption indicators are improving, corruption remains a major issue for all aspects of Indonesian society and a challenge for anti-money laundering/counter-terrorist financing (AML/CFT) implementation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, insurance companies and insurance brokerage companies, pension fund financial institutions, securities companies, investment managers, money remitters and foreign currency traders

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks, financing companies, insurance companies and insurance brokerage companies; pension fund financial institutions, securities companies, and investment managers; custodians, trustees, postal services as providers of fund transfer services, and foreign currency changers (money traders); providers of instruments of payment using cards, e-money or e-wallet; cooperatives doing business as savings and loans; pawnshops, commodity futures traders, and money remitters. Property companies, property agents, car dealers, dealers of precious stones and jewelry/precious metals, art and antique dealers, and auction houses became subject to STR reporting in 2010.

Number of STRs received and time frame: 17,348 in 2010

Number of CTRs received and time frame: 1,461,883 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 36 - January through November 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdiction: YES

Indonesia is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.apgml.org/documents/docs/17/Indonesia%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On October 22, President Yudhoyono signed Law No. 8 of 2010 on the Prevention and Eradication of the Crime of Money Laundering. This law expands the list of agencies permitted to conduct money laundering investigations; increases the ability of the independent Financial Intelligence Unit (PPATK) to examine suspicious financial transactions; expands institutions authorized to obtain results of PPATK analysis or examination of transactions; creates a streamlined mechanism to seize and freeze criminal assets; expands the entities which must file reports with PPATK and increases some criminal penalties for money laundering offenses. The law designates non-financial businesses, in addition to Indonesian banks and providers of financial services, which are required to report suspicious transactions to PPATK.

The Central Bank issued new regulations, effective December 1, 2010, applying to rural banks and rural Shariah banks, which contain more extensive requirements for customer due diligence, enhanced due diligence for high-risk customers and politically exposed persons, and checks against the Central Bank's Terrorist List, as part of Indonesia's AML/CFT program.

Indonesia continues to lack an effective mechanism to implement UNSCR 1267 and 1373, though it recently passed AML legislation that will provide for the freezing of terrorist assets linked to the UN List of designated terrorists and terrorist organizations. The government also appointed a drafting team to prepare draft terrorist financing legislation that would expand criminal liability, create a better mechanism to freeze and seize terrorist assets and subject non-governmental organizations (NGOs) to PPATK regulation. This draft legislation is expected to be submitted to the legislature in 2011.

In 2010, Indonesian prosecutors brought their first terrorism case based solely on terrorist financing grounds. The Saudi national defendant charged with financing the July 17, 2009 twin Jakarta hotel

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bombings was acquitted of the terrorist finance charge on June 28, 2010, but found guilty of immigration violations and sentenced to 18 months' imprisonment. In addition, as of mid-December 2010, there are three indictments under Article 11 of the 2003 Anti-Terrorism law, which proscribes intentionally providing or collecting funds to be used partly or wholly for acts of terrorism.

On July 7, 2010, the Government of Indonesia completed a domestic review of its non-profit sector and the Coordinating Ministry of Politics, Law and Security Affairs is expected to submit to the President recommendations regarding NGO section supervision.

Indonesia has mutual legal assistance treaties with several countries but not the U.S. It shares law enforcement information with the U.S. through memoranda of understanding.

Iran

Iran is not a regional financial center. Its economy is marked by a bloated and inefficient state sector and over-reliance on the petroleum industry. A combination of price controls and subsidies continue to weigh down the economy, although the Iranian government began a broad subsidy reform in 2010. Widespread corruption has also undermined the potential for private sector-led growth. The United States lists Iran as a state-sponsor of terrorism and the Financial Action Task Force (FATF) has repeatedly warned of Iran's failure to address the risks of terrorist financing, urging jurisdictions around the world to impose effective countermeasures to protect their financial sectors from the dangers of illicit finance emanating from Iran. Iran has a large underground economy, spurred by restrictive taxation, widespread smuggling, currency exchange controls, capital flight, and a large Iranian expatriate community.

Iran has established an international banking network, with many large state-owned banks that have foreign branches and subsidiaries in Europe, the Middle East, Asia, and the Western Hemisphere. In 1994, Iran authorized the creation of private credit institutions; licenses for these banks were first granted in 2001. In a number of cases, Iran has used its state-owned banks to channel funds to terrorist organizations and finance its nuclear and ballistic missile programs. The United States has designated a total of 20 Iranian-linked banks and subsidiaries under its counter-proliferation and terrorism authorities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: Unknown

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
Not available

KNOW-YOUR-CUSTOMER RULES:

Covered entities: The Central Bank, banks, financial and credit institutions, insurance companies (including the state regulator and reinsurance provider), interest-free funds, charity organizations and

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institutions, municipalities, notaries, lawyers, accountants, auditors, authorized specialists of the Justice Ministry, and official inspectors

Enhanced due diligence procedures for PEPs: *Foreign:* Unknown *Domestic:* Unknown

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: The Central Bank, banks, financial and credit institutions, insurance companies (including the state regulator and reinsurance provider), interest-free funds, charity organizations and institutions, municipalities, notaries, lawyers, accountants, auditors, authorized specialists of the Justice Ministry, and official inspectors

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: None

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: Unknown

Iran is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 1984, the Department of State designated Iran as a state sponsor of terrorism. Iran continues to provide material support, including resources and guidance, to multiple terrorist organizations and other groups that undermine the stability of the Middle East and Central Asia. Hamas, Hizballah, and the Palestinian Islamic Jihad (PIJ) maintain representative offices in Tehran in part to help coordinate Iranian financing and training. 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.

Since 2006, the U.S. has taken a number of targeted financial actions against key Iranian financial institutions, entities, and individuals under non-proliferation, counter-terrorism, human rights, and Iraq-related authorities, i.e., Executive Order 13382, Executive Order 13224, Executive Order 13553, and Executive Order 13438, respectively. To date, the Departments of the Treasury and State have designated over 240 Iranian entities and individuals for proliferation-related activity under Executive Order 13382.

The following are some examples of notable designations under Executive Orders: Twenty Iranian-linked banks (including Bank Sepah, Bank Melli, Bank Mellat, and Export Development Bank of Iran, plus Post Bank, Ansar Bank, Mehr Bank, and Europaisch-Iranische Handelsbank in 2010), located in Iran and overseas, have been designated in connection with Iran’s proliferation activities. One state-owned Iranian bank (Bank Saderat and its foreign operations) was designated for funneling money to terrorist organizations. The Qods Force, a branch of the Iranian Revolutionary Guard Corps (IRGC), was designated for providing material support to the Taliban, Lebanese Hizballah, and Palestinian Islamic Jihad. The Martyrs Foundation (also known as Bonyad Shahid), an Iranian parastatal organization that channels financial support from Iran to several terrorist organizations in the Levant, including Hizballah,

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Hamas, and the Palestinian Islamic Jihad (PIJ), has been designated along with Lebanon- and U.S.-based affiliates. Another Iranian parastatal, Bonyad Taavon Sepah, was designated in 2010 for its ties to the IRGC. The United States also designated the Islamic Republic of Iran Shipping Lines (IRISL) as a proliferator in 2008 and Iran's Moallem Insurance Company in 2010 for providing marine insurance to vessels owned by IRISL.

Since July 2006, the United Nations Security Council (UNSC) has passed six related resolutions (UNSCRs), four of which imposed financial sanctions on Iran. The most recent of these, UNSCR 1929, was adopted by the UNSC in June 2010.

In October 2007, the Financial Action Task Force (FATF) issued its first public statement expressing concern that Iran's lack of a comprehensive framework to counter money laundering and terrorist financing represents a significant vulnerability to the international financial system. In February 2009, the FATF urged all jurisdictions to apply effective countermeasures to protect their financial sectors from the money laundering/terrorist financing risks emanating from Iran and also stated that jurisdictions should protect against correspondent relationships being used to bypass or evade countermeasures or risk mitigation practices. The FATF reiterated its call for countermeasures most recently in October 2010. The FATF urges Iran to immediately and meaningfully address its anti-money laundering/counter the financing of terrorism (AML/CFT) deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements.

Since February 2007, the European Union (EU) has also adopted numerous measures to implement the UNSCRs on Iran and further protect the EU from Iranian risks. For example, in 2010, the EU adopted significant new measures against Iran, including new sanctions on several Iranian banks, the IRGC, and IRISL; enhanced vigilance by way of additional reporting and prior authorization for any funds transfers to and from an Iranian person, entity, or body above a certain threshold amount; a prohibition on the establishment of new Iranian bank branches, subsidiaries, joint ventures, and correspondent accounts; and other restrictions on insurance, bonds, energy, and trade.

Numerous countries around the world have also restricted their financial and business dealings with Iran in response to both the UNSC measures on Iran as well as the FATF statements on Iran's lack of adequate AML/CFT controls. A growing number of governments have moved to designate Iranian banks, and many of the world's leading financial institutions have voluntarily chosen to reduce or cut ties with Iranian banks. South Korea, Japan, Australia, Canada, Norway, India and others undertook extensive additional listings of Iranian entities and individuals and implemented new systemic measures in 2010.

Iran is ranked 146 out of 178 countries listed in Transparency International's 2010 Corruption Perception Index. There is pervasive corruption within the ruling and religious elite, government ministries, and government-controlled business enterprises.

In Iran and elsewhere in the region, proceeds from narcotics sales are sometimes exchanged for trade goods via value transfer. Illicit proceeds from narcotics trafficking are used to purchase goods in the domestic Iranian market; those goods are often exported and sold in Dubai. 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 300,000 Iranians reside in Dubai, with approximately 8,200 Iranian-owned companies based there.

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Iran's real estate market is also often used to launder money. Frequently, real estate settlements and payments are made overseas. In addition, there are reports that billions of dollars in Iranian capital has been invested in the United Arab Emirates, particularly in Dubai real estate.

In 2010, the Government of the Islamic Republic of Iran teamed with United Nations Office on Drugs and Crime to establish a financial intelligence unit (FIU) that will analyze suspicious financial transactions, particularly those dealing with illicit narcotics proceeds. However, no independent assessment has been conducted to assess if the FIU meets international standards.

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. There is a large market in Iraq for stolen automobiles from Europe and the United States. Bulk cash smuggling, counterfeit currency, trafficking in persons, and intellectual property rights violations are also major problems. Ransoms from kidnappings and extortion are often used to finance terrorist networks. There are credible reports of counterfeiting. 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 illicit purposes. Regulation and supervision of the formal and informal financial sectors is still quite limited and enforcement is subject to political constraints, resulting in weak private sector controls. Corruption is a major challenge and is exacerbated by weak financial controls in the banking sector and weak links to the international law enforcement community. Transparency International's 2010 International Corruption Perception index ranked Iraq as 175 out of 178 countries, demonstrating a slight decline from the previous year.

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 (FTZ) Authority Law, goods imported or exported from the FTZ 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 FTZ 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. Iraq is investigating the application of a new customs tariff regime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; investment funds managers; life insurance companies and those which offer or distribute shares in investment funds; securities dealers; money transmitters, hawaladars, and issuers or managers of credit cards and travelers checks; foreign currency exchange houses; asset managers, transfer agents, investment advisers, securities dealers; and, dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; investment funds managers; life insurance companies and those which offer or distribute shares in investment funds; securities dealers; money transmitters, hawaladars, and issuers or managers of credit cards and travelers checks; foreign currency exchange houses; asset managers, transfer agents, investment advisers, securities dealers; and, dealers in precious metals and stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Iraq is a member of MENAFATF, a Financial Action Task Force (FATF)-style regional body. Iraq has not yet undergone a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

CPA Law 93, AML Act of 2004, the only anti-money laundering statute in Iraq, takes an “all serious crimes” approach although the statute itself references “proceeds of some form of unlawful activity....” Although the statute seems to broaden itself even beyond serious crime, the criminalization under CPA Law 93 is that of a misdemeanor. Thus, Iraq will not prosecute cases under this law because the law does not effectively criminalize money laundering. Iraq should become a party to the UN Convention for the Suppression of the Financing of Terrorism.

Iraq’s legal framework needs to be strengthened, either by amendment or redrafting of new AML/CFT legislation. Until the parliamentarians change the law and adequately criminalize money laundering, there will be a lack of political will in enforcing it. In addition, Iraqi ministries need to support a viable AML/CFT regime with cooperation across ministries. The lack of implementation of legislation and weak enforcement by the Money Laundering Reporting Office (MLRO) housed in the Central Bank of Iraq undermine its ability to be a stalwart counterforce to terrorist financing and money-laundering. The MLRO does not appear to take action to gather financial intelligence on suspected criminal activity to shore up law enforcement efforts or assist in obtaining relevant information to support ongoing investigations from foreign jurisdictions. The Government of Iraq should ensure the MLRO has the

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capacity, resources and authorities to serve as the central point for collection, analysis and dissemination of financial intelligence to law enforcement and to provide international assistance.

Investigators, prosecutors and judges all need support from their principals to move farther with pursuing AML/CFT cases. Prosecutors and investigators are frustrated because their cases are not pursued by judges; similarly, judges claim the cases they receive are of poor quality and not prosecutable. Senior level support and increased capacity for all parties are necessary to ensure AML/CFT cases can be successfully prosecuted in Iraq.

In practice, despite customer due diligence requirements, most banks open accounts based on the referral of existing customers and/or verification of a person's employment. Actual application of the rules varies widely across Iraq's 39 state-owned and private banks. Also, rather than file STRs in accordance with the law, most banks either do internal investigations or contact the FIU, which does an account review to resolve any questionable transactions. In practice, very few STRs are filed. US dollars are widely accepted and are used for many payments made by the US military, and assistance agencies and their contractors.

Banks do receive the UNSCR 1267 Committee list of designated terrorists and terrorist organizations, although the current process for distribution is very inefficient and inconsistent.

Ireland

Ireland is an increasingly significant European and international financial services hub, with a number of multinational banks having set up offices in Dublin.

The primary sources of funds laundered in Ireland are prostitution, cigarette smuggling, drug trafficking, fuel laundering, domestic tax violations and welfare fraud. Customs authorities have also intercepted cash from drug dealing which was being smuggled out of Ireland. The largest such interception was in 2010 when a suitcase belonging to an Irish drug trafficker containing €676,000 (approximately \$878,800) in used bank notes was seized at Dublin International Airport.

Irish authorities estimate that up to 80 percent of the reports of suspicious transactions filed with them involve funds derived from domestic tax violations and social welfare fraud. While money laundering occurs via credit institutions such as banks, money has also been laundered through schemes involving remittance companies, solicitors, accountants, and second-hand car dealerships. According to law enforcement, money is most commonly laundered through the purchase of high-value goods for cash; the transfer of funds from overseas through Irish credit institutions; the filtering of funds via complex company structures; and the purchase in Ireland of Irish and foreign real property.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, building societies, the post office, stock brokers, credit unions, currency exchanges, life insurance companies, and insurance brokers

Enhanced due diligence procedures for PEPs: **Foreign:** YES **Domestic:** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, building societies, the post office, stock brokers, credit unions, currency exchanges, life insurance companies, and insurance brokers

Number of STRs received and time frame: 14,500 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 11 in 2009

Convictions: Two in 2009

Assets forfeited: criminally: €1.35 million (approximately \$1.9 million) in 2009 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With the United States: YES

With other governments/jurisdictions: Exchange intelligence only

Ireland is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/63/29/36336845.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Criminal Justice (Money Laundering and Terrorist Financing) Bill 2010 consolidates Ireland's existing anti-money laundering and counter-terrorist financing laws, which previously were contained mainly in the Criminal Justice Act 1994. It also increases the obligations on a wide range of individuals and organizations to disclose information related to suspected money-laundering and terrorist financing.

On June 17, 2010, Ireland became a party to the UN Convention against Transnational Organized Crime. The Government of Ireland should establish mechanisms for sharing information with other jurisdictions and providing assistance in transnational criminal investigations. Ireland also should become a party to 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. 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.

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CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; building societies; credit issuers; financial leasing companies; money exchanges and remitters; issuers of checks, traveler’s checks, money orders, electronic money, or payment cards; guarantors; securities and commodities futures brokers; safekeeping, portfolio and asset managers; estate agents; auditors, accountants, lawyers and notaries; insurance companies and intermediaries; casinos and bookmakers; high-value goods dealers and auctioneers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; building societies; credit issuers; financial leasing companies; money exchanges and remitters; issuers of checks, traveler’s checks, money orders, electronic money, or payment cards; guarantors; securities and commodities futures brokers; safekeeping, portfolio and asset managers; estate agents; auditors, accountants, lawyers and notaries; insurance brokers and companies and intermediaries; casinos and bookmakers; high-value goods dealers and auctioneers

Number of STRs received and time frame: 1,435

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 15 in 2010

Convictions: 13 in 2010

Assets forfeited: criminally: \$510,381 *civily:* \$94,903

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Compliance with international standards was evaluated in a report prepared by the International Monetary Fund’s Financial Sector Assessment Program. The report can be found here:

<http://www.imf.org/external/pubs/ft/scr/2009/cr09275.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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

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that person's financial affairs. These powers can be used to assist in criminal investigations abroad as well as in the IOM. In 2003, the U.S. and the UK agreed to extend to the IOM the U.S.-UK Treaty on Mutual Legal Assistance in Criminal Matters.

The Terrorism (Finance) Act 2009 allows the IOM authorities to compile their own list of suspects subject to sanctions when appropriate.

IOM is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so. Rather, the UK is responsible for IOM's international affairs and, at IOM's request, may arrange for the ratification of any Convention to be extended to the Isle of Man. The UK's ratification of the 1988 UN Drug Convention was extended to include IOM on December 2, 1993; its ratification of the UN Convention against Corruption was extended to include the IOM on November 9, 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to IOM on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to the IOM.

Israel

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. Criminal groups in Israel, either home-grown or 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. The Minister of Public Security recently announced that domestic revenue from the drug trade is in the billions of dollars. Seizures by the police have increased dramatically over 2009, with increased manpower and cooperation at key border points. 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.

Black market penetration in Israel remains low and is comparable in scale to that of Western, industrialized nations. 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 regionally-focused, with Israel as more of a transit country than a stand-alone significant market. Concern from the authorities is growing relative to illegal pharmaceuticals sales, some retail businesses which are suspected money-laundering enterprises, and corruption accusations against some public officials which may or may not be politically-motivated. Bilateral cooperation between United States and Israeli law-enforcement authorities is very high, including joint repatriations, training exercises and sharing of information where relevant.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

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(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, members of the Tel Aviv Stock Exchange, portfolio managers, insurers and insurance agents, provident funds and the companies who manage them, providers of currency services, money services businesses and the Postal Bank

Number of STRs received and time frame: 27,332 (January – November 2010)

Number of CTRs received and time frame: 960,316 (January – November 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 19 (January – August 2009)

Convictions: 13 (January – August 2009)

Assets forfeited: criminally: civilly: Combined total assets forfeited (criminally and civilly): 1,927,000 NIS (approximately \$550,571) January – August 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Israel has observer status with MONEYVAL (the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism). Its most recent mutual evaluation can be found here: www.coe.int/moneyval.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

A scathing report by the State Comptroller to the Knesset in May 2009 cited Israel's failure to effectively organize and fight organized crime. While the police did get credit for pursuing and arresting many leading mafia figures despite lack of resources, the report pointed out that the State would have to do a better job of targeting and weakening the financial foundation of organized crime; there was considerable lack of cooperation, coordination of activity, and sharing of information among relevant agencies; and ineffective leveraging of current legislation, including anti-money laundering laws. With an established director of the Israeli Money Laundering Authority in September 2010, the hope is that a key source of internal lack of coordination which has plagued some sensitive operations will be reduced.

In July 2009, the Ministry of Finance announced that a special unit would be established alongside the Tax Authority to coordinate the economic side of the fight against organized crime, including better tracking of money laundering. As of November 2010, this unit still has not been established. The Israeli National Police established the Lahav 433 special unit to target organized crime, which had many notable successes in arresting senior members of crime families. While significant resources and attention exist within the GOI to fight terrorist-related money laundering, the lack of resource allocation and follow-through on non-terror related financial crimes still lags significantly *versus* the scope of the problem. Organized crime has existed in Israel for many years, although it is only within the last couple of years that there has been formal acknowledgement by the authorities of the scope of the problem, or existence

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of crime families. The State of Israel convicted a businessman and former mayoral candidate in Jerusalem for laundering over 650 million shekels (approximately \$183.8 million).

Israel's "right of return" laws for citizenship have meant that crime figures can and have continued to operate in their home countries while having easy access into and out of the country. Israeli citizenship for those "making aliyah" does not require strong ties to Israel such as proof of continuous residency. Therefore it is not uncommon for some crime figures suspected of money laundering to hold passports in a home country, a third country for business, and Israel without necessarily having established ties here.

U.S. law enforcement has a robust relationship with the Israel Tax Authority's (ITA's) Anti Drug and Money Laundering Unit. A customs mutual assistance agreement between the U.S. and Israel allows for the exchange of information between Customs services in support of joint financial investigations, and the U.S. and ITA routinely coordinate to target illicit finance and bulk cash smuggling between the two countries. In addition, U.S. and Israeli law enforcement officials cooperate on extradition requests for individuals accused of crimes such as money laundering. For example, Itzhak Abergil, a U.S.-designated Consolidated Priority Organization Target (CPOT), and several other Israeli nationals recently lost their appeal fighting extradition to the United States, where they now face a host of charges including money laundering, and drug trafficking.

Italy

Italy 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. 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. 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. 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 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. Phishing more than tripled from 2008 to 2009 (from 791 to 2,687 instances) for an overall amount increase from 3 to 8 million euros (approximately \$3.9 to \$10.4 million). Italy's financial intelligence unit (FIU) also reported a reduction among suspicious cash transactions, but an increase in wire transactions and money transfers.

Money laundering occurs to some extent in both the regular banking sector and the nonbank financial system, including casinos, money transfer houses, and the gold market. 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 15-17 percent of Italian GDP, totaling about 233 to 264 billion euros (approximately \$304 billion to \$344 billion), though a substantial fraction of this total is related to tax evasion of otherwise legitimate commerce.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, Italian postal services, electronic money institutions, investment firms, asset management companies, insurance companies, agencies providing tax collection services, stock brokers, financial intermediaries, trust companies, lawyers, accountants, auditors, and casinos

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, Italian postal services, electronic money institutions, investment firms, asset management companies, insurance companies, agencies providing tax collection services, stock brokers, financial intermediaries, trust companies, lawyers, accountants, auditors, and casinos

Number of STRs received and time frame: 37,114 in 2010

Number of CTRs received and time frame: 37,231 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 23

Convictions: 16

Assets forfeited: *criminally:* \$317,063,640 confiscated in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Italy is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_70522_43383847_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Given the relatively low number of STRs being filed by non-bank financial institutions, Italy should improve its training efforts and supervision in this sector and should clarify attorney/client privilege. Italy should take steps to allow for civil forfeiture of criminal proceeds. 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. Finally, Italy should continue its active participation in multilateral

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fora dedicated to the global fight against money laundering and terrorist financing and its assistance to jurisdictions with nascent or developing AML/CFT regimes.

Jamaica

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics and to a lesser extent psychotropic substances. Criminal proceeds laundered in Jamaica are derived from both domestic and foreign criminal activities, but primarily from foreign criminal activities. Money laundering is largely controlled by organized criminal groups whose primary activity is drug trafficking. Public corruption also contributes to money laundering and most often occurs when a public contract is awarded that gives an organized criminal group the opportunity to benefit. Jamaica has experienced a slight increase in financial crimes, primarily emanating from the Lotto Scam and electronic frauds/cybercrimes.

There is a significant black market for smuggled goods in Jamaica, but there is no data or intelligence to suggest that smuggling is funded by proceeds from narcotics or other illicit means. However, evidence suggests that funds generated from contraband smuggling are laundered through the financial system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit unions, merchant banks, wire-transfer companies, exchange bureaus, remittance companies, mortgage companies, insurance companies, securities brokers and other intermediaries, securities dealers, and investment advisors

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit unions, merchant banks, exchange bureaus, remittance companies, mortgage companies, insurance companies, securities brokers and other intermediaries, securities dealers, and investment advisors

Number of STRs received and time frame: 249,130 in 2010

Number of CTRs received and time frame: 113,435 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: Three in 2010

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Jamaica is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.cfatf-gafic.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Financial Investigations Division Act became law on April 17, 2010. This Act establishes the Financial Investigations Division (FID) by statute and empowers it to undertake financial crime investigations, including money laundering, with a greater level of effectiveness and authority. Before the Act, the division was established by action of the Minister of Finance with limited enforcement authority. However, the FID's capacity to enforce AML/CFT laws is restricted by resource issues and the limited amount of time within the law to process consent to processing of a transaction subject to a suspicious transaction report after it is reported by a financial organization. Additionally, designated non-financial businesses and professions are not covered under Jamaica's AML law. On June 7, 2010, the Cabinet accepted and approved recommendations on a proposed supervisory regime for these entities and the categories of persons to be designated as gatekeepers.

Effectiveness is also hindered by lengthy delays in the court system in the processing of judicial orders. There is a need to amend the Jamaica's Evidence Act to allow witnesses overseas to give evidence by way of video conferencing. This would assist in the investigation and prosecutions of financial crimes, particularly cases where the victims are overseas. Consideration should also be given to the establishment of a special court to deal with financial crimes in order to fast track those cases.

A total of sixty-four money laundering cases are being investigated, and the government has seized \$2.3 million in cash derived from the international drug trade. These cases are pending before the courts, which will decide whether the seized funds will be forfeited.

Through the Caribbean Regional Drug Law Enforcement Training Centre (REDTRAC) located in Jamaica, the government and its bilateral partners provide specialized training for regional law enforcement officers in areas such as narcotics investigations, intelligence gathering and analysis, kidnapping and extortion, money laundering, financial fraud and assets tracing. The institution serves law enforcement officials from Jamaica and across the Caribbean region.

Japan

Although the Japanese government continues to strengthen legal institutions to permit more effective enforcement of anti-money laundering/counter-terrorist financing (AML/CFT) laws, Japan still faces substantial risk of money laundering by organized crime (including Boryokudan, Japan's organized crime groups, and Iranian drug trafficking organizations), extremist religious groups, and other domestic and international criminal elements. The major sources of money laundering proceeds include drug trafficking, fraud, loan-sharking (illegal money lending), remittance frauds, the black market economy, prostitution, and illicit gambling. In the past year, there has been an increase in financial crimes by

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citizens of West African countries, such as Nigeria and Ghana, who are resident in Japan. There is not a significant black market for smuggled goods, and the existence of alternative remittance systems is believed to be very limited in Japan.

Japan is not an offshore financial center. It has one free-trade zone, the Okinawa Special Free Trade Zone, established in 1999 in Naha, to promote industry and trade in Okinawa. The zone is regulated by the Department of Okinawa Affairs in the Cabinet Office. Japan also has two free ports, Nagasaki and Niigata. Customs authorities allow the bonding of warehousing and processing facilities adjacent to these ports on a case-by-case basis.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, real estate agents and professionals, precious metals and stones dealers, antique dealers, postal service providers, lawyers, judicial scriveners, certified administrative procedures specialists, certified public accountants, certified public tax accountants, trust companies

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, real estate agents and professionals, precious metals and stones dealers

Number of STRs received and time frame: 268,582 for January-November 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: approximately ¥2.7 billion (approximately \$33 million)
January 1 - December 31, 2009 ***civily:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Japan's compliance with international standards is notably deficient on recommendations specific to financial institutions. While Japan has legal requirements for customer due diligence (CDD) programs in its institutions, the CDD provisions are severely lacking, and 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. Japan should strengthen its CDD provisions to include specific requirements for due diligence by financial institutions and to require financial institutions to collect information about business accounts and transactions.

The Government of Japan (GOJ) has not implemented a risk-based approach to AML/CFT, and there is no mandate for enhanced due diligence for higher-risk customers, business relationships, and transactions. The current regulations do not authorize simplified due diligence, though there are exemptions to the identification obligation on the grounds that the customer or transaction poses no or little risk of money laundering or terrorist financing. Japan should implement a risk-based approach to its AML/CFT regime.

The GOJ's number of investigations, prosecutions, and convictions for money laundering in relation to the number of drug and other predicate offenses is low, despite the GOJ's many legal tools and programs to combat these crimes. The National Police Agency (NPA) provides very limited cooperation with other GOJ agencies, and most foreign governments, on nearly all criminal, terrorism, or counter-intelligence-related matters. The NPA's minimal level of cooperation has caused the law enforcement offices of nearly all other industrialized countries to either leave Japan or significantly reduce their presence. The GOJ should develop a robust program to investigate and prosecute money laundering offenses, and require enhanced cooperation by the NPA with its counterparts in the GOJ and foreign missions.

The GOJ's system does not allow the freezing of terrorist assets without delay, and in practice the Ministry of Finance has never actually frozen or confiscated any terrorist assets. Japan's system does not cover assets raised by a non-terrorist for use by a terrorist or terrorist organization, and reaches only funds, not other kinds of assets. The GOJ should enact legislation to allow terrorist assets to be frozen without delay, and to expand the scope of assets to include non-financial holdings.

Japan should provide more training and investigatory resources for AML/CFT law enforcement authorities, establish an effective CDD regime, and consider implementing a system to report large currency transactions. As Japan is a major trading power, the GOJ should take steps to identify and combat trade-based money laundering. Japan should also become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption, and should fully implement the freezing obligations for terrorist funds, according to the UN Convention for the Suppression of the Financing of Terrorism.

Jersey

The Island of Jersey, the largest of the Channel Islands, is an international financial center offering a sophisticated array of offshore services. Jersey is a British crown dependency but has its own parliament, government, and laws. The United Kingdom (UK) remains constitutionally responsible for its defense and international representation but has entrusted Jersey to negotiate and sign tax information exchange agreements directly with other jurisdictions and regulate its own financial service sector. The financial services industry is a key sector, with banking, investment services, and trust and company services accounting for approximately half of Jersey's total economic activity. As a substantial proportion of

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customer relationships are established with nonresidents, most of the illicit money in Jersey is derived from foreign criminal activity. In particular, the Island's financial services industry continues to be vulnerable to the laundering of the proceeds of foreign political corruption in industries such as oil, gas and transportation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, travelers' checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, and portfolio managers; insurance companies and brokers; fund products and fund operators; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high-value goods; notaries, accountants, lawyers and legal professionals

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, travelers' checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, and portfolio managers; insurance companies and brokers; fund products and fund operators; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high-value goods; notaries, accountants, lawyers and legal professionals

Number of STRs received and time frame: 1,854 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One prosecuted to judgment in 2010

Convictions: One in 2010

Assets forfeited: criminally: £7,454,250 (approximately \$11,299,600) in 2010 ***civilly:*** Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In lieu of a mutual evaluation, a report was prepared by the International Monetary Fund's Financial Sector Assessment Program. The report can be found here: <http://www.imf.org/external/pubs/ft/scr/2009/cr09280.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although not yet used in practice, Jersey has an ability to designate persons and freeze their assets in conformity with UNSCR 1373. No formal procedure is in place to receive and assess requirements based on a foreign request, as required by UNSCR 1373. Additionally, the definition of "funds" subject to freezing does not expressly refer to assets "jointly" or "indirectly" owned or controlled by designated or listed persons.

The Jersey Financial Services Commission (JFSC) website contains a link to the United Kingdom Consolidated List of asset freeze targets, as designated by the United Nations, European Union and United Kingdom. It does not use other means to distribute UN lists of designated terrorists or terrorist entities.

Jersey does not enter into bilateral mutual legal assistance treaties. Instead it is able to provide mutual legal assistance to any jurisdiction, including the US, in accordance with the Criminal Justice (International Co-operation) (Jersey) Law 2001 and the Civil Asset Recovery (International Co-operation) (Jersey) Law 2007. Jersey has granted U.S. requests for assistance in criminal matters. Jersey signed a Tax Information Exchange Agreement with the United States in 2002. In 2009, the JFSC signed a statement of cooperation with the Board of Governors of the Federal Reserve System, Office of the Comptroller of Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision. This statement is in addition to existing memoranda of understanding with the Securities and Exchange Commission and Commodity Futures Trading Commission.

Jersey is a Crown Dependency and cannot sign or ratify international conventions in its own right unless entrusted to do so, as is the case with tax information exchange agreements. Rather, the UK is responsible for Jersey's international affairs and, at Jersey's request, may arrange for the ratification of any Convention to be extended to Jersey. The UK's ratification of the 1988 UN Drug Convention was extended to include Jersey in July 1998; its ratification of the UN Convention against Corruption was extended to include Jersey in November 2009; and its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to Jersey on September 25, 2008. The UK has not extended the UN Convention against Transnational Organized Crime to Jersey.

Jersey authorities have a continuing concern regarding the increasing incidence of domestic drug related crimes. The customs and law enforcement authorities devote considerable resources to countering drug-related crime. Jersey should continue to maintain and enhance its level of compliance with international standards to assist those efforts. The Financial Services Commission should ensure its AML Unit has enough resources to continue to function effectively, and to provide outreach and guidance to the sectors it regulates, especially the newest entities required to file reports. The Commission also should distribute the UN lists of designated terrorists and terrorist organizations to the obligated entities and not expect the entities to stay current through their own Internet research.

Jordan

Although Jordan is not a regional or offshore financial center, it has 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, Saudi Arabia and the West Bank make it susceptible to the smuggling of bulk cash,

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fuel, narcotics, cigarettes, counterfeit goods and contraband. Jordan boasts a thriving “import-export” community of brokers, traders, and entrepreneurs who regionally are involved with value transfer via trade and customs fraud. There are anecdotal indications of the use of Jordan for money laundering of illicit funds derived from narcotics and other criminal activity in the U.S., and possibly Europe, via bulk cash smuggling for criminal elements involving Jordanians in those areas. However, it is thought the major sources of illicit funds in Jordan are most likely to be related to commercial fraud, customs fraud, tax fraud and intellectual property rights (IPR) violations. In 2010, Jordan made significant strides to bring its anti-money laundering/counter-terrorist financing (AML/CFT) regime into fuller compliance with international standards and to raise the profile of AML/CFT stakeholders.

There are six public free trade zones (FTZ) 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). With the exception of Aqaba, these FTZs list their activities merely as trade. There are 36 private free trade zones, a number of which are related to the aviation industry, with five more being established. Some of these FTZs 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. The Aqaba Special Economic Zone Authority (ASEZA), a ministerial level authority, controls all of the port city of Aqaba. ASEZA has its own customs authority, which operates separately from Jordan Customs and processes all merchandise and commodities destined for businesses in the zone and all passengers entering the zone. Jordan Customs processes all shipments of goods in transit to areas outside the zone.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES

civily: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange companies and money transfer companies; securities brokers and investment and asset managers; credit and financial leasing companies; insurance companies, brokers and intermediaries; entities providing credit, leasing services, financial management companies, postal services, real estate and development, and traders of precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: YES

Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, exchange and money transfer companies, securities brokers and investment and asset managers; credit and financial leasing companies; insurance companies, brokers and

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intermediaries; entities providing credit, leasing services, financial management companies, postal services, real estate and development, and traders of precious metals and stones

Number of STRs received and time frame: 510 -- July 2007 - December 14, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two in 2010

Convictions: One in 2010

Assets forfeited: criminally: \$2.05 million -- July 2007 - December 14, 2010 **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Jordan is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.menafatf.org/images/UploadFiles/MER_Hashemite_Kingdom_of_Jordan.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In February 2010, the Financial Action Task Force (FATF) identified Jordan as a jurisdiction with significant AML/CFT vulnerabilities. The Government of Jordan has been actively engaged to alleviate the noted deficiencies. By late 2010, Jordan had addressed successfully all noted areas of non-compliance with key international standards.

During 2010, the Government of Jordan (GOJ) remedied several deficiencies in its AML/CFT legal framework. Those changes include: (a) extension of the range of predicate offenses to include all offenses (both misdemeanors and felonies) which are crimes in Jordan, whether committed in Jordan or abroad; (b) clarification that a conviction of an underlying predicate offense is not a prerequisite for criminal indictment for money laundering; (c) extension of the scope of the terrorist financing offense to include provision to, or collection of funds by terrorist organizations or individual terrorists, including in situations where there is no proof that the funds were going to be directed to the commission of a terrorist act; (d) inclusion of an adequate definition of what constitutes "funds" under terrorist financing provisions; (e) inclusion of general measures to provide for the freezing, seizing and confiscation of funds related to money laundering and terrorist financing; (f) extension of the mandate of the FIU to receive STRs related to terrorist financing; and, (g) establishment of effective procedures for implementing terrorist financing-related obligations under UNSCRs 1267 and 1373.

In addition to changes in the legal framework, other operational developments in 2010 impacting the AML/CFT regime in Jordan include expansion of the FIU staff and preparations to move to an independent office space. In addition, the Prime Minister issued a directive confirming the primacy of the role of the FIU in the AML/CFT regime. Lastly, a cross-border customs declaration form was issued to implement existing declaration requirements related to currency transport in excess of 15,000 Jordanian dinars (approximately \$21,150).

The first two indictments for money laundering in Jordan occurred in 2010. In both cases, the predicates were committed outside of Jordan. One conviction has been achieved to date, involving two defendants and resulting in a sentence of three years' hard labor, a fine of 10,000 Jordanian dinars (approximately \$14,100), and confiscation of the proceeds.

Kazakhstan

While Kazakhstan is not a regional financial center, it has the best developed financial system in the Central Asia region. The primary sources of laundered money are proceeds from tax evasion committed through the use of shell companies; corruption, particularly in the areas of state procurement, natural resource extraction, illegal production and distribution of oil and alcoholic products; and financial fraud. Authorities reported a 6.8 percent decrease in the number of financial crimes in the first eight months of 2010 compared to the same period in 2009, including a decrease in counterfeiting and banking crimes.

Authorities report that the under-invoicing of imports and exports in order to avoid taxes and customs duties remains a relatively common practice. Under-invoicing and attempts to conceal shipments in order to avoid required payments accounted for 68 percent of the 580 cases initiated by the Customs Committee during the first nine months of 2010.

According to the Committee for National Security, there is no evidence that proceeds from smuggling of drugs or other commodities are used to fund terrorist activity, though the Committee continues its efforts to detect connections between drug trafficking and terrorist organizations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and organizations that conduct banking transactions; stock exchanges; insurance (re-insurance) companies; insurance brokers; pension funds; professional participants of the securities market; central depositories; exchange offices and post operators that deal with fund transfers; lawyers; independent experts on legal issues; commodity stock exchanges; audit organizations and organizers of gambling businesses

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and organizations that conduct banking transactions; stock exchanges; insurance (re-insurance) companies; insurance brokers; pension funds; professional participants of the securities market; central depositories; exchange offices and post operators that deal with fund transfers; lawyers; independent experts on legal issues; commodity stock exchanges; audit organizations and organizers of gambling businesses

Number of STRs received and time frame: 5,701 from March 9 through September 30, 2010

Number of CTRs received and time frame: 146,550 from March 9 through September 30, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 90 from January to August 2010

Convictions: 93 from January to August 2010

Assets forfeited: criminally: \$8.16 million from January-August 2010 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Kazakhstan is a member of the Eurasian Group on Combating Money Laundering and Terrorist Financing Crimes (EAG), a Financial Action Task Force (FATF)-style regional body. The first draft mutual evaluation report will be discussed at the June 2011 EAG plenary meeting.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

A new AML/CFT law took effect in March 2010. However, this law excludes from the list of covered entities pawn shops; micro-credit organizations; leasing organizations; entities dealing with jewelry and precious metals; financial management firms; dealers of arts, antiques, and other high-valued consumer goods; and travel agencies. These entities are not required to maintain customer information or report suspicious activity. Effective implementation and enforcement will depend on further resources and the development of institutional expertise.

The strict segregation of duties between law enforcement agencies hampers the government's ability to detect, investigate and prosecute money laundering crimes related to serious criminal offenses like drug trafficking and trafficking in persons. The Financial Police, as the only agency empowered to investigate money-laundering cases, deals only with economic and corruption crimes. The Ministry of Interior is authorized only to investigate predicate crimes (which generate the proceeds), but not to initiate money laundering cases. So far only the Committee for National Security has been able to prosecute money laundering cases related to trafficking in persons (one, in 2008) and narcotics trafficking (three in 2009, and one initiated in 2010). During the first eight months of 2010, the Financial Police seized \$20.41 million related to anti-money laundering operations.

Kenya

Kenya is a major money laundering country. Kenya's use as a transit point for international drug traffickers continues to increase. The laundering of funds related to Somali piracy, corruption, smuggling, the misuse of casinos and other assorted crimes is a substantial problem. Reportedly, Kenya's financial system may be laundering over \$100 million each year, including an undetermined amount of narcotics proceeds and Somali piracy-related funds. As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has large formal and informal sectors. Although banks, wire services, and other formal channels execute funds transfers, there are also thriving, unregulated 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.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial and non-bank financial institutions engaging in one or more of the following: accepting deposits; lending; financial leasing; transferring funds or value; issuing and managing means of payment; financial guarantees and commitments; trading in money market instruments, foreign exchange, exchange, interest rate and index funds, transferable securities, and commodity futures; participation in securities issues; individual and collective portfolio or fund management; safekeeping and asset administration; underwriting and sales of life insurance and other investment related insurance; and/or money and currency changing; also, casinos; real estate agencies; accountants; and dealers in precious metals or stones

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial and non-bank financial institutions engaging in one or more of the following: accepting deposits; lending; financial leasing; transferring funds or value; issuing and managing means of payment; financial guarantees and commitments; trading in money market instruments, foreign exchange, exchange, interest rate and index funds, transferable securities, and commodity futures trading; participation in securities issues; individual and collective portfolio management; safekeeping and administering cash or liquid assets on behalf of other persons; investing, administering, or managing funds on behalf of other persons; underwriting and placement of life insurance and other investment related insurance; and/or money and currency changing; also, casinos; real estate agencies; accountants; and dealers in precious metals or stones

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Kenya is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. No mutual evaluation report is available at this time.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Proceeds of Crime and Anti-Money Laundering Act (PCAMLA), which came into force in June 2010, has a number of deficiencies. While the PCAMLA does take an “all crimes” approach to money laundering predicate offenses, the Act has never been used to prosecute any crimes. Kenya’s criminal justice system remains open to interference and corruption and combating money laundering has not been given priority. The PCAMLA contains sanctions that are proportionate and meet the international standard but have not yet been operationalized with implementing regulations. The PCAMLA does not mention or criminalize terrorism or terrorist financing. The legislation does not explicitly authorize the seizure of legitimate businesses used to launder money. A number of amendments to the law appear to have made the PCAMLA less powerful than earlier drafts. The Central Bank of Kenya (CBK) is relying on the future Financial Intelligence Centre (FIC), the financial intelligence unit, for implementation, as the police lack institutional capacity to handle complex financial crimes analysis and investigation. Although authorized under the PCAMLA, the FIC has not yet been established.

The GOK did not report any money laundering or terrorist financing arrests, prosecutions, or convictions from 2007 through 2010. Kenya lacks the institutional capacity, investigative skill, and equipment to conduct complex investigations independently. There is also insufficient political will to address these crimes. Kenya ranks 154 out of 178 countries on the 2010 Transparency International Corruption Perceptions Index.

There is a black market for smuggled goods in Kenya, which serves as the major transit country for Uganda, Tanzania, Rwanda, Burundi, northern Democratic Republic of Congo (DRC), and Southern Sudan. While goods marked for transit avoid Kenyan customs duties, authorities acknowledge these goods are often sold in Kenya. Many entities in Kenya are involved in exporting and importing goods, including nonprofit entities. Trade-based money laundering is a serious problem in Kenya. Trade goods are often used to provide counter-valuation in regional hawala networks.

Kenya has no straightforward legal mechanism to freeze or seize criminal or terrorist accounts. 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. Because of corruption and leaks, the confidentiality of this process is difficult to maintain. The Central Bank does not distribute UN lists to financial institutions. Instead, it refers all banks to the public lists posted on the Internet. Two times per year, each bank is required to confirm to the Central Bank that they have ensures none of their clients are on any of the lists.

Korea, Democratic Republic of

In recent years, Democratic People’s Republic of Korea (DPRK) citizens have been apprehended or implicated in international investigations for narcotics trafficking and other criminal behavior, such as producing and distributing counterfeit U.S. currency (including \$100 “supernotes”), and trading in counterfeit products such as cigarettes. There is also evidence that North Korean governmental entities and officials have been involved in laundering the proceeds of illicit activities, including those related to counterfeiting, through front companies. The illegal revenue garnered from these sources provides desperately needed foreign hard currency for the DPRK. The UN Security Council passed additional

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multilateral sanctions against the DPRK in June 2009 (UNSCR 1874) making it even more difficult for the DPRK to gain access to foreign hard currency.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: criminally: Not available *civily:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: Not available

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Not available

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Not available

Enhanced due diligence procedures for PEPs: Foreign: Not available *Domestic:* Not available

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Not available

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civily:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

The DPRK is not a participant in any Financial Action Task Force-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On October 11, 2008, the United States Government formally removed North Korea from the U.S. list of state sponsors of terrorism.

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In response to concerns that North Korea had conducted nuclear testing, the UN Security Council adopted UNSCR 1718 on October 14, 2006, which aimed to prevent a range of nuclear, ballistic missile, and other weapons of mass destruction-related equipment and technology from entering or leaving the Democratic People's Republic of Korea. The Resolution imposes an asset freeze and travel ban on persons related to the nuclear weapons program. Similar concerns gave rise to the adoption of UNSCR 1874 on June 12, 2009, calling for member states to prevent the provision of financial services or any financial or other assets or resources that could contribute to North Korea's nuclear, ballistic missile, or other weapons of mass destruction-related programs or activities. UNSCR 1874 also demands that North Korea immediately comply with UNSCR 1718, which includes a ban on the transfer of luxury goods to North Korea.

In addition, FinCEN issued an initial advisory on June 18, 2009 (amended December 18, 2009) on North Korea Government Agencies' and Front Companies' Involvement in Illicit Financial Activities. In light of the financial measures in UNSCRs 1718 and 1874, and the use of deceptive financial practices by North Korea and North Korean entities, as well as individuals acting on their behalf to hide illicit conduct, FinCEN advised all U.S. financial institutions to take commensurate risk mitigation measures.

On August 30, 2010 the Department of Treasury announced additional sanctions against North Korea aimed at freezing the assets of individuals and entities engaging in or facilitating North Korean trafficking in and manufacturing of arms and related materiel; procurement of luxury goods; and illicit economic activities, such as money laundering, the counterfeiting of goods and currency, bulk cash smuggling, and narcotics trafficking. The August 30, 2010 action supplements sanctions that target North Korean proliferators of weapons of mass destruction and their supporters thereby isolating them from the US financial and commercial systems.

The DPRK should develop a viable anti-money laundering/counter-terrorist financing regime that comports with international standards and participate in a FSRB. The DPRK also 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.

Korea, Republic of

The Republic of Korea (ROK) has strengthened its AML/CFT regime in recent years. While most money laundering in South Korea is associated with domestic criminal activity and official corruption, locally-based criminal groups associate with international crime syndicates involved in human trafficking, contraband smuggling, and related organized crime. Korean money launderers use illegal game rooms, customs and trade fraud, intellectual property theft, and counterfeit goods to conceal proceeds. They also exploit the zero value added tax (VAT) rates on gold bars. Launderers frequently use cash transactions or fraudulent bank accounts to conceal proceeds from illicit activities.

South Korea is not an offshore banking center. It has six free economic zones (FEZs), with Incheon International Airport wholly incorporated into one of the zones. While companies operating in FEZs enjoy certain tax privileges, they are subject to the same general laws on financial transactions as companies operating elsewhere. 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings banks, finance companies, credit unions, credit cooperatives, trust companies, and securities companies

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings banks, finance companies, credit unions, credit cooperatives, trust companies, and securities companies

Number of STRs received and time frame: 104,200 (January 1 to June 30, 2010)

Number of CTRs received and time frame: 5,705,000 (January 1 to June 30, 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: \$3.6 million in 2009 *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The ROK is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent mutual evaluation can be found here:
<http://www.apgml.org/documents/docs/17/Korea%20MER%202009.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the Republic of Korea (ROK) should expand its active participation in international AML/CFT efforts by becoming a party to the UN Convention against Transnational Organized Crime. Also, while the Prohibition of Financing for Offenses of Public Intimidation is intended to implement the UN International Convention for the Suppression of the Financing of Terrorism, it does not clearly criminalize provision or collection of funds or assets used by a terrorist organisation or terrorist for purposes other than for terrorist acts. The ROK should create language that clearly criminalizes terrorist

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financing as an autonomous offense. In October 2009 the ROK initiated a three-year action plan that puts emphasis on creating a system to effectively prevent terrorism and terrorist financing.

Korea's AML/CFT regime requires all obligated entities to report STRs to the Korea Financial Intelligence Unit (KFIU). The ROK strengthened the STR system in June 2010, lowering the mandatory STR filing threshold from 20 to 10 million won (approximately \$8,700). It also reduced the threshold for cash transaction reports (CTR) from 30 million won (approximately \$25,800) to 20 million won (approximately \$17,200) in January 2010. The KFIU plans to abolish the STR threshold in the long term, and instead require covered entities to report all suspicious transactions. The ROK should make elimination of the STR reporting threshold a short-term goal.

Officials charged with investigating money laundering and financial crimes are widening 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. ROK authorities are investigating the underground alternative remittance systems used to send illegal remittances abroad by South Korea's approximately 495,886 documented and 51,068 undocumented foreign workers. According to the Korea Customs Service, there were 601 underground remittance (hawala) cases worth 1.99 trillion won (approximately \$1.7 billion) in 2009, and 167 cases totaling 1.23 trillion won (approximately \$1.07 billion) in the first eleven months of 2010.

Kosovo

Kosovo is not considered a regional financial or offshore center. The country does, however, have an active black market for smuggled consumer goods and pirated products. Kosovo's borders are porous and facilitate drug trafficking. According to the Customs Service, significant amounts of cigarettes and fuel are smuggled into the country. There is no indication that these smuggled items are funded by narcotic or other illicit proceeds. Illegal proceeds from domestic and foreign criminal activity are generated from official corruption, tax evasion, customs fraud, organized crime, contraband and other types of financial crimes. Most of the proceeds from smuggling activity are believed to be laundered directly into the economy in areas such as construction and real estate, retail and commercial stores, banks, financial services, casinos and trading companies. Smaller amounts are thought to be laundered through the financial system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All crimes

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: Not available

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchangers and remitters; securities brokers and service providers, portfolio and fund managers; insurance companies; issuers of traveler's checks, money orders, emoney, and payment cards; political parties; casinos; attorneys, accountants, notaries, and auditors; real estate agents; and high-value goods dealers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchangers and remitters; securities brokers and service providers, portfolio and fund managers; insurance companies; issuers of traveler's checks, money orders, emoney, and payment cards; non-governmental organizations; political parties; casinos; attorneys, accountants, notaries, and auditors; real estate agents; and high-value goods dealers

Number of STRs received and time frame: 164 - 2010

Number of CTRs received and time frame: 420,000 - 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Kosovo is not a member of a Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Kosovo Police Economic Crimes and Corruption Directorate, the Organized Crime Directorate, and the Special Prosecutors Anti-Corruption Task Force (established in April 2010) are weak in all aspects of economic crimes investigations. The Kosovo Police (KP) needs to enhance its ability to investigate economic crimes by developing: the necessary investigative skills; interagency cooperation with other law enforcement and regulatory agencies; a cadre of KP instructors who will be able to train investigators in all aspects of economic crimes investigations; and, institutionalized communication and cooperation between economic crimes investigators and Kosovo's prosecutors. Prosecutors also require enhanced skills to prosecute economic crimes.

In October 2010 the new Law on the Prevention of Money Laundering and Terrorist Financing came into effect, replacing UNMIK Regulation 2004/2. Among other provisions, this law establishes a new FIU within the Ministry of Finance and Economy, customer due diligence and record keeping requirements, and cross-border monetary instrument transportation reporting requirements; sets administrative sanctions for non-compliance; identifies money laundering as an autonomous offense; prohibits tipping off; and provides safe harbor protection for reporting persons.

The Kosovo draft Law on Games of Chance remains at the Ministry of Economy and Finance awaiting passage into law and implementation of a regulatory framework. The recently established Tax Administration of Kosovo Criminal Tax Investigation Unit needs to improve its capacity to investigate criminal tax cases.

The Government of Kosovo (GOK) should continue its efforts to have the FIU become fully operational, compliant with international standards, and accepted by the international community. The GOK's newly created Agency for Asset Forfeiture will manage and dispose of seized and forfeited assets, at least a portion of which will be provided to law enforcement agencies to provide the resources necessary to combat money laundering, terrorist financing, and other financial crimes. The Agency for Asset Forfeiture will require substantial training to enhance its ability to effectively manage and dispose of seized assets. In addition, the GOK should enhance its pursuit of confiscation and forfeiture of the proceeds of smuggling, human trafficking, corruption, and other organized criminal activities, and should enact domestic laws permitting international sharing of confiscated assets.

Kuwait

Financial crimes such as money laundering and terrorist financing are a concern in Kuwait. The Government of Kuwait (GOK) holds financial crimes public awareness campaigns, including through annual money laundering training conferences. The Central Bank of Kuwait (CBK) reported total banking sector assets of \$142 billion as of December 2010. Kuwait has 21 banks: six conventional (commercial) banks, six Islamic banks, eight branches of foreign banks, and one government-owned bank.

The current AML law does not specifically cite terrorist financing as a crime, therefore, terrorist financing criminal cases are handled under 'crimes against the state' statutes.

On September 16, 2010, the Minister of Interior decided to transfer the responsibility for money laundering crimes from the CID at the Ministry of Interior to Kuwait State Security.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, other financial institutions, insurance agents, insurance brokers and companies; investment companies; exchange bureaus; jewelry establishments including gold, metal and other precious commodity traders; real estate establishments and agents; and auditing firms

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, other financial institutions, insurance agents, insurance brokers and companies; investment companies; exchange bureaus; jewelry establishments including gold, metal and other precious commodity traders; real estate establishments and agents; and auditing firms

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Kuwait is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. Kuwait's on-site mutual evaluation took place in October 2010, and is expected to be adopted in mid-2011. Once available, the report will be found here:
<http://www.menafatf.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Kuwait has had difficulty implementing the current anti-money laundering law due in part to structural inconsistencies within the law itself. Law No. 35 does not mandate that the FIU act as the central or sole unit for the receipt, analysis, and dissemination of STRs. The FIU that is in place operates under the CBK and is not an independent, autonomous competent authority. Law No. 35 requires banks to file STRs with the Office of Public Prosecution (OPP), who, in accordance with an MOU with the Central Bank, will in turn refer the STRs to the CBK's FIU for analysis. The FIU conducts analysis and reports any findings to the OPP for the initiation of a criminal case. There is no clear criteria for a suspicious transaction thus STRs are interpreted widely. The FIU analysis is limited due to its inability to effectively analyze STRs and its inability to share information without prior approval from the OPP. The vague delineations of the roles and responsibilities of the FIU, CBK, and OPP continue to hinder the overall effectiveness of Kuwait's anti-money laundering regime.

Kuwait's FIU should be made the national authority for the receipt, analysis and dissemination of STRs and other reports, and given true operational independence. Kuwait customs, police and prosecutors should be made aware of money laundering methodologies and should initiate inquiries and investigations without waiting for the filing and dissemination of a STR.

The Ministry of Social Affairs and Labor (MoSAL) monitors and audits charitable giving in Kuwait. The Ministry of Foreign Affairs and MoSAL monitor and regulate funds transfers by authorized charities abroad. MoSAL uses a coupon tracking system as well as electronic bank transfers which creates a formal paper trail for all donations. Despite increased regulations, MoSAL reports the amount of donations continues to rise in Kuwait.

Kuwait's financial crimes enforcement and investigative capacity is weak. Provisions of Law No. 35 require travelers to disclose to customs authorities upon entry if they are carrying any national or foreign currency, gold bullion, or other precious materials. The law does not require individuals to file

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declaration forms when carrying cash or precious metals when exiting Kuwait. Currency smuggling into Kuwait is criminalized; however cash reporting requirements are not uniformly enforced at ports of entry (except at Kuwait International Airport and the Al-Abdali Border point). There were no court cases of currency smuggling in 2010. The last case on record was reportedly in 2008 which has yet to be prosecuted. Kuwait should take steps to implement and enforce a uniform cash declaration policy for both inbound and outbound travelers at all its ports.

In December 2009 the Kuwaiti Government passed a draft amended anti-money laundering law to parliament intended to bring Kuwait into compliance with international standards, including the restructuring of the FIU and inclusion of definitions of roles and responsibilities. In November 2010, the Kuwaiti parliament passed the law back to the government with a request to consider placing provisions for the criminalization of terrorist financing into a separate law.

Kuwait does not have legislation outlawing the funding of terrorism, and financial support to terrorist groups, both by charities and by individuals continues to be a major concern. Kuwait should criminalize terrorist financing and ratify and implement fully the United Nations International Convention for the Suppression of the Financing of Terrorism.

Kyrgyz Republic

The Kyrgyz Republic is not a regional financial center. A significant percentage of the country's GDP comes from remittances from abroad, posing a money laundering vulnerability. Corruption, organized crime and a large shadow economy also make the country vulnerable to money laundering and terrorist financing. Narcotics trafficking, tax and tariff evasion, and corruption related to the performance of official duties or government contracts are the major sources of laundered proceeds. Money laundering primarily occurs through trade-based fraud and bulk cash carriers.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, stock brokerages, foreign exchange offices, casinos, insurance companies, notaries, tax consultants/auditors, realtors, the state's property agency, trustees, jewelry stores and dealers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, stock brokerages, foreign exchange offices, casinos, insurance companies, notaries, tax consultants/auditors, realtors, the state's property agency, trustees, jewelry stores and dealers

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None -- 2008 - 2010

Convictions: None -- 2008 - 2010

Assets forfeited: **criminally:** None - 2008 - 2010 **civilly:** None - 2008 - 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

The Kyrgyz Republic is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.eurasiangroup.org/mers.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The government has adopted anti-money laundering/counter-terrorist financing legislation and established a Financial Intelligence Service. However, the lack of political will and inter-agency cooperation, resource constraints, inefficient financial systems and corruption hamper efforts to effectively combat money laundering and terrorist financing.

Key reporting issues that need to be resolved: auto dealers and real estate developers are not included in the list of entities required to report large dollar transactions. Additionally, the statutory threshold amount that triggers mandatory reporting remains high: \$25,000.

The Government of the Kyrgyz Republic should continue to strengthen legislation as it relates to money laundering and financial crimes that support terrorist organizations, both within financial institutions and within those activities that circumvent financial institutions. In addition, the Kyrgyz Republic must increase and enhance training in money laundering and terrorist financing investigative techniques.

The banking system is at risk for money laundering, as oversight of the banking sector is generally weak. Two serious deficiencies include the lack of a 'tipping off' law to prohibit the disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party; and the lack of a "safe harbor" defense to banks and/or other covered entities and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

Laos

Laos is not a regional or offshore financial center. However, its lack of a comprehensive legal and regulatory framework and ineffective implementation of existing laws increases Laos' vulnerability to money laundering and related financial crimes. Illegal timber harvesting, official corruption, cross-border smuggling of goods and currency, high value used cars, illicit proceeds from the sale of

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methamphetamine and opiates, including heroin, and domestic crime may all be sources of illicit funds. In 2009, the Lao Government endorsed an estimate of the value of the illicit drug economy of about ten percent of GDP or up to \$750 million. There are continued reports of illicit funds being diverted into hotel construction, gaming operations, resort development, mining ventures, golf courses, luxury real and personal property, and industrial tree cropping projects.

Laos receives a large amount of development assistance from overseas donors and there are concerns that a substantial portion of these monies may be stolen or otherwise diverted. In recent years a number of private sector-financed projects and/or parastatal enterprises in the hydropower, mining, and construction sectors have started to generate revenues to the government, but reliable public reporting of these revenues is often lacking and the possibility exists of theft and/or diversion. Anecdotal evidence indicates that bulk cash generated from illicit activities is often smuggled across borders and deposited in accounts in Thailand, China, and Vietnam. During 2010, there were several significant narcotics seizures by Lao law enforcement authorities which involved bulk cash smuggling. Invariably, part of the evidence seized by police or customs agents in such cases includes large amounts of cash (usually in US dollars or Thai Baht). In the largest case, nearly \$175,000 equivalent in Thai Baht was part of the evidence.

The gaming industry represents a particularly large and growing vulnerability. The Ministry of Information and Culture (MOIC) is responsible for the regulation of casinos in Laos. However, its regulatory regime has no known AML controls for casinos in place. In 2010, the Lao Government approved two new special economic zones (SEZs) in Luang Namtha, and Bokeo provinces. Private Chinese companies fully own and manage these SEZs. The Savan-Seno SEZ, established in 2003 in Savannakhet Province, remains under the government's management. The SEZs present an additional complication for the AML regime, as it is not clear that MOIC regulatory authority applies to casinos located inside the SEZs. Other smaller gaming operations apparently operate in Laos--often near immigration checkpoints along the Mekong and across from Thailand.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: ***criminally:*** Not available ***civilly:*** Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, loan institutions and cash transfer companies

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, finance companies, loan institutions and cash transfer companies

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: criminally: None ***civilly:*** None

RECORDS EXCHANGE MECHANISM:

With U.S.: Not available

With other governments/jurisdictions: Not available

Laos is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its first mutual evaluation was conducted in October 2010. Once finalized, the evaluation report will be available here: <http://www.apgml.org/about/eventDetail.aspx?EventID=65>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Laos (GOL) should place priority upon full implementation of its existing anti-money laundering/counter-terrorist financing (AML/CFT) decrees. The GOL should prioritize capacity building, including training and awareness programs for appropriate supervisory, law enforcement, FIU and prosecutorial personnel as well as the judiciary. The GOL should also reach out to entities subject to the reporting requirements to make them aware of their compliance responsibilities.

The GOL should ensure all entities not supervised by the Bank of Laos, especially the casinos, are adequately supervised and monitored for AML/CFT compliance. Laos began to address the vulnerabilities in the gaming industry through the issuance of a new Prime Ministerial Decree in 2010 on the establishment of SEZs. The legislation prohibits the establishment of casinos in any new SEZ; however, this rule does not apply to the three SEZs currently in operation. At least one “gambling gaming” operation opened at a hotel in Boulikhamxai Province in 2010, apparently financed and/or operated by Vietnamese business interests. During 2010, there was also a public announcement that “internet online gambling” operations would be opened during 2011 under a joint investment agreement with a well known gaming corporation based in Manila.

Reporting entities designated in the anti-money laundering (AML) decree, other than financial institutions, are not believed to be supervised at all for AML purposes. The Bank of Laos issued a guideline for suspicious transaction reporting, but to date the Anti-Money Laundering Intelligence Unit (AMLIU) has received only a small number of reports and none are known to have resulted in referrals to law enforcement. AMLIU does not currently have the data, analytic capacity, or technical and procedural means to detect and refer such cases.

The GOL requires enhanced due diligence for “high risk persons.” However, the AMLIU defines a “high risk person” as any individual who is or has been listed in the “black lists” of the United Nations, and does not clearly state that other individuals who meet a set of high-risk criteria can also be included. The GOL should clearly define high-risk persons to include PEPs and others meeting the high risk profile, beyond those who are or have been on the U.N. designation lists.

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The GOL should require reporting entities to submit cases of suspected terrorist financing. The GOL should offer disclosure protection for individuals reporting ML/TF activity, and should criminalize “tipping off” suspect individuals and entities that they are under investigation.

Laos lacks a clear legal and procedural framework for the seizure of assets. The Lao criminal code and drug laws refer to the right of the state to seize assets of convicted drug traffickers, but the legal and procedural processes are not specified, and thus neither the prosecutors nor the court system have taken any legal action regarding asset seizures. The lack of an asset forfeiture regime could hinder Lao assistance in money laundering or terrorist financing investigations and assistance requests. The GOL should implement an asset forfeiture regime that includes a system to account for forfeited assets and ensure they are disposed of in accordance with the laws.

Latvia

Latvia is a regional financial center that has a large number of commercial banks with a sizeable nonresident deposit base. Latvia is among the European economies most affected by the global financial turmoil. To ease the situation, the Government of Latvia (GOL) sought external financial support and agreed to an international stabilization program. Despite the on-going economic crisis in Latvia, total bank deposits have increased in the past year.

Authorities report that the largest sources of money laundered in Latvia are tax evasion and other forms of financial fraud. Lesser sources include smuggling (primarily cigarettes) and public corruption. Local officials do not consider proceeds from illegal narcotics to be a major source of laundered funds in Latvia. According to regulators and law enforcement officials, most of the laundered funds derived from financial fraud - and a sizeable portion of the funds derived from tax evasion - originate outside of Latvia. Reportedly, Russian and Latvian organized crime groups are active in Latvia, and authorities believe that a significant portion of all criminal proceeds originating domestically is generated by these groups. Although Latvian regulatory agencies closely monitor financial transactions to identify instances of terrorist financing, no prosecutions or penalties have been initiated based on this monitoring in recent memory.

Four special economic zones provide a variety of significant tax incentives for manufacturing, outsourcing, logistics centers, and the 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 reports of cigarette smuggling through the free trade zones, there have been no confirmed cases of the zones being used for money laundering schemes or by terrorist financiers. The zones are covered by the same regulatory oversight and enterprise registration regulations that exist for other areas.

Latvian officials maintain that the country is experiencing an overall decrease in financial crimes. While acknowledging that the total amount of assets seized and frozen declined in 2010 (compared to prior years), they observe that transactions tend to be smaller, which they claim is largely attributable to the economic crisis. Meanwhile, statistics for investigations initiated, transactions reports received, and convictions all trended upward in 2010, despite resource limitations which affected all regulatory and law enforcement agencies. GOL officials note that Latvia’s updated “Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing” (amended December 2009) provides a more robust statute for those investigating, interdicting and prosecuting financial crimes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

INCSR 2011 Volume II Country Database

U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: "all crimes" approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, including credit institutions, life insurance companies and brokers, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, money transmission or remittance offices; tax advisors, external accountants, sworn auditors, sworn notaries, advocates, and other independent legal professionals; real estate agents or intermediaries; organizers of lotteries or other gaming activities; money collection services; and traders of real estate, transport vehicles, items of culture, precious metals, precious stones and articles thereof, or intermediaries in such transactions

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, including credit institutions, life insurance companies and brokers, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, money transmission or remittance offices; tax advisors, external accountants, sworn auditors, sworn notaries, advocates, and other independent legal professionals; real estate agents or intermediaries; organizers of lotteries or other gaming activities; money collection services; and traders of real estate, transport vehicles, items of culture, precious metals, and precious stones

Number of STRs received and time frame: 19,907 from January through November 2010

Number of CTRs received and time frame: 8,354 from January through November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 26 persons (involving 62 separate charges) from January through November 2010

Convictions: Seven (involving 14 individuals) from January through November 2010

Assets forfeited: criminally: Approximately \$2.46 million from January 1 through November 30, 2010 *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Money Laundering and Financial Crimes

Latvia is a member of the Council of Europe 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. Its most recent mutual evaluation report can be found here: http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Latvia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Current laws do not require enhanced due diligence procedures for domestic PEPs, however, they allow discretion to any institution or professional covered by KYC rules to apply enhanced due diligence, based on its risk assessment for a particular customer.

Approximately \$2.1 million was frozen by the FIU through November 30, 2010. Additionally, approximately \$472,000 in assets was seized by law enforcement officials during the same time period.

In April 2005, the United States outlined concerns in a Notice of Proposed Rulemaking against VEF Banka, under Section 311 of the USA PATRIOT Act. The bank was found to lack adequate AML/CFT controls and was used by criminal elements to facilitate money laundering, particularly through shell companies. In August 2006, the United States issued a final rule imposing a special measure against the VEF Banka, as a financial institution of primary money laundering concern. This measure is still in effect. Following the Latvian authorities revocation of the bank's license in May 2010, a lawsuit was filed asserting this action was not legal; that suit was resolved in the Government of Latvia's favor on November 15, 2010. According to Latvian authorities, this resolution means the bank's license cannot be reactivated.

In January 2010, legislative amendments establishing mechanisms for sharing assets with non-EU countries and regarding the application of the EU Framework Decision on the application of mutual recognition of confiscation orders took effect. Latvian officials have cooperated with USG law enforcement agencies to investigate numerous financial narcotics-related crimes. The Latvian Financial and Capital Market Commission regularly exchanges information with the U.S. Securities and Exchange Commission. More broadly, officials in Latvia are also able to provide assistance outside of the formal mutual legal assistance process in accordance with current AML/CFT laws.

Law enforcement and regulatory agencies have a heavy workload and their budgets, salaries, and in some cases, personnel have been reduced due to the severe economic crisis. Despite these constraints, the Latvian FIU referred a total of 256 cases to other investigative agencies in 2010 (through November 30), roughly 80% more than in all of 2009. Of this total, approximately half were related to cases involving tax evasion. In one notable recent case, the Latvian Financial Police - a subordinate agency of the State Revenue Service - performed more than 60 searches in one day in investigating a series of real estate deals allegedly involving Latvian and Russian criminal groups and officials at Latvian credit institutions. This investigation is reportedly tied to approximately \$3.76 million in unpaid taxes and led to the freezing of 60 separate bank accounts. Authorities note increased activity by regulators and law enforcement officials over the past year. They observe that questionable transactions tend to be smaller and conclude that the overall monetary value of money laundering may be decreasing due to the economic crisis.

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. Lebanon faces significant money laundering and terrorist financing challenges. For example, Lebanon has a substantial influx of remittances from expatriate workers and family members, estimated by the World Bank at \$8.2 billion per year. It has been

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reported that a number of Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities.

Laundered criminal proceeds come primarily from foreign criminal activity and organized crime. 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.

Although offshore banking, trust and insurance companies are not permitted in Lebanon, the government has provisions regarding activities of offshore companies and transactions conducted outside Lebanon or in the Lebanese Customs Free Zone. Offshore companies can issue bearer shares. There are also 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Bank; money exchanges; private couriers who transfer currency for money service businesses such as Western Union and Money Gram; and charitable and nonprofit organizations

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: financial institutions, exchange offices, financial intermediation companies, leasing companies, mutual funds, insurance companies, companies promoting and selling real estate and construction, and dealers and companies engaged in transactions for high-value items

Number of STRs received and time frame: 179 from January through November 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: As of November 2010, eleven cases were transmitted to the penal judge

Convictions: One between January and November 2010

Assets forfeited: criminally: 0 civilly: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Lebanon is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. Its most recent evaluation is posted at www.menafatf.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Lebanon's financial intelligence unit (FIU), the Special Investigations Commission (SIC) is seeking to finalize amendments to Central Bank Circular 83. One amendment would enhance due diligence procedures for foreign PEPs. In the first 11 months of 2010, the SIC investigated 179 allegations of money laundering and terrorist financing activities, a sharp rise from 116 cases during all of 2010. Although the number of filed STRs and subsequent money laundering investigations coordinated by the SIC have steadily increased, prosecutions and convictions are still lacking.

Customs is required to inform the FIU of suspected TBML or terrorist financing; however, high levels of corruption within Customs create vulnerabilities for TBML and other threats.

In addition to the names of suspected terrorist individuals and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, the SIC circulates to all financial institutions the the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224, and entities designated by the European Union under its relevant authorities.

The Government of Lebanon (GOL) should encourage more efficient cooperation between financial investigators and other relevant agencies such as Customs and the Internal Security Force. Lebanon should increase efforts to disrupt and dismantle terrorist financing efforts, including those carried out by Hizballah, which the GOL does not consider a terrorist group. The GOL should consider amending its legislation to allow a greater ability to provide forfeiture cooperation internationally and also provide authority for the return of fraudulent proceeds. The GOL should pass legislation to mandate and enforce cross-border currency reporting. The trading of bearer shares of unlisted companies remains a vulnerability, and the GOL should take action to immobilize those shares as well as to criminalize "tipping off".

In addition, there should be more emphasis on linking predicate offenses to money laundering and not an over-reliance on suspicious transaction reports (STRs) filed by financial institutions to initiate investigations. Existing safeguards do not address the issue of the laundering of diamonds and value transfer through Lebanon directly or by Lebanese buying agents in Africa. Lebanese law enforcement authorities should examine domestic ties to the international network of Lebanese brokers and traders who are commonly found in underground finance, trade fraud, and TBML.

Finally, the GOL should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Lesotho

The Government of Lesotho (GOL) is steadily increasing its control over and ability to monitor the flow of money in Lesotho. The development of the new financial intelligence unit is a prime example of recent

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GOL efforts. Lesotho is not a regional financial center, and any money laundering present is not believed to be related to international terrorism, illegal drugs, or organized crime.

While there is no significant black market for smuggled goods in the country, undeclared and under-declared items pass between Lesotho and South Africa daily. The vast majority of smuggling is low level and committed by individuals. They commonly bring undeclared consumer goods like staple foods and small electronics, or occasionally larger items like automobiles, purchased in South Africa, into Lesotho. Smaller items are smuggled to avoid paperwork and hassle, while larger items are smuggled to avoid paying import fees and taxes. There is some evidence of more illicit activity as small arms are smuggled across Lesotho's porous border, often in exchange for Lesotho-grown marijuana. The funding source is unclear as is the destination of the proceeds.

There is no offshore center in Lesotho. Lesotho is a member of the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). SACU provides a common external tariff and the duty-free flow of goods between its five member states. Eleven SADC member states launched a free trade zone in 2008, with three additional members to join at a later stage. The SADC free trade agreement (FTA) aimed to eliminate import tariffs, form a Customs Union in 2010, and adopt a common currency by 2018. However, the Customs Union has not been adopted and the FTA is well behind schedule.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or list approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, money lenders, money exchangers, brokers, insurance companies, securities dealers, real estate agents, gambling houses, casinos, the lottery, precious metals or stones dealers, and service providers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money lenders, money exchangers, brokers, insurance companies, securities dealers, real estate agents, gambling houses, casinos, the lottery, precious metals or stones dealers, and service providers

Number of STRs received and time frame: Six from January to October 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: None in 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Lesotho is a member of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. The first mutual evaluation took place late in 2010. Once adopted, the report will be available here: <http://www.esaamlg.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Inadequate resources, capacity, and expertise, as well as lack of awareness and training pose serious challenges to the adequate implementation of AML/CFT procedures. Lesotho, however, is making progress. The Directorate on Economic Offenses is now forming its anti-money laundering unit. While, it needs to be strengthened and capacitated, the Ministry of Finance very recently created the financial intelligence unit (FIU) to address the deficiencies in its current AML/CFT regime. The director of the FIU took office in November 2010.

No important cases have emerged during the reporting period. No cases of abuse of nonprofit organizations (NPOs) have been reported, and efforts are underway to develop a legal framework to address NPOs.

Liberia

Liberia is not a regional financial center. Financial controls are weak, and both Liberian and U.S. dollars are legal tender in Liberia, making it easier to launder U.S. currency. There is a significant market for smuggled goods and borders are porous. Document fraud, lax immigration controls, and widespread corruption are significant issues. There is little information on whether money laundering is linked to the sale of narcotics, but few hard drugs are interdicted in Liberia. Civil war and government mismanagement destroyed much of Liberia's economy, especially the infrastructure in and around the capital, Monrovia. Many businesses fled the country, taking capital and expertise with them, but with the conclusion of fighting and the installation of a democratically-elected government the situation is improving. There are no confirmed cases of money laundering or terrorist financing in the Liberian banking sector, which is dominated by Nigerian banks (four of eight banking licenses are operated by Nigerian banks or families). Money laundering enforcement suffers from limited resources, inadequately trained personnel, and a weak judicial system – products of 14 years of civil war.

On December 22, 2003, the UN Security Council adopted Resolution 1521 imposing sanctions against Liberia and designated individuals. The sanctions covered an arms embargo, travel bans and export/import restrictions. Additionally, on March 12, 2004, UNSCR 1532 was adopted, imposing financial sanctions against then-president Charles Taylor and his wife and son. Furthermore, UNSCR 1638 of 2005 gave the UN mission in Liberia the task of apprehending then-president Taylor to facilitate his transport to the Sierra Leone Special Court for prosecution. UNSCRs 1647 (2005), 1836 (2008) and 1854 (2008) reinforced and extended the Resolutions. Subsequently, the export/import restrictions were lifted, and under UNSCR 1903 of December 17, 2009, the arms embargo and travel ban were allowed to expire on December 17, 2010; however, the asset freezing provisions remain in place.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Central Bank of Liberia, financial institutions

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions

Number of STRs received and time frame: 0 in 2010

Number of CTRs received and time frame: 0 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Liberia is a member of the West African Intergovernmental Action Group Against Money Laundering (GIABA), a Financial Action Task Force (FATF)-style regional body. Liberia was scheduled for a mutual evaluation in late 2010. Once adopted, the resulting report can be found here: <http://www.giaba.org/index.php?type=c&id=46&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Draft anti-money laundering legislation calls for the creation of a financial intelligence unit (FIU), which would be housed in the Central Bank of Liberia (CBL). Banks are currently supposed to report suspicious transaction reports to the CBL but few comply with reporting guidelines. The CBL has begun outlining how the new FIU would operate. The CBL has begun drafting a new anti-money laundering/counter-terrorist financing (AML/CFT) law based on international standards.

The Liberia National Police (LNP) investigates financial crimes through the Criminal Investigation Division's Technical Investigation Unit and the National Bureau of Investigation (NBI) investigates crimes through the Economic Crimes and Transnational Crimes Divisions. The Ministry of National Security and the National Security Agency (NSA) are marginally responsible for investigating financial crimes. Intelligence related to money laundering and other financial crimes is handled by various government security organizations in an uncoordinated fashion.

There have been no arrests, prosecutions or convictions for money laundering or terrorist financing. The AML law provides for seizure of laundered assets including property, land, securities, and cash. The police and other security officials have the power to seize drug-related assets, but need permission from the courts. Generally, implementation of laws is hampered by political interference, corruption and weak capacity within the judiciary, and a lack of adequate resources. The Liberian government has not frozen the assets of any of the Liberians (including four Liberian legislators) on the UN asset-freeze list.

In 2010, the Government of Liberia deported seven people to the U.S. after arresting them for allegedly trying to smuggle 4,000 kilograms of cocaine (worth an estimated \$100 million) through Liberia.

Libya

The Libyan oil and gas sectors constitute over 70 percent of GDP. Libya's economy remains primarily cash-based, and hawala and informal value transfer networks are present. Libya is a destination and transit point for smuggled goods, particularly black market and counterfeit goods from sub-Saharan Africa, Egypt and China. Contraband smuggling reportedly includes narcotics, particularly hashish/cannabis and heroin. Libya is not considered to be a production location for illegal drugs, although its geographic position, porous borders and limited law enforcement capacity make it an attractive transit point for illegal drugs. Libya is also a transit and destination country for large numbers of migrants from sub-Saharan Africa, whose movement across borders is primarily facilitated by smugglers. In general, training and resources are lacking to conduct anti-money laundering awareness and for countermeasure implementation. Libya has been going through a slow opening of its financial sector and modernization of its banking system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: Not available *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks and financial institutions authorized by the Libyan Central Bank

Enhanced due diligence procedures for PEPs: *Foreign:* Unknown *Domestic:* Unknown

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions authorized by the Libyan Central Bank

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Libya is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. It has not yet had a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There is little information or reliable data on the scope of Libya's anti-money laundering/counter-terrorist financing countermeasures including investigations, asset forfeiture, prosecutions, and convictions. Libya has not criminalized terrorist financing.

It is illegal to transfer funds outside of Libya without the approval of the Libyan Central Bank. Cash courier operations are in violation of Libyan law. It is estimated that up to ten percent of foreign transfers are made through illegal means (i.e., not through the Central Bank). Between 1.5 and 2 million foreigners are thought to live and work in Libya. Funds transfers by migrant workers (mainly from sub-Saharan Africa and Asia) are difficult for the Libyan government to monitor, particularly transfers by criminal organizations.

Informal hawala money dealers (muhawaleen) exist in Libya, and are often used to facilitate trade and small project finance. Trade is often used to provide counter-valuation or a means of balancing the books between hawaladars. Given the poor quality and limited reach of Libya's banking system, Libya's socialist practices, and commercial rivalries among regime insiders that discourage disclosure of income and business transactions, many Libyans and foreigners rely on informal mechanisms for cash payments and transactions. Until the recent revision of the tax code, tax rates of up to 80-90 percent also encouraged off-the-book transactions.

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 both licit and illicit funds from abroad. Liechtenstein's financial services sector includes 16 banks, 102 asset management companies, 41 insurance companies and 70 insurance

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intermediaries, 33 pension schemes and five pension funds, 395 trust companies and 27 fund management companies with approximately 411 investment undertakings (funds), and 1,448 other financial intermediaries. The three largest banks control 85 percent of the market.

In recent years the Principality has made continued progress in its efforts against money laundering. In 2009, the Liechtenstein Government recognized the OECD standard as the global standard in tax cooperation and as a result renegotiated a series of Double Taxation Agreements to include administrative assistance on tax evasion cases.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance brokers; money exchangers or remitters; financial management firms and investment and real estate companies; dealers in high value goods; insurance companies; lawyers; money exchangers or remitters; casinos; the Liechtenstein Post Ltd.; or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, investment companies, real estate companies, dealers in high valued goods, insurance companies, lawyers, money exchangers or remitters, casinos, the Liechtenstein Post Ltd.; or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Number of STRs received and time frame: 235 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Seven between September 1, 2008 and October 18, 2010

Convictions: Two between September 1, 2008 and October 18, 2010

Assets forfeited: criminally: Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

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With other governments/jurisdictions: YES

Liechtenstein is a member of Moneyval, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Liechtenstein_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Liechtenstein has shown an important effort to improve deficiencies in money laundering. The 2009 reporting year saw a new record high number of suspicious activity reports (SARs) at 235, an increase of 24.3% compared to 189 SARs in 2008: 57.9% of the SARs were based on fraud; 11.5% on money laundering; and 30.6% on the other enumerated offense categories. No SARs were submitted for suspected terrorist financing. In 2009, 74% of Liechtenstein's SARs were forwarded to the Office of the Public Prosecutor (in 2010, so far 82% have found their way to the Office of the Public Prosecutor).

In practice, many of the customer characteristics considered high-risk in the international standards, including non-resident and trust or asset management accounts, are considered routine, subject only to normal customer due diligence procedures. Liechtenstein also decided not to include entities with bearer shares, trusts and foundations, or entities registered in privately-held databases in the high-risk category. The present SAR reporting requirements do not clearly indicate whether "attempted transactions" relating to funds used in connection with terrorism are covered.

There are reportedly no abuses of non-profit organizations, alternative remittance systems, offshore sectors, free trade zones, bearer shares, or other specific sectors.

Lithuania

Lithuania is not a regional financial center. Lithuania has adequate legal safeguards against money laundering; however, its geographic location makes it a target for smuggled goods and tax evasion. The sale of narcotics does not generate a significant portion of money laundering activity in Lithuania. Value added tax (VAT) fraud is one of the biggest sources of illicit income, through underreporting of goods' value. Most financial crimes, including VAT embezzlement, smuggling, illegal production and sale of alcohol, capital flight, and profit concealment, are tied to tax evasion by Lithuanians. There are no reports of public corruption contributing to money laundering or terrorist financing.

Lithuania has Free Economic Zones (FEZ) in the cities of Klaipeda and Kaunas. As of yearend 2010, there are 20 businesses operating in the Klaipeda FEZ, and nine in the Kaunas FEZ. The companies operating in the zones have the same accounting and identification responsibilities as those operating outside the zones. Lithuania's EU accession agreement permits the indefinite operation of existing free trade zones, but precludes the establishment of new ones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit unions, and financial leasing firms; insurance companies and brokers; lawyers, notaries, tax advisors, auditors, and accountants; investment and management companies; real estate brokers and agents; gaming enterprises; postal services; and dealers in art, antiquities, precious metals and stones and high-value goods

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit unions, and financial leasing firms; insurance companies and brokers; lawyers, notaries, tax advisors, auditors, and accountants; investment and management companies; real estate brokers and agents; gaming enterprises; postal services; and dealers in art, antiquities, precious metals and stones and high-value goods

Number of STRs received and time frame: 213 in 2009; about 200 -- January through November 2010

Number of CTRs received and time frame: Approximately 700 by December 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 16 from January 2010 to December 15, 2010

Convictions: One

Assets forfeited: criminally: Approximately 73 million litas (approximately \$30 million) in 2009; approximately \$93 million litas (approximately \$37 million) in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Lithuania is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Lithuania_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Lithuania has a comprehensive anti-money laundering/counter-terrorist financing regime and is continually enhancing its laws and regulations as necessary to adhere to international standards.

In 2008, an Irishman was arrested in Vilnius and charged with, among other charges, seeking to aid a terrorist organization. The Irishman was apprehended while meeting a Lithuanian agent posing as an arms dealer. His trial is ongoing.

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. It also operates as 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. 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Combination of listed crimes and a penalty threshold

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, pension funds, insurance brokers, undertakings for collective investment (UCIs), management companies, external auditors, accountants, notaries, lawyers, casinos, gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, and insurance providers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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, and insurance providers

Number of STRs received and time frame: 4,866

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 107

Convictions: 51

Assets forfeited: *criminally:* 26.8 million EUR (approximately \$36 million) *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: Not available

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Luxembourg is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/40/7/44655591.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Law of 3 March 2010 introduces the criminal liability of legal persons into the Penal Code and into the Code of Criminal Procedure,

A Grand-Ducal Decree from February 2010 sets out several provisions concerning inter alia a) prohibition of accounts opened in fictitious names and specifications on numbered accounts; b) the verification of the powers of the natural person purporting to act on behalf of the customer; c) the identification of the beneficial owner; d) the determination of whether the customer is acting on behalf of another person; e) the scope of simplified due diligence; f) the regime of enhanced due diligence by specifying the measures and the risk management applicable to non face-to-face clients and transactions, correspondent banking and politically exposed persons; and, g) the specification of the obligation to report suspicious transactions.

The horizontal Law of 27 October 2010 entered into force on November 7, 2010. The Law introduces a considerable number of changes to the existing AML/CFT provisions and proposes to bring changes to as many as 20 existing Laws. The Law strengthens the existing AML/CFT provisions by extending the coverage of the money laundering and terrorist financing offenses and the asset forfeiture regime; clarifying and enhancing know-your-customer procedures; increasing sanctions and penalties; providing a supervisory regime for real estate agents, dealers in high-value goods, and trust and company service provider; establishing a cross-border currency declaration system; and strengthening the authority and access to information of the FIU.

Macau

Macau, a Special Administrative Region (SAR) of the People's Republic of China (PRC), is not a significant regional financial center. Banks and insurance companies mainly offer traditional products and services to the local population. However, as the world's biggest gambling market by revenue, benefiting from millions of visitors - mostly from nearby mainland China - Macau is vulnerable to becoming a hub for the laundering of criminal proceeds. Reported annual gaming revenues for 2010 were over \$23.5 billion, although observers note that the amount of unreported illegal side-betting could be as much as ten times reported revenues. In addition to the existence of casinos, close proximity border with PRC and Macau's open economy, including lack of controls on cross border physical movement of cash, are factors that create a risk of money laundering and terrorist financing activities. The primary sources of criminal proceeds in Macau are drug-related crimes, organized crime, and illegal gambling. Networks spanning across Macau's boundary with mainland China account for much of the criminal activity.

Loosely-regulated gaming promoters, known as junket operators, profit from sourcing the majority of Macau's VIP players who contribute to over 80 percent of gaming revenues. They finance gamblers while in Macau, assuming credit risk and mingling customer funds in a consolidated junket account, and supply them to the casinos on commission. Junkets are increasingly popular among gamblers seeking anonymity and among casinos aiming to reduce credit default risk. This inherent conflict of interest, together with anonymity provided through use of the junket operator to transfer funds, presents significant challenges to anti-money laundering measures in the gaming sector.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit and insurance entities, casinos, gaming intermediaries, remittance agents and money changers, cash couriers, trust and company service providers, realty services, pawn shops, traders in high-value goods (e.g., jewels, precious metals, vehicles, etc.), notaries, registrars, commercial offshore service institutions, lawyers, auditors, accountants, and tax consultants

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All persons, irrespective of entity or amount of transaction involved, are required to file STRs

Number of STRs received and time frame: 1,220 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two (January to September 2010)

Convictions: 0

Assets forfeited: criminally: \$806,000* (January to November 2010) ***civilly:*** Not applicable

* Forfeited assets credited to Macau Government in 2010 from a 2008 conviction.

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Macau is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: <http://www.apgml.org/documents/docs/17/Macao%20ME2%20-%20FINAL.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although Macau has no formal law enforcement cooperation agreements with the United States, informal cooperation between the two routinely takes place. U.S. government agencies work closely with Macau counterparts in capacity building measures, information exchange, and investigations. Macau’s Financial

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Intelligence Unit (FIU) has been an essential component in coordinating AML/CFT efforts. The Government of Macau (GOM) established the FIU in 2006 as a non-permanent government entity in order to avoid having to seek legislative approval. The FIU's current term expires in August 2012. The GOM should permanently institutionalize it without term limits, given the FIU's crucial role in sustaining a long-term AML/CFT infrastructure.

The AML law does not require currency transaction reporting (CTR). However, gaming entities are subject to threshold reporting under the supplementary guidelines of the Gaming Inspection and Coordination Bureau (GICB). Currently, the GICB only shares statistical data on CTR filings with the Financial Intelligence Unit (FIU). To enhance the FIU's ability to detect and deter illicit activity, the FIU should have full access to CTR reports collected by GICB.

Under current regulatory guidelines, financial institutions are obligated and do identify and freeze suspect bank accounts or transactions. However, the GOM cannot provide mutual legal assistance on AML/CFT under existing legislation. Macau should enhance its ability to support international efforts by developing its legal framework to facilitate the freezing and seizure of assets. The GOM can provide mutual legal assistance on criminal matters, even without a formal agreement, and cooperation between the GOM and the United States routinely takes place.

Macau continues making considerable efforts to develop an AML/CFT framework that meets international standards. It should continue to strengthen interagency coordination to prevent money laundering in the gaming industry, especially by introducing robust oversight of junket operators. It also should implement mandatory cross-border currency reporting requirements.

Macedonia

Macedonia is not a regional financial center. Most financial transactions are done through the banking system, which is regulated and supervised. However, cash transactions and settlements of considerable amounts sometimes take place outside the banking system. Money laundering in Macedonia is mostly connected to financial crimes such as tax evasion, smuggling, financial and privatization fraud, insurance fraud, bribery, and corruption. Most of the laundered proceeds come from domestic criminal activities. A small portion of money laundering activity may be connected to narcotics trafficking. There is no evidence that narcotics trafficking organizations or terrorist groups control money laundering. Also, there is no evidence that weapons or human traffickers have been involved in money laundering activities using bank or non-bank financial institutions. However, since organized crime groups are involved in both weapons and human trafficking in Macedonia, it is possible that proceeds from these activities have been laundered by investing in businesses.

Macedonia is not an offshore financial center, and the Law on Banks does not allow the existence of shell banks in Macedonia. Banks do not allow the opening of anonymous bank accounts, and bearer shares are not permitted. There is no evidence that alternative remittance systems exist in Macedonia. There are a few operational free trade zones in Macedonia, which all function as industrial zones within which some industrial production has the legal right to receive the benefits of a free trade zone. The production facilities enjoying these benefits are owned by foreign investors. The GOM is trying to attract more foreign investment by leasing out several large free trade zones throughout the country.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, savings houses, exchange offices, stock exchanges, central registry, central securities depository, credit bureaus, brokerages, insurance companies, auditing companies, accountants, notaries, attorneys at law, real estate agents, consultants, NGOs, casinos and gaming centers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, savings houses, exchange offices, stock exchanges, central registry, central securities depository, credit bureaus, brokerages, insurance companies, auditing companies, accountants, notaries, attorneys at law, real estate agents, consultants, NGOs, casinos and gaming centers

Number of STRs received and time frame: 279 from January through November 2010

Number of CTRs received and time frame: 75,482 from January through November 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two from January to November 2010

Convictions: One from January to November 2010

Assets forfeited: *criminally:* \$104,000 from January to November 2010 *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Macedonia is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: www.coe.int/moneyval

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Dealers of arts, antiques, and other high-value consumer goods, entities dealing with jewelry and precious metals, and travel agencies are excluded from the list of entities obliged to report suspicious and cash transactions to the Macedonian FIU. So far, there is no evidence that any of these entities engage in money laundering or terrorist financing activities.

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Non-bank financial institutions, including exchange offices and non-bank money transfer agents, as well as all other reporting entities, are poorly supervised and audited in regard to anti-money laundering/counter terrorist financing programs and practices. These institutions are to be supervised by the Public Revenue Office; in practice such inspections rarely occur as the Public Revenue Office is focused on investigating tax evasion. There is a need for improving supervision of the non-bank financial sector and providing necessary resources and training to ensure full implementation of laws. Although mandatory, reporting by lawyers, accountants, brokers, real estate agents, consultants, NGOs, casinos, and notaries is irregular, but improving.

The FIU's competencies overlap in many areas with the Public Revenue Office, the Customs Administration, the Financial Police, and the regular police. Although in the past two or more of these institutions would be working independently on the same cases, coordination between them has been effective, resulting in several coordinated large-scale investigations of cases concerning money laundering, tax evasion, fraud, corruption, and misuse of official position, involving numerous companies and individuals.

Terrorist financing is a crime under Macedonian laws, but to date, there have been no convictions for terrorist financing. There are no indications that financiers of terrorism use trade-based money laundering schemes or the free trade zones for their operations. A few smaller banks and all savings houses lack the ability to electronically identify account holders and transactions by named individuals and usually will cross-check their customer lists with distributed lists manually.

According to the Macedonian Law on Preventing Money Laundering and Other Proceeds of Crime and Terrorism Financing (LPMLTF), financial institutions can temporarily freeze assets of suspected money launderers and terrorist financiers prior to receiving a court order. Frozen assets are confiscated only by a court's final verdict. Although there is existing legislation for management of seized and forfeited assets, more work is needed to bring it in line with good international practices.

Macedonia has passed complex legislation pertaining to judicial reforms, including amendments to the Constitution and the Criminal Procedure Code that allow the use of specialized investigative methods in investigating money laundering cases. In 2010, the Parliament adopted a new Criminal Procedure Code, which after becoming effective in the second half of 2011 will strengthen prosecutors' ability to more effectively prosecute serious and organized crime. Reforms in the judiciary should further enhance efforts to combat organized crime, corruption, terrorism, trafficking in human beings, money laundering, and narcotics, by increasing penalties, tightening definitions, and defining authorities responsible for taking the lead in combating these various crimes. However, real reforms are almost non-existent, the judiciary is highly politicized, and the rule of law is backsliding.

Madagascar

Madagascar is not a regional financial center. Illicit activities, public corruption, and associated money laundering appear to have increased in 2010. Tax and customs fraud, violation of the foreign exchange code, and illegal rosewood logging are the major sources of proceeds. Smuggling of gemstones, protected flora and fauna, and illegal drugs, to a lesser extent, also contributes to money laundering. Madagascar's inadequately monitored 3,000 mile coastline facilitates smuggling and money laundering. Criminal proceeds laundered in the country derive mostly from domestic criminal activity, but are often linked to international trade. It is suspected that most money laundering occurs through informal channels and is not tracked by the government.

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Offshore banks and international business companies are permitted in Madagascar. Along with domestic banks and credit institutions, offshore banks are required to request authorization from the Financial and Banking Supervision Committee (CSBF) which is affiliated with the central Bank.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and other financial institutions

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and moneychangers

Number of STRs received and time frame: 76 in 2010

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Madagascar is not yet a member of a Financial Action Task Force-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Madagascar (GOM) should continue to implement the requirements of Law 2004-020 and internationally recognized anti-money laundering/counter-terrorist financing standards. The GOM should pass the stalled legislation on terrorist financing. Additional effort should be made to combat smuggling. Money laundering related to underground finance and informal value transfer systems should

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be recognized and enforced. The GOM should train police and customs authorities to proactively recognize money laundering at the street level and at the ports of entry. Additionally, prosecutors should receive training so they are more able to successfully prosecute complex financial crime and money laundering cases.

Contacts have been established with the East and Southern Africa Anti-Money Laundering Group (ESAMLAG) secretariat to start the membership process.

Malawi

Malawi is not a regional financial center. One of the primary sources of illicit funds is the production and trade of Cannabis Sativa (Indian hemp) which is extensively cultivated in remote areas of the country. Anecdotal evidence indicates that Malawi is a transshipment point for other forms of narcotics trafficking. Human trafficking, vehicle hijacking, fraud, and corruption are also areas of concern. Smuggling and the laundering of funds are exacerbated by porous borders and weak enforcement. The Government of Malawi (GOM) has adopted anti-money laundering and counter-terrorist financing legislation; however, the development of institutional capacity and enforcement mechanisms is still lacking.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, microfinance institutions, discount houses, foreign exchange bureaus, estate agencies, casinos, accountants, lawyers, dealers in precious metals and stones, and capital markets

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, microfinance institutions, discount houses, foreign exchange bureaus, estate agencies, casinos, accountants, lawyers, dealers in precious metals and stones, and capital markets

Number of STRs received and time frame: 15 – January through October 2010

Number of CTRs received and time frame: 509,765 – January through October 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: NONE civilly: NONE

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Malawi is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF) regional body. Malawi's most recent mutual evaluation can be found here: <http://www.esaamlg.org/reports/me.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Malawi's financial intelligence unit (FIU) is set up within the Reserve Bank of Malawi. However, despite numerous suspicious transaction reports (STRs) there have been no successful prosecutions or convictions for money laundering in Malawi.

Now that the Government of Malawi (GOM) has adopted its anti-money laundering and counter-terrorist financing legislation, it should work toward full implementation of its laws. A number of challenges remain. To date, a permanent director has not been appointed to the FIU; there is no provision in the ML Act for administrative penalties; investigative agencies do not have adequate financial and human resource capacity to carry out effective investigation and successful prosecution of money laundering cases; and, investigative agencies have also shown reluctance to seriously tackle the often complex financial cases referred to them by the FIU. Porous borders and uncharted routes make it easier for criminals to smuggle goods, people and currency across to/from Mozambique, Zambia and Tanzania; Malawi has a cash-based economy and there are usually little or no paper trails to follow-up during investigations of financial crimes when transactions have to be reconstructed; and, there is no regulatory or administrative framework for implementing UN Security Council Resolutions 1267 and 1373.

A lack of a national identification system makes it difficult for financial institutions to apply a standard form of identification under the ML Act. Some financial institutions allow their customers to be identified using the Malawi Electoral Commission voter identification certificate. This ID is not reliable, cannot be easily verified and is not fraud proof. Insurance providers are not designated as reporting institutions under the money laundering law.

Malaysia

Malaysia is a growing regional financial center and has a well-developed anti-money laundering/counter-terrorist financing (AML/CFT) framework. Malaysia's long porous land and sea borders and its strategic geographic position increase its vulnerability to transnational criminal activity, including money laundering and terrorist financing in the region. Drug trafficking is the main source of illegal proceeds in Malaysia.

Malaysia's offshore financial center on the island of Labuan is subject to the same AML/CFT laws as those governing onshore financial service providers. The financial institutions operating in Labuan are generally among the largest international banks and insurers. Offshore companies must be established through a trust company, which is required by law to establish true beneficial owners and submit suspicious transaction reports (STRs).

Free trade zones in Malaysia are divided into Free Industrial Zones (FIZ), where manufacturing and assembly takes place, and Free Commercial Zones (FCZ), generally for warehousing commercial stock. The FIZs are designed mainly to promote manufacturing industries producing goods mostly for export and are dominated by large international manufacturers attracted to the zones because they offer

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preferential tax and tariff treatment. Currently there are 17 FIZs and 17 FCZs in Malaysia. Companies wishing to operate in an FIZ or FCZ must be licensed.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions from the conventional, Islamic, and offshore sectors; offshore listing sponsors and trading agents; stock and futures brokers; unit trust, investment fund, and futures fund managers; money lenders and pawnbrokers; money remitters; charge account and credit card issuers; insurance financial advisers; e-money issuers; leasing and factoring businesses; lawyers, public notaries, accountants, and company secretaries; licensed casinos and gaming outlets; registered estate agents; trust companies, and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions from the conventional, Islamic, and offshore sectors; offshore listing sponsors and trading agents; stock and futures brokers; wholesale money changers; unit trust, investment fund, and futures fund managers; money lenders and pawnbrokers; money remitters; charge account and credit card issuers; insurance financial advisers; e-money issuers; leasing and factoring businesses; lawyers, public notaries, accountants, and company secretaries; licensed casinos and gaming outlets; registered estate agents; trust companies, and dealers in precious metals and stones

Number of STRs received and time frame: 12,489 (2009) and 4,260 (January to April 2010)

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 106 money laundering cases (from 2004-December 2010)

Convictions: 15 convictions (from 2004-December 2010)

Assets forfeited: criminally: \$178,000 (from 2004-December 2010) ***civilly:*** \$16.2 million (from 2004-December 2010)

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Malaysia is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.apgml.org/documents/docs/17/Malaysian%20MER%20-%20FINAL%20August%202007.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Reporting institutions are subject to strict customer due diligence (CDD) rules, and the Government of Malaysia (GOM) has adopted banker negligence laws that extend criminal liability to bank directors if their institution launders money or finances terrorism.

As of December 2010, the Attorney General's Chambers was prosecuting 86 money laundering cases involving a total of 4,576 charges with a cumulative total value of RM2 billion (approximately \$645 million) which also includes self-laundering cases.

The use of informal remittances, which are not subject to AML/CFT controls, creates vulnerability for abuse by money launderers and terrorist financiers. Malaysia's competent authority for implementing its AML/CFT laws, Bank Negara Malaysia (BNM), should continue its efforts to encourage the use of formal remittances. Additionally, law enforcement and customs authorities should examine trade based money laundering and invoice manipulation and their relationship to underground finance and informal remittance systems.

A number of terrorist organizations have been active on Malaysian territory, and authorities have taken action against Jemaah Islamiyah and other terrorist networks. Terrorist financing in Malaysia is predominantly carried out using cash and relies on trusted networks. In 2010, Malaysia initiated five new terror finance investigations, its first under the AML/CFT legal framework. Malaysia should take further steps to increase law enforcement capacity to identify, investigate, and prosecute terrorist and proliferation financing.

Malaysia's Labuan Financial Services Authority (LFSA) is responsible for ensuring AML/CFT compliance on Labuan. Malaysia passed the Labuan Financial Services and Securities Act of 2010 (LFSSA) in February to address the remaining regulatory issues that led the OECD in April 2009 to briefly designate Labuan as an uncooperative tax haven. The LFSSA gives LFSA more regulatory, investigative and enforcement authorities over offshore financial services companies licensed in Labuan and removes privacy restrictions on its access to Labuan-based account activities.

In February 2009, LFSA issued an operating license to First East Export Bank (FEEB), a wholly owned subsidiary of Iran-based Bank Mellat, which in 2007 was designated by the United States under E.O. 13382 for its proliferation finance activities. FEEB opened its Labuan operation in August 2009. The United States designated FEEB under E.O. 13382 on November 5, 2009, based on its relationship to Bank Mellat. On June 9, 2010, UNSCR 1929 listed FEEB as an entity subject to UN sanctions. The GOM ordered FEEB's assets frozen and prohibited Malaysian banks from transacting business with FEEB on July 14, 2010, in full compliance with UNSCR 1929. LFSA should remain vigilant to any attempts to use Labuan for proliferation and terrorism finance activities.

Mali

Mali is a member of the West African Economic and Monetary Union (WAEMU), which also includes Benin, Burkina Faso, Cote D'Ivoire, Guinea-Bissau, Niger, Senegal, and Togo. All of the WAEMU

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members share a common currency, the franc CFA. The currency is pegged to the euro and guaranteed by France.

Mali is not a regional financial center, and presently, there are no free trade zones or offshore sectors in Mali. The danger of laundering of illegal proceeds arises from well-travelled trafficking routes moving drugs, small arms, people, and everyday commodities across the Algerian and Mauritanian borders in the sparsely-populated north of the country. Terrorist cells from Al-Qaeda in the Islamic Maghreb (AQIM), known to operate in the north, are suspected of involvement in these smuggling routes. On the 2010 Corruption Index sponsored by Transparency International, Mali placed 116th out of 178 (with 178 being the most corrupt), dropping from 111th in 2009.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: UNKNOWN

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, the Public Treasury, microfinance entities, the post office, currency exchanges, insurance companies and brokers, securities and asset brokers and managers, the regional stock exchange, mutual funds, casinos

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial organizations, Banks, the Public Treasury, microfinance entities, the post office, currency exchanges, insurance companies and brokers, securities and asset brokers and managers, the regional stock exchange, mutual funds, attorneys, notaries, auditors, real estate and travel agents, non-governmental organizations, casinos and gaming establishments, and dealers of high-value goods and precious metals and stones

Number of STRs received and time frame: 25 in 2010

Number of CTRs received and time frame: None in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Five in 2010

Convictions: None in 2010

Assets forfeited: criminally: None in 2010 civilly: None in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Mali is a member of the Inter Governmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation report can be found here: [http://www.giaba.org/media/M_evalu/MALI_word_MER_english\[1\].pdf](http://www.giaba.org/media/M_evalu/MALI_word_MER_english[1].pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Mali's financial intelligence unit, the *Cellule Nationale de Traitement des Informations Financières* (CENTIF) is confident that closer relations with foreign financial intelligence units will improve the number of prosecutions for financial crimes, and will also elucidate the sources and possible destinations of laundered funds. CENTIF enjoys a transparent and mutually beneficial relationship with liaison officers from the customs service, police, and gendarme forces. Significant challenges to CENTIF's efficiency remain lack of funds to mount comprehensive awareness training for bank and public sector employees as well as adequate publicity for the organization itself.

Although many types of entities are listed as covered under Mali's anti-money laundering law, very few are actually conforming to requirements and, with the exception of casinos, designated non-financial businesses and professions are not subject to customer due diligence requirements.

CENTIF suspects that proceeds from cocaine trafficking into Europe from South America may be passed through Malian banks, but CENTIF lacks the necessary cooperation with external banks to make this determination.

Malta

Malta is not a regional financial center. Malta's location between North Africa and Italy makes it a potential transit point for drug and human trafficking to Europe.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks, currency exchange offices, stockbrokers, insurance companies, money remittance/transfer services, real-estate agencies, auditors, accountants, notaries, tax advisors, trust or asset managers, company formation agents, nominee shareholders, casinos, auctioneers, and dealers in art, precious metals and stones

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, currency exchange offices, stockbrokers, insurance companies, money remittance/transfer services, real-estate agencies, auditors, accountants, notaries, tax advisors, trust or asset managers, company formation agents, nominee shareholders, casinos, auctioneers, and dealers in art, precious metals and stones

Number of STRs received and time frame: 63 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Nine in 2009

Convictions: Five in 2009

Assets forfeited: criminally: 2,670,811 EUR (approximately \$3,690,000) in 2009 **civilly:** 0 in 2009

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Malta is a member of the Council of Europe 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. Its most recent mutual evaluation can be found here: http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Malta_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Malta should continue to enhance its anti-money laundering and counter-terrorist financing legislation and procedures, as appropriate.

Marshall Islands

The Republic of the Marshall Islands (RMI) consists of 29 atolls and five islands, covering 70 square miles of land, spread across 750,000 square miles of ocean. The country is not economically developed and has limited resources for development. The RMI signed a compact of free association with the United States in 1986, and relies on the United States for the majority of its economic support. There are no known terrorist or narcotics money laundering activities in the Marshall Islands.

The RMI offshore corporate sector is vulnerable to money laundering. The Marshall Islands Trust Company and the Marshall Islands Maritime & Corporate Administrators, Inc., provide for a robust registration of corporations and ships. The RMI fleet is the third largest flagged fleet in the world, although almost none of the vessels come to the Marshall Islands. The port of Majuro is visited only by tuna fishing boats, with a few cargo ships per month delivering food and fuel to the nation. Available information indicates nonresident corporations (NRCs), the equivalent of international business companies, can be formed online. NRCs are allowed to offer bearer shares. Corporate officers, directors,

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and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors, and shareholders or beneficial owners, and corporate entities may be listed as officers and shareholders. The corporate registry program, however, does not allow the registering of offshore banks, offshore insurance firms, online gaming institutions, and other companies which are financial in nature. Although NRCs must maintain registered offices in the Marshall Islands, corporations can transfer domicile into and out of the RMI with relative ease. Marketers of offshore services via the Internet promote the Marshall Islands as a favored jurisdiction for establishing NRCs. In addition to NRCs, the Marshall Islands offer nonresident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. No current information is available on the extent of offshore corporate operations.

There are two banks in the country, the Bank of the Marshall Islands, and a branch office of the Bank of Guam. There are no brokerage houses or other types of financial firms in the country. Land cannot be sold, so there are no realtors, and there are no casinos or other places typically used to launder money.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: Not defined

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, insurers, insurance brokers and intermediaries, securities dealers, futures brokers, bullion dealers, businesses issuing, selling or redeeming travelers' checks, money orders, or similar instruments, payroll service businesses involved in collecting, holding and delivering cash, gambling houses, casinos, lotteries, currency dealers and exchangers, money transmission services, financial futures and options, exchange and interest rate instruments, transferable securities, and broker/dealers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, insurers, insurance brokers and intermediaries, securities dealers, futures brokers, bullion dealers, businesses issuing, selling or redeeming travelers' checks, money orders, or similar instruments, payroll service businesses involved in collecting, holding and delivering cash, gambling houses, casinos, lotteries, currency dealers and exchangers, money transmission services, financial futures and options, exchange and interest rate instruments, transferable securities, and broker/dealers

Number of STRs received and time frame: 41 in 2010

Number of CTRs received and time frame: 2,406 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: ***criminally:*** None ***civilly:*** None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Marshall Islands is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force-style regional body. The report from the APG's 2004 evaluation is not available online. The APG conducted a new evaluation in September 2010. Once finalized, it may be found at: <http://www.apgml.org/documents/default.aspx?DocumentCategoryID=17>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Marshall Islands has passed national laws that can be used to prosecute money laundering crimes; however these have not yet been used. The laws were passed with the assistance and drafting of both U.S. and EU donors to meet international standards. These laws cover both individuals and corporations. Fines and other punishments (not including incarceration) are included in the statutes. While money laundering is a crime, predicate crimes are not defined, whether by list or a generalized serious crimes approach.

The government does not have an independent national system and mechanism for freezing terrorist assets in a timely manner. The government does not distribute any information on international terrorism to the Bank of Guam or to the Bank of the Marshall Islands.

The RMI should ensure its offshore sector is adequately supervised and that information on company ownership and management is available to law enforcement and supervisory authorities. The Marshall Islands is in the process of signing tax and other types of treaties with other nations. It has signed a tax treaty with Australia.

The RMI became a party to the 1988 UN Drug Convention on November 5, 2010. It also should become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Mauritania

The Islamic Republic of Mauritania has a largely informal and under-developed economy. Its economic system suffers from a combination of weak government oversight, lax financial auditing standards, a large informal trade sector, porous borders, lack of enforcement, and corruption in government and the private sector. In recent years, Mauritania has become a transshipment point for cocaine from South America intended for the European market. General smuggling, trafficking in vehicles stolen mostly in Europe, parallel networks, and the provision of logistical support for organized international drug traffickers are all serious problems. The instability that followed the August 6, 2008 coup d'état made the country more vulnerable to informal and illegal economic activity. However, following the 2009 election, the Government of Mauritania embarked upon an aggressive campaign against corruption and the terrorist network of Al-Qaeda in the Islamic Maghreb. The Office of the Inspector General of the State and the Financial Analysis Committee (CANIF) have been empowered to lead efforts to identify, prevent and

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reduce corrupt practices and financial crimes, including financial crimes linked to narcotics and terrorist finance networks.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls.crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, formal money exchanges, remittance offices

Number of STRs received and time frame: Five from 2005-2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Five – timeframe is not available

Convictions: Not available

Assets forfeited: criminally: Approximately \$2.2 million - 2005 and 2010 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Mauritania is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. It’s most recent mutual evaluation can be found here:

<http://www.menafatf.org/images/UploadFiles/MutualEvaluationReportMauritaniaEng.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

While Mauritania has been successful in creating a legal and institutional framework to fight financial crimes, there remain many challenges to successfully implement these initiatives in an informal economy. Monitoring informal financial markets also remains a challenge. Only seven percent of Mauritanian

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adults have bank accounts, and informal banking and financial systems remain vulnerable to exploitation. Mauritanian authorities are aware of these issues and are working to formalize financial transactions to the extent possible and to devise mechanisms to prevent the exploitation of the informal financial system.

Mauritania's financial intelligence unit (CANIF) is the office with direct responsibility for oversight of criminal activity in the financial sector. Although CANIF has existed since 2005, due to political instability, it was not truly functional until 2009. Given that CANIF is such a young organization, and has only recently become operational, there is still a great deal of work to be done to formalize its operating procedures.

Mauritius

Mauritius has developed a reputation as a well-regulated and credible international financial center. According to the Mauritius' Independent Commission Against Corruption (ICAC), laundered funds are primarily the proceeds from drug trafficking – mainly heroin, and increasingly, Subutex. Other important predicate crimes for money laundering offenses include aggravated larceny, conspiracy, forgery, swindling, and corruption. Criminal proceeds laundered in Mauritius are not controlled by drug trafficking organizations or organized criminal groups. There is no significant black market for smuggled goods in Mauritius, although there is occasional smuggling of stolen automobiles and cigarettes. According to ICAC, money laundering occurs in the banking system, the offshore financial center, and the non-bank financial system. Criminal proceeds are derived from both domestic and foreign criminal activities.

The Mauritius Global Business Sector is a major route for foreign investments into the Asian sub-continent and is by far the largest source of foreign direct investment and portfolio investment in India. As of December 2010, there were 28,000 Global Business Companies (GBCs) in Mauritius, including 700 licensed global funds. The offshore sector also includes management companies licensed by the Financial Service Commission (FSC) to provide professional services to GBCs. Shell companies and bearer shares are not allowed in Mauritius nor are nominee or anonymous directors or trustees.

The Mauritius Freeport, a free-trade zone (FTZ), was established to promote the country as a regional FTZ center for Eastern and Southern Africa and the Indian Ocean rim. As of December 2010, there were about 350 registered Freeport companies, with a total turnover of \$667 million.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks, insurance companies, securities dealers, money changers, foreign exchange dealers, accountants, attorneys, barristers, notaries, chartered secretaries, gaming centers, jewelry dealers, land promoters, property developers, estate agents

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies, securities dealers, money changers, foreign exchange dealers, accountants, attorneys, barristers, notaries, chartered secretaries, gaming centers, jewelry dealers, land promoters, property developers, estate agents

Number of STRs received and time frame: 173 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 34 in 2010

Convictions: 19 in 2010

Assets forfeited: *criminally:* None *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Mauritius is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.esaamlg.org/reports/view_me.php?id=173

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Limited capacity and training of the judiciary and the ICAC compromises Mauritius' ability to successfully implement its AML regime. Stronger support of judges to carry cases through successful prosecution is needed.

Legislation to correct deficiencies and amend the AML framework has been pending with authorities since 2006, but most of the amendments have not been tabled to the National Assembly.

Although coordination is possible via the 2003 Mutual Assistance in Criminal and Related Matters Act, international cooperation, particularly on sharing of information, is a lengthy and uncertain process. Timely access to financial documents domestically is also a problem. While Mauritius has a legal framework enabling it to freeze terrorist-related assets without delay, its ability to do so is subject to compliance with judicial proceedings.

Authorities have recently completed the drafting of the Asset Forfeiture Bill, which, when enacted, will consolidate all asset forfeiture functions into a single unit and should bring about major improvements. The new legislation will also provide for civil asset forfeiture and non-conviction based asset forfeiture.

Mexico

Mexico is a major drug-producing and drug-transit country. Proceeds from the illicit drug trade leaving the United States are the principal source of funds laundered through the Mexican financial system. Other

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significant sources of illegal proceeds being laundered include corruption, kidnapping, and trafficking in firearms and persons. Sophisticated and well-organized drug trafficking organizations based in Mexico take advantage of the extensive U.S.-Mexico border and the large flow of legitimate remittances to Mexico. The smuggling of bulk shipments of U.S. currency into Mexico and the repatriation of the funds into the United States via couriers, armored vehicles, and wire transfers remain favored methods for laundering drug proceeds. The combination of a sophisticated financial sector, a large cash-based informal sector, and insufficiently implemented regulatory controls further complicates the problem. According to US authorities, drug trafficking organizations send between \$19 and \$29 billion annually to Mexico from the United States. Mexico has seized over \$457.5 million in bulk currency shipments since 2002. In 2010, bulk-cash seizures amounted to \$32.4 million in U.S. dollars and 87.3 million (approximately \$7 million) in pesos.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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 (unlicensed foreign exchange centers)

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: 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

Number of STRs received and time frame: 34,511 January through September 2010

Number of CTRs received and time frame: 3.2 million January through September 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 162 from September 2009 to July 2010

Convictions: 17 (37 individuals) from September 2009 to July 2010

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Mexico is a member of the Financial Action Task Force (FATF), of which Mexico currently holds the presidency (until July 2011), and the Financial Action Task Force for South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found here:

http://www.fatf-gafi.org/document/20/0,3343,en_32250379_32236963_41911956_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The number of casas de cambio has declined due to actions the Mexican authorities have taken against those with serious AML/CFT violations and the closure of correspondent accounts in the United States. Unlike regulated casas de cambio – of which there are only nine – there are over 4000 centros cambiarios, which are largely unregulated, and approximately 1200 registered money transmitters. Commercial banks, foreign exchange companies, and general commercial establishments also may offer money exchange services. The Government Secretariat 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 AML reporting requirements. Legislation to regulate these non-financial entities has been proposed and remains pending in Congress.

The Government of Mexico (GOM) has made fighting money laundering and drug trafficking one of its top priorities, and has made progress in combating these crimes over the course of 2010. Mexico has adopted a national anti-money laundering strategy, increased the capacity of law enforcement and supervisors, and established a vetted police unit. The Mexican government works very closely with U.S. law enforcement on transnational cases. From September 2009 to July 2010, Mexican judges convicted 37 individuals on money laundering charges. Given that from 2004 to 2007, only 17 criminals were convicted of money laundering, this is a notable improvement.

However, Mexico continues to face challenges with respect to its AML/CFT 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 terrorist financing. Mexico should also amend its terrorist financing legislation to fully comport with the UN Convention for the Suppression of the Financing of Terrorism; and enact legislation and procedures to freeze without delay terrorist assets of those designated by the UN 1267 Sanctions Committee. To create a more effective AML/CFT 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 cambiarios and gambling centers, and extend AML/CFT requirements to designated non-financial businesses and professions. While some of these issues are addressed in pending AML legislation, the fate of some of the proposals is uncertain as they must pass an opposition-dominated Congress.

On June 15, 2010 the Finance Ministry announced new regulations imposing limits on U.S. dollar (USD) transactions in Mexico. The caps, which were eased on December 3 for border areas, are applicable to cash transactions from dollars to pesos, including deposits, credit payments, and service fees. In addition to limiting transaction amounts for individuals, all USD transactions are prohibited by the regulation for corporate entities and trusts (including account and non-account holding entities), except for those which are account-holders located in border or tourist areas, for which transactions are limited.

On August 26, 2010 the GOM stepped up its AML efforts and announced the National Strategy for the Prevention and Elimination of Money Laundering and Financing for Terrorism along with a package of bills currently pending in Congress. The package includes nine reforms and three modifications to federal

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codes, as well as the creation of the Law to Prevent and Identify Operations with Illegal Origins and Terrorism Financing.

Micronesia, Federated States of

The Federated States of Micronesia (FSM) is not a regional or offshore financial center, and has no free trade zones. Its geographic isolation, small and relatively poor population, and limited infrastructure make it a low risk for money laundering and terrorist financing. Money laundering activity primarily originates in public corruption, including bribery and misuse of public funds. The extent of such corruption is unknown and prosecutions are rare. Corruption extends to directing public contracts and employment to unqualified companies or persons; there are no estimates on the amount of money involved.

Both the legislative and executive branches of the government have declined to allocate funds for FSM to join any information sharing organization, which has stymied prosecution of cases with international links. Should legislation authorizing the building of a casino in Pohnpei, currently in committee in the state legislature, be authorized and implemented, concerns for money laundering would rise.

Local law enforcement suspect some smuggled goods are making their way onshore, mostly cigarettes. The FSM's isolation, small and relatively poor population, and limited transportation links make it an unlikely destination for large amounts of smuggled goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls.crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions and “cash dealers,” including insurers, operators of bingo parlors, trustees, and money transaction services

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All banks and financial institutions

Number of STRs received and time frame: 13 (January 1 – September 30, 2010)

Number of CTRs received and time frame: Not applicable.

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: ***criminally:*** Zero ***civilly:*** Zero

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

FSM is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Financial Intelligence Unit (FIU) of the National Police receives suspicious transaction reports through the Department of Justice (DOJ). The FIU consists of a single police officer. It has no operational or budgetary independence, and relies entirely on the DOJ for funding and the National Police for staff. The officer has both criminal investigative and regulatory responsibilities. Inadequate police training and lack of resources significantly diminish the investigative abilities of both police and FIU staff. There have been no arrests, prosecutions or convictions for money laundering since the FSM criminalized the offense in 2001. The FSM should give the FIU operational and budgetary independence, and build its overall capacity.

The FSM ratified the UN Convention for the Suppression of the Financing of Terrorism in 2001. However, the country has yet to make terrorist financing, or even the commission of terrorist acts, a specific crime. The FSM should make the criminalization of terrorist acts and terrorist financing a priority, and establish an effective implementation mechanism.

Money laundering statutes provide for the seizure of “tainted” property, as well as any benefits derived from the commission of a money laundering offense. However, no property has ever been seized or confiscated under the money laundering statute. There is no civil forfeiture. The FSM should support the investigation of money laundering cases and the seizure and confiscation of assets where appropriate.

Local institutions and personnel lack the training and capacity to fully enforce the law and its attendant regulations. Although legally obligated, only one of the two banks in FSM currently reports STRs.

The FSM should become a party to the UN Convention against Corruption.

Moldova

Moldova is not considered a regional financial center based on either volume or structure. The Government of Moldova (GOM) monitors money flows through Moldova, but does not exercise control over its breakaway region of Transnistria. Transnistrian authorities do not adhere to GOM financial controls, and maintain a banking system independent of and not licensed by the National Bank of Moldova. Criminal proceeds laundered in Moldova derive substantially from tax evasion, contraband smuggling, and corruption. Money laundering has occurred in the banking system and in exchange houses, along with offshore financial centers in Transnistria. Fifteen banks constitute the Moldovan financial system. Neither offshore banks nor shell companies are permitted to operate in Moldova. Internet gaming sites do exist, although no statistics are currently available on the number of sites in operation. Internet gaming comes under the same set of regulations as domestic casinos.

Moldova contains six free-trade zones (FTZs). Some of these free-trade zones are infrequently used. Reportedly, goods from abroad are frequently imported into the FTZ and then 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. Companies operating in FTZs are subject to inspections, controls, and investigations by inspectors from the Customs Service and the Center for Combating Economic Crime and Corruption.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchange offices, investment funds, investment management companies, deposit companies, fiduciary companies, security dealers, stock exchange companies, brokers, insurance and reinsurance companies, company formation agents and ownership registries, gaming and lottery organizers and institutions (including internet-casinos), real estate agents, dealers of precious metals or gems, auditors, accountants and financial consultants, investment or fiduciary service providers, lawyers, notaries, and organizations that provide postal and telephone mandate exchange or transfer of resource services

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, currency exchange offices, investment funds, investment management companies, deposit companies, fiduciary companies, security dealers, stock exchange companies, brokers, insurance and reinsurance companies, company formation agents and ownership registries, gaming and lottery organizers and institutions (including internet-casinos), real estate agents, dealers of precious metals or gems, auditors, accountants and financial consultants, investment or fiduciary service providers, lawyers, notaries, and organizations that provide postal and telephone mandate exchange or transfer of resource services

Number of STRs received and time frame: 303,671 from January to October 2010

Number of CTRs received and time frame: 8,973,795 from January to October 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 16 from January to November 2010

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Convictions: One from January to November 2010

Assets forfeited: criminally: \$85,750 from January to October 2010 **civilly:** Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Moldova is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Moldova_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Moldova has made some progress in instituting a legal framework for combating money laundering that is consistent with international standards, and has made significant efforts to raise its stature in this area. Despite these encouraging developments, the GOM still faces serious challenges in the enforcement and implementation of anti-money laundering laws, as evidenced by the low level of prosecutions and convictions for money laundering. These challenges may be magnified even further if a November 2010 decision of the Constitutional Court goes into effect. This decision invalidates some provisions of the law regulating the ability of the FIU to collect suspicious transactions reports as well as the ability of authorities to temporarily restrain accounts suspected of involvement with illegal activity. The GOM has issued a decree reinstating the provisions; the enforceability of this document is questionable. As underscored by this recent development, there is a pressing need to review and amend the laws regulating enforcement and implementation of the anti-money laundering framework. This should also include changes to the criminal procedure code to institute non-conviction based confiscation, and to permit special investigative techniques to be applied to a wider range of offenses associated with money laundering and terrorist financing.

Monaco

The Principality of Monaco is the second-smallest country in Europe. It is linked closely to France, and is closely tied to the economic apparatus of the European Union (EU) through its customs union with France and its use of the euro as its official currency. Monaco is known for its security and political stability. Historically, Monaco's casinos, run by a majority state-owned company, were major sources of income. Now, however, the casino revenues constitute less than 3% of the state budget. Monaco's state budget is now based primarily on taxes, duties, and excises which account for 75% of the total income. Monaco's 39 banks and two financial institutions hold more than 300,000 accounts and manage total assets of about 750 billion euros (approximately \$102.8 billion). Non-residents total 46 percent of the financial institutions' total number of clients, representing 60% of the total assets and deposits, respectively almost 84,000 clients and 45 billion euros (approximately \$57.6 billion). Money laundering offenses relate mainly to offenses committed abroad. Reportedly, the Principality does not face ordinary forms of organized crime. There is no significant market for smuggled goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; insurance companies; stockbrokers; corporate service providers; portfolio managers; some trustees; institutions within the offshore sector; casinos; money remitters; real estate brokers; consultants or advisors in business, legal or tax matters; dealers in precious stones, precious materials, antiquities, fine art and other valuable assets; lawyers; notaries; accountants

Number of STRs received and time frame: 478 in 2008

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Monaco 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 Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Monaco_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Monaco (GOM) should enhance the authority of its financial intelligence unit (FIU) to forward reports and share financial intelligence with law enforcement and foreign FIUs even when the report or information obtained does not relate specifically to drug trafficking, organized crime, or terrorist financing. The GOM should become a party to the UN Convention against Corruption.

Mongolia

Mongolia is not a financial center. There are few financial and economic crimes, although numbers have increased in the last five years. Mongolia is vulnerable to a low grade of transnational crime due to the growth in tourism, investment, and remittances from abroad in recent years, but thus far this vulnerability has not translated into a greater incidence of such crime. The increase in reports of suspicious transactions is more likely a product of the increasing effectiveness and experience of the financial

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intelligence unit (FIU). Mongolia's limited capacity to monitor its extensive borders with Russia and China is a liability in the fight against smuggling and narcotics, but drug use and trafficking remain limited and unsophisticated. There is a black market for smuggled goods, but this is largely tied to tax avoidance rather than drug trafficking. There are no indications that international narcotics traffickers exploit the banking system, and no instances of terrorist financing have been reported.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, non-bank financial institutions, savings and credit cooperatives, insurance companies, securities dealers, foreign exchange units, pawnshops, and casinos (though casinos are currently prohibited in Mongolia)

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, non-bank financial institutions, savings and credit cooperatives, insurance companies, securities dealers, foreign exchange units pawnshops, and casinos (though casinos are currently prohibited in Mongolia)

Number of STRs received and time frame: 25 (January 1 – December 15, 2010)

Number of CTRs received and time frame: 319,000 (January 1 – Dec 15, 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two (January 1 – December 15, 2010)

Convictions: None (January 1 – December 15, 2010)

Assets forfeited: criminally: None civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Mongolia is a member the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Mongolia%20Mutual%20Evaluation%202007%20-%20Final%20.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Mongolian FIU expanded international cooperation, signing MOUs with the FIUs of Malaysia, Korea, Nepal, and Afghanistan in 2010. The FIU shared 20 reports (ten incoming and ten outgoing) with foreign FIUs in 2010.

The increasing financial flows in advance of an expected mining-driven boom create a distinct challenge to the Mongolian FIU. Although the Parliament passed a law on December 24, 2009, bringing AML/CFT efforts into harmony with international guidelines, it is not clear that the Government of Mongolia has the capacity fully to enforce this law. While highly professional, the FIU appears under-staffed, and coordination with other law enforcement organizations reportedly remains deficient. Although two cases were opened during the year, the lack of a single successful prosecution to date illustrates the enforcement problem.

Montserrat

Montserrat has one of the smallest financial sectors of the Caribbean overseas territories of the United Kingdom. The Montserratian economy has been effectively halted since the volcanic eruption in 1995 that reduced the population and business activity on the island. Less than 6,000 people remain resident on the island. The island's operating budget is largely supplied by the British government and administered through the Department for International Development (DFID). Export businesses currently based in Montserrat deal primarily in the selling and shipping of aggregate for construction. Imports include virtually everything available for sale on the island. An offshore financial services sector may attract money launderers because of a lack of regulatory resources. None of the offshore banks appears to have a physical presence on the island, complicating regulation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities dealers, money transmission services, company management services, and financial leasing companies

Enhanced due diligence procedures for (PEPs): Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks, securities dealers, money transmission services, company management services, and financial leasing companies

Number of STRs received and time frame: 15 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: *criminally:* 0 in 2010 *civilly:* 0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Montserrat is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. The most recent evaluation can be found here:

<http://www.imf.org/external/pubs/ft/scr/2003/cr03371.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Montserrat's offshore banks pose significant risks, especially in the areas of know your customer rules and currency declarations. The lack of resources and personnel may reduce the effectiveness of those regulations that are in place. The regulations do not explicitly address offshore banks, and it remains unclear whether they are subject to the regulations' requirements. Additionally, there are apparent deficiencies in the application of many guidelines since they remain a code of practice rather than mandatory legislation.

Montserrat is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for Montserrat's international affairs and may arrange for the ratification of any convention to be extended to Montserrat. The 1988 Drug Convention was extended to Montserrat in 1995. The UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime (UNTOC) have not yet been extended to Montserrat.

Montenegro

Independent since 2006, Montenegro continues to develop and improve the capabilities necessary to prevent money laundering, combat terrorist financing and fight corruption. Montenegro is a country of both origin and transit for organized crime activities, with money laundering, drug smuggling and corruption being major areas of concern. Montenegro is a part of the East-West transit corridor for drugs, and government authorities consider drug-related crimes the most serious source of illicit proceeds in the country. In addition, government sources claim laundered money primarily comes from the foreign offshore zones (British Virgin Islands, Cyprus, Belize) through the purchase of real estate, the acquisition of consumer luxury items and investment in privately owned businesses. Certain factors, such as the high level of cash usage in the economy, may influence the effectiveness of the fight against money laundering and terrorist financing. Montenegro's use of the euro, despite being outside the Euro-Zone, makes it potentially vulnerable to organized criminals seeking to launder cash.

Money Laundering and Financial Crimes

Within Montenegro there exists a significant black market for smuggled items such as stolen cars, narcotics, cigarettes and counterfeit products. Many of these items are trafficked by organized criminal groups. Proceeds from illegal activities are invested heavily in real estate. Montenegrin authorities do not consider Montenegro to be exposed to terrorism or a haven for terrorist finance.

Corruption is another problem which impacts law enforcement organizations and the judiciary in Montenegro. While the government has made legislative and institutional efforts to eliminate corruption, these efforts have yet to produce significant results in the areas of public procurement, privatization, construction permits, public administration, the judicial system, law enforcement and local government. The origin of funds used to acquire companies or businesses during privatization is often unclear or lacking in transparency. Montenegrin criminal justice officials express serious concern about the extent of financial crimes in Montenegro, but lack concrete data to support suspicions and mechanisms to measure corruption and the impact of counter-corruption measures.

In June 2004, Montenegro passed a Free Trade Zone Law, which offers businesses benefits and exemptions from custom duties, taxes and other duties. The Port of Bar is currently the only free trade zone (FTZ) in Montenegro. The Port of Bar Holding Company operates the FTZ. The general business rules of the Bar free zone require each FTZ user to come to an agreement with the Customs Authority of Montenegro on the form of customs records to be maintained about the flow of goods.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, savings banks, credit agencies, loan brokers and savings and loan institutions; organizations performing payment transactions and post offices; investment and pension fund managers; stock brokers; insurance companies and brokers, and branches of foreign insurance companies dealing with life assurance; lotteries and games of chance; exchange offices; pawnshops; auditors, accountants, and tax advice service providers; issuers of electronic money; humanitarian, non-governmental and non-profit organizations; factoring and property management companies; payment and credit card issuers and operators; financial leasing companies; travel and real estate agents; safekeeping and guarantee services; and auctioneers and dealers of motor vehicles, vessels, aircraft, works of art, precious metals and stones, and high-value goods

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, savings banks, credit agencies, loan brokers and savings and loan institutions; organizations performing payment transactions and post offices; investment and pension fund managers; stock brokers; insurance companies and brokers, and branches of foreign insurance companies dealing with life assurance; lotteries and games of chance; exchange offices; pawnshops; auditors, accountants, and tax advice service providers; issuers of electronic money; humanitarian, non-governmental and non-profit organizations; factoring and property management companies; payment and credit card issuers and operators; financial leasing companies; travel and real estate agents; safekeeping and guarantee services; and auctioneers and dealers of motor vehicles, vessels, aircraft, works of art, precious metals and stones, and high-value goods

Number of STRs received and time frame: 99 from January 1 to December 10, 2010

Number of CTRs received and time frame: 53,306 from January 1 to December 10, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two in 2009 and none in 2010

Convictions: Two in 2009 and none in 2010

Assets forfeited: criminally: \$216,200 in 2009 and \$156,160 in 2010 ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Montenegro is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Montenegro_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Harmonization of Montenegro's laws with international standards for anti-money laundering/counter-terrorist financing (AML/CFT) legislation is still pending completion. Although the basic legal and institutional framework to deal with ML/TF is in place, the operational and investigative capacities of law enforcement and the judiciary need further enhancement. Montenegro's FIU, the Administration for Prevention of Money Laundering, lacks sufficient human resources, workspace and IT equipment to deal with its numerous assignments. Remuneration is generally low in all AML/CFT-related agencies.

Collection and management of statistics need improvement, along with the capacity to investigate financial crimes of the police and prosecutors. Prosecutors continue to require additional time and training before they can efficiently take an active role in financial investigations. In addition, closer cooperation and coordination is needed between relevant supervisory agencies such as the Central Bank of Montenegro, Securities Exchange Commission, Insurance Supervision Agency and the FIU, and law enforcement institutions. Broader involvement from the private sector is also necessary.

The framework for international judicial cooperation in ML/TF cases is generally comprehensive. Although Montenegro has signed bilateral cooperation agreements with a number of countries, the country needs to strengthen implementation. During 2010, Montenegro signed bilateral agreements on cooperation in ML/TF with Moldova, San Marino, Russia, and Israel.

Money Laundering and Financial Crimes

The implementation of asset forfeiture laws is still in the initial stages of development, as evidenced by a lack of confiscations related to money laundering crimes and the inability to freeze terrorist assets without delay.

Reporting of suspicious transactions by financial, and particularly non-banking institutions, requires significant improvement. According to the FIU, Montenegrin officials have not recognized the existence of informal systems of financial transfers or alternative remittance systems. While activities in the fight against terrorism are broadly aligned with the existing international regulatory framework, capacities to detect and address activities possibly linked to terrorism need to be further enhanced. There were no precise data on ML from the law enforcement/judicial authorities to assess an overall level of financial crimes in the country.

In August 2010, the Government of Montenegro announced that persons with a credible global reputation will be able to obtain Montenegrin citizenship if they directly invest at least 500,000 euros (approximately \$666,700) in Montenegro and its economy. As of year end this new regulation is still pending; this is a potential issue of concern should the government enact such a provision.

Although legal and institutional mechanisms to fight corruption were strengthened, the perception of corruption remains widespread and could potentially affect efforts to combat money laundering. A Joint Investigative Team, consisting of representatives of law enforcement bodies and headed by the Special Prosecutor was formed in early 2010. In October 2010, the government of Montenegro adopted the Strategy for Prevention of Money Laundering and Terrorist Finance and adopted the Action Plan for its implementation through 2010-2012.

The Montenegrin FIU exchanged information with the US financial intelligence unit, FINCEN, in two high profile cases related to organized crime and money laundering.

Potentially significant accomplishments will be achieved when Montenegro completes amendments to the Law on Prevention of Money Laundering and Terrorist Finance, which are scheduled to be adopted in Parliament in early 2011. The amendments primarily relate to electronic money transfers, new technologies, unusual transactions, reporting of suspicious transactions, and extending the list of designated entities supervised by the FIU.

Morocco

Morocco is not a regional financial center but is well integrated into the international financial system. Money laundering is a concern due to Morocco's international narcotics trade, vast informal sector, trafficking in persons, and large level of remittances from Moroccans living abroad. Cash-based transactions in connection with cannabis trafficking are of particular concern. Morocco remains the world's second largest 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. The predominant use of cash, informal value transfer systems and remittances from abroad help fuel Morocco's informal sector. Only three in ten Moroccans use banks; credible estimates of Morocco's informal sector place it at nearly 15 percent of GDP, and potentially employing over a third of the urban workforce. In 2009, remittances from Moroccans living abroad were approximately nine percent of GDP and drive household consumption by large segments of the population.

Offshore banks are located in the Tangier free zone. They are regulated by an interagency commission chaired by the Ministry of Finance. The free trade zone also allows 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.

Criminal activities of particular risk include bulk cash smuggling, and 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 trails. Unregulated money exchanges remain a problem in Morocco and were a prime impetus for Morocco's anti-money laundering legislation. Although the legislation targets previously unregulated cash transfers, the country's vast informal sector creates conditions for this practice to continue.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks, finance companies, insurance industry, lawyers, accountants, real estate intermediaries, and gaming operators

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks, finance companies, insurance industry, lawyers, accountants, real estate intermediaries, and gaming operators

Number of STRs received and time frame: 70 since October 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Nine since October 2009

Convictions: Nine since October 2009

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Money Laundering and Financial Crimes

Morocco is a member of the Middle East North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.menafatf.org/TopicList.asp?cType=train>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Morocco (GOM) has made considerable progress since the promulgation of the 2007 AML law. The juridical framework for countering illicit finance continues to be refined, and a series of proposed amendments responds well to Morocco's practical experience. The establishment of Morocco's financial intelligence unit (FIU) in October 2009 was a considerable mark of progress. Morocco's ability to enforce its anti-money laundering statutes should improve as the FIU becomes operational. Proposed amendments, currently under consideration by the Parliament, will further clarify and stipulate STR processing requirements.

The size and adaptive nature of Morocco's informal economy presents serious concerns. Regulatory oversight and investigative expertise must be developed that targets Morocco's large money remittance networks. Regional trade-based money laundering and informal value transfer systems should be addressed.

Mozambique

Mozambique is not a regional financial center. Money laundering is believed to be fairly common and is linked principally to customs fraud and narcotics trafficking, although there may be links to terrorist groups as well. Most narcotics are destined for South African and European markets; Mozambique is not a significant consumption destination and is rarely a transshipment point to the United States. Local organized crime controls narcotics trafficking operations in the country, with significant involvement by Pakistani and Indian immigrants. While money laundering in the banking sector is considered to be a serious problem, foreign currency exchange houses, cash couriers, and the hawala remittance system play more significant roles in financial crimes and money laundering. Much of the laundering is believed to be happening at foreign currency exchange houses. The number of exchange houses operating in Mozambique surpasses the number required for normal business. Authorities believe the proceeds from illicit activities also have helped finance commercial real estate developments, particularly in the capital. Black markets for smuggled goods and informal financial services are widespread, dwarfing the formal retail and banking sectors in most parts of the country.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks and credit companies; securities companies and exchanges; debt collectors, leasing and rental companies; gaming facilities; capital/asset management concerns; payment and currency exchange operators; insurance brokers; and overseas subsidiaries or branches of Mozambican financial institutions

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and credit companies; securities companies and exchanges; debt collectors, leasing and rental companies; gaming facilities; capital/asset management concerns; payment and currency exchange operators; insurance brokers; and overseas subsidiaries or branches of Mozambican financial institutions

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Mozambique is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. It has not yet had a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Limited resources and high levels of corruption hamper the government of Mozambique's ability to fight money laundering and terrorist financing and enforce anti-money laundering regulations. Drug traffickers use U.S. dollars as their primary currency when moving proceeds through local financial institutions; however, local institutions lack the funding, training, and personnel necessary to investigate money laundering activities and enforce the law. Porous borders and a lack of effective customs enforcement facilitate smuggling, trade-based money laundering, and informal value transfer systems.

Authorities acknowledge that alternative remittance systems are common in Mozambique, many of which operate in exchange houses that, on paper, are heavily regulated but in fact can easily avoid reporting requirements. There are no serious legislative, judicial, regulatory, or enforcement measures being considered to address this problem.

The law to establish the Financial Intelligence Office, Mozambique's FIU, was approved by the Parliament in July 2007. The Director General of the Financial Intelligence Office was appointed in September 2008, and in 2010, the Office hired the initial staff. Since October 2010, the staff has been located in new FIU premises, although the offices are not fully operational.

Money Laundering and Financial Crimes

Financial institutions do not have direct access to the names of persons or entities included on the UN 1267 Sanctions Committee's consolidated list; this list is distributed only to the Central Bank, the Attorney General, the Ministry of Finance, and the Ministry of Foreign Affairs.

Namibia

Although Namibia has one of the most highly developed financial systems in Africa, it is not considered a regional financial center. Sources of potential money laundering in Namibia are related to both regional and domestic criminal activities. Falsification or misuse of identity documents, customs violations, trafficking of precious metals and gems, trafficking in illegal drugs, and stolen vehicles - mostly from South Africa - are regional problems that affect Namibia. Organized crime groups involved in smuggling activities generally use Namibia as a transit point - particularly for goods destined for Angola. Domestically, real estate as well as minerals and gems are reportedly used as vehicles for money laundering. Namibian authorities believe the proceeds of these activities are laundered through Namibian financial institutions, but on a small scale. The Namibian government has set up Export Processing Zones (EPZ). There is no indication of significant money laundering or terrorist financing via EPZs.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and non-bank financial institutions, Casinos or gaming institutions, exchange houses, stock brokerages, cash couriers, casinos, dealers in jewels and precious metals, insurance companies, pawn shops, realtors, high-value dealers in art and vehicles, and intermediaries such as lawyers, accountants, notaries, or broker/dealers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and non-bank financial institutions, exchange houses, stock brokerages, cash couriers, casinos, dealers in jewels and precious metals, insurance companies, pawn shops, realtors, high-value dealers in art and vehicles; and intermediaries such as lawyers, accountants, notaries, or broker/dealers

Number of STRs received and time frame: 483 from May 2009 to December 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: **criminally:** YES **civilly:** YES

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Namibia is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation report can be found here: http://www.esaamlg.org/userfiles/Namibia_detailed_report.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Namibia is revising its anti-money laundering framework to change from a rules-based to a risk-based approach. In certain subsectors regulatory bodies cannot impose sanctions such as the withdrawal of licenses for members that are not complying with Namibia's AML framework. There are separate bills in draft to cover gambling and estate agents that would augment the powers of regulatory authorities to monitor and enforce Namibia's AML framework. There have not yet been any arrests or prosecutions for money laundering. Three cases have resulted in provisional forfeiture orders. One provisional order was overturned in the courts. The remaining two provisional orders can still be challenged in the courts.

Namibia has not reached any bilateral agreement with the United States authorities on a mechanism for exchange of records in criminal matters. However, Namibia has made substantial efforts to cooperate with the United States in the area of law enforcement, especially in the area of extradition. Namibia has cooperative agreements with countries in the Southern African Development Community.

Namibia should continue to implement its AML laws and should pass the pending anti-terrorism bill. As part of the implementation process, the Government of Namibia (GON) should ensure sufficient resources and training are provided to supervisory, analytical, investigative, prosecutorial and judicial entities with responsibilities under the laws. Cross-border currency reporting should be implemented and further measures taken to enforce Namibia's porous borders. The GON should become a party to the UN Convention for the Suppression of the Financing of Terrorism.

Nauru

Nauru is a small Central Pacific island nation with a population of approximately 10,000. It is an independent republic and an associate member of the British Commonwealth. Nauru does not control its exchange rate. It does set its budget and fiscal expenditures but it does not set the monetary policy of its currency, the Australian dollar. No banks operate on the island; all offshore firms were closed last year. Nauru is in talks with regional banking companies to establish commercial bank outlets. In line with its National Sustainable Development Strategy (NSDS) 2005–2025, the government enacted and enforced legislation to abolish offshore banks used for money laundering by criminal syndicates. Nevertheless, Nauru is an established "zero" tax haven, as it does not levy any income, corporate, capital gains, real estate, inheritance, estate, gift, sales, or stamp taxes. There is no known major criminal activity on Nauru itself that generates laundered funds.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Unknown

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Unknown

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Not available

Enhanced due diligence procedures for PEPs: Foreign: Unknown *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Non-bank financial institutions, money remitters, securities and investment businesses, insurance, real estate agents, dealers in precious metals and stones, trust or company service providers, and legal entities

Number of STRs received and time frame: 0 in 2010

Number of CTRs received and time frame: 0 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: NO *civilly:* NO

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Nauru is a member of Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. It is in the process of undergoing a mutual evaluation. Upon adoption, the evaluation report may be found here: <http://apgml.org/documents/default.aspx?DocumentCategoryID=17>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Nauru’s Anti-Money Laundering Act 2008 provides for the freezing and forfeiting of tainted and terrorist property. However, there has not been any occasion to enforce existing asset seizure and forfeiture laws.

The Government of Nauru (GON) should establish and implement reporting requirements for inbound currency and negotiable instruments. The GON should become a party to the UN Convention against Corruption, the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime.

Nepal

Nepal is not a regional financial center. Government corruption, poorly regulated trade, weak financial sector regulation, and a large informal economy make the country vulnerable to money laundering and

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terrorist financing. The major sources of laundered proceeds stem from tax evasion, corruption, counterfeit currency, smuggling, and invoice manipulation. There is a large, unregulated, informal remittance system in Nepal, which is also vulnerable to money laundering and terrorist financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE US OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities agents, insurance agents, casinos, money remitters and changers, cooperatives, some government agencies, lawyers and notaries, auditors and high value metals and stone traders

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities agents, insurance agents, casinos, money remitters and changers, cooperatives, some government agencies, lawyers and notaries, auditors, and high value metals and stone traders

Number of STRs received and time frame: Over 200 in 2010

Number of CTRs received and time frame: Over 1,000 per month in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One over one year

Convictions: One over one year

Assets forfeited: criminally: None civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Nepal is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. As of September 2010, Nepal is undergoing a mutual evaluation by the APG. Its most recent completed mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/8/Nepal%20MER%20Executive%20Summary.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money Laundering and Financial Crimes

Nepal has enacted anti-money laundering laws and has established a financial intelligence unit (FIU), but is still in the beginning stages of implementing an effective anti-money laundering/combating the financing of terrorism (AML/CFT) regime. Much of the financial sector lacks basic awareness of the new AML/CFT requirements and suspicious transaction reporting requirements and procedures. While the Assets Laundering Prevention Act was passed in 2008, Nepal's FIU is still putting in place the required directives. Due to gaps in the Act, the KYC rules may not be enforceable, and the FIU directives' provisions on customer due diligence lack sanctions for failure to comply. In addition, the Government of Nepal (GON) lacks human resource expertise and skills in the responsible agencies, particularly in investigation techniques. Nepal also lacks a comprehensive anti-terrorism law, undermining enforcement efforts.

Coordination among the key government agencies is weak. The Nepal Police have no direct role in money laundering enforcement, which is the responsibility of the Department of Revenue Investigation, which also oversees tax enforcement. Tax evasion is rampant in Nepal, and the Department of Revenue Investigation's dual role inhibits money laundering enforcement as financial institutions and individuals are reluctant to provide relevant information.

As a matter of practice, only banks receive the UN list of designated terrorists and terrorist entities; most money transmitters, foreign exchange dealers, cooperatives, and other non-bank financial institutions do not receive the lists. In addition, most financial institutions do not have real-time checks of UN designated entities.

FIU officials have identified under-and-over invoicing as a major money laundering challenge. The FIU is in the process of developing an e-reporting system to help improve data collection, but the system will not be functional for another one or two years.

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). Financial fraud, especially tax-evasion, is believed to generate a considerable portion of domestic money laundering, and there is increasingly less 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. In 2009, the number of suspicious transfers was at the lowest level in seven years. Although under the Schengen Accord there are no formal controls on national borders within the European Union (EU), the Dutch authorities run special operations in the border areas with Germany and Belgium to keep smuggling to a minimum.

Six islands in the Caribbean fall under the jurisdiction of the Kingdom of the Netherlands. Bonaire, St. Eustasius, and Saba are special municipalities of the country the Netherlands. Aruba, Curacao, and St. Maarten are countries within the Kingdom of the Netherlands.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

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Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange offices, casinos, money service businesses, lawyers, notaries, tax specialists, accountants, life insurers, trust and company service providers, credit card companies

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, securities institutions, investment institutions, money transaction offices, providers of money transaction services, life insurers and insurance brokers, credit card companies, casinos, traders in high-value goods, other traders, accountants, lawyers, business economic consultants, tax consultants, real estate brokers, estate agents, civil-law notaries, independent legal consultants, trust and asset administrative companies

Number of STRs received and time frame: 164,000 in 2009

Number of CTRs received and time frame: 32,100 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 770 January through June 2009

Convictions: 328 January through June 2009

Assets forfeited: criminally: 50 million euro (approximately \$64.9 million) in 2009

civilly: Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Netherlands is a member of the Financial Action Task Force (FATF). In lieu of an evaluation by the FATF, the International Monetary Fund (IMF) prepared a Report on the Observance of Standards and Codes (ROSC). The Netherlands underwent a new FATF evaluation in 2010 that is not available as of yearend 2010. The ROSC can be found here:

<http://www.imf.org/external/pubs/ft/scr/2004/cr04312.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In June 2008, the Netherlands Court of Audit published its investigation of the Government of the Netherlands' 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 Netherlands has established an “unusual transaction” reporting system. Designated entities are required to file unusual transaction reports (UTRs) with the Netherlands’ financial intelligence unit (FIU) on any transaction that appears unusual (applying a broader standard than “suspicious”) or when there is reason to believe that a transaction is connected with money laundering or terrorist financing. The FIU investigates UTRs and forwards them to law enforcement for criminal investigation; once the FIU forwards the report, the report is then classified as a suspicious transaction report (STR).

The United States enjoys strong cooperation with the Netherlands in fighting international crime, including money laundering. The Netherlands has ratified the bilateral implementing instruments for the U.S.-EU mutual legal assistance agreement (MLAT) and extradition treaties. The U.S.-EU MLAT came into force in February 2010. One provision included in the U.S.-EU MLAT will facilitate the exchange of information on bank accounts. The Dutch Ministry of Justice and the National Police work together with U.S. law enforcement authorities in the Netherlands on operational money laundering initiatives.

While historically Dutch public prosecutors have moved to seize assets in only a small proportion of money laundering cases, the recent assignment of two dedicated money laundering prosecutors is slowly bringing change. The limited asset seizure 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. In order to further increase the confiscation of criminal assets, the Dutch Minister of Justice has introduced a new law, currently before Parliament, that introduces confiscation as a standard procedure of any money driven criminal case, increasing the capacity within law enforcement agencies to take such actions.

Financial institutions do not receive the UN list of designated terrorists directly from the Dutch government, but the Dutch Central Bank holds them responsible for implementing the EU ‘Freeze list’ (the Combined Targeted Financial Sanctions List).

In 2009, the Public Prosecution Office served a summons to suspects of money laundering offenses in 779 cases. The Netherlands Court of Audit reported in June 2009 that 87 percent of money laundering cases referred to the Office of Public Prosecution resulted in a conviction.

In a notable conviction, a Rotterdam court sentenced seven men in April 2009 for cocaine trafficking and laundering at least 22 million Euros (approximately \$31,650,000). Authorities confiscated twenty properties as well as \$3.6 million and 900,000 Euros (approximately \$1,295,000) in cash. In August 2009, the Public Prosecutor’s office in Maastricht confiscated 134 properties and pieces of land from a real estate dealer suspected of money laundering, cannabis cultivation and tax fraud. This is reportedly the largest judicial seizure of property ever in the Netherlands.

New Zealand

New Zealand is not a major regional or offshore financial center, and most financial activities are domestic. The financial sector includes a small number of registered banks, most of which are Australian-owned, as well as non-bank deposit takers, insurance companies, securities dealers, money remitters, and currency exchangers. New Zealand also has a small number of casinos, which operate gaming machines and a variety of table games. Money laundering cases are infrequent in New Zealand. However, authorities note that it is difficult to estimate the extent of money laundering activities, since every serious crime that generates proceeds could lead to a money laundering offense.

Money laundering mostly occurs through the financial system, but the purchase of real estate and other high value assets, as well as the use of foreign exchange dealers has become an increasingly popular

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method of laundering money. Narcotics proceeds (mostly from methamphetamine and cannabis sales) and fraud-associated activity (primarily Internet-banking fraud) are the primary sources of illicit funds. International organized criminal elements, mostly from Asia, are known to operate in New Zealand, but not to a wide extent. New Zealand is a low threat environment for terrorist finance. New Zealand is actively taking measures to comply with international standards and strengthening its ability to detect and deter money laundering and terrorist financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civily:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, exchange offices, and money service businesses; credit card companies; mortgage lenders; casinos; securities brokers/dealers; safekeeping; asset and individual or collective portfolio managers; and, life insurance or other investment related insurance

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, exchange offices, and money service businesses; credit card companies; mortgage lenders; casinos; securities brokers/dealers; safekeeping; asset and individual or collective portfolio managers; and, life insurance or other investment related insurance

Number of STRs received and time frame: Approximately 3,040 (January 1-August 31, 2010)

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available ***civily:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Money Laundering and Financial Crimes

New Zealand is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/1/61/43998312.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

With the enactment of the AML/CFT legislation (AML/CFT Act), New Zealand is working to bring its legal framework in line with international standards. Although the AML/CFT Act is in force, these requirements do not come into full effect until December 2012 to give industry time to come into compliance. The effectiveness of this legislation and its implementation will not be fully known until that time.

The AML/CFT Act allows for civil penalties as decided by the court, which is payable to the Crown or to any other person specified by the Court.

New Zealand and the United States do not require a bilateral mutual legal assistance treaty (MLAT) to enter into a mutual assistance relationship. The United States has been designated as a “prescribed foreign country” in New Zealand’s Mutual Assistance in Criminal Matters Act 1992, enabling New Zealand to process requests for assistance from the United States on a reciprocal basis. In practice, New Zealand and U.S. authorities have a good record of cooperation and information sharing in this area.

Nicaragua

The Republic of Nicaragua is not considered a regional financial center. It continues to be a transshipment route for South American cocaine and heroin destined for the United States and cash returning to South America. Open source reports suggest the narcotics trade is increasingly linked to arms trafficking. Money laundering is primarily related to proceeds from illegal narcotics and political corruption. There is no indication that money laundering is being used to fund terrorist activities. There is no significant evidence to believe a market for smuggled goods exists in Nicaragua.

Nicaragua’s geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The Central America Four Agreement between El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders without passing through immigration or customs inspection. As such, the agreement represents a vulnerability to each country for the cross-border movement of contraband and illicit proceeds of crime. Furthermore, corruption and the politicization of the judicial system, the Supreme Court in particular, continue to seriously impede anti-money laundering law enforcement efforts in Nicaragua.

Nicaragua is not considered an offshore financial center. The Nicaraguan Government reports that, as of December 15, 2010, there are 125 companies operating in free trade zones (FTZs) throughout Nicaragua and a total of 49 industrial parks, directly employing approximately 75,000 workers, up from 72,000 workers as of June 2009. Most FTZs are located in Managua and approximately 78% belong to the textile and apparel sector. The National Free Trade Zone Commission, a government agency, regulates all FTZs and the companies operating in them. The Nicaraguan Customs Agency monitors all FTZ imports and exports. It is suspected that money laundering occurs via “traditional” mechanisms such as legal businesses; however, there have been no convictions for money laundering in either sector. There are no reported hawala or other similar alternative remittance systems operating in Nicaragua, however, some evidence exists that there are informal “cash and carry” networks for delivering remittances from abroad that may be vulnerable to, or indicative of, money laundering.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial institutions, credit institutions, stock exchange systems, savings and loan cooperatives, brokerage firms, money exchangers, casinos, and pawn shops

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financial institutions, credit institutions, stock exchange systems, savings and loan cooperatives, brokerage firms, money exchangers, casinos, and pawn shops

Number of STRs received and time frame: 360 - January through November 2010

Number of CTRs received and time frame: N/A

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Eight - January to October 2010

Convictions: Seven - January to October 2010

Assets forfeited: criminally: \$1,742,700 - January 2010 to November 2010 *civilly:* N/A

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Nicaragua is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.cfatf-gafic.org/downloadables/mer/Nicaragua_3rd_Round_MER_%28Final%29_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Statutes enacted to criminalize money laundering and terrorist financing lack sufficient enforcement due to weak enforcement mechanisms and a corrupt judicial system. There were at least two money laundering/drug trafficking cases in which convicted drug traffickers’ sentences were reduced or dismissed by appellate judges under suspicious circumstances.

The law against organized crime has many enforcement deficiencies including not requiring mandatory reporting of suspicious transactions or customers to authorities. The Government has enacted institutional regulations to address some deficiencies but the regulations are weak and lack enforcement capacity grounded in Nicaraguan law. While the law grants the Financial Analysis Commission the ability to monitor other financial institutions it lacks the resources or the power to enforce regulations. Nicaragua does not have a financial intelligence unit. STRs are filed with the National Police Directorate.

Nicaragua did not identify, freeze, seize, and/or forfeit assets in 2010. Asset forfeiture provisions do not include the ability to freeze terrorist assets without delay.

Niger

Niger is not a regional financial center, and its banking sector is rudimentary. It is a member of the Central Bank of West African States (BCEAO), and shares its central bank and currency with other countries in the region. High transaction costs deter businesses from placing large amounts of cash in the banking system. Most economic activity takes place in the informal financial sector.

Money laundering and financial crimes are commonplace in Niger. The country is primarily a transit country for funds related to the trafficking of narcotics and other forms of contraband. Niger is one of the poorest and least developed countries in the world and is not a significant source of criminal proceeds. Since 2008, kidnappings for ransom have become a preferred fundraising method for terrorist groups.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Public Treasury and State Savings Deposit institutions; BCEAO; banks, microfinance institutions, and money exchanges; insurance companies and brokers; securities exchanges or brokers; post office; mutual funds and fixed capital investment companies; lawyers, asset or fund custodians, and management and intermediation firms; business brokers for financial entities, auditors, and real estate agents; high-value goods dealers; fund carriers; owners or managers of casinos; travel agencies; and, NGOs

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

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SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Public Treasury and State Savings Deposit institutions; BCEAO; banks, microfinance institutions, and money exchanges; insurance companies and brokers; securities exchanges or brokers; post office; mutual funds and fixed capital investment companies; lawyers, asset or fund custodians, and management and intermediation firms; business brokers for financial entities, auditors, and real estate agents; high-value goods dealers; fund carriers; owners or managers of casinos; travel agencies; and, NGOs

Number of STRs received and time frame: Two in 2009 and one in 2010

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two in 2007

Convictions: One in 2008

Assets forfeited: criminally: Not available

civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Niger is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Niger's money laundering and terrorist financing laws are not in full compliance with international standards. Niger participates in international law enforcement cooperation, mutual legal assistance, and asset sharing groups within the region, but does not have bilateral arrangements with the United States. On January 21, 2010, Niger enacted Law # 2010-05 on Terror Financing. This law sets in place a legal framework addressing cross-border transportation of currency as well as charities and nonprofit organizations.

The National Center for the Treatment of Financial Information (CENTIF), Niger's FIU, has accomplished little since it was established in 2004. Only two of the eight reports of suspicious activities received since CENTIF's creation were judged sufficiently serious to merit legal action, leading to one conviction. The CENTIF has also suffered setbacks: the office and records of an ongoing investigation were destroyed by a fire; and it has been forced to move locations twice. CENTIF's president has emphasized the organization's lack of capacity and funding.

Although addressed in the AML/CFT laws, customer due diligence procedures for designated non-financial businesses and professions have not been implemented.

Nigeria

Nigeria is a major drug trans-shipment point and a significant center for criminal financial activity. Individuals and criminal organizations take advantage of the country's location, porous borders, weak laws, corruption, lack of enforcement, and poor socio-economic conditions to launder the proceeds of crime. The proceeds of illicit drugs in Nigeria derive largely from foreign criminal activity rather than domestic activities. One of the schemes used by drug traffickers to repatriate and launder their proceeds

Money Laundering and Financial Crimes

involves the importation of various commodities, predominantly luxury cars and other items such as textiles, computers, and mobile telephone units.

Proceeds from drug trafficking, oil theft or bunkering, bribery and embezzlement, contraband smuggling, theft, corruption, and financial crimes, such as bank fraud, real estate fraud, and identity theft, constitute major sources of illicit proceeds in Nigeria. Advance fee fraud, also known as "419" fraud in reference to the fraud section in Nigeria's criminal code, remains 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; deposits in foreign bank accounts; use of professional services, such as lawyers, accountants, and investment advisers; and cash smuggling. Nigerian criminal enterprises use a variety of ways to subvert international and domestic law enforcement efforts and evade detection.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING: NO

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, community banks, mortgage institutions, development finance banks, financial service companies, *bureaux de change*; the insurance, and securities and investment industries; discount houses; finance companies; money brokerages; factoring, project and export financing, and equipment leasing; debt and pension fund administration; fund and investment management; private ledger services; project consultancy; estate agents; lawyers; accountants; and, casinos

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, community banks, mortgage institutions, development finance banks, financial service companies, *bureaux de change*; the insurance, and securities and investment industries; discount houses; finance companies; money brokerages; factoring, project and export financing, and equipment leasing; debt and pension fund administration; fund and investment management; private ledger services; project consultancy; estate agents; lawyers; accountants; and, casinos

Number of STRs received and time frame: 2,084 in 2010

Number of CTRs received and time frame: 13,575,712 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Ten in 2010

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Nigeria is a member of the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/index.php?type=c&id=49&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Corruption continues to be a significant problem. Weak law enforcement and long delays within the justice sector have hindered the progress of many prosecutions and investigations. Additionally, Nigerian legislation does not provide safe harbor for financial institutions, or their employees, who file STRs in good faith. The GON should amend its legislation to include safe harbor provisions. In 2010, there were no money laundering convictions. The National Assembly should adopt the proposed Special Courts Bill that will establish a special court with specific jurisdiction and trained judges to handle financial crimes, and should consider passing amendments to the Money Laundering Prohibition Act, 2004.

Nigeria does not have an asset forfeiture fund. Consequently, seized assets remain in the custody of the seizing agency until they revert to the Government of Nigeria (GON). Due to lack of proper accountability, forfeited assets are sometimes lost or stolen.

Nigeria's failure to criminalize terrorist financing limits its ability to inhibit terrorism-related activity. Additionally, Nigeria is not able to freeze terrorist assets in accordance with UNSCR 1267. The GON should enact appropriate laws, such as the Prevention of Terrorism Bill, to correct these deficiencies.

Niue

Niue is a self-governing democracy, operating in free association with New Zealand. The Government of Niue (GON) relies heavily on New Zealand to assist with external and economic affairs. Niue is not a regional financial center and has no free trade zones. The country has experienced a significant decline in population, largely from the emigration of its population to New Zealand.

Job opportunities in the formal sector generally are limited to government service or small industry. Niue sought to increase revenue by expanding its financial services sector, including offshore banking. This move resulted in significant money laundering and terrorist financing vulnerabilities, and the GON eliminated offshore banking in 2002.

Niue has in recent years tightened its legislation and formed a financial intelligence unit (FIU) to comply with international standards against money laundering and terrorist financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* Not available

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: Not available

UN lists of designated terrorists or terrorist entities distributed to financial institutions: Not available

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions; safe deposit box, trust and company service providers, and individual funds trustees; insurers and insurance intermediaries; securities dealers, futures brokers, money exchangers and remitters; issuers, sellers, or redeemers of travelers checks, money orders, or similar instruments; payroll and payroll funds delivery businesses; dealers in precious metals and stones; real estate agents; casinos and gambling houses (including internet gaming); lawyers, notaries, and accountants engaged in real estate, client financial management, and the creation, operation and management of companies; and legal persons and arrangements

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions; safe deposit box, trust and company service providers, and individual funds trustees; insurers and insurance intermediaries; securities dealers, futures brokers, money exchangers and remitters; issuers, sellers, or redeemers of travelers checks, money orders, or similar instruments; payroll and payroll funds delivery businesses; dealers in precious metals and stones; real estate agents; casinos and gambling houses (including internet gaming); lawyers, notaries, and accountants engaged in real estate, client financial management, and the creation, operation and management of companies; and legal persons and arrangements

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Niue is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. A copy of its most recent evaluation is not currently available. A new evaluation is scheduled for fourth quarter 2011.

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ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Niue Financial Intelligence Unit has been active since 2006 and is exchanging financial intelligence related to money laundering and financing of terrorism with the New Zealand FIU.

The Niue Crown Law office reports it has received a small number of cash transaction reports. However, it is not apparent that any prosecutions or asset seizures have occurred under its anti-money laundering/counter-terrorist financing (AML/CFT) legislation.

Niue is not a member of the United Nations. Niue generally complies with international AML/CFT standards, and AML/CFT legislation includes the 2004 United Nations Sanctions Regulations (Terrorism Suppression and Afghanistan Measures).

Norway

Although it is a high income country, Norway is not considered a regional financial center. Norway's significance in terms of money laundering is low. There are illicit proceeds related to narcotics sales and production, prostitution, robberies, smuggling, and white collar crimes like embezzlement, tax evasion and fraud. Criminal proceeds laundered in the jurisdiction derive primarily from domestic criminal activity, often by foreign criminal gangs or guest workers who in turn remit the proceeds home. Money laundering and terrorist financing primarily occur through exchange houses and banks, but also to an increasing degree, through alternative remittance systems such as hawala.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, the Central Bank, finance companies, emoney institutions, pension funds, postal operators, auditors, asset managers, securities dealers, credit agents, money exchangers, insurance companies, accountants, lawyers, notaries, auction houses, realtors, money transporters, holding houses, dealers in autos and high-value goods

Enhanced due diligence procedures for PEPs: foreign: YES domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks, the Central Bank, finance companies, money institutions, pension funds, postal operators, auditors, asset managers, securities dealers, credit agents, money exchangers, insurance companies, accountants, lawyers, notaries, auction houses, realtors, money transporters, holding houses, dealers in autos and high-value goods

Number of STRs received and time frame: 5,294 through the third quarter of 2010

Number of CTRs received and time frame: 3,681 in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Norway is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/document/14/0,3343,en_32250379_32236963_43177166_1_1_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The FIU voices some concern over the low number and poor quality of reports from certain entities covered by the reporting obligation. Banks, auditors and insurance companies maintain high levels of reporting, while reports from dealers in cars and other expensive items is low and decreasing. Reporting from attorneys is up, but low compared to the high number of transactions covered by this sector. The FIU is attempting to improve the quality of STR reporting by providing specific guidance and follow up to obligated entities. Although aggregate data is not available, for the size of the Norwegian economy the number of money laundering prosecutions and convictions is low.

According to the Norwegian police, institutions' individual compliance departments are responsible for obtaining information on the UN lists of designated terrorists and terrorist entities.

Oman

Oman is not a regional or offshore financial center and does not have significant money laundering or terrorist financing concerns. Due to its location on the tip of the Strait of Hormuz, Oman is home to a small number of smugglers operating between Musandam, the northern-most exclave of Oman, and Iran. Trade is generally financed in small amounts of cash. There is also a small amount of narcotics trafficking in Oman, although the government is proactive in tracking and prosecuting drug traffickers. Sources of illegal proceeds are generally small and derived from smuggling or drug trafficking activities. Hawaladars based in Oman that have been involved with illicit transfers for terrorist financing purposes have been closed down by Omani authorities.

As of March 2010, Oman had a total of 17 licensed banks with 428 operating offices. In 2009, Oman's three largest banks accounted for 65 percent of total assets and credit, 58 percent of total deposits and had combined assets of \$23.8 billion.

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DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; foreign exchange companies; investment and credit companies; insurance companies; companies and individuals providing financial services; stock and securities brokers; real estate brokers; dealers in gold, precious metals and stones; notary publics; lawyers and accountants

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; foreign exchange companies; investment and credit companies; insurance companies; companies and individuals providing financial services; stock and securities brokers; real estate brokers; dealers in gold, precious metals and stones; notary publics; lawyers and accountants

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 23 in 2009

Convictions: 13 in 2009

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Oman is a member of the Middle East North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. Oman was evaluated in 2010. Once adopted, the mutual evaluation will be found here: <http://www.menafatf.org>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Oman is steadily improving its legal system related to AML/CFT, including a 2010 overhaul of its legislation. Through the new AML/CFT law, Oman has retooled its legal, regulatory and

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enforcement mechanisms to accord with international standards. The Omani government is generally transparent regarding its AML/CFT enforcement efforts, although it does not publish information regarding suspicious transactions and criminal prosecutions. The Omani authorities should hasten efforts to finalize steps aimed at empowering the financial intelligence unit to enhance its operational capability. Growing Iranian overtures toward Oman for increased trade and engagement may create conditions for AML/CFT concerns.

In July 2010, Oman issued Royal Decree number 79/2010, which enacts new comprehensive AML/CFT legislation. The AML/CFT Act consolidates Oman's previous anti-money laundering and terrorist financing laws, creates a national committee for combating money laundering and terrorist financing, and codifies Oman's "safe harbor" and mutual legal assistance regulations. The Act also names the Financial Investigations Unit in Royal Oman Police, created in 2008, as the responsible entity for enforcing AML/CFT laws and regulations.

Oman should become a party to the UN Convention against Corruption and the UN International Convention for the Suppression of the Financing of Terrorism.

Pakistan

Pakistan continues to suffer from financial crimes related to narcotics trafficking, terrorism, smuggling, tax evasion, corruption, counterfeit goods and fraud. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. The abuse of the charitable sector, trade-based money laundering, use of hawala/hundi, and physical cross-border cash transfers are common methods used to launder money and finance terrorism in Pakistan and the region. Pakistan's real estate sector is also a popular destination for illicit funds, as many real estate transactions are poorly documented. Pakistan does not have firm control of its borders with Afghanistan, Iran or China, which facilitates the flow of smuggled goods to and from the Federally Administered Tribal Areas (FATA) and Baluchistan. Some consumer goods transiting Pakistan duty-free under the Afghan Transit Trade Agreement are funneled off to be sold illegally in Pakistan. As madrassas (Islamic schools) lack oversight, they have been used as training grounds for terrorists and for terrorist funding, which allows terrorist and militant organizations to receive financial support under the guise of support of Islamic education.

Money laundering and terrorist financing often occur in Pakistan via an overlap of the hundi/hawala alternative remittance system and the formal banking system. The State Bank of Pakistan (SBP) requires all hawaladars to obtain licenses and meet minimum capital requirements. Despite this requirement, few hawalas have been registered by the authorities, and unlicensed hawaladars continue to operate illegally throughout Pakistan (particularly Peshawar and Karachi). Fraudulent invoicing is typical in hawala/hundi counter-valuation schemes. Legitimate remittances from Pakistani expatriates residing abroad now flow mostly through the formal banking sector and through licensed money transmitting businesses. According to authorities, in calendar 2010, remittances through formal channels totaled \$9.7 billion, out of an estimated total of \$14 billion.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

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Legal persons covered: *criminally:* YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks (conventional and Islamic, micro-finance banks, development finance institutions), exchange companies, securities markets, non-bank financial companies, and insurance companies

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Any institution: accepting deposits; lending; financial leasing; issuing and managing of means of payment, including credit and debit cards and electronic money; transferring money or value; changing money or currency; participating in share issues and providing services in relation to share issues; engaging in portfolio management; conducting insurance transactions; or carrying out business as an intermediary

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: *criminally:* None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Pakistan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://apgml.org/documents/docs/17/Pakistan%20MER%20-%20final%20version.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Pervasive corruption and a lack of political will continue to be the two primary obstacles to an effective anti-money laundering and counter-terrorist financing regime in Pakistan. Pakistan ranks 143 out of 178 countries surveyed in Transparency International's 2010 International Corruption Perception Index. Considering the extent of the financial crime and terrorist financing challenges facing Pakistan, the absence of prosecutions and convictions is telling.

During 2010, the FATF identified Pakistan as a jurisdiction with significant AML/CFT vulnerabilities. In response, the Pakistani government expressed high-level political commitment to address deficiencies in

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its AML/CFT regime. Despite the passage of the Anti-Money Laundering Act of 2010, legislative shortcomings are pervasive and should be addressed accordingly. Additionally, Pakistan's lack of police and judicial capacity contributes to its lack of prosecutions and convictions. Pakistan's financial intelligence unit (FIU) must be strengthened and should be given operational autonomy. The FIU also needs a strong information technology infrastructure to aid in the core functions of collection, analysis and dissemination of financial intelligence. Suspicious and currency transaction reporting should be fully implemented, comprehensive and actionable. 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 and terrorist financing in their field investigations. Restrictive information-sharing rules both within the interagency and with foreign counterparts hinder international cooperation.

The Anti-Terrorist Act (ATA) allows the Pakistani government to ban a fund, entity or individual on the grounds of involvement with terrorist activity and permits freezing of accounts. Although legally allowed, there have been deficiencies concerning the timeliness and thoroughness of the asset freezing regime and no formal system is in place to implement an asset forfeiture regime. Section 11B of the ATA specifies that an organization is proscribed or listed if and when the GOP has reason to believe it is involved with terrorism. In light of the role private charities have played in terrorist financing, Pakistan must work quickly to conduct outreach, supervise, and monitor charitable organizations and their activities. Meaningful action should be taken to shut down internationally designated charities and prevent their reopening.

At present there is no requirement to declare inbound currency. Pakistan's relatively strict currency exportation requirements may lead hawaladars to export foreign currency out of the country by other means, including smuggling it across the porous border with Afghanistan. Pakistan should implement and enforce inbound and outbound cross-border currency reporting requirements and focus greater efforts on identifying and targeting illicit cash couriers.

Palau

Palau is not a regional or offshore financial center. The primary sources of illegal proceeds are consumer marijuana sales, prostitution, and illegal fishing by unlicensed foreign vessels. Corruption in the governmental sector includes the misuse of government funds and cronyism, in part due to Palau's small size and extensive family networks. Palau is a low-risk jurisdiction for organized crime and terrorist financing.

Palau has one free trade zone, the Ngardmau Free Trade Zone (NFTZ). A public corporation, Ngardmau Free Trade Zone Authority, oversees the development of the NFTZ and issues licenses for businesses to operate there. NFTZ licensing exempts businesses from Foreign Investment Act requirements and certain import and export taxes. To date, 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit unions, and money remitters

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit unions, money remitters, and non-governmental organizations

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Palau is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Palau%202008.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Money Laundering Prevention and Control Act (MLPCA), amended in 2007, addresses many of the deficiencies in the Government of Palau's (GOP) AML/CFT regime but does not include all predicate crimes prescribed in the international standards. However, the stronger measures are hampered by a lack of human, financial, and structural capacity, along with an absence of implementing regulations.

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/CFT supervisor, but it does not have the resources to ensure AML/CFT compliance nor to issue any regulations. The designated non-financial businesses and professions (DNFBPs) operating in Palau are not covered by the MLPCA.

The Palau Financial Intelligence Unit (FIU) is responsible for receiving and analyzing SARs, along with tracing, seizing, and freezing assets, but lacks a dedicated budget and staff. The GOP, with assistance from the Pacific Anti-Money Laundering Program (PALP) mentor, organized a multi-agency SAR review team to review the reports and help identify and initiate investigations. The multi-agency approach has

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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. It is not, however, a long-term solution, and the GOP should dedicate funds and permanent staff to the FIU.

The Cash Courier Disclosure Act has been used successfully by Palau Customs and Security to make bulk cash currency seizures at the airport. The GOP should extend its excellent monitoring of the airport to all its border points of entry and exit to protect against the smuggling of bulk cash, narcotics and other contraband.

Palau's Counter-Terrorism Act specifically addresses its obligation under UN Security Council Resolution 1373. However, it 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 should strengthen its ability to freeze and confiscate assets related to the financing of terrorism. The GOP should circulate the UNSCR 1267 Sanctions Committee's consolidated list of terrorist entities. 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's strategic geographic location and its economic openness make it a natural location for laundering money derived from drug sales. However, location is only one reason for Panama's attractiveness for money launderers. Panama is promoting itself as the new hub for Central America because it is a leader in developing the physical and financial infrastructure that go with that role. The Colon Free Trade Zone is the second largest free trade zone in the world and the major airline, Copa, is expanding international and local flights. The financial sector is increasing direct marketing efforts to attract regional financial institutions. This current and future access to infrastructure and global connections attracts international clients who know how to use financial and commercial accounts for money laundering.

During 2010, Panama made progress on the policy front in improving the transparency of its financial system. The Government of Panama (GOP) is working diligently to ensure its removal from the OECD's grey list by signing a Tax Information Exchange Agreement (TIEA) with the United States in November and signing Double Taxation Treaties (DTTs), which include similar information exchange provisions, with 13 other OECD members. It is drafting new anti-money laundering legislation and strengthening its financial intelligence unit's authority. Panama still has unregulated parallel market exchanges like hawalas.

Unfortunately, the lack of enforcement of Panamanian banking and anti-money laundering laws undercuts the policy progress the GOP has made. The very factors that contribute to Panama's economic growth and financial sector sophistication – the dollar-based economy, the large number of offshore banks and shell companies, loosely regulated free trade zones, and sustained growth in the ports and maritime industries – are also mechanisms that are vulnerable to abuse for money laundering and other illicit financial activities. Legislation that allows bearer share corporations remains in effect and provides a near impenetrable corporate veil for shareholders. In addition, corruption and weak regulatory bodies impede Panama's progress toward a more transparent economy.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.?: YES

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CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, savings cooperatives, savings and mortgage banks, and money exchanges; investment houses and brokerage firms; insurance and reinsurance companies; fiduciaries; casinos; free trade zones; finance companies; and real estate brokers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cooperatives, and money exchanges, casinos, fiduciaries; insurance companies, government entities focused on the lottery, and investment houses

Number of STRs received and time frame: 944 in 2009

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 0

Assets forfeited (seized): criminally: \$41 million in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

In July 2010 Panama became a member of the Financial Action Task Force on money laundering in South America GAFISUD, a Financial Action Task Force (FATF)-style regional body. It moved from the Caribbean Financial Action Task Force to the GAFISUD because the authorities felt it shared more goals and problems with the GAFISUD members. Its most recent mutual evaluation report can be found here:
[http://www.cfatf-gafic.org/downloadables/mer/Panama_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Panama_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Panama allows the use of bearer shares and shell company structures based on bearer shares to provide privacy for share holders. These structures are very vulnerable to abuse by criminal groups to launder funds. Panama took steps in 2010 to enhance the transparency of its financial system. In addition to the signature of the TIEA with the U.S. and DTTs with other OECD members, the GOP enacted legislation (Law 33 of July 2010) which requires banks and law firms to share transaction and ownership information

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with the GOP and authorizes the sharing of such information with foreign tax authorities pursuant to TIEA requests. Law 33 complements existing “know your customer” requirements.

Panama allows the transfer of seized assets to other countries when the seizure occurs in the course of an investigation conducted pursuant to a mutual legal assistance request. One asset transfer example occurred in April 2010 in a New York investigation led by the United States Department of Justice which led to the seizure of approximately \$40 million worth of gold, jewelry and assorted gemstones. The assets were seized by the GOP at the request of the U.S. Government, and eventually repatriated to the U.S. Government in recognition of forfeiture orders entered by the United States Attorney’s Office for the Southern District of New York.

Panama’s judicial system has not sentenced anyone under the current money laundering laws. In October, 2010, a former municipal employee and accomplices were brought up on charges of laundering approximately \$2 million using a corporate entity. Other recent cases were either dismissed or are still under investigation.

The Colon Free Trade Zone (CFZ) continues to be vulnerable to illicit financial activities in part because of the following practices: the ease of third party payments made by an intermediary apparently unrelated to the seller or purchaser; use of amended internal credit documents without reasonable justification; customers not required to produce appropriate documentation (e.g., invoice) to support a requested transaction; significant discrepancies exist between transport document information and the invoice; the long-awaited electronic transaction recording information system is operational but not widely used – a total of 5,000 keys to the electronic system were provided to CFZ companies, but most continue to submit transaction information in hard-copy format; and, the ease with which bulk cash can be brought into Panama through the main international airport by declaring it is for use in the CFZ.

The several anti-money laundering regulatory bodies do not communicate well. Panama’s FIU (the UAF), Superintendencia, Banker’s Association, Customs, Consejo and the Judiciary branches do not know each other’s roles and responsibilities.

The UAF is overworked and lacks adequate resources to process, let alone enforce the required reporting. UAF is developing new software that will allow covered entities to submit their STRs electronically. Submissions currently must be made in hard copy with supporting electronic documentation included in CD format.

Money laundering, in and of itself, is still not a priority with the Panamanian Customs Authority. As long as money is properly declared, it flows easily across Panama’s borders. U.S. law enforcement agencies believe millions of dollars in cash and monetary instruments are declared openly upon entry at Panama’s airport without prompting further investigation by Panama’s Customs Authority. There were numerous press reports on corrupt customs/immigration officials during 2010. In October, Panama passed Law 67 which, among other actions, now requires the declaration of cash valued at \$10,000 or over when leaving the country.

Panama cooperates with U.S. law enforcement agencies. There is increasing bilateral cooperation such as maritime operations and the partnership of the Panamanian and US Trade Transparency Units (TTU). Established in 2010 by U.S. Immigration and Customs Enforcement, the Panamanian TTU is a vetted unit whose data mining efforts have provided investigative assistance and insights for many GOP agencies, like the UAF and Panama’s tax authority. Some examples of the TTU’s successes include: the discovery of a network of banks and exchange houses that moved euros from Colombia, using Panamanian banks, to the U.S. and Europe; the use of harmonized tariff codes for perfumes, video gaming and precious

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metals to identify several companies in the CFZ involved in commercial fraud and possible trade-based money laundering; and, information that reveals possible export tax incentive fraud.

Panama's regulated financial institutions are generally not believed to be willingly involved in transactions related to the proceeds from serious crime. If the GOP continues its efforts to improve its anti-money laundering legal framework, particularly eliminating bearer shares, criminalizing "tipping off," initiating efforts to increase prosecutions and convictions, and creating a more transparent financial network, money laundering will become more difficult within Panama's borders.

Papua New Guinea

Papua New Guinea (PNG) is not a major financial center. It has a relatively stable banking system closely integrated with the financial systems of Australia and New Zealand. Smuggling and public corruption are problems in PNG but there is no evidence these activities generate substantial funds that are laundered. PNG is developing mechanisms to combat money laundering and terrorist financing, but still has a long way to go towards effective enforcement.

PNG is not a destination country for most drugs of abuse. Marijuana is the most commonly produced, distributed, and used illegal drug in PNG, but is seldom trafficked out of the country and doesn't usually amount to any significant value necessitating a sophisticated laundering process. Major sources of illegal proceeds include corporate non-payment of taxes, undervaluing extractible exports, and skirting customs regulations. Papua New Guinea does not have an offshore sector, free trade zone, informal financial sector, or other area particularly vulnerable to financial crimes.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions:
YES

KNOW-YOUR-CUSTOMER RULES

Covered entities: Financial institutions; gambling houses, casinos, and lotteries; investment managers; real estate agents; dealers in antiquities; money brokers; attorneys when acting for a client on a financial or real estate transaction; accountants when receiving funds in the course of business relating to deposits, investments or other prescribed business

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS

Covered entities: Financial institutions; gambling houses, casinos, and lotteries; investment managers; real estate agents; dealers in antiquities; money brokers; attorneys when acting for a client

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on a financial or real estate transaction; accountants when receiving funds in the course of business relating to deposits, investments or other prescribed business

Number of STRs received and time frame: 1,094 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* 1.3 million Kina (approximately \$504,000) in 2010

RECORDS EXCHANGE MECHANISM

With U.S.: YES

With other governments/jurisdictions: YES

Papua New Guinea is a member of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force (FATF)-style regional body. Papua New Guinea was scheduled to undergo a World Bank-led mutual evaluation in late 2010.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS

Papua New Guinea's legal system is still developing and transitioning from traditional law and order systems based on tribal seniority and indigenous customs. Western-style legislation is being generated, but enforcing agencies significantly lack the training, funding, assets, experience, and, in many cases, education to successfully combat sophisticated organized crime. Australian authorities partner closely with PNG counterparts to advise and build capacity in these regards.

The Government of Papua New Guinea should continue its work to develop procedures to conform to international anti-money laundering/counter-terrorist financing programs and standards. PNG law enforcement, specifically the Financial Intelligence Unit and Prosecutor's office should work to identify, disrupt, and prosecute suspected money laundering operations. Papua New Guinea should become a party to the UN Convention against Transnational Organized Crime and the 1988 UN Drug Convention.

Paraguay

Paraguay is a major drug transit country and money laundering center. A multi-billion dollar contraband trade, fed in part by endemic, institutional corruption, occurs in the border region shared with Argentina and Brazil (the Tri-Border Area) and facilitates much of the money laundering in Paraguay. While the Government of Paraguay (GOP) suspects 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 or is controlled by drug trafficking organizations, organized crime, or terrorist groups operating locally. Trade-based money laundering and the trafficking in counterfeit goods are widespread. Weak controls in the financial sector, open borders, bearer shares, casinos, a surfeit of unregulated exchange houses, lax or non-enforcement of cross-border transportation of currency and negotiable instruments, ineffective and/or corrupt customs inspectors and police, and minimal enforcement activity for financial crimes allows money launderers, transnational criminal syndicates, and possible terrorist financiers to take advantage of Paraguay's financial system.

Ciudad del Este, 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

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violations of intellectual property rights with the illicit proceeds from these crimes a source of laundered funds. Some proceeds of these illicit activities have been supplied to terrorist organizations. A wide variety of counterfeit goods, including household electronics, cigarettes, software, computer equipment, video games, and DVDs are imported from Asia and transported across the border into Brazil. A small amount remains in Paraguay for sale in the local economy.

Many high-priced goods in Paraguay are paid for in U.S. dollars. In addition to bulk cash smuggling, the non-bank financial sector, particularly exchange houses, is often used to move illicit proceeds both from within and outside Paraguay into the U.S. banking system. Large sums of dollars generated from normal commercial activity and suspected illicit commercial activity are also transported physically from Paraguay through Uruguay and Brazil to banking centers in the United States. The Government of Paraguay (GOP) is in the early stages of recognizing and addressing the problem of the international transportation of currency and monetary instruments derived from illegal sources, so determining what portion of U.S. dollars are related to narco trafficking is problematic.

As a land-locked nation, Paraguay does not have an offshore sector. However, Paraguay's port authority manages free trade ports and warehouses in neighboring countries' seaports, which are used for the reception, storage, handling, and transshipment of merchandise transported to and from Paraguay. Such free trade ports are located in Argentina (Buenos Aires and Rosario); Brazil (Paranagua, Santos, and Rio Grande do Sul); Chile (Antofagasta and Mejillones); and Uruguay (Montevideo and Nueva Palmira). About three-fourths of all goods entering and exiting Paraguay are transported by barge on the large river system that connects Paraguay with Buenos Aires (Argentina) and Montevideo (Uruguay).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies, insurance companies, exchange houses, stock exchanges and securities dealers, investment companies, trust companies, mutual and pension fund administrators, credit and consumer cooperatives, gaming entities, real estate brokers, nongovernmental organizations, pawn shops, and dealers in precious stones, metals, art, and antiques

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: Banks, finance companies, insurance companies, exchange houses, stock exchanges and securities dealers, investment companies, trust companies, mutual and pension fund administrators, credit and consumer cooperatives, gaming entities, real estate brokers, nongovernmental organizations, pawn shops, and dealers in precious stones, metals, art, and antiques

Number of STRs received and time frame: 781 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 9 in 2010

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Paraguay is a member of the Financial Action Task Force against Money Laundering in South America (GAFISUD), a Financial Action Task Force-style regional body, of which Paraguay assumed the pro tempore Presidency in December 2010. Its most recent mutual evaluation can be found here:

<http://www.imf.org/external/pubs/ft/scr/2009/cr09235.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOP took a huge step forward in regard to money laundering in June 2010 when it passed an anti-terrorism law making terrorism financing an illegal act punishable by five to fifteen years in prison.

Paraguay has shown a great deal of cooperation with U.S. law enforcement agencies. In March 2007, U.S. Immigration and Customs Enforcement created a Paraguay-based Trade Transparency Unit (TTU) to aggressively analyze, identify and investigate companies and individuals involved in trade-based money laundering activities between Paraguay and the United States. As a result of the TTU, Paraguay has identified millions of dollars of lost revenue and has helped target a criminal organization accused of supporting a terrorist entity.

Paraguay is a member of the "3 + 1" Security Group with the United States and the Tri-Border Area countries. Paraguayan and U.S. law enforcement agencies cooperate on a case-by-case basis. To date, the Paraguayan financial intelligence unit (FIU) has signed 29 MOUs with other FIUs and is in the process of signing eight more.

Prosecutors handling financial crimes have limited resources to investigate and prosecute. In addition, the selection of judges, prosecutors and public defenders is largely based on politics, nepotism, and influence peddling. The lack of interagency cooperation throughout Paraguay, and particularly within law enforcement, is an impediment to effective enforcement, prosecution, and reporting efforts.

Asset forfeiture legislation is desperately needed in Paraguay. Paraguayan law does not provide for freezing or seizure of many criminally derived assets. Law enforcement can only freeze 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. Enforcement agencies have limited authority to seize or forfeit assets of suspected money launderers. Assets seized or forfeited are limited to transport vehicles, such as planes and cars, and normally do not include bank accounts. When a seizure does occur, law enforcement authorities

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cannot dispose of these assets until a defendant is convicted. A draft bill requesting power be granted to the Secretariat for the Prevention of Money or Property Laundering (SEPRELAD) to administratively freeze assets without judicial approval is currently being reviewed by the Paraguayan Presidency. However, the administrative freeze would only be temporary unless either extended by a court order, or finalized through a conviction.

The non-bank financial sector operates in a weak regulatory environment with limited supervision. The organization responsible for regulating and supervising credit unions, the National Institute of Cooperatives, lacks the capacity to enforce compliance. Exchange houses are another non-bank sector where enforcement of compliance requirements remains limited.

There are no laws that regulate the amount of currency that can be brought into or out of Paraguay. Required customs declaration reports are seldom checked. Customs operations at the airports or overland entry points provide no control of cross-border cash movements.

Peru

Peru is not a major regional financial center, nor is it an offshore financial center. Peru ranks as the world's second largest producer of cocaine. Peru's financial intelligence unit (FIU) estimates approximately \$3 billion in illicit proceeds moves through the Peruvian financial sector each year, accounting for approximately two percent of Peru's gross domestic product. Eighty-four percent of this amount relates to drug trafficking, drug operations and businesses, and the remaining relates to fiscal fraud, corruption, and illegal gun dealing. As a result, to integrate these illegal proceeds into the Peruvian economy, money laundering occurs on a significant scale. As the Peruvian economy has grown, financial crimes have also increased. The most common methods of money laundering in Peru involve real estate sales, casinos, business investments, high interest loans, construction, export businesses, hotels, and restaurants. Other factors which facilitate money laundering include Peru's cash-based and heavily dollarized economy, large informal sector, pervasive corruption, and deficient regulatory supervision of designated non-financial businesses and professions (DNFBPs), such as the informal money exchange and wire transfer services. There is a significant black market for pirated and smuggled goods in which cash transactions are the norm. Corruption remains an issue of serious concern in Peru. The Government of Peru estimates the public budget loses 15% per year due to corruption.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial institutions, insurance companies, stock funds and brokers, 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, notaries, and dealers in precious stones and metals

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions; casinos; investment houses; dealers of arms, antiques, precious metals and stones; warehouses, construction and real estate firms; financial and insurance companies; travel agents; vehicle dealerships, import and export agents; credit card companies, courier and postal services, money lenders, and money exchanges; customs; mining companies; individuals and enterprises that manufacture and commercialize explosives or chemical components used in drugs and explosives; and public entities that receive funds from other than the national treasury

Number of STRs received and time frame: 2,337 in 2010

Number of CTRs received and time frame: 2.5 million in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: None

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Peru is a member of the Financial Action Task Force (FATF) for South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.gafisud.info/actividades.asp?offset=-1>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In July 2010, the Government of Peru (GOP) announced a National Action Plan to combat money laundering and terrorist financing.

Peru's bank secrecy laws remain primary obstacles to effective investigation and enforcement. A number of bills under review in the Peruvian Congress would, if enacted, lift bank secrecy provisions and allow the FIU to access all financial transactions in a timely fashion. In addition, Peru would benefit from expanded supervision and regulation of financial institutions and DNFBPs.

Two specialized prosecutors are responsible for dealing with money laundering cases within the counternarcotics section of the Public Ministry. However, to date, there has not been a money laundering conviction in Peru largely because the Banking Secrecy and Tax Secrecy Law limits the FIU's ability to properly investigate crimes. Moreover, problems at all steps of the prosecutorial system – including investigations, presenting investigative results to prosecutors, the language of investigative results, and the capacity of prosecutors themselves – also contribute to the lack of convictions. Prosecutors claim they

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cannot understand the format or language of many of the FIU's investigative results, and the 120-day time frame for prosecutors to investigate results is insufficient. Compounding the problem, many judges do not understand money laundering cases, and banks often delay providing information to judges and prosecutors. Convictions tend to be for lesser offenses such as tax evasion, which is an easier offense to prosecute successfully.

Informal remittance businesses remain unsupervised and vulnerable to money laundering. These businesses include travel agencies and small wire transfer businesses. The Gaming Sector is also highly vulnerable to money laundering. Sixty percent of the casino sector is considered informal. There are no restrictions on cash-to-cash, cash-to-check, or cash-to-wire transfer type transactions in casinos. Currently 700 establishments are licensed and 70,000 slot machines operate in Peru.

The GOP has not yet specifically and fully established terrorist financing as a crime under Peruvian legislation in a manner that would conform to international standards. However, under Decree Law 25.475, any form of collaboration with terrorism, including economic collaboration, is criminalized. It is not unusual for the FIU to observe an enterprise believed to be related to an international terrorist entity attempt to transfer money from Europe through Peru and then on to other destinations. There are several bills pending in the Peruvian Congress concerning the definition of the crime of terrorist financing.

In November 2010, Peru signed a memorandum of understanding between its FIU and the U.S. Financial Crimes Enforcement Network concerning cooperation in the exchange of information related to money laundering and terrorist financing.

Philippines

The Republic of the Philippines is not a regional financial center. Despite its developed financial system, the Philippines is still a heavily cash-based economy, with substantial remittances from its large expatriate community. Nonetheless, money launderers generally use formal financial institutions to conceal proceeds of crime, and the weak national ID system makes implementing a robust "know your customer" system difficult.

The principle sources of criminal proceeds are human and drug trafficking, official corruption, and investment scams. The Philippines' geographic position makes it attractive to human and narcotics traffickers; and relatively open sea borders complicate enforcement of currency controls. 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 and the trafficking of narcotics and arms, and engage in money laundering through ties to organized crime. Smuggling, including bulk cash smuggling, continues to be a problem.

There are free trade zones and four offshore banking units (OBUs). The Central Bank exercises regulatory supervision over OBUs and requires them to meet reporting provisions and other banking rules and regulations.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

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Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, quasi banks, trust entities, and all other institutions and their subsidiaries/affiliates supervised/regulated by the Philippine Central Bank; insurance and pre-need companies; securities dealers, brokers/sales representatives, investment houses, mutual funds, and other entities managing securities as agents/consultants; foreign exchange dealers, money changers, remittance/transfer agents; and, entities dealing in valuable objects, currency, financial derivatives, cash substitutes, and similar monetary instruments

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, quasi banks, trust entities, and all other institutions and their subsidiaries/affiliates supervised/regulated by the Philippine Central Bank; insurance and pre-need companies; securities dealers, brokers/sales representatives, investment houses, mutual funds, and other entities managing securities as agents/consultants; foreign exchange dealers, money changers, remittance/transfer agents; and, entities dealing in valuable objects, currency, financial derivatives, cash substitutes, and similar monetary instruments

Number of STRs received and time frame: 6,298 (January 1-November 30, 2010)

Number of CTRs received and time frame: 35,924,241 (January 1-November 30, 2010)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 33 as of November 30, 2010

Convictions: One as of November 30, 2010

Assets forfeited: criminally: None *civilly:* approximately \$20,592,909 as of November 30, 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Philippines is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent evaluation can be found here:

<http://www.apgml.org/documents/docs/17/The%20Philippines%20DAR%20-%20Final%20%20210809.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Philippines' financial intelligence unit (FIU) investigations are severely constrained by limited authority to access bank information. Except in instances of serious offenses such as kidnapping for ransom, drugs and terrorism-related activities, the FIU is required to secure a court order to examine bank

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deposit accounts related to unlawful activities enumerated in the Anti-Money Laundering Act. In addition, a Supreme Court ruling prevents ex parte inquiry into bank accounts. The FIU can, however, seek an ex parte freeze order from the Court of Appeals before seeking authorization to inquire into bank deposits. The FIU also must obtain a court order to freeze assets, including those of terrorists and terrorist organizations placed on the UN 1267 Sanctions Committee's consolidated list and the lists of foreign governments. This requirement is inconsistent with the international standard, which calls for the preventative freezing of terrorist assets "without delay" from the time of designation. The Government of the Philippines (GOP) should enhance the FIU's access to financial records, and ensure it can rapidly freeze terrorist assets.

Terrorist financing is not a stand-alone offense under Philippine law and therefore not a predicate crime under the Anti-Money Laundering Act. A person who finances the commission of terrorism may be prosecuted 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. However, this approach requires a terrorist act to have occurred and does not encompass general financial support to terrorist entities for other purposes (recruiting, training, social welfare projects, etc.). The GOP should criminalize terrorist financing as a stand-alone offense, and enhance training on its connection to money laundering. The GOP has cooperated with the USG to share assets. However, the GOP should formalize asset sharing arrangements, and clearly designate which agencies have authority over this process.

Poland

Poland lies directly along one of the main routes used by narcotics traffickers and organized crime groups between the former Soviet Union republics and Western Europe. 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 - \$5 billion each year. According to the Government of Poland (GOP), evasion of customs duties and taxes is the largest source of illegal income. 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. Money laundering through trade in scrap metal and recyclable material is a growing trend, as is the increasing activity of organized crime in the financial services area (internet banking, credit cards and electronic systems for money transfers). There are a growing number of cases involving entities located in tax haven countries. 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 gray economy, used primarily for tax evasion, may exceed 15 percent of Poland's gross domestic product (GDP) for 2010. The GOP estimates the black economy comprises only one percent of GDP. Poland is not considered a regional financial center, nor is it considered a particularly important international destination for money laundering. 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 tax havens is limited but improving with the increase in the number of cooperation agreements concluded with counterparts in such countries.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial leasing and factoring companies, currency exchanges, investment companies and funds, the National Depository for Securities, gambling institutions, insurance companies, the National Bank of Poland, the Polish Post, foreign legal entities carrying out brokerage activities, electronic money institutions, credit unions, notaries, foundations, auctioneers, pawnshops, dealers of high-value goods and precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, financial leasing and factoring companies, currency exchanges, investment companies and funds, the National Depository for Securities, gambling institutions, insurance companies, the National Bank of Poland, the Polish Post, electronic money institutions, credit unions, notaries, foundations, real estate agents, lawyers, auctioneers, pawnshops, dealers of high-value goods and precious metals and stones

Number of STRs received and time frame: 15,357 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 74 from December 2009 - June 2010

Convictions: 21 from December 2009 – June 2010

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Poland is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Poland_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Over the last few years, the Government of Poland has gone to great lengths to strengthen and harmonize its anti-money laundering/counter-terrorist financing (AML/CFT) legal and regulatory tools and institutions with international standards. The creation of the autonomous offense of terrorist financing was a commendable step forward. In 2010, cooperation among relevant authorities and institutions increased. However, work remains to ensure effective implementation. Poland should ensure promulgating regulations are fully effective. The GOP should promote additional capacity building in the private sector and continue to improve communication and coordination among the FIU and relevant law

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enforcement agencies. Police and customs authorities, in particular, should receive training on recognizing money laundering and terrorist financing methodologies, including trade-based money laundering and informal value transfer systems.

Portugal

Portugal is an entry point for narcotics transiting into Europe. According to officials of the Government of Portugal (GOP), most of the money laundered in Portugal is narcotics-related. Portugal's long coastline, vast territorial waters, and close relationships with countries in Latin America and Africa make it a gateway country for Latin American cocaine and drugs coming to Europe from North Africa. Portuguese authorities have detected proceeds from smuggled commodities, particularly tobacco products, in the financial system. Authorities have also noted significant criminal proceeds from corruption, trafficking in works of art and cultural artifacts, extortion, embezzlement, tax offenses, and aiding or facilitating alien smuggling. Currency exchanges and real estate purchases are often used to launder criminal proceeds.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, and investment companies; financial leasing, factoring, and mutual guarantee companies; electronic money institutions; life insurance, pension fund management, and credit securitization companies; venture capital and venture capital funds management companies; collective investment entities; postal service entities; casinos and lotteries; property dealers; lawyers, accountants, and auditors; and dealers in high-value goods

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, and investment companies; life insurance, financial leasing, factoring, and mutual guarantee companies; electronic money institutions; pension fund management, credit securitization, venture capital, and venture capital funds management companies; collective investment entities; postal service entities; casinos and lotteries; property dealers; lawyers, accountants, and auditors; and traders in high-value goods

Number of STRs received and time frame: 8,470 in 2010

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Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 20 in 2010

Convictions: 14 in 2010

Assets forfeited: criminally: \$2,390,000 (2010) *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Portugal is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/info/country/0,3380,en_32250379_32236963_1_70732_43383847_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The general legal principle in Portugal is that only individuals are subject to criminal liability. The criminal code provides for criminal corporate liability for money laundering and for certain other crimes.

Portugal considered the imposition of a large currency transaction reporting requirement but opted not to establish such a program.

Qatar

Qatar has become an increasingly important Gulf banking and financial services center. Despite the growth of the banking sector and increasing options for financial services, Qatar still has a largely cash economy. Qatar has had low rates of crime, although crime rates have increased in recent years. There are several trends which make Qatar increasingly vulnerable to money laundering, including: a large number of expatriate laborers who send remittances to their home countries; the growth in trade and the financial sector's expansion; liberalization and growth in the real estate sector; uneven corporate oversight; and Iran's efforts to bypass sanctions through gulf economies.

The Government of Qatar (GOQ) signed a new AML/CFT law into force on April 30, 2010. The law criminalizes money laundering and terrorist financing in line with international standards. It also introduces a suspicious transaction reporting regime and requirements for customer due diligence and record-keeping. Revised, consistent regulations have been issued by all three of the main financial regulators in Qatar: the Qatar Central Bank, the Qatar Financial Markets Authority, and the Qatar Financial Center Regulatory Authority. All three regulators have begun to do onsite inspections to check compliance with the new law and regulations. However, significant work remains to fully implement new financial regulations, and there remain deficiencies with regard to terrorist financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: List approach

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Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, real estate brokers, dealers of precious metals or stones, lawyers and notaries, trust funds and company service providers, and charities

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, real estate brokers, dealers of precious metals or stones, lawyers and notaries, trust funds and company service providers, and charities

Number of STRs received and time frame: 91 in 2009; 164 January – August 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Two since May 2010

Convictions: None in 2010

Assets forfeited: criminally: None in 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Qatar is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) a FATF-style regional body. Its most recent mutual evaluation can be found here:

<http://www.menafatf.org/images/UploadFiles/QatarMER1.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

With the new AML/CFT law and accompanying regulations, Qatar has demonstrated its commitment to improving its AML/CFT regulatory regime. Despite the considerable efforts of Qatari authorities, some weaknesses remain. There is currently no threshold for reporting of bulk cash coming into or leaving Qatar. Additionally, trafficking in persons is not a predicate offense for money laundering. Significant work remains to implement the regulations and procedures resulting from the new law, and additional resources and training will be required to develop the necessary institutional capacity. The 2010 AML/CFT law requires financial institutions and designated non-financial businesses and professions to put in place appropriate risk management systems to determine if a customer or a beneficial owner is a politically exposed person (PEP), and if so, to obtain approval from senior management before establishing a business relationship with the customer; take all reasonable measures to establish the source of wealth and funds; and conduct ongoing monitoring of business relationships with PEPs. Each of the financial sector supervisors has issued revised regulations to financial institutions to complement the new AML/CFT Law.

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The Qatar Financial Information Unit has issued new guidelines on STR reporting obligations and, in 2010, engaged in outreach and workshops with financial institutions. Despite these efforts, the level of STR filings by banks and brokers remains largely the same in the period 2008 – 2010, and there were no STRs disseminated to the Public Prosecutor's Office (PPO) in 2010. The 2010 AML/CFT Law establishes an office for seizure and confiscation under the PPO; a department has now been established for this purpose. The Qatari authorities determined that confiscated assets would be sent to the general account of the Ministry of Finance. The AML/CFT law also establishes a framework for international cooperation, including provisions for cooperation, mutual legal assistance and extradition for ML/TF purposes. The GOQ exchanges information with the United States on a case-by-case basis.

The AML/CFT law includes a provision which authorizes the Terrorist Financing Committee, located in the Ministry of Interior, to designate by resolution those who finance terrorism, terrorists and terrorist organizations. No designations have yet been made and no terrorist financing STRs have been filed as of yearend 2010. There is a lack of procedure to implement obligations pursuant to UNSCR 1373. While the Public Prosecutor can issue an immediate order freezing the funds of any individuals or entities found on the UNSCR 1267 list, there is currently no equivalent procedure for dealing with reporting obligations under UNSCR 1373, although work is underway to address this.

Separately, under the AML/CFT law, the Governor of the Qatar Central Bank may freeze funds, balances or accounts for a period of ten business days where there is a suspicion they may be used for terrorist financing. He must then notify the PPO who may then extend the order. After conviction of a defendant for a predicate offense, ML offense or TF offense, the Court will issue an order for confiscation of the proceeds and instrumentalities of crime, and funds forming the object of the offense.

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. GOQ officials have communicated that no additional branches or new correspondent relations will be permitted.

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 a result, Romania is vulnerable to financial activities associated with such crimes, including money laundering. Tax fraud, fraudulent claims in consumer lending, and trans-border smuggling of counterfeit goods are additional types of financial crimes prevalent in Romania. 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. Commercial transactions have been the main method of money laundering, primarily through use of shell and offshore companies; this principally involves fraudulent claims for value added tax (VAT) reimbursement.

Romania also has some of the highest rates of cybercrime and online credit card fraud in the world. Studies have found Romanian servers to be the second largest source 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. For 2010, Romania has not reported any cases of money laundering derived from drug trafficking or corruption, and only one case of money laundering where smuggling was the predicate offense.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; non-banking financial institutions; insurers and re-insurers; securities brokers; private pension funds; accounting, consulting, audit and law firms; notaries; and real estate brokers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; non-banking financial institutions; insurers and re-insurers; securities brokers; private pension funds; accounting, consulting, audit and law firms; notaries; and real estate brokers

Number of STRs received and time frame: 2,944 from January to November, 2010

Number of CTRs received and time frame: 38,269 from January to November, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 143 from January to October, 2010

Convictions: Not available

Assets forfeited: criminally: Not available civilly: Not

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Romania is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round3/MONEYVAL%282008%2906Rep-ROM3_en.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Romania (GOR) should continue its efforts to ensure that non-bank financial institutions are adequately supervised. Additionally, the knowledge level of this sector should be increased regarding its reporting and record keeping responsibilities and the identification of suspicious

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transactions. Romania's FIU faces the continual challenge of limited financial, human, and technical resources. The GOR should continue to improve communication between reporting and monitoring entities, as well as between prosecutors and the FIU. Romania's FIU received training in these areas during 2010, through the European Union's Twinning program. The Twinning program produced a new on-line secure reporting system, as well as a manual on the risk-based approach and suspicious transaction indicators for reporting entities. The GOR also passed a National Strategy for the Prevention and Combat of Money Laundering and Terrorism Financing through the program.

In order to improve the rate of money laundering prosecutions and convictions, Romania should not become overly reliant on STRs and other forms of financial intelligence but rather empower law enforcement and customs authorities to detect and investigate money laundering at the street level and at borders and ports. 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 government and commerce.

Russia

Russia is a regional financial center with a relatively small, but growing, number of depositors. The current administration aspires to establish the capital, Moscow, as an international financial center. However, money laundering (ML) and terrorist financing (TF) are prevalent in Russia, where there is a high level of organized crime and corruption. Domestic sources of laundered funds include organized crime, evasion of tax and customs duties, fraud, public corruption, and smuggling operations. Criminal elements from Russia and neighboring countries continue to use Russia's financial system and foreign legal entities to launder money. Criminals invest and launder their proceeds in real estate and security instruments, or use them to buy luxury consumer goods. Russia has been a repeated victim of terrorism, and some TF schemes involve the misuse of alternative remittance networks by foreign and North Caucasian terrorist groups. Despite making progress in combating financial crimes, Russia remains vulnerable to such activities. Russia's risk factors, such as the many large-scale financial transactions associated with its vast natural resources; the state's major role in the economy; the country's porous borders and its role as a geographic gateway between Europe and Asia; and chronic under-funding and lack of capacity of regulatory and law enforcement agencies, create an environment in which corruption and financial crimes flourish.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All crimes

Legal persons covered: criminally: NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered Entities: Banks and credit institutions; Russia Post; payment acceptance and money transfer services; securities, insurance and leasing companies; investment and non-state pension funds; casinos and gambling outlets, dealers in precious metals and stones, real estate agents, and pawnshops

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and credit institutions, securities markets, investment and pension funds, Russian Post, insurance sector, leasing companies, dealers in precious metals and stones, casinos, real estate agents, lawyers, notaries, and persons providing legal or accounting services

Number of STRs received and time frame: 3,147,937 - January 1 to October 1, 2010

Number of CTRs received and time frame: 5,030,727 - January 1 to October 1, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 50 - January 1, 2010 to October 1, 2010; 208 in 2009

Convictions: 110 in 2009

Assets forfeited: criminally: \$9.6 million - 2009 ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Russia is a member of the Financial Action Task Force (FATF). It also is a member of two FATF-style regional bodies: the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG). Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Russia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Through aggressive enactment and implementation of comprehensive anti-money laundering/combating the financing of terrorism (AML/CFT) legislation, Russia has established much of the legal and enforcement framework to deal with money laundering and terrorist financing. On July 23, 2010, Russia adopted amendments that improve legislation on AML/CFT. These amendments focus on three main areas: expanding AML/CFT coverage, clarifying legal definitions, and improving administrative oversight for enforcement of AML/CFT legislation. AML/CFT coverage has been expanded to subsidiary branches, representative offices, and affiliates of financial institutions located outside the Russian Federation. Furthermore, microfinance and short-term loans, which have grown significantly in Russia, are now subject to AML/CFT laws. In addition to expanding AML/CFT coverage, the new amendments clarify definitions critical to enforcement, such as the “beneficiary” of transactions. Other refined definitions in the July amendments include: “organization of internal control,” “conduct of internal control,” “customer,” “identification,” and “data recording.”

Amendments to the Code of Administrative Infringements improve regulatory oversight for violation of AML/CFT legislation. These amendments broaden the authority of the FIU (Rosfinmonitoring) and the Central Bank of Russia to conduct investigations of ML violations. Order 203, issued August 3 by Rosfinmonitoring, replaces Order 256 regarding the obligation to conduct staff training on AML issues. Directive 967-R sets forth requirements for all non-banking organizations concerning the development of

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ML internal control rules. The Code of Administrative Offenses now specifies five types of “ML safety” violations, instead of grouping all violations under one general offense.

It is too early to assess the impact of the 2010 amendments to the AML/CFT Law. Implementing regulations have not been issued for critical components of the new law, such as monitoring of affiliates’ operations outside the Russian Federation. Furthermore, it will take time for private sector entities to incorporate the clarified definitions into their AML/CFT practices. Reforms to the Code of Administrative Infringements do not address the full array of regulatory oversight challenges for enforcement of AML/CFT liability.

Russia takes an “all crimes” approach to money laundering predicate offenses, with the exception of six financial crimes, such as insider trading and stock market manipulation. To address these exceptions, Law 241-FZ was passed on October 30, 2009 to criminalize insider trading, stock market manipulation, and other similar crimes, but it does not take effect until 2014. Under Russian law, corporations cannot be held criminally liable; only a natural person is subject to criminal liability. Additionally, “tipping off” by bank directors and employees is not explicitly prohibited; the relevant section of the legislation only criminalizes revealing “measures taken against money laundering and terrorist financing”. Some new payment mechanisms, such as certain internet-based payment systems, are not covered by Russia’s AML/CFT controls.

Although Russia continues to establish and develop anti-corruption measures, corruption continues to be a problem. The Government of Russia should continue to aggressively pursue corruption; similarly, it should continue to pursue increased transparency in the financial sector and ensure that domestic PEPs are monitored with the same scrutiny as foreign PEPs.

Russia has successfully spread awareness of AML/CFT in its financial sector and has weeded out noncompliant financial institutions; however, significant discrepancies still remain between the standards of international and local domestic banks. Further attempts should be made to bring the AML efforts of all Russian banks to a more sophisticated level, including continued enhancement of the compliance training and certification process.

Russia hosts and funds the Secretariat of the EAG, and through this effort has contributed to improving the region’s AML/CFT capacity. Russia should continue to play a leadership role through sustained involvement in the regional and international bodies focusing on AML/CFT regime implementation.

Rwanda

Rwanda is not a major or offshore financial center. Rwanda has a cash-based economy, and a relatively unsophisticated financial system with limited use of electronic funds transfers or credit card transactions. In March 2009, Rwanda approved and published a comprehensive law on the “Prevention and Suppression of Money Laundering and Financing of Terrorism.” This law establishes the legislative framework to adhere to all relevant money laundering standards. However, this legislation is still in the process of being implemented and key action elements such as the establishment of a financial intelligence unit (FIU) are pending. In general, Rwandan financial enforcement authorities lack the training, resources and technical expertise to effectively investigate and enforce laws concerning money laundering and terrorist financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, non-bank financial institutions and designated non-financial businesses

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and non-bank financial institutions

Number of STRs received and time frame: Two in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: 0 in 2010

Assets forfeited: criminally: 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Rwanda is not a member of a Financial Action Task Force-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Reportedly, the Central Bank distributes UN-designated lists of terrorists to bank and non-bank financial institutions; however, in practice, this is not always done thoroughly.

All foreign currency transactions in excess of \$20,000 are reported to the Central Bank.

Rwanda’s Law 48/2008 “Prevention and Suppression of Money Laundering and Financing of Terrorism” published in March 2009, establishes a comprehensive legislative framework to adhere to all relevant money laundering standards. However, this legislation is still in the process of being implemented. The Government of Rwanda has much work to do in implementing the new rules and regulations. Training and heightening the awareness of money laundering methodologies and countermeasures in relevant departments and agencies involved in border enforcement and combating financial crimes is essential.

San Marino

In the last several years, the Republic of San Marino has been aggressively combating the image of a fiscal haven, improving its anti-money laundering regime, and increasing the transparency of its financial sector. While there is no significant market for illegal or smuggled goods in San Marino, money laundering occurs to some extent in both the formal and non-bank financial systems, unrelated to narcotics trafficking. Money laundering is mainly trade-based and carried out by foreigners to avoid higher taxes in their countries. However, the country has recently adopted stricter monitoring regulations and there appears to be a decrease overall in financial crimes. There are no free trade zones in San Marino.

Since September 2009, San Marino has been included in the OECD's white list, and has signed Tax Information Exchange Agreements with over 30 countries (21 of which are OECD or EU member states).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and other financial institutions, the postal service, electronic money institutions, investment firms, insurance companies, lawyers, trust companies, accountants, auditors, gaming centers, money exchangers

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, insurance and re-insurance companies, and natural persons or entities whose professions or business activities involve the movement of money or securities, accountants and tax advisors, real estate agents, notaries, legal professionals, gaming centers and dealers in precious stones and metals

Number of STRs received and time frame: 296 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

San Marino is a member of The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). Its most recent mutual evaluation report can be found here: http://www.coe.int/t/dghl/monitoring/moneyval/Countries/San%20Marino_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In the past, the lack of appropriate legislation and resources to enforce AML regulations made San Marino vulnerable to money laundering, especially from tax evasion and fraudulent financial activities such as false invoicing. In recent years, however, the country has made substantial improvements to meet international financial standards.

On July 20, 2010, San Marino became a party to the UN Convention against Transnational Organized Crime.

San Marino should continue to improve personnel training and increase resources with a view to fully implementing its laws and regulations. San Marino should become a party to the UN Convention against Corruption.

Saudi Arabia

The Kingdom of Saudi Arabia (KSA) is a growing financial center in the Gulf Region. Money laundering and terrorist financing are known to originate from Saudi criminal enterprises, private individuals, and Saudi-based charities. Based on media reports and discussions with Saudi officials, there is no indication of significant narcotics-related money laundering. Saudi bulk cash smuggling from individual donors and charities has reportedly been a major source of financing to extremist and terrorist groups over the past 25 years. With the advent of tighter bank regulations, funds are reportedly collected and illicitly transferred in cash, often via pilgrims performing Hajj and Umrah. Despite serious and effective efforts to counter the funding of terrorism originating from within its borders, entities in Saudi Arabia continue to serve as an important source of cash flowing to Sunni-based extremist groups. Saudi officials acknowledge difficulty in following the money trail with regard to illicit finance due to the preference for cash transactions in the country. The government does not regularly publish official criminal statistics.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: banks, money exchangers, real estate agents, dealers in precious metals and stones, lawyers and accountants

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: banks, insurance companies, exchange companies and institutions, investment and insurance companies, commercial companies, sole proprietorships, vocational activities

Number of STRs received and time frame: 2,968 (2004 – 2008)

Number of CTRs received and time frame: Not publically available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 237 (2004 – 2008)

Convictions: 162 (2004 – 2008)

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

The Kingdom of Saudi Arabia is a member of the Middle East & North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/47/59/45727237.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money service businesses operating outside of banks and licensed money changers are illegal in Saudi Arabia. To help counteract the appeal of these types of unlicensed money services particularly to many of the approximately eight 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 other non-sanctioned methods.

Saudi Arabia's Council of Senior Scholars (the Kingdom's highest judicial body and equivalent to the U.S. Supreme Court) issued an edict (fatwa) specifically defining acts of terrorism, specifying that committing such acts were illegal both in Muslim and non-Muslim countries, and declaring that financing terrorism, knowingly or unknowingly, was illegal and punishable under Islamic law. Fatwas from the Council of Senior Scholars constitute the most definitive interpretations of Shariah. Nevertheless, Saudi Arabia should enact a full statutory criminalization of terrorist financing and structure it as separate from the money laundering offense to clearly distinguish the money laundering and terrorist financing offenses.

Wide-sweeping counter-terrorism operations and resulting arrests over the past 12 months have demonstrated Saudi Arabia's ability to effectively disrupt planning and financing within the Kingdom. Contributions to charities are subject to strict guidelines, including that they must be in Saudi riyals; adhere to enhanced identification requirements; and payments may be made only by checks payable to the first beneficiary, which then must be deposited in a Saudi bank. Regulations also forbid charities from using ATMs and credit cards for charitable purposes, from making cash contributions, and from making money transfers outside of Saudi Arabia.

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Saudi Arabia's capacity to monitor compliance with and enforce its banking rules has improved and helped to stem the flow of illicit funds through Saudi financial institutions. The Saudis' ability to stop bulk cash smuggling has also improved. However, cash illicitly collected and transferred via pilgrims on Hajj or Umrah continues to flow. Underground remittance systems such as hawala are also present in Saudi Arabia. The Kingdom 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. Also of concern are organized crime figures that launder and invest their personal and their organizations' 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 continued building boom and high property prices suggest there is an increasing amount of funds with uncertain origin circulating in Senegal. The growing presence of hawala and other informal cash transfer networks and the increasing numbers of used imported vehicles suggest the existence of both value transfer via trade goods 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchanges; postal services; lawyers; securities and insurance brokers; auditors; real estate agents; dealers of high value goods such as art objects, precious stones, and metals; transporters of funds; casinos and gambling establishments, including state lotteries; travel agencies; non-governmental organizations, the Public Treasury

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchanges; postal services; lawyers; securities and insurance brokers; auditors; real estate agents; dealers of high value goods such as art objects, precious stones, and metals; transporters of funds; casinos and gambling establishments, including state lotteries; travel agencies; non-governmental organizations

Number of STRs received and time frame: 71 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Nine in 2009

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Senegal is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force-style regional body. Its most recent mutual evaluation is available here: <http://www.giaba.org/index.php?type=c&id=37&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Senegal (GOS) should continue to work with its partners in GIABA, the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) to develop comprehensive anti-money laundering/counter-terrorist financing (AML/CFT) regime. Senegal should continue to battle corruption and increase the frequency, transparency, and effectiveness of financial reviews and audits of financial institutions. Senegal should establish better uniform control of the 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 as well as value transfer via trade goods. The Senegalese financial intelligence unit – CENTIF - should perform more outreach to obligated non-bank financial institutions to ensure a better understanding of the content and filing requirements for STRs. 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.

Serbia

Serbia is not considered a regional financial center. However, Serbia is situated on a major trade corridor known as the “Balkan route,” and commonly confronts narcotics trafficking; smuggling of persons, weapons and pirated goods; money laundering; and other criminal activities. While the bulk of narcotics seizures are of heroin, the Government of Serbia (GOS) advises that trafficking of cocaine originating in South American is on the rise and is expected to increase as organized crime groups restructure their operations. Corruption and organized crime also continue to be significant problems in Serbia.

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Serbia has long been and continues to be a 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 and, increasingly, into sports, particularly football (soccer) club operations. Some gray money flows to Cyprus, reportedly as payment for goods and services. GOS officials, however, believe these monetary flows have become less significant over the past few years. Banks in Macedonia, Hungary, Switzerland, Austria and China have emerged as destinations for laundered funds. Trade-based transactions, in the form of over- and under-invoicing, are a commonly used method for laundering money. There are reports that purchases of some private and state-owned companies have been linked to money laundering activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTION RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY, CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S., OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.? NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; licensed money exchanges and remitters; investment and pension fund management companies; financial leasing providers; insurance companies, brokers, agents, and life insurance businesses; persons dealing with postal communications; broker-dealer companies; casinos and organizers of games of chance; auditors; real estate intermediaries; accountants; tax advisers; intermediaries in credit, lending, factoring and forfeiting; guarantors; and lawyers

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; licensed money exchanges and remitters; investment and pension fund management companies; financial leasing providers; insurance companies, brokers, agents, and life insurance businesses; persons dealing with postal communications; broker-dealer companies; casinos and organizers of games of chance; auditors; real estate intermediaries; accountants; tax advisers; intermediaries in credit, lending, factoring and forfeiting; guarantors; and lawyers

Number of STRs received and time frame: 3,854 from January 1 to October 29, 2010

Number of CTRs received and time frame: 165,669 from January 1 to October 29, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 19, 2002 - 2010

Convictions: 13 convictions against 15 persons, of which six are final convictions against seven persons, 2002 - 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Serbia is a member of MONEYVAL, a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Serbia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Serbia has no law that establishes procedures for administrative freezing of assets. A Law on Restrictive Measures that will authorize use of this procedure is in the drafting stage at the Ministry of Foreign Affairs.

The GOS maintains bilateral agreements on mutual legal assistance with 31 countries, but not the United States. The FIU has signed information sharing agreements with 15 countries, and anticipates signing two more by the end of 2010.

The Government of Serbia (GOS) has taken a number of steps to improve its anti-money laundering/counter-terrorist financing (AML/CFT) regime in recent years. Regarding criminalization of terrorist financing, Serbia should insure that the terrorist financing offense is not linked to a specific terrorist act. Additionally, Serbia's terrorist financing offense should include the entire range of activities listed in the annex to the Terrorist Financing Convention.

Serbia should continue to pursue measures to improve supervision of securities firms and other DNFBPs and to provide these institutions with sufficient guidance to ensure they understand and are able to comply with their responsibilities under the law. The GOS should adopt regulations and bylaws to help money service businesses and DNFBPs understand and implement all applicable requirements. The National Bank of Serbia and other supervisory bodies, as well as investigative agencies, the FIU, prosecutors, and judges require additional resources, in particular for building their professional capabilities. Law enforcement and prosecutors also need to make increased use of criminal money-laundering charges.

Seychelles

Seychelles is not a major financial center. The Seychellois authorities consider drug trafficking, parallel market operations, theft and fraud as the major sources of illegal proceeds. Seychelles has been negatively affected by piracy off the coast of Somalia.

Seychelles is a consumer country for narcotics. To diversify its economy beyond tourism and fisheries, the Government of Seychelles (GOS) 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 business companies. These activities make the country vulnerable to money laundering. In its 2007-2017 Strategic Plan, the GOS proposes to facilitate the further development of the financial services sector through active promotion of Seychelles as an offshore jurisdiction, with emphasis on international business companies (IBCs), mutual funds, special license companies, and insurance companies. The Foundations Act, passed in December 2009, provides for the establishment and operation of private foundations to add to Seychelles' offshore product offerings. The Seychelles International

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Business Authority, which regulates the offshore financial sector, provides training in such areas as company and trust administration, international tax planning, compliance and anti-money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks (both domestic and offshore), credit unions, insurance companies, trust and company service providers, casinos, real estate agents, money exchangers, notaries, lawyers, accountants, and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks (both domestic and offshore), credit unions, insurance companies, trust and company service providers, casinos, real estate agents, money exchangers, notaries, lawyers, accountants, and dealers in precious metals and precious stones

Number of STRs received and time frame: 29 from January 1 to November 30, 2010

Number of CTRs received and time frame: 0

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 *civilly:* Approximately \$110,000 - January 1 to November 30, 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

The Government of Seychelles is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. Its most recent evaluation can be found here: http://www.esaamlg.org/reports/view_me.php?id=189

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Seychelles (GOS) should work to improve the implementation of its AML/CFT framework, including the analysis of STRs and the pursuit of investigations and prosecutions for money

laundering and terrorist financing. Seychelles should continue to work with its FIU to ensure it has the training and resources needed for outreach, analysis and dissemination. The GOS should expand its anti-money laundering efforts by prohibiting bearer shares, anonymous accounts and accounts in fictitious names, and clarifying its law regarding the complete identification of beneficial owners. Additionally, it should mandate enhanced due diligence procedures for politically exposed persons. The GOS also should amend its AML laws to state explicitly that all offshore activity is regulated in the same manner and to the same degree as onshore. The GOS should also consider codifying the ability to freeze assets rather than issuing restraining orders, and develop a cross-border currency reporting requirement.

Sierra Leone

Sierra Leone has a cash-based economy and is not a regional financial center. Money laundering activities are pervasive in the diamond sector. Despite tighter regulation, monitoring, and enforcement, in some areas significant diamond smuggling and the laundering of diamonds still exists. Drug smuggling is also a problem in Sierra Leone. Real estate and car dealerships also are vulnerable to money laundering activities. Loose oversight of financial institutions, weak regulations, pervasive corruption, porous borders, and a widespread informal money exchange and remittance system contribute to an atmosphere conducive to money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; financial leasing firms; money and currency changers; credit card, travelers check and other financial instrument issuers; investment companies, insurance, merchant and investment banks, and securities and commodities dealers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; financial leasing firms; money and currency changers; credit card, travelers check and other financial instrument issuers; investment companies, insurance, merchant and investment banks, and securities and commodities dealers

Number of STRs received and time frame: Five from January – November 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Sierra Leone is a member of the Inter Governmental Action Group Against Money Laundering in West Africa (GIABA), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.giaba.org/index.php?type=c&id=50&mod=2&men=2>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Anti-money laundering activities are covered by the Anti-Money Laundering Act of 2005 (AMLA), as well as guidelines issued by the Bank of Sierra Leone's Financial Intelligence Unit (FIU) that significantly enhance the AMLA's provisions and carry legal weight. These guidelines have been incorporated into the draft of a new Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) bill that has been approved by the Cabinet and is expected to be passed by Parliament and enacted into law in early 2011.

Although the Government of Sierra Leone (GOSL) has enacted anti-money laundering legislation, the GOSL needs to take action to ensure its AML regime is effectively implemented. The FIU lacks the capacity to effectively monitor, regulate, analyze and disseminate financial intelligence. The AMLA charges the Transnational Organised Crime Unit (TOCU) and the Attorney General's Office with investigating reports made by the FIU. TOCU is authorized to undertake complete investigations and effect arrests. The Attorney General's Office has limited mandate to investigate and arrest. The Sierra Leone Police, National Revenue Authority, and Anti-Corruption Commission have very limited abilities to investigate money laundering crimes; the Anti-Corruption Commission is attempting to create a financial forensics capacity in the near future. Limited resources hamper law enforcement efforts in all arenas. Lack of training in financial crimes is also a hindrance to successful investigations and prosecutions. The GOSL should continue its efforts to counter the smuggling of diamonds and narcotics, and regulate sectors which are vulnerable to money laundering. Sierra Leone should continue to take steps to combat corruption at all levels of commerce and government. The GOSL should ratify the UN Convention against Transnational Organized Crime.

Singapore

Singapore is a significant international financial and investment center as well as a major offshore financial center. The structural gaps in Singapore's financial regulations make it vulnerable to money launderers, and its financial crimes enforcement should be strengthened. Stringent bank secrecy laws and the lack of routine currency reporting requirements make Singapore a potentially attractive destination for drug traffickers, transnational criminals, foreign corrupt officials, terrorist organizations and their supporters seeking to launder money or fund terrorist activities. Authorities have taken action against Jemaah Islamiyah and its members and have identified and frozen terrorist assets held in Singapore. Terrorist financing in general remains a risk.

As of December 2009, there were 38 offshore banks in operation, all foreign-owned. Singapore has increasingly become a center for offshore private banking and asset management. Total assets under management in Singapore increased 40 percent in 2009 to S\$1.2 trillion (approximately \$861 billion). Singapore does not permit shell banks.

Singapore has eight free trade zones (FTZs), six for seaborne cargo and two 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, financial institutions, finance companies, merchant banks, life insurers, brokers, securities dealers, investment advisors, futures brokers and advisors, trust companies, approved trustees, and money changers and remitters

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, auditors, financial advisors, capital market service licensees and exempt persons, finance companies, lawyers, notaries, merchant banks, life insurers, trust companies, approved trustees, real estate agents and money changers and remitters

Number of STRs received and time frame: 11,004 in 2009

Number of CTRs received and time frame: No information available. Reporting began in 2010.

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 23 in 2008

Convictions: 24 in 2008

Assets forfeited: criminally: \$10,962,377 *civily:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

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Singapore is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/36/42/40453164.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Singapore's rigid bank secrecy is sometimes an impediment to effective international cooperation in financial crimes enforcement. Less rigid bank secrecy restrictions would enhance Singapore's law enforcement cooperation in areas such as information sharing and conformance to international standards and best practices.

Singapore's legal system generally provides for the investigation and prosecution of money laundering offenses. However, the implementation of these laws is uneven, particularly in prosecuting money laundering as a stand-alone offense, and investigating foreign-sourced cases. Singaporean police are fairly successful at identifying domestic predicate offenses, and include ancillary money laundering charges as appropriate. Singapore should more aggressively pursue domestic stand-alone money laundering offenses as well.

Singapore's large, stable, and sophisticated financial center may be attractive as a conduit for laundering proceeds generated by foreign criminal activities, including official corruption. The Suspicious Transaction Reporting Office (STRO) and criminal investigators are encouraged to identify money laundering that originates from foreign predicate offenses, and use stand-alone money laundering charges to prosecute third-party offenders in Singapore.

Slovak Republic

Slovakia's geographic, economic, and legal environments with respect to money laundering are not atypical of a changing Central European economy. Its geographic location makes it a transit and destination country for trafficking in drugs, people and counterfeit goods, especially along the 100 km border with Ukraine. The statistics on money laundering cases investigated by Slovak law enforcement authorities indicate the most frequent predicate offenses for money laundering are financial crimes and crimes against property. There is significant cross-border auto theft and value-added tax (VAT) fraud; and smuggling of cigarettes and alcohol because of the tax disparity between Ukraine and Slovakia. Banks (mostly Slovak subsidiaries of foreign banks) remain the most frequently used financial institutions for money laundering. Criminal activity, including money laundering is characterized by a high level of organized crime.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES: YES

Covered entities: Financial institutions, the Export-Import Bank of the Slovak Republic, credit institutions; insurance companies, pension asset management companies, foreign currency exchanges, gambling/gaming operators, bankruptcy administrators, accountants, tax advisors, real estate agents, postal operators, real estate intermediaries, corporations (foundations, non-profit organizations, non-investment fund or other special corporations managing and distributing funds)

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions, the Export-Import Bank of the Slovak Republic, credit institutions; insurance companies, pension asset management companies, foreign currency exchanges, gambling/gaming operators, bankruptcy administrators, accountants, tax advisors, real estate agents, postal operators, real estate intermediaries, corporations (foundations, non-profit organizations, non-investment fund or other special corporations managing and distributing funds)

Number of STRs received and time frame: 2,470 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 35 through the end of 2010

Convictions: Six through the end of 2010

Assets forfeited: criminally: None civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The Slovak Republic is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation report can be found here:

www.coe.int/t/dghl/monitoring/moneyval/Countries/Slovakia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Amendments to the Penal Code (Act No. 300/2005 Coll.) and Code of Criminal Procedure (Act No. 301/2005 Coll.) of 2010 include the introduction of the autonomous criminal offense of terrorist financing and corporate liability.

In 2010, Act No. 101/2010 Coll. on the Proof of Origin of Property was introduced and approved, effective January 1, 2011. This law introduces the tool of non-conviction based confiscation within civil procedures, and stipulates conditions and procedures for public authorities in forfeiture of property.

Slovakia should also provide capacity enhancing materials to non-financial businesses and professions and improve supervision of these entities to ensure they meet their obligations.

Slovenia

Slovenia is neither a regional financial center nor a major drug producer, but is a transit country for drugs moving via the Balkan route to Western Europe. 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. Other predicate offenses of concern include business and tax fraud.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, lawyers, money changers, notaries, gaming centers, securities dealers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, lawyers, money changers, notaries, gaming centers, securities dealers

Number of STRs received and time frame: 184 during 2010

Number of CTRs received and time frame: 220 during 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 35 -- January-June 2010

Convictions: Two -- January-June 2010

Assets forfeited: criminally: 1.5 million euros (approximately \$1.92 million) – time frame not available *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

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Slovenia is a member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Slovenia_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There are no major deficiencies in key preventive standards. Weak supervision and lack of guidance to certain non-banking sectors have an impact on the effectiveness of the Government of Slovenia's (GOS) anti-money laundering/counter-terrorist financing (AML/CFT) regime.

The GOS should continue to enhance its AML/CFT legislation and procedures as appropriate. The GOS should immobilize company bearer shares. Despite prohibiting the establishment of new anonymous accounts, Slovenia has not taken action against the 3,000 anonymous bank accounts in existence. The GOS should convert these anonymous accounts, given the risk they pose to Slovenia's AML/CFT regime.

Solomon Islands

The Solomon Islands is not a regional financial or offshore center, and there are no free trade zones. It has a relatively stable banking system closely integrated with the financial systems of Australia and New Zealand. While the overall risk of money laundering and terrorist financing is very low because of the jurisdiction's isolated geographic location, very small community (which precludes anonymity), unsophisticated financial and commercial sectors, and a strict foreign exchange regime, the Solomon Islands' financial system is nonetheless highly vulnerable to abuse due to a severe lack of capacity and oversight coupled with a weak culture of compliance.

High-level public corruption is the main source of illicit proceeds, primarily involving tax crime, customs fraud, and extractive industries (illegal logging, fishing and mining). Money laundering is relatively unsophisticated. Reportedly, most illicit proceeds tend to stay within the jurisdiction and are converted into high-value consumer goods (e.g., cars and electronics). The small proportion of cross-border money laundering tends to involve small, high volume transactions, although larger corruption payments are sometimes also placed in offshore bank accounts.

The Solomon Islands has a low threat of both international and domestic terrorism and terrorist financing. However, officials are evaluating domestic terrorist financing risks in light of violent ethnic conflict in 2000 and rioting in April 2006. Authorities note that many of the participants' actions in these events would now be considered terrorism offenses under the Counter-Terrorism Act of 2009.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit or lending services, currency exchangers, remittance services, insurers and insurance intermediaries, securities dealers, futures brokers, and trustees and managers of unit trusts

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit or lending services, currency exchangers, remittance services, insurers and insurance intermediaries, securities dealers, futures brokers, and trustees and managers of unit trusts

Number of STRs received and time frame: 67 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 15 in 2010

Convictions: Four in 2010

Assets forfeited: criminally: Not available civilly: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Solomon Islands is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation report can be found here: http://www.apgml.org/documents/docs/17/SOLOMON%20ISLANDS%20DAR_FINAL.pdf.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the Solomon Islands (GOSI) criminalizes money laundering and terrorist financing in a manner closely consistent with international standards, but enforcement is weak, largely because of a lack of financial investigation skills, training, resources, and clear enabling legislation.

Law enforcement authorities have extensive powers to confiscate proceeds and terrorist property and to provide mutual legal assistance, and Solomon Islands authorities are highly responsive to requests for assistance from other governments. However, the Solomon Islands does not yet have a freezing mechanism to implement UNSCRs 1267 and 1373. While the jurisdiction has imposed obligations on banks and other non-financial institutions to adopt some preventative AML/CFT measures, these obligations fall short of the requirements of international standards (especially on beneficial ownership and PEPs). Implementation and enforcement of preventive measures is negligible, due to severe capacity and resource constraints and lack of sanctioning powers. The GOSI should continue its work to implement AML/CFT requirements that conform to international standards. The Solomon Islands should become a party to the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the 1988 UN Drug Convention, and should establish an effective regime to freeze terrorist assets.

High level corruption is a significant threat in the Solomon Islands. The problem is compounded because the weak culture of compliance often results in the failure to maintain and monitor records, and a

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disregard for any legal or regulatory regime. While some corrupt acts are limited to the exchange of benefits or nepotism and do not generate illicit proceeds, GOSI officials report the government has lost millions of dollars through corrupt government employees and has no ability to recover overpayments or enforce revenue collection.

Environmental crimes are increasing, and governmental authorities report losses in the range of hundreds of millions of dollars. There are growing concerns about the intersection of transnational crime and growing problems with wildlife smuggling and counterfeit currency, both of which may be used to finance illegal logging operations.

The Solomon Islands currently lacks a currency transaction reporting (CTR) regime, though draft legislation is being circulated. The GOSI should make passage and implementation of the CTR bill a priority.

Somalia

There is no recognized central government of Somalia. The Transitional Federal Government (TFG) controls only portions of the country's capital and remote pockets of some regions. The TFG is besieged by an insurgency that is led by international terrorist organization al-Shabaab. Many ministries exist in name only, or have non-functioning, mostly unpaid staff. There is no court system to speak of, and policing is rudimentary. The laws that exist - anti-money laundering (AML), counter-terror financing (CFT), or otherwise - are effectively unenforced given the security threats in Somalia and lack of capacity. Corruption is rampant. The financial system in Somalia operates almost completely outside of any system of oversight, either on the black market or via international money transfer companies/hawalas.

Due to its lack of a public regulatory system and its inaccessibility to international diplomats and law enforcement, little is known about money laundering in Somalia. No information is available on drug-related currency transactions channeling through Somali financial institutions. Because Somalia's narcotics trade is centered on khat, a controlled substance in much of the world but legal in Somalia, the proceeds are not illegal. Thus, it is not likely that khat money is laundered in Somalia. Most khat proceeds go back to khat transporters based outside Somalia in cash or via money transfer companies.

Pirates mostly launder their ransoms in northern Somalia, as well as perhaps in neighboring countries, the Middle East, or Europe. The ransoms are delivered through cash drops to pirates holding ships off Somalia's coast and divided among the pirates and those in their support networks. Officials in Somalia's northern region of Puntland reportedly benefit from pirate ransoms. They may facilitate ransom laundering or the transfer of ransom money to neighboring countries or globally. In this manner, public corruption significantly facilitates money laundering. Much of the ransom reportedly remains in cash. Anecdotal reports indicate that ransom money finances real estate, luxury goods, and businesses.

Smuggling is rampant. Somalia has one of the longest land borders and the longest coastline in Africa. The TFG and local officials control almost none of its borders, and goods flow into and out of Somalia with no TFG knowledge. There are occasional but unverified reports of U.S. dollar counterfeiting in al-Shabaab-controlled areas.

Somalia is a center for terrorism financing. Al-Shabaab is headquartered here and financed by contributions from terrorist financiers outside the region, including from the global Somali diaspora and business community. Some of the funds enter Somalia as cash, but a significant portion likely passes through hawalas. Al-Shabaab operations are also financed through extortion of private citizens and local

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businesses, revenue from seaports under their control, and to an unknown extent by diversion of humanitarian and development assistance.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not applicable

Legal persons covered: criminally: NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: None

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: None

Number of STRs received and time frame: Not Applicable

Number of CTRs received and time frame: Not Applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Somalia is not a member of any Financial Action Task Force (FATF)-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Somalia has been without a functioning central government since 1991. There are no AML/CFT laws, and the financial regulations that do exist go unenforced given the lack of policing and investigative capacity and Somalia's insecurity. International standards, to the extent they are recognized, are self imposed in Somalia by hawalas and other financial entities that must meet international rules and regulations to do business elsewhere in the world. The lack of laws, regulatory bodies, and enforcement

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mechanisms to counter money laundering and financial crimes is likely due to a lack of capacity, and not a lack of political will. Obstacles to enacting AML/CFT laws include the TFG's lack of territorial control, threats to the government by the al-Shabaab insurgency, and lack of capacity and resources at all levels of government.

There were no arrests for money laundering in 2010. There was one interdiction of a suspected terrorist financier's couriering cash illegally into Somalia. However, interdictions such as this often result in an arrest, followed by indefinite detentions or releases given Somalia's inadequate judicial system. In one case, incoming counterfeit U.S. dollars were seized at Mogadishu International Airport. It is not clear what happened to the perpetrator.

There are no government entities charged with, or capable of tracking, seizing, or freezing illegal assets or terrorist funds. Somalia has no laws requiring forfeiture of laundered assets or of terrorist finances, and laws that could lend themselves to AML/CFT are not enforced.

The TFG has called on regional governments to help stem the flow of terrorist financing, including requesting that local governments trace, freeze, and seize funds and finances related to and supporting al-Shabaab. Somalia has cooperated with USG law enforcement on numerous occasions, most recently investigations concerning suspected terrorists and kidnapping, piracy and acts of terror committed inside and outside Somalia, but there has been no known assistance with regard to investigations involving financial crimes.

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 vulnerable to exploitation by transnational and domestic crime syndicates. The largest source of laundered funds in the country is proceeds from the narcotics trade. Fraud, theft, racketeering, corruption, currency speculation, poaching, theft of precious metals and minerals, small arms, human trafficking, stolen cars, and smuggling are also sources of laundered funds. Many criminal organizations are also involved in legitimate business operations. There is a significant black market for smuggled and stolen goods. In addition to criminal activity by South African nationals, observers note criminal activity by Nigerian, Pakistani, Andean and Indian drug traffickers, Chinese triads, Taiwanese groups, Lebanese trading syndicates, and the Russian mafia. There are few successful investigations and prosecutions.

South Africa is not an offshore financial center, nor does it have free trade zones. South Africa does operate Industrial Development Zones (IDZs). Imports and exports related to manufacturing or processing in the zones are duty free, provided that the finished product is exported. IDZs are located in Port Elizabeth, East London, Richards Bay, and Johannesburg International Airport. The South African Revenue Service monitors the customs control of these zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit institutions, post office banks, foreign exchange dealers, securities traders, entities that issue travelers checks, real estate agents, gambling institutions, gold dealers, attorneys, second hand car dealers, entities/people registered with the Johannesburg Stock Exchange, and money lenders

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit institutions, post office banks, foreign exchange dealers, securities traders, entities that issue travelers checks, real estate agents, gambling institutions, gold dealers, attorneys, second hand car dealers, entities/people registered with the Johannesburg Stock Exchange, and money lenders

Number of STRs received and time frame: 29,411 - April 2009 through March 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

South Africa is a member of the Financial Action Task Force (FATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/infobycountry/0,3380,en_32250379_32236963_1_70915_43383847_1_1,00.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

South Africa's anti-money laundering regime has solid legislative backing, and generally imposes an affirmative responsibility upon financial institutions, businesses, and individuals to report suspicious transactions. However, while South Africa's banking system is among the world's most sophisticated, its relationship to the South African economy as a whole remains problematic for anti-money laundering purposes. There are gaps in enforcement of the reporting requirements, due in part to South Africa's large informal economy and cash-oriented market. Law enforcement capacity is also considered to be lacking.

While money laundering is a specific offense under the South African penal code, it is not often charged as a stand-alone offense. Instead, prosecutors typically include money laundering as a secondary charge

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in conjunction with other offenses. Accordingly, South Africa does not generally keep separate statistics for money laundering-related prosecutions, convictions, or forfeited assets.

Spain

Spain is a major European center of money laundering activities as well as an important gateway for illicit narcotics entering Europe. Drug proceeds from other regions enter Spain as well, particularly proceeds from Afghan hashish from Morocco, cocaine entering Latin America, and, in significantly lower volume, heroin from Turkey and the Netherlands. 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. Colombian cartels allegedly use proceeds from drug sales in Spain to purchase goods in Asia that are subsequently sold legally in Colombia or 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, though less so since the speculative real estate bubble burst in 2008. Up to twenty percent of the 500 euro notes in use in Europe were reported to be in circulation in Spain during 2009, directly linked to the purchase of real estate to launder money. Efforts by Spain's tax authority to deter fraudulent activity involving these large bank notes have kept the number of 500 euro notes at October 2008 levels (around 110 million notes).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on terrorism, which can be found at <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: 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; individuals and unofficial financial institutions exchanging or transmitting money; realty agents; dealers in precious metals, stones, antiques and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

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Covered entities: 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; individuals and unofficial financial institutions exchanging or transmitting money; realty agents; dealers in precious metals, stones, antiques and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos

Number of STRs received and time frame: 2,904 in 2008 (most recent available figures)

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Spain is a member of the Financial Action Task Force (FATF) and a cooperating and supporting nation to the Caribbean Financial Action Task Force, a FATF-style regional body. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/52/3/37172019.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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 financial assistance 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.

Spanish authorities recognize the presence of alternative remittance systems. Informal non-bank 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.

On April 29, 2010, Spain enacted Law 10/2010, on preventing money laundering and terrorist financing. The new law incorporates and enhances Law 19/1993 on preventing money laundering, and supersedes Law 12/2003, on preventing terrorist financing, which was never fully implemented. Law 10/2010 introduces a risk-based approach to preventing money laundering and terrorist financing and imposes stringent requirements on financial institutions as well as designated non-financial businesses and professionals (DNFBP). Additionally, implementation of Law 10/2010 will greatly enhance authorities’ capacity to combat terrorist financing by placing greater requirements, with stiffer penalties for non-compliance, on financial institutions and other businesses, and by strengthening monitoring and oversight. The new law entered into force immediately; however, implementing regulations will not be approved until 2011; until then, many of its provisions are not being implemented.

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The Government of Spain should clarify whether its laws allow civil forfeiture. Spain should maintain and disseminate statistics on investigations, prosecutions, and civil asset forfeiture. More generally, the government needs to review the resources available for industry supervision and ensure that the FIU has the independence and resources it needs to effectively discharge its responsibilities.

Sri Lanka

Sri Lanka is neither a regional financial center nor a preferred center for money laundering. However, a large informal economy and significant number of cash-based transactions make Sri Lanka vulnerable to money laundering, and the government's lack of a transparent tender mechanism for government projects invites corruption. Terrorists in Sri Lanka have exploited non-governmental and charitable organizations, and have used community building projects to conceal the proceeds of crime.

Sri Lanka is not an offshore center and has no free trade zones.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, registered finance companies, insurance companies, securities industry, casinos, real estate agents, dealers in precious metals and stones, lawyers, trusts and company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS (STRs):

Covered entities: Licensed commercial banks, licensed specialized banks, registered finance companies, stock brokerages, and insurance companies

Number of STRs received and time frame: 111 in 2009

Number of CTRs received and time frame: 1.6 million in 2009

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

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Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With the U.S.: NO

With other governments/jurisdictions: YES

Sri Lanka is a member of Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/docs/17/Sri%20Lanka%20MER%20-%20Final%2010August06.pdf> .

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In February 2010, the Government of Sri Lanka provided a high-level written commitment and developed an action plan to address strategic deficiencies in its AML/CFT regime. As part of its AML/CFT efforts, Sri Lanka should strengthen the criminalization of money laundering and terrorist financing, and establish and implement procedures to identify and freeze terrorist assets. Sri Lanka should also enact disclosure protections, and criminalize tipping off in AML/CFT cases.

Efforts are underway to amend the AML/CFT laws to address technical and substantive deficiencies in the legal framework and strengthen the authority of the FIU and law enforcement authorities engaged in AML/CFT detection and suppression. The new legislative package will include a draft law to strengthen forfeiture provisions relating to the proceeds of crime or funds related to the financing of terror. Sri Lanka should focus on passing these laws, which has not been a governmental priority.

Although AML/CFT laws cover non-financial entities such as casinos, real estate agents, dealers in precious metals and stones, lawyers, and trusts or company service providers, no regulator has issued KYC or currency transaction reporting (CTR) policies covering these institutions. Sri Lanka should draft and implement KYC and CTR policies to cover these entities.

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.

St. Kitts uses the East Caribbean dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). The ECCB has direct responsibility for regulating and supervising the offshore banks in Nevis, as it does for the entire domestic sector of St. Kitts and Nevis, and for making recommendations regarding approval of offshore banking licenses. By law, all offshore banking licensees are required to have a physical presence in the federation; shell banks are not permitted. Seven other island economies are also members of the ECCB: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Lucia, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

As a federation, there is anti-money laundering (AML), counter-terrorist financing (CFT), 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 independently developed its own offshore legislation. St. Kitts had licensed approximately 36 corporate service providers, three trust providers, 116 captive insurance companies and over 2100 companies and

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foundations. By contrast, Nevis had over 11,000 international business companies, 4,200 limited liability companies, over 1,000 trusts and over 110 insurance companies.

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 has established a Citizenship Processing Unit to manage the screening and application process.

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. 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 available to the regulator and other authorized persons.

The St. Kitts and Nevis Gaming Board is responsible for ensuring compliance by casinos. Internet gaming entities must apply for a license as an IBC.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchangers, insurance companies, auditors, accountants, notaries, gaming centers, pawn shops, issuers of payment cards and traveler's checks, auto dealers, real estate brokers/agents, trustees, dealers of precious metals and stones, non-profit organizations, and securities dealers

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, agricultural credit institutions, money exchangers, insurance companies, auditors, accountants, notaries, gaming centers, pawn shops, issuers of payment cards and traveler's

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checks, auto dealers, real estate brokers/agents, trustees, dealers of precious metals and stones, non-profit organizations, and securities dealers

Number of STRs received and time frame: 217, January to September 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/St.Kitts_Nevis_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/St.Kitts_Nevis_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The government has been slow to respond to requests for mutual legal assistance due to a lack of staff.

Bank secrecy laws, the allowance of anonymous accounts, the lack of transparency of beneficial ownership of legal entities, and weak regulatory framework concerning customer due diligence and cases of cross border seizures of cash and bearer instruments, make Nevis, in particular, a haven for criminals to conceal their proceeds. To address remaining vulnerabilities, the GOSKN should devote sufficient resources to effectively implement its AML/CFT regime, giving particular attention to its offshore financial sector and more rigorous customer due diligence and reporting requirements.

St. Kitts and Nevis should more precisely determine the exact number of Internet gaming companies present on the islands and provide the necessary oversight of these entities. The GOSKN needs to provide adequate resources and capacity to law enforcement agencies to effectively investigate money laundering cases. The government should consider implementing legislation to allow law enforcement authorities to postpone or waive the arrest of a suspected person and/or the seizure of cash so as to identify other persons involved in the offense. Additionally, the GOSKN should adopt or amend legislation, as necessary, to ensure its ability to freeze terrorist assets without delay is in accord with international standards and UN mandates.

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, money service businesses and money transfer agencies. 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 primary

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sources for laundered funds in St. Lucia. Trade and customs-based fraud and corruption also pose significant money laundering risks. The trade in gems and jewelry has also been used to launder funds and poses a considerable money laundering risk.

St. Lucia uses the East Caribbean dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). Seven other island economies are also members of the ECCB: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, and St Vincent and the Grenadines. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

Currently, St. Lucia has seven offshore banks, two investment banks, 2,851 international business companies, 26 international insurance companies, four trust companies, three mutual fund administrators, and 15 registered agents. Shell companies are not permitted. The offshore sector is regulated by the Financial Sector Supervision Unit. The Government of St. Lucia (GOSL) also has one free trade zone (FTZ), managed by the St. Lucia Air and Sea Ports Authority (SLASPA) and located in the seaport of Vieux Fort, where investors may establish businesses and conduct trade and commerce within the FTZ or between the FTZ and foreign countries. Identification of companies and individuals who use the zone is required. There are no casinos or Internet gaming sites in St. Lucia.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Domestic and offshore banks, building societies, financial services providers, credit unions, trust companies, insurance companies, agricultural credit institutions, money exchangers, accountants, notaries, gaming centers, auto dealers and securities dealers

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks, building societies, financial services providers, credit unions, trust companies, insurance companies, agricultural credit institutions, money exchangers, notaries, gaming centers, auto dealers and securities dealers

Number of STRs received and time frame: 83, January to November 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None

Convictions: None

Assets forfeited: *criminally:* None *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

St. Lucia is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: [http://www.cfatf-gafic.org/downloadables/mer/Saint_Lucia_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Saint_Lucia_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The failure to criminalize important elements of terrorist financing poses a potentially significant risk. In order to lessen its risks, St. Lucia should examine the list of predicate offenses for money laundering, and criminalize self-laundering and terrorist financing. Additionally, the GOSL should amend its legislation, as necessary, to explicitly prohibit “tipping off” and to provide safe harbor coverage against both civil and criminal liability for individuals and financial institutions who file STRs.

Money remitters should be brought under the regulatory framework, and St. Lucia should implement risk-based assessment procedures, implement enhanced due diligence for PEPs and 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. The lack of money laundering prosecutions or convictions suggests that the FIU is under-resourced. There also is a need for increased resources in the Customs Department to address the lax customs regime.

St. Vincent and the Grenadines

St. Vincent and the Grenadines (SVG) is a small but active offshore financial center with a relatively large number of international business companies (IBCs). The country 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.

St. Vincent and the Grenadines uses the East Caribbean dollar and its monetary authority is the Eastern Caribbean Central Bank (ECCB). Seven other island economies are also members of the ECCB: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Lucia, and St Kitts and Nevis. The existence of this common currency may raise the risk of money laundering, but there is little evidence that the EC dollar is a primary vehicle for money laundering.

The offshore sector includes four offshore banks, 9,601 IBCs, eight offshore insurance companies, 103 mutual funds, 23 registered agents, and 119 international trusts. There are no offshore casinos, and no Internet gaming licenses have been issued. No physical presence is required for offshore sector entities and businesses, with the exception of offshore banks. Nominee directors are not mandatory except when

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an IBC is formed to carry on banking business. Bearer shares are permitted for IBCs but not for banks. The Government of St. Vincent and the Grenadines (GOSVG) 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 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 possession of a license. There are no free trade zones in SVG.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institution: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, agricultural credit institutions, money exchangers, gaming centers, securities dealers, lawyers, notaries, accountants, company and trust services providers (registered agents and trustees), real estate agents, jewelers, lottery agents and car dealers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Domestic and offshore banks, money remitters, insurance companies, credit unions, trust service providers, customs and notaries, gaming centers, securities dealers, lawyers, notaries, accountants, company and trust services providers (registered agents and trustees), real estate agents, jewelers, lottery agents and car dealers

Number of STRs received and time frame: 412, January to October 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Three

Convictions: None

Assets forfeited: criminally: None *civily:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

St. Vincent and the Grenadines is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found

here: [http://www.cfatf-gafic.org/downloadables/mer/Saint_Vincent_&_the_Grenadines_3rd_Round_MER_\(Final\)_English.pdf](http://www.cfatf-gafic.org/downloadables/mer/Saint_Vincent_&_the_Grenadines_3rd_Round_MER_(Final)_English.pdf)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of St. Vincent and the Grenadines (GOSVG) has been cooperative with regard to international investigations, including a recent high-profile case involving an American financier.

The GOSVG should strengthen its AML/CFT regime by ensuring the FIU has access to all necessary information. It should also pursue proper reporting from designated non-financial businesses and professions (DNFBPs) and increased SARs from entities that seem to be under-reporting, including offshore banks, mutual funds, insurance companies and lawyers. Additional due diligence should be required for politically exposed persons (PEPs) and correspondent banking relationships. 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/CFT operations and investigations. Passage of civil forfeiture legislation and broader use of special investigative techniques should be pursued to strengthen the government's AML 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.

Sudan

Sudan is the largest country in Africa. The Darfur conflict, the aftermath of two decades of civil war in the south, the lack of basic infrastructure in large areas, and a reliance by much of the population on subsistence agriculture ensure much of the population will remain at or below the poverty level for years. Sudan currently has limited access to international financial markets and institutions because of comprehensive U.S. economic sanctions. Traders and other legitimate business persons often carry large sums of bank notes because the electronic transfer of money outside of Sudan is not always possible. These large amounts of cash can complicate enforcement efforts.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial banks, exchange and brokerage shops, securities firms, insurance companies, gambling clubs, estate brokerages, mineral and gem traders, attorneys, and accountants

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Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Commercial banks, exchange and brokerage shops, securities firms, insurance companies, gambling clubs, estate brokerages, mineral and gem traders, attorneys, and accountants

Number of STRs received and time frame: 34 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: Not Applicable

Assets forfeited: criminally: Not applicable *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Sudan is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. A MENAFATF mutual evaluation on-site visit is scheduled for February 2011.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Sudan's Islamist links with international terrorist organizations led to Sudan's 1993 designation as a state sponsor of terrorism. In October 1997, the U.S. imposed comprehensive economic, trade, and financial sanctions against Sudan. In response to the Government of Sudan's (GOS) continued complicity in violence occurring in Darfur, new economic sanctions were imposed in May 2007. The sanctions blocked assets of Sudanese citizens implicated in Darfur violence and sanctioned additional companies owned or controlled by the GOS.

In 2010, Sudan made strides in bringing the legislative basis for its anti-money laundering/counter-terrorist financing regime in line with international standards through passage of "The Money Laundering and Terrorism Financing Act of 2010" (MLFTA). It is unclear whether the implementing regulations for the MLFTA are enforceable. Going forward, Sudan must focus on full implementation of the new law and establishing and empowering effective enforcement institutions, particularly the financial intelligence unit. Sudan has been working to address its shortcomings, including (1) developing adequate procedures for identifying and freezing terrorist assets; (2) working toward a fully operational and effectively functioning financial intelligence unit, including applying to the Egmont Group for membership; (3) ensuring financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to money laundering and terrorist financing and (4) beginning to implement a supervisory program for the regulators to ensure compliance with the provisions of the new law and regulations.

In two recent cases, individuals were detained on suspicion of money laundering after a large amount of currency was discovered in their luggage. Both were able to prove that the funds came from legitimate sources, although one case was turned over to the tax authorities and the other to customs for further investigation.

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 non-banking financial sector (including money exchange businesses or “cambios”), and through a variety of other means, including construction, the sale of gold purchased with illicit money, and the manipulation of commercial bank accounts.

Goods are smuggled into Suriname over the land/river borders with Guyana, Brazil, and French Guiana, as well as via vessels. Other goods are “smuggled” into Suriname via deceptive bills of lading, via the shipping ports. This is done mainly to avoid paying higher import duties. There is little evidence to suggest this is significantly funded by narcotics proceeds or other illicit proceeds. Contraband smuggling is not believed to generate funds that are laundered through the financial system.

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; however, the majority of money laundering proceeds are not linked to this market but are moved through various corporate entities within the formal economy. Offshore banks and shell companies are not permitted in Suriname.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, cambios, public notaries, lawyers, accountants, and insurance companies

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, cambios, public notaries, lawyers, accountants, insurance companies, car dealerships, jewelry stores

Number of STRs received and time frame: 2,358 in 2010

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Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Four in 2010

Convictions: Two in 2010

Assets forfeited: criminally: Not available *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Suriname is a member of the Caribbean Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafig.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Suriname (GOS) should assure all non-financial businesses and professions are subject to and fully implement customer identification and unusual transaction reporting procedures. Additionally, Suriname should ensure that those same entities are subject to adequate supervision and enforcement programs. The GOS should enact its pending legislation to enhance its asset seizure and forfeiture regime. Suriname should implement reforms to enhance the FIU's capacity and authority. Additional efforts need to be made to ensure border enforcement. Customs and appropriate law enforcement need to investigate trade fraud and value transfer. The GOS should criminalize terrorist financing and become a party to the International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption.

Swaziland

Swaziland is not considered a regional financial center. An in-country crime syndicate controls the sale or trade in dagga (marijuana), the proceeds of which may be laundered in Swaziland. There is a general belief that trade-based money laundering exists in Swaziland. There is suspicion that some retail shops are used for laundering money because there is no cash declaration between Swaziland and South Africa. There is also suspicion that cash gained from the sale of marijuana or hard drugs is used to buy goods for retail outlets and to build houses on non-titled land. The country is experiencing an increase in financial crimes related to fraud, as well as pyramid schemes. There is a significant black market for smuggled goods such as cigarettes, liquor, and pirated radio cassettes, videocassettes, and DVDs between Mozambique, South Africa and Swaziland. The smuggling of illegal goods is not funded by narcotics proceeds or other illicit proceeds.

Swaziland has not successfully prosecuted money laundering or terrorist financing cases; however, laws have been put in place to regulate anti-money laundering procedures.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities, real estate brokers, cooperatives, provident fund managers, insurance brokers

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies and pension funds

Number of STRs received and time frame: 0

Number of CTRs received and time frame: Three in the last three years

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Swaziland is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. Swaziland has not yet been subject to a mutual evaluation.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Swaziland has taken several important steps to establish an anti-money laundering/counter-terrorist financing (AML/CFT) regime. However, the slow process of the law and lack of training hamper the government's ability to enforce the Money Laundering Act. The Financial Services Regulation Act became law in June 2010, but regulations have not yet been produced for the implementation of this law.

The Common Monetary Area (CMA) provides a free flow of funds among the four member countries with no exchange controls. Countries signatory to the CMA are South Africa, Swaziland, Lesotho and Namibia. Cash smuggling reports are shared between host government agencies on an informal basis. There are no laws making the sharing mandatory.

The Anti-Corruption Unit and the police's Surveillance and Commercial Fraud Section deal with money laundering crimes. The section is not adequately staffed. The Government of the Kingdom of Swaziland (GOKS) should take steps to improve the capacity and coordination between the police and the Anti-Corruption Commission. The GOKS should establish a financial intelligence unit (FIU).

Sweden

Although Sweden is not considered a major money laundering country, money laundering in Sweden is a growing concern. According to statistics from the Swedish financial intelligence unit (FIU), the amount of suspected money laundering transactions totaled \$882.8 million in 2009.

Money laundering in Sweden occurs primarily through criminal proceeds being integrated and turned over in the financial system or with the help of corporations that use financial system services. Money laundering is further facilitated by criminals having contacts, influence or control over corporations within the financial system. Laundered money emanates from narcotics, tax fraud, economic crimes, robbery, and organized crime and is concentrated primarily in Sweden's large urban regions. Public corruption is not a serious issue in Sweden.

There is not a significant market for smuggled goods in Sweden. Sweden is not an offshore financial center. The police estimate that between 10-15 percent of the payment transfers that take place in the approximately one hundred underground banking outlets and through the hawala system are reported as suspicious transfers. Operators of informal remittance systems are expected to apply Swedish bookkeeping regulations and can be prosecuted if they do not. According to the FIU, suspicious transaction reports (STRs) reveal money leaving Sweden is most often destined for Nigeria, Ghana, Iran, China, the United Kingdom, Thailand, Turkey and the Philippines. Money entering Sweden, cited in STRs, comes from Estonia, Italy, United Arab Emirates, United Kingdom, U.S.A, Turkey, China, and Congo.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here; <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions, insurance companies, securities firms, currency exchange houses, providers of electronic money, money transfer companies, accounting firms, law firms, tax counselors, casinos, gambling enterprises and lottery ticket sale outlets, real estate brokers, and dealers of vehicles, art, antiques and jewelry

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

INCSR 2011 Volume II Country Database

Covered entities: Banks, non-bank financial institutions, independent and certified public accountants, tax advisors, real estate agents, casinos, life insurance and securities companies, insurance brokers, fund companies, companies that issue electronic money, and dealers in antiques, art, precious stones, metals and transport equipment

Number of STRs received and time frame: 9,137 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: **criminally:** Not available **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Sweden is a member of Financial Action Task Force. Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/58/30/46253171.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Most often money laundering is prosecuted as tax evasion, if no other direct connection to crime is found. Less than one percent of the businesses subject to reporting requirements filed charges of money laundering with the FIU in 2009.

In 2010 the Swedish Justice Department ordered a review of the criminalization of money laundering. This inquiry will consider whether the criminalization of money laundering needs to be simplified and clarified, and whether the criminal scope of money laundering should be extended. There is limited co-operation, co-ordination and information sharing among the appropriate authorities and organizations before the stage of preliminary investigation of a suspected crime. This weakness should be remedied through the establishment of a network, working group or similar body involving the relevant authorities and organizations.

Financial institutions are aware of the legal obligation to freeze terrorist assets. However, Sweden has issued insufficient guidance to financial institutions on how to deal with funds of targeted assets and persons. In addition, there is a lack of a national mechanism to consider requests for freezing from other countries (outside the EU mechanism) or to freeze the funds of EU citizens/residents. Additionally, as the scope of the terrorist financing offense does not specifically include funds to be used by a terrorist organization or an individual terrorist for any purpose, the scope of the law may not be compliant with international standards.

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 Russia, the Balkans, Eastern Europe, South America and West Africa, dominate the narcotics-related money

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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 not only contribute to Switzerland's success as a major international financial center, but also expose Switzerland to potential money laundering abuse.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, investment companies, insurance companies, casinos, or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, securities and insurance brokers, money exchangers or remitters, financial management firms, casinos, or individuals acting as intermediaries in bank lending, money transactions, trading of currencies or dealing in matters of wealth management and investment advice

Number of STRs received and time frame: 896 in 2009

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 269 individuals in 2009

Convictions: 172 individuals in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Switzerland is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: (<http://www.fatf-gafi.org/dataoecd/53/52/43959966.pdf>)

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Swiss money laundering regime is generally perceived to conform to international standards and Swiss authorities are regularly updating their legislation. For instance, on October 1, 2010, a new law on PEPs was issued and will reportedly be put into force on January 20, 2011. Additionally, on January 1, 2011, the 26 cantonal codes of criminal procedure were replaced with regulations in the Swiss Penal Code (“Strafgesetzbuch”), designed to unify procedural rules and facilitate international cooperation.

The anti-money laundering (AML) law does not explicitly cover real estate brokers and dealers of arts, antiquities and other high-value goods. Also, for terrorist financing reporting, Swiss authorities distinguish the obligation to communicate (reasonable suspicion) and the right to communicate (simple suspicion) given the degree of suspicion that prevails.

Under the law, measures for insurance companies and other financial intermediaries (excluding banks) are not sufficiently elaborated. Additionally, several measures have been implemented for anonymous companies, but some deficiencies remain as the competent authorities do not have access to the register of the shareholders. Furthermore, a lack of transparency exists in relation to foundations run by non-professionals. The Swiss Financial Market Supervisory Authority (FINMA) is not authorized to impose pecuniary sanctions; it can only issue administrative ones. Furthermore, the breadth of the sanctions may not always take into account the gravity of the crime.

In 2009, approximately 65% of filed suspicious activity reports (SARs) came from the banking sector and seven SARs were linked to suspected terrorist financing. The number of SARs hit an all-time high in 2009. Fraud (37%), embezzlement (10%), organized crime (9%), and money laundering (9%) were the most common predicate/suspected criminal offenses, and nearly two-thirds of all SARs were generated by media reports, third-party information and information from prosecuting authorities. No particular money laundering issues about non-profit organizations, alternative remittance systems, offshore sectors, free trade zones or bearer shares have occurred.

Switzerland has returned more money to the countries of origin than any other financial centre, amounting to a total of \$1.8 billion. Furthermore, Switzerland is involved in many multilateral fora related to asset recovery, corruption and development.

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, industry experts estimate only 20 percent of Syria’s population of nearly 22 million people actually uses banking services. Consequently, some 60 percent of all business transactions are still conducted in cash. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between \$15 and \$70 million per day. Additionally, there continue to be significant money laundering and terrorist financing vulnerabilities in Syria’s banking and non-bank financial sectors due to either a lack of necessary legislation or poor government enforcement of existing laws. Syria’s black market moneychangers are not adequately regulated, and the country’s borders remain porous. Regional hawala networks, intertwined with smuggling and trade-based money laundering, raise significant concerns, including involvement in the financing of terrorism. The most obvious indigenous money laundering threat involves Syria’s political and business elite, whose corruption and extra-legal activities continue unabated.

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There are eight public free trade zones (FTZs) in Syria and five additional free zones are planned in Damascus, Homs, Dayr ez-Zawr, Idleb, and the port of Tartous. In recent years, both China and Iran announced plans to build FTZs in Syria, although Iran later dropped this idea in favor of pursuing a free trade agreement with Syria. China's free zone in Adra was officially inaugurated in July 2008; thirteen businesses have been established in Adra to-date. The volume of goods entering the FTZs 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 FTZs must be registered with the General Organization for Free Zones, part of the Ministry of Economy and Trade, the Syrian General Directorate of Customs continues to lack strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. There are also continuing reports of Syrians using the FTZs to import arms and other goods into Syria in violation of USG sanctions under the Syrian Accountability Act, and a number of United Nations Security Council Resolutions.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks; money exchanges and remitters; issuers of payment instruments such as credit cards, payment cards, travelers checks, and ATM cards; investment funds and their managers; financial brokerages and financial leasing corporations; insurance companies; real-estate brokers and agents; dealers of high-value goods, such as jewelry, precious stones, gold, and antiquities; lawyers; and accountants

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; money exchanges and remitters; issuers of payment instruments such as credit cards, payment cards, travelers checks, and ATM cards; investment funds and their managers; financial brokerages and financial leasing corporations; insurance companies; real-estate brokers and agents; dealers of high-value goods, such as jewelry, precious stones, gold, and antiquities; lawyers; and accountants

Number of STRs received and time frame: 144 from January to November 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Syria is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. Syria's most recent mutual evaluation can be found at: <http://www.menafatf.org/images/UploadFiles/MutualEvaluationReportofSyria.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The United States has designated Syria as a State Sponsor of Terrorism.

In May 2004, the U.S. Department of Treasury found the Commercial Bank of Syria (CBS), along with its subsidiary, the Syrian Lebanese Commercial Bank, to be a financial institution of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act. This finding resulted from information that CBS had been used by terrorists or persons associated with terrorist organizations as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil, and because of continued concerns that CBS was vulnerable to exploitation by criminal and/or terrorist enterprises. In April 2006, Treasury promulgated a final rule, based on the 2004 finding and proposed rule-making, prohibiting U.S. financial institutions from maintaining or opening correspondent or payable-through accounts with CBS or its Syrian Lebanese Commercial Bank subsidiary.

Most Syrian judges are not yet familiar with the evidentiary requirements of the anti-money laundering law. Furthermore, the slow pace of the Syrian legal system and political sensitivities delay quick adjudication of these issues. The lack of expertise, further undermined by a lack of political will, continues to impede effective implementations of existing AML/CFT regulations.

Although Decree 33 provides the Central Bank with the legal basis to combat money laundering, most Syrians still do not maintain bank accounts or use checks, credit cards, or ATM machines. The Syrian economy remains primarily cash-based, and Syrians use moneychangers, some of whom also act as hawaladars, for many financial transactions. As a step to enhancing oversight of moneychangers, in 2006 a law was passed to cover moneychangers; however, they remain largely unregulated.

In addition to cash smuggling, there is also a high rate of commodity smuggling out of Syria. It has been reported 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. While customs has started to enact some limited reforms, including the computerization of border outposts to interface with other government agencies, problems of information-sharing remain.

While Syria has made modest progress in implementing AML/CFT regulations that governs the formal financial sector, the continuing lack of transparency of the state-owned banks and their vulnerability to political influence reveal the absence of political will to address AML/CFT in the largest part of the banking sector. In addition, non-bank financial institutions and the black market will continue to be vulnerable to money laundering and terrorist financiers. To build confidence in Syria's intentions, the Central Bank should be granted independence and supervisory authority over the entire sector. Additionally, the Government of Syria (GOS) should enact the draft AML/CFT law to address many of the remaining deficiencies. Upon enactment of the new law, Syria will need to work actively to

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effectively implement its provisions through appropriate regulation and other related action. The GOS should become a party to the UN Convention against Corruption.

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/CFT 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 system has not been created. In addition, it remains doubtful whether the GOS has the political will to combat terrorist financing by classifying as terrorist organizations what it currently deems legitimate resistance groups, or to address the corruption that exists through all levels of government and business. There is no obligation requiring financial institutions to report suspicious attempted transactions or those related to terrorist financing. Many non-bank financial institutions continue to be unfamiliar with the requirements of the law.

Taiwan

Taiwan's modern financial sector, strategic location on international shipping lanes, and role as an international trade hub make it vulnerable to transnational crimes, including money laundering, drug trafficking, trade fraud, and smuggling. Though illegal in Taiwan, a significant volume of informal financial activity takes place through unregulated non-bank channels. In recent years Taiwan has taken steps to shift much of this activity into official, regulated financial channels. Taiwan has five free trade zones and a growing offshore banking sector. There is no significant black market for smuggled goods in Taiwan.

Domestic money laundering is generally related to tax evasion, drug trafficking, public corruption, and a range of economic crimes. An emerging trend in money laundering is the use of jewelry stores as a type of underground remittance system. Jewelers convert illicit proceeds into precious metals, stones, and foreign currency, and generally move them using cross-border couriers. The tradition of secrecy in the precious metals and stones trade make it difficult for law enforcement to detect and deter money laundering in this sector.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

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Covered entities: Banks, credit co-operative associations, credit departments of Farmers' Associations and Fishermen's Associations, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit co-operative associations, credit departments of Farmers' Associations and Fishermen's Associations, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, jewelry stores, and members of the National Real Estate Broking Agencies Association

Number of STRs received and time frame: 1,845 (January - December 2009)

Number of CTRs received and time frame: 2,963, 282 (January - December 2009)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 39 persons (January - December 2010)

Convictions 11 persons (January - December 2010)

Assets forfeited: *criminally:* NT\$593.8 million (approximately \$20.1 million) - January - December 2010 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Taiwan is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.apgml.org/documents/docs/17/Chinese%20Taipei%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Taiwan continues to strengthen its AML/CFT regime. However, the government has not passed legislation that would address weaknesses in terrorist financing prevention measures, despite numerous draft laws over the past several years. While the financing of terrorist activities in Taiwan is a criminal offense, it is not an autonomous offense, and does not specifically cover the financing and support of terrorist activities overseas. Taiwan should pass legislation to criminalize terrorism and terrorist financing as an autonomous crime, and clarify that the law covers such activities overseas.

Many types of designated non-financial businesses and professions are not subject to AML/CFT requirements. The lack of reporting, customer due diligence and recordkeeping requirements makes these entities particularly vulnerable to money laundering/terrorist financing activity. Taiwan should take steps to amend its legislation and regulations, as necessary, to bring all DNFBPs, as listed in the international standards, within the scope of its AML/CFT coverage.

Foreign politically exposed persons (PEPs) are not subject to enhanced due diligence. Taiwan's Financial Supervisory Commission, the top financial regulator in Taiwan, is establishing a databank for "high profile politicians" in an effort to prevent money laundering. Once established, financial institutions will be required to identify, record, and report the identities of high-profile customers engaging in significant or suspicious transactions.

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Taiwan is unable to ratify UN conventions because of long-standing political issues. However, it has enacted domestic legislation to implement the standards in the key AML/CFT UN Conventions. Amendment of the money laundering legislation incorporated related laws to fully implement the provisions of the Vienna, Palermo and terrorist financing conventions and resolutions.

Taiwan should raise awareness of the vulnerabilities of non-profit organizations to terrorist financing, and should exert more authority over this sector. The government should abolish all shell companies and prohibit the establishment of new shell companies of any type. Given the increasing threat of alternative remittance centers such as the precious metals and stones sector, Taiwan's law enforcement should enhance investigations of underground financial systems.

Taiwan began to draft new legislation of the Mutual Assistance Act for Criminal Justice in January of 2010. In the draft legislation, mutual legal assistance request doesn't need to initiate judicial proceedings as precondition in requesting jurisdiction.

Tajikistan

Tajikistan operates largely on a cash economy and with decentralized accounting systems, which makes money laundering difficult to detect. Money laundering schemes are relatively easy to perpetrate due to the absence of strict record keeping laws for financial institutions.

Criminal proceeds laundered in Tajikistan are derived from both foreign and domestic criminal activity related to the large amounts of opium and heroin trafficked from Afghanistan to Russia via Tajikistan. Corruption related to large scale industries, such as aluminum production, also presents serious risks. The money laundering proceeds are controlled by high level drug trafficking networks, with some smaller actors involved. It is suspected high-level corruption facilitates the drug trade and its associated money laundering. Tajik authorities have reported that some unlawfully derived proceeds are handled through offshore accounts in the Middle East. Large scale smuggling of domestic goods occurs in Tajikistan to avoid customs duties and local taxes.

In February 2010, Tajikistan introduced a Voluntary Tax Compliance (VTC) program that is to remain in force until December 2011 and that appears to conflict with international AML/CFT standards. The VTC program applies to undeclared and repatriated funds belonging to citizens and legal persons of Tajikistan that are transferred from foreign banks to banks in Tajikistan. Repatriated funds—including proceeds of certain offenses that are money laundering predicates under the FATF Recommendations--are exempted from criminal responsibility. Moreover, the Tajik authorities are obliged to ensure confidentiality of the funds transferred into banks in Tajikistan under the program, establishing bank secrecy requirements that undermine effective AML regulatory supervision and law enforcement activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>).

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks money remitters, insurance companies and securities firms

Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS: NO

Covered entities: Not applicable

Number of STRs received and time frame: Not applicable

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: One since 2008

Convictions: None

Assets forfeited: criminally: None civilly: None

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Tajikistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation report can be found here: <http://www.eurasiangroup.org/files/MERs%20-%20ENG/tajikistan.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Tajikistan (GOT) has customs information exchange agreements with Uzbekistan, Kyrgyzstan, Afghanistan, Iran, Turkey, China, Russia, and Belarus.

The GOT has not implemented many of its treaty obligations in domestic law. UNSCR 1373 has been partially implemented, but the freezing of terrorist assets is still not codified in the laws of Tajikistan. The authorities can confiscate property belonging to terrorist organizations under the Law on Combating Terrorism. The proceeds from the financing of terrorism offenses can also be confiscated under the Criminal Procedure Code. However, these measures do not permit freezing of terrorist assets without delay, and UNSCR 1267 has not been used for this purpose. Banks and non-banking institutions report the lists of designated persons under UNSCR 1267 have not been distributed. The Criminal Code criminalizes terrorist financing, but it does not apply to individual terrorists.

The absence of legally mandated customer due diligence requirements makes it very difficult for authorities to detect financial crime or money laundering. Article 262 of the Criminal Code criminalizes money laundering, but does not meet international standards. The Criminal Code states confiscation of the offender's belongings is possible in certain cases but also specifies exceptions. In 2008, the Tajik Parliament adopted the Law on Executive Proceedings that enables asset-seizure mechanisms.

Tanzania

Tanzania is not an important regional financial center. Tanzania's location at the crossroads of southern, central and eastern Africa leaves it vulnerable to activities that generate illicit revenue, such as smuggling, and the trafficking of narcotics, arms, and humans. The major profit generating crimes in Tanzania include theft, robbery, corruption, smuggling of precious metals and stones, and drug trafficking. With only twelve percent of the population engaged in the formal financial sector, money laundering is more likely to occur in the informal non-bank sectors. Officials indicate the offshore sector and free trade zones are not currently significant areas of concern. Criminals have been known to use front companies, including hawaladars and bureaux de change, to launder funds, though these are not currently significant areas of concern for Tanzanian anti-money laundering officials. The use of front companies to launder money is especially common on the island of Zanzibar, where fewer federal regulations apply. Officials indicate that money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry and bulk cash smuggling. Real estate and used car businesses also appear to be sources of money laundering in Tanzania.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: List approach

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and financial institutions; cash dealers; accountants; art, metal, and precious stone dealers; customs officials; and legal professionals

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and financial institutions; cash dealers; accountants; realtors; art, precious metals and stone dealers; casino and gaming operators; regulators and customs officials; and legal professionals

Number of STRs received and time frame: 20 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* 0 *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Tanzania is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.esaamlg.org/reports/me.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Tanzania does not have formal records exchange mechanisms, though the Ministry of Foreign Affairs and central Bank of Tanzania do cooperate with other governments via memoranda of understanding.

Tanzania has serious deficiencies in its legislation and AML/CFT regime. Among the key issues are the inadequate criminalization of terrorist financing; deficiencies in the mechanisms to freeze and confiscate terrorist assets, including a lack of implementing regulations to give effect to the freezing mechanism under the Prevention of Terrorism Act for the purposes of UNSCRs 1267 and 1373; a lack of enforceable requirements to ensure customer due diligence (CDD); weaknesses in supervision of the financial sector; a focus mainly on the formal banking sector rather than full coverage of designated non-financial businesses and professions (DNFBPs); ineffective provisions pertaining to recordkeeping, including a threshold approach to recordkeeping requirements; and weaknesses in the structure and function of Tanzania's financial intelligence unit, including the lack of designated competent authorities responsible for ensuring compliance by financial institutions and inadequate provisions to safeguard the operational independence of the FIU.

Nevertheless, the Government of Tanzania (GOT) has made improvements in its compliance with international AML/CFT standards. In January 2010, legislation mirroring the mainland Anti-Money Laundering Act came into force in Zanzibar. The Zanzibar legislation does not recognize the jurisdiction of the mainland FIU and National AML Committee; however, the GOT has agreed in principle to amend this. The GOT should focus its efforts on practical implementation of the AMLA, including dedicating the resources necessary to build an effective FIU. The FIU should continue its efforts to hire additional staff to ensure 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. Tanzania should work to increase the level of awareness and understanding of money laundering issues in the financial, law enforcement and judicial areas and should allocate the necessary human, technical, and financial resources to implement its AML/CFT regime. The GOT should ensure the Prevention of Terrorism Act comports with international standards and authorities implement all provisions in the law. The GOT should also improve its cross-border cash declaration regime. The capacity of Tanzanian police and customs officials to recognize money laundering and value transfer methodologies used in the region should be raised.

Thailand

Thailand is a centrally located, middle-income 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

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well as non-bank financial institutions and businesses to move the profits of narcotics trafficking and other criminal enterprises. In the informal money changing sector there is an increasing hawala-type money shop presence servicing Middle Eastern travelers in Thailand, most of them arriving to avail themselves of the country's comparatively inexpensive medical services. The Thai banking regulations cover these institutions adequately, but effective oversight of the least formal operations is difficult to achieve.

Thailand is a source, transit, and destination 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 gaming, corruption, underground lotteries, and prostitution are all problems. Thailand's criminal justice system has low capacity to deal with these challenges but is improving.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.?: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks (including state banks), finance companies, securities dealers, insurance companies, money exchanges and remitters, asset management companies, jewelry and gold shops, automotive hire-purchase businesses or car dealers, real-estate agents/brokers, antique shops, personal loan businesses, electronic card and credit-card businesses, electronic payment businesses, and deposit/lending cooperatives

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks (including state banks); finance and factoring companies; securities dealers; insurance companies; money exchanges and remitters; asset management companies; financial management firms; jewelry and gold shops; automotive hire-purchase businesses or car dealers; real-estate agents/brokers; antique shops; personal loan businesses; electronic payment, card and credit-card businesses; deposit/lending cooperatives; and the Ministry of Interior's Department of Lands

Number of STRs received and time frame: 616,148 from January 1 – October 31, 2010

Number of CTRs received and time frame: 522,318 from January 1 – October 31, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

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Prosecutions: 15 from October 2007 – March 2008

Convictions: Not available

Assets forfeited: *criminal:* None *civil:* \$529,000 from October 2007 – March 2008

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Thailand is a member of Asia/Pacific Group against Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

www.apgml.org/documents/docs/17/thailand

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Thai law does not provide for enhanced due diligence for politically exposed persons nor does it adequately prohibit “tipping off,” leaving financial institutions and their employees subject to potential liability for filing STRs. Furthermore, there is no comprehensive cross-border currency reporting or seizure system. The Government of Thailand should amend its legislation as necessary to ensure these deficiencies are corrected.

There have been no prosecutions since 2008. Both the AML Board and Transaction Committee were dissolved several years ago. The Transaction Committee approves seizures for civil forfeiture. Thailand has had no seizures for forfeiture since the Transaction Committee was disbanded. A new AML Board was appointed in November, 2010.

Thailand should become a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

During 2010, the FATF identified Thailand as a jurisdiction with significant AML/CFT vulnerabilities. In response, the Thai government expressed high-level political commitment to address deficiencies in its AML/CFT regime, and reported taking steps to address these deficiencies. For example, the Thai government drafted a proposed Counter-Terrorism Financing Act which, in part, would criminalize the collection or provision of funds for the purpose of supporting terrorist acts or organizations. However, important actions are still pending, including passage of key amendments and regulations which will augment the current AML/CFT regime. The Thai FIU lacks clear leadership, with a new Secretary General yet to be appointed. For AMLO to become a sophisticated agency able to take substantial casework, it will need to build extensive institutional capacity and political will.

Timor-Leste

Timor-Leste is not a regional or offshore financial center, and has no free trade zones. The economy is cash based, and the Ministry of Finance estimates only 1.3 percent of Timorese regularly use banking facilities. Private sector growth is hampered by a lack of human capital and regulatory capacity. The national economy depends on petroleum and natural gas revenues and assistance from international donors.

Timor-Leste has experienced relative stability over the past three years but remains in a state of transition. Governmental institutions are still being established, and legal and financial systems are limited. Years of violent conflict devastated Timor-Leste’s physical infrastructure, which has compromised the

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government's ability to provide reliable basic services. Continued stability will depend on ongoing efforts to professionalize and bolster the capacity of law enforcement and security institutions.

Weak controls at the land border with Indonesia and even weaker maritime border controls make Timor-Leste vulnerable to smuggling, organized crime, and terrorist activities. Narcotics trafficking is not considered a significant source of illegal proceeds, but the inadequacy of reporting and data systems makes it difficult to track cross-border activities.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not applicable

Legal persons covered: criminally: NO *civily:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Not applicable

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Not applicable

Number of STRs received and time frame: Not applicable

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: None *civily:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Timor-Leste is not a member of any a Financial Action Task Force (FATF)-style regional body (FSRB).

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Timor-Leste lacks critical AML/CFT controls; and low technical, financial, and human capacity make it difficult to enforce adequately the laws that are in place. The National Parliament is considering a draft AML/CFT law, which is not expected to pass before the end of 2011. The draft law uses an “all serious

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crimes” approach to the predicate offense, and also covers legal persons. It contains provisions for immediately freezing terrorist assets and allows asset forfeiture. The draft law contains “know your customer rules” that cover financial institutions and non-financial businesses and professions, and specifies suspicious transaction reporting requirements for covered entities. The draft law would also provide a records exchange mechanism between Timor-Leste, the United States and other nations. The Government of Timor-Leste should make passage of this law a priority.

Recently, the Asia/Pacific Group on Money Laundering (APG), an FSRB, dispatched a working group to Timor-Leste to discuss performing a mutual evaluation during 2011. The date of that evaluation has not been determined.

Togo

Togo’s poor financial infrastructure and small size make its financial institutions unlikely venues for money laundering. Its porous borders, however, combined with its susceptibility to corruption, make it a transshipment point in the region and sub-region for the narcotics trade. Most narcotics passing through Togo are believed destined for European markets.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: Not available

Legal persons covered: criminally: YES *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and financial institutions

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and financial institutions

Number of STRs received and time frame: Three in 2010

Number of CTRs received and time frame: Three in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Six in 2010

Convictions: None

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Togo is a member of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), a Financial Action Task Force-style regional body. A mutual evaluation of Togo was scheduled for 2010, and once adopted, will be found here: <http://www.giaba.org/#>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Togo's anti-money laundering laws, including the 2009 law covering terrorism-related financing, are enforced by a national agency called the Cellule Nationale de Traitement des Informations Financieres (CENTIF). It investigates suspicious bank transfers as well as attempts to transport money across borders in excess of the amounts allowed by law.

Both Togo's laws and the enforcement efforts of the CENTIF are relatively new and still gaining traction, as evidenced by the six prosecutions this year as opposed to none last year. However, the Government of Togo should ensure continued funding and support for the CENTIF, as well as greater efforts to combat corruption.

Tonga

Tonga is an archipelago located in the South Pacific, about two-thirds of the way from Hawaii to New Zealand. Tonga is neither a financial center nor an offshore jurisdiction. It has only three commercial banks. Remittances from Tongans living and working abroad are the largest source of hard currency earnings, followed by tourism. Tonga is deemed by local police authorities to be vulnerable to smuggling and money laundering due to inadequate border controls.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks

Number of STRs received and time frame: 17 in 2009

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Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2010

Convictions: None

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Tonga is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

<http://www.apgml.org/documents/default.aspx?DocumentCategoryID=17>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Tongan Transaction Reporting Authority (TRA) is generally vested with the powers of a financial intelligence unit (FIU) although there are some serious limitations in its powers. The TRA's functions under the Money Laundering and Proceeds of Crime Act do not explicitly include analysis of suspicious transaction reports (STRs); and lack of timely access to financial, administrative and law enforcement information severely limits the TRA's ability to effectively analyze STRs.

Tongan authorities feel a primary reason why there is a lack of investigations into money laundering is that there are insufficient resources and expertise in most of the relevant agencies. Money laundering activities may be occurring outside of the formal banking system by way of alternative remittance systems.

Trinidad and Tobago

Trinidad and Tobago (TT) has a well-developed banking sector, and its importance as a regional financial center has increased in recent years. With few barriers to trade or international commerce, the potential for illegal financial flows continues.

Drug-trafficking, illegal arms sales and fraud continue to be the most likely sources of laundered funds. Illicit drug trafficking is considered the primary motive for money laundering. It is suspected that criminal assets laundered in TT are derived from domestic criminal activity as well as from the activity of nationals involved in crime abroad. 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. There is no significant black market for smuggled goods in TT, but the incidence of drug money supporting illegal arms imports is thought to be growing. Officials in the financial community report that funds generated from the arms and ammunition trade are being laundered through the financial system, mainly through simple bank branch currency trades below the suspicious activity reporting threshold. There are indications trade-based money laundering occurs in Trinidad, though the evidence is speculative, not empirical.

TT does not have a significant traditional offshore business sector. Although its banking system is regarded as one of the strongest and most efficient in the region, costs of banking are higher here than neighboring countries due to limited exploitation of new technology and limited competition. Local

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banks do offer foreign currency accounts, but there is no interest offered, so customers have no incentive to maintain US cash reserves in the bank for extended periods of time.

There are six free trade zones (FTZs) in Trinidad and Tobago where exporting of manufactured products takes 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance houses, insurance companies, securities dealers, investment advisors, real estate agents, motor vehicle dealers, gaming enterprises, national lotteries, jewelers, accountants, attorneys or other independent legal professionals, art dealers, trust and company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, finance houses, insurance companies, securities dealers, investment advisors, real estate agents, motor vehicle dealers, gaming enterprises, national lotteries, jewelers, accountants, attorneys or other independent legal professionals, art dealers, trust and company service providers

Number of STRs received and time frame: 199 from February to December 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: criminally: \$0 in 2010 *civily:* \$0 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

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Trinidad and Tobago is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.cfatf-gafic.org/mutual-evaluation-reports.html>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

During 2010, the FATF identified Trinidad and Tobago as a jurisdiction with significant AML/CFT vulnerabilities. In response, the Government of Trinidad and Tobago (GOTT) has made high-level political commitments to address its deficiencies, including implementing adequate procedures to identify and freeze terrorist assets without delay, implementing procedures for the confiscation of funds related to money laundering, and ensuring Trinidad and Tobago's financial intelligence unit (FIU), established by law in October 2009, would be fully operational. In November 2010, the Cabinet approved regulations pertaining to the Trinidad and Tobago FIU, although a director was not appointed in 2010.

Tunisia

Tunisia is not considered an important regional financial center. Tunisia has strict currency exchange controls which authorities believe mitigate the risk of international money laundering. There is a low level of crime in Tunisia. The primary domestic criminal activities that generate laundered funds are clandestine immigration, trafficking in stolen vehicles, and narcotics. There also is informal economic activity involving smuggled goods. However, there is no evidence to suggest significant levels of narcotics are involved or that smuggling generates funds that are laundered through the financial system.

As of yearend 2009, Tunisia had eight offshore banks and a considerable number of offshore international business companies. Tunisia also has two free trade zones, in Bizerte and Zarzis, with a limited number of companies manufacturing products for export. There are no offshore financial institutions located in either free trade zone.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's 2009 Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/2009/140886.htm>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: All financial institutions

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: All financial institutions and financial intermediaries

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Tunisia is a member of the Middle East North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: http://www.menafatf.org/images/UploadFiles/MENAFATF.7.07.E.P5R2%20_with%20response_.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Tunisia (GOT) should continue to implement and enhance its anti-money laundering/counter-terrorist financing (AML/CFT) regime. GOT authorities should disseminate statistics and benchmarks such as prosecutions and convictions that will aid in measuring progress. Since Tunisia has strict currency controls, in all likelihood informal remittance systems such as hawala are prevalent. Authorities should examine underground finance and its possible link to money laundering and extremist finance. Regionally, invoice manipulation and customs fraud is often involved in hawala counter-valuation. As a result, authorities should be aware of trade-based laundering and value transfer.

All offshore financial institutions are held to the same regulatory standards as onshore financial institutions. Offshore financial institutions undergo the same due diligence process as onshore banks and are licensed only after the Central Bank investigates their references and the Ministry of Finance approves their applications. Anonymous directors are not allowed. Offshore international business companies are subject to all regulatory requirements, except for tax requirements and currency convertibility restrictions. Bearer financial instruments or shares are strictly prohibited.

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. While the vast majority of Turkey's economy is legitimate, money laundering is a problem. Turkey continues to be a major transit route for Southwest Asian opiates moving to Europe. However, narcotics trafficking is only one source of the funds laundered in Turkey. Other significant sources of laundered funds include invoice fraud and tax evasion, and to a lesser extent, smuggling, counterfeit goods, and forgery. 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, non-bank financial institutions, and the underground economy. The World Bank estimates as much as 30 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

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sometimes gold via couriers, the underground banking system, and bank transfers to pay narcotics suppliers in Pakistan or Afghanistan. Funds are transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and regulated financial institutions, including the Central Bank; securities companies; post office banks; Islamic financial houses; and exchange offices

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; card issuers; consumer finance, financial leasing and factoring companies; insurance companies, lotteries, vehicle sales outlets, antique dealers, pension and mutual funds, exchange houses, dealers in art, high-value goods, precious stones and precious metals, and precious metals exchange intermediaries, notaries, sports clubs, real estate companies, capital and portfolio management companies, postal service and cargo companies

Number of STRs received and time frame: 9,823 in 2009; 6,718 through August 24, 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 279 from 1997-2009; 15 in 2009

Convictions: 22 from 1997-2009; three in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Turkey is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: <http://www.fatf-gafi.org/dataoecd/14/7/38341173.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Turkish Criminal Court records are closed to the public. According to statistics from Turkey's financial intelligence unit, Financial Crimes Investigation Board (MASAK), between 2005 and 2009, 342 money laundering cases were referred for further investigation, but only 22 cases resulted in convictions. In 2009, the 15 prosecutions resulted in three convictions. There are still 188 cases pending in the courts. Moreover, all of the convictions are reportedly under appeal. There is a lack of specialization and understanding of anti-money laundering/counter-terrorist financing (AML/CFT) provisions among relevant authorities, which has contributed to the high number of acquittals in money laundering cases.

Turkey and the United States cooperate closely on narcotics and money laundering investigations.

Although legal persons are subject to criminal liability, the sanctions against such entities are limited. There is no mandated enhanced due diligence for PEPs; banks are simply encouraged to give closer scrutiny to such customers.

The Government of Turkey's (GOT) non-profit sector is likely vulnerable to abuse by terrorist financing. The Turkish government is still developing the investigative skills, law enforcement expertise, financial oversight and outreach necessary to effectively counter this threat. The nonprofit sector is not audited on a regular basis for counter-terrorist finance vulnerabilities and does not receive adequate AML/CFT outreach or guidance from the GOT. The General Director of Foundations issues licenses for charitable foundations and oversees them. However, there are a limited number of auditors to cover more than 70,000 institutions.

Laws related to terrorist financing are limited to acts committed by members of organizations operating against the Turkish Republic, so 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 threat. While the GOT has implemented UNSCR 1267, it has not yet established punishment or sanctions for institutions that fail to observe a freezing order, and it has not yet 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.

In February 2010, the FATF identified Turkey as a jurisdiction with significant AML/CFT vulnerabilities, chief among them Turkey's lack of adequate criminalization of terrorist financing and national asset freezing mechanisms. The GOT adopted an action plan designed to commit to a timeline for implementing new legislation. A draft law on the "Prevention of Terrorism Financing" intended to address the CFT deficiencies is currently within the Prime Ministry where it is being reviewed by experts.

Turkmenistan

Turkmenistan is not a regional financial center. There are only five international banks and a small, underdeveloped domestic financial sector. Foreign companies operate three casinos in Turkmenistan, which under certain conditions could become vulnerable to financial fraud and used for money laundering. Corruption related to natural resource extraction is a problem and transfer of funds remains opaque. Given Turkmenistan's shared border with Afghanistan, money laundering in the country could involve proceeds from illegal narcotics (primarily opium and heroin) trafficking and trade, derived primarily from domestic criminal activities. Although there is no information on cash smuggling, gasoline and other commodities are smuggled routinely across the national borders.

There are no offshore centers in the country. The current Law on Free Economic Zones (FEZs) in Turkmenistan regulates business in these zones. There are ten FEZs in Turkmenistan that were all created

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prior to 1998. Businesses operating in a FEZ are exempt from taxes on profits for the first three years of profitable operation.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: *criminally:* YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks and other credit institutions

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks and other credit institutions, money remitters, foreign currency dealers, and money exchangers; professional participants in the securities market, commodity exchangers, and firms taking cash payments for investments; leasing organizations; insurance organizations; precious metals and stones dealers; accountants, lawyers, notaries, and other legal professionals; real estate agents; lottery prizes or gaming entities; charitable foundations; and, pawnshops

Number of STRs received and time frame: 12,551 in 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: None in 2010

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

In June 2010, Turkmenistan became a member of Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force (FATF)-style regional body. Turkmenistan had its first mutual evaluation in November 2010. Once adopted, the evaluation report will be available here: <http://www.eurasiangroup.org/mers.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On June 25, 2010 the FATF moved Turkmenistan from the Public Statement List, which includes countries with the worst AML/CFT records, to the list of those countries which have demonstrated political will and have adopted action plans to improve their AML/CFT regimes.

In May 2009, the government adopted a law “On Combating the Legalization of Criminal Proceeds and the Financing of Terrorism” (AML/CFT Law). In January 2010, the government established a financial intelligence unit under the Ministry of Finance to strengthen its anti-money laundering efforts. However, the FIU lacks sufficient autonomy, resources and capacity to function effectively and to ensure all covered entities are aware of their responsibilities under the law, including the requirement to report suspicious transactions, ensure proper customer identification and conform to international standards. The government does not provide the necessary training and capacity building to government entities with supervisory, investigative and prosecutorial responsibilities.

Foreign embassies provide terrorist financing information regarding UN and U.S.-designated individuals and organizations subject to asset forfeiture to the Ministry of Foreign Affairs (MFA). The MFA reports that it distributes such information to the Ministry of Finance, the Ministry of National Security, the Ministry of Internal Affairs, and other concerned agencies. It is not clear whether financial institutions receive the information. There have been no reports of arrests, prosecutions or convictions for money laundering or terrorist financing during 2010.

Amendments and addenda put into the Criminal Code on May 14, 2010 include the criminalization of terrorist financing. While laws exist, the government does not have an independent national system or mechanism for freezing terrorist assets. There are no reports that authorities identified, froze, seized, and forfeited assets related to terrorist financing in 2010.

Turks and Caicos

The Turks and Caicos Islands (TCI) is a United Kingdom (UK) overseas territory with a population of approximately 36,000. The economy depends greatly on tourism and its offshore financial sector. Financial services contributed almost 30 percent of GDP. The TCI is vulnerable to money laundering due to its significant offshore financial services sector and notable deficiencies in its anti-money laundering/counter-terrorist financing (AML/CFT) regime. The country’s geographic location has made it a transshipment point for narcotics traffickers.

The TCI’s well developed financial sector is comprised, as of October 2010, of nine banks; seven money remitters, 18 professional trustees, six securities firms, and 4,972 insurance companies. As of March 2010, 706 “exempt companies” or International Business Companies (IBCs) were of record with the Companies Registry. 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 country also has two legal casinos.

The Financial Services Commission (FSC) licenses and supervises banks, money transmitters, mutual funds and funds administrators, investment dealers, trust companies, insurance companies and agents, company service providers and designated non-financial businesses. It also licenses IBCs and acts as the Company Registry for the TCI.

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In August 2009, the UK government suspended the authority of the TCI government after serious allegations of corruption, and TCI is now ruled directly by the UK government through the Governor.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit card services, company managers, domestic insurance companies, insurance brokers/agents, investment dealers, money transmitters, mutual funds, professional trustees, dealers in high value goods, dealers in precious metals and stones, estate agents, casinos, accountants, auditors, and lawyers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit card services, company managers, domestic insurance companies, insurance brokers/agents, investment dealers, money transmitters, mutual funds, professional trustees, dealers in high value goods, dealers in precious metals and stones, estate agents, casinos, accountants, auditors, and lawyers

Number of STRs received and time frame: 58 in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Three in 2010

Convictions: Two in 2010

Assets forfeited: criminally: 0 *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

TCI is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation cannot be found on the CFATF website. Its most recent mutual evaluation report can be found at: http://www.cfatf-gafic.org/downloadables/mer/Turks_and_Caicos_Islands_3rd_Round_MER_%28Final%29_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

No formal exchange mechanism exists between the U.S. and TCI, although TCI cooperates readily with foreign governments. TCI is subject to the US/UK Extradition Treaty.

The Proceeds of Crime (Amendment) Ordinance, 2010 came into force on May 24, 2010. The Ordinance improves record keeping and STR reporting, and strengthens due diligence requirements. However, deficiencies remain, including weaknesses in: determining beneficial ownership of legal persons or legal arrangements; cross-border currency controls; and effective dissemination of designated terrorists lists. The Counter-Terrorism (Terrorist Financing, Money Laundering and Certain Other Activities: Financial Restrictions) (Turks and Caicos Islands) Order, 2010 came into force on March 18, 2010. This Order was extended to the Turks and Caicos Islands by the United Kingdom and, among other things, improves STR reporting for suspected terrorist financing activity and enhances the regulatory regime. The Financial Services ((Financial Penalties) Regulations, 2010 have been signed and published and took effect on October 29, 2010. A new AML/CFT Code has been drafted and is expected to be enacted shortly.

TCI is a United Kingdom (UK) Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the TCI's international affairs and may arrange for the ratification of any convention to be extended to the TCI. The 1988 Drug Convention was extended to the TCI in 1995. The UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime (UNTOC) have not yet been extended to the TCI. The UNTOC has been implemented in the Turks and Caicos Islands by various Orders in Council which were made in the UK and have legislative effect in the Turks and Caicos Islands.

Authorities should issue and implement the draft AML/CFT Code. The responsibilities of DNFBBPs to report and conform to AML/CFT regulations should be more clearly articulated, in particular for casinos. TCI should consider implementing 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. While this occurs in practice, having a formal system in place would ease such actions.

Uganda

Uganda is not a major hub for narcotics trafficking or terrorist financing, but it is a growing site for money laundering. Ugandan efforts to combat money laundering are hampered by the continued absence of comprehensive anti-money laundering legislation, severe resource constraints, and internal government corruption. Counterfeit U.S. currency is a recurring problem. Uganda's inability to monitor formal and informal financial transactions, particularly along porous borders with Sudan, Kenya, Tanzania, and the Democratic Republic of Congo render Uganda vulnerable to more advanced money laundering activities and potential terrorist financing. Money laundering in Uganda derives from a wide range of activities, including government corruption, misappropriation of public funds and foreign assistance, abuse of the public procurement process, abuse of religious charities, land speculation, car theft, arms and natural resource smuggling, and exchange control violations. Uganda's active informal economy also provides a fertile environment for money laundering as Uganda's black market for smuggled and counterfeit goods takes advantage of porous borders and lack of customs and tax collection enforcement capacity.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

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“All serious crimes” approach or “list” approach to predicate crimes: Not applicable

Legal persons covered: *criminally:* NO *civilly:* NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, finance companies and microfinance institutions, foreign exchange bureaus, insurance companies and the securities sector

Enhanced due diligence procedures for PEPs: *Foreign:* NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, finance companies and microfinance institutions, foreign exchange bureaus, insurance companies and the securities sector

Number of STRs received and time frame: 80 reports in 2010

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: NO

Uganda is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation report can be found here: http://www.esaamlg.org/userfiles/UGANDA_MER1.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Uganda has not criminalized money laundering. The Uganda Anti-Money Laundering Committee (UAMLC), comprised of multiple Ugandan government ministries and chaired by the Bank of Uganda (BOU), has worked with advisors to draft a comprehensive anti-money laundering (AML) bill based on international standards. The UAMLC completed the draft AML bill in 2003, and Cabinet approved the bill in January 2005. The draft legislation was submitted to Parliament in 2009 and has not come up for a vote.

Current efforts to combat money-laundering are piecemeal and based on other legislation such as the Anti-Terrorist Act of 2002 and the Financial Institutions Act of 2004. The Anti-Terrorist Act makes terrorist financing illegal, but does not place it in the overarching framework of money laundering, and

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there is no evidence that it has been used to effectively prosecute financiers of terrorism. There is no suspicious transaction reporting requirement for terrorist financing under this act.

The Financial Institutions Act provides the BOU with the ability to freeze accounts they believe hold funds which are the proceeds of crime, but does not provide procedures for releasing funds or forfeiture. It also gives the BOU authority to set know-your-customer and suspicious transaction reporting requirements for financial institutions, foreign exchange bureaus, and deposit-taking microfinance institutions. However, reporting procedures remain unclear and insufficient whistleblower protection limit the efficacy of these regulations. The Insurance Commission and Capital Markets Authority also have know-your-customer and suspicious transaction reporting guidelines for their regulated entities, but no firm regulations.

The Criminal Investigations Department (CID) of the Ugandan Police Force is responsible for investigating financial crimes. However, until Parliament approves the AML legislation, the CID maintains only limited authority to investigate and prosecute money laundering violations. The CID is understaffed and lacks adequate training in financial investigation techniques related to AML and terrorist financing. Internal corruption within the CID also hampers police investigative capacity. According to GOU officials, criminals often have access to technology that is more sophisticated than what is available to police investigators. The Inspectorate General of Government has the power to investigate cases brought to it by the public, but in practice has not investigated AML and terrorist financing cases.

Many Ugandans working abroad use an informal cash-based remittance system to send money to their families. Annual remittances are Uganda's largest single source of foreign currency and totaled \$414 million in 2008/2009. Remittances are used primarily for consumption purchases.

Counterfeit U.S. currency is a problem. In one common counterfeit scheme, counterfeiters sell fake U.S. currency marked or "masked" by black ink or a special stamp. The seller offers this currency at a discount because of the markings, and claims the bills can be exchanged or "unmasked" at a U.S. embassy or bank. In mid-2008 in eastern Uganda, police arrested an individual in possession of more than \$1 million in counterfeit U.S. currency. Highlighting Uganda's unwillingness to crack down on counterfeiters in cases involving well-connected individuals, police subsequently released the individual from custody, and he later disappeared.

The Government of Uganda should become a party to the UN Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Ukraine

In Ukraine, high risks of money laundering have been identified in foreign economic activities, credit and finance, the fuel and energy industry, and the metal and mineral resources market. Illicit proceeds are primarily generated through corruption; fictitious entrepreneurship; fraud; trafficking in drugs, arms, and persons; organized crime; prostitution; and tax evasion. Various laundering methodologies are used, including real estate, insurance, bulk cash smuggling, and through financial institutions. There is a significant market for smuggled goods and a large informal financial sector. These activities are linked to the evasion of taxes and customs duties.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:

<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, non-bank financial institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawnshops, mail service operators and other money transfer services, real estate traders, certain traders of precious metals and stones, notaries, auditors, lawyers and leasing providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, non-bank financial institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawnshops, mail service operators and other money transfer services, real estate traders, certain traders of precious metals and stones, notaries, auditors, lawyers, and leasing providers

Number of STRs received and time frame: See below

Number of CTRs received and time frame: 728,799 in 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 48 from January 1 to April 1, 2010

Assets forfeited: criminally: \$94 million in 2009 *civilly:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Ukraine is member of MONEYVAL, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Evaluation_reports_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On May 18, 2010, Ukraine's Parliament passed amendments to Ukraine’s anti-money laundering/ counter-terrorist financing (AML/CFT) legislation. The amendments are a significant step forward. The new legislation replaces and significantly improves Ukraine’s basic AML/CFT Law, and amends relevant portions of the criminal code to bring them into greater compliance with international standards. Among other improvements, the May 18, 2010 amendments require enhanced due diligence procedures for PEPs.

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However, the procedure of informing primary financial monitoring agencies about the list of foreign PEPs is yet to be developed.

While it does not appear that significant narcotic proceeds are laundered through Ukraine's financial institutions, the rise of cybercrime and related transnational organized crime would suggest that significant amounts of U.S. currency are diverted to this region.

Through their regulatory agencies, banks and non-bank financial services receive the U.S. designations of suspected terrorists and terrorist organizations under Executive Order 13224 and other U.S. authorities and are instructed to report any transactions involving designated individuals or entities. According to the new anti-money laundering law, the financial institution or FIU has the power to suspend suspicious transactions for a limited amount of time (up to 14 days). Afterwards, assets may only continue to be held if law enforcement bodies initiate a criminal case or if it can be established that the assets are related to terrorist activity, in which case they can be held indefinitely. The need to initiate criminal cases might provoke serious delays that would allow the assets to be transferred before action could be taken to freeze the accounts. Draft legislation will address additional details of terrorist assets freezing, such as an enhanced definition of terrorist assets, procedures for seizing assets of individuals designated on international terrorist lists; and the procedural prerequisites to seizing terrorist assets.

While Ukraine has signed and ratified the necessary treaties, in many instances they are not applied or are applied poorly. Furthermore, while Ukraine is a party to UNCAC and UNTOC, the provisions of these conventions are not implemented or are not working properly in Ukraine.

Ukraine has remained on the FATF list of countries with "strategic deficiencies" since February 2010. The remaining deficiencies include poor terrorist asset freezing provisions, inadequate criminalization of market manipulation and insider trading, and the absence of corporate criminal liability for terrorist financing. Ukraine also lacks any functional regime for locating or seizing forfeitable assets.

Although, the current legislation does not provide for autonomous prosecution of money laundering, Ukraine continues to take measures to improve it. There were two cases of autonomous investigations and prosecutions of money laundering. Ukraine should place additional emphasis on developing these capabilities.

Most importantly, while Ukraine's legislation has been significantly modernized, Ukraine lacks examples of successful prosecutions of money laundering. This is due to the lack of specialized expertise among prosecutors in handling complex financial cases, corruption within law enforcement and the courts, and poor coordination among prosecutors, investigators, and the FIU. Ukraine has taken steps to improve the technical expertise of the Prosecutor General's Office through training of its law enforcement and prosecutors. This training should be continually developed, placing an emphasis on the systematic use of financial investigations, the use of existing tools and investigative techniques, analysis and use of computer techniques, and by providing relevant guidance.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Middle East region. Dubai, in particular, is a major international banking and trading center. The country also has a growing offshore financial center and 38 free trade zones. 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 money laundering activities. The UAE also is vulnerable to money laundering due to its geographic location as the primary transportation and trading hub for the Persian Gulf States, East Africa, and South Asia; longstanding trade relations with Iran; its expanding trade ties

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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 cash couriers, hawala, trade based money laundering, smuggling, the real estate sector, and the misuse of the international gold and diamond trade.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE

Number of STRs received and time frame: 2,711

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civily:* Not applicable

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Money Laundering and Financial Crimes

The United Arab Emirates is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.menafatf.org/images/UploadFiles/UAEOptimized.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of the UAE has shown some progress in enhancing its AML/CFT program. In August 2009, the Central Bank issued a circular instructing local banks not to handle accounts belonging to politically exposed persons (PEPs). Information sharing between the UAE's financial intelligence unit (FIU), the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU), and some foreign FIUs has substantially improved.

Several areas requiring further action by the UAE Government (UAEG) remain. The UAE should increase the capacity and resources it devotes to investigation of AML/CFT both federally at the AMLSCU and at emirate-level law enforcement. AMLSCU needs to improve its timely financial information sharing capability to conform to international standards. Law enforcement and customs officials should proactively develop cases based on investigations, rather than wait for STR-based case referrals from the AMLSCU. Law enforcement and customs officials should conduct more thorough inquiries into large declared and undeclared cash imports into the country, as well as require - and enforce - outbound declarations of cash and gold utilizing existing smuggling laws. Currently the law only requires the disclosure of inbound cash above the delineated threshold.

Although UAE legislation includes a provision prohibiting "tipping off," the provision is very narrow and does not appear to address the disclosure of STR filings to third parties. Additionally, the Central Bank regulations appear to require institutions to notify customers of suspicions regarding their accounts. This would appear to contradict any "tipping off" prohibitions.

All facets of trade-based money laundering should be given greater scrutiny by UAE customs and law enforcement officials, including customs fraud, the trade in gold and precious gems, commodities used as counter-valuation in hawala transactions, and the misuse of trade to launder narcotics proceeds. The UAEG should expand follow-up with financial institutions and the Ministry of Social Affairs regarding regulations on charities to ensure their registration at the federal level. The UAE should also continue its regional efforts to promote sound charitable oversight. The cooperation between the Central Bank and the offshore Dubai Financial Services Authority (DFSA) needs improvement, with lines of authority clarified. Moreover, the absence of meaningful statistics across all sectors is a significant hindrance to the assessment of the effectiveness of the AML/CFT program.

United Kingdom

The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although narcotics are still a major source of illegal proceeds for money laundering, the proceeds of other offenses, such as financial fraud and the smuggling of people and goods, have become increasingly important. The past few years have seen an increase in the movement of cash via the non-bank financial system, as banks and mainstream financial institutions have tightened their controls and increased their vigilance. The use of *bureau 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. Also on the rise are credit/debit card fraud, use of the internet for fraud, and the purchasing of high-value assets to disguise illegally obtained money. A July 2009 Home Office report estimates that the total cost of the economic and social harm caused to the UK by serious organized crime is around GBP 68.4 billion (approximately \$107.75 billion) per year.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All crimes approach

Legal persons covered: criminally: YES *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial and credit institutions, independent legal professionals, auditors, accountants, tax advisors, auditors, insolvency practitioners, estate agents, casinos, high value goods dealers, and trust or company service providers

Enhanced due diligence procedures for PEPs: Foreign: YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial and credit institutions, independent legal professionals, auditors, accountants, tax advisors, auditors, insolvency practitioners, estate agents, casinos, high value goods dealers, and trust or company service providers

Number of STRs received and time frame: 240,582 (October 1, 2009 – September 30, 2010)

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: criminally: Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The United Kingdom is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: www.fatf-gafi.org/dataoecd/44/8/44048060.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The United Kingdom has a comprehensive range of anti-money laundering/countering the financing of terrorism (AML/CFT) laws. It is an active participant in multilateral efforts to meet AML/CFT threats.

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The UK engages in efforts to freeze the assets of persons who commit terrorist acts, as required by the United Nations. In January 2010, the United Kingdom Supreme Court held that the government had earlier exceeded its authority by imposing asset freezing orders that went beyond the requirements of Security Council Resolution 1373. The Supreme Court reinstated temporary asset freezing regulations as an interim measure following the judgment. In December 2010, the United Kingdom replaced the temporary provisions with a new legislative framework that raises the burden of proof for freezing assets from “reasonable suspicion” to “reasonable belief”.

Uruguay

Uruguay remains vulnerable to the threats of money laundering (ML) and terrorist financing (TF). Uruguay has a highly dollarized economy with about 80 percent of deposits and 70 percent of credits denominated in U.S. dollars. The U.S. dollar is often used as a business currency and many goods and services, including real estate and vehicles, are quoted and sold in dollars. Officials from the Uruguayan police and judiciary assess that there is a growing presence of Mexican and Colombian criminal organizations in the Southern Cone and are concerned they could begin operating in Uruguay. Drug dealers are slowly starting to participate in other illicit activities like car theft and trafficking in persons. The Government of Uruguay (GOU) acknowledges there is a growing risk of money laundering in the real estate sector, in free zones and in bureaus that administer corporations, and in late 2010, passed a decree to improve controls in those areas.

The vast majority of money laundering cases that have become public have been related to drugs. Uruguay has porous borders with Argentina and Brazil, and there is a market for smuggled goods that is greatly determined by price differentials between Uruguay and its neighbors. Trade-based money laundering is likely to occur but specialists do not identify it as a major source of risk. The six offshore banks operating in Uruguay are subject to the same laws, regulations, and controls as local banks, with the GOU requiring they be licensed through a formal process that includes a background investigation of the principals. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank.

There are 13 free trade zones (FTZs) located throughout the country. While most are dedicated solely to warehousing, two were created exclusively for the development of the paper and pulp industry, and three accommodate a wide variety of tenants offering a wide range of services, including financial services. Some of the warehouse-style FTZs have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay. A decree passed in November 2010 discourages shell companies from establishing a presence in FTZs.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF U.S. CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: NO civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

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UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, currency exchange houses, stockbrokers, pension funds, insurance companies, casinos, art dealers, real estate and fiduciary companies, lawyers, accountants, and other non-banking professionals that carry out financial transactions or manage commercial companies on behalf of third parties

Enhanced due diligence procedures for PEPs: **Foreign:** YES **Domestic:** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks; currency exchange houses; stockbrokers and pension funds; insurance companies; businesses that perform safekeeping, courier or asset transfer services; professional trust managers; investment advisory services; casinos; real estate brokers and intermediaries; notaries; auctioneers; dealers in antiques, fine art and precious metals or stones; FTZ operators; and natural or judicial persons who carry out transactions or administer corporations on behalf of third parties

Number of STRs received and time frame: 195 - January 1–December 16, 2010

Number of CTRs received and time frame: One - January 1–December 16, 2010

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Four in 2009

Convictions: Five in 2009

Assets forfeited: *criminally:* Not available *civilly:* Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

The GOU is a member of the Organization of American States Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. Uruguay is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.gafisud.info/pdf/InformeEMUruguay09.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Uruguay has significantly upgraded its anti-money laundering legislation in recent years and improved its enforcement actions. Law 18.494, passed in 2009, gives national authorities more flexibility to fight money laundering and terrorist financing, and Decree 226/10, passed in December 2010, includes detailed provisions for non-financial sector entities obliged to report suspicious transactions. Decree 226/10 stipulates risk-based customer due diligence (CDD) procedures, sets *de minimis* procedures, and establishes CDD thresholds in specific activities: casinos (over \$3,000), and art dealers and auctioneers (over \$15,000). The decree also provides for enhanced due diligence (EDD) for high risk customers, such as those involving non-residents from countries that fail to apply international standards. Real estate brokers must apply EDD procedures in transactions over \$15,000 and notaries and auctioneers must apply them in transactions over \$200,000 (or over \$100,000 in cash). While Decree 226/10 does not distinguish

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between local and foreign PEPs, it appears to be focused on locals. A list of about 5,000 local PEPs is available on the Central Banks' website.

Decree 226/010 mandates obligated entities to establish internal procedures that would enable them to detect goods or transactions related to individuals or terrorist organizations included in the UN list. The financial intelligence unit publishes the UN 1267 Sanctions Committee list on its website but does not distribute it to financial institutions. It does not send the USG lists of terrorists to financial institutions but includes them in its database and runs name checks against it. There have been no reported cases or investigations related to terrorist financing.

In 2010 Uruguay joined the Egmont Group of Financial Intelligence Units. Tax evasion is not an offense in Uruguay, which limits cooperation possibilities because the financial intelligence unit cannot share tax-related information with its regional counterparts.

In an ongoing high-profile case, 14 people were indicted in September 2006 for a money laundering charge tied to the largest cocaine seizure in Uruguay at that time; in June 2008 the kingpin was convicted and in November 2009 five individuals, including a well known attorney, were prosecuted. Through 2009 the GOU had frozen assets totaling \$20 million, of which \$17 million were frozen in 2009 alone. The Anti-Money Laundering Secretariat seeks to create awareness about the importance of seizing assets as well as imprisoning criminals.

Uzbekistan

Uzbekistan is not an important regional financial center and does not have a well-developed financial system. A significant percentage of the country's GDP comes from remittances abroad, posing a money laundering vulnerability. Corruption, especially in relation to natural resources, narcotics trafficking and smuggling generate the majority of illicit proceeds. Local and regional drug trafficking and organized crime groups control the flow of narcotics and proceeds from other criminal activities, such as smuggling of cash, high-value transferable assets (e.g., gold), property, or automobiles. Uzbekistan has a significant black market for smuggled goods. This black market does not appear to be significantly funded by narcotics proceeds but can be used to launder drug-related money. In April 2009, the government of Uzbekistan passed legislation to reestablish an anti-money laundering regime that had been suspended by Presidential decree in 2007.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO civilly: NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>.

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, credit unions, micro-credit institutions, securities brokers, members of the stock exchange, insurance brokers, leasing companies, money transfer companies, postal operators, dealers in precious metals and stones, real estate agents, notaries, lawyers, auditors, pawn shops, lotteries

Enhanced due diligence procedures for PEPs: *Foreign:* YES *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, credit unions, micro-credit institutions, securities brokers, members of the stock exchange, insurance brokers, leasing companies, postal operators, dealers in precious metals and stones, real estate agents, notaries, lawyers, auditors

Number of STRs received and time frame: 4,125 - November 2009 to April 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 42 - January to November 2009

Convictions: Eight, covering 97 individuals - January to November 2009

Assets forfeited: criminally: 725 million UZS (approximately \$500,000) in 2009 **civilly:** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Uzbekistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://eurasiangroup.org/mers.php>.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Uzbekistan's legal system is generally susceptible to corruption and political influence. Legislation to reestablish AML measures has been adopted piecemeal since April 2009, leading to confusion from vague requirements, incomplete procedures, and occasional conflicts with banking regulations. The short time period since reimplementation makes it difficult to evaluate the effectiveness and adaptability of the system, and government secrecy surrounding cases and statistics inhibits evaluation. The Prosecutor General's Office attempts to maintain secrecy by not releasing the criteria for identifying suspicious transactions, even to banks. Fearing the consequences of not reporting criminal activity, banks have adopted excessively cautious policies that lead to significant over-reporting.

Ambiguities in the law make it difficult to determine the division of authority among the Prosecutor General's Office and other law enforcement bodies in money laundering cases. Aside from the Financial Intelligence Unit (FIU), the Ministry of Internal Affairs and the National Security Service also investigate money laundering and terrorist financing, respectively, and both are making efforts to build financial crime departments.

The ability to freeze assets is limited; financial institutions can hold suspicious transactions for three business days, and the FIU can extend that by two days. After five business days the transaction must be

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resumed unless the assets can be seized as the result of a criminal case, leaving a very narrow window for investigation. The porous borders also allow for cash to exit Uzbekistan into neighboring countries.

Vanuatu

Vanuatu is not a regional financial center, and there are no free trade zones. Although its overall economy is primarily based in agriculture, Vanuatu's robust offshore banking sector and history of strict bank secrecy provisions make it vulnerable to money laundering. The offshore banking sector includes eight international banks, 3,600 international business companies, along with offshore trusts and captive insurance companies.

The Reserve Bank of Vanuatu (RBV) regulates the offshore banking sector and in recent years has strengthened domestic and offshore financial regulation in response to international pressure citing higher potential for money laundering. Shell banks are banned.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: ***criminally:*** YES ***civilly:*** NO

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, insurance companies, securities companies, foreign exchange instrument dealers, money remittance dealers, casinos, lawyers, accountants, trust and company service providers, auditors, real estate agents, and car dealerships

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, insurance companies, securities companies, foreign exchange instrument dealers, money remittance dealers, casinos, lawyers, accountants, trust and company service providers, auditors, real estate agents, and car dealerships

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Vanuatu is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation report can be found here:

http://www.apgml.org/documents/docs/17/Vanuatu%20ME2%20_Final_.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Vanuatu (GOV) should continue to initiate outreach to all reporting institutions regarding 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.

Financial institutions are required to immediately freeze the accounts of entities involved in terrorism. However, communication between government agencies about the identity of terrorist entities is uncoordinated. The GOV should ensure the appropriate agencies and offices receive the updated UNSCR 1267 lists in a timely manner.

The Attorney General possesses the authority to grant requests for international assistance in a criminal matter, and may require government agencies to assist in the collection of information pursuant to the request. Money laundering is an extraditable offense, but the GOV does not recognize or enforce foreign non-criminal confiscation orders.

Vanuatu should become a party to the UN Convention against Corruption.

Venezuela

Venezuela is one of the principal drug-transit countries in the Western Hemisphere. Cocaine produced in Colombia is trafficked through Venezuela to the Eastern Caribbean, Central America, the United States, Europe, and western Africa. In 2010, Mexican drug trafficking organizations gained an increased presence in Venezuela. Venezuela's proximity to drug producing countries, weaknesses in its anti-money laundering regime, limited bilateral cooperation, and alleged substantial corruption in law enforcement and other relevant sectors continue to make Venezuela vulnerable to money laundering. The main sources of money laundering are proceeds generated by drug trafficking organizations and illegal transactions that exploit Venezuela's currency controls and its various exchange rates.

Money laundering occurs through commercial banks, exchange houses, gambling sites, fraudulently invoiced foreign trade transactions, smuggling, real estate (in the tourist industry), agriculture and livestock businesses, securities transactions, and trade in precious metals. Venezuela is not a regional financial center and does not have an offshore financial sector, although many local banks have offshore affiliates in the Caribbean. 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 regional narcotics proceeds. It is reported that many black market traders ship their goods through Margarita Island's free port.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF

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US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: ***criminally:*** YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: NO

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: The Fund of Deposit Guaranty and Bank Protection; universal, commercial, mortgage, investment, and development banks; representative offices of foreign banks; leasing financiers; money market funds; savings and loan entities; exchange houses; foreign exchange operators; credit card issuers; societies and funds of reciprocal guaranties; municipal institutes or credit businesses; insurance companies; casinos; real estate agents; construction companies; car dealerships; hotels, travel agents, and the tourism industry; and dealers in precious metals and stones

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: The Fund of Deposit Guaranty and Bank Protection, banks, leasing financiers, money market funds, savings and loan entities, exchange houses, financial groups, frontier exchange operators, credit card issuers, societies and funds of reciprocal guaranties, municipal institutes or businesses of credit, funds and societies of capital risk, representative offices of foreign banks, insurance and reinsurance companies, casinos, real estate agents, construction companies, car dealerships, hotels and the tourism industry, travel agents, and dealers in precious metals and stones

Number of STRs received and time frame: 1,086 through October 31, 2010

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Ten 2006-2010

Convictions: Seven 2006-2010

Assets forfeited: ***criminally:*** Not available ***civilly:*** Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Venezuela is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:

http://cfatfgafic.org/downloadables/mer/Venezuela_3rd_Round_MER_%28Final%29_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

There is little evidence the Government of Venezuela (GOV) has made enforcement of anti-money laundering laws and regulations a priority. Reportedly, many, if not most, judicial and law enforcement officials remain ignorant of anti-money laundering countermeasures. Additionally, although the law includes many financial institutions and designated non-financial businesses and professions as covered entities, no implementing regulations have been developed and, in practice, the majority of entities are not subject to mandatory reporting and customer due diligence requirements. The insurance and securities sectors and the Venezuelan Association of Currency Exchange Houses, which counts all but one of the country's money exchange companies among its membership, voluntarily comply with the STR reporting requirements.

In 2010, the FATF identified Venezuela as a country with strategic anti-money laundering and counter-terrorist financing (AML/CFT) deficiencies. The resulting action plan includes adequately criminalizing terrorist financing; establishing and implementing adequate procedures to identify and freeze terrorist assets; ensuring a fully operational and effectively functioning financial intelligence unit; implementing adequate customer due diligence guidelines for all sectors, including the securities sector; and establishing adequate STR reporting obligations for money laundering and terrorist financing.

Corruption is a very serious problem in Venezuela and appears to be worsening. Transparency International's Corruption Perception Index for 2010 ranks Venezuela at 164 of 178 countries on the index. Venezuela has laws to prevent and prosecute corruption, and accepting a bribe is a criminal act. However, the judicial system has been ineffective historically and is accused of being overtly politicized. The current regime of price and foreign exchange controls also has provided opportunities for corruption. Trade-based money laundering and value transfer is a significant problem in Venezuela. In March 2010, 16 individuals were indicted in Miami on charges of conspiracy to launder narcotics proceeds. The case involved trade-based money laundering focused on Venezuela.

Venezuela and the United States signed a Mutual Legal Assistance Treaty (MLAT) in 1997. The Financial Crimes Enforcement Network (FinCEN) suspended the exchange of information with Venezuela's National Financial Intelligence Unit (UNIF) in January 2007 due to the unauthorized disclosure of information provided by FinCEN, and the relationship has not resumed to date. In 2009 and 2010, there was no money laundering information exchange between Venezuela and the United States.

Vietnam

Vietnam is not an important regional financial center, but is a site of significant money laundering activities. Vietnam has a largely cash-based economy, with both U.S. dollars and gold widely used as a means of exchange and stored value. The main sources of illicit funds in Vietnam are public corruption, fraud, gambling, prostitution, trafficking and counterfeiting of fake goods, and trafficking in narcotics, women, and children. Remittances from the proceeds of narcotics trafficking in Canada and the United States are also a significant source of money laundering, as are narcotics proceeds from traffickers using Vietnam as a transit country.

Vietnam's banking sector is in transition from a state-owned to a partially-privatized industry. At present, about 55 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, many of which are related through interlocking directorates. Almost all trade and investment receipts and expenditures are processed by the banking system, but transactions are not monitored effectively. As a result, the banking system could be used for money laundering through false declarations, including phony investment transactions and over- or under-invoicing exports and imports.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: NO *civilly:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here:
<http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, non-bank financial institutions, lawyers and legal consultancy companies; games of chance, casinos or lotteries; promoters; real estate trading service companies; and traders in gold, silver and precious stones

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Credit institutions, money changers, remittance agents, insurance, securities dealers, casinos and games of chance

Number of STRs received and time frame: 290 STRs (2009 through first quarter 2010)

Number of CTRs received and time frame: Not applicable

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: None

Assets forfeited: criminally: None *civilly:* None

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Vietnam is a member of the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here:
<http://www.apgml.org/documents/docs/17/Vietnam%20ME1.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In October 2010, the Government of Vietnam made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. Vietnam committed to implementing an action plan

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that will adequately criminalize money laundering and terrorist financing, establish adequate procedures to identify and freeze terrorist assets, improve the AML/CFT supervisory framework, enhance customer due diligence and reporting, and strengthen international cooperation. A comprehensive anti-money laundering law, intended to address significant AML/CFT deficiencies, has been drafted and is to be submitted to the legislature by the end of 2011, with the object of enactment by 2012 in accordance with the action plan. Vietnam should also complete drafting its anti-terrorism law and adopt it by 2012 and promulgate regulations to fully implement its 2005 Decree on the Prevention and Combating of Money Laundering. It should also become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The amended AML provisions of the Penal Code took effect on January 1, 2010. Article 251 now defines “money laundering crime” as an independent offense. Article 250 defines the offense of harboring (acquiring, concealing, etc.) or consuming property obtained from the commission of crimes against others. Covered acts under the article include some forms of money-laundering. 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 money laundering allegations, so prosecutions are non-existent and international cooperation is extremely difficult. Additionally, legal persons are not subject to criminal liability under the Penal Code. Vietnam is not considering a change because of perceived conflicts with fundamental principles of domestic law.

AML Decree 74 on Preventing and Combating of Money Laundering (Decree 74) specifies STR obligations, but in practice, the Anti-Money Laundering Department (AMLDD) of the State Bank of Vietnam (SBV) receives and processes little of the financial information required by Decree 74. All STRs are received in paper form; the AMLDD lacks an electronic information reporting system, limiting its ability to collect, store, and analyze financial transactions. Vietnam should provide the AMLDD with such a system, and give its law enforcement authorities the necessary resources to investigate and prosecute money laundering, trade fraud, and financial crimes in Vietnam’s informal economy. Decree 74 regulates customer identification and the collection of customer details and documents. It does not explicitly require verification of a customer’s identity, unless the financial institution becomes “suspicious.” Also, there are no legislative or other enforceable obligations that address politically exposed person (PEP) requirements. The concept of “politically exposed persons” is not well understood and no official document defines it.

There is no known exchange of records pursuant to any inter-governmental exchange mechanism, despite Vietnam’s 28 bilateral mutual legal assistance treaties. The Ministry of Public Security (MPS) signed a nonbinding memorandum of understanding with the U.S. Drug Enforcement Administration (DEA) in 2006 to strengthen law enforcement cooperation in combating transnational drug-related crimes, including money laundering. MPS claims, however, that it cannot provide such information due to constraints within the Vietnamese legal system.

Vietnam does not have a comprehensive system for implementing UNSCR 1267 or 1373 and lacks a system for freezing terrorist assets in accordance with these resolutions. While Vietnam has criminalized terrorist financing, it is not criminalized as an autonomous offense.

Yemen

The financial system in Yemen is not well developed, and Yemen remains relatively isolated from the global financial community. 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. Yemen has a large underground economy due, in part, to the profitability of the smuggling of trade goods and contraband. The use of khat, a recreational drug produced from a bush grown in parts of East Africa

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and Arabia, is common in Yemen, and there have been a number of investigations of khat being smuggled from Yemen and East Africa into the United States with profits laundered and repatriated via hawala networks. Money laundering within Yemen, however, is not primarily related to proceeds from illegal narcotics. Instead, criminal proceeds in Yemen tend to emanate from foreign criminal activity, including smuggling by criminal networks, and, possibly, terrorist groups operating locally, although the extent is unknown. Smuggling and piracy are common along Yemen's sea border with Oman, across the Red Sea from the Horn of Africa, and along the land border with Saudi Arabia.

Yemen does not have an offshore financial center, but does have one free trade zone (FTZ) in the port city of Aden. Identification requirements within the FTZ are enforced. 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.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: List approach

Legal persons covered: criminally: YES civilly: YES

CRIMINALIZATION OF TERRORIST FINANCING: YES

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found at: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Financial institutions that accept deposits, provide credit, engage in financial leasing, provide money transfers, exchange and convert currency, issue payment, finance mortgages, sell and purchase foreign currency, deal in securities, invest, manage securities, provide life insurance, and engage in other financial activities as decided by the Prime Minister

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Financial institutions that accept deposits, provide credit, engage in financial leasing, provide money transfers, exchange and convert currency, issue payment, finance mortgages, sell and purchase foreign currency, deal in securities, invest, manage securities, provide life insurance, and engage in other financial activities as decided by the Prime Minister

Number of STRs received and time frame: 35 in 2010

Number of CTRs received and time frame: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

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Prosecutions: Two

Convictions: None

Assets forfeited: *criminally:* \$5000 *civilly:* none

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force-style regional body. Its most recent evaluation can be found here:

http://www.menafatf.org/images/UploadFiles/YEMEN_EN.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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 the Central Bank of Yemen (CBY) and can open offices at multiple locations. The CBY has not performed examinations of the money exchange businesses for anti-money laundering/counter-terrorist financing (AML/CFT) compliance.

Yemen's financial intelligence unit (AMLIU) has only a few employees and 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. Only a few STRs have been forwarded from the AMLIU to judicial authorities for investigation and possible prosecution. The U.S. Embassy in Sanaa routinely passes requests for information and assistance to the Government of Yemen concerning terrorist financing and other issues, but seldom receives responses.

On December 29, 2009, Yemen's Parliament passed an AML/CFT law. On January 17, 2010, the law acquired presidential approval, becoming Law No. 1 of 2010 (Law 1). Pending in parliamentary committee since November 2007, the law represents a major step forward in criminalizing money laundering and terrorist financing, and institutionalizing the ability of the Yemeni government to combat these crimes. Law 1 represents more comprehensive AML/CFT legislation to accommodate international standards. Law 1 expands the types of financial institutions the Yemeni government will monitor, to include hawaladars, jewelry shops, lawyers' associations, and real estate firms.

While Law 1 is a necessary first step in criminalizing money laundering and terrorist financing, the Yemeni government is now challenged with the implementation and enforcement of the law. The government needs to continue to develop an anti-money laundering regime that adheres to international standards. Banks and non-bank financial institutions should enhance their capacity to detect and report suspicious financial transactions to the FIU, including those related to terrorist financing.

Even with the new law, the AMLIU needs substantial improvement of its operational capacity to effectively fulfill its responsibilities. Among other measures: The Republic of Yemen Government (ROYG) needs to investigate the abuse of alternative remittance systems such as hawala networks with regard to money laundering and terrorist financing. Law enforcement and customs authorities also need to examine trade-based money laundering and customs fraud.

The ROYG 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. The ROYG lacks specific legislation with respect to forfeiture of the assets of those suspected of

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terrorism. Yemen has not applied UN mandated sanctions or frozen the assets of Sheikh Abdul Majid Zindani, who was added to the UN 1267 Sanctions Committee's consolidated list in February 2004. There is no information on whether Yemeni authorities have frozen, seized, or demanded forfeiture of other assets related to terrorist financing.

The ROYG should ratify the UN Convention against Transnational Organized Crime. Yemen is ranked 146 out of 178 countries surveyed in Transparency International's 2010 Corruption Perception Index.

Zambia

Zambia is not a major financial center. The proceeds of narcotics transactions and money derived from public corruption are the major sources of laundered money. Human trafficking is also a problem. Money laundering takes place in both the formal financial sector and the non-bank financial sector. Money launderers in Zambia have used structuring, currency exchanges, monetary instruments, gambling, under-valuing assets, front businesses, and non-financial institutions to launder their proceeds. Other means include securities, debit/credit cards, bulk cash smuggling, wire transfers, and false currency reporting. Further, some criminals use their proceeds to purchase luxury goods such as vehicles and real estate.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES ***civilly:*** YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: YES

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State's Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Banks, and money exchanges and remitters

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, money exchanges and remitters, securities dealers and pension funds, insurance companies, leasing companies

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

Assets forfeited: *criminally:* Not available *civilly:* 0

RECORDS EXCHANGE MECHANISM:

With U.S.: YES

With other governments/jurisdictions: YES

Zambia is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: <http://www.esaamlg.org/reports/me.php>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2010, the Government of Zambia (GOZ) passed legislation creating a financial intelligence unit (FIU) independent from law enforcement agencies. The FIU has received little government funding and is not yet operational. The FIU has received some assistance from international donors and continues to look for capacity building and financial support. Like much of the Zambian government, authorities tasked with investigating and prosecuting financial crimes are hampered by a lack of resources and capacity.

In 2010, the major shareholder of Zambia's sixth largest bank was charged with money laundering in connection with an illegal ownership stake in the bank. The Bank of Zambia also intervened in the operations of the bank, removed senior management, and dissolved the equity holders' shares.

The Zambian government is currently developing a number of multi-facility economic zones that are similar to free trade zones.

The GOZ should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Zimbabwe

Zimbabwe is not a regional financial center, but it faces problems related to money laundering and official corruption. Regulation and enforcement in the financial sector are weak, mainly due to a lack of trained regulators and investigators and limited asset seizure authority. These deficiencies expose the country to money laundering abuses, but there are no data on the extent of money laundering in Zimbabwe. The exposure is greatest within the financial sector, which includes both formal and informal institutions. Commercial banks, building societies, moneylenders, insurance brokers, realtors, and lawyers in Zimbabwe are all vulnerable to exploitation by money launderers. Financial crime may also be magnified by opportunities to smuggle diamonds.

Anti-money laundering laws are sometimes abused for political purposes. More broadly, corruption sometimes impedes application of Zimbabwe's anti-money laundering mechanisms.

Nearly all transactions in Zimbabwe are now carried out with either the U.S. dollar or the South African rand. The Government of Zimbabwe's (GOZ) switch to this "multi-currency regime" dramatically reduced opportunities for money laundering and financial crime, thereby eliminating multiple exchange rates and opaque foreign-exchange controls. Of late, the parliamentary committee on mining has held officials to account for GOZ actions in the Marange diamond fields, and the minister of finance has implemented a new law to improve accountability at the Reserve Bank of Zimbabwe (RBZ).

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Legal persons covered: criminally: YES *civily:* YES

CRIMINALIZATION OF TERRORIST FINANCING:

Ability to freeze terrorist assets without delay: NO

UN lists of designated terrorists or terrorist entities distributed to financial institutions: YES

(Please refer to the Department of State’s Country Reports on Terrorism, which can be found here: <http://www.state.gov/s/ct/rls/crt/>)

KNOW-YOUR-CUSTOMER RULES:

Covered entities: Commercial banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change*, insurance companies, and finance houses

Enhanced due diligence procedures for PEPs: Foreign: NO *Domestic:* NO

SUSPICIOUS TRANSACTION REPORTING REQUIREMENTS:

Covered entities: Banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change* and cash dealers, insurance companies, finance houses, lawyers, accountants, pension funds, casinos, moneylenders, estate agents, import/export businesses, and trust management and service providers

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2010

Convictions: None in 2010

Assets forfeited: criminally: None in 2010 *civily:* None in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: NO

With other governments/jurisdictions: YES

Zimbabwe is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation can be found here: http://www.esaamlg.org/userfiles/Zimbabwe_detailed_report.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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Zimbabwe's law provides for freezing and forfeiture of assets, and the banking system can quickly freeze deposits. Law enforcement and regulatory agencies lack the resources to combat money laundering vigorously. For example, financial institutions typically receive information related to designations from private sources, not from government agencies. The capacity for broader freezing or forfeiture of terrorist assets is untested.

Zimbabwe does have broad legislation on mutual legal assistance in both civil and criminal cases, and there are no legal or practical impediments to rendering assistance, provided both Zimbabwe and the requesting country criminalize the activity.

The United States, Canada, Australia, and the European Union have imposed targeted financial sanctions and travel restrictions on political leaders and others believed to have been complicit in human rights abuses.