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Drug and Chemical Control

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Table of Contents

Common Abbreviations iv
International Agreements vi

Introduction 1

Legislative Basis for the INCSR 2
Presidential Determination 5
Major Illicit Drug Producing, Drug-Transit, Significant Source, Precursor Chemical, and Money Laundering Countries 13

Policy and Program Developments 15

Overview 16
Demand Reduction 19
Methodology for U.S. Government Estimates of Illegal Drug Production 22
Worldwide Illicit Drug Crop Cultivation 2005-2011 25
Worldwide Potential Illicit Drug Production 2005-2011 26
Parties to UN Conventions 27

USG Assistance 33

Department of State Budget 34
International Training 37
Drug Enforcement Administration (DEA) 40
United States Coast Guard (USCG) 42
U.S. Customs and Border Protection (CBP) 44

Chemical Controls 46

2012 Trends 47
The Road Ahead 49
Precursors and Essential Chemicals 49
International Regulatory Framework for Chemical Control 50
Major Chemical Source Countries and Territories 50
Significant Illicit Drug Manufacturing Countries 64
Major Exporters and Importers of Pseudoephedrine and Ephedrine (Section 722, Combat Methamphetamine Epidemic Act (CMEA) 71
INCB Tables on Licit Requirements 75

Country Reports 82

Afghanistan 83
Albania 88
Argentina 89
Armenia 92
Azerbaijan 93
The Bahamas 94
Belize 98
Bolivia 102
Bosnia and Herzegovina 107
Brazil 108
Bulgaria 111
Burma 112
Cambodia 117
Canada 118

Cape Verde 122
Chile 123
China 124
Colombia 127
Costa Rica 132
Croatia 137
Cuba 138
Democratic People's Republic of Korea (DPRK or North Korea) 141
Dominican Republic 142
Dutch Caribbean 147
Eastern Caribbean 150
Ecuador 154
Egypt 159
El Salvador 160
French Caribbean 165
Georgia 166
Germany 169
Ghana 170
Guatemala 173
Guinea 178
Guinea-Bissau 180
Guyana 182
Haiti 185
Honduras 189
Hong Kong Special Administrative Region 193
India 194
Indonesia 199
Iran 202
Iraq 203
Israel 206
Italy 207
Jamaica 208
Japan 213
Jordan 214
Kazakhstan 215
Kosovo 219
Kyrgyzstan 220
Laos 223
Lebanon 227
Liberia 229
Malaysia 232
Mexico 233
Moldova 238
Montenegro 239
Morocco 240
Mozambique 241
Nepal 242
The Netherlands 243
Nicaragua 246
Nigeria 251
Pakistan 254
Panama 259
Paraguay 264
Peru 267
Philippines 272
Portugal 273

Republic of Korea (ROK or South Korea) 274
Romania 276
Russia 277
Senegal 280
Serbia 281
Singapore 282
South Africa 283
Spain 286
Suriname 287
Taiwan 290
Tajikistan 291
Thailand 294
Trinidad and Tobago 297
Turkey 300
Turkmenistan 303
Ukraine 306
United Arab Emirates 307
United Kingdom 308
Uruguay 309
Uzbekistan 310
Venezuela 313
Vietnam 318

Common Abbreviations

APEC	Asia-Pacific Economic Cooperation
AFRICOM	U.S. Military Command for Africa
ASEAN	Association of Southeast Asian Nations
ATS	Amphetamine-Type Stimulants
CARICC	Central Asian Regional Information Coordination Center
CBP	U.S. Customs and Border Protection
CBSI	Caribbean Basin Security Initiative
DARE	Drug Abuse Resistance Education
DEA	U.S. Drug Enforcement Administration
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DTO	Drug Trafficking Organization
ECOWAS	Economic Community of West African States
EU	European Union
FBI	Federal Bureau of Investigation
FIU	Financial Intelligence Unit
ICE	U.S. Immigration and Customs Enforcement
ILEA	International Law Enforcement Academy
INCB	International Narcotics Control Board
INCSR	International Narcotics Control Strategy Report
INL	U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs
JIATF-S	Joint Interagency Task Force South
JIATF-W	Joint Interagency Task Force West
MAOC-N	Maritime Analysis and Operations Centre-Narcotics
MLAT	Mutual Legal Assistance Treaty
MOU	Memorandum of Understanding
NAS	Narcotics Affairs Section (U.S. Embassy)
NIDA	National Institute of Drug Abuse
OAS	Organization of American States

OAS/CICAD	Inter-American Drug Abuse Control Commission
ONDCP	Office of National Drug Control Policy
SELEC	Southern European Law Enforcement Center
SIU	Special Investigative Unit
SOCA	(UK) Serious Organised Crime Agency
SOUTHCOM	U.S Military Command for the Caribbean, Central and South America
UNODC	United Nations Office on Drugs and Crime
USAID	U.S. Agency for International Development
USCG	U.S. Coast Guard
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 (2003)

UNTOC - UN Convention against Transnational Organized Crime (2000), 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 2013 INCSR, published in March 2013, covers the year January 1 to December 31, 2012 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 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 2013 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."

Presidential Determination

THE WHITE HOUSE
WASHINGTON

September 14, 2012

Presidential Determination No. 2012-15

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Presidential Determination on Major Illicit Drug Transit or Major Drug Producing Countries for Fiscal Year 2012

Pursuant to Section 706(1) of the Foreign Relations Authorization Act, FY03 (P.L. 107-228)(the FRAA), I hereby identify the following countries as major drug transit and/or major illicit drug producing countries: Afghanistan, The Bahamas, Belize, Bolivia, Burma, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, 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 (the FAA), one of the reasons 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, even if a government has carried out the most assiduous narcotics control law 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. Included in 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 support for programs to aid Bolivia, Burma and Venezuela are vital to the national interests of the United States.

Afghanistan produces approximately 90 percent of the world's illicit opium. Nearly all of this cultivation occurs in four southern and western provinces. Instability in the area allows criminal networks, insurgent groups, and illicit cultivation and drug production to thrive. While Helmand Province continues to be the largest poppy-cultivating area, the United States and the United Nations Office on Drugs and Crime (UNODC) estimate that cultivation in Helmand decreased between 35 and 39 percent, respectively, since 2008, to roughly 63,000 hectares.

The strategic objective of Afghanistan's Ministry of Counter Narcotics (MCN), as stated in its National Drug Control Strategy, is "to create a secure environment for a healthy society with a strong licit economy, through evidence-based policy-setting, effective coordination and full accountability to the people of Afghanistan and our government." The ongoing Good Performer Initiative, now in its sixth year, rewards provinces for successful counternarcotics performance. In 2011, 22 of Afghanistan's 34 provinces qualified for $19.2 million in development projects as the result of their poppy reduction efforts.

Afghanistan's gains remain fragile. Reducing illegal cultivation and trafficking are closely linked to broader economic opportunity, security and the ability of the government of Afghanistan to project the rule of law. International support for the Afghan National Drug Control Strategy, including from the United States, is designed to bolster the country's drug control undertakings and is directly tied to the success of the country's wide-ranging national objectives to improve peace, security and economic development.

This year, the Caribbean was examined for its relative importance as a transit zone for illegal substances destined for U.S. markets. Without factoring in illegal maritime and air drug smuggling believed to be destined for Europe and beyond, approximately 5 percent of all drugs destined for United States are estimated to pass through the majors list countries of The Bahamas, Dominican Republic, Haiti and Jamaica. As traffickers constantly reorder their routes and methods, the United States and other donors continue to believe that countering the drug trade in the Caribbean is in our national interest, as well as that of the countries themselves. Without the rule of law, well-run institutions, and effective drug interdiction, the viability of the broad range of national and regional goals adopted by the Caribbean countries is threatened.

European, Canadian and U.S. bilateral drug control support, as well as the Caribbean Basin Security Initiative, contribute to the region's ability to prevent and address drug trafficking and related violence and crime in the Caribbean. Similarly, key undertakings by the Organization of American States and UNODC in the region – especially those aimed at bringing long-term stability to Haiti – are an important part of the policy and assistance mosaic for smaller countries seeking to build on the successes of broad regional policies and programs.

United States analysts estimate that approximately 95 percent of illegal drugs cultivated and produced in South America destined for the United States are smuggled through Central America, Mexico and the Eastern Pacific, primarily using maritime conveyances and illegal air flights. In response, the United States launched the Central American Regional Security Initiative (CARSI) in 2008, which was further expanded when I announced the Central America Citizen Security Partnership in San Salvador in March 2011. Through CARSI and the Partnership, the United States has focused its crime prevention, counternarcotics, law enforcement and security assistance, and bolstered rule of law institutions in Central America. The region also has strengthened cooperation through the Central American Integrated System (SICA) to promote citizen security and other programs. Multilateral cooperation to stem the flow of precursor chemicals from as far away as China that are used to produce illegal methamphetamine in Central America is an important component of SICA's unprecedented regional cooperation. Similar objectives are achieved through U.S. support for Mexico's drug-control policies and programs under the Merida Initiative.

Several other countries were evaluated for inclusion in this year's list, but are not determined to be major drug transit and/or major illicit drug producing countries. For example, Canada has taken effective steps to stem the flow of synthetic MDMA (ecstasy) across its shared border with the United States, a problem of growing concern during the past several years. The country continues its robust efforts to production, distribution, and consumption of various illegal drugs. As part of its 5-year National Anti-Drug Strategy, Canada has rolled out new initiatives specifically intended to fight the trafficking of marijuana and synthetic drugs. As detailed in the March 2011 report on precursors by the International Narcotics Control Board, Canada broadened its existing Controlled Drugs and Substances Act to prohibit any person from possessing, producing, selling or importing material intended to be used in the illegal manufacture or trafficking of methamphetamine or ecstasy. The United States has also collaborated with Canada on a National Northern Border Counternarcotics Strategy that defines in detail the wide range of initiatives underway to combat all phases of drug trafficking. Bilateral initiatives focus on programs to stem the two-way drug trade between Canada and the United States.

You are hereby authorized and directed to submit this report, with its Bolivia, Burma and Venezuela memoranda of justification, under Section 706 of the FRAA, to the Congress, and publish it in the Federal Register.

/S/
Barack Obama

MEMORANDUM OF JUSTIFICATION FOR MAJOR ILLICIT DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2013

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

The United States recognizes that Bolivia has taken some steps to stem illegal drug trafficking and production, and remains committed to the bilateral dialogue designed to establish the basis for a cooperative and productive relationship, especially to agree on joint actions to be taken regarding issues of mutual interest, including counternarcotics.

During the last year, the United States maintained its support for the Government of Bolivia's counternarcotics programs. The government's efforts, particularly those supported by the U.S. Government, continued to achieve some goals in interdiction and eradication. However, after Colombia and Peru, Bolivia remains the world's third largest producer of coca leaf for cocaine and other illegal drug products.

Bolivia's ability to interdict drugs and major traffickers diminished following its January 2009 expulsion of U.S. Drug Enforcement Administration (DEA) personnel, while the country's performance in targeting and dismantling foreign drug trafficker organizations operating in Bolivia has improved marginally in recent years. This achievement is through Bolivia's national efforts and cooperation with neighboring countries, most notably Brazil. Expelling DEA in 2009 has seriously harmed Bolivia's counternarcotics capability, especially in regard to interdiction. Taken as a whole, eradication and interdiction results have not been adequate to compete with the rising drug trends that have brought Bolivia back to high coca cultivation and cocaine production levels.

The 2011 U.S. Government coca cultivation estimate for Bolivia of 30,000 hectares was slightly lower than the 2010 estimate of 34,500 hectares. The U.N. Office of Drugs and Crime estimated 31,100 hectares of cultivation for 2011, a slight increase over its 2010 estimate of 30,900 hectares. While Bolivia has not yet reversed the increases in net coca cultivation of the past several years, it appears that production has stabilized. Still, the latest U.S. Government estimate of pure cocaine potential production has increased 28 percent from 205 metric tons to 265 metric tons. This increase is due to more efficient processing methods and the growing maturity of existing fields, which contribute to higher yields.

Moreover, Bolivia did not maintain adequate controls over licit coca markets to prevent diversion to illegal narcotics production or close illegal coca markets, and it failed to develop and execute a national drug strategy. Bolivia's efforts to amend the UN 1961 Single Convention on Narcotics Drugs with the aim of removing references to traditional uses for coca leaf including coca leaf chewing were unsuccessful, and the country has since presented a denunciation to the United Nations that made its withdrawal effective January 1, 2012. Bolivia immediately applied to rejoin the Convention, with a reservation to permit the consumption, use, cultivation, trade in and possession of the coca leaf in its natural state for "cultural" and "traditional" purposes. Such action would commercialize the coca leaf and permit coca chewing in Bolivia, which would otherwise be prohibited under the Single Convention, and which only provides limited exemptions for medical or scientific purposes. Bolivia is a signatory to the 1971 and 1988 United Nations Conventions.

Bolivia has taken some narcotics control actions in the past year, but taken as a whole, the country has made a negligible contribution to the worldwide effort to control drugs, thus justifying the "failed demonstrably" finding again for the country. Government policies and actions are not in line with international drug control standards. These include what many countries, and drug control experts, consider Bolivia's promotion of the idea that coca leaf can be used generally for commercial products, as well as its de facto allowance of 20,000 hectares of legal cultivation, 8,000 more than the 12,000 hectare limit set by the country's national law.

Unlike other coca growing countries, Bolivia has not implemented many of the U.N.-mandated controls over coca, where some cultivation is permitted for traditional use. 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. Bolivia does not have controls in place to strictly enforce licensing and registration for coca growers,

possession of harvested crops, controls over licit markets, and ensuring "licit" products are de-alkalinized.

As a matter of policy, Bolivia does not encourage or facilitate illegal activity associated with drug trafficking, although there have been arrests of corrupt senior counternarcotics police officials, both inside and outside Bolivia, for facilitating drug shipments. In June 2011, former chief Bolivian counternarcotics officer, Rene Sanabria, pleaded guilty to U.S. federal cocaine trafficking charges. Sanabria was the head of an elite drug intelligence unit at the time of his arrest.

The United States encourages Bolivia to strengthen its efforts to achieve tighter controls over the trade in coca leaf to stem diversion to cocaine processing, in line with international treaties; protect its citizens from the deleterious effects of drugs, corruption, and drug trafficking; and achieve net reductions in coca cultivation.

For the near term, drug traffickers will continue to exploit opportunities to process abundant coca leaf available in Bolivia into cocaine base and cocaine hydrochloride. To diminish Bolivia's appeal to drug traffickers, further government action is required to improve the legal and regulatory environment for security and justice sector efforts to effectively combat drug production and trafficking, money laundering, corruption, and other transnational crime, and bring criminal enterprises to justice through the rule of law.

Bolivia's efforts during the past 12 months fall short of its obligations to the international community as outlined in the United Nations conventions 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 be allowed to continue.

MEMORANDUM OF JUSTIFICATION FOR MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2013

Burma

During the past 12 months the Government of Burma has failed demonstrably to make sufficient efforts to meet its obligations under international counternarcotics agreements or to uphold the counternarcotics measures set forth in Section 489 (a)(1) of the Foreign Assistance Act of 1961(FAA) , as amended. However, during this time period, the Burmese Government has undertaken political and economic reforms to address many of the United States' longstanding concerns regarding governance, democratization and human rights. Given the government's demonstrated commitment to reform, and promising signs of action on future poppy eradication, it is in the interest of the U.S. Government to grant Burma a National Interest Waiver (NIW) as part of the 2013 Majors List process.

According to the 2012 International Narcotics Control Strategy Report (INCSR), Burma remains the second largest cultivator of illegal opium poppy in the world. A significant increase was

noted from 2010 to 2011. Since 1996, there has been a sharp increase in production, consumption, and export of synthetic drugs, especially amphetamine-type stimulants (ATS). ATS attributed to Burma are trafficked along new routes to Thailand, China and Lao People's Democratic Republic. The Mekong River is a vital trafficking route and there are growing signs of new routes to the western part of Burma for onward trafficking to South Asia. Reports from India, Nepal and Bangladesh indicate that South Asia is also increasingly affected by the trafficking of methamphetamine pills originating in Burma.

According to government statistics, officials have destroyed 23,584 ha of opium poppies since the beginning of 2012 compared to 7,058 ha in 2011. Similarly the country eradicated 8,268 ha of opium poppy in 2010 compared to only 4,087 ha in 2009. Burma has indicated a willingness to work regionally on counternarcotics initiatives; re-engaged with the international community including the UN Office on Drugs and Crime (UNODC); expressed its desire to cooperate with the United States as part of its reform process, including in cooperative programs to combat illegal drugs; and seeks to improve its counternarcotics cooperation with China and Thailand. At the same time, Burma's current counternarcotics performance is not sufficient to meet its international counternarcotics cooperation obligations. The Burmese government needs to dedicate adequate resources to its counternarcotics efforts, increase illegal crop eradication, and redouble its efforts to obtain ceasefires with ethnic minorities and document narcotics trafficking by the United Wa State Army.

The decision to grant Burma a National Interest Waiver reflects political change taking place in Burma and the country's interest in improving its international drug control cooperation. Since its formation in March 2011, Burma's civilian government has undertaken important political and economic reforms. In late 2011, Secretary Clinton made an historic visit to Burma and committed to supporting Burma's reform process and matching "action-for-action," including resumption of counternarcotics cooperation, which had been suspended in 2004 by the Burmese Government. After Secretary Clinton's visit, and following additional reforms, the United States announced an exchange of ambassadors to restore full diplomatic relations with Burma and an easing of certain travel, financial, and investment related sanctions.

In accordance with Section 481 (e)(4) of the FAA, the determination that Burma has failed demonstrably does not result in the withholding of humanitarian and counternarcotics assistance. It is in the vital interest of the United States to grant a National Interest Waiver to Burma.

MEMORANDUM OF JUSTIFICATION FOR MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2013

Venezuela

During the past 12 months, the Government of Venezuela has failed demonstrably to make sufficient efforts to meet its obligations under international counternarcotics agreements or to uphold the counternarcotics measures set forth in Section 489(a)(1) of the Foreign Assistance Act of 1961(FAA), as amended.

Venezuela's porous western border with Colombia, weak judicial system, inconsistent international counternarcotics cooperation, and generally permissive and corrupt environment make the country one of the preferred trafficking routes out of South America for drugs to consumer markets. As a matter of stated policy, Venezuela does not encourage, support, or facilitate illegal activity involving drug trafficking. However, individual members of the government and security forces were credibly reported to have engaged in or facilitated drug trafficking activities. According to U.S. Government cocaine-movement estimates, by the end of 2011, an estimated 161 to 212 MT of cocaine likely departed from Venezuela to global destinations, the same amount estimated as in 2010. Suspected narcotics trafficking flights depart from Venezuelan states bordering Colombia. Almost all illegal drug flights arriving in Honduras, the region's largest center for airborne drug smuggling, originate from Venezuela.

Venezuela reported that it seized 42 MT of illegal drugs in 2011, compared to 63 MT in 2010. While Venezuela publicly reports such seizures, it does not share the data or evidence needed to verify drug destruction. The country also published statistics on arrests and convictions for drug possession and trafficking, although no information was available on the nature or severity of the drug offenses. Effective prosecution of drug traffickers is hindered by corruption and a lack of judicial independence. Venezuela is a party to all relevant international drug and crime control agreements, including the 1988 U.N. Convention.

With the last year, Venezuela transferred three major drug traffickers to the United States, including Maximiliano Bonilla Orozco, aka "Valenciano," one of Colombia's most-wanted drug traffickers, and Oscar Martinez Hernandez, aka "El Cali." Between January and October 2011, the Venezuelan reported that it captured 21 individuals for whom there were international warrants for drug-related offenses.

Since ceasing formal cooperation with the U.S. Drug Enforcement Administration (DEA) in 2005, the Venezuelan government has maintained only limited, case-by-case counternarcotics cooperation with the United States. Cooperation has consisted mainly of coordination of fugitive deportations from Venezuela to the United States and maritime interdiction activities carried out by the U.S. Coast Guard (USCG). Venezuela continued to grant permission to the USCG to board Venezuelan-flagged vessels on the high seas suspected of being engaged in narcotics trafficking, and there were two such events since September 2011. Venezuelan authorities required that the Coast Guard return all confiscated vessels, suspects, and contraband identified during these operations. There was no subsequent provision of information to U.S. officials regarding the drug trafficking organizations involved or the prosecution of suspects. Venezuela's limited counternarcotics cooperation with the United States draws into question the government's intent to uphold its international commitment to combat drug trafficking.

Despite proposals from the United States, Venezuela has not signed the updated addendum to the 1978 Bilateral Counternarcotics Memorandum of Understanding that was negotiated in 2005. Venezuelan officials have stated publicly that the country will neither sign a bilateral agreement nor cooperate with the United States on counternarcotics.

Venezuela took some positive steps in the region regarding counternarcotics issues. Venezuela increased counternarcotics cooperation with Colombia and continued to deport fugitives to

Colombia and other countries. During 2011, Venezuela captured and transferred to Colombia five members of the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army. These groups rely heavily on drug trafficking to fund their operations and often seek safe haven in Venezuela. However, the Venezuelan government did not take action against government and military officials known to be linked to the FARC. On September 8, 2011, the U.S. Department of Treasury designated four senior government officials pursuant to the Foreign Narcotics Kingpin Designation Act for acting for or on behalf of the FARC, often in direct support of its narcotics and arms trafficking activities.

A determination as having failed demonstrably does not affect funding for humanitarian and counternarcotics programs. A U.S. vital national interest waiver for Venezuela permits support for other programs critical to U.S. foreign policy interests.
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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 14, 2012, consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

Afghanistan, The Bahamas, Belize, Bolivia, Burma, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, India, Jamaica, Laos, Mexico, Nicaragua, Pakistan, Panama, Peru, and Venezuela.

Of these 22 countries, **Bolivia, Burma, and Venezuela** were designated by the President as having “failed demonstrably” during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. The President determined, however, in accordance with provisions of Section 706(3)(A) of the FRAA, that continued support for bilateral programs in Bolivia, Burma and 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:

Afghanistan, Argentina, Bangladesh, Belgium, Bolivia, Brazil, Burma, Canada, Chile, China, Colombia, Egypt, Germany, India, Indonesia, Iraq, Mexico, the Netherlands, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, and the United Kingdom.

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."

POLICY AND PROGRAM DEVELOPMENTS

Overview

The 2013 International Narcotics Control Strategy Report provides an overview of steps taken during the previous year by the governments of over 90 countries to reduce illicit narcotics production, trafficking and use. Efforts towards these common goals are required by treaties endorsed by virtually all member states of the United Nations, and the United States strongly supports these legal instruments both through its own domestic efforts and by providing assistance to help reinforce the work of foreign partners to enhance their capacities to achieve sustainable results.

U.S. assistance can play an important role in bolstering the efforts of committed governments to reduce illicit drug supplies, strengthen criminal justice systems and correctional institutions, and promote advances in prevention and treatment. By supporting international efforts to reduce the flow of illicit drugs to the United States, U.S. assistance directly supports the public health and safety of U.S. citizens. U.S. assistance also helps support key U.S. foreign policy objectives by strengthening the ability of international partners to provide security for their citizens and safeguard the rule of law. However, as this report underscores, U.S. assistance can only supplement domestic efforts by partner governments; there is no substitute for a host-nation's commitment to overcome the difficult, long-term challenges of confronting drug-related crime and corruption.

Fortunately, more countries than ever before are demonstrating the will to take the difficult but necessary steps to reform and strengthen their domestic institutions, as well as cooperate with international partners against transnational criminal networks. This is because the use and trafficking of narcotics has become more globalized than at any time in history. Illicit drug consumption has risen dramatically in countries traditionally regarded as "source" and "transit" zones so that they themselves are increasingly consumer nations. In addition, drug consumption patterns have shifted in traditional markets such as the United States and Europe. In the United States, for example, cocaine use has dropped by approximately 40 percent over the past decade. In response, drug traffickers have pioneered new markets in Europe and developing nations in South America, Africa and Asia, overwhelming public health services that are unequipped to handle the influx of new addicts. The United States leads the world in evidence-based treatment and prevention programs, and by sharing U.S. expertise and encouraging partner nations to make such programs their own, we can help to initiate similar drug prevention programs in countries where drug use is increasing.

One of the first countries to recognize and respond to the threat of drug-fueled criminality and violence was Colombia. In 2012, Colombia continued its remarkable progress against cocaine production and associated violence. Production of pure cocaine in Colombia decreased to fewer than 200 metric tons from 700 metric tons in 2001, reaching the lowest level in nearly 20 years. This was achieved by constant law enforcement pressure on coca producers and the criminal syndicates responsible for coordinating the drug trade, as well as continuing success in expanding state institutions and alternative livelihoods in former cultivation zones. These steps have strengthened democracy, human rights, and the rule of law in Colombia.

These historic achievements were the result of many years of close partnership between Colombia and the United States, spanning successive administrations in both countries. These successful efforts should serve as a model for other countries facing similar threats, including Colombia's coca-growing neighbors Peru and Bolivia, which are both now producing more cocaine than Colombia for the first time since 1995.

Mexico continued its own ambitious campaign to strengthen and reform its law enforcement and criminal justice institutions in 2012, working in close cooperation with the United States. Improvements in public security institutions allowed Mexico to achieve notable success in dismantling and disrupting some of North America's largest and most dangerous drug cartels in 2012, and contributed to a significant overall decrease in drug-related violence. Increasingly, U.S. assistance has shifted away from providing large-scale equipment toward training and justice-sector capacity building essential for sustainable progress. The United States will continue to work with Mexico to expand on the progress that has been achieved and consolidate gains, to better safeguard the security of Mexico and the United States.

To prevent Mexican drug trafficking networks from exploiting weak institutions in Central America and the Caribbean, the United States will continue providing assistance to both regions through two regional capacity-building initiatives: the Central America Regional Security Initiative and the Caribbean Basin Security Initiative, respectively. Both initiatives provide frameworks for greater law enforcement cooperation and technical assistance between the United States and participating countries that are threatened by the violence and corruption engendered by the drug trade.

The diversification of global drug trafficking and abuse extends beyond the Western Hemisphere. Over the past decade, West African countries have been increasingly exploited as a transit zone for cocaine from South America destined for Europe. Drug usage has increased similarly in West Africa, as traffickers have substituted drugs in lieu of cash as a form of payment to local middlemen. Concerned West African governments and the Economic Community of West African States (ECOWAS) have sought greater cooperation with the United States and other international partners to counter this threat. In response, the United States in 2011 initiated the West Africa Cooperative Security Initiative (WACSI).

Although in its infancy, WACSI led to some positive engagement and training opportunities in 2012, including the creation of a specialized counternarcotics police unit in Ghana trained and vetted by the U.S. Drug Enforcement Administration. WACSI will continue to focus on establishing cooperative partnerships and use them to expand effective programming. One of the most important of these partnerships is that between the international community and ECOWAS. In 2008, ECOWAS and its member states developed the continent's leading regional action plan on drug trafficking and organized crime. The United States will continue to work with ECOWAS and our European partners on how best to support implementation of this plan.

In Afghanistan, opium production declined in spite of an increase in the total area under poppy cultivation. The drop stemmed from crop disease and poor growing conditions as illicit farmers moved to less hospitable areas. Countering the opium trade remains very much an uphill struggle and a long-term challenge. Working with Afghan partners, international allies, and

multilateral organizations, the United States continues to share a commitment for the establishment of effective, sustainable, Afghan-led programs, which are critical to Afghan security and regional stability. Burma remained second to Afghanistan as the world's leading source of opium and heroin, though at levels considerably below the 1980s and 1990s when production was at its peak. The Burmese government has shown signs of a growing willingness to cooperate with the United States on international drug control objectives. The United States is open to collaborating on specific projects, and plans are underway to conduct the first joint-opium yield survey in nearly a decade in 2013.

One of the more significant and troubling trends in international drug control is the ongoing spread of synthetic drug production and consumption. While most markets for plant-based organic drugs such as cocaine and heroin are stable or declining, synthetic drug use is continuing to rise. In the Middle East and many countries across Asia, synthetic drugs are now the primary drug threat.

Synthetic drugs originate from a wider range of production zones than cocaine or heroin, and are less vulnerable to law enforcement intervention than plant-based crops, which require open and more easily detectable cultivation sites. Moreover, unlike opium or coca, the active ingredients of synthetic drugs are found in otherwise legal precursor chemicals needed for legitimate industry. Preventing the illicit diversion of these chemicals is a complex challenge requiring greater cooperation between governments, international organizations such as the United Nations and International Narcotics Control Board, and industry.

Many countries share the concern of the United States over the global spread of new psychoactive substances, including synthetic cannabinoids ("K2" or "spice") and synthetic cathinones ("bath salts"). These substances pose serious health threats, and their manufacturers have shown an ability to alter their chemical composition in numerous ways to skirt existing drug laws, putting them on the market faster than they can be banned. In 2012, the United States passed domestic legislation to enhance law enforcement's ability to respond to designer drugs and, moving forward, the United States will work with our international partners to consider new avenues for cooperation in identifying and responding to this emerging threat.

International drug control is a complex and challenging set of responsibilities for governments and publics. There are no simple answers or uniform solutions. Each government must decide its own course for how best to uphold its obligations under international law to protect its citizens against the harms caused by illegal drugs. And no country can succeed on its own. International cooperation and common strategies are essential for success. Working together, governments can pool resources, leverage their skills, and close off safe havens for drug traffickers. Criminal enterprises cannot succeed against the consensus, will, and desire of a community of societies determined to thwart their efforts.

Demand Reduction

Drug demand reduction is a key foreign policy tool for addressing the interconnected threats of drugs, crime, and terrorism. It is also a critical component in efforts to stop the spread of HIV/AIDS in countries with high numbers of intravenous drug users. Consequently, the goal of demand reduction strategies call for a comprehensive, balanced approach to the drug-problem that targets prevention, intervention, treatment and recovery, research, and international cooperation.

Recognizing that drug addiction is a major public health threat, and that drug addiction is a preventable and treatable disease, many foreign countries are requesting INL-sponsored technical assistance to improve development of effective policy and programs. INL works closely with international partners to place into practice, capacity building and training activities for service providers in drug prevention, intervention, treatment, and recovery. The program has two major objectives: : (1) significantly reduce drug use, related crime, and violence in targeted country populations and (2) significantly delay onset of first use in targeted country populations. In achieving these objectives, INL supports the following:

- Capacity building and training aimed to educate governments and public organizations on science-based and best practices in drug prevention, intervention, treatment and recovery;
- Development of drug-free community coalitions in selected countries,
- Research, development, and evaluation efforts to determine the effectiveness of drug prevention and treatment programs; and
- Knowledge dissemination of science-based information and knowledge transfer through multilateral and regional organizations.

Recognizing that there are gender differences in the development and pattern of substance use disorders, INL is also supporting technical assistance addressing gender-related drug abuse and related violence.

Significant completed and on-going INL-funded demand reduction projects for Fiscal Year 2012 included:

Crack Cocaine Symposium: In March 2012, INL sponsored a Trans-regional Crack Cocaine Symposium in Tampa, Florida, that included representatives from the regions affected by crack cocaine addiction (Brazil, Southern Cone and West Africa). Currently, a team of U.S. and Brazilian scientists are working to develop the first “field test kits” to detect toxic adulterants in street samples of crack cocaine, in addition to urine screens for these adulterants in the systems of crack addicts in an effort to improve treatment and health care delivery services in affected communities.

Child Addition Initiative: INL is supporting the development of the world’s first protocols to treat drug-addicted children. Brazil and neighboring Southern Cone countries report that inexpensive crack cocaine is readily available resulting in a significant increase in child addicts

and lowering the age range of crack use to 5-8 years of age. Protocols are also being developed to treat opium and heroin-addicted children (ages infancy – 12) in Afghnaistan.

Africa Rapid Assessment: INL is supporting the United Nations Office on Drugs and Crime (UNODC) to conduct a rapid assessment survey in 16 countries to assess, among other indicators, if smoked cocaine (e.g., crack and coca paste) is now being consumed by children in West Africa. If confirmed, INL will plan appropriate interventions to avert a public health crisis in countries of the region.

Women Drug Treatment Initiatives: INL is supporting research-based prevention, treatment, and recovery programs in key drug producing/using countries that improve services for addicted women and their children, a chronically under-served and stigmatized population. INL also supports the development of a training curriculum that addresses the unique needs of female addicts worldwide.

UNODC: INL continues to support of UNODC global programs that provide comprehensive treatment provider training and technical assistance to improve treatment delivery systems in Asia, Africa and Latin America. The primary emphasis of these initiatives is to share drug treatment best practices with the aim to improve the quality of services and to guide policy makers in programming.

Mexico: INL is supporting the work of the Organization of American States to establish a national-level counselor certification system for drug addiction counselors, aimed at improving the delivery of drug treatment services in Mexico.

Drug-Free Communities: INL is supporting the drug-free communities program which assists community groups in forming and sustaining effective community and anti-drug coalitions that fight illegal drugs. The goal of the coalitions is to bring citizens together to prevent and reduce drug use among youth. INL support has resulted in the establishment of approximately 81 active coalitions in several communities in Bolivia, Brazil, Colombia, Guatemala, Mexico, Peru, Kenya and South Africa. For 2013, coalition training will continue in South Africa, several West African and Central Asian states and in Southeast Asia (the Philippines), and expand to Iraq. An INL-funded two-year outcome evaluation of community anti-drug coalition efforts in Lima, Peru, reported significant reductions in drug use, marketing of drugs, gang-related problems and overall neighborhood crime.

Colombo Plan: INL continues to support the Colombo Plan's Asian Centre for Certification and Education of Addiction Professionals (ACCE), a training unit of treatment experts to assist governments in the process of developing a professional certification process for addiction professionals in Asia and Africa.

Afghanistan: INL currently supports 64 residential and outpatient treatment centers in Afghanistan. The centers provide treatment for specific populations: adult males, adult females, adolescent males, adolescent females, and children. INL also supports prevention programs throughout Afghanistan, including the delivery of preventive drug education in the school

curricula, mobile exhibit and street theater programs, and engagement of religious leaders in supporting drug prevention activities.

Methodology for U.S. Government 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 U.S. government 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 U.S. government's 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 continues to improve in the past few years as a result 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 and measure the effects of eradication and other factors average yield.

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 U.S. government estimates include the proportion of new fields detected each year and adjust 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 U.S. government 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 U.S. government 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 United States 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 United States 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 Crop Cultivation 2005-2011

(all figures in hectares)

	2005	2006	2007	2008	2009	2010	2011	2012
Poppy								
Afghanistan	107,400	172,600	202,000	157,000	131,000	119,000	115,000	180,000
Burma	40,000	21,000	21,700	22,500	19,000	45,500	36,500	in process
Colombia		2,300	1,000		1,100			
Guatemala	100						220	in process
Laos	5,600	1,700	1,100	1,900	940	1,800	4,400	in process
Mexico	3,300	5,100	6,900	15,000	19,500	14,000	12,000	in process
Pakistan	770	980		700	705			in process
Total Poppy	**157,170**	**203,680**	**232,700**	**197,100**	**172,245**	**180,300**	**168,120**	
Coca								
Bolivia	26,500	25,800	29,500	32,000	35,000	34,500	30,000	in process
Colombia	144,000	157,000	167,000	119,000	116,000	100,000	83,000	in process
Peru	34,000	42,000	36,000	41,000	40,000	53,000	49,500	in process
Total Coca	**204,500**	**224,800**	**232,500**	**192,000**	**191,000**	**187,500**	**162,500**	**0**
Cannabis								
Mexico	5,600	8,600	8,800	12,000	17,500	16,500	12,000	in process
Total Cannabis	**5,600**	**8,600**	**8,800**	**12,000**	**17,500**	**16,500**	**12,000**	**0**

Note on Guatemala poppy cultivation: 2011 survey limited to fall season in San Marcos and Huehuetenango only.

Note on Laos poppy cultivation: Estimates for 2009-2010 are for Phongsali only. Survey area for 2011 was significantly expanded to include parts of Louang Namtha.

Note on Mexico poppy cultivation: Due to a major methodological change in the 2011 survey, 2005-2010 estimates are indicative of trends only and overstate actual cultivation.

Note on Pakistan poppy cultivation: 2005, 2006, and 2008 estimates are for Bara River Valley in Khyber Agency only, 2009 estimate is for Khyber, Mohmand, and Bajaur Agencies only.

Worldwide Potential Illicit Drug Production 2005-2011

(all figures in metric tons)

	2005	2006	2007	2008	2009	2010	2011	2012
Opium								
Afghanistan	4,475	5,644	8,000	5,500	5,300	3,200	4,400	4,300
Burma	380	230	270	340	305	530	450	in process
Colombia		37	15		17			
Guatemala	4						4	in process
Laos	28	8.5	6	17	12	23	57	in process
Mexico	71	108	150	325	425	300	250	in process
Pakistan	32	36		26	26			in process
Total Opium	**4,990**	**6,064**	**8,441**	**6,208**	**6,085**	**4,053**	**5,161**	
Coca Leaf								
Bolivia	36,000	37,000	38,500	43,500	43,000	43,000	55,000	in process
Colombia	146,000	148,000	135,000	83,500	78,500	71,000	52,500	in process
Peru	53,500	54,500	43,500	43,500	46,000	66,500	62,500	in process
Total Coca Leaf*	**235,500**	**239,500**	**217,000**	**170,500**	**167,500**	**180,500**	**170,000**	
Potential Pure Cocaine								
Bolivia	115	115	130	195	200	205	265	in process
Colombia	500	510	470	285	280	260	195	in process
Peru	260	265	210	215	225	325	305	in process
Total Potential Pure Cocaine	**875**	**890**	**810**	**695**	**705**	**790**	**765**	
Potential Export Quality Cocaine								
Bolivia	155	130	140	215	225	230	295	in process
Colombia	590	600	570	360	380	355	265	in process
Peru	290	295	235	240	260	375	360	in process
Total Potential Pure Cocaine	**1,035**	**1,025**	**945**	**815**	**865**	**960**	**920**	
Cannabis								
Mexico (marijuana)	10,100	15,500	15,800	21,500				
Total Cannabis	**10,100**	**15,500**	**15,800**	**21,500**				

Note on Mexico marijuana production: No production estimates for 2009-2011 due to lack of reliable yield data

Parties to UN Conventions

(with dates ratified/acceded)

As of 24 December, 2012

Country	Convention Against Transnational Organized Crime	1988 UN Drug Convention	Convention Against Corruption
1. Afghanistan	24 September 2003	14 February 1992	25 August 2008
2. Albania	21 August 2002	27 June 2001	25 May 2006
3. Algeria	7 October 2002	9 May 1995	25 August 2004
4. Andorra	22 September 2011	23 July 1999	
5. Angola		26 October 2005	29 August 2006
6. Antigua and Barbuda	24 July 2002	5 April 1993	21 June 2006
7. Argentina	19 November 2002	28 June 1993	28 August 2006
8. Armenia	1 July 2003	13 September 1993	8 March 2007
9. Australia	27 May 2004	16 November 1992	7 December 2005
10. Austria	23 September 2004	11 July 1997	11 January 2006
11. Azerbaijan	30 October 2003	22 September 1993	1 November 2005
12. Bahamas	26 September 2008	30 January 1989	10 January 2008
13. Bahrain	7 June 2004	7 February 1990	5 October 2010
14. Bangladesh	13 July 2011	11 October 1990	27 February 2007
15. Barbados		15 October 1992	
16. Belarus	25 June 2003	15 October 1990	17 February 2005
17. Belgium	11 August 2004	25 October 1995	25 September 2008
18. Belize	26 September 2003	24 July 1996	
19. Benin	30 August 2004	23 May 1997	14 October 2004
20. Bhutan		27 August 1990	
21. Bolivia	10 October 2005	20 August 1990	5 December 2005
22. Bosnia and Herzegovina	24 April 2002	1 September 1993	26 October 2006
23. Botswana	29 August 2002	13 August 1996	27 June 2011
24. Brazil	29 January 2004	17 July 1991	15 June 2005
25. Brunei Darussalam	25 March 2008	12 November 1993	2 December 2008
26. Bulgaria	5 December 2001	24 September 1992	20 September 2006
27. Burkina Faso	15 May 2002	2 June 1992	10 October 2006
28. Burundi	24 May 2012	18 February 1993	10 March 2006
29. Cambodia	12 December 2005	7 July 2005	5 September 2007
30. Cameroon	6 February 2006	28 October 1991	6 February 2006
31. Canada	13 May 2002	05 July 1990	2 October 2007
32. Cape Verde	15 July 2004	8 May 1995	23 April 2008

33. Central African Republic	14 September 2004	15 October 2001	6 October 2006
34. Chad	18 August 2009	9 June 1995	
35. Chile	29 November 2004	13 March 1990	13 September 2006
36. China	23 September 2003	25 October 1989	13 January 2006
37. Colombia	4 August 2004	10 June 1994	27 October 2006
38. Comoros	25 September 2003	1 March 2000	11 October 2012
39. Congo		3 March 2004	13 July 2006
40. Cook Islands	4 March 2004	22 February 2005	17 October 2011
41. Costa Rica	24 July 2003	8 February 1991	21 March 2007
42. Cote d'Ivoire	25 October 2012	25 November 1991	25 October 2012
43. Croatia	24 January 2003	26 July 1993	24 April 2005
44. Cuba	9 February 2007	12 June 1996	9 February 2007
45. Cyprus	22 April 2003	25 May 1990	23 February 2009
46. Czech Republic		30 December 1993	
47. Democratic People's Republic of Korea		19 March 2007	
48. Democratic Republic of the Congo	28 October 2005	28 October 2005	23 September 2010
49. Denmark	30 September 2003	19 December 1991	26 December 2006
50. Djibouti	20 April 2005	22 February 2001	20 April 2005
51. Dominica		30 June 1993	28 May 2010
52. Dominican Republic	26 October 2006	21 September 1993	26 October 2006
53. Ecuador	17 September 2002	23 March 1990	15 September 2005
54. Egypt	5 March 2004	15 March 1991	25 February 2005
55. El Salvador	18 March 2004	21 May 1993	1 July 2004
56. Equatorial Guinea	7 February 2003		
57. Eritrea		30 January 2002	
58. Estonia	10 February 2003	12 July 2000	12 April 2010
59. Ethiopia	23 July 2007	11 October 1994	26 November 2007
60. European Union	21 May 2004	31 December 1990	12 November 2008
61. Fiji		25 March 1993	14 May 2008
62. Finland	10 February 2004	15 February 1994	20 June 2006
63. France	29 October 2002	31 December 1990	11 July 2005
64. Gabon	15 December 2004	10 July 2006	1 October 2007
65. Gambia	5 May 2003	23 April 1996	
66. Georgia	5 September 2006	8 January 1998	4 November 2008
67. Germany	14 June 2006	30 November 1993	
68. Ghana	21 August 2012	10 April 1990	27 June 2007
69. Greece	11 January 2011	28 January 1992	17 September 2008

70. Grenada	21 May 2004	10 December 1990	
71. Guatemala	25 September 2003	28 February 1991	3 November 2006
72. Guinea	9 November 2004	27 December 1990	
73. Guinea-Bissau	10 September 2007	27 October 1995	10 September 2007
74. Guyana	14 September 2004	19 March 1993	16 April 2008
75. Haiti	19 April 2011	18 September 1995	14 September 2009
76. Holy See	25 January 2012	25 January 2012	
77. Honduras	2 December 2003	11 December 1991	23 May 2005
78. Hungary	22 December 2006	15 November 1996	19 April 2005
79. Iceland	13 May 2010	2 September 1997	1 March 2011
80. India	5 May 2011	27 March 1990	9 May 2011
81. Indonesia	20 April 2009	23 February 1999	19 September 2006
82. Iran		7 December 1992	20 April 2009
83. Iraq	17 March 2008	22 July 1998	17 March 2008
84. Ireland	17 June 2010	3 September 1996	9 November 2011
85. Israel	27 December 2006	20 May 2002	4 February 2009
86. Italy	2 August 2006	31 December 1990	5 October 2009
87. Jamaica	29 September 2003	29 December 1995	5 March 2008
88. Japan		12 June 1992	
89. Jordan	22 May 2009	16 April 1990	24 February 2005
90. Kazakhstan	31 July 2008	29 April 1997	18 June 2008
91. Kenya	16 June 2004	19 October 1992	9 December 2003
92. Korea, Republic of		28 December 1998	27 March 2008
93. Kiribati	15 September 2005		
94. Kuwait	12 May 2006	3 November 2000	16 February 2007
95. Kyrgyz Republic	2 October 2003	7 October 1994	16 September 2005
96. Lao Peoples Democratic Republic	26 September 2003	1 October 2004	25 September 2009
97. Latvia	7 December 2001	24 February 1994	4 January 2006
98. Lebanon	5 October 2005	11 March 1996	22 April 2009
99. Lesotho	24 September 2003	28 March 1995	16 September 2005
100. Liberia	22 September 2004	16 September 2005	16 September 2005
101. Libya	18 June 2004	22 July 1996	7 June 2005
102. Liechtenstein	20 February 2008	9 March 2007	8 July 2010
103. Lithuania	9 May 2002	8 June 1998	21 December 2006
104. Luxembourg	12 May 2008	29 April 1992	6 November 2007
105. Macedonia, Former Yugoslav Rep.	12 January 2005	13 October 1993	13 April 2007
106. Madagascar	15 September 2005	12 March 1991	22 September 2004
107. Malawi	17 March 2005	12 October 1995	4 December 2007

108. Malaysia	24 September 2004	11 May 1993	24 September 2008
109. Maldives		7 September 2000	22 March 2007
110. Mali	12 April 2002	31 October 1995	18 April 2008
111. Malta	24 September 2003	28 February 1996	11 April 2008
112. Marshall Islands	15 June 2011	5 November 2010	17 November 2011
113. Mauritania	22 July 2005	1 July 1993	25 October 2006
114. Mauritius	21 April 2003	6 March 2001	15 December 2004
115. Mexico	4 March 2003	11 April 1990	20 July 2004
116. Micronesia, Federal States of	24 May 2004	6 July 2004	21 March 2012
117. Moldova	16 September 2005	15 February 1995	1 October 2007
118. Monaco	5 June 2001	23 April 1991	
119. Mongolia	27 June 2008	25 June 2003	11 January 2006
120. Montenegro	23 October 2006	23 October 2006	23 October 2006
121. Morocco	19 September 2002	28 October 1992	9 May 2007
122. Mozambique	20 September 2006	8 June 1998	9 April 2008
123. Myanmar (Burma)	30 March 2004	11 June 1991	20 December 2012
124. Namibia	16 August 2002	6 March 2009	3 August 2004
125. Nauru	12 July 2012	12 July 2012	12 July 2012
126. Nepal	23 December 2011	24 July 1991	31 March 2011
127. Netherlands	26 May 2004	8 September 1993	31 October 2006
128. New Zealand	19 July 2002	16 December 1998	
129. Nicaragua	9 September 2002	4 May 1990	15 February 2006
130. Niger	30 September 2004	10 November 1992	11 August 2008
131. Nigeria	28 June 2001	1 November 1989	14 December 2004
132. Niue	16 July 2012	16 July 2012	
133. Norway	23 September 2003	14 November 1994	29 June 2006
134. Oman	13 May 2005	15 March 1991	
135. Pakistan	13 January 2010	25 October 1991	31 August 2007
136. Palau			24 March 2009
137. Panama	18 August 2004	13 January 1994	23 September 2005
138. Papa New Guinea			16 July 2007
139. Paraguay	22 September 2004	23 August 1990	1 June 2005
140. Peru	23 January 2002	16 January 1992	16 November 2004
141. Philippines	28 May 2002	7 June 1996	8 November 2006
142. Poland	12 November 2001	26 May 1994	15 September 2006
143. Portugal	10 May 2004	3 December 1991	28 September 2007
144. Qatar	10 March 2008	4 May 1990	30 January 2007
145. Romania	4 December 2002	21 January 1993	2 November 2004

146. Russia	26 May 2004	17 December 1990	9 May 2006
147. Rwanda	26 September 2003	13 May 2002	4 October 2006
148. St. Kitts and Nevis	21 May 2004	19 April 1995	
149. St. Lucia		21 August 1995	25 November 2011
150. St. Vincent and the Grenadines	29 October 2010	17 May 1994	
151.Samoa		19 August 2005	
152. San Marino	20 July 2010	10 October 2000	
153. Sao Tome and Principe	12 April 2006	20 June 1996	12 April 2006
154. Saudi Arabia	18 January 2005	9 January 1992	
155. Senegal	27 September 2003	27 November 1989	16 November 2005
156. Serbia	6 September 2001	12 March 2001	20 December 2005
157. Seychelles	22 April 2003	27 February 1992	16 March 2006
158. Sierra Leone		6 June 1994	30 September 2004
159. Singapore	28 August 2007	23 October 1997	6 November 2009
160. Slovakia	3 December 2003	28 May 1993	1 June 2006
161. Slovenia	21 May 2004	6 July 1992	1 April 2008
162. Solomon Islands			6 January 2012
163. South Africa	20 February 2004	14 December 1998	22 November 2004
164. Spain	1 March 2002	13 August 1990	19 June 2006
165. Sri Lanka	22 September 2006	6 June 1991	31 March 2004
166. Sudan	10 December 2004	19 November 1993	
167. Suriname	25 May 2007	28 October 1992	
168. Swaziland	24 September 2012	3 October 1995	24 September 2012
169. Sweden	30 April 2004	22 July 1991	25 September 2007
170.Switzerland	27 October 2006	14 September 2005	24 September 2009
171. Syria	8 April 2009	3 September 1991	
172. Tajikistan	8 July 2002	6 May 1996	25 September 2006
173. Thailand		3 May 2002	1 March 2011
174. Tanzania	24 May 2006	17 April 1996	25 May 2005
175. Timor-Leste	9 November 2009		27 March 2009
176. Togo	2 July 2004	1 August 1990	6 July 2005
177. Tonga		29 April 1996	
178. Trinidad and Tobago	6 November 2007	17 February 1995	31 May 2006
179. Tunisia	19 July 2003	20 September 1990	23 September 2008
180. Turkey	25 March 2003	2 April 1996	9 November 2006
181. Turkmenistan	28 March 2005	21 February 1996	28 March 2005
182. UAE	7 May 2007	12 April 1990	22 February 2006
183. Uganda	9 March 2005	20 August 1990	9 September 2004

184. Ukraine	21 May 2004	28 August 1991	2 December 2009
185. United Kingdom	9 February 2006	28 June 1991	9 February 2006
186. United States	3 November 2005	20 February 1990	30 October 2006
187. Uruguay	4 March 2005	10 March 1995	10 January 2007
188. Uzbekistan	9 December 2003	24 August 1995	29 July 2008
189. Vanuatu	4 January 2006	26 January 2006	12 July 2011
190. Venezuela	13 May 2002	16 July 1991	2 February 2009
191. Vietnam	8 June 2012	4 November 1997	19 August 2009
192. Yemen	8 February 2010	25 March 1996	7 November 2005
193. Zambia	24 April 2005	28 May 1993	7 December 2007
194. Zimbabwe	12 December 2007	30 July 1993	8 March 2007

USG ASSISTANCE

Department of State Budget

U.S. Department of State FY 2012-2013 Budget

Counter-Narcotics Program Area

$ in thousands for all items	FY 2012 Actual	FY 2013 Request
TOTAL	672,417	675,266
Africa	1,050	1,050
Liberia	1,050	1,050
International Narcotics Control and Law Enforcement	1,050	1,050
East Asia and Pacific	2,540	600
Indonesia	490	450
International Narcotics Control and Law Enforcement	490	450
Laos	250	150
International Narcotics Control and Law Enforcement	250	150
State East Asia and Pacific Regional	1,800	-
International Narcotics Control and Law Enforcement	1,800	-
Europe and Eurasia	1,117	569
Georgia	203	120
Assistance for Europe, Eurasia and Central Asia	203	-
International Narcotics Control and Law Enforcement	-	120
Russia	614	449
Assistance for Europe, Eurasia and Central Asia	614	-
International Narcotics Control and Law Enforcement	-	449
Eurasia Regional	300	-
Assistance for Europe, Eurasia and Central Asia	300	-
Near East	1,000	1,000
Iraq	1,000	1,000
International Narcotics Control and Law Enforcement	1,000	1,000
South and Central Asia	191,873	249,299

Afghanistan	169,632	225,381
Economic Support Fund	63,000	65,000
International Narcotics Control and Law Enforcement	106,632	160,381
Kazakhstan	685	724
Assistance for Europe, Eurasia and Central Asia	685	-
International Narcotics Control and Law Enforcement	-	724
Kyrgyz Republic	521	780
Assistance for Europe, Eurasia and Central Asia	521	-
International Narcotics Control and Law Enforcement	-	780
Pakistan	12,410	12,140
International Narcotics Control and Law Enforcement	12,410	12,140
Tajikistan	1,060	820
Assistance for Europe, Eurasia and Central Asia	1,060	-
International Narcotics Control and Law Enforcement	-	820
Turkmenistan	243	298
Assistance for Europe, Eurasia and Central Asia	243	-
International Narcotics Control and Law Enforcement	-	298
Uzbekistan	32	156
Assistance for Europe, Eurasia and Central Asia	32	-
International Narcotics Control and Law Enforcement	-	156
Central Asia Regional	290	-
Assistance for Europe, Eurasia and Central Asia	290	-
State South and Central Asia Regional (SCA)	7,000	9,000
International Narcotics Control and Law Enforcement	7,000	9,000
Western Hemisphere	388,162	345,313
Belize	-	213
Foreign Military Financing	-	213
Bolivia	7,500	5,000
International Narcotics Control and Law Enforcement	7,500	5,000
Brazil	2,900	1,915
International Narcotics Control and Law Enforcement	2,900	1,915

Colombia	214,902	198,605
Economic Support Fund	88,302	84,633
International Narcotics Control and Law Enforcement	126,600	113,972
Costa Rica	815	1,402
Foreign Military Financing	315	1,402
Ecuador	4,850	8,888
Development Assistance	1,400	4,438
International Narcotics Control and Law Enforcement	3,450	4,450
Haiti	2,570	1,360
International Narcotics Control and Law Enforcement	2,570	1,360
Mexico	67,000	55,000
International Narcotics Control and Law Enforcement	67,000	55,000
Paraguay	175	150
International Narcotics Control and Law Enforcement	175	150
Peru	48,000	47,250
Development Assistance	21,000	25,000
International Narcotics Control and Law Enforcement	27,000	22,250
State Western Hemisphere Regional (WHA)	39,450	25,530
International Narcotics Control and Law Enforcement	39,450	25,530
Bureau of International Narcotics and Law Enforcement Affairs (INL)-Centrally-Managed Programs	86,675	77,435
INL - CFSP, Critical Flight Safety Program	7,838	8,185
International Narcotics Control and Law Enforcement	7,838	8,185
INL - Demand Reduction	12,500	12,500
International Narcotics Control and Law Enforcement	12,500	12,500
INL - Inter-regional Aviation Support	50,362	41,951
International Narcotics Control and Law Enforcement	50,362	41,951
INL - International Organizations	3,900	3,400
International Narcotics Control and Law Enforcement	3,900	3,400
INL - Program Development and Support	12,075	11,399
International Narcotics Control and Law Enforcement	12,075	11,399

International Training

International counternarcotics training is managed and funded by the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL), and implemented by various U.S. law enforcement organizations including the Drug Enforcement Administration (DEA), the Federal Bureau of Investigation (FBI), Immigration and Customs Enforcement (ICE), U.S. Customs and Border Patrol (CBP), 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-funded training supports U.S. counternarcotics priorities worldwide, and focuses on encouraging foreign law enforcement agency self-sufficiency. The overarching goal of U.S. counternarcotics training is to support the development of effective host country enforcement institutions, capable of removing drugs from circulation before they can reach the United States. U.S training can take two forms: as part of a planned bilateral assistance program in target partner countries; and as regional training with international participants from multiple countries. The regional training provided at International Law Enforcement Academies (ILEAs) consists of both general law enforcement training as well as specialized training for mid-level managers in police and other law enforcement agencies.

U.S. bilateral training assistance program works closely with international organizations including the UN Office on Drugs and Crime (UNODC) and the Organization of American States. The U.S. coordinates assistance planning with other donors through mechanisms such as the Dublin Group (an informal body of countries and organizations that provide law enforcement training), and the Paris Pact (an informal network of states dedicated to stopping the spread of Afghan opiates). The U.S. continuously works to promote burden-sharing with our allies in the provision of training, as well as ensuring that our respective efforts are complementary and directed towards common goals.

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 between American law enforcement agencies and their counterparts around the world.

Since the first ILEA opened in Budapest in 1995, the program has grown to five academies worldwide, and has provided training to over 42,000 students in from countries in Africa,

Europe, Asia, and across Latin America. ILEAs offer three different types of programs to address global threats: a core program; specialized courses; and seminars and workshops. The core program is a six-week intensive professional development program – the Law Enforcement Leadership Development (LELD) – designed for mid-level law enforcement practitioners , and is tailored to region-specific needs and emerging global threats. The core program typically includes 50 participants, normally from three or more countries. The specialized courses, comprised of about 30 participants, are one or two-week courses for law enforcement or criminal justice officials on a specific topic. Lastly, regional seminars or workshops 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 coordinates with the Departments of Justice, Homeland Security and Treasury, and with foreign government counterparts to implement the ILEA programs.

Africa. ILEA Gaborone (Botswana) opened in 2001. ILEA Gaborone delivers four core programs annually and 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 anti-corruption, financial crimes, border security, drug enforcement, firearms, explosives, wildlife investigation, gender-based violence and many others. ILEA Gaborone provided training to approximately 740 students in 2012.

Asia. ILEA Bangkok (Thailand) opened in 1999, and focuses on enhancing regional cooperation against transnational crime threats in Southeast Asia. Courses focus on combating illicit drug trafficking, terrorist financing and financial crimes, illicit wildlife trafficking, environmental crimes, and human trafficking. ILEA Bangkok provides one core program and also provides specialized courses on a variety of criminal justice topics each year. ILEA Bangkok trained approximately 1330 students in 2012.

Europe. ILEA Budapest (Hungary) was the first ILEA and was established in 1995. ILEA Budapest delivers five core programs annually and also offers specialized courses on regional threats such as organized crime, environmental and cyber-crime, terrorist financing and financial crimes, women in law enforcement, gender-based violence and many others. ILEA Budapest trained approximately 1100 students in 2012.

Global. ILEA Roswell (New Mexico) opened in September 2001. ILEA Roswell provides the tools necessary to enable partner countries to formulate and execute effective and responsible criminal justice public policy. Unlike other ILEAs, ILEA Roswell draws its recruits from graduates of regional Academies in Budapest, Bangkok, Gaborone, San Salvador and the ILEA Regional Training Center (RTC) in Lima, Peru. ILEA Roswell trained approximately 60 students in 2012.

Latin America. ILEA San Salvador (El Salvador) opened in 2005. ILEA San Salvador delivers four core programs annually and also offers specialized courses on regional threats as well as specialized courses for police, prosecutors, and judicial officials. ILEA San Salvador courses concentrate on anti-gangs, international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing and financial crimes. ILEA San Salvador trained approximately 1170 students in 2012.

The **ILEA Regional Training Center** in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The RTC 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 trained approximately 340 students in 2012.

Drug Enforcement Administration (DEA)

The majority of illicit drugs distributed and consumed in the United States originate in foreign countries. DEA's mission is to enforce the controlled substances laws and regulations of the United States. In furtherance of this mission, DEA targets the cultivation, production, transportation, distribution and financial operations of Drug Trafficking Organizations (DTOs) based in foreign nations and at home. The primary objective behind DEA's "Drug Flow Attack Strategy" is to cause major disruption to the flow of drugs, money and chemicals between source zones and the United States. In order to dismantle and disrupt DTOs, DEA and other U.S. agencies work hand in hand with our foreign law enforcement counterparts.

DEA establishes and maintains working relationships with host nations by staffing 85 DEA offices located in 66 countries. DEA's foreign offices act as conduits of information to DEA components in the United States and vice versa. In this manner, investigators are able to target DTOs from the source to the end user. DEA's foreign offices are tasked with the following objectives:

- Conduct bilateral investigations with foreign law enforcement;
- Coordinate counternarcotics intelligence gathering with host governments;
- Conduct training programs for host country police agencies (contingent on host nation being a recipient of US counter narcotics 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 objective is determined by the host nation's unique conditions and circumstances related to their infrastructure and law enforcement capabilities. DEA works side by side with host nation counterparts to develop relevant training initiatives, promote intelligence sharing and support joint operations. The following examples highlight the assistance and joint enforcement efforts undertaken by DEA and host nation counterparts in 2012.

$150 Million Seizure in Hezbollah-related Money Laundering Scheme: In 2007, DEA identified an ongoing, international trade-based money laundering conspiracy led by Lebanese national Ayman Joumaa designed to conceal the proceeds obtained from illicit drug sales and other criminal activity through the purchase and shipment of used vehicles from the United States to West Africa. The Joumaa Drug Trafficking Organization (DTO) was suspected of laundering more than $400 milllion annually in proceeds through the Lebanese Canadian Bank (LCB) and Lebanese exchange houses. On December 15, 2011, DEA and the U.S. Attorney's Office at the Southern District of New York (USAO-SDNY) filed an asset forfeiture and civil money laundering complaint describing Hezbollah's involvement in the trade based money laundering scheme, an action which precluded a foreign terrorist organization (FTO) from infiltrating the U.S. financial system and profiting from a money laundering mechanism. Joumaa was also indicted on December 12, 2011, for drug and money laundering offenses in the Eastern District of Virginia.

On August 15, 2012, DEA New York Field Division and USAO-SDNY filed a request for and obtained seizure orders seeking funds contained in the correspondent US bank accounts of Banque Libano–Francaise. DEA believed that forfeitable assets tied to the sale of LCB were maintained in escrow at Banque Libano–Francaise totaling approximately $150 million. On August 20, 2012, Banque Libano–Francaise complied with the order and wired $150 million to a federal account.

Operation Log Jam: This multi-jurisdictional initiative was conducted by DEA and Homeland Security Investigations, and targeted a group of manufacturers, wholesalers, sub-distributors and retail distributors involved in the illegal distribution of synthetic cannabinoids ("spice") and synthetic cathinones ("bath salts"). On July 25, 2012, more than 90 individuals were arrested and more than five million packets of designer synthetic drugs were seized in the first nationwide law enforcement action against the synthetic designer drug industry responsible for the production and sale of synthetic drugs often marketed as bath salts, spice, incense, or plant food. More than $36 million in cash, 4.8 million packets of synthetic cannabinoids and 167,000 packets of synthetic cathinones were seized. Materials necessary for the production of an additional 13.6 million cannabinoids and 392,000 packets of synthetic cathinones were also seized.

Operation Resolute: On April 17, 2012, foreign nationals Harouna Toure and Idriss Abdelrahman both pled guilty to one count of conspiring to provide material support to a designated FTO. Toure, Abdelrahman and co-conspirator Oumar Issa were charged in connection with their agreement to transport cocaine through West and North Africa, intending to support the drug trafficking activities of Al-Qaida in the Lands of the Islamic Maghreb (AQIM) and the Revolutionary Armed Forces of Colombia (FARC). Issa pled guilty to one count of conspiring to provide material support to a FTO on November 15, 2011. This is the first case with Al-Qaida connected subjects convicted in the U.S. involving drug related activities.

Operation Lockdown: On December 26, 2011, Jorge Fadlallah-Cheaitelli, a Lebanese-Colombian based in Panama, and multi-million dollar international money launderer with ties to Hezbollah and the Sinaloa Cartel, was arrested in Costa Rica. DEA coordinated the arrest with authorities in Costa Rica, El Salvador, Honduras, and Colombia. He was extradited to New York on July 30, 2012.

United States Coast Guard (USCG)

The USCG plays a crucial role in efforts to keep dangerous narcotic drugs moving by sea from reaching the United States. Working within the Department of Homeland Security (DHS) in carrying out its responsibilities within the National Drug Control Strategy, the USCG leverages its unique maritime security authorities, capabilities and partnerships to mitigate risk and improve security in our domestic ports, on the high seas, and abroad. The overarching strategy is to increase maritime border security through a layered security system that begins beyond the country's physical borders. This layered approach begins in foreign ports where the Coast Guard conducts foreign port assessments, leveraging the International Port Security Program to assess the effectiveness of port security and antiterrorism measures. Offshore, maritime patrol aircraft provide broad surveillance capability enabling cutters and law enforcement detachments (LEDET) embarked on U.S. Naval ships and Allied Nation vessels to respond to potential threats, launch boats and aircraft in adverse sea states, and maintain a presence through all weather conditions. Well before vessels arrive in ports, screening and targeting operations provide critical information regarding vessels, crews, passengers, and cargo destined for the United States. To maximize the operational success, the USCG uses maritime counterdrug bilateral agreements and operating procedures with partner nations to coordinate detection and monitoring (D&M) and interdiction and apprehension (I&A) endgame activities and coordinate joint operations.

D&M and I&A: 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, for which Joint Interagency-South (JIATF-S) is lead. The six million square mile transit zone is far too expansive to randomly patrol; targeting information is necessary to focus efforts. Upon detection, the USCG, and other similar U.S. and partner nation law enforcement agencies provide monitoring, relaying data, imagery and position information until an appropriate interdiction asset arrives on scene. The USCG is the lead U.S. federal agency for drug interdiction on the high seas. Interdiction success causes Drug Trafficking Organizations (DTOs) to incur greater costs and decreases their efficiency in moving illicit products to market. A crucial element in USCG success for drug interdiction is the system of agreements with many countries around the world, which permit USCG law enforcement officers to stop, board, and search vessels suspected of transporting narcotics.

International Cooperative Efforts: The Coast Guard has 52 personnel deployed abroad to facilitate maritime counterdrug activities including security assistance, intelligence collection and dissemination, and liaison internally and externally. There are 45 maritime counterdrug bilateral agreements or operational procedures in place between the United States and partner nations. These agreements greatly increase the operational reach of U.S. assets, and help partner nations protect their sovereignty. The Coast Guard sponsors a semi-annual Multilateral Maritime Counterdrug Summit with partner nations in the primary drug transit zone that gives 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. To counter the cocaine flow across the Atlantic Ocean into Africa and Europe,

the USCG continues to work with U.S. Africa Command (AFRICOM) to expand maritime training and operations for West African countries through the African Maritime Law Enforcement Partnership (AMLEP).

International Training and Technical Assistance: The USCG conducts International Training and Technical Assistance in support of drug interdiction programs through various means. The USCG Technical Assistance Field Team (TAFT) provides engineering expertise, vessel assessments, and major repair contracting services to the maritime services of the countries in the Eastern Caribbean's Regional Security System (RSS). The USCG's Security Assistance Program offers both resident training programs and mobile training teams (MTTs) to partner nation maritime services around the world to advance the capability of their naval and coast guard forces. In 2012, the USCG deployed 76 MTTs to 35 countries, and 61 partner nations enrolled students in 232 resident courses at USCG training installations.

Operational Highlights: In 2012, the Coast Guard expended over 1,924 cutter days and 3,860 aircraft hours on counterdrug patrols; conducted 12 joint operations with partner nations; and deployed 17 LEDETs aboard British, Dutch and Canadian warships. As a result, the Coast Guard disrupted 162 drug smuggling attempts, which included the seizure of 70 vessels, detention of 352 suspected smugglers, and removal of 107 metric tons (MT) of cocaine and 56 MT of marijuana. Nearly all of these interdictions involved some type of foreign partner support or cooperation, either through direct unit participation, or through the exercise of bilateral agreements including entry into territorial waters, granting permission to board, or logistics support.

U.S. Customs and Border Protection (CBP)

CBP processes all goods, vehicles, and people entering and exiting the 330 international Ports of Entry (POE) of the United States. CBP is also been charged with the border regulatory functions of passport control and agriculture inspections in order to provide comprehensive control services. CBP is the nation‘s first line of defense against the introduction of narcotics and dangerous contraband items from foreign sources.

On a typical day, CBP process processes over a million travelers and a quarter of a million vehicles entering the United States. On an average daily basis, CBP officers detain or arrest over a hundred people who have ties to Transnational Criminal Organizations (TCO’s) and are actively engaged in the drug trade, smuggling of contraband, violence against women or money laundering activities. CBP seizes an average of 13,000 pounds of drugs and $350,000 in illicit currency at the borders on a daily basis. CBP deploys approximately 50,000 law enforcement officers daily in 26,000 tactical vehicles, 270 aircraft, 230 watercraft, 350 horse patrols and 1,500 canine teams to keep our border secure.

Security at the Border: The Office of Field Operations (OFO) oversees nearly 28,000 employees with more than 22,000 dedicated officers and agriculture specialists that protect U.S. borders from 20 Field Operations offices; 330 ports of entry; 15 preclearance stations in Canada, Ireland and the Caribbean.

The Office of Border Patrol (OBP) is assigned the mission of securing the border against all threats between the POEs along the over 8,000 miles of land and coastal border. These threats include criminal or undocumented aliens, drug smugglers, potential terrorists, wanted criminals, and persons seeking to avoid inspection at the designated POEs. OBP’s drug interdiction activity includes staffing 35 permanent and 140 tactical checkpoints nationwide.

The Office of Air and Marine (OAM) engages in air and marine interdiction, air and marine law enforcement, and air domain security. In this capacity, the OAM targets the conveyances that illegally transport narcotics, arms, and aliens across U.S. borders and in the Source, Transit and Arrival Zones. In support of Source and Transit Zone interdiction operations, the Air and Marine P- 3 Program has dedicated a minimum of 5,200 hours a year in support of Joint Interagency Task Force – South (JIATFS). In FY 2012, the P-3 Air Wing accounted for over 58.5 metric tons of cocaine either seized or disrupted.

Security Beyond the Borders: As part of its efforts to extend the nation‘s zone of security beyond U.S. ports of entry, the Office of International Affairs (INA) works with other U.S. government and foreign government components to provide a wide array of short-term and long-term technical training and assistance to countries throughout the world. These programs are designed to standardize and build the capacity of foreign organizations to implement more effective customs trade operations, border policing, and immigration inspection.

International Engagement Programs: CBP has a growing network of Attachés, Representatives and Advisors who serve abroad in U.S. Embassies along with the Combatant

Commands from the Department of Defense. These personnel work closely with CBP's foreign counterparts in the ongoing effort to counter drug-smuggling.

Technical Assistance Programs: INA coordinates and presents over 200 technical assistance programs to thousands of foreign participants each year. The majority of these programs take place outside the United States, although CBP also hosts training events at specific U.S. ports of entry.

Capacity Building Programs: In 2011, INA provided technical training and assistance in support of the ILEA-International Law Enforcement Academy programs currently operating in Bangkok, Budapest, Gaborone, San Salvador, and Lima. INA provided 250 capacity building sessions in over 75 countries for foreign partners, including 19 courses at the ILEAs.

International Visitors Programs: The International Visitors Program (IVP) provides 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. In FY 2011, IVP made arrangements for over 600 visits for over 3,100 visitors.

Bulk Currency Smuggling Training: 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.

Tactical Response Training: At the request of the State Department's Bureau of International Narcotics and Law Enforcement Affairs, CBP's Border Tactical Unit (BORTAC) conducts training focused on South and Central American countries and also participates in training for the Drug Enforcement Administration's Foreign-Deployed Advisory Support Teams bound for Afghanistan.

CHEMICAL CONTROLS

2012 Trends

Chemicals play two critical roles in the production of illegal drugs: as chemical inputs for the production of synthetic drugs such as methamphetamine and MDMA (3,4-methylenedioxymethamphetamine, commonly known as 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 are 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 brevity this term is used interchangeably for both categories throughout this report.

Chemical control challenges have shifted significantly in recent years. Twenty-five years ago government authorities envisaged a system of regulation for chemicals used in the production of illicit drugs that would work along with the control systems for narcotic drugs and psychotropic substances under the United Nations treaties. Specifically, the chemical control system was developed to include a list of chemicals appended to the 1988 UN Convention with the monitoring and reporting requirements under the auspices of the International Narcotics Control Board (INCB). Since 2006, States Parties to the 1988 Convention have been reporting exports and imports of these licit chemicals on a specific basis to the INCB through an online Pre-Export Notification System (PENS). In March 2012 the INCB expanded its online capabilities at the request of UN Members to allow participants to notify the Board of suspicious or new shipments under a Precursor Incident Communications System (PICS).

Success in monitoring and tracking both listed chemicals and non-scheduled chemicals used in illicit production has led to significant changes in illicit drug production. As a result, drug traffickers continued in 2012 to seek new sources, methods, and trafficking opportunities to stay head of enforcement authorities, rules, and regulations. Increasingly, they are now using chemicals that are not listed under the convention and preying on countries that have limited enforcement and regulatory systems. In response, international efforts will need to focus on increased voluntary identification and reporting of possible substitute precursor chemicals; initiatives to track, seize and safely dispose of diverted chemicals; and further engagement with the private sector in supporting such voluntary efforts. Regional and multilateral cooperative efforts continue to be critical in this regard.

Methamphetamine. In 2012, production of methamphetamine continued to rise in the Western Hemisphere, in Europe, in Asia, and for the first time significantly in Africa. In 2012, the United States worked with international partners to prevent diversion of ephedrine and pseudoephedrine—the two most common chemicals used to produce methamphetamine—into illicit channels. Greater use of the INCB's PENS has led to tracing and monitoring of licit bulk shipments of these chemicals and thereby preventing diversion. Operations conducted under Project Prism—an intergovernmental task force coordinated by the INCB—have aided law enforcement authorities in their efforts to understand the sources and methods of new smuggling trends. Two years ago, an operation initiated under Project Prism revealed increased use of

phenylacetic acid (PAA) and pharmaceutical preparations containing pseudoephedrine and ephedrine in methamphetamine production. Suspicious PAA shipments identified by this task force were destined for Mexico, with the leading sources shifting from China to India. The shift may be a result of new legislative and administrative efforts in China to strengthen controls over precursors, though many criminal investigations in 2012 indicated that China remained a major source of such precursors.

In recent years, Mexico and some Central American countries tightened legislative and administrative controls on methamphetamine precursor chemicals and finished medicines containing them, leading to increased seizures, arrests, and stopped suspicious shipments. In 2011, several countries, including El Salvador, Guatemala and Nicaragua, expanded their control measures to cover derivatives of phenylacetic acid. However, in 2012 such seizures appeared to drop off and authorities now believe that traffickers in the Americas are turning to non-scheduled precursor chemicals to manufacture methamphetamine through alternative methods. In Europe, criminal organizations are increasingly using alpha-Phenylacetoacetonitrile (APAAN), a non-scheduled precursor chemical pre-precursor to manufacture methamphetamine. Multi-ton shipments of APAAN from China were seized in the Netherlands in 2012.

Recent INCB operations under Project Prism also indicate that methamphetamine traffickers are increasingly procuring chemicals through and shifting production to regions with little experience with chemical control. According to numerous sources, Mexican-based criminal groups are establishing operations and contacts in Central and South America, specifically Argentina, Guatemala, Honduras, and Nicaragua, to purchase the chemicals needed to manufacture methamphetamine. Both Guatemalan and Belizean authorities have interdicted significant chemical shipments intended for methamphetamine production. Traffickers also appeared to be targeting West African nations in a more substantial way. West Africa is now a source of methamphetamine destined for Asia, and trafficking through East Africa has been reported. Pakistan has also emerged as a transit country, and trafficking of precursor chemicals from Bangladesh continues. Iranian methamphetamine-trafficking networks have become leading suppliers to markets across the Middle East and the Asia Pacific region.

Heroin. In 2012, the United States continued cooperative efforts to target the precursor chemicals used to produce heroin, primarily acetic anhydride. These efforts included increased use of the INCB's PENS and the new PICS systems as well as continued support for INCB-led operations. The Government of Afghanistan informed the INCB that there is no legitimate use for acetic anhydride in Afghanistan and now seeks to block all importsof the substance. Authorities believe that acetic anhydride is diverted primarily from neighboring countries to Afghanistan for heroin production. Afghanistan's neighbors and other international partners continue to work with Afghanistan to address this issue. As with methamphetamine precursors, traffickers are increasingly smuggling acetic anhydride through new routes in Africa, Asia, and Europe, as well as illegally diverting supplies from legitimate trade.

In 2012, the United States joined with other nations to promote the implementation of Security Council resolution 1817/2008 calling for more effective efforts to target acetic anhydride diversion smuggling into Afghanistan. The United States also participated with 58 other

countries in the Paris Pact meetings on chemical control that focus on ways to prevent smuggling and diversion of acetic anhydride.

Cocaine. Potassium permanganate, an oxidizer, is the primary precursor chemical used in producing cocaine, used to remove the impurities from cocaine base. It has many legitimate industrial uses, including waste water treatment, disinfecting, and deodorizing. 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 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 because of the vast licit uses of this chemical. Additionally, authorities now believe that increased reporting of licit shipments through PENS has led to recent efforts by drug trafficking organizations to divert from domestic sources in Latin American producing countries such as Colombia, or to develop alternate production methods. Alternative precursor chemicals have also been detected. The United States, the INCB and others are encouraging countries in South America to continue obtaining and sharing information on these new trends. Despite the lack of multilateral operations focusing on potassium permanganate, Colombia continues to report large numbers of seizures and has noted its concern about illicitly manufactured potassium permanganate.

The Road Ahead

The United States continues to work with international partners to assist other countries to implement the provisions of the 1988 UN Convention, monitor those substances on the special surveillance list, and identify new substitute chemicals that can be used for illicit drug production. Development of effective chemical control regimes and legislation 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.

Against this backdrop, the United States will continue to promote efforts through the INCB and engage the UN Commission on Narcotic Drugs (CND). In the Western Hemisphere, the United States works through the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS) to advance cooperation on precursor chemical controls. Guided at the policy level by CICAD Commissioners (delegates from the 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 meets annually.

Precursors and Essential Chemicals

Plant-based drugs such as cocaine and heroin require precursor chemicals for processing, and cutting off supply of these chemicals to drug trafficking organizations 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. Diversion of less than one 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 diversion of precursor chemicals from legitimate trade is one key goal of the 1988 UN Convention. Specifically, state parties are required under article 12 to monitor international trade in chemicals listed under Tables I and II of the Convention. Albeit a slow process, these tables are updated to account for changes in the manufacture of illicit drugs, and state parties are required to share information with one another and with INCB on international transactions. The Convention further encourages state parties to license all persons and enterprises involved in the manufacture and distribution of listed chemicals. Subsequent resolutions from the UN Commission on Narcotic Drugs (CND)—the UN's primary narcotic drug policy-making body—have provided additional guidance to states on how to implement these obligations according to specific best practices. The INCB is an independent, quasi-judicial body that monitors the implementation of the three UN international drug control conventions. The underlying strategy is to monitor the trade in drug precursors and prevent transactions to suspicious customers.

Special Monitoring List: In 1996, the United States 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 under INCB supervision. The list is regularly reviewed, but it takes time to update with the newly emerging non-scheduled substances. As a result, criminals vigorously exploit delays and gaps in the listings.

Regional Bodies. The regulatory framework codified by the United Nations does not exist in isolation. Regional bodies, such as the European Union (EU) and the OAS, actively collaborated with the United States on multilateral chemical control initiatives, including CND resolutions.

Major Chemical Source Countries and Territories

This section focuses on individual countries with large chemical manufacturing or trading industries that have significant trade with drug-producing regions and those 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 lack of adequate chemical control legislation or 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. These two sections are broken down by region.

The Americas

Argentina

Argentina is one of South America‘s largest producers of precursor chemicals. Over the past several years the Government of Argentina has enhanced its precursor chemical regulatory framework and improved its port, border controls and related criminal investigations to combat precursor chemicals trafficking. Additionally, Argentina has taken measures to prepare a voluntary code of conduct for the chemical industry and now implements a federal inspection plan for entities working with controlled substances with an emphasis on precursors used to produce cocaine.

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. 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. The newly appointed SEDRONAR Secretary implemented several reforms to improve tracking of precursor chemical shipments and creating a Coordination Directorate to improve cooperation with the judiciary and public prosecution service to control precursor chemicals. Improved inter-ministerial cooperation would facilitate efforts to isolate shipments being diverted for illegal narcotics production.

Brazil

Brazil is one of the world’s ten largest chemical producers and is the leading chemical producer in Latin America. Brazil is a Party to the 1988 UN Convention and cooperates with other countries to prevent the diversion of precursor chemicals. Brazil has established a control system for precursor chemicals, including potassium permanganate and acetic anhydride. Either product, however, can be commercialized without restriction for quantities of up to one kilogram (kg) for potassium permanganate and one liter of acetic anhydride.

The Brazilian Federal Police (DPF) Chemical Division is the lead agency that controls and monitors chemicals via 27 DPF regional divisions and 54 satellite offices. The Chemical Division is comprised of two units; the Chemical Control Division, subordinate to the DPF Executive Directorate, and the Criminal Diversion Investigations unit which reports to the Organized Crime Division.

The DPF uses a national system to monitor all chemical movements in the country, including imports/exports and licensing. The DPF adheres to the UN CND - Resolution 49/3 on strengthening systems for the control of precursor chemicals used in the manufacturing of synthetic drugs. Brazil reports its annual estimates of legitimate requirements for ephedrine, pseudoephedrine, and phenyl-2-propanone (P2P) through the INCB PENS. The DPF routinely uses PENS in coordination with member states to alert importing countries with details of an export transaction. Use of more than 10 grams per month of either ephedrine or pseudoephedrine must be reported.

Canada

Canada is both a destination and transit country for precursor chemicals used to produce synthetic drugs, particularly methamphetamine and ecstasy. The Government of Canada has enhanced its efforts to prevent the diversion of precursor chemicals used in production of methamphetamine and cooperates with U.S. law enforcement authorities. However, Canada's domestic production of methamphetamine and ecstasy continues.

Precursor and essential chemicals found in Canada (regulated and unregulated) are primarily manufactured in China and India and then imported or smuggled into Canada. Seizures of ephedrine and pseudoephedrine continued at Canadian ports of entry in 2012, but they do not appear to be at the same levels or the bulk shipments of 2009 and 2008. However, Canadian authorities have noted for the first time significant seizures of the non-scheduled substance alpha-phenylacetoacetonitrile (APAAN)which is a precursor to produce both amphetamine-type stimulant and a pre-precursor to the manufacturing methamphetamine. Canadian authorities report two such seizures in 2012 netted 6.7 mt of APAAN that originated in China. Gamma-butyrolactone (GBL) seizures also increased from 2008.

The Royal Canadian Mounted Police has launched programs to target synthetic drugs and the chemicals used to produce them. The Synthetic Drug Initiative (SDI) launched in 2009 focuses on the production and distribution of illegal synthetic drugs. ChemWatch is a partnership between Canada's National Chemical Diversion Program and the chemical industry.

Canada has also established controls, including requiring licenses and permits, on those chemicals used in the production of methamphetamine, ecstasy, and other drugs. Canada participates in Project Prism, the INCB-led initiative that targets amphetamine-type stimulants.

Chile

Chile has a large petrochemical industry engaged in the manufacturing, importation and exportation of chemical products. Despite government efforts to control the diversion of chemicals, precursors continue to be diverted from legitimate market uses in Chile for use in coca processing in Peru and Bolivia. Additionally, Chile has been a source of ephedrine for methamphetamine processing in Mexico, although no ephedrine has been seized by Chilean counterparts since 2009. The majority of chemical imports in Chile have originated from India and China. Such chemicals are primarily directed to Bolivia, Peru and Mexico. Chemicals

destined for Peru and Bolivia are transported by land, while those sent to Mexico are transported by air cargo and maritime shipments.

Chile is party to the 1988 UN Drug Convention and has in place, in accordance with Article 12 of the Convention, a chemical control regime to preventing diversion. Chile routinely submits information required by the Convention. Chile has ratified the Convention on Psychotropic Substances of 1971.

Chile's laws regulate potassium permanganate and acetic anhydride as well as ephedrine and pseudoephedrine. A specialized task force within the Investigative Police investigates diversion of permanganate, acetic anhydride, ephedrine and pseudoephedrine.

Chile's Ministry of Interior administers the country's chemical control regime. A special entity within the Ministry's Division of Studies, called the Directorate of Controlled Chemical Substances is the lead agency on precursor chemical control matters. Chilean law enforcement entities have chemical diversion units and dedicated personnel tasked with investigating chemical and pharmaceutical diversion cases. The Customs agency has a risk analysis unit which profiles suspicious imports and exports, including chemical precursors.

The Directorate of Controlled Chemical Substances within the Ministry of Interior maintains a Special Register of Controlled Chemical Handlers for the purpose of regulating chemicals. Approximately 500 companies that import, export, or manufacture chemical precursors are registered with the Directorate and maintain customer records. These firms are subject to inspections. However, the registration system is not yet well-developed, making effective monitoring of diversion difficult. Other weaknesses in Chile's efforts to prevent diversion include the country's cumbersome bureaucratic structure and a lack of personnel dedicated to this issue.

Mexico

Methamphetamine production continues to increase in Mexico and importations of precursor chemicals are on the rise. Mexico does not control all chemicals listed in the 1988 UN Convention. Nonetheless, Mexican laws regulate the production and use of many of these substances, and the Mexican Office of the Attorney General (PGR) is responsible for enforcing chemical control laws. In 2008, Mexico outlawed imports of pseudoephedrine, except hospital use of liquid pseudoephedrine. Ephedrine imports are also banned. Mexico has enhanced regulatory laws on the importation of precursor chemicals, including regulations for imports of phenylacetic acid, its salts, and esters and derivatives, methylamine, hydriodic acid, and red phosphorous. Imports of both precursor and essential chemicals are also limited by law to two of 19 Mexican ports of entry. Mexico does not, however, regulate imports and exports of potassium permanganate or acetic anhydride.

Mexico participates in international mechanisms to control precursors and has a strong bilateral working relationship with the United States. Mexico participates in the National Methamphetamine and Pharmaceutical Initiative conference and signed a Memorandum of Cooperation with the United States to address precursor chemicals and clandestine laboratories

in 2012. The two governments also cooperate to convey best practices to Central American countries affected by the trafficking of precursor chemicals.

Mexico has several major chemical manufacturing and trade industries that produce, import, or export most of the chemicals required for illicit drug production, including potassium permanganate, and acetic anhydride. Although Mexico-based transnational criminal organizations are major producers of methamphetamine, no pseudoephedrine or ephedrine is produced legally within the country.

Despite legal controls, traffickers continue to smuggle these precursors into Mexico, and seizures of such chemicals have increased. Through September 2012, the Government of Mexico reported seizures of over 349 metric tons (MT) of precursor chemicals. Operations in Michoacán and Queretaro accounted for 69 percent of all precursors seized in Mexico in 2012. There was also an increase in seizures in Veracruz and Chiapas, which are transit points for precursor chemical shipments to and from Guatemala. Small quantities of acidic anhydride (200-400 liters) have also been identified at clandestine methamphetamine laboratories.

Illegal shipments of ephedrine and pseudoephedrine destined for Mexico come primarily from China, India, and Bangladesh. Those two chemicals are also often replaced with phenyl-2-propanone (P2P) and its precursors, such as phenyl acetic acid (PAA), which enters Mexico in large quantities from China, and to a lesser degree, from suppliers in Eastern Europe and other Asian countries. Relatively large amounts of these P2P precursors were seized in 2012. As of September 2012, the Government of Mexico seized 96,237 liters of PAA and 34,778 kg of PAA in powder form, as well as 47,553 kg of methylamine, an emerging precursor used in the production of methamphetamine via the P2P method. The import, export, and trade of PAA are controlled by 2009 regulations issued by Mexico's Health Secretariat.

Similar to P2P, monomethylamine can be used to create ephedrine, and is therefore a key ingredient in methamphetamine manufacture in Mexico. It is also used to produce several pesticides and solvents. In 2012, three major shipments of monomethylamine were seized in Mexican ports, all of which originated from China. The largest of these was an approximate 195 MT seizurein Lazaro Cardenas; the other two major seizures in Veracruz and Manzanillo totaled 32 and 35 tons, respectively.

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 1988 UN 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 subsequent chemical control amendments were all designed as amendments to U.S. C Substances Act of 1970, rather than stand-alone legislation. The Drug Enforcement Administration (DEA) is responsible for administering and enforcing them. The Department of Justice, primarily through its U.S. Attorneys Offices, handles criminal prosecutions and cases seeking civil penalties for regulatory violations. 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. However, if a company has an established business relationship with their foreign customer, the 15-day period is waived and same day notification is permitted for any future shipments. 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. One of the main goals of DEA's Diversion Control Program is to ensure that U.S. registrants' (those companies registered with DEA to handle List I chemicals) products are not diverted for illicit drug manufacture.

U.S. legislation also requires chemical traders to report to DEA suspicious transactions such as those involving extraordinary quantities or unusual methods of payment. 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 revocation of DEA registration as well as to civil and criminal prosecution as appropriate.

The United States has played a leading role in the design, promotion, and implementation of cooperative multilateral chemical control initiatives. The United States also actively works with other concerned nations, and with the UNODC and the INCB to develop information sharing procedures to better control precursor chemicals, including pseudoephedrine and ephedrine, the principal precursors for methamphetamine production. U.S. officials participate in the combined task force for both Project Cohesion and Project Prism. The United States 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.

The Combat Methamphetamine Epidemic Act of 2005 (CMEA) mandated that DEA establish total annual requirements for these three chemicals for the United States and provide individual import, manufacturing and procurement quotas to registered importers and manufactures that wish to conduct import and manufacturing activities with these chemicals. Since the implementation of quotas in 2008, the United States has seen decreases in assessments of importation of some of these chemicals by over 70 percent.

Asia

Bangladesh

Bangladesh is a transit state for methamphetamine precursors such as ephedrine and pseudoephedrine. Ephedrine and pseudoephedrine are diverted from legitimate trade and illicitly exported from Bangladesh to countries in Central America and the Caribbean through various methods including the use of express air courier services, sea, and air cargo shipment routes.

The Government of the People's Republic of Bangladesh is committed to the implementation of the principles and provisions of 1988 UN Convention and regional agreements regarding control of narcotic drugs, psychotropic substances and precursor chemicals. Article 18 of the Constitution provides legal obligations for restriction and control of harmful narcotic drugs and psychotropic substances, including precursor chemicals. The government has included 22 precursor chemicals in the Schedule of Drugs of the Narcotics Control Act to comply with the provisions of Article 12 of the 1988 UN Convention, placing them under the definition of controlled drugs. The Narcotics Control Act also allows for financial investigations and freezing of assets derived from trafficking in drugs and precursors. In 2002, the government amended the Narcotics Control Act with the provision that offenses of drugs and precursor chemicals should be investigated within 15 days and tried under the jurisdiction of Speedy Trial Court.

The Narcotics Control Rules regulate the control, monitoring and supervision of use of precursors for industrial, scientific and medical purposes through a licensing system. Under this system, no import, export, transport, shipment, manufacture, sale, distribution, purchase, possession, storage, warehousing, or other use can be done without a license, permit or pass from the Department of Narcotics Control (DNC). Persons managing storage and transshipment of precursor chemicals are also legally accountable for any misuse, damage or diversions. Through 2012, the government has issued 111 licenses for import, 32 licenses for processing, 61 wholesale licenses, 65 retail licenses, and 55 permits for use of various types of precursor chemicals.

Besides the DNC, the Police, Customs, Rapid Action Battalion (RAB), Border Guards, and Coast Guard are also empowered to detect and intercept illegal operations regarding precursor chemicals. Bangladesh has also established District Drug Control Committees (DDCC) to monitor and coordinate activities of all agencies responsible for interdicting drugs and precursors. Bangladesh's laws are adequate for effective control of precursors; however, the DNC lacks sufficient manpower, equipment, and training to consistently detect and interdict precursors. The number of arrests and seizures of precursor chemicals has risen dramatically since 2004. All of the seized precursors originated from India and were bound for clandestine laboratories in Eastern India and Burma. This suggests that international traffickers are using Bangladesh to smuggle precursor chemicals from Indian territories on the western border of Bangladesh to the Indian and Burmese territories on Bangladesh's east and southeast borders.

Bangladesh is not a manufacturer of precursor chemicals or amphetamine-type stimulants (ATS). Bangladeshi authorities continue to be challenged by drug traffickers diverting precursor-based pharmaceutical preparations from the legitimate market and smuggling shipments out of the country. In response, Bangladesh has banned all preparations of pseudoephedrine in tablet form. Furthermore, though the INCB has allotted 49,000 kg of pseudoephedrine to Bangladesh for its legitimate commercial use, the government allowed import of only 16,685 kg during 2011 and is currently working to revise the quota based on a needs assessment.

China

China is one of the world's largest producers and exporters of precursor chemicals with approximately 160,000 precursor chemical companies and production facilities. In 2011, China

was the fourth largest exporter of pseudoephedrine with 65,000 kg in exports. China's close proximity to key drug production hubs in the Golden Triangle (Southeast Asia) and the Golden Crescent (Southwest Asia), its relatively weak regulatory oversight of the vast precursor chemical industry, as well as its numerous coastal cities with large precursor chemical factories and modern port facilities, make it an ideal source for precursor chemicals worldwide. Regulatory oversight of the precursor chemical industry is further complicated and challenged by the unknown number of unregistered or illegal precursor chemical factories operating in China.

Chinese-produced precursor chemicals are currently in high demand for illicit drug production by transnational criminal organizations. China is a source country for potassium permanganate; acetic anhydride ; ephedrine and pseudoephedrine; and methylamine and phenylacetic acid and related chemicals (also used to produce methamphetamine). The diversion of precursor chemicals for the illicit production of drugs remains a problem within China. The Government of China reports that, in 2011, Chinese law enforcement officials investigated 414 precursor chemical cases that resulted in the seizure of approximately 1,834 MT of precursor chemicals. Seventy-five of these cases involved illicit smuggling activities via the concealment of precursor chemicals in other declared products, while 339 cases consisted of diversion activities that involved the mislabeling or false declaration of precursor chemicals. China also issued 696 Pre-Export Notifications (PENS) involving 51 countries. As a result, 720 MT of precursor chemicals from 10 shipments were suspended, and 130,000 MT successfully passed international checks. Criminal investigations and law enforcement authorities from Europe, Latin America and elsewhere in Asia continue to report that large-scale illicit methamphetamine producers in Asia and Mexico use Chinese-produced ephedrine and pseudoephedrine.

China controls all chemicals included in the 1988 UN Convention with the exception of PAA. Although China regulates the import and export of precursor chemicals covered by the 1988 UN Convention, it does not currently control, or notify other countries on the export of, non-regulated chemicals known as "pre-precursors." As noted above, these pre-precursors, such as variants of PAA, are now the primary chemicals employed in the manufacture of methamphetamine consumed in the United States. China has recognized this weakness in its existing chemical control law and is drafting new legislation to address the export of these currently unregulated chemicals. That new legislation is still pending approval.

India

India is one of the world's largest manufacturers of precursor chemicals, including acetic anhydride, ephedrine and pseudoephedrine. in 2011 India was also the top exporter of both ephedrine (95,000 kg) and pseudoephedrine (1,658,000 kg). India does not have controls on all the chemicals listed in the Convention. Criminal organizations continue to target India as a source of precursor of amphetamine-type stimulants, in particular ephedrine and pseudoephedrine. The Narcotic Drug and Psychotropic Substances Act requires that every manufacturer, importer, exporter, seller and user of acetic anhydride, N-acetyl anthracitic acid, ephedrine, pseudoephedrine and anthracitic acid maintain records and file returns with the Narcotics Control Bureau. Any discrepancies must be reported to the Director General of the Narcotics Control Bureau. 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 and to the INCB. India has also been an active participant in Project Prism, which targets 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.

India's large pharmaceutical industry manufactures narcotic drugs and psychotropic substances. India is also a major producer of precursor chemicals, including acetic anhydride (AA), ephedrine, and pseudoephedrine. India issues pre-export notifications for export of precursors using the INCB's PENS online system, and has a licensing regime to control pharmaceutical products.

In March 2010, India established a new procedure which centralized the allocation of quotas for the production of narcotic drugs. The Narcotics Commission of India, Central Bureau of Narcotics, now holds the authority to allocate quotas to manufacturers and collect the data required by the INCB.

Singapore

In 2011, Singapore's exports and imports of both ephedrine and pseudoephedrine increased. Singapore was ranked the third largest exporter of ephedrine and the fourth largest importer of ephedrine (ranked first in 2009). Authorities indicate that the amounts not re-exported are used primarily by the domestic pharmaceutical industry and by the large number of regional pharmaceutical companies served by Singapore's largest port. 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.

Precursor chemicals including ephedrine transit Singapore from India and Bangladesh en route to destinations such as Mexico. One of the busiest transshipment ports in the world, Singapore does not screen containerized shipments unless they enter its customs territory. In-transit or transshipment cargo shipped on a through bill of lading and which do not have a Singapore consignee involved in the shipment are not reported to Government of Singapore Authorities (Immigration and Checkpoints Authority (ICA) and Singapore Customs). Other transshipments do require inward/outward permits; however, reporting requirements of up to 10 days after arrival and three days prior to departure and very efficient cargo processing allow much cargo to move before being reported.

Singapore controls precursor chemicals, including pseudoephedrine and ephedrine, in accordance with the 1988 UN Drug Convention. Authorities will not authorize imports of precursors before issuing a "No Objection" letter in response to the exporting country's pre-export notification. Pre-export notifications are issued on all exports. The Government of Singapore conducts site visits on companies dealing with controlled chemicals to ensure awareness of the requirements and overall compliance.

Singapore participates in a multilateral precursor chemical control programs, including Projects Cohesion and Prism, and works closely with the USG. Singapore controls precursor chemicals, including pseudoephedrine and ephedrine, in accordance with the 1988 UN Drug Convention provisions, and accordingly tracks exports and works closely with industry officials.

The Republic of Korea

In 2011, South Korea was the top importer of ephedrine and the fourth largest importer of pseudoephedrine. 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. Precursor chemicals used for the manufacture of illicit drugs, such as acetic anhydride (AA), phenylacetic acid (PAA) and ephedrine, are imported from the United States, Japan, India and China and are then either resold and transshipped to other countries in the Middle East, Southeast Asia and Mexico. As of 2011, 30 precursor chemicals were controlled by Korean authorities.

Both the Korea Customs Service (KCS) and the Korean Food and Drug Administration (KFDA) participate in the INCB's Projects Cohesion and Prism and DICE. In this role, they closely monitor imports and exports of precursor chemicals, particularly acetic anhydride. Korean law enforcement authorities also cooperate with Southeast Asian nations to verify documents and confirm the existence of importing businesses and send representatives to the region to investigate. In April 2011, the National Assembly passed a new law that requires manufacturers and exporters of precursor chemicals to register with the government and provides for education to Korean businesses to prevent them from unknowingly exporting such chemicals to fraudulent importers. Implementation of the new law is a critical next step. South Korean authorities work closely with the U.S. authorities to track suspect shipments.

Many dual-use precursor chemicals, including acetone, toluene, hydrochloric acid and sulfuric acid, are imported into South Korea and then exported, both legally and illegally. Acetic anhydride (AA) remains the chemical of greatest concern. All imported AA is either sold domestically for legitimate use, or is diverted and smuggled to the Middle East by trafficking organizations. However, a recent trend includes the transshipment of PAA for the production of methamphetamine in Mexico.

Taiwan

In 2011, Taiwan was the third largest importer of ephedrine and ranked as the third largest exporter of pseudoephedrine. Taiwan was also ranked the fourth largest importer of ephedrine in 2011. Taiwan law enforcement has long recognized that certain Taiwan-based chemical companies divert chemicals that may be used to manufacture illicit substances in other countries. The Ministry of Economic Affairs, Industrial Development Bureau serves as the regulatory agency for chemicals. Licensing is not required for the trade of these substances, but there are reporting requirements to prevent diversion.

Taiwan does not have control regulations for the trade of ephedrine or pseudoephedrine over-the-counter pharmaceutical preparations. However, companies engaging in their import/export must register their transactions with the Department of Health, which may elect to examine relevant

shipping records. Taiwan does have control regulations for the export and import of bulk ephedrine and pseudoephedrine. In 2011, Taiwan's Ministry of Economic Affairs added eight new precursor chemicals to the control list. In 2012, Taiwan began enforcing a 2009 law that requires the Department of Health to report to the Ministry of Justice Investigations Bureau (MJIB) any unusual or excessive sales of cold medicines, which has resulted in a reduction of cold medicine sales. New rules include restrictions on cold medicines containing ephedrine and pseudoephedrine. Law enforcement operations targeting illegal production of amphetamines, scrutiny of licit ephedrine production and stepped up law enforcement surveillance of drug smuggling routes has significantly reduced the precursor chemicals diversion and smuggling. Taiwan's law enforcement agencies work closely with U.S. law enforcement officials.

Thailand

Precursor chemicals are not produced in Thailand, but the government imports chemicals in bulk for licit medical and industrial purposes. However, Thai officials are concerned by a dramatic increase in pseudoephedrine diversion. According to Thailand's Office of the Narcotics Control Board (ONCB), 961.2 kg of pseudoephedrine were seized in Thailand in 2011 and 141.7 kg were seized in the first half of 2012. Thailand's Department of Special Investigation (DSI) found 87 million tablets—most likely from South Korea—were smuggled by air into Thailand on nine occasions. Three Thailand-based companies are under investigation for pseudoephedrine imports.

Limited quantities of certain chemicals, like acetic anhydride, transit Thailand to laboratories in Burma. Most precursor chemicals and substances that transit Thailand originate in Indonesia or Malaysia. Acetic anhydride is produced in Indonesia while other chemicals are brokered through Indonesian chemical houses and transported through Malaysia into Thailand.

Thailand has laws in place to control precursor chemicals, including the Psychotropic Substances Act of 1975 which places drugs and chemicals into four schedules similar to the U.S. drug schedules. Pseudoephedrine and ephedrine are Type II controlled drugs. To prevent diversion of precursors and essential chemicals from legitimate industry, the Precursor Chemical Control Committee was established in 1993. The ONCB is the principal Thai law enforcement agency responsible for enforcing the laws against the illicit diversion of prohibited chemicals.

In August 2011, the Thai Ministry of Health and the Thai Food and Drug Administration announced new controls on over-the-counter cold preparations starting in September 2011. Cold preparations containing pseudoephedrine are now declared as prescription drugs to prevent diversion for methamphetamine production. In May 2012 the Thai government took further steps when the Thai Food and Drug Administration announced the ban on the sale of pseudoephedrine tablets at local pharmacies. The May 4, 2012, law includes penalties for possession of pseudoephedrine tablets (less than five grams) that include one to five year imprisonment and fines. Possession of quantities of more than five grams of pseudoephedrine carry a penalty of five to twenty years imprisonment and heavier fines.

Middle East

Iraq

In its 2011 report on precursors, the INCB urged Iraq to investigate and verify the credentials of importers, brokers, and individual end users of products containing 1-phenyl-2-propanone (P-2-P) (a precursor for crystal methamphetamine). According to the INCB, Iraq now prohibits the importation of P-2-P and products containing P-2-P. Nonetheless, attempts to import precursor chemicals and traffic them through Iraq continue. The most common chemicals trafficked through Iraq are ephedrine, pseudoephedrine, and acetic anhydride (a precursor for heroin), and Iraq requires licenses to import them. Iraq does not have an active commercial sector manufacturing or trading in precursor chemicals. Iraq has taken steps to implement UN CND Resolution 49/3 of the 2006 session, and provides the INCB its estimated legitimate requirements for the following: ephedrine; pseudoephedrine; P-2-P; and 3,4-methylenedioxyphenyl-2-propanone; and their preparations. Those estimates have remained the same level for the past few years. Iraq has registered to use INCB's Pre-Export Notification Online system. Border guards and law enforcement are becoming aware of the trafficking of precursor chemicals, and have shown interest in preventing their diversion. However, Iraq needs to update drug laws to address precursor chemicals and stop their diversion to illicit use.

Europe

Chemical diversion control within the European Union (EU) is regulated by EU regulations binding on all 27 Member States. The regulations are updated regularly and the Commission currently has two legislative proposals that the Council and Parliament are discussing. The first proposal strengthens Customs controls on two drug precursors, namely ephedrine and pseudoephedrine; the second proposal tightens the rules for companies in the EU using acetic anhydride, which is used in the manufacture of heroin. The EU regulations meet the chemical control provisions of the 1988 UN 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 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 investigating and prosecuting violators of national laws and creating 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 cooperation 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 coordinates national or joint positions on chemical control matters before larger multilateral fora, including the CND.

Bilateral chemical control cooperation continues between the United States and EU member states. Many states participate in 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 is not a major producer of illicit drugs or chemical precursors used for the production of illicit drugs. Belgium was the third largest importer of pseudoephedrine in 2011 with 45,000 kg in exports. Belgium has a substantial pharmaceutical product sector which manufactures ephedrine and pseudoephedrine for licit products to a very limited extent. Belgium requires and enforces strong reporting requirements for the import and export of precursor chemicals (bulk pseudoephedrine/ephedrine). However, shipments of pharmaceutical "preparations" containing pseudoephedrine and ephedrine are only controlled on a regulatory level by the Belgian Ministry of Safety and Public Health. Belgium is not a major producer of chemical precursors used for the production of illicit drugs and the country manufactures methamphetamine precursors for licit products to a very limited extent.

While usually not a final destination for international shipments of precursors, Belgium has surfaced as a transit zone for significant quantities of precursor chemicals including ephedrine/pseudoephedrine, safrole oil and BMK and the pre-precursor alpha-phenylacetoacetonitrile (APAAN). Belgium and other Western European countries have been used as transshipment points for ephedrine and other methamphetamine precursors. The illicit ephedrine diversion market is mainly controlled by Mexican traffickers 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 United States.

In instances where precursor diversion for drug manufacturing purposes was suspected, Belgian authorities have executed International Controlled Deliveries (ICDs) or seized the shipments when the ICD is not possible. The United States continues to coordinate with Belgian authorities to identify and investigate both suppliers and shippers of precursor chemicals.

Germany

Germany continues to be a leading manufacturer of licit pharmaceuticals and chemicals. In 2011, Germany was the second largest exporter of ephedrine with 63,000 kg and of pseudoephedrine with 475,000 kg. Most of the 23 scheduled substances under international control as listed in Tables I and II of the 1988 UN Drug Convention and other chemicals, which are used for the illicit production of narcotic drugs, are manufactured and/or sold by the German

chemical and pharmaceutical industry. Germany's National Precursor Monitoring Act complements EU regulations. Germany has a highly developed chemical sector which is tightly controlled through a combination of national and EU regulations, law enforcement action, and voluntary industry compliance. Cooperation between the chemical/pharmaceutical industry, merchants, and German authorities is a key element in Germany's chemical control strategy. Germany works closely with the United Nations Office on Drugs and Crime (UNODC), and is an active participant in chemical control initiatives led by the INCB, including Project Prism and Project Cohesion. The United States works closely with Germany's chemical regulatory agency, the Federal Institute for Drugs and Medical Devices, on chemical control issues and exchanges information bilaterally to promote transnational chemical control initiatives. German agencies cooperate closely with their U.S. counterparts to identify and stop chemical precursor diversion.

The Netherlands

The Netherlands has a large chemical industry with large chemical storage facilities, and Rotterdam serves as a major chemical shipping port. However, the Netherlands has strong legislation and regulatory controls and the police force tracks domestic shipments and works closely with its international partners. 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. Production of synthetics is significant in the Netherlands, and recent trends show an increase in new types of precursors and pre-precursors to circumvent national and international legislation. Alpha-phenylacetoacetonitrile (APAAN) is used in amphetamine production and acetic anhydride is used as a pre-precursor for phenyl-2-propanone (BMK). Safrole continues to be used as a pre-precursor for piperony methyl ketone (PMK) and its increased availability has been attributed to an increase in MDMA production.

The Financial Investigation Service (FIOD) of the Ministry of Finance is responsible for law enforcement efforts targeting precursors and Customs monitors trade in chemical. The chemical industry is legally obliged to report suspicious transactions. The Netherlands abides by all EU Regulations for drug precursors. The Prosecutor's Office has strengthened cooperation with countries playing an important role in precursor chemicals used in the manufacture of ecstasy. The Netherlands signed a memorandum of understanding (MOU) with China concerning chemical precursor investigations. The Netherlands is an active participant in the INCB/project Prism taskforce and provides the INCB annual estimates of legitimate requirements. The Dutch continue to work closely with the United States on precursor chemical controls and investigations. In April 2009, the Netherlands established a separate Expertise Center on Synthetic Drugs and Precursors (ESDP) and a Precursors Taskforce.

The United Kingdom

In 2011 the United Kingdom (UK) continued as the fifth largest worldwide exporter of ephedrine. The UK strictly enforces national precursor chemical legislation in compliance with EU regulations and is a party to the 1988 UN Drug Convention. 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 requirements for those that engage in commerce of listed substances, and failure to comply

with these obligations is a criminal offense. The Home Office Drug Licensing and Compliance Unit is the regulatory body for precursor chemical control in the UK. However, the Specialized Organized Crime Agency (SOCA) and the police have the responsibility to investigate suspicious transactions. Revenue and Customs monitors imports and exports of listed chemicals. As of October 2011, the UK Home Office reported a licit domestic need for 10,500 kg of ephedrine, 12,850 kg of pseudoephedrine, and 29,840 kg of preparations of these chemicals. US and UK law enforcement continue to exchange information and training on the methamphetamine threat. In 2011, several small clandestine methamphetamine laboratories were seized in the UK.

Significant Illicit Drug Manufacturing Countries

This section is also broken down by region and focuses on illicit drug manufacturing countries, their chemical control policies and efforts.

Asia

Afghanistan

Afghanistan does not have a domestic chemical industry or a legitimate use for acetic anhydride (AA) and consequently has banned all imports and exports of AA. The principal illicit sources are believed to be China, South Korea, Europe, the Central Asian states, and India. Re-packaging and false labeling often hide the identity of the shipper. Limited police and administrative capacity has hampered efforts to interdict precursor substances and processing equipment and Afghan heroin conversion laboratories tend to be small operations, making the task of control and investigative authorities more difficult. In the last 12 months, Afghan and Coalition Forces seized 5,000 liters of liquid precursors.

Afghanistan has an export/import regime for all 23 substances under international control listed in the 1988 UN Convention. Afghanistan's multi-agency body that includes the Counter Narcotics Police of Afghanistan (CNPA) and Department of Customs is responsible for tracking shipments. Afghanistan's limited administrative and regulatory infrastructure has inhibited its ability to comply with the Convention's record keeping and other requirements. However, the CNPA has established a Precursor Control Unit within the Intelligence Department that works closely with the United Nations and is beginning to establish cooperative efforts with other countries in the region.

Burma

The illicit production and export of synthetic drugs in Burma continues, requiring smuggling or diversion of significant quantities of precursor chemicals. Burma does not have a significant chemical industry and does not manufacture ephedrine, pseudoephedrine or acetic anhydride

used in synthetic drug manufacture. Organized criminal syndicates smuggle these precursor chemicals into Burma through the extremely porous and difficult to police borders shared with Bangladesh, China, Laos, India and Thailand. The precursors are then transported to heroin refineries and amphetamine-type-stimulant (ATS) laboratories primarily located in regions of Shan State which are under the control of armed militia groups or in other areas that are lightly policed.

In 2012, Burmese authorities continued to fail to control the illicit import and diversion of precursor chemicals for use in production of illegal narcotics. The Burmese police made significant precursor seizures in government controlled areas such as Mandalay, Burma's main distribution center for precursor chemicals. However, Burmese authorities have not made significant efforts to stem the illicit influx of chemicals from border areas where they have minimal controls. Between January and September 2012, Burmese authorities seized 606 liters of liquid chemicals, including acetic anhydride. (Government statistics do not differentiate between precursor chemicals). The Government of Burma has not provided estimates on the size of its licit domestic market for ephedrine or pseudoephedrine, though knowledgeable sources believe that the entire pharmaceutical industry in Burma earns less than $200 million in revenue.

Official seizure statistics between January and September 2012 related to ATS production included approximately 5,620 kg of pseudoephedrine, 322 kg of ephedrine, and 1,441 kg of caffeine powder. Burmese police also seized 15.97 million ATS tablets and 100 kg of crystal methamphetamine during the same reporting period. Burma is a party to the 1988 UN Drug Convention, but has not yet instituted laws that meet all UN 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

Indonesia was the fifth largest importer of ephedrine and pseudoephedrine in 2011. Imports of ephedrine and pseudoephedrine pose significant challenges for Indonesia. While Indonesia's growing population of close to 240 million warrants a large demand for cough and flu medicines, authorities estimate that some of these medicines and their precursors are diverted for production of methamphetamine/ecstasy. China is the primary source of licit chemicals for the Indonesian pharmaceutical industry and for chemicals used to produce illicit methamphetamines. Taiwan, India, and other Asian countries are also significant sources of licit pharmaceutical drugs diverted for use to produce amphetamine type stimulants. The 2009 National Narcotics Law gave Indonesia's counternarcotics agency (BNN) the authority to monitor narcotics and precursor production at pharmaceutical plants, and to conduct investigations and arrests in response to precursor and narcotics violations. Although there are several laws and regulations in place regarding the import and export of precursor chemicals, and Indonesia has reorganized the Ministry of Trade and Industry and the Ministry of Health to better control the import of precursor chemicals and pharmaceutical drugs, the extent of enforcement is largely unknown.

BNN reports that it regularly conducts unannounced visits to companies that are listed importers of precursor chemicals such as potassium permanganate and acetic anhydride. In regard to supervision of acetic anhydride, BNN cooperates closely with the Ministry of Industry. Indonesia is now utilizing the INCB's PENS. Through the Ministry of Health, Indonesia reports its legal domestic narcotics precursor estimates annually to the INCB as recommended by CND Resolution 49/3.

Laos

Laos is an important transit point for Southeast Asian heroin, ATS, and precursor chemicals en route to other nations in the region. This transit drug trade involves criminal gangs with links in Africa, Latin America, Europe, and the United States, as well as in other parts of Asia.

The Laos Penal Code has several prohibitions against the import, production, and use and misuse of chemicals used for manufacturing illicit narcotics. The Ministry of Health and the Customs Department maintain controls over chemical substances. Laos has a small and nascent industrial base and the use of industrial chemicals subject to misuse for narcotics manufacture is relatively small. In 2008 the Lao National Assembly passed a drug law (Law on Drugs and Article 46 of the Penal Law) 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 32 chemical precursors which could be used for illicit purposes.

Malaysia

Malaysia is emerging as a regional production hub for crystal methamphetamine and ecstasy. Narcotics imported to Malaysia include heroin and marijuana from the Golden Triangle area (Thailand, Burma, Laos), and other drugs such as 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. Since 2006, Malaysia has been a location where significant quantities of crystal methamphetamine are produced. Since 2009 there have been reports of 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

While Bolivia is not a major producer of chemicals, in 2012 new trends appeared to emerge in terms of cocaine production. The Chemical Substances Investigations Group (GISUQ) within the Special Counternarcotics Police Force (FELCN) is charged with locating and interdicting chemicals used in the traditional cocaine process, such as sulfuric acid, kerosene, gasoline, diesel oil and limestone. Beginning in 2011, the GISUQ found drug traffickers using new chemicals,

such as isopropyl alcohol, liquid ethyl acetate and sodium bisulphate, and cement to produce cocaine. In 2012, while the GISUQ continued to find the same chemicals, Ethyl acetate was found to be used to purify cocaine into HCL. These chemicals are not among the precursor chemicals controlled under the Bolivian Counternarcotics Law. Through September 2012, the GISUQ seized 1,003 MT of solid substances and 1,602,712 liters of liquid precursor chemicals, a 9 percent decrease and 76 percent increase respectively over the same period in 2011.

The GISUQ coordinates activities with the Directorate General of Controlled Substances (DGSC), a civilian entity under the Government of Bolivia that administrates and licenses the commercialization and transport of controlled substances listed in Bolivian counternarcotics law 1008. Per Bolivian law, unless controlled substances are found next to a cocaine lab, unlicensed transport and commercialization generates only an administrative violation, resulting in a fine and the possibility of forfeiting the merchandise if proper paperwork is not produced within a certain period of time.

The Bolivian Government does not have control regimes for ephedrine and pseudoephedrine. The GISUQ, however, coordinates with the Ministry of Health to supervise and interdict illegal commercialization of these and other methamphetamine precursors.

Colombia

Precursor chemical diversion is a serious problem in Colombia. Unlike illicit drugs, chemicals have a legitimate, and often widespread, use within Colombia. Currently, there are approximately 4,500 chemical companies in Colombia authorized to handle regulated chemicals for legitimate use. Although chemical companies must have governmental permission to import or export specific chemicals and controlled substances, the burden of proof is on the police to prove the chemicals are intended for illicit drug production.

The Colombian government has tightened chemical controls on chemicals used for coca processing as well as strengthened chemical control legislation. However, traffickers are now seeking new avenues and many of these precursors are camouflaged and clandestinely imported into Colombia. They have also been diverted-by large Colombian chemical handlers whose management may have no knowledge of the illegal activities. The bulk of the diversion occurs at the second or third level of the distribution chain. Chemical traffickers and clandestine laboratories use non-controlled chemicals such as n-propyl acetate to replace controlled chemicals that are difficult to obtain. They also recycle chemicals in order to decrease the need to constantly divert them. Along with this practice, traffickers are recycling the chemical containers, making it difficult to trace their origin.

The Government of Colombia's authority regulating chemical control is the Chemical and Narcotics Control and Compliance Section, operating under the newly created Ministry of Justice and Law.

The Government of Colombia implements tighter restrictions on precursor chemicals in certain zones known for coca processing. These restrictions include reduced numbers for production,

distribution and storage of chemicals, and in some areas, complete prohibition of some chemicals.

Colombian companies are not authorized to export ephedrine or pseudoephedrine in bulk form and all drug combination products containing ephedrine or pseudoephedrine have been banned from domestic distribution. However, they can import these precursors for the manufacture of pharmaceutical preparations which can be re-exported.

The Colombian National Police Chemical Sensitive Intelligence Unit (SIU) was formed in June of 1998. The unit's primary mission was to verify the existence of companies importing chemicals and the validity of the import permits, including those from the United States, as well as to review their compliance with chemical control regulations. This mission 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 the Chemical Control and Compliance Unit (CCCU) and the SIU maintained its investigative focus. The SIU is currently comprised of 37 members and the CCCU has 27 members. The SIU has offices in four cities in Colombia (Bogota, Cali, Medellin, and Villavicencio). The CCCU is primarily 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, Panama and Mexico. The CCCU is responsible for on-site inspections and audits, verification of imports/exports, and for developing leads for criminal prosecution purposes. The SIU and the CCCU are also responsible for the multi-national chemical targeting operation Sin Fronteras ("without borders"). 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.

In 2011, the Colombian government amended its chemical law making the diversion of listed chemicals a criminal act. With this amendment, the owners can be prosecuted and their companies are susceptible to forfeiture. In 2011, the Government of Colombia scheduled levamisole, which is now the most frequently used product to cut Colombian cocaine.

The Colombian 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 cocaine HCL and coca base labs destroyed in 2012 as well as for the seizure of significant amounts of listed chemicals during the course of their operations in 2012. The Junglas seized 14 MT of solid precursors and 4.5 MT of liquid precursors. The Carabineros, or rural police, seized 69 liters of liquid precursors in 2012 and 174 MT of solid precursors. However, there has been a recent trend of labs storing precursor chemicals and HCL labs, long thought to be only located in Colombian jungles, moving into the urban centers. Investigations in 2012 have led to large scale labs in the large urban areas of Cali and Medellin.

Peru

Peru continues to be a major importer of precursor chemicals used in cocaine production, including acetone and sulfuric acid. Peru is also a major importer of other essential chemicals for cocaine production. Many tons of these chemicals are diverted from legitimate channels to cocaine production with a major concentration in the coca valleys. The Peruvian National Police (PNP) has identified the principal routes of precursor chemicals from Lima into the drug source areas.

In 2012, Peruvian law enforcement reported seizures of hydrochloric acid, acetone and calcium oxide, totaling 640 MT. The PNP Chemical Investigations Unit (DEPCIQ) continued its successful chemical enforcement and regulatory operations, leading to the seizure of significant quantities of precursor chemicals, including 55.1 MT of acetone, 103.5 MT of hydrochloric acid/muriatic acid, and 51.2 MT of sulfuric acid. The counternarcotics police (DIRANDRO) continued Operation Chemical Choke, a bilateral chemical control program that targets acetone, hydrochloric, and sulfuric acid through a specialized enforcement/intelligence unit of PNP officers. In 2012, Operation Chemical Choke targeted those organizations that divert these chemicals to cocaine production laboratories located near coca growing areas. The results included the arrests of several chemical traffickers and the seizure of 21.2 MT of acetone; 10.3 MT of hydrochloric acid, and 12.2 MT of sulfuric acid. In 2012, seizures of potassium permanganate increased to 3 MT from 2 MT in 2011.

Peruvian law enforcement also conducted 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 III held in Santiago, Chile. In 2012, Peru's efforts in Operation *Sin Fronteras* resulted in the seizure of 104 MT of sulfuric, acetone, and hydrochloric acid, as well as several arrests. Separately, in August 2012, the PNP and Brazilian Federal Police (DPF) conducted a 21-day enforcement operation, Operation *Trapecio*, against cocaine trafficking organizations operating in the Tri-Border Region of Peru-Brazil-Colombia. This successful enforcement operation targeted the floating gas stations that provide gasoline for the coca leaf alkaloid extraction process. PNP and DPF seizures included 19 floating gas stations and 60,747 liters of gasoline as well as additional precursor chemicals.

In 2012, the Government of Peru issued a legislative decree to enhance monitoring and control of chemical precursors, finished products, and machinery used to produce and transport illegal drugs. At year's end the Government of Peru was developing regulations to implement the new legislation. The National Tax and Customs Administration (SUNAT) is responsible for monitoring precursor chemicals controls. The legislation now requires SUNAT to define authorized routes for the licit transportation of chemicals and that those transporting be tracked via GPS technology. Deviation from authorized routes may result in criminal penalties as the company/individual will be viewed as participating in the illicit trafficking of chemical precursors.

Multilateral Efforts to Target Methamphetamine Chemicals

Methamphetamine abuse, production and trafficking remain a significant global drug challenge. Abuse continues to expand in Asia and Europe, as well as in the United States. Moreover, continued pressure on the criminal organizations including monitoring licit chemicals in

methamphetamine production as well as medical preparations containing ephedrine and pseudoephedrine has forced traffickers to seek new sources, smuggling routes and production methods. For instance, following the ban on trade and use of pseudoephedrine in Mexico in 2008, Mexico-based traffickers gradually moved away from using the phosphorus-iodine production method (which uses pseudoephedrine as a precursor) to the Phenyl-2-propanone (P2P) method (which does not require pseudoephedrine). Although the pseudoephedrine-based methamphetamine typically is more potent, P2P is the primary method used in methamphetamine produced in Mexico. Additionally, methamphetamine producers have now found ways to improve the P2P methamphetamine to significantly increase potency. In Europe, traffickers have begun using alpha-Phenylacetoacetonitrile (APAAN) a non-scheduled substance that can be easily converted into P-2-P. Multi-ton shipments of these substances from China have begun appearing in the Netherlands. Production is also shifting and authorities have begun to see a concerted effort by criminals to expand their operations out of the reach of sophisticated law enforcement efforts or established monitoring regimes to Africa.

To target the global challenge of methamphetamine production, diversion and trafficking, the United States continues to work in close cooperation with other nations through the United Nations and the OAS CICAD.

Additionally, the United States has actively supported Project Prism an international initiative under the auspices of the INCB designed to assist governments in developing and implementing operating procedures to control and more effectively monitor trade in amphetamine-type stimulant precursors to prevent their diversion. The initiative allows for sharing of information and helps to identify trends in diversion, trafficking, and distribution. Under five separate operations, a total of 167 notifications have been issued regarding suspicious and/or seized shipments with over 196 MT of ephedrine and pseudoephedrine suspended, stopped, or seized as well as over 600 MT of phenylacetic acid, its esters and derivatives, preventing up to 288 MT of methamphetamine from being produced.

INCB-led operations have been the backdrop for specific multilateral action on methamphetamine, including:

--the 2012 establishment of a new INCB-led operation Ephedrine and Pseudoephedrine Intelligence Gaps in Africa (EPIG);

--a 2011 INCB-led operation focusing on phenylacetic acid and derivatives (PAAD).

--increased use of the INCB Secretariat's PENS program to monitor licit shipments of precursor chemicals.

--support for the INCB expanded online capabilities allow participants to notify the Board of suspicious or new shipments under the Precursor Incident Communications System (PICS).

The United States 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 programs help encourage international cooperation to pursue our common anti-drug and broader geopolitical objectives with the countries of the region, as well as to undercut illegal drug producers that could eventually turn their sights on U.S. markets.

Major Exporters and Importers of Pseudoephedrine and Ephedrine (Section 722, Combat Methamphetamine Epidemic Act (CMEA)

This section of the INCSR is in response to the CMEA 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.

Ephedrine and pseudoephedrine are the preferred chemicals for methamphetamine production, although traffickers are increasingly using substitutes or pre-precursors. 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. As a result phenylpropanolamine is no longer approved for human consumption. Phenylpropanolamine is still imported for veterinary medicines, and for the conversion to amphetamine for the legitimate manufacture of pharmaceutical products. Phenylpropanolamine is not a methamphetamine precursor chemical and trade and production data are not available on phenylpropanolamine. Therefore, 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, given the reporting cycles by participating countries, data often lags behind one year. 2011 is the most recent year with full-year data. The data, including data from the previous year, is continually revised as countries review and revise their data. GTA data is used in the tables at the end of the chapter.

Obtaining data on legitimate demand remains problematic, but it is more complete for 2011 and 2012 than in any previous years. 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 regularly to the INCB their reasonable estimates about the trade in the end products that form the basis of legitimate demand. Many countries and regions do not report trade in ephedrine and pseudoephedrine when it is incorporated into a finished pharmaceutical product, in the form of finished dosage units such as liquids, tablets, and capsules, 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.

Ephedrine and pseudoephedrine pharmaceutical products are not specifically listed chemicals under the 1988 UN Convention. Therefore, in the case of the reporting on licit market

requirements for ephedrine and pseudoephedrine, the governing UN resolutions are not mandatory and only request voluntary reporting trade and demand of pharmaceutical products. Even so, the trend in this direction has been positive. Since the passage of the 2006 CND resolution sponsored by the United States, 180 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 small number of countries reported, and these rare communications were scattered and irregular.

A further challenge to analyzing the data is that most countries have not made any attempt to reconcile trade data and their own reporting of licit requirements, although this is changing. There are some signs countries are beginning to make efforts to reconcile data. For instance, some countries that noted licit requirements, but had not reported into the Global Trade Atlas (GTA) data exports or imports, have begun to do so. And the INCB has indicated that it remains concerned about the high estimates of annual legitimate requirements for certain precursors, especially in West Asian and Middle East countries.

Thus far the economic analysis required by CMEA, remains limited because of insufficient and constantly changing data. Often the collection and reporting of such data requires a regulatory infrastructure that is beyond the means of some governments in question. 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.

This report provides export and import figures for both ephedrine and pseudoephedrine for calendar years 2009-2011. The report illustrates 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 trade. Complete data on the worldwide production of pseudoephedrine and ephedrine are not available because the major producers will not release this proprietary data.

Top Five Exporting Countries and the United States Ephedrine				
Reporting Country	Unit	quantities in thousands		
		2009	2010	2011
India	KG	88	65	95
Germany	KG	13	16	63
Singapore	KG	12	9	10
Poland	KG	0	2	8
United Kingdom	KG	4	4	5
top five total		117	96	181
United States	KG	13	0.181	0.163

Analysis of Export Data: According to the Global Trade Atlas (GTA) ephedrine exports increased in 2011. India remained in the lead with 95,000 kg up from 65,000 kg in exports, followed by Germany, Singapore, Poland and the United Kingdom. The aggregate amount of ephedrine exported by the top five countries almost doubled from 96,000 kg to 181,000 kg. U.S. exports decreased from 22,000 in 2010 to 10,000 kg in 2011. (The top five countries in 2010 included India, Germany, Singapore, Taiwan, and the United Kingdom.) The aggregate amount of ephedrine exported by the top five countries 181,000 kg exceeds the high of 125,000 kg.

Top Five Exporters and the United States Pseudoephedrine				
Reporting Entity	Unit	quantities in thousands		
		2009	2010	2011
India	KG	534	458	1,658
Germany	KG	305	364	475
Taiwan	KG	76	102	70
China	KG	32	73	65
Switzerland	KG	42	47	49
top five total		989	1,044	2,317
`				
United States	KG	26	14	13

Analysis of Export Data: For pseudoephedrine, the aggregate volume of worldwide exports for the top five exporters rose significantly from 1,044,000 kg in 2010 to 2,317,000 kg in 2011. The top five exporters of pseudoephedrine in 2011 were India, Germany, Taiwan, China and Switzerland. In 2010 the top five were India, Germany, Slovenia and China. India's exports increased fourfold. In contrast only China decreased slightly.

Top Five Importers and the United States				
Ephedrine				
Reporting Entity	**Unit**	**quantities and thousands**		
		2009	**2010**	**2011**
South Korea	**KG**	**11**	**16**	**26**
Egypt	**KG**	**65**	**0.1**	**20**
Taiwan	**KG**	**6**	**10**	**11**
Singapore	**KG**	**14**	**9**	**10**
Indonesia	**KG**	**13**	**8**	**9**
top five total		**109**	**43.1**	**76**
United States	**KG**	**18**	**22**	**10**

Analysis of Import Data: The top five ephedrine importers in 2011 are South Korea, Egypt, Taiwan, Singapore and Indonesia. (In 2010 Egypt was listed as the largest importer with 178,000 kg. This year the GTA data was corrected to 178 kg.) South Korea, Nigeria, Taiwan and Singapore were the other top four from 2010. U.S. imports of ephedrine dropped from 22,000 kg in 2010 to 10,000 in 2011 due to the refinement of the quota system implemented under the CMEA.

Top Five Global Importing countries and U.S. Imports				
Pseudoephedrine				
Reporting Country	Unit	quantity in thousands		
		2009	2010	2011
Switzerland	KG	42	62	85
Singapore	KG	58	56	55
Belgium	KG	14	23	45
South Korea	KG	37	65	40
Indonesia	KG	39	45	40
top five total	KG	190	251	265
United States	KG	186	212	248

Analysis of Import Data: Shifts in trade of pseudoephedrine have also continued to rise dramatically in 2011 and resulted in a change in the top five importers for 2010. Egypt was the largest non-U.S. importer in 2010, but in 2011 dropped off the top five list that consisted of Switzerland, Singapore, Belgium, South Korea and Indonesia.

The United States remained the top importer of pseudoephedrine, with imports of 248,000 kilograms in 2011. However, this is still down from the 312,000 kilograms imported in 2007. It should be noted that the United States no longer manufactures pseudoephedrine domestically.

INCB Tables on Licit Requirements

Annual legitimate requirements for ephedrine, pseudoephedrine, 3,4-methylenedioxyphenyl-2-propanone and 1-phenyl-2-propanone, substances frequently used in the manufacture of amphetamine-type stimulants

In its resolution 49/3, entitled "Strengthening systems for the control of precursor chemicals used in the manufacture of synthetic drugs", the Commission on Narcotic Drugs:

(a) Requested Member States to provide to the International Narcotics Control Board annual estimates of their legitimate requirements for 3,4-methylenedioxyphenyl-2-propanone (3,4-MDP-2-P), pseudoephedrine, ephedrine and 1-phenyl-2-propanone (P-2-P) and, to the extent possible, estimated requirements for imports of preparations containing those substances that could be easily used or recovered by readily applicable means;

(b) Requested the Board to provide those estimates to Member States in such a manner as to ensure that such information was used only for drug control purposes;

(c) Invited Member States to report to the Board on the feasibility and usefulness of preparing, reporting and using estimates of legitimate requirements for the precursor chemicals and preparations referred to above in preventing diversion.

Pursuant to that resolution, the Board formally invited Governments to prepare estimates of their legitimate requirements for those substances. Those estimates, as reported by Governments, were published, for the first time, in March 2007.

The table below reflects the latest data reported by Governments on those four precursor chemicals (and their preparations, as relevant). It is expected that those data will provide the competent authorities of exporting countries with at least an indication of the legitimate requirements of importing countries, thus preventing diversion attempts. Governments are invited to review their requirements as published, amend them as necessary and inform the Board of any required change. The data are current as at 1 November 2012. (For updates, see www.incb.org/documents/PRECURSORS/ANNUAL-LICIT-REQUIREMENTS/INCB_ALR_WEB.pdf.

Annual legitimate requirements as reported by Governments for imports of ephedrine, pseudoephedrine, 3,4-methylenedioxyphenyl-2-propanone, 1-phenyl-2-propanone and their preparations, as at 1 November 2012
(Kilograms, rounded up)

Country or territory	*Ephedrine*	*Ephedrine preparations*	*Pseudoephedrine*	*Pseudoephedrine preparations*	*3,4-MDP-2-P*[a]	*P-2-P*[b]
Afghanistan	50	50	6 000	5 000	0	0
Albania	3	0	0	0	0	0
Algeria	1		17 000		0	0
Argentina	77		20 709		0	1
Ascension Island	0	0	0	0	0	0
Australia	5	10	6 000	1 450	1	1
Austria	142	213	1	1 400	1	1
Azerbaijan	20		10		0	0
Bahrain	0	0			0	
Bangladesh	200		49 021			
Barbados	250		160			
Belarus	0	25	25	0	0	0
Belgium	300	200	11 000	8 000	5	1
Belize			P	P		
Benin	2		8	10		
Bhutan	0	0	0	0	0	0
Bolivia (Plurinational State of)	20 500	1	1 235	2 530	0	0
Bosnia and Herzegovina	7	0	1 010	0	0	0
Botswana	300					
Brazil	700[c]		20 000[c]		0	1
Brunei Darussalam	0	4	0	224	0	0
Bulgaria	3 000		500		0	0
Cambodia	200	50	300	900		
Canada	2 000	5	20 000		0	0
Chile	95	200	6 440	1 000		
China	155 000		200 000			
Hong Kong SAR of China	4 500	0	7 500	0	0	0
Macao SAR of China	1	10	1	159	0	0
Christmas Island	0	0	0	1	0	0
Cocos (Keeling) Islands	0	0	0	0	0	0
Colombia	4[d]	3[e]	5 000[f]	P	0	0
Cook Islands	0	0	0	1	0	0
Costa Rica	0	0	728	27	0	0
Côte d'Ivoire	40	20	25	30	0	0
Croatia	2		1		0	1
Cuba	200			6		

Country or territory	*Ephedrine*	*Ephedrine preparations*	*Pseudoephedrine*	*Pseudoephedrine preparations*	*3,4-MDP-2-P*[a]	*P-2-P*[b]
Curaçao	0		0		0	0
Cyprus		0	500			
Czech Republic	600	10	1 600	800	0	1
Democratic People's Republic of Korea	1 500	0	0	0	5	0
Democratic Republic of the Congo	250		900			
Denmark					0	0
Dominican Republic	75	5	230	250	0	0
Ecuador	50	30	1 500	5 000	0	0
Egypt	6 000	0	60 000	2 500	0	0
El Salvador	P(6)[g]	P(2)[g]	P	P	0	0
Eritrea	0	0	0	0	0	0
Estonia	3	1		350		
Falkland Islands (Malvinas)		1		1		
Faroe Islands	0	0	0	0	0	0
France	5 000	10	20 000	500	0	0
Finland	6	100		1 000		1
Gambia	0	0	0	0	0	0
Georgia	50	30	50	200		
Germany	1 000		8 000		1	8
Ghana	4 500	300	3 000	200	0	
Greece	25		1 450		0	0
Greenland	0	0	0	0	0	0
Guatemala	0		P	P	0	0
Guinea	36					
Guinea-Bissau	0	0	0	0	0	0
Guyana	120	50	120	30	0	0
Haiti	200	1	350		0	0
Honduras	P	P(1)[e]	P	P	0	0
Hungary	600		1		1	2 120
Iceland	1		1			
India	1 023	87 467	300 507	383	0	0
Indonesia	7 032		38 293	692		
Iran (Islamic Republic of)	50	1	55 000	10	6	51
Iraq	3 000	100	14 000	10 000	0	P[h]
Ireland	1	3	1	1 173	0	0
Israel	1	4	3 000	21		
Italy	1 000	0	6 000	0	0	300
Jamaica			300	300	0	0
Japan	400		18 000			
Jordan	300		20 000			P

Country or territory	*Ephedrine*	*Ephedrine preparations*	*Pseudoephedrine*	*Pseudoephedrine preparations*	*3,4-MDP-2-P*[a]	*P-2-P*[b]
Kazakhstan	0		0		0	0
Kenya	2 500		3 000			
Kyrgyzstan	0		20	32	0	0
Lao People's Democratic Republic	0	0	220	50	0	0
Latvia	25	27	41	383	0	0
Lebanon	0	4	220	300	0	0
Lithuania	1	2	1	600	1	1
Luxembourg	1	0	0	0	0	0
Madagascar	702	180	150			
Malawi	1 000					
Malaysia	211	21	6 039	4 500	0	0
Maldives	0	0	0	0	0	0
Malta		220	220		0	0
Mauritius	0	0	0	0	0	0
Mexico	P(193)[g]	P(80)[g]	P	P	0	0
Monaco	0	0	0	0	0	0
Mongolia	3					
Montenegro	0	2	0	38	0	0
Montserrat		1		1		
Morocco	42	0	2 392	0	0	0
Mozambique	3					
Myanmar	2	0	0	0	0	0
Namibia	0	0	0	0	0	0
Netherlands		0		0	0	0
New Zealand	50		700		0	3
Nicaragua	P[i]	P[i]	P	P		
Nigeria	9 650	2 000	5 823	15 000	0	
Norfolk Island	0	0	0	0	0	0
Norway	400	0	0	0	0	0
Pakistan	22 000		48 000			
Panama	25	30	1 000	1 000		
Papua New Guinea	1		200		0	0
Paraguay	0	0	2 500	0	0	0
Peru	54		2 409	1 192		
Philippines	120	0	120	0	0	0
Poland	130	0	4 200	0	0	2
Portugal			15			
Qatar	0	0	0	80	0	0
Republic of Korea	23 316		62 901		1	1
Republic of Moldova		60		250		

Country or territory	*Ephedrine*	*Ephedrine preparations*	*Pseudoephedrine*	*Pseudoephedrine preparations*	*3,4-MDP-2-P*[a]	*P-2-P*[b]
Romania	200		6 500		0	0
Russian Federation	1 500					
Saint Helena	0	1	0	1	0	0
Sao Tome and Principe	0	0	0	0	0	0
Senegal	0	0	0	0	0	0
Serbia	25		718			1
Singapore	12 000	4 000	53 000	8 000	1	1
Slovakia	8	1	1	0	0	0
Slovenia	22		250		0	0
Solomon Islands	0	1	0	1	0	0
South Africa	15 000	0	10 444	0	0	0
Spain	307		6 427		0	1
Sri Lanka				0	0	0
Sweden	188	215	1	30	1	14
Switzerland	2 600		70 000		100	100
Syrian Arab Republic	1 000		50 000			
Tajikistan	38					
Thailand	53		12 000	0		
Trinidad and Tobago						0
Tristan da Cunha	0	0	0	0	0	0
Tunisia	1	13	3 000	0	0	0
Turkey	250		27 000		1	1
Uganda	150	35	2 500	400	0	0
Ukraine	0	101	46	940	0	0
United Arab Emirates	200	41	3 050	2 499	0	0
United Kingdom	64 448	1 011	12 680	1 683	8	1
United Republic of Tanzania	500	500	3 000	1 000		
United States of America	22 800		299 000		0	36 735
Uruguay	10	0	100	0	0	0
Uzbekistan	1		15			
Venezuela (Bolivarian Republic of)	1 000		3 000			
Yemen			5 000			
Zambia	5		10			
Zimbabwe	100	1	150	0	0	0

Notes: The names of territories, special administrative regions etc. 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 currently has no licit requirement for the substance.

The letter "P" signifies that importation of the substance is prohibited.

Reported quantities of less than 1 kg have been rounded up and are reflected as 1 kg.

[a] 3,4-Methylenedioxyphenyl-2-propanone.

[b] 1-Phenyl-2-propanone.

[c] Including the licit requirements for pharmaceutical preparations containing the substance.

[d] The required amount of ephedrine is to be used for the manufacture of injectable ephedrine sulphate solution.

[e] In the form of injectable ephedrine sulfate solution.

[f] The required amount of pseudoephedrine is to be used exclusively for the manufacture of medicines for export.

[g] 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.

[h] Including products containing P-2-P.

[i] 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 export requires an import permit.[1]

[1] The U.S. Department of State thanks the INCB for providing this very useful and informative chart

COUNTRY REPORTS

Afghanistan

A. Introduction

Illicit drug cultivation, production, trafficking, and consumption flourish in Afghanistan, particularly in parts of the south and southwest where instability is high and state institutions are weak or non-existent. More than 90 percent of illicit poppy cultivation takes place in these regions. The United Nations Office of Drugs and Crime (UNODC) estimated that Afghanistan cultivated 154,000 hectares (ha) of opium in 2012, with a total yield of 3,700 metric tons (MT) of raw opium. This was an 18 percent increase in cultivation and a 36 percent decrease in opium production from 2011. Poor weather and naturally-occurring crop disease contributed to the lower yields. 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. Some insurgent commanders engage directly in drug trafficking to finance their operations. The trade in narcotics undermines governance and rule of law in all parts of the country where poppy is cultivated and traffickers operate.

According to the United States government's 2012 assessment of the drug problem in Afghanistan, poppy cultivation increased by 57 percent, from 115,000 ha in 2011 to 180,000 ha in 2012, while potential opium production remained steady at 4,300 MT, compared to 4,400 MT in 2011. The U.S. and UNODC estimates differ due to dissimilar methodologies for estimating poppy cultivation and opium yields.

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. Some raw opium and morphine base is trafficked to neighboring and regional countries, where it is further refined into heroin. While estimates are imprecise, approximately 95 percent of the opiates produced in Afghanistan are ultimately trafficked out of the country; roughly 5 percent are consumed inside Afghanistan. Afghanistan is also struggling to respond to a burgeoning domestic opiate addiction problem.

Afghanistan generally relies on assistance from the international community to implement its national counternarcotics strategy. Greater political will, increased institutional capacity, enhanced security, viable economic alternatives for farmers, and more robust efforts at all levels are required to decrease cultivation in high-cultivating provinces, maintain cultivation reductions in the rest of the country, and combat trafficking.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Afghanistan is publicly committed to confronting the drug problem in Afghanistan, particularly focusing on what it identifies as the root causes of the drug economy including instability, poverty, unemployment; and organized crime. The Ministry of Counter

Narcotics (MCN) is the lead governmental agency for developing counternarcotics policy and coordinates the activities of other governmental bodies involved in issues related to the drug trade. MCN is currently drafting Afghanistan's National Drug Control Strategy (NDCS) for the period 2012–2016. The draft NDCS vision is "to implement a five–year plan that seeks to reduce by 50 percent the cultivation of poppy from its 2011 baseline of 131,000 hectares and to increase the capacity to treat drug addicts by 40 percent." MCN is also working to insert counternarcotics into the activities of the entire government by "mainstreaming" counternarcotics efforts into other existing national strategies and programs.

Afghanistan has no formal extradition or mutual legal assistance arrangements with the United States. The 2005 Afghan Counter Narcotics Law (CNL), however, allows the extradition of drug offenders to requesting countries under the 1988 UN Drug Convention.

2. Supply Reduction

According to UNODC, Afghanistan cultivated 154,000 ha of opium poppy in 2012, up 18 percent from 2011. UNODC estimated that Afghan opium poppy crops in 2012 yielded 3,700 MT of raw opium, down 36 percent from 5,800 MT in 2011. According to the UNODC and MCN, the number of poppy free provinces (those provinces with less than 100 ha of poppy under cultivation) remained the same at 17. (Note: The U.S. and UNODC estimates differ due to dissimilar methodologies for estimating poppy cultivation and opium yields.)

There is significant evidence of commercial cultivation of cannabis in Afghanistan. The UNODC and MCN's 2011 cannabis survey found that commercial cannabis cultivation in 2011 was approximately 12,000 ha, capable of producing 1,300 MT of hashish per year. According to the survey, the number of households growing cannabis for commercial purposes increased by 38 percent from 47,000 in 2010 to 65,000 in 2011. UNODC also noted that, like poppy, most cannabis cultivation takes place in insecure areas.

MCN implements the U.S.-funded Good Performers Initiative (GPI) to reward provinces which successfully reduce poppy cultivation within their borders. Provinces that are determined to be poppy-free by UNODC, or where poppy cultivation has declined by 10 percent, receive funding for development projects proposed by provincial development councils and governors' offices. In 2012, 21 of Afghanistan's 34 provinces received $18.2 million in GPI awards, including two provinces that received special recognition awards of $500,000 each. The MCN-run Governor-Led Eradication program reimburses governors for expenses incurred for eradicating poppy fields. Eradication is verified by UNODC. In 2012, a total of 9,672 ha was eradicated, an increase of 154 percent over 2011. Both the quality and efficiency of eradication improved substantially, but attacks by criminals and insurgents on eradication teams killed over 100 civilians and security personnel during the course of the year. An additional 127 people were injured in such attacks.

The Afghan government's efforts to enforce its drug laws also enjoyed growing success. The Criminal Justice Task Force (CJTF) is a vetted, self-contained unit that consists of prosecutors, investigators, and first instance and appellate court judges. 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. The Counter Narcotics Justice Center (CNJC) is a central facility for the investigation, prosecution, and trial of major narcotics and narcotics-related corruption cases and is considered a model of excellence within the Afghan justice system. Between April 2011 and March 2012, the CNJC primary court heard 468 cases and tried 788 suspects, involving more than 185 metric tons of illegal drugs. Those convicted receive sentences ranging from 11 to 20 years. The CNJC has a conviction rate of over 97 percent.

Afghan authorities made some progress in improving their capacity to interdict large quantities of narcotics and arrest narcotics traffickers. According to authorities, the police apprehended seven out of ten of the "most wanted" drug traffickers in 2011. Over the first nine months of 2012, Afghan and Coalition Forces conducted a total of 481 counternarcotics operations, 62 percent more operations than the previous year. They seized approximately three MT of heroin, 72 MT of opium, and 176 MT of hash in those operations. The Counter Narcotics Police of Afghanistan (CNPA) was established in 2003 as a specialized element of the Afghan National Police and is responsible for counternarcotics investigations and operations. The United States supports several specialized units within the CNPA, including the Sensitive Investigative Unit (SIU), the Technical Investigative Unit (TIU), and the National Interdiction Unit (NIU). These units are partnered with the U.S. Drug Enforcement Administration (DEA). The NIU is the tactical element of the CNPA and is capable of conducting independent evidence-based interdiction operations and seizures in high threat environments. The TIU and SIU are specially vetted and trained law enforcement units The SIU carries out complex CN and counter corruption investigations using intelligence developed by the TIU. Outside these special units, low capacity and corruption within law enforcement institutions and the lack of CNPA's direct authority over its resources in the provinces hampers counternarcotics efforts.

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 laboratories within Afghanistan still process a large portion of the country's raw opium into heroin and morphine base. Traffickers illicitly import large quantities of precursor chemicals into Afghanistan; UNODC estimates that 475 tons of acetic anhydride are imported each year for manufacturing heroin.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Afghan Government acknowledges a growing domestic drug abuse problem, primarily opiates and cannabis. Funded by the United States, the National Urban Drug Use Survey released in 2012 provides a scientifically-valid prevalence rate for the country's urban population based on interviews and toxicology. The United States will begin supporting a National Rural Drug Use Survey to complement the urban study and provide a national prevalence rate. Other recently conducted studies indicate that the prevalence of addiction and severity of consumption among Afghan children is the highest documented in the world.

The United States expects to fund more than 60 inpatient and outpatient drug treatment centers across the country by the end of 2012; however, the demand for services exceeds the capacity of

the centers, most of which have waiting lists for new patients. The United States also supports UNODC's global child addiction program throughout Afghanistan to develop protocols for treating opiate-addicted children, training treatment staff, and delivering services through Afghan non-governmental organizations. The current annual treatment capacity of Afghanistan's centers is over 15,000 persons. The Government of Afghanistan is planning an expansion of its treatment system by opening new clinics across the country. Private clinics have also proliferated in recent years, although many of these do not apply evidence-based practices, discharging clients after detoxification without follow-up, thereby resulting in high relapse rates.

The United States funds a multi-pronged public information program, implemented by the Colombo Plan with the support of the MCN, focusing on discouraging poppy cultivation, preventing drug use, and encouraging licit crop production. The United States has undertaken a vigorous public information campaign to reduce drug demand inside Afghanistan, including seeking the support of religious leaders in drug demand reduction efforts, engaging local media, and implementing an anti-drug curriculum in Afghan schools. In 2012, the U.S. government helped establish a partnership between the Colombo Plan's Preventive Drug Education program and the Afghan Premier Soccer League to spread an anti-drug message to youth. The United States also funds an Afghanistan-specific mobile preventive drug education exhibit.

4. Corruption

As a matter of government policy, the Government of Afghanistan does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering proceeds from the sale of illicit drugs. However, many central, provincial, and district level government officials are believed to directly engage in and benefit 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, which criminalizes drug trafficking-related corruption. The CJTF has successfully prosecuted high ranking government officials, including members of the CNPA. Between April 2011 and March 2012, 44 public officials were prosecuted in the CJTF primary court.

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

The U.S. government maintains a counternarcotics strategy that supports Afghanistan's four priorities for disrupting the drug trade; developing licit agricultural livelihoods; reducing the demand for drugs; and building the capacity of the government's CN institutions. The strategy is formulated to help restore Afghanistan's agriculture economy, build Afghan institutional capacity, and disrupt the nexus between drugs, insurgents, and corruption.

In 2012, the United States signed agreements with the Afghan government laying the groundwork for a Kandahar Food Zone in 2013. The Kandahar Food Zone is a multi-sectoral drug reduction program that combines elements of alternative development, law enforcement and eradication, public information and drug treatment. Twenty million dollars are anticipated to be provided over two years to develop the Alternative Livelihoods component of the Kandahar Food Zone, a comprehensive approach to counternarcotics in the province, integrating its

activities with U.S.-funded Counter Narcotics Public Information, Drug Demand Reduction, and Governor Led Eradication programs.

D. Conclusion

For Afghanistan to enjoy future success in combating the narcotics trade it must continue to strengthen the capacity of the MCN, actively combat corruption at all levels of government, and develop the ability of regular CNPA units to carry out operations. The Afghan government must also demonstrate the political will to challenge vested political and economic interests.

Farmers and those involved in processing and trafficking drugs must also have viable economic alternatives to involvement in the narcotics trade. Improvements in security and market access, as well as continued concentrated efforts to increase agricultural and other alternative livelihoods, will remain key to undermining the drug economy and the insurgency in Afghanistan. .

Albania

Albania is a transit and destination country for cannabis, heroin and cocaine. It is a source country for cannabis going to EU member countries. Albanian authorities effected significant increases in drug seizures and arrests in 2012, a rise in enforcement activity attributable to better police training and techniques, including enhanced risk analysis and better use of donated equipment. The drastic increase in marijuana seizures – a 175-percent increase over 2011 – also signifies an increase in local production after trending downward over the prior two years. Evidence suggests that trafficking networks may be taking advantage of reduced policing activities in neighboring countries, bypassing Albania, which has long served as a transit country to Western Europe. With the exception of cannabis, Albania is not a significant producer of illicit drugs, precursor chemicals, or synthetic drugs. The Government of Albania does not keep drug-use statistics, but consumption of drugs other than marijuana does not appear to be common.

Albania continued to improve its counternarcotics efforts in 2012, highlighted by the release of a National Counternarcotics Strategy. Albanian State Police (ASP) statistics for 2012 showed marked increases in seizures and arrests. Cannabis seizures totaled almost 21.2 metric tons, nearly double the amount seized in 2011. Heroin and cocaine discoveries also more than doubled to 87.7 kilograms (kg) and 4.6 kg, respectively. Despite increased seizures, cumbersome bureaucracy and weak judicial and law enforcement institutions resulted in few convictions. The ASP arrested 729 people in 2012 for drug-related offenses, mainly trafficking. The Serious Crimes Prosecution office initiated over 149 investigations, but forwarded only 46 cases to the courts. The Serious Crimes First Instance Court handed down 56 trafficking convictions during 2012.

Albania continues to receive narcotics-related assistance from the United States and European Union countries. Albanian law enforcement agencies continued to develop partnerships with their international counterparts. The ASP conducted 43 international operations between January and October, the majority in cooperation with Italian authorities. The United States supports institutional reform and capacity building efforts in areas such as Integrated Border Management and judicial sector reform, as well as equipment donations. Drug demand reduction efforts are improving as the United States, ASP, and the Albanian Education Ministry co-sponsor a drug demand reduction project in the Tirana public elementary schools.

Argentina

A. Introduction

While Argentina continues to be a transit country for Andean-produced cocaine, domestic cocaine production and consumption are growing problems. Argentine officials believe there is increased transit through Argentina as a consequence of intensive counternarcotics efforts in Mexico and Colombia, forcing drug traffickers to utilize other routes to international markets. In June, after a year's hiatus, the Ministry of Security (MOS) allowed the U.S. Drug Enforcement Administration (DEA) to resume limited operations in Argentina.

Marijuana, the bulk of which is imported from Paraguay and used for domestic consumption, continues to be the most abused illegal drug in Argentina. Cocaine remains the leading illegal drug for which Argentines seek help at treatment centers, and the use of cocaine base, known locally as "paco," remains a problem among the poor. Many Argentines believe that violent crime linked to drug trafficking and consumption is increasing. Argentine authorities made significant efforts in 2012 to reduce narcotics trafficking in the urban slums of Buenos Aires.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Security Minister Nilda Garre continued to implement reforms designed to improve police performance, but insufficient coordination among federal and provincial law enforcement agencies continued to hamper Argentina's effectiveness in combating drug trafficking. The appointments of a new leader of the Secretariat of Planning for the Prevention of Drug Addiction and Drug Trafficking (SEDRONAR), a new Deputy Security Minister, and the replacement of the MOS' Under Secretary for the Investigation of Organized and Complex Crime facilitated greater cooperation between the security forces and international partners, including DEA. Backlogs in the judicial system continued to complicate the prosecution of drug traffickers. Two complicating factors are the incomplete move from an inquisitorial system to an accusatorial system at the national level, and the lack of specialized alternative mechanisms, such as drug courts. The SEDRONAR Secretary served as the President of the Organization of American States' until November.

Operation Northern Shield, an effort to deter illegal flights and illicit drug trafficking though improved radar coverage of the air space along Argentina's northern border, was only partially implemented in 2012. Its centerpiece is the planned installation of seven 3D radars, only one of which was operational as of November 2012. The reduction of Argentine Border Guard forces along the borders with Bolivia may have eroded the government's ability to interdict cocaine shipments from Bolivia. An October labor strike by public security forces protesting wage cuts, and the increased use of federal security forces for urban policing in Buenos Aires, including units re-deployed from border zones, may have reduced overall operational effectiveness of Argentina's security forces to combat drug trafficking.

Despite the Supreme Court's 2009 recommendation against imposing criminal penalties for the personal possession of small amounts of marijuana, Argentina's Narcotics Law 23.737 has not been modified. Several late 2011 and early 2012 legislative bills proposing the decriminalization of marijuana (and in some cases other drugs) failed to advance in the lower house of the Argentine Congress. According to opinion polls, approximately 65 to 70 percent of Argentines oppose decriminalization, and a consensus around the need to first formulate a National Addiction Plan is growing.

2. Supply Reduction

The MOS estimates that Argentine security forces seized approximately 3.4 metric tons (MT) of cocaine from January through June 2012. The six-month total exceeds the 3.2 MT that the MOS estimates officials seized during the first six months of 2011, but represents a sharp decrease from the estimated 12 MT of cocaine Argentine authorities seized in 2010. Furthermore, the UN Office on Drugs and Crime (UNODC), using data provided by the Government of Argentina, estimated that Argentina seized 12.1 MT of cocaine in 2008 and 12.6 MT of cocaine in 2009. Government constraints on DEA operations within Argentina may have contributed to the decrease in cocaine seizures from 2010 to 2012. In October 2012, Argentine and Colombian law enforcement officials coordinated with DEA to successfully capture one of Colombia's most wanted drug traffickers.

Most Andean cocaine transiting Argentina is smuggled across the Bolivian-Argentine border and is primarily destined for Europe. The seizure of increasing numbers of cocaine production facilities, as well as the widespread availability of paco, suggests that domestic production of cocaine in Argentina, though small, is growing. There is no widespread cultivation of coca leaf for the production of cocaine in Argentina; domestic production appears to use imported coca paste, known as "pasta base."

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the 2011 UNODC World Drug Report, Argentina had the highest prevalence of cocaine use (2.6 percent) among 15-to-64 year-olds in South and Central America. Argentine officials, however, estimate annual prevalence of cocaine use at 0.9 percent of the population. Fueled by reported seizures, there is growing concern about rising use of synthetic drugs by Argentine youth. The abuse of paco is another growing public concern. Paco is readily available on the streets, costs approximately $1.50 a dose, and produces a brief, intense high when smoked in pipes or mixed with tobacco. While there is no effective centrally coordinated strategy to treat drug addiction nationwide, Congress tabled a draft National Anti-Addiction Plan in October 2012.

4. Corruption

The Government of Argentina neither encourages nor facilitates the illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, or the laundering of proceeds from illegal drug transactions, 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. During the course of 2012, Argentine officials accused several security force members, including high-ranking officers, of either trafficking significant amounts of cocaine and/or marijuana or protecting drug trafficking organizations.

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

Limited counternarcotics cooperation between DEA and Argentine security forces resumed in June, ending a year-long hiatus following the Argentine Customs' confiscation of sensitive U.S. military cargo at the Buenos Aires international airport in February 2011. In response to MOS requests, the United States resumed information sharing and offered a limited number of counternarcotics trainings and seminars designed to enhance the capabilities of Argentine security forces, including maritime enforcement training. The MOS continued to discourage U.S. cooperation with provincial security forces, thereby limiting efforts to improve provincial counternarcotics capabilities.

D. Conclusion

Though the Government of Argentina worked to improve aspects of the country's drug control effort, the slow process of implementing operational reforms and re-allocating sufficient domestic resources, combined with the reduction of counternarcotics cooperation with the United States, likely eroded Argentina's narcotics interdiction capabilities in 2012. The Argentine government could focus its diverse interdiction efforts on targeted investigations, assigning more personnel and enhancing use of technology such as x-ray scanning equipment, to reduce the amount of drug traffic that is currently escaping attention. Likewise, the Government of Argentina could complement its recent radar deployments in the northern border areas with additional equipment and human resources to ensure that better detection of air shipments of narcotics crossing the Bolivian and Paraguayan borders results in increased interdiction on the ground. Argentina could also improve cooperation among federal and provincial law enforcement entities to enhance the country's effectiveness in combating the illegal drug trade. Further improving judicial efficiency in processing narcotics-related investigations and prosecutions would also be useful.

Armenia

Armenia is not a major drug-producing country, and domestic abuse of drugs is modest. Because Armenia is landlocked and the two longest of its four borders (with Turkey and Azerbaijan) are closed, the resulting limited transport options make the country less attractive for drug trafficking. With assistance from the United States and European Union, Armenia continues to develop and implement an integrated border management regime, improving its ability to detect illegal narcotics shipments. In addition, in July 2012, the United States provided narcotics interdiction training at Yerevan's international airport and bus station.

The most common illicit drug in Armenia is marijuana, most of which is grown locally. Both marijuana and poppies grow in the wild, and the government sponsors an annual eradication event in August. In 2012, a combined total of nearly 82 metric tons were destroyed.

Narcotics seizures declined overall in 2012. Police credit the arrest and dismantlement of several trafficking rings in late 2011 and early 2012 as the reason for the decrease. According to police, the overwhelming majority of illicit drug imports are opiates originating from Afghanistan transiting through Iran, with a smaller volume entering from Turkey via Georgia (as the Turkish border is closed to all traffic). In October, a large seizure occurred on the Iranian border at the Meghri crossing, when opium was discovered in a false-bottomed suitcase.
A new smuggling trend along the Iranian border involves plastic balls with light-emitting diodes attached: the balls are thrown across the Arax River at night, with opiates going one way (into Armenia) and payment going the other (into Iran). In addition, authorities have seized smaller quantities of the synthetic opioid buprenorphine from flights originating in France and from parcels mailed from France and Spain. In the past, amphetamines were trafficked from Iran to Europe via Armenia, but this transit appears to have diminished significantly following a major bust. Precursor chemicals are strictly regulated and industrial users must provide status reports every three months.

Drug addiction treatment resources have increased in recent years, and since 2009 prior use has been decriminalized for those who seek treatment.

Azerbaijan

Azerbaijan is a significant transit country for heroin and other narcotics, as it is situated along major drug trafficking routes from Afghanistan and Iran to Europe and Russia. Drug use and cultivation exist on a relatively small scale in Azerbaijan and are less significant problems.

Due to Azerbaijan's location along major drug smuggling corridors, up to 11 metric tons (MT) of heroin is estimated to transit Azerbaijan every year, much of it entering through the southern border with Iran. Azerbaijan may be an increasingly favored transit country for drugs over Georgia and Turkey, which have both strengthened their border control procedures in recent years. Azerbaijan has also expressed concerns related to its inability to secure international borders in the occupied territories that surround Nagorno-Karabakh.

The most recent drug seizure and arrest statistics available are for 2011. According to the Central Asian Regional Information and Coordination Center, in 2011 Azerbaijan seized 557 kilograms (kg) of drugs during anti-smuggling operations, including: 164.9 kg of hashish; 52.2 kg of heroin; 298.9 kg of cannabis; and 14.1 kg of opium. These numbers were down considerably from 2010, when 1.86 MT of illegal drugs were reportedly seized. Also in 2011, 2,341 individuals were arrested for involvement in drug smuggling. Although the cultivation of drugs in Azerbaijan is not widespread, in 2011 Azerbaijan uncovered 59 cases of domestic illegal drug cultivation resulting in the seizure of 20.6 kg of poppy and 3.4 MT of cannabis.

Though the Government of Azerbaijan has expressed its desire to address drug addiction, government-sponsored programs targeting drug abuse remain inadequate, hindering substantial progress.

The U.S. Drug Enforcement Administration (DEA) re-engaged with Azerbaijan in 2011, and this relationship helped Azerbaijan pursue international drug trafficking organizations in 2012. The United States will continue to work with the Government of Azerbaijan to promote law enforcement cooperation, judicial reform, and the rule of law.

The Bahamas

A. Introduction

The Bahamas is not a significant drug producing country but remains a transit point for illegal drugs bound for the United States and other international markets. The Bahamas' close proximity to the coast of Florida as well as Caribbean drug transshipment routes makes it a natural conduit for drug smuggling. Furthermore, The Bahamas's 700 islands and cays, the vast majority of which are uninhabited, provide near ideal conditions for illicit smuggling. Smugglers readily blend in among the armada of pleasure craft traveling throughout The Bahamas archipelago spanning 100,000-square nautical miles. Recent law enforcement information points to increased smuggling through air traffic, both by newly established commercial traffic from South and Central America and through private planes. U.S. law enforcement analysts anticipate that sustained law enforcement pressure on networks in Central America will continue to compel illicit drug traffickers to reestablish both alternate and historic drug smuggling routes from producer countries to the United States, including through The Bahamas.

Surveys sponsored by the Bahamian government suggest the demand for cocaine has diminished, though casual and chronic use of marijuana is an area of concern. The government remains committed to reducing drug trafficking and demand for drugs.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2012, the Bahamian government released its update to the 2004-09 National Anti-Drug Strategy. The new 2012-16 strategy lays out government plans for reducing drug demand and supply; strengthening anti-drug institutions; building international cooperation; and resourcing anti-drug efforts. Written at the end of the previous Free National Movement government's tenure, the implementation of the strategy will fall to the new Progressive Liberal Party's (PLP) government elected in May.

Among the PLP government's new initiatives is the Swift Justice program which seeks to reduce processing time for serious cases through improved criminal case management. Construction of new facilities and increases in personnel are ongoing, and headway on its backlog of cases will depend on the flexibility and effective implementation of these measures by the criminal justice system.

The United States and The Bahamas are bilateral parties to both a mutual legal assistance treaty (MLAT) and an extradition treaty. The United States and The Bahamas have a strong mutual legal assistance relationship. The MLAT facilitates the bilateral exchange of information and evidence for use in criminal proceedings. Joint activities between the U.S. Drug Enforcement Administration (DEA) and the Bahamian government have resulted in evidence from The Bahamas being used to prosecute traffickers in the United States. Streamlining and establishing

better protocols to expedite the flow of extraditions would bring drug crime offenders more quickly to trial and serve as a more credible deterrent for traffickers. Currently, defendants can appeal a magistrate's decision up to Judicial Committee of the Privy Council in London. This process often adds years to an extradition proceeding; the last extradition occurred in 2010. Some subjects of U.S. extradition requests are known to continue illegal drug smuggling activities while out on bail awaiting the resolution of their cases.

The United States signed a comprehensive maritime agreement with The Bahamas in 2004 that enables 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.

2. Supply Reduction

Under Operation Bahamas and Turks and Caicos Islands (OPBAT), U.S. agencies led by the DEA and including the Coast Guard and Customs and Border Protection integrate with the Royal Bahamas Police Force (RBPF) to gather intelligence, conduct investigations, and execute interdictions. OPBAT remains the cornerstone of counternarcotics law enforcement cooperation in the region. In 2012, operations under OPBAT led to the seizure of 236 kilograms (kg) of cocaine; 162 metric tons of marijuana; 149,074 marijuana plants; 201 arrests; and $122,333 in assets. These operations are supported by marine and technical resources provided through U.S. assistance programs. With a small population base (353,000 people according to the 2010 census) and significant territory to cover, pooling U.S. and local resources and knowledge is essential to efficient deterrence and interdiction. The Royal Bahamas Defense Force (RBDF), as well as law enforcement personnel in the Turks and Caicos Islands, participate in counternarcotics operations.

Smugglers exploit the wide distribution of numerous islands and the high number of recreational vessels flowing through the boating-friendly waters of The Bahamas. Large loads are known to split up into smaller loads before entering the southern Bahamas through the customs station in Great Inagua, which is strategically located between the Turks and Caicos Islands, Haiti, the Dominican Republic, and Jamaica. Traffickers move cocaine through The Bahamas via go-fast boats, small commercial freighters, containers, and small aircraft. Small sport fishing vessels and pleasure crafts move cocaine from The Bahamas to Florida by blending in with legitimate traffic that transit these areas. Larger "go fast" and sport fishing vessels transport marijuana from Jamaica through The Bahamas and into Florida in the same manner as cocaine. Traffickers also skirt along the loosely monitored Cuban coast line, then head for Florida through Bahamian waters.

Haitian and Haitian-Bahamian drug trafficking organizations--increasingly networked between Haiti and the significant Haitian diaspora in The Bahamas--continue to play a major role in the movement of cocaine. Investigations of these organizations are hindered by a lack of trusted and appropriately assigned Creole speakers within the RBPF Drug Enforcement Unit (DEU). Investigations reveal that Bahamian drug trafficking organizations are using the Turks and Caicos Islands as a transshipment point. The Government of the United Kingdom suspended the

Turks and Caicos Islands' right to self-government in 2009 amid allegations of mismanagement of Crown land and other irregularities. Self-government was restored in late 2012.

Aviation routes are an increasing source of concern. Small, privately owned and operated planes ferry loads of cocaine from and between source countries South America into Haiti and the Dominican Republic. Information acquired by Bahamian law enforcement suggests that drug trafficking organizations have utilized airdrops and remote airfields to deliver large cocaine shipments to the Turks and Caicos Islands and to The Bahamas from Venezuela and Colombia. There has also been a rise in the interdiction of cocaine at the international airport by Customs and Border Protection agents working at the pre-clearance facility, with at least one case allegedly involving staff employed by the Nassau Airport Authority. Bahamian officials expect a significant increase in tourist traffic with the opening of new air routes from Latin America and the anticipated completion of the Bahamas megaresort in 2014.

Bahamian law enforcement agencies leverage their small fleet of vessels by prepositioning them in strategic locations on the archipelago. These vessels are located in New Providence, Grand Bahama, Exuma, Bimini, Andros, and other islands depending on operational needs. Effective use of this limited number of vessels over a vast area of coverage depends on effective use of quality intelligence and aviation support during critical interdiction missions. Additionally, the RBDF operates a fleet of 14 vessels and various small boats out of New Providence, Grand Bahama Island, Bimini, Abaco, and Great Inagua, which conduct regular patrols.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Bahamian government determined in its most recent anti-drug strategy that cocaine dependency in The Bahamas is predominantly limited to those who became addicts during the 1980s and 90s. The report further reveals that experimentation and use of marijuana is increasing among school-aged groups. Intake surveys and testing found that many inmates at Her Majesty's Prison at Fox Hill (Nassau), the only prison in The Bahamas, tested positive for drugs and that some inmates maintain access to drugs during their incarceration.

The government's strategy employs a multi-tiered approach to reducing demand. Its main institutional bodies are the National Anti Drug Secretariat, the Bahamas National Drug Council, and the Sandilands Rehabilitation Center. In its approach, the Bahamian government seeks to strengthen its connections with civil society organizations that work with youth, addicts, and ex-convicts.

4. Corruption

The Bahamian government does not encourage nor facilitate illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances. It also does not support the laundering of proceeds from illegal drug transactions. No senior official in the Government of the Commonwealth of The Bahamas was investigated for drug-related offenses in 2012.

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

The Bahamas is one of the most active and strategic contributors in the Caribbean Basic Security Initiative, both at the Ministry of National Security and senior police levels. Such contributions have made the Bahamian government a respected and welcomed voice in these regional fora.

U.S. assistance funds supported The Bahamas' maritime capabilities. In 2012, the United States funded new marine engines for the 40-ft Avenger interceptor. First donated by the United States in 2001, the Avenger will be the most capable law enforcement interceptor in the northern Bahamas until the new 41-foot SAFE boat interceptor arrives in 2013. Though the RBPF Marine Unit has effectively refurbished and maintained its marine vessels, it has not received additional funding for new law enforcement specific vessels.

RBPF, DEU and the U.S. Coast Guard (USCG) maintain an enduring presence on Great Inagua and, in four other locations in The Bahamas, to assist with counternarcotics enforcement. USCG is nearing completion of a hurricane-resilient aviation hangar adjacent to permanent living quarters, which will be used by rotating aviation and counter drug personnel, both U.S. and Bahamian. Since Hurricane Ike destroyed the original Great Inagua aircraft hangar in 2008, USCG helicopters have temporarily operated out of the Turks and Caicos Islands, as part of its participation in OPBAT.

In order to build regional safety and security capacity, the United States provided training in maritime law enforcement, small boats operations, port security, engineering and maintenance, and professional development for the RBDF's officer and enlisted corps. The RBDF uses the USCG Officer Candidate School as one of its primary officer ascension programs.

The United States has delivered training needed by RBPF counterparts to combat criminal networks in The Bahamas. For example, members of the RBPF were trained by DEA in proper forced entry and homicide investigations techniques. The RBPF has also benefited from a study tour of the Denver Gang Taskforce and an anti-gang seminar delivered by FBI and Department of Homeland Security Immigration and Customs Enforcement personnel.

U.S. assistance funds for demand reduction have supported the Bahamas National Drug Council in its work to prevent drug abuse in the outer Family Islands, improve the ability of civil society groups to develop and implement projects, and through the donation of 500 drug test kits to the Her Majesty's Prison. U.S. Mission personnel conduct outreach activities (particularly among youth) in support of demand reduction.

D. Conclusion

The United States and The Bahamas remain strong partners and enjoy a cooperative counternarcotics relationship. Funds associated with the Caribbean Basin Security Initiative will require intensified coordination and strategic planning. Long delays in extradition requests and lack of Creole speakers in key Bahamian law enforcement units endure as challenges. Better integration of financial monitoring and investigations would improve counterdrug efforts.

Belize

A. Introduction

Belize is a major transshipment country for cocaine and precursor chemicals used in the production of synthetic drugs. Due to its position along the Central American isthmus, Belize is susceptible to the transshipment of cocaine between drug producing countries in South America and the United States, as well as chemicals bound for processing into finished drugs in Mexico. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012. Large stretches of remote, unpopulated jungles on its borders with Guatemala allow smuggling of cannabis and synthetic drugs. A relatively unpatrolled coastline including hundreds of small islands and atolls make maritime drug interdiction difficult. Belize is bordered by countries where the drug trade is controlled by organized and violent drug cartels.

Belize generally tolerates the use of cannabis. The National Drug Abuse Control Council (NDACC) reported that there was an increase in the use of marijuana in 2012 and crack cocaine remained the second most abused drug.

The Belize Coast Guard (BCG) and the Anti-Drug Unit (ADU) undertook enhanced efforts to monitor the country's coastal waters in 2012. Nevertheless, limited funds, equipment and personnel continued to hamper these organizations. Belize's overall counternarcotics efforts suffer deficiencies in intelligence gathering, analysis, and capacity of the judicial sector, in addition to corruption and inadequate political will.

B. Drug Control Accomplishment, Policies and Trends

1. Institutional Development

In 2011, Belize passed the Interception of Communications Act to allow judicially-authorized wiretaps of telephones and other forms of communication, but the Government of Belize did not develop the capacity to intercept communications to implement this law. Belize completed mandatory registration of all existing prepaid cellular phones in compliance with the Act in June, 2012.

Citizen security deteriorated countrywide in 2012. There were 145 homicides over the course of the year, surpassing Belize's all-time high of 129 in 2010. The northern district of Corozal, bordering Mexico, experienced a 120-percent increase in murders compared to 2011. Law enforcement officials reported that at least 36 percent of these murders were drug related.

The Government of Belize readily assists in the capture and repatriation of U.S. citizen fugitives. Seven fugitives were repatriated to the United States via expulsion orders in 2012. Although the United States and Belize have an extradition treaty, Belize's response to formal U.S. extradition requests is slow, in part due to limited resources in its criminal justice system. As of October, three narcotics related extradition requests lodged in 1998 remained pending.

To enhance Belize's border security, the U.S. government provided training to support the establishment of a Mobile Interdiction Team. The team includes Belizean immigration, customs, and police officers and aims to interdict narcotics and other contraband at ports of entry along Belize's roads and highways.

Belize is one of six countries (along with Costa Rica, the Dominican Republic, France, Guatemala and the United States) to ratify the Caribbean Regional Agreement on Maritime Counter Narcotics, which is in force.

The United States and Belize maintain a counterdrug bilateral agreement used to facilitate maritime operations against drug trafficking. Two Belizean law enforcement officials participated in the Multilateral Maritime Counterdrug Summit, held in Peru, which also included participants from Colombia, Ecuador, Mexico and most Central American countries. Bilateral agreements between the United States and Belize include an extradition treaty that entered into force in March 2001, and a mutual legal assistance treaty that entered into force in 2003.

2. Supply Reduction

Belize does not produce cocaine, heroin, or precursor chemicals, but is used as a transshipment point for the substances. There are indications that trafficking organizations are increasing their use of Belize as an air trafficking route. In 2012, Belizean authorities seized and destroyed 19.1 metric tons (MT) of marijuana, 156 MT of precursor chemicals, 55.4 kilograms (kg) of cocaine, 1.4 kg of crack cocaine and 4.9 kg of crystal methamphetamine. A Guatemalan national pled guilty to trafficking the 4.9 kg of methamphetamine and was sentenced to three years imprisonment and fined fifty thousand dollars. Belizean authorities also recovered an additional 59.5 kg of cocaine that was found abandoned, leading to no arrests (classified separately from seizures in Belize).

3. Drug Abuse Awareness, Demand Reduction, and Treatment

NDACC is the central coordinating authority responsible for the activities of demand reduction, supply reduction, and control measures. The Council has 21 regular employees and a 2012 budget of $175,000, a 16-percent increase over the 2011 budget. However, these funds are limited to administrative expenses and not necessarily designated for the development and implementation of programs.

Marijuana, crack cocaine, and cocaine hydrochloride are the most abused illicit drugs in Belize. NDACC reported that there was an increase in the use of marijuana in 2012 and in the number of clients approaching its office for assistance and referrals for drug treatment. Between January and June, a total of 186 people sought assistance from the Council.

Belize has three operational drug rehabilitation centers. The primary facility operates at the Belize Central Prison and is run by the non-governmental Kolbe Foundation. The program, which started in 2006, is a 120-day residential program open to inmates and members of the public who are willing to overcome addiction. Between January and September 2012, the

program produced 141 graduates. As of October, 80 people were engaged in the program and scheduled to complete it in December. The second rehabilitation center is run by a religious organization and has approximately 35 participants at any given time. Belize also has an upscale rehabilitation center that targets overseas clients.

NDACC has 11 drug educators countrywide who conduct demand-reduction education programs in schools, as well as community empowerment and public education campaigns.

The Government of Belize appointed an eight-member committee to explore the possibility of decriminalizing marijuana in small quantities. Any amount of marijuana under 60 grams is considered possession and carries a fine of up to $25,000 and/or up to three years imprisonment. One proposal made to the committee discussed instituting small penalties or no penalties for possession of less than 10 grams of marijuana. The committee will evaluate proposals from the public and make recommendations in 2013.

4. Corruption

The Government of Belize does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution and in 2012the Belizean government was not involved in laundering proceeds of illicit drug sales. A lack of resources, weak law enforcement institutions, an ineffective judicial system, and inadequate compensation for civil service employees and public safety officials combined to provide a facilitating environment for illegal activities. Belize lacks laws that specifically address narcotics-related corruption. Its Prevention of Corruption Act – passed in 2000 – includes measures to combat the misuse of public funds while holding public office and also provides a code of conduct for civil servants. Belizean authorities did not charge anyone under this Act during 2012.

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

Through the provision of equipment, training, and technical assistance, including through the Central America Regional Security Initiative, the United States bolstered Belize's efforts to disrupt and decrease the flow of narcotics, weapons, and illicit proceeds generated by sales of illegal drugs, and to confront gangs and criminal organizations in 2012. U.S. support included infrastructure upgrades, training, and the provision of equipment for the Belize Defense Force. The United States provided funding to implement an interconnected Personal Identification and Registration System at all immigration offices, land, sea and air border posts in Belize. The project will install a computerized information management system designed to detect and register all entries and exits of persons, and strengthen the capacity of immigration services to more efficiently manage the country's borders.

The Belize Coast Guard continued to receive U.S. assistance in 2012, including maritime law enforcement training and professional development of officers and enlisted corps, but was unable to maximize the utilization of donated equipment due to insufficient fuel and other operational resources.

D. Conclusion

Drug trafficking and drug-related violence continue to rise in 2012, threatening the security of Belizean citizens and the integrity of the country's borders. These threats will continue if more serious measures are not taken by Belize's government. The United States encourages Belize to continue to strengthen its public security and law enforcement institutions through more effective anti-corruption legislation, comprehensive background checks and vetting for new and existing personnel, better training, and continuing education programs. Belize should strengthen its border security through better management and leadership, increased training and coordination amongst the border management staff. Belize's criminal justice system requires improved efficiency, and better resources and training are required for prosecutors in the Director of Public Prosecution's office and police department. The United States will maintain its strong partnership with Belize, and assist its fight against drug trafficking organizations and other criminal groups.

Bolivia

A. Introduction

Bolivia is one of the three largest cocaine producing countries in the world and a significant transit zone for Peruvian cocaine. Significant amounts of Peruvian-origin cocaine have been intercepted in Bolivia in 2012, and two Bolivian-flagged aircraft loaded with Peruvian cocaine were seized in Peru in September. Most Bolivian cocaine flows to other Latin American countries, especially Brazil, for domestic consumption or onward transit to West Africa and Europe. The United States estimates that approximately one percent of cocaine seized and tested in the United States originates in Bolivia.

In September 2012, the President of the United States determined for the fifth consecutive year that Bolivia “failed demonstrably” to make sufficient efforts to meet its obligations under international counternarcotics agreements. This Presidential determination was based, in part, on evidence that Bolivia has not been able to stop the increase in cocaine production resulting from the use of more efficient technology in the production process, as well as insufficient law enforcement efforts to disrupt and dismantle drug trafficking organizations. The United States estimates that in 2011, cocaine production potential in Bolivia increased 29 percent from 2010 to 265 metric tons (MT).

The National Drug Control Council, chaired by the Ministry of Government, is the central counternarcotics policymaking body in Bolivia. The Vice Ministry for Social Defense (VMSD) is the body with the mandate to combat drug trafficking, regulate coca production, and advance coca eradication and drug prevention and rehabilitation. The Special Counternarcotics Police Force (FELCN) is comprised of approximately 1,600 personnel and reports to the VMSD. The Joint Eradication Task Force conducts manual coca eradication with approximately 2,300 personnel.

Bolivian President Evo Morales, who remains the president of the coca growers’ federation in the Chapare region, one of two major coca growing areas, maintains a "social control" policy for illicit coca eradication in which the government negotiates with coca growers to obtain their consent for eradication. Bolivia continues coca eradication efforts, reporting the eradication of over 10,000 hectares (ha) for the second consecutive year, in spite of resistance from some coca growers. However, illegal cultivation for drug production remains high, and the Bolivian government has inadequate controls to prevent the diversion of "legal" coca production to illicit cocaine production.

Bolivia’s ability to identify, investigate and dismantle drug trafficking organizations remains diminished following the 2008 expulsion of the U.S. Drug Enforcement Administration, which provided assistance to Bolivian counterparts. Colombian, Brazilian, Peruvian and other foreign nationals engage in financing, producing and exporting drugs and laundering drug proceeds within Bolivia. Bolivia denies foreign drug cartels operate in Bolivia, but acknowledges that cartel emissaries are present.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

For several years, Morales administration officials have called for new legislation to increase the ceiling for licit coca cultivation from 12,000 to 20,000 ha. Movement on such legislation was delayed pending release of a study funded by the European Union (EU) to estimate the number of hectares required for traditional coca consumption. The study, originally requested in 2005, has remained with the Bolivian government for over a year for review and revision, despite international requests that it be published. Bolivia agreed to complete a separate study of cocaine yields by 2014 with UNODC support.

The Bolivian government, through the Executing Unit for the Fight against Narcotics, budgeted $25.5 million in 2012 for counternarcotics operations. Since 2011, the United States has worked with the Bolivian government to take over operational and financial responsibilities for several U.S.-supported programs; this process continued in 2012.

FELCN's operations continue to focus on money laundering cases and leads from law enforcement counterparts from neighboring countries. In 2012, Bolivia continued to seek counternarcotics support from other countries, especially Brazil and Argentina. In particular, Bolivia and Brazil continued to work together on border security and other counternarcotics efforts, including the donation of four Brazilian helicopters to Bolivia.

The United States, Bolivia, and Brazil began a trilateral pilot project in January 2012 that will enable Bolivia to eradicate illegal coca more efficiently, detect the re-planting of eradicated coca, and improve the credibility of Bolivia's eradication results through satellite imagery. The United States has provided computer and digital measuring equipment as well as training to Bolivian personnel.

Bolivia's efforts in 2011 to amend the UN 1961 Single Convention on Narcotic Drugs led it to withdraw from the Convention, effective January 1, 2012. In December 2011, Bolivia requested to re-accede to the Convention with a proposed reservation for coca chewing. The United States formally objected to the Bolivian reservation in July 2012, noting that it could lead to a greater supply of available coca, thereby fueling narcotics trafficking and related criminal activity.

The United States and Bolivia are parties to an extradition treaty that entered into force in 1995 that permits the extradition of nationals for the most serious offenses, including drug trafficking. In practice, however, the treaty is not fully utilized. While Bolivia does not have a mutual legal assistance treaty with the United States, various multilateral conventions to which both countries are signatories are used for requesting mutual legal assistance.

2. Supply Reduction

The 2011 U.S. government coca cultivation estimate for Bolivia of 30,000 ha was 13 percent lower than the 2010 estimate of 34,500 ha. The UN Office on Drugs and Crime (UNODC)

estimated 27,200 ha of cultivation for 2011, a 12percent decrease from 2010. Bolivia has stated its intention to reduce net coca cultivation to 20,000 ha by 2015.

Under an agreement with the Government of Bolivia, Chapare coca grower federations began enforcing a 2003 "coca zero" policy that legalized one "cato" (40 x 40 m) of cultivation per member of the federations. Because many farmers were growing two or more catos, the federations have implemented a "self-control" policy whereby growers voluntarily eradicate coca in excess of one cato. However, since 2003 only 261 farmers have lost the right to cultivate coca for one year and 71 farmers have lost the right to grow coca for life as punishment for violating the one-cato limit by planting additional catos of coca.

During 2012, the U.S.-supported Integrated Alternative Development (IAD) Program continued to help diversify the economies of Bolivia's coca growing regions, reduce communities' dependency on coca, and complement the Bolivian government's coca eradication efforts. In its last year of implementation, the IAD Program completed more than 70 projects, generated nearly 700 new jobs and $5.2 million in sales of U.S.-supported products for the direct benefit of approximately 6,800 families.

The FELCN achieved numerous high-profile successes in 2012, including the destruction of multiple cocaine labs in the Carrasco National Park and the Yapacani region. According to the Bolivian government, FELCN seized 32.1 MT of cocaine base and 4.2 MT of cocaine hydrochloride (HCL), representing a 13 percent increase in the amount of cocaine base seized and a 26 percent decrease in the amount of HCL seized over 2011. FELCN also destroyed 37 cocaine HCL processing labs and 4,433 rustic cocaine labs, a 48 percent increase and 16 percent decrease from the same period in 2011, respectively.

The FELCN arrested and charged 4,317 individuals on narcotics-related offenses in 2012, a 10 percent increase from 2011 in which 3,930 individuals were charged with narcotics offenses. Prosecutors reported 465 drug convictions in 2012, although some of these convictions may have stemmed from arrests made in previous years.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The last Bolivian-sponsored domestic drug use study was completed in 2008. A U.S.-sponsored study entitled "Drug Use in Bolivia 1992-2010" showed a steady increase in drug use throughout the country. A 2011 study on student drug use also show increased consumption of marijuana, cocaine, and cocaine base, but no studies were performed in 2012.

The United States sponsored a UNODC-implemented school-based drug abuse prevention program targeting 100,000 students. The United States also funded four drug-abuse prevention and rehabilitation projects as well as a drug education and rehabilitation program with a Bolivian youth soccer academy. Internet resources were developed for drug demand reduction and treatment in two cities.

There are approximately 80 drug treatment and rehabilitation centers in Bolivia, the majority of which are private initiatives funded primarily by religious organizations from the United States

and Europe. The national government does not allocate funds for these types of programs. No impact evaluations have been performed in this area. Forty percent of drug treatment and rehabilitation centers in Bolivia provide outpatient services based on counseling and education.

4. Corruption

The Ministry of Anticorruption and Transparency and the Prosecutor's Office are responsible for combating corruption. Corruption accusations were frequent and often unaddressed by an already strained judiciary. As a matter of policy, Bolivia does not encourage or facilitate illegal activity associated with drug trafficking. There were arrests and investigations of corrupt officials in 2012, but most were not related to corruption associated with drug trafficking.

In 2012 all FELCN members took the polygraph test and those who did not pass were transferred out of the program.

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

Since 2011, the United States has worked to transfer operational and financial responsibilities for U.S.-supported counternarcotics programs to the Bolivian government, a process that remained underway in 2012. U.S. assistance seeks to augment Bolivia's capacity to generate and disseminate law enforcement information by improving border controls and checks on the internal movement of goods and persons. The United States also supports initiatives to promote greater cooperation between Bolivian law enforcement agencies and their international counterparts to advance investigations of drug trafficking and other transnational crimes, and participate in international law enforcement information-sharing networks. U.S. law enforcement capacity-building programs also promote the use of enhanced investigative tools and techniques for the arrest and prosecution of members of criminal organizations. The United States has worked with the Bolivian government to increase the effectiveness of Bolivia's counternarcotics laws to combat money laundering, precursor chemicals, and asset forfeiture, and continues to encourage the Bolivian police to improve internal anti-corruption efforts.

The United States also provides Bolivian law enforcement, prosecutors and judges with training. In 2012, the United States supported the training of 1,792 police officers, prosecutors and other officials through 60 training courses, seminars and conferences, including sending Bolivian police officers and officials for training in Peru, Mexico, Indonesia, El Salvador and the United States. The number of officers participating in this training decreased significantly from 2011, partially because of a decision by the police not to participate in U.S. training programs for part of the year.

D. Conclusion

Although Bolivia's eradication program is surpassing its stated targets, eradication and interdiction results were not sufficient to reverse increased potential cocaine production levels caused by new efficiencies in the narcotics production process, combined with the potency of Bolivian coca. Bolivia's policy to consider 20,000 hectares of coca cultivation as licit and its withdrawal from the 1961 UN Single Convention on Narcotic Drugs undermined Bolivia's

efforts to meet its international drug control obligations. The release of the results of an EU study confirming the true number of hectares needed for licit consumption has been significantly delayed, raising suspicion that the results will be much lower than current production levels, and probably lower than the 20,000 hectares Bolivia considers licit.

Bolivian public, media, and experts perceive that the challenge to Bolivian institutions from corruption and criminality associated with drug trafficking increased during 2012.

Bolivia should strengthen efforts to tighten controls over the coca leaf trade in order to stem diversion to cocaine processing in line with international commitments, achieve further net reductions in coca cultivation and enhance law enforcement efforts to investigate and prosecute drug traffickers. Enacting new asset forfeiture legislation and other counternarcotics measures would provide Bolivian law enforcement agencies with necessary tools. Those nations most directly affected by Bolivian cocaine exports are encouraged to increase their support to Bolivia as the United States transitions from operational support to training and law enforcement capacity building.

Bosnia and Herzegovina

Bosnia and Herzegovina ("Bosnia") is not a significant producer, consumer, or producer of illicit drugs or precursor chemicals. Bosnia is considered primarily a transit country for drug trafficking due to its location along traditional Balkan smuggling routes and between drug production and processing centers in Southwest Asia and markets in Western Europe. Bosnia achieved modest improvements in reducing the flow of illicit narcotics through its territory in 2012, but the capacity of law enforcement and security institutions at all levels of government requires further enhancement.

Weak state institutions, fragmented law enforcement structures, lack of capacity, and imperfect cooperation and information sharing among responsible authorities at the various levels of government contribute to Bosnia's vulnerability to narcotics trafficking. The political will to improve narcotics control performance exists in many quarters of the Bosnian government. Faced with competing demands, the government has prioritized its limited law enforcement resources on problems such as investigating and prosecuting war crimes, counterterrorism, and trafficking in persons, and has not developed comprehensive counternarcotics intelligence and enforcement capabilities.

Bosnia has a national counternarcotics coordination body and a commission for the destruction of illegal narcotics, but resource constraints have hampered their work. The United States and the European Union provide technical assistance to help improve Bosnia's ability to combat narcotics trafficking and to achieve compliance with relevant international conventions. Bosnian law enforcement agencies have increased cooperation with regional and international law enforcement counterparts, and have, often in cooperation with neighboring countries, succeeded in making narcotic-related arrests and seizures. The Border Police, the Indirect Taxation Authority (the Bosnian customs service), and the State Investigative and Protection Agency (SIPA) have undergone improvements, but continued underfunding and insufficient staffing and equipment remain challenges. SIPA continues to coordinate investigations and share information with U.S. law enforcement authorities.

Indigenous and regional organized crime groups are engaged in distributing narcotics within the country. There is evidence of links between Bosnian criminal elements and organized crime networks originating in Russia, Albania, Serbia, Kosovo, Montenegro, Croatia, Austria, Germany, Italy, and increasingly South America. There is no credible evidence at this time linking senior officials to the illicit narcotics trade, although anecdotal evidence exists of corruption among lower-level officials.

The United States will continue working with Bosnian authorities to strengthen Bosnian law enforcement and judicial institutions, promote the rule of law, and combat organized crime, terrorism, and corruption.

Brazil

A. Introduction

Brazil borders all of South America's cocaine-producing countries and is both a major transit and destination country for cocaine and a destination country for Paraguayan marijuana. The country's borders with Colombia, Peru, Bolivia, and Paraguay measure 5,656 miles – over three times the length of the U.S. border with Mexico. The Brazilian drug trade is controlled by large, violent and well-organized drug trafficking organizations operating throughout the country.

Much of the cocaine transiting Brazil is destined for Europe via West Africa with some shipments destined for the United States. While the Government of Brazil understands the importance of, and is committed to, combating drug trafficking and transnational crime, it faces significant challenges to stemming the flow of illegal drugs across its borders.

Brazil suffers from a substantial and growing domestic crack cocaine consumption problem that has reached epidemic proportions. Brazil is the world's second largest consumer of cocaine hydrochloride and potentially the largest consumer of crack cocaine. As such, Brazil places significant emphasis on drug abuse awareness, demand reduction, and treatment policies.

B. Drug Control Accomplishments, Policies and Trends

1. Institutional Development.

The Government of Brazil's lead agency for counternarcotics is the Federal Police (DPF). The DPF reports to the Ministry of Justice and maintained a force of slightly fewer than 500 personnel working on counternarcotics issues in 2012. The DPF's limited staffing underscores the importance of inter-agency cooperation, which has increased and become more successful since the launch of the Strategic Border Plan in 2011.

In 2012, pursuant to the Strategic Border Plan, the DPF, military, National Secretariat of Public Security's National Force, Secretariat of Federal Revenue, Federal Highway Police, and state police forces worked together to strengthen security and enforce laws (against drugs, arms, and human trafficking; financial crimes; environmental crimes; and homicide) along Brazil's 9,600-mile land border.

Brazil has signed bilateral narcotics control agreements with the United States and every country in South America. The agreements provide the framework for capacity improvement, joint investigations, enforcement operations, and sharing law enforcement information. Brazil maintains formal partnerships with the UN Office on Drugs and Crime (UNODC), the Organization of American States' Inter-American Drug Abuse Commission, and INTERPOL, and is a signatory to the main UN and regional drug, corruption, and transnational crime conventions. Brazil has also signed extradition and mutual legal assistance treaties with the United States.

2. Supply Reduction

Brazil continues to be a major channel to world markets of cocaine. Colombian and Peruvian cocaine is smuggled into Brazil via the Amazon River system which provides the primary conduit for cocaine laden fishing, cargo, and passenger vessels bound for the ports of Manaus and Belem. Once there, large multi-ton shipments are containerized for transshipment to Africa and Europe on commercial freighters. Bolivian cocaine enters Brazil across a 2,127-mile land border on commercial trucks using cover loads, privately owned vehicles, and commercial buses as well as via small aircraft. Cocaine loads are transported within Brazil in cargo or passenger vehicles while air couriers transport shipments via luggage, body-carry, and ingestion.

Brazil launched a new cross-border cooperation strategy in 2012 with the government of Peru under which DPF agents worked with Peruvian police to eradicate 900 hectares (ha) of coca on Peruvian soil. In addition, the Paraguayan and Brazilian bilateral agreement provides for joint marijuana eradication operations in Paraguay which resulted in the eradication of 600 ha of marijuana in 2012. An estimated 80 percent of marijuana production in Paraguay is destined for the Brazilian market. The DPF conducted quarterly marijuana eradication campaigns in the Northeastern states of Bahia and Pernambuco, where the majority of marijuana is grown in Brazil.

In 2012, the DPF reported seizing 19.9 metric tons (MT) of cocaine; 111.2 MT of marijuana; 446,178 dosage units (DUs) of ecstasy; and 65,033 DUs of lysergic acid diethylamide (LSD). In addition, Brazilian authorities eradicated 184.9MT of marijuana, conducted 3,999 arrests and/or indictments on drug related charges, and seized $34.9 million in assets.

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

In 2012, the Secretariat of National Drug Policy concluded a landmark nationwide study of drug and alcohol use pursuant to the Integrated Plan to Confront Crack and Other Drugs launched in 2010. The results of the study are expected to be released in early 2013, and press reports indicate it may confirm Brazil's place as the world's second-largest market for cocaine hydrochloride and potentially mark Brazil as the world's largest consumer of crack cocaine.

Brazilian state and federal governments continued to promote drug abuse awareness and demand reduction through various media and outreach campaigns including the PROERD program, Brazil's version of Drug Abuse Resistance Education, which is implemented in schools by state police forces. The federal government's signature campaign "Crack, It's Possible to Win" continued in 2012 with a focus on demand reduction courses that trained 70,000 teachers; 15,000 prosecutors and judges; 15,000 health and social workers; 40,000 community leaders; 10,000 religious leaders, and 5,000 treatment center representatives. Despite the emphasis on drug abuse awareness, demand reduction, and treatment, Brazil's programs are not yet commensurate with the size of the addict population.

4. Corruption

As a matter of government policy, Brazil does not encourage or facilitate illegal activity associated with drug trafficking and there was no evidence to suggest that senior government officials are engaged in such activity. Narcotics related corruption did not appear to be a major issue in Brazil in 2012.

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

A memorandum of understanding (MOU) signed in 2008 between the United States and Brazil on Narcotics Control and Law Enforcement established projects designed to enhance the capacity of Brazilian federal and state agencies to address illicit narcotics trafficking and chemical diversion, organized crime and related criminal enterprises, and drug abuse awareness and demand reduction.

Pursuant to the MOU, in 2012 the United States provided support to the DPF canine program, airport interdiction program, and the DPF Special Investigation Units (SIUs), which produce the tactical intelligence that drives enforcement actions. The SIUs, in coordination with the U.S. Drug Enforcement Administration, are routinely involved in conducting complex criminal investigations. The United States also provided maritime law enforcement training to Brazilian military and civilian agencies in 2012. The United States also partnered with Brazil's National Secretariat for Drug Policy to support non-governmental organizations working with addicts and the families of addicts.

D. Conclusion

Brazil's commitment to inter-agency cooperation to combat drug trafficking is significantly progressing, as is the level of political will behind Brazil's extensive demand reduction activities. However, the physical size of Brazil and the complex trans-border river system in the Amazon basin, coupled with a growing demand for cocaine, has placed significant resource challenges on the government. Brazil should continue to increase its focus on building Brazilian capacity to perform interdiction and eradication operations along its borders and with third countries in order to have a direct impact on stemming the flow of illegal narcotics into and through Brazil.

Bulgaria

Bulgaria serves as a major transshipment point for heroin from Southwest Asia smuggled along the Balkan Route to Europe. Organized crime groups in Bulgaria are heavily involved in drug trafficking. Heroin and synthetic drugs are the primary drugs transported through Bulgaria, principally via overland methods of transportation. Small amounts are smuggled by air. In recent years, there has been in a rise in cocaine smuggling from South America to Bulgaria. Cannabis cultivation, mainly for local consumption, has recently increased. Several small laboratories for synthetic drugs were uncovered in 2012.

Counternarcotics enforcement is primarily the responsibility of the General Directorate for Combating Organized Crime (GDBOP) within the Ministry of Interior (MOI), and the Customs Agency under the Ministry of Finance. The MOI actively combats narcotics, with GDBOP leading counternarcotics investigations and operations. GDBOP has led or facilitated several marquee seizures of cocaine, heroin, and other narcotics, including a joint operation with Spanish authorities in 2012 that netted three metric tons (MT) of cocaine from a Bulgarian-crewed ship off the coast of Spain.

The Customs Agency has authority to investigate drug trafficking at Bulgaria's borders and maintains an extensive database of information. Data sharing between Customs and GDBOP is improving. In 2012 the Customs Agency made two large seizures of hashish (4.2 MT) and precursor chemicals (600 kilograms). However, a de-facto policy of prioritizing the search for taxable contraband (i.e., cigarettes) over narcotics continues to result in low seizures for heroin.

According to the Bulgarian Institute for Addictions, Bulgaria has approximately 300,000 drug addicts, a number that has not fluctuated much in recent years. Marijuana is the most widely used narcotic, followed by heroin and synthetic drugs.

Bulgarian officials have vowed to increase their efforts to combat drug smuggling by Bulgarian nationals. On April 2, the U.S. Drug Enforcement Agency (DEA) opened a Country Office in the U.S. Embassy in Sofia. The opening was the culmination of many years of robust law enforcement cooperation between the United States and Bulgaria, a positive trend that should continue.

Burma

A. Introduction

Burma continues to be a major source of opium and exporter of heroin, second only to Afghanistan. However, there remains a significant gap between Burma and Afghanistan related to acreage and volume of poppy cultivation for opium production, with Burma's levels considerably lower than during the 1980s and 1990s, when production was at its peak. Since 1996, Burma has also become a regional source for amphetamine-type stimulants (ATS). Production sites for heroin and ATS are often co-located and are primarily situated along Burma's eastern borders with Thailand and Laos in areas controlled by ethnic armed groups beyond Government of Burma's immediate jurisdiction. The 2012 Joint Burma-UN Office of Drugs and Crime (UNODC) illicit crop survey reported that for the sixth straight year, opium poppy cultivation increased. UNODC estimated that the total area under opium poppy cultivation was 51,000 hectares (ha), an increase of 17 percent compared to 2011 (43,600 ha). In addition, UNODC estimated that during 2012 the potential production of opium increased by 13 percent to 690 metric tons (MT). Methamphetamine production in Burma is also a major concern. While there is no reliable methodology to estimate methamphetamine production, information derived from local and regional seizures indicates that methamphetamine production and trafficking is increasing. The last U.S. government joint opium yield survey occurred in 2004; however, prior to the visit of the Secretary of State in December 2011, the Government of Burma agreed to restart the survey, scheduled for February 2013.

Though police officers from the Central Committee for Drug Abuse Control (CCDAC) continue to make efforts to enforce Burma's narcotics laws, they lack training and funding. In addition, Burma faces the special challenge of having vast swaths of its territory, particularly in drug-producing areas, controlled by ethnic armies, border guard forces, or people's militias. The Burmese government considers drug enforcement secondary to national stability and is willing to allow narcotics trafficking in border areas in exchange for cooperation from ethnic armed groups and militias.

Burma is not currently a significant source or transit country for drugs entering the United States. However, Burma remains a major regional source of opium, heroin, and methamphetamine, particularly for neighboring Thailand and China. The overall level of drug abuse is low in Burma compared with neighboring countries, in part because most Burmese are too poor to be able to support a drug habit.

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, chaired by the Minister of Home Affairs, directs all drug-enforcement efforts in Burma. This includes

the drug enforcement efforts of 26 police anti-narcotics task forces located in major cities and along key trafficking routes within Burma. Opium and methamphetamine production has been on the rise since 2006. In October 2012, the CCDAC admitted that Burma will not meet its own goal be narcotics-free by 2014 and extended its deadline to 2019.

Burma cooperated with its neighbors on drug control with varying levels of interaction. This ranged from regular positive cooperation with China and Thailand, to infrequent contact with India and Bangladesh.

Burma did not begin any major policy or operational initiatives during 2012; the applicable legislation remained unchanged and enforcement efforts followed longstanding patterns.

2. Supply Reduction

Aggressive domestic efforts over the past 15 years, accompanied by some international assistance, had yielded a generally downward trend in Burma's opium cultivation from a 1996 estimated apex of 163,000 ha. However, since 2006, Burmese farmers have increased opium poppy cultivation each year. The 2012 joint UNODC-Government of Burma survey estimated that 51,000 ha were devoted to opium cultivation. This represents a 17-percent increase from 2011 levels (43,600 ha). UNODC estimated that during 2012, the potential production of opium increased 13 percent from 2011 levels to 690 MT due to increased hectares under cultivation.

According to the Government of Burma's statistics, law enforcement officers destroyed 23,584 ha of opium poppies in 2012 compared to 7,058 ha in 2011 and 8,268 ha in 2010. These government statistics cannot be verified. Furthermore, U.S. and UNODC reporting often reflects that eradication occurs after the poppies have been harvested.

The Burmese government again failed to provide sufficient suitable alternative development opportunities targeted at opium cultivators, though in December 2011 the CCDAC outlined an alternative development plan for the first time. Burma's alternative development plan will cost approximately $500 million over three years. However, despite Burmese appeals for aid from the international community, no international donors pledged to support the plan during 2012.

While there is no reliable method to determine production levels, information derived from seizure data indicates that there has been a sharp increase in the production, consumption, and export of ATS since 1996. A 2011 UNODC ATS survey reports that Southeast Asia has experienced significant increases in the seizures of methamphetamine pills originating from Burma. UNODC reports that ATS is manufactured in Shan State and trafficked to Thailand, China, and Laos.

Though under-resourced and hampered by political constraints, the CCDAC continued drug interdiction efforts during 2012. From January through September 2012, Burmese police seized 15.97 million ATS tablets (1.6 MT) and 100 kilograms (kg) of crystal methamphetamine. During the same period, Burmese authorities seized over 1,350 kg of high-quality opium, approximately 21 kg of low-quality opium, and over 113 kg of opium oil. Heroin seizures totaled 148 kg.

During the reporting period, Burmese law enforcement made two notable seizures. On January 12, CCDAC Anti-Narcotics Task Force officers seized 98,200 tablets of methamphetamine in Rangoon, Burma. Follow-up investigations assisted by U.S. Embassy Rangoon resulted in the seizure of an additional 1,709,300 tablets (170.94 kg) of methamphetamine. The seizure totaled 1,807,500 tablets of methamphetamine and was the largest recorded seizure of methamphetamine in Rangoon. On February 13, CCDAC Anti-Narcotics Task Force officers seized 8,726,400 tablets of methamphetamine (873 kg) from a storage location in Tachilek, Shan State, Burma. This was the largest seizure of methamphetamine made by Burmese authorities since August 2009.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The overall level of drug abuse is low in Burma compared with neighboring countries, in part because most Burmese are too poor to be able to support a drug habit. Traditionally, farmers use opium as a painkiller and antidepressant because they lack access to other medicine or adequate healthcare. There has been a shift in Burma away from opium smoking toward injecting heroin, which has contributed to Burma having one of the highest rates in the world of HIV infection attributable to intravenous drug use. ATS is also increasingly injected and is an additional cause for concern.

The Government of Burma maintains that there are only about 65,000 registered addicts in Burma; this number cannot be confirmed. Surveys conducted by UNODC, as well as non governmental organizations (NGOs), suggest that the addict population could be as high as 300,000. NGOs and community leaders report increasing use of heroin and synthetic drugs, particularly among disaffected youth in urban areas and by workers in mining communities in ethnic minority regions.

Burmese demand reduction programs are in part directed and in part voluntary. Addicts are required to register with the government and could be imprisoned for three to five years if they fail to register and accept treatment. Demand reduction programs and facilities are limited. In 2012, there were six major drug treatment centers under the Ministry of Health, 49 other smaller detoxification centers, and eight rehabilitation centers.

4. Corruption

Burma has no laws specifically targeting corruption, and the country has signed but not ratified the UN Corruption Convention. Many inside Burma assume some senior government officials benefit financially from narcotics trafficking, but these assumptions have never been confirmed through arrests, convictions, or other public revelations. Credible reports from NGOs and media claim that mid-level military officers and government officials were engaged in drug-related corruption; however, no military officer above the rank of colonel has ever been charged with drug-related corruption. The Government of Burma does 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

In 1988 the United States suspended direct counternarcotics assistance to Burma. However, the United States maintained limited engagement with the Burmese government through the U.S. Drug Enforcement Administration (DEA) attaché office in the U.S. Embassy Rangoon. Through this mechanism, DEA continues to share drug-related intelligence with the Government of Burma and conducts joint drug-enforcement investigations with Burmese counternarcotics authorities. In 2010, 2011, and 2012, 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 Government of Burma.

While in the past U.S. policies have limited direct assistance to the Burmese government, in September 2012 the President signed a national interest waiver which allows for the possibility of providing such direct assistance in the future. The last U.S. government joint opium yield survey occurred in 2004, though Burma and the U.S. agreed to restart this survey before the Secretary's visit in December 2011. Planning is currently underway for the survey to begin in February 2013. In addition, the U.S. is exploring opportunities to include Burmese counternarcotics police in International Law Enforcement Academy training programs in Bangkok in 2013.

D. Conclusion

In 2012, Burma continued the series of positive political reforms and reengagement with the United States that began in 2011 with the establishment of a civilian led government. For the first time since 1990, as a result of restoring full diplomatic relations, the United States has an Ambassador in Rangoon. However, despite the momentous political changes over the last year, Burma's economic situation has not changed dramatically, and the country remains the poorest in Southeast Asia. While economic development is necessary to provide an alternative to drug production, such development, particularly in ethnic areas, has not materialized. The economic reality, coupled with the Government of Burma's own lack of resources, significantly reduces the efficacy of Burma's counternarcotics efforts. Politics, as well as economics, drives opium production in Burma, as much of the territory in Burma remains outside of government control. While the Burmese government has signed cease fire agreements with 10 of 11 ethnic armies, the parties have failed to reach a political solution; the brokered peace remains fragile, and some of the ethnic groups continue to be engaged in narcotics production and trafficking to support themselves. As a result of these factors, opium crop production has increased for the sixth year in a row. While difficult to quantify, most experts believe that ATS production has increased as well.

Burmese counternarcotics officials remain open to resuming counternarcotics cooperation with the United States, and the United States is open to collaborating on specific projects with the Burmese. While such joint activities may begin on a modest scale, over time such cooperation

has the potential to become significant. Any U.S. assistance must be matched with efforts by the Government of Burma to reach a political solution to the conflict with its ethnic minorities, address official corruption, and dedicate more resources to their existing counternarcotics laws. Only genuine and sustained efforts on both sides will enable Burma to reverse the disappointing trend and begin to decrease narcotics production.

Cambodia

Cambodia is a source, transit, and destination country for amphetamine-type stimulants (ATS). Criminal networks, many of which are Asian and West African, also use Cambodia to illegally produce and export natural safrole oil, which can be used as a precursor for MDMA (ecstasy).

ATS are the most prevalent narcotic in Cambodia, and both ATS tablets and crystalline methamphetamine are widely available. Heroin addiction remains limited to a small number of users concentrated in Phnom Penh. Cocaine, ketamine, and opium are also available. It is a common practice among the homeless, particularly minors, to sniff glue or similar inhalant products. The availability and quality of drug treatment centers remains inadequate to cope with demand. Government rehabilitation centers lack trained professionals and resources and provide low quality care, although some international efforts are underway to improve the skills of drug counselors.

The volume of seizures increased considerably in the first nine months of 2012 compared to 2011, although the number of drug-related arrests decreased. A dual methamphetamine/MDMA laboratory in Phnom Penh was seized along with more than 3,000 liters of safrole oil allegedly smuggled from Thailand, and pseudoephedrine packaged as cold medicine from Vietnam.

Customs officials at the Phnom Penh and Siem Reap international airports intercepted four Thai and one Vietnamese women, transporting cocaine and methamphetamine through Cambodia to Thailand. Arrests also included high-profile targets. On August 24, the Cambodian National Police arrested the two-star general Deputy Chief of Staff of the Infantry Division of the Royal Cambodian Armed Forces and his bodyguard for narcotics trafficking. Police seized more than one kilogram of ecstasy, approximately 85,000 tablets of methamphetamine, and a large cache of illegal luxury wood during the arrest. Also charged is a Cambodian-Laotian couple who confessed to supplying the general with the narcotics.

The Royal Government of Cambodia conducted joint operations with the U.S. Drug Enforcement Agency and enacted an amended drug law in a joint effort with the UN Office on Drugs and Crime to strengthen penalties and eliminate procedural loopholes in the previous law. Counternarcotics authorities also cooperated closely with other regional counterparts to improve Cambodian law enforcement's capacity to disrupt and reduce international narcotics trafficking.

The United States provided maritime law enforcement training to Cambodian authorities both within Cambodia and the United States. Cambodia also took part in the U.S.-led Gulf of Thailand Initiative, an ongoing maritime law enforcement capacity building initiative involving Southeast Asian states.

Canada

A. Introduction

In 2012, the Canadian government continued its robust efforts in combating the production, distribution, and consumption of various illicit drugs. Canada is a substantial producer of ecstasy (MDMA) for domestic use and is the primary supplier of ecstasy to the United States. As part of its five-year National Anti-Drug Strategy, Canada has rolled out new initiatives specifically intended to fight the trafficking of marijuana and synthetic drugs. Canada and the United States cooperate extensively in counternarcotics efforts by sharing information and conducting joint operations.

B. Drug Control Accomplishments, Policies and Trends

1. Institutional Development

In March 2012, the Government of Canada passed the Safe Streets and Communities Act (C-10) into law, increasing the penalties for serious drug crimes. C-10 amends 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.

In October, the United States and Canada announced a bilateral shiprider agreement to combat transnational maritime criminal activity. Vancouver/Blaine and Windsor/Detroit will be home to the first two regularized locations of the integrated cross-border maritime law enforcement operations.

In September, the Royal Canadian Mounted Police (RCMP) launched the Marihuana Grow Initiative (MGI). The MGI renews the RCMP's commitment to combating marijuana production by organized crime groups.

Canada is 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

Canada is the primary foreign source of ecstasy to the United States with production occurring primarily in British Columbia, and to a lesser extent in Ontario and Quebec. Canada also supplies ecstasy to Japan, Australia, and New Zealand. Precursor chemicals for the production of ecstasy are smuggled into Canada from source countries such as China and India.

Cultivation of cannabis is extensive in Canada, mostly in the form of high-potency, indoor-grown marijuana destined for both domestic consumption and export to the United States.

Significant cultivation has been identified primarily in British Columbia, Ontario, and Quebec. Most exported Canadian marijuana is destined for the United States.

As of June 2012, the MGI centralized database listed 191 marijuana grow operations or clandestine labs dismantled by the RCMP since 2011. A clear majority of these operations were in British Columbia.

Although most cocaine destined for Canada originates in South America, the United States is the predominant transit point for cocaine smuggled into Canada. Recent smuggling patterns suggest, however, that traffickers may be increasing their efforts to ship cocaine directly to Canada via air, parcel, and maritime conveyances.

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 diazepam, clonazepam, lorazepam, methylphenidate, pentazocine, oxycodone, and steroids.

Domestic production of methamphetamine remains steady, and it continues to be exported to the United States and other countries. Methamphetamine is also used as a compound in Canadian-produced ecstasy.

No overall drug seizure statistics are available at the time of this report from the Canadian government for 2012.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to a Canadian government study, the prevalence of past-year cannabis use among Canadians (15 years and older) decreased from 14.1 percent in 2004 to 10.7 percent in 2010, the most recent year for which data is available. The prevalence of past-year cocaine or crack use decreased from 1.9 percent in 2004 to 1.2 percent in 2010 while ecstasy (0.9 percent), speed (0.4 percent), and hallucinogen (0.7 percent) use was comparable to the rates of use reported in 2004.

For Canadian youth (ages 15 to 24 years), the prevalence of marijuana use in the past year decreased from 37.0 percent (in 2004) to 25.1 percent (2010). 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 7.0 percent in 2010. The rate of drug use by Canadian youth remains much higher than that reported by adults 25 years and older: three times higher for cannabis use (25.1 percent versus 7.9 percent), and almost nine times higher for use of any drug excluding cannabis (7.9 percent versus 0.8 percent).

The rates of psychoactive pharmaceutical use and abuse in 2010 remained comparable to the rates reported in 2009: 26 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 0.3 percent reported that they used any one of these drugs to “get high” in the past year.

Canada has six drug treatment courts in operation: Toronto (commenced in 1998), Vancouver (2001), Edmonton (2005), Winnipeg (2006), Ottawa (2006), and Regina (2006).

4. Corruption

The Government of Canada has strong anti-corruption controls and holds its officials, including law enforcement personnel, to a high standard of conduct. The Canadian government pursues malfeasant civil servants and subjects them to prosecution. Government policy and law prohibit, and no senior government officials are known to engage in, encourage, or facilitate illegal activity associated with drug trafficking.

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

The United States and Canada exchange forfeited assets through a bilateral asset-sharing agreement and exchange information through a Customs Mutual Assistance Agreement. Judicial assistance and extradition matters between the United States and Canada operate under a mutual legal assistance treaty, an extradition treaty, and related law-enforcement protocols, including the long-standing memorandum of understanding between the U.S. Drug Enforcement Administration (DEA) and RCMP which established a formal mechanism by which their representatives can work directly with each other on U.S.-Canada drug-related matters.

The United States and Canada pursue joint operations against suspected drug transshipments and have an agreement in place that enables Coast Guard (USCG) personnel to embark from Canadian aircraft and ships. Additionally, Canada continues to participate in the North American Maritime Security Initiative (NAMSI) with Mexico and the United States, which serves as a forum to review cases and identify areas where the maritime forces of the three countries may be able to improve cooperation.

Canada and the United States focus their bilateral cooperation through the Cross-Border Crime Forum and other fora. Canada and the United States also cooperate through the Integrated Border Enforcement Teams (IBET) and Border Enforcement Security Task (BEST) Forces on integrated cross border law enforcement. IBETs operate in 24 locations along the border, including four locations where Canadian and American intelligence analysts are co-located. The BEST is an investigative task force model that incorporates personnel from Homeland Security Investigations (HSI), Customs and Border Protection (CBP), USCG, the Canadian Border Services Agency (CBSA), the RCMP and other key U.S. and Canadian Federal, state, provincial, local, and tribal agencies.

The DEA, CBP, HSI, USCG, and representatives from U.S. state, local, and tribal entities interact with CBSA, RCMP, and Canadian provincial authorities to ensure that our two countries meet shared objectives in combating illegal drugs.

D. Conclusion

The United States cooperates extensively with Canada on bilateral law enforcement matters and acknowledges the strong and consistent anti-drug message from Canada's federal government.

The United States will continue to engage with Canadian officials to enhance both enforcement capacity to stem flow of narcotics at the border, and regulatory frameworks to prevent access to precursor chemicals and lab equipment for criminal use.

Cape Verde

Cape Verde is not a significant producer of illicit narcotics, but its location in the Atlantic Ocean makes it an important transit hub for cocaine and other drugs moving from Latin America to Europe. The country's ratio of sea borders to land area is among the highest in the world, posing significant challenges to border control and law enforcement efforts.

Cape Verde has two separate national law enforcement agencies that fight narcotics trafficking, the Judicial Police (PJ) and the National Police (PN). The PJ is primarily responsible for major criminal investigations and the PN is responsible for public order. The National Commission for Combating Drugs is responsible for coordinating Cape Verde's counternarcotics programs. In 2008, Cape Verde adopted anti-money laundering legislation that created a Financial Information Unit (FIU). In 2012, the government passed additional legislation (Decree-Law No. 9) that extended the FIU's powers and transferred it from the Central Bank to the Ministry of Justice. The FIU continues to lack adequate human and financial resources to effectively implement all of its functions. Cape Verdean authorities acknowledge the country's role as a transit state and proactively seek international assistance to combat drug trafficking. During 2012, the PJ detained and began criminal proceedings for two individuals, from Angola and Guinea-Bissau, for drug possession and seized a total of 2.226 metric tons of cocaine.

In 2012, the Government of Cape Verde cooperated with the United States and other international partners to advance common counternarcotics objectives. U.S. support included partnering with the UN Office on Drugs and Crime to combat financial crime and reduce local demand for drugs. The United States also partnered with the Portuguese Judicial Police to send 23 PJ officers to Lisbon for counternarcotics training, and provided communications, identification, and tactical equipment to enable more effective drug investigations. In July 2012, the U.S. Navy and Coast Guard conducted an African Maritime Law Enforcement Partnership mission involving joint training, surveillance, and law enforcement operations to suppress illicit transnational maritime activity in and around Cape Verdean waters. The operation bolstered the Cape Verde Maritime Operation Center's ability to coordinate national efforts and bilateral operations with The Gambia. Finally, the United States worked with authorities to improve use of its U.S.-provided Communications Fusion Center to better interdict drug shipments.

Chile

Chile is a significant transit country for Andean cocaine destined primarily for Europe. Though Chile is not a major producer of organic or synthetic drugs, its long, porous borders with Argentina, Peru and Bolivia present special challenges to its efforts to combat drug trafficking. Restrictions on inspecting Bolivian-originated shipments (pursuant to a Bolivia-Chile treaty) especially impede efforts to interdict shipments of illegal narcotics.

The government of Chile considers counternarcotics one of its highest priorities. Chilean authorities seized 10.19 metric tons (MT) of cocaine from January through November of 2012, up 19.2 percent from the 8.55 MT seized during the same period in 2011. Authorities seized 13.01 MT of cannabis from January through November 2012, a 6.6 percent decrease compared with seizures for the same period in 2011. More than half of all cocaine seizures and almost half of all cannabis seizures occurred in Chile's three northern regions of Arica, Tarapaca and Antofagasta. The government continued its effective implementation of its Northern Border Plan, a three-year strategy initiated in October 2010 to combat narcotics trafficking along Chile's northern border and coastal regions. Among Chile's major accomplishments in 2012, the Chilean Navy counternarcotics unit and Chilean customs agency seized approximately 500 kilograms (kg) of cocaine from a containerized shipment in the port city of Arica in May. The Chilean Investigative Police seized another 636 kg of cocaine base and 222 kg of marijuana in the port city of Antofagasta in June. In both instances the shipments originated in Bolivia.

The National Service for Drug and Alcohol Prevention and Rehabilitation, a service of the Ministry of Interior, operated under a $73 million budget in 2012. Chile's national drug control commission continued offering demand reduction and drug treatment programs, including four different school-based anti-drug programs. The most recent Chilean government statistics indicate that less than one percent of the population used cocaine in 2010, and less than five percent used marijuana.

The United States partners with Chile to strengthen the capacity of Chilean institutions and to confront drug trafficking. The majority of U.S. assistance supports law enforcement training and technical capacity-building, specifically in the areas of container inspection and advanced drug interdiction techniques. Chile also coordinates assistance, dialogue and information sharing on counternarcotics with other countries in South and Central America as well as Europe.

China

A. Introduction

China is a significant destination and transit country for drugs such as heroin and cocaine, as well as a major producer of drug precursor chemicals. Domestic abuse of heroin and cocaine continues to rise, and the consumption of synthetic drugs such as methamphetamine, ketamine, and MDMA (ecstasy) among the affluent and the middle class is emerging as a public health threat. Chinese organized crime groups (known as "triads") based in southeast China control most large-scale drug and precursor chemical criminal activities in China. There are also a growing number of transnational criminal organizations from Colombia, West Africa, Iran, and Pakistan operating in China.

Heroin flowing into China from Burma, Laos, Afghanistan, Pakistan, and Tajikistan is smuggled in containerized cargo or fishing vessels to lucrative markets in other parts of Asia and Australia. Most synthetic drugs used in China originate from Southeast Asia, Latin America, and Europe. High grade methamphetamine is also known to have flowed into China from Burma and North Korea.

China is a major producer and exporter of precursor chemicals for legitimate industrial use. Many large chemical factories are located near coastal cities with modern port facilities, increasing the opportunity for criminal syndicates to divert legal shipments to illegal use. Most precursor chemicals seized in Mexico and Central America destined for illegal production of methamphetamine were legally exported from China and diverted en route.

China is also a significant producer and exporter of novel psychoactive substances, including synthetic cannabinoids (known by such names as "K2" and "spice") and synthetic cathinones (stimulants sometimes called "bath salts").

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

China's drug control strategy, implemented by the National Narcotics Control Commission (NNCC), focuses on prevention, education, crop eradication, interdiction, rehabilitation, commercial regulation, and law enforcement. The Ministry of Public Security's Narcotics Control Bureau is the primary national narcotics enforcement entity and works in conjunction with provincial public security bureau offices. The Anti-Smuggling Bureau within the General Administration of Customs is responsible for the enforcement of China's drug control laws at seaports, airports, and land border check points. China maintains bilateral counter-drug agreements with various countries and international organizations, including the UN Office on Drugs and Crime, and participates in a variety of international drug conferences and bilateral meetings, including the annual International Drug Enforcement Conference hosted by the U.S. Drug Enforcement Administration (DEA).

2. Supply Reduction

As reported in the 2012 NNCC annual report, Chinese law enforcement officials investigated 101,700 drug cases, arrested 112,406 drug suspects, and seized approximately 30 metric tons (MT) of illicit drugs in 2011 (the most recent year for which statistics are available). This represented an increase of 14 percent, 10 percent, and 25 percent, respectively, over the previous year. Additionally, 137 clandestine drug laboratories were raided and dismantled.

In 2011, Chinese law enforcement officials investigated 414 precursor chemical cases that resulted in the seizure of approximately 1,834 MT of precursor chemicals. Seventy-five of these cases involved illicit smuggling activities, and 339 cases were for diversion activities such as mislabeling or false declaration. Approximately 720 MT of precursor chemicals were suspended from export after pre-export-notification was carried out.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The NNCC has an outreach program to raise awareness about the negative health effects of drug abuse and to promote drug prevention. By the end of 2011, the number of registered drug users in China had reached 1.8 million, including 1.2 million heroin addicts, or 65 percent of all registered drug users. The number of registered synthetic drug users reached 587,000, or 32 percent of all registered drug users. Of this number, 146,000 were classified as new drug users. Centers for mandatory detoxification are managed jointly by the Ministry of Public Health and the Ministry of Justice to support HIV-positive patients in an effort to prevent the spread of HIV/AIDS. Community-based drug rehabilitation programs developed in Yunnan province to treat drug addiction and help former addicts reintegrate into society were replicated nationwide.

4. Corruption

The Ministry of Public Security takes allegations of drug-related corruption seriously, launching investigations when it deems appropriate. Despite these efforts to stem drug-related corruption, financial corruption among lower-level provincial, prefectural, county, and district government officials continues to be a concern. To date, no senior Chinese official at the central government level is known to have facilitated the illicit production or distribution of drugs. Similarly, no senior Chinese official from the central government is known to have laundered proceeds from drug-related activities.

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

The United States and China are parties to a mutual legal assistance agreement. Under the framework of the U.S.-China Joint Liaison Group on law enforcement cooperation, DEA and the Narcotics Control Bureau of China are parties to a memorandum of understanding that established the Bilateral Drug Intelligence Working Group. In September 2012, the White House Office of National Drug Control Policy (ONDCP) and NNCC renewed a Memorandum of Intent to enhance law enforcement cooperation, facilitate exchanges of information on development of drug control policies and promote education on drug treatment, rehabilitation

and prevention. In the multilateral context, China volunteered to lead the North Pacific Coast Guard Forum, a six-nation informal working group that targets maritime trafficking.

D. Conclusion

Trafficking of illegal narcotics, diversion of drug precursor chemicals, and other drug-related crime remain serious problems in China. Central government authorities continue to take steps to integrate China into regional and global counternarcotics efforts, and some progress has been seen over the years in addressing China's domestic heroin problem through enforcement and rehabilitation. In addition, China is taking steps to address the export of large quantities of precursor chemicals to Mexico and Central America used in the production of methamphetamine for U.S. consumption by drafting effective legislation. However, China's collaborative law enforcement efforts are hindered by cumbersome internal approval processes that often limit direct access by U.S. law enforcement officials to local counterparts at provincial Public Security Bureaus.

Colombia

A. Introduction

Colombia is a major source country for cocaine, as well as a source country for heroin and marijuana. However, the Government of Colombia continues to make important progress in its fight against the production and trafficking of illicit drugs. Due to sustained aerial and manual eradication operations and aggressive enforcement activity in 2011, potential pure cocaine production declined by 25 percent, from 260 metric tons (MT) in 2010 to 195 MT in 2011. This decline marks the lowest production level since 1994. Although figures are not yet available for 2012, the United States estimated that the area devoted to coca cultivation in 2011 was down 17 percent compared to 2010, from 100,000 to 83,000 hectares (ha). This represents a 50-percent decline in coca cultivation since 2007.

According to the U.S. Department of Justice's 2010 Cocaine Signature Program, 95.5 percent of the cocaine seized in the United States in their sampling system originates in Colombia.

In 2012, the Government of Colombia continued aggressive interdiction and eradication programs, and maintained a strong extradition record for persons charged with narcotics trafficking in the United States. Colombia extradited 184 fugitives to the United States in 2012, the majority of which were wanted for drug crimes. Colombian authorities reported seizing over 279 MT of cocaine and cocaine base (both national seizures and seizures outside Colombia made with Colombian intelligence), and eliminated hundreds of tons of additional potential cocaine through the combined aerial and manual eradication of 131,035 ha of coca.

Colombian efforts against narcotics trafficking by the Revolutionary Armed Forces of Colombia (FARC) and National Army of Liberation (ELN) continue unabated. Colombia continues to confront criminal organizations known as "bandas criminals," or BACRIMs, and achieved numerous successes against BACRIM leadership in 2012. The BACRIMs are active throughout much of the country – competing and sometimes cooperating with the FARC and other illegal armed groups in the drug trade.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Over the past ten years, Colombia has developed a strong institutional capacity to combat drug trafficking, which is often controlled and financed by the FARC and ELN (both designated Foreign Terrorist Organizations), as well as BACRIM and other narcotics trafficking organizations. These groups all use drug cultivation and trafficking proceeds to expand their influence and control and fund attacks on security forces.

In response, the Colombian government launched the National Consolidation Plan (PNC) in 2009 to focus coordinated government efforts on selected areas where violence and drug trafficking converged. Following a strategic review, the effort was re-launched in 2011 as the

National Plan for Territorial Consolidation (PNCT) and authorities created the Administrative Unit for Territorial Consolidation (UACT) in January 2012 to coordinate the activities of government institutions in these areas. Much of 2012 was spent staffing and establishing the administrative, legal, and contractual guidelines for the unit's operation. The U.S. Embassy's Colombia Strategic Development Initiative (CSDI) coordinates U.S. support to consolidation efforts in targeted regions. Separately, Colombia's National Security Council, focused on issues including land reform, restitution for crime victims, and transitional justice over the course of 2012. Judicial impunity reportedly declined in 2012, though serious challenges remain. Most cases are resolved through plea agreements, and a modest number through trials. The Colombian Minister of Defense participates in a tri-party group with the U.S. Drug Enforcement Administration and the Mexican Attorney General to discuss counternarcotics and other issues of mutual interest.

The 1997 U.S.-Colombian maritime ship boarding agreement facilitates timely permission to board Colombian-flagged ships in international waters and is the foundation for productive counternarcotics cooperation between the Colombian Navy (COLNAV) and the U.S. Coast Guard (USCG). Colombia's 1999 customs mutual assistance agreement with the United States provides for the exchange of information to prevent and investigate customs violations in both countries and led the U.S. Immigration and Customs Enforcement agency to create a Colombian-based Trade Transparency Unit. The Bilateral Narcotics Control Program – a 2004 agreement – provides the general framework for specific counternarcotics project collaborations with various Colombian implementing agencies. This agreement is amended annually and is a key vehicle for the delivery of U.S. counternarcotics assistance.

The extradition relationship between Colombia and the United States is robust and extremely productive. Since December 17, 1997, Colombia has extradited over 1,400 individuals to the United States.

2. Supply Reduction

Coca fields continue to be less productive 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 border with Ecuador. Colombian governmental policy prohibits aerial eradication in these areas.

Colombia's aerial eradication program sprayed 100,549 ha in 2012. Its manual eradication goal for 2012 was 40,000 ha, but security concerns and a major reorganization of the Consolidation Unit prevented the government from reaching that goal. In 2012, 30,486 ha were eradicated, compared to 34,500 ha in 2011.

Colombian police forces reported seizures of 143 MT of cocaine and cocaine base (both 90 MT in national seizures and 53 MT of seizures made outside Colombia with Colombian intelligence); 312 MT of marijuana; 468 kilograms (kg) of heroin; and approximately 13.08 million liters of liquid and 14.54 MT of solid precursor chemicals. In addition, Colombian authorities destroyed 152 cocaine hydrochloride (HCL) labs, one heroin lab, and four potassium permanganate labs.

In 2012, the COLNAV seized 89.71 MT of cocaine (21.54 MT unilaterally and 68.17 MT working with USCG and other partners) and 6.98 MT of marijuana. COLNAV also seized five self-propelled semi-submersibles, and arrested 208 persons on drug trafficking charges.

The movement of drugs via Colombia's numerous rivers, coastal ports and airports remains a concern. Drug seizures in Colombia's ports have decreased, which may be the result of the Colombian government and private seaport operators' improvements in port security. In 2012, the Colombian National Police (CNP's) Antinarcotics Directorate (DIRAN) seized approximately 4.5 MT of cocaine in seaports across the country. DIRAN units confiscated 1.1 MT of cocaine, 30 kg of heroin, and 135 kg of marijuana at Colombia's international airports. DIRAN arrested 498 people on drug-related charges at air and sea ports.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Colombia is committed to drug demand reduction and remains concerned about the increase in domestic consumption. Since 2007, Colombia has used the "National Policy for Reducing Substance Abuse and Its Impact," as its political and technical framework to guide its drug demand reduction activities. To coordinate efforts across many different sectors of government, the government formed an interagency group called the National Commission for the Reduction of Drug Demand. This Commission formulates and plans national policy for reducing substance abuse and is comprised of 15 departments, led by the Ministry of Justice. Colombia officially recognizes drug dependency as an illness and has been moving to include treatment for addiction in the social security and health systems. Treatment is now included in the Mandatory Health Plan.

In 2010, the government began drafting treatment protocols for addicts, though, these protocols are not yet finalized as the Ministry of Social Protection (MSP) continues to review how the Colombian health insurance system will cover drug addiction as a medical condition. 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 in need of treatment, and only 20,000 available beds in treatment facilities. Drug treatment services in Colombia are currently provided primarily by private organizations. The Ministry of Justice presented to the Colombian legislature the "National Statute on Drugs" at the end of October 2012 to replace 1986 legislation and identify more legal tools to prosecute drug-related illegal conduct.

In December 2009, the Colombian government approved a law that prohibited the possession and consumption of small, "personal," amounts of illegal drugs. However, in August 2011, the Colombian Supreme Court overturned the law and set the "personal amount" of drugs at 20 grams of marijuana and one gram of cocaine.

The nationwide "Colombia: Free of Drugs" campaign, launched in 2010, continues to provide information and heighten social awareness regarding drug use. The CNP, with U.S. assistance, continues its Drug Abuse Resistance Education (DARE) program nationwide. Additionally, with UN and U.S. support, Colombia continues to implement its 2008 National Drug Consumption Reduction Plan focused on demand prevention, early intervention, treatment, and

recovery. In 2012, the MSP introduced the Bogotá "Caring Communities" program modeled after the Community Anti-Drug Coalitions of America (CADCA) program.

4. Corruption

Colombia is committed to minimizing the illicit drug trade and corrupt acts that facilitate drug trafficking as a matter of public policy. Despite this commitment, narcotics-related corruption of some government officials exists.

Drug-related corruption remains a problem within the public security forces. On July 3, 2012, Colombia arrested retired CNP General Mauricio Santoyo for alleged links to drug trafficking organizations. He voluntarily surrendered to U.S. authorities and later pled guilty to those charges.

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

The United States provides a range of counternarcotics assistance to the CNP and Colombian military, as well as to judicial institutions that investigate and prosecute drug traffickers. The United States also supports programs designed to develop rural policing capabilities.

The United States supports the efforts of the National Plan for Territorial Consolidation (PNCT) to move communities out of coca-based economies by dramatically expanding the presence of the state. In transition zones where the Colombian government has only recently established minimum security, the United States works with Colombia to meet urgent needs and provide longer-term assistance to ensure a permanent presence at the local level.

In 2008, the United States and Colombia began working closely to transfer operational and financial responsibility ("nationalization") for selected counternarcotics programs from the United States to Colombia. Colombia has since successfully nationalized several programs, including the Air Bridge Denial program and the Plan Colombia Helicopter program. The latter occurred in October 2012 and marks the transfer of title and support responsibility for a total of 61 fixed and rotary-wing aircraft nationalized over the life of the program. Reflecting its increasing capability, Colombia took an important and active role in training thousands of police and justice officials from the region, including officials from Haiti, Mexico, Ecuador, Costa Rica, Panama, Honduras, Guatemala, and the Dominican Republic. Colombia also participated in both sessions of the semi-annual Multilateral Maritime Counterdrug Summit, which includes participants from 12 Central and South American Countries to consider improved strategies and coordination against drug trafficking organizations.

At the April 2012 Summit of the Americas, President Obama and President Santos announced plans to formalize coordination of Colombian and U.S. security cooperation activities in third countries. Through the High-Level Strategic Security Dialogue, the United States and Colombia launched the Security Cooperation Coordinating Group (SCCG). The SCCG identified specific areas of coordination and collaboration in the Western Hemisphere and agreed to support activities in Honduras, Guatemala, El Salvador, and Panama as a priority. These efforts draw on

Colombia's established and expanding expertise and capacity for countering transnational organized crime and drug trafficking.

D. Conclusion

Colombia continues to make important advances in combating the drug trade. These efforts have kept several hundred metric tons of drugs each year from reaching the United States and other markets, and have helped stabilize Colombia. Colombia is now a partner in exporting security expertise and training throughout the Western Hemisphere and Africa. Although these advances are significant, the progress is not irreversible and continued U.S. support to Colombia is needed. To lock in the gains made over the past decade, the Colombian government should devote additional resources to the PNCT to improve security, increase public service provision, build infrastructure, and generate additional economic opportunities in regions that have historically been heavily influenced by terrorist and criminal elements. Encouragingly, the Santos Administration is undertaking significant efforts in land reform and victim restitution. Formal peace negotiations between the Colombian government and the FARC, announced in October 2012, include illicit narcotics as one of five agenda items. These negotiations will have wide-ranging political and security implications for Colombia if successful.

Costa Rica

A. Introduction

The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012. Costa Rica's strategic geographic location linking narcotics producing countries in South America with the United States, its extensive Caribbean and Pacific coastlines, including the vulnerable Coco Island in the Pacific Ocean, and Costa Rica's lack of effective patrolling of both land and sea borders all contributed to Costa Rica's status as a drug transshipment point. The Costa Rican government expressed concern regarding the rising consumption of illicit narcotics, the increasing presence of Mexican drug trafficking organizations, and the level of drug-related violence.

President Laura Chinchilla's administration continued to emphasize security as its top priority, implementing security taxes, investing in police resources and training, and standing up new Border Police and Internal Affairs units within the Ministry of Public Security.

B. Drug Control Accomplishments, Policies and Trends

1. Institutional Development

The Costa Rican government continued to work towards its goal, announced in 2010, of adding 4,000 officers to the national police by 2014. Taking attrition into account, Costa Rica has realized a net increase of 880 police officers, of which 230 were added in 2012.

In 2012, the Costa Rican government enacted a new tax on corporations, which provided the Ministry of Public Security (MPS) an additional important revenue stream. The Ministry of Finance estimated that the tax would generate approximately $72 to $74 million per year. Costa Rica also enacted a gaming law that includes a tax on casinos and gaming call centers. The proceeds of the tax will be directed to the Ministries of Justice and Security for prison infrastructure improvements and police equipment maintenance, respectively.

Costa Rica continued to take steps to enforce its financial and non-financial regulatory regimes to prevent and detect money laundering. However, additional efforts are necessary in certain sectors of concern, such as money remittance services. The Attorney General's Office (AGO) and Judicial Investigative Police (OIJ) demonstrated their capacity to pursue complex money laundering cases through the successful prosecution of a high-profile professional soccer team owner who laundered several million dollars. Costa Rica collaborated closely with the United States to investigate and prosecute the individual. In addition, the AGO and OIJ adopted more advanced investigative techniques to further their money laundering investigations.

In 2012, Costa Rica made strides towards enhancing its police capacity. The Ministry of Public Security, with U.S. assistance, began implementing COMPSTAT, a statistical accountability and management tool. The Ministry also continued to revamp its police academy curriculum for new

police officers. As a result of the Port Container Analysis/Interdiction Program created in 2011 with U.S. support, Costa Rican authorities searched 2,000 containers and seized approximately 1,064 kilograms (kg) of cocaine.

The Costa Rican Coast Guard finished construction of a new coast guard station on the Caribbean coast. The Air Surveillance Service also purchased two helicopters, and the MPS completed the $1.2 million remodeling of the Immigration facilities at the Peñas Blancas checkpoint along the border with Nicaragua.

The United States and Costa Rica actively used the 1991 extradition treaty. In 2012, Costa Rica arrested 30 fugitives sought by the United States; three were extradited, 26 were deported, and one was released. Costa Rica is one of six countries (along with Belize, the Dominican Republic, France, Guatemala and the United States) that ratified the Caribbean Regional Agreement on Maritime Counter Narcotics, which is now in force.

2. Supply Reduction

The Costa Rican Coast Guard is an under-resourced agency with limited operational capacity, making the Costa Rican coastline an attractive landing zone for smugglers. Costa Rican-flagged fishing boats continue to be used by traffickers to smuggle multi-ton shipments of drugs through the littorals and to provide fuel for "go-fast" boats that favor Pacific routes. The southern Golfito region also served as a common destination for traffickers to off-load cocaine for northern transport via the Pan-American Highway. Traffickers continue to smuggle drugs through the postal system, international courier services, containers, vehicle traffic, and via individual passengers on international flights. 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 pay for services rendered to local contacts with drugs instead of money, leading to domestic drug use, especially of crack cocaine, and contributing to the high street crime and sense of domestic insecurity in the country.

During 2012, the Costa Rican Drug Control Police eradicated and seized 928 metric tons (MT) of marijuana, a decrease from the 1,577 MT eradicated and seized in 2011. This decrease is due in large part to heavy rainfall that limited law enforcement access to growing regions. Cultivators likely export Costa Rican marijuana to international markets, but also support domestic consumption. Authorities seized 14.73 MT of cocaine, an increase from 11.2 MT seized in 2011. The Costa Rican government also seized 19.21 kg of heroin and confiscated approximately $6.2 million in U.S. currency and assets, an increase from $2.38 million seized in 2011. Investigations suggest DTOs intended to smuggle this currency to command and control structures within Costa Rica, rather than transiting the currency onwards to another country. Costa Rican authorities made 42,442 drug-related arrests in 2012.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Costa Rican Institute on Drugs (ICD) oversees drug prevention efforts and educational programs throughout the country. The ICD is also responsible for producing and distributing

demand reduction materials, including anti-drug abuse materials for schools. The Costa Rican Institute on Alcohol and Drug Abuse offers various prevention and treatment programs, including training for businesses on how to create prevention programs and policies, and detoxification programs and group therapy for users. The Police Prevention Unit coordinates the Uniformed Police's drug prevention efforts. Its projects include the Secure Community Program, consisting of 22 lesson modules taught by Uniformed Police officers and directed towards adults, and the Secure Drawing Program, whereby officers present material to children through activities and drawing exercises.

In 2012, the United States supported five non-governmental organization programs to combat drug use and reduce trafficking in Costa Rica by working with youth at risk, impacting approximately 1,600 Costa Rican youth.

4. Corruption

As a matter of policy, the Government of Costa Rica 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 2006 Costa Rican law provides criminal penalties for official corruption, and the government generally implemented these laws; however, there were reports of lower-to mid-level government corruption during the year.

Government-funded contracts and municipal governments are especially prone to corrupt practices. The Prosecutor's Office investigated credible reports of corruption in at least ten municipal governments. Within a 15-month period, the MPS suspended more than 1,000 of the approximately 12,000 Uniformed Police officers on the force, mostly for suspected misuse of resources, abuse of authority and domestic violence. In several high profile cases, Uniformed Police officers were prosecuted for drug trafficking or other organized criminal activity. Despite the measures taken to investigate and address corruption, Costa Rican government institutions, particularly the judicial branch, lack adequate internal controls and processes to prevent, detect, and investigate corruption involving government officials. Widespread public perception of corruption among the Uniformed Police persists.

In the judiciary, there were allegations that judges' decisions were influenced by intimidation or that they accepted payment for making decisions that favored the accused. The Supreme Court investigated and found no cases of corruption, but in some cases found procedural errors. The Judicial Inspection Tribunal, the agency tasked with investigating and sanctioning official misconduct within the Judiciary, investigated a judge who granted house arrest to Mexican nationals awaiting trial on charges of high-level drug trafficking, and after finding a serious error in the judge's resolution, referred the case to the Supreme Court. Oftentimes, the tribunal lacks the personnel, resources, and authority to adequately investigate these types of corruption cases.

The MPS took steps to fight corruption in 2012 by restructuring its Internal Affairs Unit. This unit now sits at the ministerial level. The unit will handle cases for all law enforcement agencies within the MPS, as well as offer independence from cronyism within the individual agencies. Additionally, improved corruption investigation procedures and a digitalization project have

decreased the case processing time from two years to three months. The new procedures include firm guidelines for sentencing and punishment.

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

Costa Rica and the United States cooperate on programs to enhance the interdiction capabilities of Costa Rican authorities, disrupt and dismantle drug trafficking organizations and improve citizen safety. The United States is focusing its cooperation on programs that lead to more effective prosecutions, promote secure borders, and foster safe communities.

In 2012, the United States continued a wide range of justice and security sector assistance to Costa Rica through the Central America Regional Security Initiative. Efforts included support to the judicial sector by supporting several investigative technique trainings in areas such as drug trafficking and money laundering. The United States is assisting the Prosecutor's Office in a major restructuring to facilitate a more rapid processing of cases, and funded a U N Office on Drugs and Crime program with Costa Rica's judicial school that included mock trials to improve trial techniques.

Bilateral efforts to improve border security focused on enhancing Costa Rica's maritime interdiction capabilities, shoring up its ability to utilize targeted intelligence for containerized cargo, and assisting in the start-up of the Costa Rican government's new Border Police. The United States supported establishment of a new Coast Guard station at Flamingo, on the northern Pacific coast, and an inspection station at Kilometer 35 on the Pan-American Highway, a natural chokepoint of roads running north from Panama, expected to be completed in January 2013. The United States and Costa Rica maintain a bilateral agreement to facilitate maritime operations against drug trafficking. In March, Costa Rica hosted the U.S.-sponsored Multilateral Maritime Counterdrug Summit, which offered an opportunity for coast guard and naval representatives from 12 South and Central American countries to improve strategies and cooperation against drug trafficking organizations.

The United States continued efforts to strengthen the capacity of the Uniformed Police. In 2012, it completed the third year of a four-year police professionalization program. With U.S. support, the Uniformed Police implemented the statistical program, COMPSTAT, throughout Region 1 of the country. This system collects and maps statistics and police responses to improve accountability at all levels of the Uniformed Police.

D. Conclusion

Costa Rica cooperates with the United States to combat drug trafficking, but due to inadequate resources and complicated bureaucracy, the country continues to suffer from drug-related violence and organized crime. As Costa Rican authorities have said, Costa Rica must allocate more resources to security to reduce the crime rate and diminish Costa Rica's attractiveness to drug trafficking organizations. The Costa Rican government should consider more effectively leveraging its limited resources by: 1) restructuring its police and judicial institutions; 2) making greater use of advanced investigative techniques; and 3) enacting additional laws specifically targeting criminal organizations and their proceeds. Costa Rica could also strengthen its law

enforcement institutions by improving systems for preventing and addressing corruption. The Costa Rican Coast Guard has the potential to become a more effective force on the littorals if sufficient resources, training, and guidance are made available. Costa Rica continued its successful regional partnerships this year and will continue to benefit from working with neighbors and learning from their experience.

Croatia

Croatia is a narcotics transit point primarily for opiates and heroin smuggled via the "Balkan route," as well as cocaine trafficked through the country's seaports. Most illicit drugs smuggled into Croatia are bound for consumer markets in Europe and elsewhere, though a small percentage is consumed locally.

In 2011, Croatian authorities reported: 7,767 drug-related criminal offences; 5,715 persons taken into custody; 6,342 drug seizures; 2,438 new indictments; and 2,537 convictions. Over the first nine months of 2012, the police reported 5,896 drug-related criminal offences and 4,527 persons taken into custody, a five-percent decrease over same time period in 2011.

The Croatian government reported the following amounts of drugs seized in 2011: 33.1 kilograms (kg) of heroin; 4.1 kg of cocaine; 1,019.4 kg of marijuana; 23.5 kg of hashish; 4,136 cannabis plants; 15.1 kg of amphetamines; 2,898 ecstasy tablets; 682 doses of LSD; and 5,586 methadone tablets.

According to preliminary statistics provided by Croatian authorities, the following seizures occurred during 2012: 31.7 kg of heroin; 7 kg of cocaine; 885.9 kg of marijuana; 23.4 grams of hashish; 8,211 cannabis plants; 4.6 kg of amphetamines; 1,774 ecstasy tablets; 884 doses of LSD; and 1,462 methadone tablets.

Although the Croatian government does not facilitate the illicit production or distribution of narcotics or launder proceeds from illegal transactions, corruption remains a concern.

Croatia has a well-developed institutional framework to implement preventive and educational programs. Treatment efforts include early detection, rehabilitation and social reintegration. In 2012, the Croatian police continued to effectively collaborate with regional neighbors and law enforcement agencies in the United States, South America and the European Union. Croatia conducts joint international investigations and shares intelligence, which resulted in many of the narcotics-related seizures and arrests reported in 2012. The United States continues to provide, technical assistance to police, customs, and the judiciary to further improve domestic capacity to prosecute narcotics-related crimes, corruption and organized crime. Negotiations to update the 1902 extradition treaty between the United States and Croatia (as a successor state to the Kingdom of Serbia) still in force will continue.

Cuba

A. Introduction

Despite its proximity to major transit routes for illegal drugs to the U.S. market, Cuba is not a major consumer, producer, or transit point of illicit narcotics. Cuba's intensive security presence and bilateral interdiction efforts have effectively reduced the available supply of narcotics on the island and prevented traffickers from establishing a foothold. The Cuban Border Guard (TGF) maintains an active presence along Cuba's coastal perimeter and conducts maritime counternarcotics operations and coastal patrols. Drug trafficking organizations (DTOs) frequently attempt to avoid Cuban and U.S. government counternarcotics patrol vessels and aircraft by skirting Cuba's territorial waters.

Cuba's domestic drug production and consumption remain negligible as a result of active policing, harsh sentencing for drug offenses, and very low consumer disposable income. Cuba's counternarcotics efforts have prevented illegal narcotics trafficking from having a significant impact on the island.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2012, Cuba continued "Operation Hatchet," a Ministry of Interior-led multi-agency counternarcotics strategy that also includes the efforts of Cuba's ministries of Armed Forces, Justice, Public Health, Education and Culture, and the Border Guard. The operation aims to reduce supply through vigilant coastal observation, detection and interdiction, and reduce demand through education and legislation. The Cuban government's extensive domestic security apparatus and tough sentencing guidelines have kept Cuba from becoming a major drug consuming country. The government did not publicize new counternarcotics legislation policy initiatives or related budget increases supporting such measures in 2012.

Cuba continues to demonstrate a commitment to counternarcotics cooperation with partner nations. The government reports having 35 bilateral agreements for counterdrug cooperation and 35 agreements with partner nations regarding judicial proceedings and extradition. Cuba regularly participates in international counternarcotics conferences, such as the United Nations' Heads of National Drug Law Enforcement Agencies, and submits quarterly statistics on drug interdictions and seizures to the International Narcotics Control Board.

The 1905 extradition treaty between the United States and Cuba and an extradition agreement from 1926 remain in effect. In 2012, these agreements were not employed to hand over fugitives. Instead, bilateral arrangements were made to have the fugitives detained and deported from Cuba and directly placed in the custody of the receiving nation for further prosecution. Regionally, Cuba is not party to the Caribbean Regional Maritime Agreement which opened for signature in 2003.

2. Supply Reduction

Major transshipment trends did not change from 2011. Through October 2012, the Government of Cuba reported seizing a total of 2.066 metric tons (MT) of illegal narcotics, 97 percent of which were found washed-up on Cuba's shores, a marked decrease compared to the 9.1 MT reported seized in 2011. Government counternarcotics forces reported disrupting 34 smuggling operations, seizing 26.88 kilograms (kg) of cocaine and 7.37 kg of marijuana. There are no reported seizures of synthetic drugs. Statistics on arrests or prosecutions were not made available.

Domestic production and consumption remained very limited, and Cuba concentrated its supply reduction efforts on preventing illegal smuggling through Cuban territorial waters, rapidly collecting reported narcotic wash-ups, and preventing visitors and smugglers from bringing smaller amounts of narcotics into the country. The Ministry of Armed Forces and Ministry of Interior's fixed and mobile radars, coupled with visual and coastal vessel reporting procedures make up an effective network for detecting illegal incursions of territorial air and sea by narcotics traffickers. Cuba continues to share "go-fast" vessel information with neighboring countries, including the United States, and has had increasing success in interdicting such vessels using independent assets and in coordination with United States and other nations' forces. In 2012, Cuba reported 31 real-time reports of "go-fast" narcotics trafficking events to the U.S. Coast Guard (USCG). TGF's email and phone notifications of maritime smuggling to the USCG have increased in timeliness, quantity and quality, and have occasionally included photographs of suspected narcotics trafficking vessels.

Overseas arrivals continue to bring in small quantities of illegal drugs mostly for personal use, although the extent of this problem remains unknown beyond occasional anecdotes. The Ministry of Interior conducts thorough entry searches using x-rays and trained counternarcotics detection canines at major airports.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The combination of extensive policing, low incomes, low supply, and strict drug laws (involving up to 15-year prison sentences) has resulted in very low illicit drug use in Cuba. There are nationwide campaigns aimed at preventing drug abuse, and the quantity of existing programs for the general population appears adequate given the very low estimated numbers of addicts. The National Drug Commission, headed by the Minister of Justice, with representatives from the Attorney General's office and the National Sports Institute, remains responsible for drug abuse prevention, rehabilitation and drug policy issues.

The Ministry of Health reports operating special drug clinics, offering services ranging from emergency care to psychological evaluation and counseling to treat individuals with drug dependencies. The government runs three substance abuse clinics that cater to foreigners, and the Catholic Church runs a center to treat addiction in Havana.

The government occasionally broadcasts anti-drug messages on state run media and operates an anonymous 24-hour helpline.

4. Corruption

Cuba has strong policies in place against illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, and laundering of proceeds from illegal drug transactions. Cuba professes a zero tolerance for narcotics-related corruption by government officials and reported no such corruption occurrences in 2012. As a matter of government policy, Cuba neither encourages nor facilitates illegal activity associated with drug trafficking.

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

In 2012, Cuba maintained a significant level of cooperation with U.S. counternarcotics efforts. In Havana, the U.S. Interests Section (USINT) has a USCG Drug Interdiction Specialist to coordinate counternarcotics efforts with Cuban law enforcement officials. The United States does not provide narcotics-related funding or assistance to Cuba.

The USCG shares tactical information related to trafficking and responds to Cuban reporting on vessels transiting through Cuban territorial seas suspected of smuggling, or tactical information on drugs interdicted within Cuban territory. Cuba also shares real-time tactical information with the Bahamas, Mexico and Jamaica. Bilateral cooperation in 2012 led to multiple at-sea interdictions.

In 2011 the Cuban government presented the United States 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

Cuba continues to dedicate significant resources to prevent illegal drugs and their use from spreading on the island, so far successfully. The technical skill of Cuba's security services gives Cuba a marked advantage against DTOs attempting to gain access to the island. Upgraded links between the United States, Cuba, and regional partners, along with improved tactics, techniques, and procedures, would likely lead to increased interdictions and disruptions of illegal trafficking.

Democratic People's Republic of Korea (DPRK or North Korea)

Drug use may be rising within the Democratic People's Republic of Korea (DPRK or North Korea), according to reports from DPRK refugees and travelers to North Korea. Chinese and South Korean press reports indicate that a substantial volume of methamphetamine continues to be produced within DPRK territory, mainly for transshipment to China. There are also reports of transactions between DPRK traffickers and large, organized criminal groups along the DPRK-China border, and of Chinese police enforcement targeting drugs entering China from the DPRK by way of enhanced patrols, periodic arrests, and drug seizures. However, the Chinese government rarely identifies the DPRK as the source of illicit drugs.

The proximity and availability of precursor chemicals in China likely contribute to the production of methamphetamine within North Korea. Reliable information is difficult to obtain regarding illicit activities within the DPRK territory, but drug production and other criminal activities, such as the counterfeiting of cigarettes, appear to have continued in 2012. There is insufficient current information, however, to confirm official DPRK state involvement in drug trafficking. There have been no confirmed reports of large-scale drug trafficking involving DPRK state entities since 2004. This suggests that state-sponsored drug trafficking may have ceased or been sharply reduced, or that the DPRK regime has become more adept at concealing state-sponsored trafficking of illicit drugs.

Despite the absence of reports of drug seizures linked directly to DPRK state institutions, the United States cannot entirely rule out the possibility of official DPRK state involvement in the manufacturing and trafficking of illicit drugs. A relatively large investment in precursor chemicals is necessary to produce the volume of methamphetamine trafficked from North Korea, and it is unclear how individual criminals could independently organize such activity within such a tightly-controlled state. It is likely that some official corruption on both sides of the DPRK-China border facilitates drug trafficking.

Dominican Republic

A. Introduction

The Dominican Republic is an important transit country for illicit drugs from South America destined for North America and Europe. The U.S. government estimates that approximately four percent of the cocaine transiting to North America and Europe transships through Hispaniola, much of it through the Dominican Republic. U.S. and Dominican analysts assess that maritime routes are the primary method of smuggling drugs into and out of the country and recent maritime interdiction operations validate this assessment. Drug Trafficking Organizations (DTOs) are using "go-fast" boats and commercial containers to smuggle drugs into and out of the Dominican Republic. The country is also experiencing an increase in narcotics-related violence, partially attributable to the practice of DTOs of paying local partners in narcotics rather than cash.

In order to combat the influence of DTOs, the Dominican Republic continued its cooperation with the U.S. government in 2012 in efforts to interdict illicit drugs and extradite criminals charged with narcotics-related crimes. The United States is actively working with Dominican counterparts to plan and conduct international operations to seize illicit drugs and dismantle DTOs; however, corruption continues to hamper these efforts. The Dominican government conducts outreach efforts to warn youth about the dangers of drugs.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cooperation remains strong between the Dominican government and the United States government to control narcotics trafficking and related transnational crime. The U.S. government's primary partners are the National Directorate for the Control of Drugs (DNCD), Dominican National Police (DNP), the National Council on Drugs (CND), the Office of the Attorney General, and the Dominican Armed Forces. The DNCD and DNP continued to enhance their joint cooperation in 2012 with a focus on money laundering activities and drug seizures. Dominican law enforcement and military units coordinated effectively, which contributed to increased drug seizures, but room for improvement remains. The Dominican Specialized Corps for Port Security, working in conjunction with U.S. authorities and private port operators initiated efforts to improve security at several ports. The participation of the Dominican government in the Cooperating Nations Information Exchange System and the Caribbean Basin Security Initiative (CBSI) enhanced relations with the United States and regional Caribbean partners. Dominican authorities continued joint efforts with Haitian National Police to combat drug trafficking by increasing law enforcement cooperation and providing training.

The Dominican Republic is a party to the Inter-American Convention against Corruption. In 1985, the United States and the Dominican Republic signed an agreement on international narcotics control cooperation. The Dominican Republic signed and ratified the Caribbean

Regional Maritime Agreement and has a maritime counter-drug agreement with the United States that entered into force in 1995. In 2005, the Dominican Republic augmented the United States-Dominican Extradition Treaty of 1909 to include judicial review for more transparency. In 2012, the United States and the Dominican Republic entered into a Permanent Forfeited Asset-Sharing Agreement.

The United States continues to receive excellent cooperation from the DNCD's Fugitive Surveillance/Apprehension Unit and other Dominican authorities. The Dominican Republic continues to be the fourth most active extradition partner to the United States, behind only Mexico, Canada and Colombia. The Dominican Republic is not party to the Organization of American States Mutual Legal Assistance Treaty and does not have a bilateral mutual legal assistance treaty with the United States. Requests for judicial cooperation are made through formal and informal channels related to the multilateral law enforcement cooperation treaties and conventions to which the United States and the Dominican Republic are parties. The Dominican Republic processes U.S. requests for legal and judicial assistance in a timely manner.

2. Supply Reduction

Narcotics are seized throughout the country, but the majority of seizures are made through operations targeting vessels from South America. Dominican authorities seized approximately 10 metric tons (MT) of cocaine, 39 kilograms (kg) of heroin, and 754 kg of marijuana. Cocaine seizures represent a significant increase over 2011, during which Dominican authorities seized 6.71 MT. Marijuana is cultivated in the Dominican Republic for local consumption, and seizures are concentrated in the northwest and southwest provinces that border Haiti.

Following successful air interdiction efforts by Dominican authorities and the dismantling of two major DTOs in 2010, drug flights from South America to the Dominican Republic have all but disappeared and there were no reported drug flights in 2011 or 2012. However, illicit drugs remain available for local consumption and are transshipped to the United States and Europe, primarily through maritime routes. The DNCD and Dominican military officials cooperated with the United States and international partners in planning and conducting operations to interdict "go-fast" vessels attempting to deliver illicit narcotics to remote areas of the southern coast, as well as to interdict drugs exiting the Dominican Republic en route to the United States and other international destinations. One Dominican port, Caucedo, is operating in compliance with the Container Security Initiative (CSI), a U.S. initiative to help increase security for maritime containerized cargo shipped to the United States. However, the other 15 Dominican ports, including Rio Haina, the other major Dominican port handling container traffic destined for the United States, are not CSI compliant. The DNCD is attempting to place more narcotics-detecting dog teams at ports and is seeking to acquire scanners to check containers entering and exiting the country.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Local drug use is concentrated in tourist and major metropolitan areas, although drug use and associated violence in the larger provincial towns increased in 2012. The CND continued effective demand reduction efforts with a wide range of sporting, cultural, and educational events

and seminars designed to warn Dominican youth of the negative effects of drug use. Additionally, the CND placed numerous billboards and multimedia advertisements throughout the country warning youth against the use of illicit drugs. The CND and Ministry of Education developed the Strategic National University Plan on the Prevention and Use of Drugs, which the Organization of American States' Inter-American Drug Abuse Control Commission noted could be used by other nations as a model program. DNP continues to promote community-based policing as an effective way to deal with crime in local neighborhoods. Community policing events were well received and demonstrated a public desire for expansion of this program, prompting the DNP to develop a strategy to expand community based policing efforts.

4. Corruption

As a matter of policy, the Dominican government does not 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 at all levels of Dominican society. Dominican law enforcement, military, and government officials are often accused of a range of corrupt activities including narcotics trafficking, money laundering, extrajudicial killing and other crimes. The Dominican government pursued efforts to reduce corruption in several areas, including continued focus on developing internal affairs units, and changing the venue of judicial proceedings when necessary. In 2012, the DNCD created a polygraph team to vet DNCD personnel and implemented an incentives program that rewards personnel for providing information on corruption. Also in 2012, the DNCD removed 77 members for improper behavior and violations of the Code of Conduct. The DNP Internal Affairs Office conducted 1,415 investigations that led to the dismissal of 155 police officers.

Recognizing that corruption in the Dominican Republic adversely affects programs ranging from promoting economic growth to combating drug and other forms of illicit trafficking, the Dominican government asked multilateral organizations, the United States, and other donor nations to help address the issue, creating the Participatory Anticorruption Initiative (IPAC). The government has implemented many of the IPAC's 30 recommendations, and several become part of the Dominican Republic National Action Plan for the Open Government Partnership (OGP), presented in April 2012 at the OGP High-Level Summit in Brazil.

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

The United States supports a wide range of efforts designed to address crime and violence affecting Dominican citizens, primarily through the Caribbean Basin Security Initiative (CBSI). CBSI is a security partnership between the United States and Caribbean nations that seeks to substantially reduce illicit trafficking, advance public safety and citizen security, and promote social justice. With CBSI funds, the United States government implements programs designed to enhance existing Dominican law enforcement capabilities by improving technical and professional abilities to conduct investigations, to enable effective prosecution, and to coordinate and participate in counternarcotics efforts with the United States and neighboring countries' law enforcement agencies. The United States is also working with Dominican officials to develop an effective anti-money laundering agency. The U.S. law enforcement community has strong

relationships with its Dominican colleagues, as evidenced by the extradition or deportation of 24 fugitives to the United States in 2011, and 14 through the first 10 months of 2012.

The United States provided equipment and training to increase the capabilities of various Dominican law enforcement entities including support for the DNCD drug-detection canine units, and other specialized DNCD investigative and reactive units. The United States also enhanced DNCD's computer training, database expansion, and systems maintenance support. The United States is also supporting an initiative to increase port security in two of the busiest Dominican ports, and in 2012 provided training in maritime law enforcement, search and rescue, port security, crisis management and professional development for the Dominican Navy's officer and enlisted corps. In addition, the U.S. Southern Command provides tactical training, equipment, and other assistance to both the DNCD and Dominican military involved in illicit trafficking interdiction.

The United States continues to assist the DNP with its transformation into a professional, civilian-oriented organization by providing training at the entry and officer levels. In addition, the Dominican government has two Police Organic Law proposals pending that, if passed, would bring about significant institutional changes to the DNP. The Dominican Republic continues to work towards passing legislative proposals related to illegal enrichment and anti-corruption by public officials. Work to strengthen the infrastructure of the Financial Analysis Unit is ongoing.

The United States continues to support the Dominican Republic's efforts to establish a transparent and effective justice sector. U.S. assistance promotes justice sector reforms by strengthening Dominican government capacity to manage and prosecute complex money laundering, fraud, public corruption and illicit trafficking cases, as well as to establish internal controls to prevent corruption. The United States works with the Offices of the Attorney General, Prosecutorial Training School, Judiciary, Public Ministry, Public Defense, Supreme Court of Justice, and Constitutional Tribunal. In partnership with the Dominican government, U.S. assistance improves service delivery at the district level by strengthening coordination between prosecutors, judges, public defenders and the DNP in processing cases and resolution of obstacles to effective caseload management. As part of CBSI, U.S. assistance also strengthens Dominican civil society coalitions for citizen security and criminal justice reform, and provides technical assistance for the development and passage of a new organic law on police reform. U.S. assistance also helps to strengthen leadership, strategic planning and human resources management capacity within the DNP. The United States supports the advancement of operational reforms established under the IPAC, which serves as the overall donor framework for anticorruption programming in the Dominican Republic. IPAC works to strengthen transparency and reduce corruption in key areas of public service delivery such as national budget execution, procurement and audit, education, health, water, and energy. The Dominican Republic's participation in the Open Government Partnership also serves to reinforce these efforts under IPAC.

D. Conclusion

Combating pervasive corruption, restoring public confidence in law enforcement entities and the judiciary, addressing maritime illicit narcotics smuggling, and combating rising levels of

narcotics-fueled violence remain among the challenges facing the Dominican Republic. The Dominican Republic's highly successful aerial interdiction efforts since 2010 demonstrate that Dominican institutions have the capacity and will to stem the flow of drugs into the country. Similar maritime interdiction efforts will be necessary to effectively combat narcotics trafficking by sea. The Dominican government must continue to improve its efforts to build a coherent, multifaceted counter-narcotics program. Key to that effort will be increased domestic cooperation between the DNP, DNCD, and military units combined with greater cooperation with law enforcement agencies in other countries in the region.

Dutch Caribbean

A. Introduction

The Dutch Caribbean (formerly the Netherlands Antilles) consists of the islands Aruba, Curacao, St. Maarten, and three smaller islands: Bonaire, St. Eustatius, and Saba (known as the BES islands). In 2010, the Netherlands Antilles ceased to exist as a political entity when Curacao and St. Maarten acquired the same semi-autonomous status within the Kingdom of the Netherlands as Aruba. The BES islands became part of the Netherlands, similar to Dutch municipalities.

Aruba, Bonaire, and Curacao (ABC Islands), located off the north coasts of Colombia and Venezuela, continue to serve as northbound transshipment points for cocaine originating from those countries. Cocaine shipments to Aruba, Bonaire, and Curacao primarily originate from the Guajira Peninsula in Colombia and from the area of Maracaibo, Venezuela. Cocaine is transported primarily via fishing boats and inter-coastal freighters for transshipment to the United States and Europe via the Netherlands. St. Maarten, which is located in the Eastern Caribbean, is a transshipment hub for cocaine and heroin destined for Puerto Rico and the U.S. Virgin Islands as well as Europe. It is home to one of the largest harbors in the Caribbean.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Aruba, Curacao, and St. Maarten have a high degree of 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 islands' defense and foreign affairs, and assists the Governments of Aruba, Curacao, St. Maarten, and the BES islands in their efforts to combat narcotics trafficking through its support for the RST (Dutch acronym for "Special Police Task Force"). The RST maintains its headquarters in Curacao and has its largest presence there.

In 2012, both Curacao and St. Maarten adopted the BOP (Dutch acronym for "law on special investigative techniques"), which governs the use of techniques such as electronic surveillance and the infiltration of criminal organizations by the police on those islands. The BOP was already in effect in Aruba. No new counternarcotics programs were initiated in 2012.
The Netherlands extended the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances ("Vienna Convention"), the 1961 UN Single Convention on Narcotic Drugs, the UN Convention against Transnational Organized Crime, the 1971 UN Convention on Psychotropic Substances and the 1981 Netherlands-U.S. Mutual Legal Assistance Treaty (MLAT) to the former Netherlands Antilles and Aruba. Additionally, the former Netherlands Antilles 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 Kingdom of the Netherlands in 1994.

Aruba

Aruba's police force, the Korps Politie Aruba (KPA), continues to evolve into a regional leader in the fight against narcotics trafficking and international criminal organizations. The KPA is at the forefront in collecting and sharing intelligence with regional law enforcement partners. Despite systemic problems of prison overcrowding, a lack of resources, and some corruption issues within law enforcement in Aruba, the KPA continues to investigate trafficking organizations effectively. The Organized Crime Unit of the KPA conducted several successful investigations in 2012, which led to multi-kilogram (kg) cocaine seizures and the arrest of multiple subjects.

Curacao

Curacao continues to lack the capacity to effectively address endemic drug-related crime, violence, and corruption. The Curacao Police Corps (KPC) has been without a permanent police chief since 2010 and a general lack of leadership was among several factors that contributed to minimal counternarcotics success by the KPC in 2012. The price per kilogram of cocaine on the local black market decreased due to an influx of cocaine.

St. Maarten

St. Maarten is co-located on a single island, with French St. Martin. This division provides unique challenges for law enforcement investigations. Colombian and Dominican-based drug-trafficking organizations (DTOs) have expanded their base of operations into St. Maarten believing that law enforcement is less prevalent than in those countries. However, regional law enforcement agencies have increased cooperation. In 2012, authorities successfully investigated a Croatian DTO that was attempting to transport a multi-hundred kilogram cocaine load from St. Maarten to Europe. That investigation included unprecedented cooperation from the Korps Politie St. Maarten (KPSM), RST, French, Dutch, British, U.S. and Croatian authorities. In addition, the KPSM and RST, in cooperation with French and U.S. authorities, seized several hundred thousand dollars in drug proceeds from a Colombian based DTO operating in St. Maarten.

Bonaire, St. Eustatius, Saba

The National Office for the Caribbean in the Netherlands assumes the responsibilities of law enforcement, security, and other administrative functions on behalf of the Government of the Netherlands for Bonaire, St. Eustatius, and Saba islands.

2. Supply Reduction

Authorities seized approximately 1.55 metric tons (MT) of cocaine in the entire Dutch Caribbean in 2012, considerably less than the 4.89 MT seized in 2011.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The United States continues to support demand reduction programs with the International School of Curacao and the Curacao Baseball City Foundation.

4. Corruption

As a matter of policy the Dutch Caribbean does not encourage or facilitate illegal activity associated with drug trafficking. However, corruption of public officials, particularly among members of the Dutch Caribbean Coast Guard, continues to be a major concern and efforts to address the problem are lacking. Background checks of law enforcement officials who hold sensitive positions are not routinely conducted, nor have public integrity standards been adopted in many government agencies.

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. The U.S. Drug Enforcement Administration (DEA) works with their island counterparts to advance joint investigations, both within the Dutch Caribbean and the United States.

The Kingdom of the Netherlands maintains support for counternarcotics efforts by continuing to support U.S. Forward Operating Locations (FOL) in Curacao and Aruba. U.S. military aircraft conduct counternarcotics detection and monitoring flights over both source and transit zones around the region. In addition, the Dutch Navy regularly conducts counternarcotics operations in the region and is a member of the Joint Inter Agency Task Force South.

D. Conclusion

Curacao and St. Maarten are in the infancy of their semi-autonomous status within the Dutch Kingdom and are still learning how to deal with complex issues including international drug trafficking. It is imperative that both islands embrace regional cooperation and intelligence sharing efforts. Both islands can look to Aruba as an example of how this is accomplished.

Eastern Caribbean

A. Introduction

The seven independent countries of Antigua and Barbuda, Barbados, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines are collectively referred to as the Eastern Caribbean (EC) in this report.

The region hosts abundant transshipment points for illicit narcotics primarily from Colombia and Venezuela destined for North American, European and domestic Caribbean markets. Traffickers are increasingly using yachts for drug transit, though "go-fast" boats, fishing trawlers, and freighters continue to serve as transit vessels. Drug-related crime rates remain elevated as more drugs remain in the region for local consumption and organized gangs have formed to control drug distribution. Marijuana remains a staple crop, primarily for local use.

Three years of declining macroeconomic growth has left EC law enforcement capacity further under-resourced than during previous reporting periods, a condition exacerbated by antiquated criminal codes and public perception of corruption in the ranks. The EC struggles with communication and cooperation between states. The lack of regional or national law enforcement strategic plans, including comprehensive vetting programs, creates a vulnerability to narcotics-related corruption.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

All EC countries are a party to the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials. In addition, all have an extradition treaty and a mutual legal assistance treaty in force with the United States. Several countries have also become signatories to a number of Inter-American Conventions such as the Convention Against Corruption, the Convention on Extradition, the Convention on Mutual Assistance in Criminal Matters, the Convention Against Corruption, and the Convention Against Terrorism. Barbados recently entered into an asset-sharing agreement with Canada.

All EC countries except St. Vincent and the Grenadines have laws requiring record keeping and reporting on the use of precursor chemicals, and importation of pseudoephedrine, ephedrine and pharmaceutical products containing those two chemicals.

The Eastern Caribbean continues to struggle with a lack of adequate infrastructure for counternarcotics maritime patrols. Each EC police force has a mandate to interdict drugs and share information and intelligence with regional and international counterparts. However, law enforcement authorities lack the capacity and resources to undertake systematic counternarcotics operations. The recent United States Government donation under the Caribbean Basin Security

Initiative (CBSI) of two interceptor vessels to each of the six EC partner nations has boosted regional operational capacity.

In Antigua and Barbuda, the legislature amended the Misuse of Drugs Act to require that persons charged with possessing more than two kilograms (kg) of drugs be subject to a judge and jury trial, removing the requirement for trial by magistrate, who do not have the authority to impose the strongest sentences. On July 17, the government secured its first money laundering conviction, with a second following on September 24.

In Barbados, the government announced plans to implement a drug treatment court.

In Dominica, the Drug Squad increased from 15 to 20 officers, led by a newly appointed head of the unit.

Grenada introduced to parliament a new master plan for 2012 through 2016 to combat drug trafficking. The plan covers the areas of institutional strengthening, demand and supply reduction, control measures, anti-money laundering, precursor chemicals and mechanisms for monitoring and evaluation.

In St. Kitts, the drug unit is understaffed and its effectiveness is limited due to budgetary issues, according to Kittian officials. The government has proposed new legislation to provide law enforcement authority to conduct judicially authorized wire intercepts.

Violent crime has increased in St. Lucia, mostly related to drug gangs, including the murders of witnesses in drug trafficking cases, prompting authorities to call for a regional witness protection program as a matter of national security. The government is committed to introducing civil asset forfeiture as a tool against drug gangs through an amendment to the Money Laundering Act, currently before Parliament.

St. Vincent and the Grenadines is drafting a National Drug Plan with assistance from the Organization of American States. The government has also set up a new forensic drug laboratory, which has helped expedite prosecutions. The Financial Intelligence Unit is a model for the region in working closely with the police and Coast Guard to target money laundering and identify traffickers. The installation of two radar sites in 2010 has increased the effectiveness of maritime interdictions.

2. Supply Reduction

Drug traffickers, primarily from South America, use the region as a transit point to temporarily store drugs in the region's many uninhabited islands. Traffickers then move the cocaine up the island chain by "go-fast" or cargo vessels. Continued declining regional economic growth and increasing unemployment has led to increasing marijuana consumption and cultivation, according to host nation officials. Cannabis cultivation predominates in the mountainous regions of St. Vincent, where production may rival Jamaica, according to unofficial U.S. Drug Enforcement Administration estimates. St. Kitts and Nevis officials claim locally-produced

cannabis is gaining a foothold on the market with exports predicted to rise. Grenada also reports an increase in marijuana and cocaine transiting from St. Vincent and Trinidad, respectively.

In response to increased cocaine and marijuana transit, cultivation, and consumption, many of the islands have developed plans to combat drug trafficking. These plans specifically involve institutional strengthening, demand and supply reduction, control measures, and anti-money laundering initiatives. Many islands report increasing the number of searches, as well as using regional and international assistance in identifying suspect vessels and persons at ports of entry. Under CBSI, the United States donated 12 (two each) interceptor vessels to six EC nations in 2012. These vessels have participated in a number of significant maritime interdictions in their first months of operation.

In 2012, the total volume of drugs seized in the Eastern Caribbean was approximately 724.75 kg of cocaine; 19.19 metric tons of marijuana; 1,526 cannabis cigarettes; 3,526,305 cannabis plants; 25,264 cannabis seedlings; and isolated seizures of "crack" cocaine. During this period there were approximately 1,670 drug related arrests, 766 prosecutions for drug related offenses, and 1,478 convictions. The most notable case was in St. Vincent and the Grenadines, where major trafficker Anthony Gellizeau was convicted for drug and money laundering offenses related to the 2008 seizure of $1.73 million.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The primary drugs consumed in the region are marijuana and cocaine. To promote awareness and prevention, Antigua and Barbuda, Barbados, Dominica, and St. Kitts and Nevis have employed Drug Abuse Resistance Education (DARE) programs. Barbados has additional drug demand reduction programs through the National Council on Substance Abuse and the National Committee for the Prevention of Alcoholism and Drug Dependency. St. Kitts and Nevis has a vibrant and successful program, according to its officials, in Operation Future, which is similar to DARE and is conducted by the National Drug Council. There are no drug demand reduction programs in either Dominica or St. Vincent and the Grenadines. Only Barbados, Grenada, and St. Lucia have drug rehabilitation clinics. Barbados has five drug rehabilitation clinics, one of which specifically targets youth.

4. Corruption

As a matter of policy, the region's governments 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 prosecuted in 2012 for engaging in or facilitating the illicit production or distribution of controlled drugs or laundering of proceeds from illegal drug transactions. Regional media continue to report on instances of high level government corruption that is not investigated or punished. U.S. government analysts believe drug trafficking organizations elude law enforcement through bribery, influence, or coercion.

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

EC countries all have bilateral maritime counternarcotics agreements with the United States that include provisions such as ship rider, pursuit, entry into territorial seas, and ship boarding authorization. These agreements provide advanced permissions that expedite law enforcement action. In addition, an international organization known as the Regional Security System (RSS) exists by treaty, to which all seven countries are signatories. The EC and RSS are participating in the U.S.-led CBSI, as well as U.S. Southern Command's annual Trade Winds exercise. In addition, the United States provided training in maritime law enforcement, engineering and maintenance, port security, and leadership training to coast guards and navies in the region to build maritime interdiction capacity.

CBSI programs are now in place to 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 programs support information sharing networks, joint interagency collaboration, and regional training initiatives to promote interoperability.

D. Conclusion

The United States encourages the seven nations of the Eastern Caribbean to embrace CBSI partnership and to fulfill their monetary commitments to sustain the RSS. The United States also encourages the region's governments to make full use of the RSS vetting program to ensure the integrity of personnel in sensitive positions and to promote confidence in information sharing. The United States further encourages the seven nations to pass legislation to modernize their criminal codes, making use of regional best practices in fighting transnational organized crime and lauds Dominica, St. Vincent and the Grenadines, St. Kitts and Nevis, St. Lucia, and Grenada in their progress in this area. The United States draws special attention to the need to implement civil forfeiture provisions to turn the proceeds of crime into a weapon against traffickers and applauds Dominica for its leadership in introducing a bill in Parliament to bring this tool there. The United States also notes the strong public commitments to implement civil asset forfeiture by Barbados and St. Lucia.

Ecuador

A. Introduction

Located between two of the world's largest illicit drug producing countries, Ecuador is a major transit country for illegal narcotics. Cocaine and heroin from Colombia and Peru are trafficked through sparsely populated, porous land borders and via maritime routes through Ecuador for international distribution to the United States and Europe. Ecuador is also a major transit country for chemical precursors to process illegal narcotics and is vulnerable to transnational organized crime due to weak public institutions, porous borders, and corruption. The Ecuadorian National Police (ENP), military forces, and the judiciary lack sufficient resources to confront the transnational criminal challenges they face. Elements of the Ecuadorian government remain committed to reducing the supply of drugs, although the country's top leadership places more importance on demand reduction and addressing the public health aspect of the issue.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Ecuadorian government is cognizant of the detrimental effects of narcotics trafficking, and the upsurge in transnational organized crime throughout the country. In 2012, U.S. funding provided logistical support for Ecuadorian counternarcotics operations, construction and maintenance assistance activities at police and military facilities, equipment, and training for police and military personnel. In 2012, Ecuador rejected $15.6 million offered in U.S. foreign assistance for security, counternarcotics, and development work on the northern border, due to Ecuadorian government sovereignty concerns.

An article in Ecuador's pending draft penal code would decriminalize the possession of illegal narcotics for personal use, although it is unlikely that the bill will be voted on until after the February 2013 national elections.

Ecuador's Transitional Judicial Council continued its justice sector reform efforts to increase prosecutorial capacity through U.S.-sponsored training of over 3,700 prosecutors, judges, defense attorneys, and other judicial actors. The activity supported the transition from an inquisitorial legal system to an adversarial system.

The United States and Ecuador are parties to an extradition treaty which entered into force in 1873 and a supplementary treaty which entered into force in 1941. However, Ecuador's constitution prohibits the extradition of Ecuadorian citizens, and the United States and Ecuador do not have a significant extradition relationship.

The Government of Ecuador has signed bilateral counternarcotics agreements with Argentina, Brazil, Chile, Colombia, Cuba, the European Union, Guatemala, Mexico, Paraguay, Peru, Uruguay, Russia, Spain, the United Kingdom, Venezuela, and the United States, as well as the Summit of the Americas anti-money laundering initiative, and the Organization of American

States' Inter-American Drug Abuse Control Commission document on Anti-Drug Hemispheric Strategy. The United States and Ecuador have agreements on measures to prevent the diversion of chemical substances, on the sharing of information for currency transactions over $10,000, migrant smuggling and human trafficking, and a customs mutual assistance agreement. The United States Coast Guard and Ecuadorian authorities also exercise Maritime Operational Procedures that facilitate the boarding of Ecuadorian-flagged vessels in international waters.

2. Supply Reduction

Ecuador remains a major transit country for cocaine shipments via aerial, terrestrial, and maritime routes, and heroin shipments via air and mail. According to U.S. government estimates, up to 110 metric tons (MT) of cocaine transit Ecuador annually. This includes cocaine from Peru and Colombia, heroin from Colombia follows a similar pattern. Drug traffickers and movers of contraband transport shipments in various ways, including through small fishing boats, self-propelled semi-submersible and fully-submersible submarines, "go-fast" boats, non-commercial aircraft, human couriers, mail, and container ships. Mexican, Colombian, Nigerian, Russian, and Chinese transnational criminal organizations including Los Zetas, the Sinaloa and Gulf cartels, and the Revolutionary Armed Forces of Colombia (FARC), are actively working in Ecuador.

In 2012, Ecuador's counternarcotics activities chiefly focused on the interdiction of land-based cocaine, including the identification and destruction of cocaine processing laboratories. Official police statistics indicated a small increase in cocaine seizures in 2012 compared with 2011, but an overall decrease since the closure of the Manta Forward Operating Location (FOL) – a facility that permitted U.S. flights to detect and monitor drug shipments – in 2009 when seizures exceeded 40 MT per year. Cocaine seizures in 2012 totaled 21.4 MT compared to 21.1 MT in 2011. Cocaine processing is common and appears to be on the rise.

In 2012, Ecuadorian police seized 185 kilograms (kg) of heroin compared with 152 kg in 2011. Authorities seized 10.7 MT of marijuana last year.

Maritime seizures remained low in part due to the 2009 closure of the Manta FOL, the Ecuadorian Navy's lack of resources, and its ineffective interdiction efforts. Nonetheless, U.S. cooperation with the Ecuadorian Coast Guard (an independent but subordinate unit to the Navy) resulted in seven operations in 2012 that disrupted or seized semi-submersible submarines, "go-fast" boats, or shore-side caches of drugs. In September, Ecuador acceded to the UN Convention on the Law of the Sea and continued to allow the U.S. Navy and U.S. Coast Guard to board Ecuadorian vessels suspected of narcotics trafficking in blue waters outside Ecuador's Exclusive Economic Zone.

Drug traffickers continued to use bulk cargo and shipping containers to smuggle drugs out of Ecuador, and did so at an increased rate. Drug traffickers often conceal drugs in a variety of licit cargo. On October 11, Belgian officials (with assistance from the ENP) seized 8 MT of cocaine packed in banana boxes aboard a ship that sailed from Guayaquil. Additionally, traffickers continued to smuggle petroleum ether (also known as white gas), gasoline, and other precursor chemicals in large quantities from Ecuador to Colombia and Peru for cocaine processing.

A 2010 UN Office on Drugs and Crime (UNODC) report on coca cultivation in Ecuador found no significant coca crop cultivation in Ecuador's northern border region. Although data indicate that poppy cultivation is rising, when Ecuadorian police or military detected small-scale poppy or coca cultivation, they immediately eradicated it. In 2012, the government eradicated 61,056 coca plants; 1.8 million poppy plants; and 85,134 cannabis plants.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Ecuador has a growing problem with domestic drug abuse. According to UNODC data, the average age of first-time drug users in Quito and Guayaquil dropped from 14.5 in 1998 to 13.7 in 2010. Local data regarding trends in drug abuse is limited. All drug offenders are entitled to drug treatment under the Ecuadorian constitution, but there is a lack of adequate resources and facilities to treat addicts. There are 25 out-patient drug treatment facilities and five public in-patient drug treatment facility in Ecuador. Other drug treatment options, such as the 187 private facilities that provide drug treatment alternatives, are often cost-prohibitive for addicts and users.

Coordination of abuse-prevention programs is the responsibility of the National Narcotics and Psychotropic Substances Control Council, known by its Spanish acronym, CONSEP. CONSEP leads a multi-agency national prevention campaign in schools. The campaign consists of nationwide workshops focused on the school-aged population and community outreach.

UNODC conducts a demand reduction and drug prevention program in Ecuador, with partial funding from the United States.

4. Corruption

As a matter of policy, the Ecuadorian government does not encourage or facilitate the illicit production or distribution of narcotic or other controlled substances, or the laundering of proceeds from illegal drug transactions. Ecuador passed an anti-drug law in 1990 (Law 108) that prescribes prosecution of any government official who deliberately impedes prosecution of anyone charged under that law. As such, some aspects of official corruption are criminalized, but there is no comprehensive anti-corruption law. There were also no successfully-prosecuted cases of government officials, police, or military involved in narcotics trafficking-related corruption in 2012.

Several government entities are responsible for receiving and investigating corruption complaints, but resource constraints and political pressure generally lead to a lack of prosecution. A 2010 poll in Quito and Guayaquil indicated that 73 percent of the population perceived public sector corruption to be "somewhat widespread," and 21 percent of the respondents reported paying a bribe in the last 12 months. In 2012, Ecuador continued an anti-corruption initiative that includes polygraph examinations for the police force, authorization for commanders to permanently dismiss officers for corruption, and an augmentation of the internal affairs bureau. In 2012, authorities polygraphed approximately 1,100 officers, with a passing rate of approximately 50 percent.

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

In 2012, U.S. counternarcotics assistance and capacity-building programs improved the professional capabilities and resources of Ecuador's police, military, and judicial agencies, enabling them to more effectively combat criminal organizations involved in narcotics trafficking and money laundering.

Factors such as widespread poverty, rural isolation, and a proximity to FARC-controlled Colombian territory fueled instability and insecurity Ecuador's northern region. The United States continued to support programs that improve good governance and create opportunities for licit activities in areas along the northern border. In 2012, the United States financed 37 infrastructure projects that benefited some 21,000 people; helped generate more than 2,000 jobs; increased the average incomes of nearly 3,000 families by strengthening value chains in cacao, coffee, and other products; and strengthened 20 local governments in the northern border. The United States also supported Ecuador's police and military presence in a variety of strategic locations throughout the country. Weapons smuggled through Ecuador and destined for the FARC are particularly concerning to Ecuador and the United States.

The National Antinarcotics Police (DNA) is the primary recipient of U.S. counternarcotics assistance, including the provision of training and equipment (including vehicles), as well as construction assistant as specific land and maritime ports of entry. The DNA includes units such as the Mobile Anti-Narcotics Team, a drug detection canine program, and a money laundering unit. In 2012, the United States continued to provide support to the military to facilitate its mobility and communications capacity, helping to improve security and the interdiction of illicit goods along the northern border. A U.S.-sponsored vetted police unit accounts for approximately 50 percent of all drug seizures in Ecuador (excluding marijuana).

Ecuador regularly participates in the U.S.-sponsored Multilateral Counterdrug Summit. The goal of these summits, which include participants from across the hemisphere, is to identify and implement cooperative measures to combat maritime drug trafficking. Additionally, the United States conducted a maritime interdiction course for the ENP's Special Forces (GIR) and Customs, and provided training to the Ecuadorian Coast Guard.

The United States also supports prevention programs in coordination with the Ministry of Education, CONSEP, and other governmental entities that address drug abuse awareness.

D. Conclusion

The United States supports Ecuador's counternarcotics efforts and strongly encourages Ecuador to place a higher priority on the interdiction of illicit drugs, chemical precursors, eradication of coca and poppy, and destruction of cocaine labs. As traffickers continue to take advantage of Ecuador's vast maritime territory, increased port security and maritime patrols are increasingly necessary.

The Administration of President Rafael Correa recognized the need to increase interdiction efforts on the rivers and waterways throughout Ecuador and tasked the GIR to augment the Navy's interdiction efforts. In April, the GIR acquired two Renegade 38-foot boats, and Ecuador's government indicated that it intends to purchase more boats in the future. Ecuador is also building three, 100-foot intercept vessels to augment its maritime interdiction capability and is exploring ways to share information and begin joint maritime patrols with Peru. The United States will work with Ecuadorian Coast Guard, Navy, and Customs officials to increase its interdiction capacity at sea and port facilities.

Poor coordination between military and police hinders the government's ability to gather evidence and prosecute drug trafficking. Ecuador should give higher priority to the prosecution of transnational crime, including money laundering and official corruption cases, and increase its focus on justice sector reform and strengthening of the rule of law.

Egypt

Although Egypt is not a major producer, supplier, or consumer of narcotics or precursor chemicals, it is a transit point for transnational shipments of narcotics from Africa to Europe. This is due to Egypt's mostly uninhabited borders with Libya and Sudan and the high level of shipping through the Suez Canal. It is also a destination market for hashish, primarily from Morocco and Afghanistan.

The Anti-Narcotics General Administration (ANGA) oversees national counter-narcotics operations in Egypt and cooperates with the U.S. Drug Enforcement Administration office in Cairo to identify, detect, disrupt and dismantle national and international drug trafficking organizations operating in Egypt. Since the revolution of 2011, ANGA has not conducted eradication programs in the Sinai due to security concerns but plans to reinitiate these programs in 2013. Large-scale seizures and arrests related to cocaine, heroin and methamphetamine are rare, but there are very large seizures of opium, hashish, marijuana, and psychotropic pills, particularly tramadol. ANGA has identified tramadol, an opioid pain killer that is obtainable at local pharmacies, as a major problem. Tramadol originates primarily in India and China and enters Egypt mainly through the sea ports.

Although it has a limited budget, ANGA updates its operating equipment on a systematic basis, and routinely enhances and services its effective communication system. Cooperation between ANGA and other Egyptian law enforcement agencies remains good, including on large-scale anti-drug campaigns. ANGA's seizures for 2012 remain reasonably consistent compared to amounts in years past, with the exception of tramadol seizures. ANGA reports that it seized 374,474,296 tramadol pills between January and October of 2012, an eight-fold increase from 2011.

Imports to Egypt of ephedrine and pseudoephedrine, precursor chemicals for methamphetamine, increased sharply in 2010 and 2011 as Egypt became a regional producer of cold and flu medicine. There are no reports indicating widespread diversion of these chemicals, and Egyptian authorities have not made any seizures.

As a matter of policy, the Government of Egypt does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. Egypt has strict laws and penalties for officials convicted of involvement in narcotics trafficking activities.

El Salvador

A. Introduction

El Salvador continues to be a major transit country for illegal drugs destined for the United States from source countries in South America. El Salvador was identified as a major transit country for the second year in a row in the President's 2012 report to Congress on Major Illicit Drug Producing and Drug Transit Countries. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012.

Traffickers in El Salvador use "go-fast" boats as well as fishing and commercial vessels to smuggle illegal drugs. Land transit of illicit contraband and cash primarily occurred along the Pan-American Highway. Salvadoran transnational criminal gangs were involved in street-level drug sales, but tend not to be a major component of the logistics supply chain for Mexican, Colombian, and other drug trafficking organizations. In October 2012, the U.S. Department of Treasury designated the Mara Salvatrucha (MS-13), a criminal gang, as a significant transnational criminal organization.

The government of President Mauricio Funes partnered with the United States on a wide range of counternarcotics activities. The U.S.-El Salvador Partnership for Growth agreement, signed in November 2011, does not specifically address counternarcotics cooperation, but does include programs aimed at reducing the security constraints to economic growth in the country. This includes efforts to enhance law enforcement, promote judicial reform, and divert at-risk youth from criminal activity. Despite ongoing cooperation, however, Salvadoran law enforcement lacked sufficient personnel, training, and equipment to effectively manage their land borders and interdict drug trafficking, particularly in the country's littoral waters.

According to El Salvador, the truce between MS-13 and 18th Street gangs that began in March 2012 produced a 40-percent decline in the country's homicide rate. The truce did not appear to significantly impact other forms of criminal activity, including narcotics trafficking.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) remains the primary law enforcement agency responsible for combating illegal drug activity. The vetted antinarcotics unit (GEAN) within the DAN is responsible for conducting sensitive counternarcotics investigations, but few operational results were achieved in 2012. The GEAN suffered from retention issues, staffing shortages and limited leadership.

The Government of El Salvador advanced an ambitious series of reforms to its correctional institutions, combating the management of criminal operations from behind prison walls. El Salvador's Central National Prison Directory (DGCP) opened two prison pilot programs to

reduce overcrowding in the prisons and temporary holding cells, estimated at 310 percent of their designed capacity. The Salvadoran government, with U.S. assistance, began remodeling and enlarging the temporary holding cells at all 25 PNC precincts, with the goal of completing the project by the end of 2013. The United States also provided 27,000 hard-copy files and 12,300 inmate uniforms of different colors to categorize different offenders, streamline prosecution and judicial processes, and classify offenses.

The DGCP began to implement an electronic filing system database to automate the prisons filing systems; to date it has completed 3,686 inmate files for Sonsonate, Quezaltepeque, and Ilopango prisons and completed 50 percent of the 6,000 inmate files for Mariona prison. The DGCP is in the process of initiating a $50-per-month compensation plan for inmates who work in community service projects, payable upon the completion of their sentences. However, as part of the gang truce, the Government of El Salvador relaxed some of the restrictions that sought to prevent criminals from continuing to engage in their illicit activities from the prisons.

Since 2010, the United States has collaborated with El Salvador on a National Electronic Monitoring Center, which began operations in June 2012. The center will allow Salvadoran law enforcement to intercept electronic communications needed to pursue investigations of drug trafficking organizations, gangs, and other transnational criminal organizations. The center achieved one of its first operational successes by generating information that led to the capture of 14 gang members charged with extortion in August.

The government established Joint Task Force "Grupo Cuscatlan," an interagency unit composed of civilian law enforcement and military personnel, in 2012 to better integrate the PNC and military in efforts to combat transnational organized crime. The Joint Task Force will utilize three helicopters and six inflatable boats provided by the United States. The United States also provided training to ten PNC and military officers assigned to the unit.

El Salvador is a party to the Central American Convention for the Prevention of Money Laundering Related to Drug-Trafficking and Similar Crimes, 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 prohibition on life imprisonment is an obstacle 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. However, no Salvadoran citizens wanted for crimes committed in the United States have been extradited since 2010, and the Government of El Salvador has not processed two provisional arrest warrants submitted in June 2012. 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. Requests for judicial cooperation are made through formal and informal channels, including formal legal assistance requests through "central authorities" related to the multilateral law enforcement cooperation treaties and conventions to which the United States and

El Salvador are parties. El Salvador processes U.S. requests for legal and judicial assistance in a timely manner.

2. **Supply Reduction**

In 2012, government authorities reported a decrease in the volume of illegal drugs seized from 2011 and 2010 levels, partially resulting from institutional turnover within military and police forces. According to government figures, authorities seized 327 kilograms (kg) of cocaine, 12.5 kg of heroin, and 452.6 kg of marijuana. In November, the DAN seized 118 kg of cocaine at Metalío beach, Sonsonate, with a U.S. street value of $2,825,000. Authorities also seized approximately $2.03 million in currency and property related to illicit activities, including drug trafficking. Salvadoran officials continued investigating the fraudulent importation of precursor chemicals used to manufacture synthetic drugs, seizing 57 barrels of chemicals imported from China, which were then abandoned by a local business.

3. **Drug Abuse awareness, Demand Reduction, and Treatment**

Drug use among Salvadorans is a concern, particularly among youth, although the government did not keep reliable statistics for illegal consumption in 2012. The United Nations Office on Drugs and Crime reports the prevalence of cocaine use in Central America has increased slightly from 0.4 to 0.5 percent for the population age group of 15-64.

The PNC expanded the U.S.-funded Gang Resistance Education and Training (GREAT) program to reach more targeted schools. In 2012, the United States trained 18 PNC officers as full time GREAT instructors, allowing 2,000 youth-at-risk to complete the gang resistance curriculum. U.S. experts also provided training to over 600 officers in one precinct in investigative techniques, collection and analysis, and citizen outreach for model precinct initiatives.

4. **Corruption**

As a matter of policy, the Government of El Salvador does not encourage or facilitate production and distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering or proceeds of illicit drug transactions. Nevertheless, corruption within the Salvadoran political system remains a concern. In 2012, allegations of attempted bribery of national legislators to vote for candidates for Attorney General were reported and at least two legislators filed formal complaints.

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

The Government of El Salvador is committed to cooperating with the United States to confront organized criminal and narcotics trafficking organizations and advance programs that strengthen institutional capabilities to investigate, sanction, and prevent corruption. The government continued to provide prompt responses to U.S. requests regarding maritime drug interdiction cases in 2012. El Salvador participated in the semi-annual Multilateral Maritime Counterdrug Summit, which included participants from 12 Central and South American Countries to improve strategies and cooperation against drug trafficking organizations.

U.S. assistance focused on enhancing the operational capacity of Salvadoran law enforcement agencies to interdict narcotics shipments and combat money laundering and public corruption. Assistance also promoted transparency, efficiency, and institutional respect for human and civil rights within law enforcement and the criminal justice system. The U.S. government supported Salvadoran efforts to combat transnational criminal gangs, particularly the 18th Street and MS-13 gangs, which also operate in the United States.

The United States provided assistance to El Salvador to combat crime, violence, transnational crime, and improve citizen safety, including through the Central America Regional Security Initiative. The United States supports Salvadoran efforts to develop and implement holistic initiatives to disrupt gang activity that leads to criminal activity including drug trafficking. In 2012, U.S. assistance included specialized training for 218 regional officers in intelligence-led policing, homicide reduction, and basic and advanced community policing.

The United States provided a total of 115 computers to 32 government-supported community outreach centers, as part of community policing and at-risk-youth prevention programs, centered on "model precincts" in high crime areas. The program includes the creation a National Civilian Police children's athletic league managed and coached by PNC volunteers and targeting over 700 at-risk children. Both the outreach centers and model precincts work to decrease drug consumption and increase law enforcement presence in high-crime areas, reducing the high level of insecurity that makes these areas attractive to drug traffickers and other transnational criminal groups.

The United States provided support for the Government of El Salvador's National Strategy on Municipal Crime Prevention, as well as the implementation of the new criminal procedure code. U.S. assistance helped to build local and national capacity to identify crime patterns and implement violence-prevention projects.

D. Conclusion

El Salvador strengthened its capacity to confront illegal drugs, crime, and violence in 2012. The PNC's wiretapping unit is functional and beginning to deliver results. Drug-related violence declined in 2012, though attribution of declining rates to changing dynamics between criminal groups remained uncertain. El Salvador faces formidable challenges, and must take additional steps to promote sustainable and effective law enforcement institutions. Improved asset forfeiture laws need to be drafted and passed as a cornerstone for El Salvador's ability to dismantle transnational criminal groups. Seized assets can also provide a resource base from which enhanced law enforcement and judicial capacities can draw.

The Government of El Salvador can extend the successes of 2012 by demonstrating continued leadership on crime prevention programs, citizen security, counternarcotics, and the rule of law. Next steps should include the provision of additional manpower, resources, and equipment to the PNC; strengthened internal affairs capacity to root-out those who support criminals from within the police, prisons, and judiciary; and ensuring adequate pay to minimize the risk of corruption. El Salvador should work to address issues associated with the extradition of its nationals to allow

for the use of extraditions as a deterrent for crime and a means to reinforce national security. El Salvador's correctional institutions also require management reform, and the country's security and justice sector officials must be held accountable for their performance. The Government of El Salvador understands that promoting citizen security is essential for promoting the country's economic growth. El Salvador can improve its interdiction operations, especially land transit of narcotics and cash via the Pan American highway. The United States also encourages El Salvador to carefully monitor remittances from the United States to prevent money laundering.

French Caribbean

The islands of the French Caribbean serve as transshipment points for drug trafficking by air and sea between South and Central America to Europe and, to a lesser extent, the United States. There is also limited marijuana cultivation for domestic consumption. The broad geographic expanse of the Caribbean Sea and the proximity of the French Caribbean departments to other nations with relatively lax law enforcement and endemic corruption facilitate drug trafficking in the area. Specifically, Martinique and Guadeloupe are significant transshipment points for drugs moving through the region, primarily imported cocaine, cannabis, and ecstasy. More than half of France's cocaine seizures are made on or off the coast of these two islands. Official 2012 statistics were not available at this report's publication, but in January 2012, the French Central Office for Combating Drug Trafficking (OCRTIS), in conjunction with the French Navy, seized 1.2 metric tons of cocaine from two yachts off the east cost of Martinique. In May, French officials seized 174 kilograms of cocaine from a sailboat off the coast of Martinique and arrested four Croatian nationals found to be part of a larger network trafficking large quantities of drugs to Europe. Both seizures resulted from investigations conducted at least partly in collaboration with American authorities.

French Guyana and the islands of Martinique, Guadeloupe, the French side of Saint Martin, and St. Barthelemy are all overseas departments of France and subject to French law. They all follow French policies and programs regarding the treatment of drug addiction and lessening of domestic demand. They are also subject to all international and bilateral conventions signed by France and participate in regional cooperation programs initiated and sponsored by the European Union. The departments' governments can request additional resources from the central government in their fight against illegal drug smuggling. The French Judiciary Police, Gendarmerie, and Customs Service play major roles in narcotics law enforcement in France's overseas departments. In February 2012, former Interior Minister Claude Gueant announced the creation in Fort-de-France of an OCRTIS satellite office that will focus on financial assets of criminal networks involved in drug trafficking.

Georgia

A. Introduction

Georgia is a transit and destination country for illicit drugs produced in other countries. The most significant route runs from Afghanistan and Iran through Azerbaijan and Georgia, to destinations in Western Europe, Turkey, and Russia. International-bound trucks sometimes carry narcotics on this route, transiting Georgia before traveling to Ukraine, Moldova, or Bulgaria on Black Sea ferries. Concealed compartments in passenger cars are another means used to smuggle heroin from Iran to Turkey via Georgia, with the ultimate destination being Western Europe. The Russian-occupied territories of South Ossetia and Abkhazia remain beyond the control of Georgian law enforcement, and there is speculation that drugs flow through these areas.

Georgia also has a domestic drug problem. Domestically-manufactured amphetamine-type stimulants (ATS) nicknamed "Jeff" and "Vint" and a locally-produced desomorphine opioid known as "Krokodil" have been gaining popularity. Among other drugs, heroin, buprenorphine, methadone, and marijuana are available on the domestic market. There is domestic production and use of methamphetamines and pseudoephedrine derivatives and abuse of pharmaceutical drugs, especially in urban areas.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2011, the government created a coordinating council facilitated by the Ministry of Justice to draft a national strategy and action plan to combat drug use, involving multiple government agencies, NGOs, international organizations, experts, and scientists. The Georgian government will likely submit the National Strategy and Action Plan for parliamentary review in 2013. Despite some amendments to the national law on narcotics in 2012 to meet certain international norms, current national legislation does not conform to the 1988 UN Drug Convention's requirements, particularly in the listing of drugs designated as illegal under Georgian law.

The Government of Georgia has signed counternarcotics agreements with the United States, with the Black Sea basin countries, the GUAM organization (Georgia, Ukraine, Azerbaijan, and Moldova), Turkey, Iran, Egypt, Kazakhstan, Uzbekistan, and several European countries.

2. Supply Reduction

Emphasis at Georgia's borders is on facilitating trade, and less on control and inspection. As a result, drug seizures at the border vary significantly from year to year and do not give a reliable indication of the amount of contraband transiting the country. According to the Ministry of Internal Affairs (MoIA), less than one-tenth of one kilogram (kg) of heroin was seized between January and June of 2012 (.095 kg), along with less than one kg of marijuana. Both of these totals are marginally less than seizures in 2011. Seizure totals for synthetic drugs were similarly

low (a fraction of a kilogram for all categories), but higher than amounts for similar periods during 2011. During this six month reporting period, 1,391 drug-related cases were reported, a lower volume than previous years.

Traditional drugs such as heroin, cocaine, and barbiturates are in limited demand in Georgia due to their high price. These drugs are rarely found on the black market. Physicians and analysts have expressed concern about the increasing use of Jeff and Vint, which can be made at home from widely available over-the-counter medicines, cleaning solutions, and chemical solvents; and Krokodil, made at home from similar precursors mixed with codeine. Codeine is available with a prescription, but is also sold "under the table" by pharmacies without a prescription. The Government of Georgia has not yet developed a comprehensive mechanism for combating the steadily increasing use of homemade stimulants and opioids, which are injected, highly addictive, and carry severe health risks including brain and tissue damage.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Domestic drug abuse remains a problem for Georgia. Experts estimate that the intravenous drug user (IDU) population in Georgia is approximately 40,000-45,000 (out of a total population of 4.5 million). According to the National Forensic Bureau, the number of all types of registered drug users is about 180,000, but this figure is widely regarded by experts as over-inclusive and includes one-time experimenters. Intravenous drug use is very low both among youth and female populations.

There is still a lack of systemic drug prevention measures, even though treatment and social rehabilitation programs have become more active. The United States has supported development of a healthy lifestyle course discussing the harmful impact of drug use, and is now assisting the Government to institutionalize the course in the Georgian public education system. Public information about dangerous drugs remains inadequate, and statistics about drug use are limited and unreliable. The Georgian government has increased funding for drug treatment and prevention in 2011 and 2012. Newly added methadone treatment centers and increased funding for infrastructure improvements resulted in a decreased number of patients on waiting lists for drug substitution therapy. Some NGOs and faith-based groups also run detoxification, drug substitution, or walk-in and counseling centers for drug addicts. The Global Fund fully covers treatment of HIV/TB infected patients. There is nevertheless a continuing lack of trained human resources in this field, particularly in the area of psychosocial addiction treatment and rehabilitation programs.

4. Corruption

The Georgian government has made great strides in eliminating corruption from law enforcement agencies since the 2003 Rose Revolution and remains committed to this effort. 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, allegations of some high-level corruption still surface and a small number of civil servants are prosecuted each year on corruption charges. There have been no serious corruption allegations

against the narcotics law enforcement units at the MoIA. The Government of Georgia does not, as a matter of policy, encourage or facilitate trafficking in narcotics.

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

The United States provides direct counternarcotics assistance on demand reduction and treatment, and to enhance law enforcement's capacity to detect and interdict illegal narcotics. The United States is working to establish a canine drug detection program, and provides additional training for counter narcotics units, including case management, drug-trafficking financial investigations, "train-the-trainer" sessions for basic narcotics courses, and developing task forces of police and prosecutors to handle more complex investigations of drug rings and narcotics trafficking networks. To counter the increase in domestic production of homemade stimulants and opioids, the United States also plans to offer training in identifying clandestine laboratories and illicit compounds, as well as preservation of evidence for prosecution.

In 2012, U.S. assistance supported Georgian efforts to make testing and treatment more accessible for methadone therapy participants, which included opening the first drop-in center in Tbilisi for psycho-social assistance. The United States is currently helping the Georgian government start counseling and referral centers for mobile populations.

The United States continues to help Georgian authorities improve the prosecution of narcotics crimes and money laundering, and developing trial skills in an adversarial system. Similarly, the United States is providing training and equipment for Georgia's forensics laboratories, including drug screening, toxicology, and chemistry labs.

U.S. training and equipment assistance programs for border police and customs officers continues to focus on port security, drug interdiction, and the identification and detention of violators and criminals at the border. U.S. assistance has helped to rebuild the Georgian Coast Guard's capacity for maritime law enforcement. Because Georgia's basic police force is increasingly being tasked with border security responsibilities, the United States has also been ensuring that police receive appropriate training and equipment to manage ports of entry.

D. Conclusion

The United States encourages Georgia to continue mounting a strong law enforcement response to drug trafficking. With the noteworthy shift in domestic drug use from heroin and other traditional drugs to domestically-produced stimulants and opioids, it is also important for law enforcement and prosecutors to work closely to investigate and bring these evolving cases to trial. At the same time, NGOs, addiction experts, faith-based groups, and other stakeholders should continue working to provide more effective treatment and advocacy to reduce drug demand. The United States will continue to provide training and technical support on narcotics control issues, and encourage inter-agency and government-to-civil society cooperation.

Germany

Germany is a consumer and transit country for narcotics, but not a significant drug cultivation or production country. The German government actively combats drug-related crimes, emphasizing prevention programs and assistance to victims of drug abuse. The Federal Cabinet adopted the new National Strategy on Drug and Addiction Policy on February 15, 2012; it replaced the 2003 Action Plan on Drugs and Addiction. Cannabis remains the most commonly consumed illicit drug in Germany. Germany is a major manufacturer of legal pharmaceuticals, making it a potential source of precursor chemicals used in the production of illicit narcotics. Germany, however, strictly and effectively controls precursor chemicals.

Led by the National Drug Commissioner, the Federal Ministry of Health has the leading role in developing, coordinating, and implementing Germany's drug policies in programs, working in close cooperation with others such as the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of the Interior, the Federal Foreign Office and the Federal Ministry of Finance. Policies stress prevention through education. The Ministry, in close cooperation with other competent ministries and federal states, funds numerous research and prevention programs. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy. Since the mid-1980s, Germany considers substitution therapy an important pillar in the treatment of opiate abuse. Currently, around 77,000 patients are undergoing substitution therapy in Germany.

600,000 individuals in Germany show risky consumption patterns of cannabis, while 200,000 individuals show risky patterns with regard to other illegal drugs, according to Federal Health Ministry data. The number of drug-related deaths in Germany continued to decrease in 2011 (the most recent year for which statistics are available). A total of 985 people died as a result of consuming illegal drugs (mostly heroin in combination with other drugs) in 2011, down from 1,237 in 2010. Over 21,300 users of "hard drugs" (classified as non-cannabis substances) were newly recorded in 2011, a 14.5-percent increase over 2010.

Extradition and mutual legal assistance treaties are in force between the United States and Germany, as well as a customs mutual legal assistance agreement.

Germany participates actively in bilateral cooperative arrangements and European and international counter-narcotics fora. Counternarcotics enforcement remains a high priority for the Federal Office of Criminal Investigation, the Federal Office of Customs Investigation, and state-level law enforcement agencies. German law enforcement agencies work effectively with their U.S. law enforcement counterparts on narcotics-related cases. The United States anticipates that Germany and the United States will continue this level of cooperation on counternarcotics into the future.

Ghana

A. Introduction

Ghana continues to be a transshipment point for illegal drugs, particularly cocaine from South America and heroin from Afghanistan and Pakistan. Although Europe is the main destination, large amounts of drugs also transit to the United States through Accra's Kotoka International Airport (KIA). Traffickers exploit ports at Tema and Takoradi and officials on the borders with Togo and Cote d'Ivoire report significant drug trafficking activity.

Trafficking is fueling increasing domestic drug consumption in Ghana. Local use of cannabis, heroin, and cocaine is increasing, as is the local cultivation of cannabis. Diversion of precursor chemicals seems to be on the rise, primarily for the production of methamphetamine. There is a lack of government regulation and oversight of precursor chemicals.

Corruption, insufficient resources, and porous borders seriously impede interdiction efforts. While law enforcement authorities continue to arrest low-level narcotics traffickers, Ghana has had relatively little success pursuing so-called drug barons. Cases involving narcotics and other serious crimes can sometimes take years to prosecute. Inexperienced prosecutors and judges, overbooked attorneys, the failure of witnesses to appear in court, and breakdowns in coordination among law enforcement agencies all contribute to delays in prosecution.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Ghana took several noteworthy steps in 2012 to expand its capacity to fight narcotics trafficking and to uphold the rule of law. In February, Ghana became a party to the UN Convention against Transnational Organized Crime. The Economic and Organized Crime Office (EOCO), established in 2010 to investigate narcotics trafficking and other serious crimes, developed internal standard operating procedures, which will be considered for ratification by Parliament in early 2013. The Financial Intelligence Center, charged with analyzing and reporting suspicious financial transactions, became fully functional in 2012 and has taken numerous steps to make Ghana compliant with international anti-money laundering regulations. However, law enforcement institutions continue to face a number of obstacles, including limited budgets.

2. Supply Reduction

Cocaine and heroin are the main drugs traffickers smuggle through Ghana. Cocaine is sourced mainly from South America and is destined for Europe, while Afghan heroin comes mainly from Southwest Asia and goes to Europe and North America. Locally-grown cannabis is shipped primarily to Europe. Domestic production and trafficking of methamphetamine is in its nascent stages. 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. Narcotics are often repackaged in Ghana and then hidden in shipping containers or secreted in air cargo. Smaller shipments are also moved by human couriers through KIA. The most common methods involve false bottom suitcases or body cavity concealment. While cases involving West African traffickers are the most common, Ghanaian officials continue to arrest nationals from other regions for trafficking as well.

Ghanaian law enforcement had some success in 2012 working with neighboring countries on joint interdiction efforts. In July, immediately following a joint training involving ECOWAS, Interpol, Benin, Ghana, and Togo, trainees from those three states carried out counternarcotics operations at their countries' airports, sea ports, and land borders. In Ghana, officials seized 24 kilograms (kg) of marijuana.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Illicit drug use is growing in Ghana. Ghanaians most frequently abuse cannabis, but the use of other drugs is on the rise. According to Ghana's Narcotics Control Board (NACOB), it is difficult to track drug abuse because there has never been a baseline study of the drug environment in Ghana and existing drug abuse statistics in Ghana are not comprehensive. Data from the Ghana Police Service indicate that cases involving cannabis are much more common than those involving cocaine or heroin. Ghanaians between the ages of 15 and 35 are the most likely to consume illicit drugs.

NACOB has a small office that handles drug-abuse awareness and demand reduction programs. It supports a coalition of roughly 15 non-governmental organizations that work on youth education and demand reduction. The National Committee on Civic Education (a government funded, quasi-independent body) also launched a drug awareness tour of the country in 2012 that brought students, young professionals, teachers, local leaders, law enforcement officials, and former drug addicts together for a series of educational workshops.

4. Corruption

As a matter of government policy, Ghana does not encourage or facilitate illegal activity associated with drug trafficking.

Corruption continues to be an issue in Ghana. Ghanaians perceive corruption as endemic in the police service, as well as in other government institutions. There is some public speculation that substantial amounts of drug money have been handed over to politicians in the form of campaign contributions. NACOB and the EOCO have taken steps to conduct strict background investigations for new recruits; however, these institutions are still young and face numerous difficulties that continue to hamper their operations. For example, on September 24, officials at London's Heathrow airport seized 1.9 metric tons of cannabis from three different cargo containers on a commercial flight originating from KIA. The following day, UK authorities intercepted 7.5 kg of cocaine on the same direct flight from Accra. Subsequently, NACOB officials detained several of their own officers and airport security personnel on suspicion of

corruption and conspiracy. To date, Ghana has not formally charged or prosecuted anyone in relation to this case.

In December 2011, Ghanaian courts acquitted a woman who had been arrested in 2008 for trafficking 1,020 grams of cocaine after a re-testing of the substance revealed that it had been replaced with baking soda while in the custody of the police. As a result of this case, the Ghana Police Service dismissed the Deputy Superintendant of the Ghana Police Service, but the government did not prosecute.

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

U.S. and Ghanaian law enforcement enjoy excellent cooperation on counternarcotics. The United States continues to provide technical assistance to several Ghanaian ministries and offices. As part of the West Africa Cooperative Security Initiative, the United States funded the creation of the West Africa Regional Training Center in Accra, scheduled to open in January 2013. The new facility will host training courses for law enforcement stakeholders in the region on combating transnational organized crime. The United States is working with the UN Office on Drugs and Crime and the Community Anti-Drug Coalition of America (CADCA) to provide assistance in combating drug trafficking and abuse in Ghana. The United States provides technical assistance to the Financial Intelligence Center and other key stakeholders to assist in anti-money laundering efforts. The United States has also provided operational and leadership training to Ghanaian maritime personnel.

D. Conclusion

Ghana's political leadership remains committed to combating narcotics trafficking and maintaining cooperation with international partners on counternarcotics. However, Ghana's law enforcement and judicial institutions continue to face a number of operational challenges that hinder the country's ability to combat narcotics trafficking. Ghana should provide increased 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 remains a major transshipment point for drugs destined for the United States. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012. International and local drug trafficking organizations (DTOs) exploit Guatemala's weak public institutions, pervasive corruption, and porous ports and borders to move illicit products, persons, and bulk cash. In addition to marijuana for primarily domestic consumption, Guatemala produces opium poppy and synthetic drugs for export. Improved law enforcement efforts in Colombia and Mexico, among other factors, led to an increasing volume of precursor chemicals transiting Guatemala.

President Otto Perez Molina, who took office in January 2012, made combating drug trafficking one of his administration's top priorities. His government remained a partner on counternarcotics in 2012. Perez Molina created a new Vice Ministry for Counter Narcotics within the Ministry of Government. The Vice Minister coordinates the government's extensive anti-drug efforts and established a mobile land interdiction unit charged with targeting DTOs operating in remote areas. Clandestine lab interdiction and the eradication of opium poppy increased in 2012, largely as a result of the government's counternarcotics initiatives.

Guatemala's pressing issues include high levels of violence fueled by the drug trade, money laundering, and other organized criminal activities; corruption within the police; and an overburdened and inefficient judicial system. Impunity remained high in 2012. Guatemala confronts continuing fiscal challenges in seeking to fund its counternarcotics initiatives. The country has the lowest tax collection rate in Central America and one of the lowest in Latin America.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Decreasing the country's high levels of violence and insecurity was the Perez Molina administration's stated top priority in 2012. According to the 2011 UN Office on Drugs and Crime (UNODC) homicide report, Guatemala had the eighth-highest murder rate in the world. The murder rate declined from 41 per 100,000 citizens in 2009 to 34.5 per 100,000 in 2012, according to UNODC. The Guatemalan Ministry of Government reported that, as of August 2012, the number of murders decreased by 42 percent compared to the same period the prior year.

Since passing the Seized Assets Law in December 2010, Guatemalan authorities seized approximately $7 million in bulk cash. In February, the Seized Asset Secretariat disbursed more than $190,000 to the Supreme Court to provide additional security for judges.

A 1903 extradition treaty between Guatemala and the United States is in effect and allows for the extradition of Guatemalan nationals. Guatemala adopted a supplemental extradition treaty adding narcotics offenses to the list of extraditable offenses 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. Guatemala worked with the United States to arrest high-profile traffickers in 2012. While cooperation in extraditing traffickers facing charges for crimes in the United States has at times been uneven, Guatemala did extradite a major drug trafficker in December. Lower courts have also authorized the extradition of high-level Guatemalan drug dealers to the United States.

Guatemala is a party to the Central American Commission for the Eradication of Production, Traffic, Consumption and Illicit Use of Psychotropic Drugs and Substances, as well as the Central American Treaty on Joint Legal Assistance for Penal Issues. It is also a party to 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 is fully implemented. Guatemala ratified the Inter-American Mutual Legal Assistance Convention, and is a party to the Organization of American States' Inter-American Drug Abuse Control Commission. Guatemala is one of six countries (along with Costa Rica, the Dominican Republic, France, Belize and the United States) that ratified the Caribbean Regional Agreement on Maritime Counter Narcotics, which is now in force.

2. Supply Reduction

The Vice Ministry for Counter Narcotics conducted two marijuana and opium poppy eradications missions along Guatemala's border with Mexico in 2012 – the first operations in more than a year. Anti-narcotics officials reported eradication of more than 590 hectares of opium poppy on these missions. The Vice Ministry also proposed developing a pilot plan to provide alternative sources of income and opportunities in the poppy growing region of San Marcos.

Sustained air interdiction efforts, supported by six U.S.-titled helicopters, have significantly deterred drug flights from entering the country. In 2012, Joint Inter-Agency Task Force South identified only seven suspected drug flights entering Guatemala, down from 60 in 2009.

According to government figures, Guatemala seized 4.7 metric tons (MT) of cocaine in 2012, compared to 3.96 MT in 2011, along with eight kilograms of heroin, over $2.4 million in drug-related currency, and over $5.6 million in drug-related assets. Law enforcement entities dismantled eight clandestine methamphetamine laboratories, double the number in 2011.

The growing stockpile of precursor chemicals in Guatemala presents an environment and health hazard. In October, the United States conducted an assessment of the seized chemicals in order to determine the location, quantity and storage conditions. Guatemalan authorities had on hand over 14,000 barrels of precursors, 7,000 bags of dry chemicals and 25,000 liters of liquid chemicals. In 2012 Guatemala seized 234 metric tons of precursor chemicals, and the United States intends to work with Guatemala to build capacity for proper storage and/or destruction.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Guatemala lacks current information and data to accurately assess the breadth of illicit drug abuse in the country. A 2005 household survey estimated a life-time prevalence of illicit drug use at 3.16 percent. Anecdotal evidence and the experience of other transshipment countries suggest that traffickers may be building a domestic market by providing drugs rather than cash to local couriers as payment.

In 2012, the Commission against Addictions and Drug Trafficking (SECCATID) remained underfunded with an annual budget of $450,000, of which approximately 80 percent was used to cover salaries. U.S. assistance to SECCATID for demand reduction focused on three main areas: institutional capacity building (training and equipment), drug research, and evidence-based programs. Guatemala has one government funded treatment center, though many private centers are in operation.

SECCATID developed a school-based drug prevention program, "My First Steps," in 2011 in 100 schools in the municipalities of Santa Catarina Pinula and Mixco, but the program was not expanded in 2012. SECCATID continues to support the implementation of U.S. Drug Abuse Resistance Education (DARE), Gang Resistance Education and Training program (GREAT), and the Police Athletic League (PAL) programs in high-crime areas of Guatemala with U.S. assistance funds.

4. Corruption

The Government of Guatemala 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. The UN-led International Commission Against Impunity in Guatemala (CICIG) was created in 2007 to investigate and dismantle criminal organizations operating within state institutions, to support Guatemala's prosecution of individuals involved in those organizations, and to transfer capacity to Guatemalan justice sector institutions. Its current mandate expires in September 2013, but President Perez Molina informally requested that its mandate be extended until September 2015.

The United States focuses its anti-corruption assistance on developing vetted and specialized units to counter the threat of corruption. The United States continues to work with the Guatemalan Police Reform Commission to address police reform.

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

Guatemala cooperated with the United States and regional partners on several important counternarcotics initiatives in 2012. As part of "Operation Martillo," an international effort aimed at disrupting illicit trafficking routes in the region's coastal waters, Guatemala hosted a contingent of U.S. Marines in Retalhuleu. In September, the Guatemalan Navy attended the U.S.-sponsored Multilateral Maritime Counterdrug Summit, which includes participants from Colombia, Ecuador, Peru, Chile, Mexico and all other Central American countries. The Guatemalan Navy also participated in maritime interdiction activities. Guatemalan military and

law enforcement personnel participated in counterdrug operations in Honduras, resulting in the interdiction of several tons of cocaine.

Guatemala and the United States continued to collaborate on a range of ongoing citizen security, counternarcotics, law enforcement, and rule-of-law initiatives in 2012, including the Central America Regional Security Initiative. U.S. assistance largely focused on building Guatemalan capacity and strengthening local institutions. Individual programs targeted training, equipping and developing partner capacity to detect and interdict drug trafficking; investigating and building criminal cases to prosecute towards successful resolution of cases; and improving police capacity for modern law enforcement techniques.

U.S. assistance supported the government's Police Reform Commission's efforts to professionalize the National Civil Police (PNC). United States law enforcement agencies also supported and mentored vetted PNC units, charged with investigating high-profile corruption, money laundering, and drug trafficking cases.

The United States provided support to an inter-agency anti-gang unit that brought together the PNC, Attorney General's office (MP), and analysts from the PNC's criminal analysis unit (CRADIC) to investigate and dismantle local gang organizations. Sustained aviation support for joint Air Force-PNC activities enhanced the Guatemalan government's ability to interdict drugs, conduct eradication, transport law enforcement agents and detainees/evidence to and from remote areas of Guatemala, and respond to natural disasters.

Through U.S. support for rule-of-law activities, Guatemala increased its capacity to prosecute narcotics traffickers, organized crime leaders, money launderers and corrupt officials. The United States provided financial and technical support to three special prosecutorial units for criminal cases and a special task force for investigation and preparation of high-impact narcotics cases. The seized asset law is a tool to deprive drug traffickers of illicit proceeds and provide needed resources to the law enforcement and justice sector.

D. Conclusion

The United States enjoys productive relations with Guatemala and will continue to support the government's efforts to improve its technical and organizational capacity in the security and justice sectors.

Drug seizures remained low in 2012, compared to the flow of narcotics through the country. The change in government complicated efforts to develop long-term strategies and fully implement programs. Moreover, for most of 2012, the PNC's counternarcotics units lacked a director and operational budget.

Guatemala would be better equipped to combat narcotics-related crimes in the country by fully implementing the Organized Crime Law and establishing and training operational units to use key investigative methods and practices. The United States encourages the Government of Guatemala to continue implementation of the Asset Seizure Law; quickly implement an anti-corruption law enacted by the Congress in October; approve legislation to regulate the gaming

industry; and reform its law governing injunctions, which is often used to delay processes and trials. These steps would help deprive criminals of their gains, expedite trials and procedures, and channel resources to security activities. Guatemala's anti-corruption efforts would be more effective if PNC reforms were implemented and the office of the Inspector General and the Office of Professional Responsibility reorganized. CICIG should continue to transfer capacity and responsibility to Public Ministry officials. Concrete and substantial police reform, with appropriate budgetary support, is necessary for sustained progress in Guatemala.

Guinea

A. Introduction

Guinea is a transshipment point for cocaine and heroin. Traffickers smuggle supplies of both drugs in from Guinea-Bissau for packaging and transport to Europe, the United States, and East Asia. Local demand is primarily for marijuana, which is mainly imported from Sierra Leone. Widespread corruption, budget cuts, damaged credibility of drug enforcement leadership, and growing public apathy on the use of narcotics have weakened drug enforcement efforts over the past two years.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2008, the Government of Guinea placed the Central Anti-drug Office (OCA) under a newly created secretariat designed to combat drugs and organized crime. During the first two years of operation, the department was very active arresting known traffickers and limiting the flow of drugs through Guinea. As a result of its success, the organization faced growing resistance from powerful traffickers in custody and from high-ranking officials involved in the drug trade. Political attacks against the OCA leadership have had a damaging effect on the organization's performance.

Other factors that have reduced the effectiveness of drug enforcement in Guinea include: budget cuts, reassignment of key law enforcement leadership, and a lack of cooperation with the judicial system. Most criminal cases in Guinea require the courts to conduct independent investigations to verify information presented by law enforcement. Courts rarely complete drug related investigations, allowing traffickers to evade prosecution.

2. Supply Reduction

An increasing number of drug seizures at Guinean ports, as well as international seizures traced back to Guinea indicate that the volume of drug trafficking through the country is increasing. Guinean law enforcement officials report that aircraft carrying illegal drugs have been landing at the Conakry international airport as well as in Dinguiraye, a small town in north central Guinea. Some sources believe Guinea-Bissau's recent political crisis has contributed to this situation by creating a permissive environment for narcotics trafficking to Guinea. Sources also report that many previously-arrested traffickers have been released by Guinean officials, and that traffickers are working with locally-based South American traffickers.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The government is making little effort to reduce demand for drugs in Guinea. Drug enforcement officials have limited resources for enforcement operations and no government agencies have resources for drug education or treatment. Marijuana is popular, and local demand for cocaine

and heroin is increasing as more expatriates move to Guinea. There is also a growing public tolerance toward the existence of illegal drugs. Many Guineans have grown cynical about the impunity enjoyed by many drug traffickers and feel there is little that can be done, given the current level of corruption existing in the government. Some wealthy traffickers also provide assistance to local families to increase support among the community.

4. Corruption

While as a matter of government policy, the Government of Guinea does not encourage or facilitate illegal activity associated with drug trafficking, corruption is prevalent throughout all elements of the Guinean government. Traffic police, airport security officers, soldiers manning checkpoints, government officials who issue documents, border guards, customs officials, and port authorities all routinely solicit bribes. Guinean law enforcement officials believe that criminals have significant political power and top-level government officials are involved in the drug trade. Law enforcement officers are reluctant to pursue arrests.

C. National goals, bilateral cooperation, and U.S. policy initiatives

Guinea and its neighboring countries do not have strong bilateral cooperation to fight the illegal drug trade. However, in October 2012, seven West African nations (Benin, Cote d'Ivoire, Guinea, Guinea-Bissau, Mauritania, Senegal and Togo) held a two-day regional seminar in Conakry to discuss ways to fight cocaine trafficking. These seven countries agreed to cooperate on a three-year initiative to fight cocaine trafficking in West Africa. France has agreed to provide up to $2.05 million to fund the initiative.

Pervasive corruption will constrain efforts to limit the flow of drugs. Full-time electricity is not available in most parts of Guinea, and computer databases to maintain criminal records, vehicle registration, and other information do not exist. Guinea also lacks the capacity to ensure border security.

The United States has had limited involvement in Guinean drug enforcement activities because the leader of the counter-drug agency remains wanted for questioning by the International Criminal Court concerning alleged human rights abuses.

D. Conclusion

Narcotics control efforts in Guinea have suffered considerably over the past two years. The Government of Guinea is in need of judicial reform, anti-corruption initiatives, information systems modernization, drug enforcement resources, credible drug enforcement leadership, drug treatment and awareness campaigns, as well as international assistance to monitor enforcement operations. Without improvement in some of these areas, narcotics trafficking in Guinea is likely to continue to rise.

Guinea-Bissau

A. Introduction

Guinea-Bissau is a significant transit hub for drug trafficking from South America to Europe. The country's lack of law enforcement capabilities; demonstrated susceptibility to corruption; porous borders; convenient location between Europe, South America, and neighboring West African transit points; and linguistic connections to Brazil, Portugal, and Cape Verde provide an opportune environment for traffickers. Islands off the coast of Guinea-Bissau are drug trafficking hubs. Guinea-Bissau's political systems remain susceptible to and under the influence of narcotics traffickers; the complicity of government officials at all levels in this criminal activity exacerbates the problem.

President Malam Bacai Sanha died in January 2012. Guinea-Bissau planned to hold a run-off election in late April 2012, but these plans were interrupted by a coup on April 12. The Economic Community of West Africa States (ECOWAS) brokered an agreement for Manuel Serifo Nhamadjo, Interim President of the National Assembly and next in line of succession to head the transitional government until a president is democratically elected in spring 2014.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Developments

The Transitional Government of Guinea-Bissau is in the process of reforming the country's security services, including those responsible for counternarcotics enforcement, but without international support. The UN Office on Drugs and Crime (UNODC) and the UN Integrated Peace-Building Office in Guinea-Bissau (UNIOGBIS) reduced their Security Sector Reform programming before the April coup. After the coup, the Governments of Brazil, Angola, and Portugal suspended their military and police training indefinitely
.
In 2011, the United States funded a Justice Sector Advisor, who assessed the needs of Guinea-Bissau's justice agencies and coordinated U.S.-funded projects with UNIOGBIS and UNODC. A U.S.-funded Regional Law Enforcement Advisor developed a training strategy and coordinated U.S. assistance to Guinea-Bissau's law enforcement agencies. This low-cost effort proved to be highly successful in developing relations between Guinea-Bissau's law enforcement authorities and U.S. law enforcement officials. The U.S. government suspended all assistance as a result of the April coup.

Guinea-Bissau established a transitional government in May 2012. The Transitional government appointed a new Justice Minister, Mamadou Saido Balde; a new Commissioner for the Public Order Police (the national police), Armando Nhaga; and a new Attorney General, Abdou Mane. The chief of the Judicial Police, João Biague, remained in his post.

2. Supply Reduction

Inadequate resources and professionalism hampered efforts to seize drug shipments and investigate drug trafficking. Law enforcement and judicial officers are involved in drug trafficking, as are elements of the military. The lack of effective civilian control over the military and limited resources makes it difficult to estimate the quantity of drugs that pass through Guinea-Bissau. The borders are porous and poorly controlled. The port of Bissau has no meaningful security and containers routinely leave the country without inspection.
In February 2012, the Judicial Police seized and stored almost 400 kilograms of cocaine as evidence. This evidence went missing before it was destroyed.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

UNODC reports drug abuse is a growing problem in Guinea-Bissau, but it is still minimal. No systematic study of the problem has been conducted to determine its scope. There are no government-funded treatment centers in Guinea-Bissau. The few operational centers are privately-funded.

4. Corruption

While as a matter of policy the Guinea-Bissau Transitional Government does not encourage or facilitate the illicit production or distribution of narcotics or launder proceeds from illegal drug transactions, corruption is endemic at all levels of government. Members of the customs service take money to allow passengers and articles to pass through border posts without inspection. Police routinely accept bribes during traffic stops. Government salaries are inadequate; in the past, officials have gone without pay for months. Due to government budget shortfalls, corruption is likely to increase.

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

The U.S. Embassy in Bissau suspended operations in June 1998. In 2007, the U.S. government opened a small liaison office in Bissau. The U.S. Ambassador to Senegal is accredited to Guinea-Bissau and one U.S. officer assigned to the embassy in Dakar monitors events in Guinea-Bissau. Representatives from relevant U.S. agencies make infrequent visits to Guinea-Bissau to conduct needs assessments. A January 2010 memorandum of agreement between the United States and Guinea-Bissau allowed the United States to assign a Justice Sector Advisor to Guinea-Bissau on a full-time basis. Coup sanctions superseded the memorandum after the April 2012 coup, and U.S. assistance was suspended in May 2012.

D. Conclusion

Guinea-Bissau is a significant narcotics trafficking hub and government officials at all levels are complicit in drug trafficking. The U.S. government suspended all assistance to Guinea Bissau after the April 2012 coup.

Guyana

A. Introduction

Guyana is a transit country for cocaine destined for the United States, Canada, the Caribbean, Europe, and West Africa. Cocaine originating in Colombia is smuggled to Venezuela and onward to Guyana by sea or air. Smugglers also transit land borders with Brazil, Venezuela, and Suriname. Cocaine is often concealed in legitimate commodities and smuggled via commercial maritime vessels, air transport, human couriers, or the postal services.

The influence of narcotics trafficking is evident in the political and criminal justice systems. The value of cocaine seized by Guyanese authorities in 2011 (the last year for which statistics are available) totaled $42 million.

Traffickers are attracted by the country's poorly monitored ports, remote airstrips, intricate river networks, porous land borders, and weak security sector capacity.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Guyana has passed legislation to enable a more-effective response to the threat of drug trafficking. The Anti-Money Laundering and Countering the Financing of Terrorism Act of 2009, the Interception of Communications Bill, and the Criminal Procedure Bill were designed to enhance the investigative capabilities of law enforcement authorities and prosecutors to convict drug traffickers. To date, however, the government has sought no prosecutions under these laws. The United States supports the Government of Guyana's justice-sector modernization strategy by assisting with case backlog, law reform, and improvements of the operating system of the Director of Public Prosecutions, among other activities.

The Government of Guyana is drafting anti-gang legislation and developing an Integrated Crime Information System to monitor trends in crime through a network linking the Ministry of Home Affairs to the public hospitals, prisons, and police stations. Some police stations in remote areas, however, continue to lack reliable telecommunication service. The government is also drafting a new Drug Strategy Plan (2012-2016), and the government's Inter-Agency Task Force on Narcotics & Illicit Weapons is reviewing an inception report.

Guyana is party to the Inter-American Convention on Mutual Assistance in Criminal Matters, and the Inter-American Convention Against Corruption. The 1931 Extradition Treaty between the United States and the United Kingdom is applicable to the United States 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 counter-narcotics agreements with its neighbors and the United Kingdom. Guyana is also a member of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD). Guyana signed a maritime counternarcotics bilateral

agreement with the United States in 2001, but has yet to take the necessary domestic action to bring the agreement into effect.

2. Supply Reduction

Guyana has a drug enforcement presence at its international airports, post offices, and, to a lesser extent, at port and land-border entry points. The four major agencies involved in anti-drug efforts are the Guyana Police Force (GPF), Guyana Customs and Revenue Authority (GRA), the Customs Anti-Narcotics Unit (CANU), and the Guyana Defense Force (GDF). The GDF supports law enforcement agencies with boats, aircraft and personnel, but has limited capacity and lacks law enforcement authority.

The Guyana Coast Guard (GCG), a GDF sub-component and partner in maritime interdiction, patrols Guyana's territorial waters and conducts humanitarian search and rescue. In September and October, through the Caribbean Basin Security Initiative (CBSI), Guyana's security forces received training in port security and container control from the UN Office on Drugs and Crime's Container Control Program (CCP). The government established a full-time, multi-agency CCP Port Control Unit at the John Fernandes Wharf, one of Guyana's most active ports.

Not all government agencies/units reported seizure and arrest statistics for 2012. The GPF Narcotics Branch reported seizing 8.6 kilograms (kg) of cocaine with 124 people charged, and 132 MT of cannabis with 540 arrests. The high volume of seized cannabis reflects the increasing trend of farm-grown marijuana for personal use and transshipment. In August, authorities discovered evidence of marijuana cultivation and processing, as well as boats for shipment on a two acre island in the Essequibo River. CANU also seized 92.2 kg of cocaine and 109.4 kg of cannabis. However, these totals do not reflect the full volume of seizures by all Guyanese agencies. The Guyana Revenue Authority's Drug Enforcement Unit made significant seizures through the Joint Port Control Unit, but did not provide information on quantities during this reporting period.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Guyana lacks a robust demand reduction strategy that adequately addresses drug rehabilitation. Marijuana is the most widely used drug in Guyana, followed by cocaine. The Guyana National Council for Drug Education, Rehabilitation and Treatment, within the Ministry of Health, is the single government body responsible for addressing demand reduction. Non-governmental organizations, such as the Salvation Army and the Phoenix Recovery Project, also offer rehabilitation services. The University of Guyana initiated a demand reduction curriculum through OAS/CICAD funding. As part of CBSI, the United States supports a Skills and Knowledge for Youth Employment project that provides vulnerable youth with alternatives to drug-related activities and provides skills for transitioning to the work force.

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.
Guyana is a party to the Inter-American Convention against Corruption, but has not fully implemented provisions, such as the seizure of property obtained through corruption.

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

CBSI forms the central nexus for the United States government's security and law enforcement relationship with Guyana, with its goals of reducing illicit trafficking, increasing public security; and promoting social justice. Efforts to increase law enforcement capabilities, strengthen workforce development, and promote anti-money laundering effectiveness directly address priority concerns for Guyana and the United States.

CBSI-funded programs support Guyana's maritime operations by providing interdiction assets, including riverine patrol boats that will be delivered in 2013 and relevant command and control systems, as well as associated logistical support and training. Initiatives also target law enforcement professionalization, forensics, and more effective narcotics investigations. In 2012, the United States provided port and maritime training to Guyana's Coast Guard, including in container inspection, port security and leadership development. By strengthening Guyana's counter-narcotics capabilities, the United States seeks to enhance interagency coordination and help gather better intelligence on drug trafficking routes. The U.S. Drug Enforcement Administration's Trinidad and Tobago office collaborates with the Government of Guyana on counternarcotics-related activities.

D. Conclusion

The United States encourages the Government of Guyana to deepen mutual security and law enforcement cooperation. Guyana has shown strong interest in furthering collaboration under CBSI. The United States looks forward to tangible progress on investigations, prosecutions, extraditions, security sector and judicial capacity enhancement, the engagement of at-risk communities, and enforcement of laws against money laundering and financial crimes.

Haiti

A. Introduction

Haiti remains a transit point for cocaine from South America and marijuana from Jamaica for transshipment to the United States, Canada, Europe, and elsewhere in the Caribbean. Traffickers take advantage of Haiti's largely unguarded shores and skies on both the northern and southern coasts. Haiti is not a significant producer of illicit drugs for export, though cultivation of marijuana for local consumption does occur. Haiti's subsistence economy does not provide an environment for problematic levels of domestic drug consumption, though a recent rise in the use of crack cocaine in the Cite Soleil area of Port-au-Prince is cause for concern.

In 2012, increased political stability allowed the Haitian government to devote more attention to its security posture, including the central role of the Haitian National Police (HNP). The government maintained loose control over the principal land border crossing points with the Dominican Republic at Malpasse (in the south) and Ounaminthe (in the north). In July, the government launched a new enforcement initiative at the four major border crossings with the Dominican Republic, including Ouanaminthe, Belladere, Malpasse, and Anse-a-Pitre. This initiative has resulted in increased vehicle inspections at the border, although the focus has been on customs revenue generation. The southern coastline remains virtually enforcement-free, with a long-awaited new operating base for the Haitian Coast Guard at Les Cayes unfinished. The President designated Haiti as a major drug trafficking country in 2012, largely as a result of this open channel northward into the Caribbean, and Haiti's still nascent counternarcotics capacity.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Efforts to increase the numerical strength of the HNP suffered a setback between June 2011 and April 2012, when police authorities delayed the start of a new cadet class at the national police academy. Only 244 candidates – less than a third of the previous class – participated when the new cadet class did begin training. On the joint recommendation of the United Nations and the HNP commission, the Minister of Justice also terminated the employment of 79 officers in September after the officers failed corruption vetting. The official strength of the HNP decreased during the year to approximately 10,000 officers.

The Supreme Council of the National Police (CSPN), led by Prime Minister Laurent Lamothe and including the Ministers of Justice and the Interior, the HNP Director General and Inspector General, was increasingly active over the course of the year. As part of the new leadership team, President Martelly named Godson Orelus, a 15-year HNP veteran, as the new Director General of the police force on August 15. In his first few months, Orelus took several steps that signaled a commitment to developing the institution, including fully staffing the top posts in the Inspector General's office for the first time in its 17-year history and naming an experienced officer -- and longtime U.S. interlocutor -- to head the fledgling judicial police. The CSPN also approved a new five-year development plan for the HNP on August 31 that aims to increase the strength of

the force to 15,000 officers by the end of 2016. Included in the plan is a provision to increase strength to 200 officers for the *Bureau de Lutte de Trafique en Stupéfiants* (BLTS), the HNP's dedicated counternarcotics unit.

The BLTS in 2012 grew from 42 to 138 officers. The BLTS operates from two bases in Port-au-Prince and from new posts in Ounaminthe and Cap Haitien and has plans to expand to further locations. The unit has a 10-dog canine component with drug, explosive, and currency detection capability.

The Haitian Coast Guard (HCG) has a total strength of 144 personnel and nine boats with operating bases in Cap Haitien in the north and the Killick area of Port-au-Prince. A third base at Les Cayes on the southern coast remains incomplete. As with the HNP generally, lack of material support and logistical management deficiencies hamper the HCG's operational capacity. Since, its inception, the HCG has participated in counternarcotics interdiction operations with international partners, but has focused on its search and rescue/repatriation mission. In 2012, the United States coordinated with international donors to update the HCG Development Plan for the first time in nearly 15 years, with the goal of synchronizing donor efforts.

Haiti remains the only member of the Organization of American States not a party to the 1971 UN Convention on Psychotropic Substances. 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 Coast Guard 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 though the Haitian Constitution prohibits extradition of Haitian nationals, the Government of Haiti has willingly surrendered Haitians and other nationals under indictment in the United States to U.S. law enforcement agencies.

2. Supply Reduction

HNP seizures over the course of 2012 increased over the previous year, but remain inadequate. In 2011, cocaine transshipped from South America through Haiti constituted roughly one percent of the total that reached the United States. In 2012, eight cocaine seizures totaled 337 kilograms (kg) with a single 302 kg shipment composing the bulk, and the largest single seizure in Haiti since 2007. BLTS also seized 300 kg of marijuana in five actions. Enforcement actions in 2012 yielded 92 arrests, $95,647 in cash, 24 weapons, 12 seized properties valued at more than $5 million, and seven vehicles. Haitian authorities transferred four of the arrestees to U.S. custody.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

There are no Haitian Government-sponsored drug demand reduction and treatment programs, and no non-government organizations provide such services. Low income throughout the country is a mitigating factor against widespread drug abuse.

4. Corruption

As a matter of policy, the Government of Haiti 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. President Martelly and Prime Minister Lamothe have expressed their desire to combat trafficking.

One area of promise is the installation of a full staff of six senior officers to the HNP Inspectorate General, the first time in HNP history that the office is fully staffed at upper leadership levels. A second area is Haiti's Unit for Combating Corruption (ULCC) which, under the leadership of Director General Antoine Atouriste, has bolstered the government's efforts to root out official corruption; the unit has 16 cases waiting to go to court and a further 15 cases in development. Nonetheless, resource shortages, a lack of expertise, and insufficient political will represent substantial obstacles to anti-corruption efforts.

The Haitian constitution grants blanket immunity from prosecution to members of Parliament. This immunity is a point of concern for U.S. assistance, including counternarcotics activities.

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

Despite the incremental gains in 2012 in the number of enforcement actions and the resultant seizures, the pace of HNP counternarcotics activity leaves room for improvement. In addition, the chronic backlog of pre-trial detainees in the Haitian judicial system leads to delays in prosecutions of cases the HNP does pursue.

The United States government provides assistance to support general development of the HNP and anti-drug trafficking efforts. The overall operational capacity and professionalism of the HNP are indispensable to counternarcotics activity in Haiti. The United States supports each police cadet class with food, training supplies, uniforms, and equipment. In addition, the United States cooperates with the New York City Police Department (NYPD) to deploy rotating six-member teams of NYPD officers to Haiti to serve as technical advisors to the HNP, including on counternarcotics. The United States also funds joint enforcement operations with the HNP, which have resulted in operations that include the seizure of drug trafficker property near Cabaret in August 2012. With U.S. government encouragement, hemispheric partner Colombia also provided canine training for BLTS in 2012.

Other U.S. support to the BLTS included additional uniforms, badges, search equipment, and computers.

The United States also provides maintenance and parts to support five vessels originally purchased for the Haitian Coast Guard by the Government of Canada. Additional funds will be used to refurbish and maintain two small vessels at the northern Coast Guard base in Cap Haitien. Funds will eventually assist in outfitting 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.

D. Conclusion

Despite progress, the tempo of drug enforcement actions in Haiti remains stubbornly low. The Haitian Government has made clear its commitment to strengthening the HNP, including the BLTS. The addition of BLTS bases in the north of the country is a sign that the HNP is beginning to expand beyond a Port-au-Prince-centric posture for policing the main corridors for trafficking in and out of the country. The Martelly administration and the government of Prime Minister Lamothe both have noted the importance of improving Haiti's border security. The United States is prepared to support Haiti's efforts to improve counternarcotics enforcement.

Honduras

A. Introduction

Honduras is a major transit country for cocaine, as well as some chemical precursors, and synthetic drugs. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012. The United States also estimated that as much as 87 percent of all cocaine smuggling flights departing South America first land in Honduras. The Northern Atlantic coastal region of Honduras is a primary landing zone for drug-carrying flights. The region is vulnerable to narcotics trafficking due to its remoteness, limited infrastructure, lack of government presence, and weak law enforcement institutions. Transshipment from the North Atlantic coastal region is facilitated by subsequent flights north as well as maritime traffic and land movement on the Pan American Highway.

In addition to violent drug trafficking organizations, gangs such as Mara Salvatrucha (MS-13) and 18th Street contributed to violence and trafficking in Honduras. They did not appear to be a formal part of the transnational drug logistics chain, but generally participated in drug distribution in local communities. In addition, these gangs conducted other illicit activities such as extortion, kidnapping, and human trafficking. In October, the U.S. Treasury Department designated MS-13 as a transnational criminal organization.

Honduras suffered from violence and a high homicide rate in 2012. The UN Office on Drugs and Crime's (UNODC) ranked Honduras as the country with the highest murder rate in the world, with an official murder rate of 82 per 100,000 inhabitants in 2011.

In 2012, Honduran institutions worked to thwart violence and narcotics trafficking. Though institutional weaknesses and lack of resources limited the impact of interdiction operations, Honduras seized 22 metric tons (MT) of cocaine and $21 million in drug-related cash and assets with U.S. assistance. Although the government did not dismantle any large drug networks in 2012, authorities arrested 77 people in connection with drug related activities.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2012, the United States and Honduras took several important steps to reduce violence and drug trafficking while building Honduran institutions.

The United States supported the Public Security Reform Commission, which is charged with reforming key laws, police, and justice sector institutions. The United States also assisted the Security Tax Trust, which distributes funds collected by the country's national security tax to priority citizen security initiatives.

To strengthen investigative institutions, the United States trained 816 Honduran police, prosecutors, and judges on topics including oral advocacy, financial investigation techniques, and crime scene protection. The United States also provided support to the National Police Investigative School, which graduated over 455 students from its Basic Criminal Investigation course.

Honduras implemented measures to improve its financial institutions. Through the Honduran Office for the Management of Seized and Forfeited Assets (OABI), funds are approved for distribution to units involved in the fight against organized crime and the money sent to Honduran agencies is invested to combat against organized crime.

Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain. A United States-Honduras maritime counternarcotics agreement and a bilateral extradition treaty remain in force, and in 2012 the Honduran Congress amended the Constitution to allow extradition of Honduran nationals for narcotics trafficking, organized crime and terrorism offenses. Honduras signed the Caribbean Regional Maritime Counter Drug Agreement, but did not ratify it. A Declaration of Principles between the United States and Honduras for the Container Security Initiative covers the inspection of maritime cargo destined for the United States.

2. Supply Reduction

The Government of Honduras actively engaged in narcotics interdiction operations in 2012 and worked to strengthen institutions responsible for preparing criminal cases, bringing them before a judge, and remanding convicted criminals to prison facilities. The Honduran Navy attended the U.S.-sponsored Multilateral Maritime Counterdrug Summit in March 2012, joining participants from 12 Central and South American Countries to consider improved strategies and cooperation against drug trafficking organizations.

From mid-April until early July, Honduras and the United States conducted Operation Anvil, a joint aerial interdiction operation. Prior to Operation Anvil, drug trafficking organizations operated in northern Honduras largely uncontested. Over the course of Operation Anvil, officials seized approximately 2.25 MT of cocaine, valued at between $45 and $63 million, and disrupted traffickers' free access to Honduran territory. The Government of Honduras arrested seven drug traffickers.

Honduras also improved its border and land interdiction capabilities. For example, on June 23, the Honduran National Police (HNP) executed search warrants on 10 vehicles located within a warehouse in San Pedro Sula. The police seized $450,000 and 32 kilograms (kg) of cocaine hidden in false compartments. On September 12, the Honduran Frontier Police searched a tractor-trailer near Las Manos border with Nicaragua and seized $349,960 in bulk cash.

Although Honduras is not a major production center for drugs, on August 28, Honduran law enforcement officials discovered a cocaine-processing lab located in a ranch in the Department of Atlantida. Honduran officials seized the ranch, 20 kg of cocaine, cocaine paste and other chemicals used for processing of cocaine. This was the second lab discovered in Central

America since March 2011. Honduras also has modest marijuana production for domestic consumption. In November, the Honduran authorities dismantled a criminal network possibly involved in manufacturing synthetic drugs. Press reports indicate that this network was linked to Mexico's Sinaloa Cartel. As part of this operation, Honduran authorities seized millions of dollars in assets along, with over 12 tons of precursor chemicals used to produce methamphetamine.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to a 2011 United Nations Development Program survey, 66 percent of Hondurans identified drug consumption as the primary security problem at the neighborhood level. Alcohol and inhalants remained the most common abused substances, followed by marijuana and cocaine. According to the government-affiliated Honduran Institute for the Prevention of Alcoholism and Drug Addiction and Dependency, drug use is on the rise. A growing percentage of Hondurans between the ages of 15 and 19 have tried illegal drugs, especially cocaine. UNODC reported that 0.9 percent of the Honduran population aged 15-64 have used cocaine.

To increase drug education, 2,500 students participated in the Gang Resistance Education and Training (GREAT) program, a school-based curricula used widely in the United States. The United States also provided training to 121 Honduran National Police in several specialized courses, including Community Policing Basic Principles; Advanced Community Policing; Intelligence-Led Policing; and Gang Resistance and Education and Anti-Extortion.

4. Corruption

The Government of Honduras 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. However, Honduras continued to struggle with public sector corruption in 2012.

To address the need for immediate results while minimizing corruption, Honduras increased the capacity of their special vetted units and task forces. In general, these units are composed of polygraphed and/or background checked Honduran police and prosecutors. These units normally receive U.S.-supported training and have U.S. or international advisors assigned to the unit. The units typically have a small number of Honduran officers and focus on major crimes. Various U.S. law enforcement agencies provide close support to Honduran police units focusing on counternarcotics, tactical response, customs and borders, and anti-gang enforcement.

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

In 2012, the United States continued to assist Honduras in improving the capacity of its law enforcement and justice sector institutions necessary for improving counternarcotics cooperation and safeguarding citizen security, including through the Central America Regional Security Initiative. The United States focuses its efforts on building partnerships between governments, civil society, the private sector, and the international community.

The United States and Honduras signed a memorandum of understanding (MOU) on September 13, 2012, to focus joint efforts on citizen security. The MOU identifies five priority lines of action: prevention and interdiction of narcotics entering Honduras; building investigative and prosecutorial capacity; implementing crime prevention programs and restorative justice; improving personnel integrity and internal affairs; and combating financial crimes. The MOU calls for cooperative efforts to implement a joint operational plan to assist Honduras with improving citizen security while respecting the rule of law and human rights.

The United States seeks to counter gangs and drug traffickers through a mix of policy initiatives. In addition to our law enforcement and justice sector efforts, we support municipal crime prevention efforts and community services for youth at risk. For example, U.S. assistance supports 29 outreach centers that provide a safe place to learn, study, and participate in recreational activities for at-risk youth. More than 500 local volunteers mentor 11,000 youth and children at these centers. The United States also supports Municipal Committees for Education in at least 120 high-risk municipalities to strengthen the communities' capacity to influence education quality. The U.S. government supports the Security Ministry's Safer Municipalities Initiative and supports four Violence Observatories in high-crime areas to improve efficiency in crime reporting.

D. Conclusion

Honduras remains exposed to the threat of well-armed, well-funded transnational criminal organizations. Honduras made tough decisions to enhance the security of its citizenry, including standing up the Department of Investigation and Evaluation of Career Police, establishing a Reform Commission to provide the government with recommendations on improving police and the justice sector, and updating Honduras' extradition legislation. The United States encourages Honduras to continue institutional reform and investment in building effective security and justice institutions.

Hong Kong Special Administrative Region

The Hong Kong Special Administrative Region is neither a major narcotics production center nor a significant illicit drug transshipment point. However, Hong Kong remains an attractive irregular transit point for drugs and for coordinating drug trafficking elsewhere due to its status as a highly efficient financial and transportation hub. The Hong Kong government remains a committed counter-narcotics partner, as evidenced by statements by senior officials, strict legislation, vigorous law enforcement efforts, and a robust prevention and treatment program.

Effective law enforcement capacity and the existence of alternative, and less scrutinized, air and sea ports in the region limits Hong Kong's attractiveness as a major transshipment point. However, in July 2012, Hong Kong authorities seized a record 649 kilogram cocaine load from a shipping container originating from Ecuador. Additionally in 2012, authorities arrested numerous drug couriers originating from South America. While these successes demonstrate Hong Kong's enforcement capacity, they also point to a rising demand for drugs, particularly cocaine, in Hong Kong and the region.

The Narcotics Bureau of the Hong Kong Police Force and the Drug Investigation Bureau of the Hong Kong Customs and Excise Department are the principal law enforcement agencies charged with suppressing drug trafficking and regulating trade in precursor chemicals. These agencies collaborate closely with U.S. law enforcement personnel. The U.S. Drug Enforcement Administration specifically works closely with these agencies to combat emerging cocaine networks with links to South America, money laundering activity tied to drug trafficking, and diversion of precursor chemicals worldwide.

In 2012, the Hong Kong government launched the Sixth Three-year Plan on Drug Treatment and Rehabilitation Services for the period 2012-2014. It also continued its support for the "Beat Drugs Fund," a government initiative established in 1996 with a $4.5 million capital base raised to $390 million in 2010 to fund anti-drug community outreach, education, and treatment projects proposed by the public. Dissemination of anti-drug messages by the Hong Kong Security Bureau's Narcotics Division is augmented through the Jockey Club Charities Trust-funded Drug Information Centre, via electronic media, posters and other printed materials.

Hong Kong routinely extradites individuals to the United States and affords mutual legal assistance to the United States in narcotics cases and other matters.

India

A. Introduction

India'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 in the states of Madhya Pradesh, Rajasthan, and Uttar Pradesh. India is also a major producer of precursor chemicals, including acetic anhydride (AA), ephedrine, and pseudoephedrine.

India is a main source of ketamine, a veterinary anesthesia. Ketamine is not under international control, though some 50 countries have listed it as a controlled substance. The number of significant ketamine seizures at major airports, in sea containers and in parcels continues to increase. India also manufactures organic and synthetic licit opiate/psychotropic pharmaceuticals (LOPPS). Destined for licit sales in markets around the world, these pharmaceutical items and precursor chemicals are vulnerable to diversion, including through illegally operating internet pharmacies. Licit and illicit manufactured opiate/psychotropic pharmaceuticals are often diverted in small quantities to the United States as illegal "personal use" shipments. There is also evidence that opium is grown illicitly in India, especially in the northeastern regions. India also continues to be a main source of illicit synthetic drugs, including amphetamine-type stimulants and methaqualone.

Despite these challenges, India is committed to enhancing its law enforcement capacity through increased training for 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.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

India's stringent Narcotic Drugs and Psychotropic Substances Act (NDPSA) was last amended in October 2001 and is designed to fulfill India's treaty obligations under the 1988 United Nations Drug Convention. An amendment to India's NDPSA was introduced to Parliament in September, but has not been passed.

The Central Bureau of Narcotics (CBN) has a mandate to monitor India's licit opium production and prevent diversion. The Narcotics Control Bureau (NCB) is the national drug control agency, established to prevent and combat the abuse of narcotic drugs and psychotropic substances. While the Government of India continues to tighten licit opium diversion controls and increase training of national enforcement officers, 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 organized crimes remains limited by insufficient training and modern equipment. In addition, India's challenging terrain in the northeast and its lack of infrastructure provide exploitable opportunities for illegal cultivation and production.

Licit opium poppy cultivation in India is a labor-intensive and geographically dispersed industry, with inherent control challenges. 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 uses the incising method to produce raw opium rather than poppy straw concentrate, which is less prone to diversion. The CBN organizes and supervises the licit cultivation of opium poppy, deciding on the quantity of opium it intends to purchase and makes a careful estimate of the expected yield per hectare. After the harvest, the CBN collects opium gum from farmers and operates two processing centers (in Neemuch, Madhya Pradesh and Ghazipur, Uttar Pradesh) where the opium is purified, dried, weighed and packaged for export or partially refined to supply to Indian pharmaceutical companies.

The possibility for diversion exists if licensed and harvested fields yield more opium than the Minimum Qualifying Yield (MQY) set by the CBN and the unreported excess is sold into the illicit market. Cultivators may also falsely claim their licensed fields are not harvestable and then sell their harvests illicitly. While farmers who submit opium above the MQY are paid a premium by the government, sales made on the illicit market often have a much higher profit margin.

India makes a serious effort to control precursor chemicals produced in its large chemical industry. India actively participates in precursor control programs such as Project Cohesion and Project Prism. India issues pre-export notifications for export of precursors using an online system developed by the International Narcotics Control Board (INCB), and has an elaborate licensing regime to control dual use (licit/illicit) pharmaceutical products.

2. Supply Reduction

Smuggling of heroin into India from Afghanistan and Pakistan continued to increase in 2012. Drug-trafficking organizations in India use human couriers and commercial package services to send illicit drugs overseas, both to Europe and the Americas. India continues to be targeted by traffickers as a primary source for ephedrine and pseudoephedrine. Despite government control efforts, India has been identified in some law enforcement cases as a source of such precursors destined for illicit methamphetamine labs in Mexico.

The INCB reports pseudoephedrine from India is formed into tablets in Bangladesh and then sent to countries in Central America and the Caribbean. To circumvent existing diversion control measures, drug trafficking organizations have also begun smuggling uncontrolled pharmaceutical preparations containing those chemicals, instead of the highly controlled basic precursors. There have also been increasing numbers of ketamine seizures, a substance not under international control.

The Government of India estimated in 2009 that half of India's heroin consumption and all of the country's opium consumption (70 metric tons, or MT) was met by domestic supply; the government noted that to produce these amounts of heroin and opium in 2009, India would have needed to have a minimum of 7,500 hectares (ha) of illegal opium cultivation. Informed observers of the Indian scene downplay the role of diversion of opium from licit production to

the illicit domestic market. The UN Office of Drugs and Crime (UNODC) 2011 report, "The Global Afghan Opium Trade: A Threat Assessment," states the estimated quantity of licitly produced opium diverted from licit to illicit use is limited. Information provided by the Government of India to UNODC suggests that some 15 MT of heroin – or 3 percent of global supply – are illicitly produced in India. Thus, illicit production in India seems to be the main domestic source of illicit opiates, not diversion from licit production.

The NCB uses satellite imagery and intelligence gathering to track illicit poppy cultivation. The resolution of satellite images is improving, but remains difficult to interpret. The NCB relies on officers to reach the site and provide visual verification, but has only approximately 700 officers to monitor the entire country. Illicit cultivation shifts each year to new districts, and recent media reports indicate that Naxals – insurgent groups that have been fighting with the Indian Government since 1967 – are protecting illicit cultivation in exchange for protection money from traffickers and cultivators. In 2010, the last year for which information is available, the largest tracts of illicit cultivation were found in West Bengal, which shares a porous border of 2,429 miles with Bangladesh, and Arunachal Pradesh which shares a porous 273-mile border with Burma. Media reports allege a comprehensive network of corruption, with bribes paid to rural police stations and panchayats (local governance bodies) for fields under their jurisdiction, that facilitates the illicit cultivation and harvest.

In 2011, the last year for which seizures data is available, Indian authorities seized 438 kg of heroin, down from 550 kg in 2010. Seizures of hashish (2.37 MT) and marijuana (86.4 MT) were also down from 2010 totals (2.99 MT and 144.5 MT, respectively). Raw opium seizures increased, however (1.67 MT from 1.28 MT), and ephedrine seizures remained stable (2.08 MT from 2.1MT).

The Ministry of Home Affairs has not provided updated information on NCB eradication efforts since the release of its 2010-2011 report. Information from 2011 noted the NCB coordinated the activities of various Indian Border Security Forces to destroy 3,396 ha of illicit poppy cultivation in Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Manipur, Arunachal Pradesh, Bihar, Jharkhand, Orissa, and West Bengal. NCB also separately detected and destroyed an additional 308 ha. The most recent available INCB information reports law enforcement eradicated 4,883 ha of illicitly cultivated cannabis plants in 2009, about three times more than in 2008. It should be noted that the amount of drugs destroyed does not accurately reflect the amount of drugs seized in the same time period. India's legal system is overburdened and understaffed, with tens of millions of court cases pending at any given time.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

India has not conducted a national household survey on substance abuse since 2000-2001; more recent information on the national prevalence of drug abuse is not available. Pilot work on a national survey of drug abuse began in early 2010. Information from the National Drug Dependence Treatment Centre at the All India Institute of Medical Sciences indicates drug abuse in India is on the rise.

The Ministry of Social Justice and Empowerment (MSJE) has a three-pronged strategy for demand reduction, including drug abuse awareness building and education, counseling and treatment programs, and training volunteers to work in the field of demand reduction. India has a National Consultative Committee on De-addiction (i.e., detoxification) and Rehabilitation, which provides training, research and documentation for use in drug abuse prevention. The MSJE continues to work on a national policy on prevention of substance abuse, which will include: more awareness training in medical colleges and schools; 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. Treatment and rehabilitation services from drug abuse are mainly provided by non-governmental organizations, which operate 376 treatment and rehabilitation centers and 68 counseling and awareness-raising centers. The Government of India also runs 100 treatment centers at its hospitals and Primary Health Centers for those who need long-term rehabilitation.

4. Corruption

Neither the Government of India nor any senior government official as a matter of policy encourages or facilitates drug trafficking. Since 1964, India has had an independent statutory body, the Central Vigilance Commission (CVC), which issues guidelines and conducts inquiries to address government corruption. The CVC reports to the President of India through the parliament.

However, corruption is pervasive across police forces at all levels of government, with officers rarely being held accountable for illegal actions. This undermines the effectiveness of even the most elaborate control regimes for dangerous drugs.

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

Law enforcement agencies in India 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 many significant conspiracies were detected and dismantled in recent years.

D. Conclusion

India remains vigilant against the threat of transnational narcotics trade. However, lack of full acknowledgement of the extent of the domestic drug problem limits the ability to effectively address it. The Government of India continues to tighten licit opium diversion controls. However, India's drug law enforcement personnel have limited capacity to collect and analyze intelligence data and to initiate and conduct complex investigations of criminal drug trafficking and other sophisticated/organized crimes. The lack of infrastructure and challenging terrain in the northeast provides exploitable opportunities for illegal cultivation and production. Continued training and the acquisition of modern equipment will help build domestic capacity to counter narcotic cultivation and chemical diversion while increasing India’s ability to investigate and effectively prosecute offenders.

India makes a serious effort to control precursor chemicals produced in its large chemical industry. India actively participates in precursor control arrangements such as Project Cohesion and Project Prism. India issues pre-export notifications for export of precursors using an online system developed by the International Narcotics Control Board, and has an elaborate licensing regime to control dual use (licit/illicit) pharmaceutical products. India is in compliance with international control requirements for these products. Given high demand for precursor chemicals and the need to safe guard licit pharmaceutical production India is likely to continue to face chemical control challenges for the foreseeable future.

Indonesia

A. Introduction

Indonesia remains both a transit and destination for illicit narcotics. Indonesia is one of the world's largest consumers of marijuana, methamphetamine, and heroin. Cannabis is the most widely used drug in Indonesia, followed by methamphetamine. The majority of methamphetamine entering Indonesia originates in Iran, while the majority of heroin originates in the "Golden Crescent" region of Southwest Asia. African, Chinese, and Iranian drug trafficking organizations continue to be a significant concern for Indonesian law enforcement.

Indonesia engaged in significant efforts in 2012 to address cannabis production in the Aceh region of Northern Sumatra and recently began a mapping program. Progress has been made in strengthening the capacity of Indonesia's counter narcotics agency (BNN) to gather intelligence and interdict drugs at airports, sea ports, and land borders. Nevertheless, Indonesia faces significant challenges due to porous borders and significant corruption.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

BNN's effectiveness increased in 2012 due to an expansion of its organizational and technical capabilities. Based on significant new powers provided by the 2009 National Narcotics Law and the substantial budget that followed, BNN has put in place stronger policies and procedures, collaborated successfully with other ministries, and formed drug control agreements with other countries. BNN increased staffing from 2,832 in 2011 to 3,350 in 2012.

BNN's budget fell slightly in 2012, but remained robust compared to 2010, despite significant budget cuts that impacted many government agencies. BNN established four new field offices, one new rehabilitation unit, and 24 of the 68 outstations planned for completion in 2012. Indonesia continues to increase efforts to coordinate with stakeholder countries and with the United States, which has provided technical assistance, equipment, training, and information sharing support. Adding to bilateral agreements already in place, a drug control information sharing agreement with the Peoples Republic of China was signed in 2012. Also, BNN signed a memorandum of understanding with the Indonesian National Police in October, which involves coordination to facilitate Presidential Instruction No. 12 of 2011 to achieve a drug free zone in Indonesia by 2015.

There is currently no mutual legal assistance or extradition treaty between Indonesia and the United States.

2. Supply Reduction

BNN improved its investigative and technical capabilities in 2012, areas where U.S. assistance has been particularly helpful. In May, Indonesian law enforcement officials seized 1.4 million

ecstasy tablets at the port in Jakarta and arrested 12 individuals, one of Indonesia's most significant interdictions to date. Other supply reduction efforts during the year include: placement of additional interdiction personnel at airports, seaports, and land borders; an increase in the number of field offices and outstations throughout the country; apprehension of members of approximately 20 drug syndicates; and the formation of a joint regulation with the Ministry of Transportation on the prevention and combating of trafficking and narcotics abuse.

In 2012, drug trafficking operations by West African and Chinese drug trafficking organizations increased, while Iranian activity decreased. The trafficking of methamphetamine remained relatively constant, while there was an increase in heroin and ecstasy trafficking. While the overall volume of cannabis under cultivation in Indonesia has been on a downward trend for the past few years, significant production remains in Aceh. BNN destroyed many hectares of cannabis during the past year and has begun a cannabis mapping program in Aceh aimed at identifying remote production areas.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In May, BNN published the results of its National Survey of Narcotics Abuse. The survey indicated an increased number of narcotics users in Indonesia, with an estimated 3.7 to 4.7 million users in 2011. Research indicated that 70 percent of users were workers; students made up 22 percent of users. The typical user was a male between the ages of 20 and 29. The most widely used narcotics were cannabis (64 percent), methamphetamine (38 percent), and ecstasy (18 percent). Cannabis use declined from 71 percent to 64 percent, which was attributed to the reluctance of drug dealers to distribute cannabis due to the small profit margin and relatively high risk of being caught.

The 2009 National Narcotics Law enabled BNN to hire qualified medical staff to advise on drug treatment and prevention programs; establish BNN-run rehabilitation units, which are comprised of community-based units and outreach centers throughout the country; engage in outreach campaigns highlighting the dangers of drug addiction; and work with the Ministry of Education to raise awareness among youth. In 2012, BNN's drug treatment facility cooperated with several hospitals to leverage medical and professional counseling resources. BNN collaborated with a group of non-governmental organizations in an effort to reduce demand by raising awareness, synchronizing programming to avoid overlap. BNN also sent personnel to run Therapeutic Communities (TC) at two prisons and engaged in TC socialization for officers in sixteen separate detention and correctional facilities.

4. Corruption

As a matter of public policy, Indonesia does not encourage or facilitate illegal activity related to drug trafficking, and no senior government officials are known to be engaged in such activity. However, corruption at all levels of government and society is pervasive, and this poses a significant threat to the country's counternarcotics strategy. Indonesia has made some progress in combating official corruption, primarily through a growing body of laws and the efforts of its Corruption Eradication Commission. This remains a work in progress, however. Lower level Indonesian officials in particular remain susceptible to corruption, due partly to low wages.

Even when narcotics offenders receive stringent prison sentences, corruption within the prison sector facilitates the ongoing use, distribution, and trafficking of illicit substances.

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

BNN co-hosted the 2012 International Drug Enforcement Conference (IDEC) in Bali, the first Asian country to host the event. IDEC is the world's largest international drug enforcement meeting. Law enforcement officials from more than 50 participating countries and more than 20 observer countries were represented at the conference.

The U.S. Drug Enforcement Administration (DEA) opened the Jakarta Country Office in 2011, which included a Country Attaché and Deputy Attaché. The United States has provided wide-ranging support that includes training, technical assistance, equipment, and infrastructure. In 2012, the United States funded the construction of administrative offices, classrooms, and barracks for training counter narcotics officers as well as infrastructure support for the establishment of a command center at BNN's headquarters. The U.S. Department of Defense, Joint Interagency Task Force West and DEA also collaborated on a Cannabis Eradication Course in North Sumatra in 2012. The United States also provided maritime law enforcement training and technical assistance to Indonesian maritime authorities.

D. Conclusion

The Government of Indonesia's commitment to strong drug-control institutions is evidenced by its continuing efforts to implement the 2009 National Narcotics Law. BNN's administrative capability, budgetary resources, and collaboration with other ministries are positive indicators. Indonesia's focus on improving information systems, especially the linking of its headquarters in Jakarta with outstations throughout the country, is noteworthy. BNN's continued expansion and the placement of interdiction personnel at airports, seaports, and land borders are expected to increase interdictions. While BNN and the Ministry of Law and Human Rights established a joint regulation in 2011 to prevent and combat trafficking and narcotics abuse in detention and correctional facilities, efforts to combat drug-related corruption, particularly in prisons, remains an area for improvement.

Iran

Iran remains a significant transit and consumer country for opiates and hashish originating in Afghanistan, as well as a growing source of methamphetamine for both domestic and international markets. According to Iran's own statistics provided to the UN Office on Drugs and Crime (UNODC), the country led the world in opium seizures in 2011, the last year for which statistics are available. In 2012, media reports indicate that Iran's Law Enforcement Police seized approximately 430 tons of illicit drugs between March 2011 and March 2012 (the Iranian calendar year), with approximately 70 percent of these seizures occurring along the country's 1,147-mile eastern border with Afghanistan and Pakistan. Opium and heroin seizures appear to be remaining stable or declining, while seizures of methamphetamine appear to be increasing dramatically (over 11-fold between 2008 and 2011).

Iran devotes considerable resources to confronting the illegal drug trade, approximately $1 billion annually according to official government estimates. Iranian enforcement strategies rely heavily on border interdiction, and include the construction of moats, barriers and watchtowers along the country's eastern borders. Some reporting indicates that these border deterrents have caused trafficking networks to shift increasingly to maritime routes, including the Sea of Oman and the Persian Gulf. Iranian-based methamphetamine trafficking networks have become leading suppliers to markets within the country and across the Middle East and the Asia Pacific region. Drug-related corruption appears to be a significant problem, though there is no evidence that senior level officials condone drug trafficking.

Addiction rates within Iran are among the highest in the world. The Iranian government officially cites 1.2 million registered addicts and 800,000 casual users; other informed estimates are higher. Iran's demand reduction and treatment programs are among the most visible and comprehensive in the region. Addicts are treated as patients and treatment services include several hundred detoxification centers and methadone substitution clinics. According to Iran's Ministry of Health, Treatment and Medical Education, intravenous drug use has accounted for the transmission of approximately 70 percent of HIV cases in the country since 1986.

UNODC has maintained a country office in Iran since 1999, and provides a range of technical assistance activities intended to enhance border interdiction, demand reduction, and greater law enforcement cooperation with neighboring states. Donor states in Europe and Japan have pledged approximately $13 million to support UNODC activities between 2011 and 2015. The United States has no bilateral engagement with Iran on drug control issues, but encourages regional cooperation between Iran and its neighbors, such as cooperation facilitated by UNODC.

Iraq

A. Introduction

Iraq is a transit country for illegal drugs destined for international markets. While domestic drug abuse largely involves licit pharmaceuticals, overall demand for illegal drugs is increasing. Government of Iraq efforts to address trafficking and drug consumption are limited and secondary to its focus on internal security and public order.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Iraq generally maintains that the country does not have a significant drug abuse or internal trafficking problem. However, some elements of the government increasingly acknowledge expanded activity in both areas. The Ministry of Interior's (MOI) Port of Entry Directorate and Directorate of Border Enforcement and the Ministry of Finance's (MOF) General Directorate of Customs share responsibility for deterring and interdicting contraband across Iraq's borders. The MOF Civil Customs Officers and MOI Customs Police search vehicles crossing into Iraq. However, this focus on seizing drug shipments at the borders has rarely been accompanied by further investigation into the sources of the narcotics or by arrests and prosecutions of top leaders of drug trafficking enterprises. The Iraqi Federal Police do not devote significant resources to drug cases.

Iraq's drug laws are in need of reform, as the vast majority of laws date from the 1960s and do not reflect advances in law enforcement or treatment. Personal use can carry sentences from three- to 15-years incarceration and trafficking can draw a life sentence or the death penalty. Convicted drug users can request treatment in lieu of incarceration, but treatment capacities would be grossly inadequate if this option were routinely implemented. Extradition between the United States and Iraq is governed in principle by the 1934 U.S.-Iraq Extradition Treaty. There is no mutual legal assistance treaty in force between the United States and Iraq, though mutual legal assistance is provided on a reciprocal basis through letters of request.

2. Supply Reduction

Iraq's relatively porous post-conflict borders are poor deterrents to increasing volumes of narcotics trafficking. Methamphetamine and hashish from Iran and fenethylline pills (an amphetamine-type stimulant, or ATS) from Syria are trafficked into Iraq for transshipment to other Middle Eastern countries and for domestic consumption. Heroin and opium originating in Afghanistan are trafficked into the country via Iran, and then onward to international markets through neighboring countries, especially Syria and Turkey.

Iraq does not have interdiction programs specifically targeting drugs. Rather, interdiction efforts are included in routine border control duties. Traffickers have adapted more sophisticated concealment methods in response to more frequent searches of vehicles by border authorities.

The government first seized fenethylline pills in 2009, and seizures have increased substantially each year since. At the beginning of 2012, Iraqi border authorities seized several shipments of heroin exceeding 50 kilograms before they could enter Syria. Law enforcement officials in Basrah contend that the city has become a central entry point and a major distribution center for drugs in Iraq. Border authorities are seeing an increase in drug seizures, and have some concern terrorists could be turning to increasingly lucrative narcotics trafficking as a revenue stream.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Abuse of illegal narcotics is growing in Iraq, and two forms of ATS – fenethylline pills and methamphetamine – have emerged as new favorites. Iraqis also abuse more traditional opiate products and hashish. Abuse of pharmaceuticals, most of which are available over-the-counter at Iraqi pharmacies, is a significant problem. Substances like trihexyphenidyl (also known as benzhexol), diazepam, clonazepam, and tramadol (an opioid analgesic) have a large and growing user base. In one recent three-month period, more than one million injections of tramadol were provided over-the-counter by Iraqi pharmacies.

The Ministry of Health attributes substance abuse to low employment, poor living conditions, and violence. Drug abuse prevention efforts in Iraq are still in their infancy. The stigma surrounding drug use is substantial, which deters those with substance abuse problems from seeking treatment. Mosques and churches throughout Iraq attempt to prevent drug abuse by talking about the consequences and the importance of making healthy lifestyle choices. The Ministry of Health has announced plans to establish treatment units in hospitals and outpatient facilities throughout Iraq, as well as training programs for paramedical professionals, physicians, psychologists, and psychiatrists. The Ministry of Health has plans to develop proposed best practices for the safe storage of drugs (i.e., at pharmacies), and promotes prevention through youth-oriented media campaigns and brochures for various age groups.

4. Corruption

As a matter of government policy, Iraq 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 growing volume of domestic and international drug trafficking raises the potential for increased corruption. A September 2012 drug seizure by Iraqi border officials at the Safwan Port of Departure in Southern Iraq ultimately led to the arrest of a government employee working at the port of entry. While this shows some drug-related corruption exists, it also demonstrates the commitment of other law enforcement officials who investigated and ultimately arrested that employee for his alleged involvement in the drug smuggling.

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

Pursuant to the 2008 U.S.-Iraq Strategic Framework Agreement, the United States continues to fund counternarcotics assistance programs. U.S. Immigration and Customs Enforcement and Customs and Border Protection officers work with the Iraqi Directorate of Border Enforcement to improve border control. In 2012, CBP officers trained passport police officers on techniques

for detecting suspicious behavior, narcotics identification, and luggage examination. Iraqi Civil Customs and Customs Police repeatedly request further counternarcotics training. At the request of the Iraqi Federal Police, U.S. advisors provided drug identification materials to assist police at checkpoints with identifying bulk shipments.

The United States also funds the Iraq Drug Demand Reduction initiative. Working with the Iraqi Ministry of Health, that initiative led to development of a national substance abuse training, research, and treatment center in Baghdad to integrate substance abuse intervention and treatment services into the Iraqi primary health care system. This initiative also helped form the Iraq Community Epidemiology Working Group, which produced the first comprehensive profile on the nature and extent of drug abuse in Iraq. This report was submitted to the Iraqi Council of Ministers in May, and details a dramatic increase in the use of licit pharmaceuticals and illegal drugs.

D. Conclusion

Iraq's law enforcement agencies are gaining technical expertise in drug interdiction, but Iraq's political leadership has not yet acknowledged the country's growing role as a transit and consumer country for illegal drugs. Iraq needs to provide adequate resources to counter drug trafficking and reduce domestic demand. The Iraqi government should also modernize outdated drug control laws to improve law enforcement, drug abuse prevention, and treatment. The United States will continue to work with the Government of Iraq to confront these challenges.

Israel

Israel is not a major narcotics producing or trafficking country, but has a significant domestic market for illegal drugs. The Israel Anti-Drug Authority, which falls under the auspices of the Prime Minister's Office, but under administrative control of the Ministry of Public Security, states that demand for conventional drugs (cocaine, heroin, methamphetamine, etc.) remained steady in 2012. Use of cannabis and synthetic cannabinoids, however, is on the rise. The Anti-Drug Authority regularly adds new synthetic drugs to Israel's Dangerous Drugs Ordinance, which provides the legislative basis for drug definition, penalties, and related enforcement authorities.

Law enforcement continues to link drug offenses to a number of other crimes, including human trafficking, illegal labor, and money laundering. The U.S. Drug Enforcement Administration (DEA) has seen an increase in drug-related money laundering cases involving Israelis working in both the United States and Israel. The majority of drugs enter Israel via its borders with Jordan, Lebanon, and Egypt, as well as by sea shipment and through the mail.

Excellent bilateral cooperation on illicit drug enforcement and interdiction continues between U.S. and Israeli authorities, with efforts shared between the DEA country office in Cyprus and the Department of Homeland Security's Immigration and Customs Enforcement office (DHS/ICE) in Tel Aviv. Recent joint U.S. and Israeli actions have included joint investigation of drug couriers on flights from South America into Ben Gurion airport, investigations of trafficking of mephedrone from Israel to the United States, and the May 2012 conviction of a prominent Israeli drug trafficker and organized crime leader in Los Angeles. DHS/ICE cooperated with the Israel Tax Authority and Israel National Police to investigate counterfeit pharmaceutical distribution operations based in Israel, which led to guilty pleas for two Israelis in a U.S. district court in April 2012. DEA Cyprus continues to work closely with the Israeli Ministry of Health's Pharmaceutical Crimes Unit on a wide range of issues pertaining to drug identification as well as the identification of new trends in drug production. Multiple bilateral projects, training programs, and joint investigations are currently in various planning stages.

Italy

Italy remains a significant European transit and consumer point for illegal drugs. Southwest Asian heroin arrives from transit routes in the Middle East and the Balkans, while cocaine enters Italy directly from South America or through the Iberian Peninsula en route to the rest of Europe. In addition to heroin and cocaine, synthetic drugs, hashish, and marijuana are also illicit drugs of domestic concern**.** Almost all cocaine found in Italy originates from Colombia and is managed in Italy by criminal organizations based in Calabria and Campania. Drug trafficking organizations in the Americas use Italy as a transit and consolidation point for the repatriation of drug proceeds via bulk currency shipments back to Colombia and Mexico and for wire transfers throughout the world.

In 2011 (the most recent year for which information is available), Italian authorities seized 6.35 metric tons (MT) of cocaine; 811 kilograms (kg) of heroin; 20.3 MT of hashish; 10.9 MT of marijuana; and 16,573 doses of synthetic drugs. The largest drug seizures during this period were: 1.02 MT of cocaine in Livorno; 131 kg of heroin in Verona; 2.63 MT of hashish in Rome; 754 kg of marijuana in Bari; and 10,000 tablets of ecstasy in Como. Also during this period, 39,796 individuals were arrested in Italy on drug-related charges.

In 2011, the Italian Carabinieri (national military police), with cooperation from the U.S. Drug Enforcement Administration (DEA), concluded a three year multilateral investigation of a drug trafficking cell of the 'Ndrangheta transnational criminal organization. Two of Italy's most-wanted fugitives were apprehended as well as 61 other defendants in New York and Italy, with additional arrests in Holland, Spain, and elsewhere in the United States. Approximately 850 kg of cocaine, numerous firearms, and nearly $20,700,000 in assets were seized. In another important case also involving DEA cooperation, the Italian Guardia di Finanza (GdF) and Carabinieri dismantled a significant 'Ndrangheta group in Catanzaro, Calabria, seizing approximately 56 kg of cocaine, more than $98,275,269 in assets, and arresting 77 individuals.

The United States and Italy enjoy outstanding counternarcotics cooperation, sharing intelligence and coordinating joint criminal investigations on a daily basis. Italy's law enforcement community promotes investigative cooperation and intelligence-sharing initiatives with the United States and other international counterparts.

Jamaica

A. Introduction

Jamaica remains the largest Caribbean supplier of marijuana to the United States. Although cocaine and synthetic drugs are not produced locally, Jamaica is a transit point for drugs trafficked from South America to North America and other international markets. In 2012, drug production and trafficking were both enabled and accompanied by organized crime, domestic and international gang activity, and police and government corruption. The gun trade for illicit drugs exacerbated the problem as handguns moved into the country in exchange for drugs.

Drugs flow into, through and from Jamaica by maritime conveyance and human couriers, and to a limited degree by private aircraft. Most drugs leaving Jamaica are bound for the United States and Canada. However, some amounts of marijuana and cocaine are smuggled from Jamaica into the United Kingdom, Belgium, Germany and the Netherlands. Countries in South and Central America are also destinations of Jamaican marijuana, which is transported in vessels and sometimes exchanged for cocaine. Marijuana is increasingly being trafficked to Caribbean nations as well, and some Central American drug trafficking organizations exchange Jamaican marijuana for cocaine. Recent information suggests that Jamaica is emerging as a transit point for cocaine transiting Central America and destined for the United States.

Factors that contribute to drug trafficking include the country's convenient position as a waypoint for narcotics being trafficked from Latin America; its lengthy, rugged and difficult-to-patrol coastline; a high volume of tourist travel; its status as a major transshipment hub for containerized cargo; inadequate educational and employment opportunities for at-risk youth who engage in crime; and a struggling economy that encourages marijuana cultivation.

The government and law enforcement authorities are committed to combating narcotics and illicit trafficking. However, despite competent leadership and political will, their efforts were only moderately effective in 2012 because of a lack of sufficient resources, corruption, and an inefficient criminal justice system.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cooperation against narcotics and related transnational crime remained strong over the course of the year between the Governments of Jamaica and the United States. The United States' primary partners are the Jamaica Constabulary Force (police), the Jamaica Defence Force (military), Jamaica Customs, and the Ministry of Finance's Financial Investigation Division.

The Jamaican government and the United States have a mutual legal assistance treaty that assists in evidence sharing. Both governments have a reciprocal agreement for the sharing of forfeited criminal assets and a bilateral law enforcement agreement that governs cooperation in the interdiction of the maritime flow of illegal drugs.

The extradition treaty between the United States and Jamaica was actively and successfully used by both countries in 2012.

Realizing that gangs, drugs, and corruption begin at the community level, the police implemented community-based policing (CBP) efforts with U.S. support. The CBP program spread from three pilot communities in 2008 to 360 communities in 2011. Of Jamaica's 11,200 police officers, 9,000 have received training in CBP practices. Civilian acceptance of CBP was facilitated through programs such as a safe schools program and youth civic engagement.

The Commissioner of Police, with support from the Minister of National Security, took a strong public stance against police corruption and continued to make steady progress toward reform of the institution, which has suffered from decades of endemic corruption.

Progress in combating narcotics, illicit trafficking and corruption was also hobbled by an underfunded, overburdened and sluggish criminal justice system with limited effectiveness in obtaining criminal convictions. The conviction rate for murder was five percent, and the courts continue to be plagued with a culture of trial postponements and delay. This lack of efficacy contributes to impunity for many of the worst criminal offenders and gangs, an abnormally high rate of violent crimes, lack of cooperation by witnesses and jurors, frustration among police officers and the public, a significant social cost and drain on the economy, and a disincentive for international investment.

2. Supply Reduction

An estimated 15,000 hectares (ha) of marijuana is grown in all 14 parishes of Jamaica, generally in areas inaccessible to vehicular traffic on small plots in mountainous areas and along the tributaries of the Black River in Saint Elizabeth parish. The police and military, supported by the United States, employed teams of civilian cutters to cut growing plants, seize seedlings and cured marijuana, and burn them in the field. Because Jamaican law prohibits the use of herbicides, only manual eradication was conducted in 2012.

Eradication of marijuana increased from 2011: 710.51 ha of cannabis were eradicated; 2,483,710 seedlings destroyed and 785.33 kg of seeds destroyed in 2012 compared to 707 ha, 1,900,630 seedlings and 480 kg of seeds in 2011.

Jamaica prohibits the manufacture, sale, transport, and possession of ecstasy and methamphetamine, and regulates the precursor chemicals used to produce them. Jamaica does not produce precursor chemicals or other chemical substances and, 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 monitor the usage of pharmaceutical products and chemical substances including register controls, inspections, and audits. In 2012, there was an increased movement of quantities of precursor chemicals through Jamaica to Central America. The precursors were concealed in shipping containers that passed through the Port of Kingston, and

included methylamine hydrochloride and monomethylamine, both of which are utilized in the manufacture of methamphetamine.

Smugglers continued to use maritime shipping containers, ships, small boats, aircraft and couriers to move drugs into, from and through Jamaica to the United States. In 2012, authorities seized 66.8 metric tons (MT) of cannabis, 42.2 kg of hash oil and 2.99 kg of hashish, compared to 47.7 MT of cannabis, 170 kg of hash oil and nine kg of hashish in 2011. Seizures of cocaine decreased to 338.28 kg in 2012 from 552 kg in 2011, and crack cocaine increased slightly to 1.37 kg in 2012 from 1.3 kg in 2011.

High-profile organized crime gangs continued to successfully operate within Jamaica. Gangs are sometimes afforded community tolerance or protection and, in some cases, support through police corruption. Nevertheless, drug-related arrests decreased to 17,481 in 2012, compared to 20,216 in 2011.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Marijuana was used by nine percent of the population in 2012, making it the most-abused illicit drug among Jamaicans, while cocaine abuse remained less than 0.1 percent of the population over the last 10 years.

The Ministry of Health's National Council on Drug Abuse (NCDA), working through the primary care system and mental health clinics, provides assessment, counseling and treatment services for substance abusers. With funding from the Jamaican government's National Health Fund, NCDA also supported 18 community medical clinics across the island in 2012, primarily through faith-based institutions, that provided drug-related primary treatment services with referrals, counseling and trauma services.

The Jamaican government operates one detoxification center located at the University Hospital of the West Indies (UHWI) in Kingston, and offers services for dual diagnosis clients through UHWI and Kingston's Bellevue Hospital (a mental health institution). In collaboration with the Organization of American States Inter-American Drug Abuse Control Commission, Jamaica offers a university-level certificate program for drug professionals in drug addiction and drug prevention. The UN Office on Drugs and Crime works directly with the Jamaican government and non-governmental organizations on demand reduction.

The Ministry of Health (MOH) regulates precursor pharmaceuticals, including the importation of pseudoephedrine, both in powder and final product forms. The NCDA, the Pharmacy Council, and the MOH work to expand awareness among health professionals on the potential danger of pseudoephedrine and ephedrine when they are diverted to produce methamphetamine.

4. Corruption

As a matter of policy, the Jamaican government does not encourage or facilitate illegal activity associated with drug trafficking; nor are any senior Jamaican officials known to engage in such activity. The law penalizes official corruption; however, corruption remains entrenched,

widespread, and compounded by a judicial system that is poorly equipped to handle complex criminal prosecutions in a timely manner.

In 2012, an improved anti-corruption stance within the police, Jamaica Customs, Tax Administration, and the Office of the Contractor General showed encouraging signs. Additionally, the U.S.-supported National Integrity Action helped focus increased public and government attention on the need for continued anti-corruption reforms.

The police Anti-Corruption Branch (ACB) showed success in identifying and removing officers engaged in corrupt and unethical behavior. Since the ACB's reorganization with international support in 2007, 454 police personnel have resigned or been dismissed for corruption of ethical violations, with 51 of those removed in 2012. Another 43 officers faced criminal corruption charges during the year. Police success was due partly to mechanisms that allowed it to dismiss corrupt or unethical officers when evidence was insufficient to justify criminal prosecution. For example, the police required high level officers to sign employment contracts that improved accountability and facilitate speedy dismissal for corrupt or unethical behavior. Vetting and a polygraph examination were also required for promotions into key positions. The ACB expanded its physical presence in 2012 by opening a branch office in Montego Bay, funded by the United States.

Proposed legislation to create an anti-corruption special prosecutor has been pending before parliament since 2008. Efforts by legislators from both political parties have stalled the proposal. The Minister of Justice, appointed by the government elected in January, worked to organize legislative support and move the bill, but no action occurred during the year. There has been no 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.

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

Supporting Jamaica's transformation into a more secure, democratic, and prosperous partner is a major U.S. policy goal. Narcotics trafficking, corruption, and related crime undermine the rule of law, democratic governance, economic growth, and the quality of life for all Jamaicans. Success in combating crime depends on a comprehensive approach that recognizes the link between drugs, gangs, organized crime, poverty, unemployment, lack of educational opportunities, and government corruption.

U.S. support to Jamaica includes training, equipment and logistical assistance for marijuana eradication and narcotics interdiction operations, and strengthening border security at air and sea ports. The United States provides training in maritime law enforcement, port security, and professional development for the Jamaican Defence Force Coast Guard. In addition, the United States supports the development of police capacity to interrupt gang operations, investigate financial and cyber crimes, seize criminal assets, and reduce violent crimes. The United States also funds projects to improve the effectiveness of the courts, of vetted police units that target narcotics and lottery scams, of crime scene investigators and forensic analysts, and of prosecutors involved in prosecuting narcotics, corruption and financial crimes. Indirect support for counternarcotics efforts is furnished through projects to develop effective community-police

relations, improve police training facilities, enhance police anti-corruption efforts, and implement education and workforce development programs targeting at-risk youth who are susceptible to narcotics and gang influence. The primary source of U.S. funding in support of law enforcement and justice reform is through the Caribbean Basin Security Initiative.

D. Conclusion

Through strong leadership, democratic institutions, and support from the United States and other international partners, Jamaica continued to make slow but steady progress in combating narcotics trafficking, corruption and organized crime in 2012.

There were success stories in the police anti-corruption program, the police forensic laboratory, the community-based policing initiative, and the vetted police units attacking narcotics and lottery scams. There were also successes within the offices of the Independent Commission of Investigations, the Financial Investigation Division and the Contractor General, which struggled with limited resources to reduce civilian deaths resulting from police actions, financial crime, and corruption in government contracting, respectively.

The momentum of progress gained within Jamaica's law enforcement agencies, however, is being obstructed by the inability of prosecutors and the courts to secure prompt convictions. The United States will continue to support efforts to reform and strengthen the judicial system.

Japan

Drug control in Japan is primarily a problem of domestic drug consumption. Illicit narcotics generally do not transit Japan, nor are they generally manufactured in Japan for markets abroad. In 2012, over 80 percent of all drug arrests in Japan involved methamphetamine or amphetamine-type stimulants, the most widely-abused illegal drugs. Marijuana also continues to be popular and accounted for 12 percent of drug cases.

Japan is one of the largest and most lucrative markets in Asia for methamphetamine. The U.S. Drug Enforcement Administration notes a marked increase of methamphetamine originating from Mexico and the emergence of potential cooperation between Japanese organized crime and Mexican and other transnational criminal organizations. There is growing evidence that liquid methamphetamine is entering the country for conversion and refinement, though laboratories have not yet been discovered. There were several mail parcel seizures of liquid methamphetamine at Kansai International Airport in 2012, and also corroborated evidence of multiple successful imported shipments that evaded seizure.

Between January and June 2012, Japanese law enforcement agencies seized 146.8 kilograms (kg) of methamphetamine; 51.6 kg of marijuana; 1.9 kg of cocaine; 1 kg of heroin and 662 dosage units of MDMA (ecstasy).

While law enforcement officers in Japan are well trained and skilled at conducting reactive investigations, proactive law enforcement efforts are at times hindered by the limited investigative techniques authorized under Japanese law.

A few Japanese law enforcement agencies made notable achievements combating drug trafficking in 2012. Japan Customs has been effective in indentifying inbound drug shipments and made numerous significant seizures at international airports. Japanese authorities have recently coordinated enforcement operations on several investigations resulting in large methamphetamine seizures. The Japan Coast Guard (JCG) embedded an officer aboard a U.S. Coast Guard vessel for several weeks as an observer during a drug interdiction patrol. This officer also attended the Joint-Interagency Task Force-South as an observer. This level of coordination and cooperation is an emerging positive trend.

There were no reported cases of Japanese officials being involved in drug-related corruption in Japan in 2012. The government does not encourage or facilitate the illicit production or distribution of drugs, or the laundering of illicit proceeds.

Jordan

Jordan is a transit country for opiates, cannabis, and synthetic drugs destined for markets in the Gulf states and Israel. There is no evidence that illicit drugs are produced within Jordan, and the country's domestic market for illegal drugs appears to be insignificant.

The Jordan Anti-Narcotics Department (JAND), which falls under the authority of the Public Security Directorate, is the country's primary counternarcotics enforcement agency. JAND officials maintain that internal drug distribution within Jordan is insignificant, and estimate that 85 percent of drugs entering the country are bound for further international markets. Heroin of Afghan origin enters Jordan from Syria on its way to markets in Israel. Cannabis originating from either Afghanistan or Lebanon enters the country from Lebanon, Syria and Iraq. Fenethylline (an amphetamine-type stimulant) enters from Syria for transshipment to Gulf states.

According to JAND, the number of people involved in drug cases fell by almost four percent between 2011 and 2012. In 2012, 4,713 people were arrested for drug possession and 732 were arrested for drug dealing. The majority of those arrested for drug-related crimes are foreign nationals.

As a result of more effective border interdiction operations, improved intelligence gathering, and stronger cooperation between Jordan and neighboring countries, the amount of opium and methamphetamine seized by JAND increased in 2012 from 2011. However, seizures decreased for hashish, marijuana, fenethylline, heroin, and cocaine. The majority of Jordan's drug seizures take place along the country's northern border with Syria. Airport seizures were rare in 2012; improved screening capabilities at Jordan's airports also appear to have deterred traffickers from attempting to smuggle drugs by air.

Cooperation between Jordan and neighboring countries has been critical to the success of Jordanian law enforcement operations. Jordan is one of the only countries in its region to have excellent working relations with all of its neighbors on counternarcotics, including Israel, as well as the United States. In 2012, Jordan and Israel conducted a large joint exercise targeting drug smuggling, and Jordan also partnered with Lebanon to conduct a controlled delivery exercise. JAND and the Public Security Directorate work closely with U.S. Immigration and Customs Enforcement, the Regional Security Office in U.S. Embassy Amman, and the U.S. Drug Enforcement Administration. In 2012, JAND officials took part in a Regional Targeting Conference to coordinate common action against top drug trafficking threats in the region and a seminar, organized by U.S. authorities, on the use of technical equipment to enhance and expand drug investigations.

Kazakhstan

A. Introduction

Kazakhstan lies along the major drug trafficking route from Afghanistan to Russia and is primarily a transit country for Afghan heroin and opiates. The UN Office on Drugs and Crime estimates that less than one percent of the 70 to 75 tons of heroin trafficked through Kazakhstan annually is interdicted. Cannabis grows wild in parts of southern Kazakhstan, and the production and trafficking of cannabis-related narcotics appear to be increasing.

The overall volume of drug-related crimes and seizures declined over the first nine months of 2012 compared to the same period in 2011. However, there was a major increase of such crimes in the western part of the country, as traffickers increasingly used routes through Western Kazakhstan via Uzbekistan in response to strengthened enforcement on the Kyrgyz border.

The reduced number of recorded drug crimes and seizures may have been due to reduced enforcement pressure. In April, President Nazarbayev ordered competency testing of officers from most law enforcement agencies (excluding the Border Guard Service) in an exercise known as the "Law Enforcement Attestation Process." This exercise diverted the attention of many officers from their regular duties and led to the dismissal or transfer of thousands of officers.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

On April 12, the Government of Kazakhstan adopted the Program on Combating Drug Addiction and Drug Business for 2012-2016 with a total budget of $41 million. The Program supplements traditional counternarcotics enforcement efforts through promoting demand reduction efforts, treatment and rehabilitation of drug addicts, and strengthening border control measures. The Border Guard Service is equipping the southern border with enhanced infrastructure to interdict smugglers, and construction began on 10 new border posts: four in Zhambyl oblast, four in Almaty oblast, and two in the South Kazakhstan oblast.

Kazakhstan hosts the Almaty-based Central Asia Regional Information and Coordination Center (CARICC), which in 2012 granted observer status to China, Romania, and Ukraine. Azerbaijan, Russia and the five Central Asian countries are full members.

Kazakhstan cooperates with a number of countries on a bilateral basis, and also participates in counternarcotics activities as part of the Shanghai Cooperation Organization and the Collective Security Treaty Organization (CSTO). Kazakhstan's special divisions, internal troops and police participated in the anti-drug drill "Grom-2012" (Thunder-2012), a joint exercise for CSTO member countries. On April 11, the CSTO's Coordination Council of Counternarcotics Agencies' Activities established a working group for interagency cooperation in drug demand reduction and agreed to discuss a draft Protocol on Interaction between CSTO and CARICC.

In July 2012, Kazakhstan's Prosecutor General's Office (PGO) proposed a bilateral agreement with the United States on mutual legal assistance. In September 2012, the United States signed its tenth amended letter of agreement with the Ministry of Interior (MVD). The U.S. Drug Enforcement Administration (DEA) is also negotiating a memorandum of understanding with the MVD on counternarcotics cooperation.

2. Supply Reduction

According to PGOs' Legal Statistics Committee, during the first nine months of 2012, law enforcement agencies in Kazakhstan seized approximately 27 metric tons (MT) of drugs (compared to 32.8 MT in the same period in 2011). These seizures included: 208.1 kilograms (kg) of heroin (265 kg in 2011); 26.3 MT of marijuana (26.4 MT in 2011); 183 kg of opium (9.6 kg in 2011); and 181 kg of hashish (314.5 kg in 2011). The number of registered drug-related crimes decreased from 3,561 to 3,098, including 1,830 drug sales and 176 contraband cases. 2012 revisions to the criminal code converted certain drug-related offenses from criminal to administrative violations.
The Ministry of Interior reportedly dismantled nine organized drug trafficking groups in 2012. From June 1 to October 31, Kazakhstani law enforcement agencies conducted the annual Operation "Kendir" (Poppy) to interdict and eradicate marijuana growing wild in the Chu Valley.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2012 registered drug addicts in Kazakhstan decreased 13 percent to 41,614, although unofficial estimates put the total as much as four times higher. Among those officially registered, 3,232 were women (down 14 percent), and 2,202 adolescents (down 17 percent). The most widely consumed drugs are from the opioid group (heroin and opium), with 21,325 users; followed by cannabinoids (hashish, marijuana) with 10,126 users; and psychotropic substances, with 4,533 users.

State agencies have implemented a number of activities aimed at reducing demand, including the State Program for Development of Healthcare (2011-2015) and "Healthy Lifestyles" (2008-2016). The MVD Counternarcotics Committee coordinates these activities with other agencies.

The Ministry of Education and Science and the Ministry of Interior began implementation of the Drug Abuse Resistance Education (DARE) program with United States assistance in 2011. A pilot program was introduced in May 2012 in several Astana schools, and the Ministry of Interior is working to include the DARE program in the 2013 education plan.

The Ministry of Health is responsible for diagnosis, treatment and rehabilitation of individuals addicted to drugs and psychotropic substances, and operates drug demand reduction programs. The Ministry promotes improved treatment and rehabilitation of drug addicts, including development of new standards for narcological assistance, protocols of treatment, rehabilitation of imprisoned drug addicts, and tertiary prevention (harm reduction) programs. In October 2012, the Ministry of Health issued a decree on the expansion of methadone therapy in Kazakhstan to cover HIV-infected opium and heroin users in seven cities. Also, the National Center for Applied Research on Drug Addiction in Kazakhstan implements the Treatment Training

Package, the central goal of which is to increase knowledge among health care workers, educators, and prison staff about drug abuse and treatment. The Ministry of Education and Science works to counter the spread of drug addiction and associated HIV/AIDS and provides rehabilitation programs for children, minors and youth in the educational system. The Ministry of Communications and Information organizes media campaigns to discourage drug consumption.

The MVD Counternarcotics Committee (CN Committee) and its field divisions work with representatives of non-governmental organizations and youth associations to prevent drug addiction among children and youth as part of the Program on Combating Drug Addiction and Drug Trafficking. Its website (www.narcopost.kz) provides updates on demand reduction activities, and success stories in the battle against drug trafficking. The Commission on Coordinating Demand Reduction Activities and Combat Against Drug Trafficking, established in 2003, monitors the work of all relevant agencies and provides recommendations for further activity. The MVD also publishes the magazines Narcopost and Future without Drugs.

4. Corruption

As a matter of government policy, the Government of Kazakhstan does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. A major stated goal of the Law Enforcement Attestation process was to reduce police corruption. Kazakhstan law enforcement agencies do not report corruption statistics, though press reports occasionally disclose corruption or illegal activity by police officers, including drug possession. In August, the Government of Kazakhstan approved incentives to encourage citizens to report cases of police corruption. Rewards may range from $300 to $750 for information. In April, special interagency groups began monitoring crossing points along the China-Kazakhstan border in an effort to eliminate corruption and increase the flow of cargo.

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

The United States provides assistance to develop counternarcotics capacity in Kazakhstan. In 2012, the United States organized six interagency workshops for counternarcotics officers on drug-related and money laundering investigations, all taught by DEA's Central Asia Regional Training Team. The United States also continued its program to train dogs to search for drugs – with participants from all of Kazakhstan's law enforcement agencies – while OMC provided funding to develop canine facilities.

D. Conclusion

The drug situation in Kazakhstan remains relatively stable, though there is concern that the 2014 transition to Afghan lead and withdrawal of coalition forces will worsen the drug trafficking problem. While Kazakhstan's governmental agencies still need to strengthen their capacity to combat drug trafficking and promote demand reduction, the government clearly recognizes the public health and national security threats posed by drug trafficking and addiction. While law enforcement agencies remain constrained by a segregation of responsibilities, they have shown

increased willingness to cooperate with each other to investigate drug crimes and money laundering offenses.

Kosovo

Kosovo remains a transit country for drugs destined for Europe, but is not a significant narcotics producer. Kosovo coordinates its multi-agency inter-ministerial efforts to combat narcotics trafficking through the National Coordinator for Anti-Drug Strategy. The Kosovo Police Narcotics Trafficking Investigation Directorate is primarily tasked with implementing Kosovo's National Anti-Drug Strategy and Action Plan and is responsible for narcotics-related investigations, seizures, and arrests. The directorate reported a significant increase in staffing and technical support in 2012, attributing its improved counternarcotics performance during the year to this factor.

Over the first nine months of 2012, marijuana constituted the bulk of seizures (1,091.4 kilograms, or kg), followed by heroin (51.5 kg) and cocaine (7.2 kg), a significant increase from 2011. Police also seized cannabis seeds and plants, as well as 153 ecstasy tablets. Factors adversely impacting Kosovo's efforts to combat narcotics trafficking include its geographic location, lack of control over northern municipalities, poor economy, and an ineffective border management system.

There are no comprehensive assessments of drug use in Kosovo. Based on available information, the vast majority of offenders are men ages 18-35, and marijuana is their drug of choice. The Ministries of Health and Education conduct drug education programs; community police officers educate students about risks of drug use, and non-governmental organizations such as Labyrinth assist with anti-drug education and drug treatment.

Estimating the extent to which corruption influences drug trafficking in Kosovo is difficult. While laws prohibit narcotics-related corruption, allegations persist that narcotics move across Kosovo's borders by truck, bus, and private vehicle, sometimes aided by customs officers who accept bribes.

Kosovo adopted its first counternarcotics strategy in 2009 and is drafting a successor strategy. Because Kosovo is not yet a United Nations member state, it is party to relatively few international conventions and protocols or bilateral agreements relating to counternarcotics. Kosovo cooperates and exchanges information with neighbors through informal bilateral and multilateral meetings. U.S. law enforcement agencies continue to coordinate and share information with Kosovar authorities to develop investigations. Kosovo also cooperates with the United States on counternarcotics issues and receives technical assistance and training from U.S. assistance programs.

Kyrgyzstan

A. Introduction

Kyrgyzstan is a major transit country for illicit drugs, primarily heroin, from Afghanistan to Europe and Russia. The country's geographical location, limited resources, weak law enforcement institutions, and politicized judiciary leave it vulnerable to exploitation by transnational drug trafficking networks. Illicit drugs often arrive in Kyrgyzstan via dangerous mountainous passes bordering Tajikistan. In 2012, the UN Office on Drugs and Crime (UNODC) estimated that 75 to 80 metric tons (MT) of heroin and 18 to 20 MT of opium were trafficked through Tajikistan. According to local government statistics, upwards of 20 metric tons of illegal narcotics move through Kyrgyzstan each year. Kyrgyzstan is also beginning to experience a rise in local consumption of drugs, especially heroin and cannabis. There were no significant changes in domestic law enforcement and judiciary capabilities in 2012. Endemic corruption at all levels of government and society hinders efforts to successfully combat narcotics trafficking, money laundering, and other crimes.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

When he assumed office in 2011, President Almazbek Atambayev announced his intent to increase the effectiveness and capacity of all agencies devoted to counternarcotics efforts, especially the State Drug Control Service (SDCS). Although this goal remains in place, the SDCS has struggled to find competent leadership and increase its effectiveness. Between July and September of 2012, four chairmen were named to lead the SDCS in quick succession. The current incumbent, Alymbay Sultanov, previously served as Chairman of the Kyrgyz Drug Control Agency, a predecessor agency to the SDCS. There has been a slight uptick in drug seizures since Sultanov's appointment, although net seizures remain low.

2. Supply Reduction

Kyrgyzstan partners with United States to train and equip law enforcement bodies including the State Drug Control Service (SDCS). The U.S. Drug Enforcement Administration (DEA) opened its first field office in Kyrgyzstan in 2012. DEA worked closely with local law enforcement to conduct international narcotics investigations and to evaluate emerging trends. DEA also partnered with other offices in the region to coordinate and establish strong working relationships. In addition, Kyrgyzstan is also a member of Central Asian Regional Integration and Coordination Centre (CARICC), which promotes regional coordination and cooperation among participating states to stop drug trafficking.

In the first nine months of 2012, the Ministry of Interior (MVD) reportedly initiated 1,352 of the 1,530 current total drug cases in the Kyrgyz Republic. According to official government of Kyrgyzstan statistics, law enforcement bodies seized between three to seven MT of narcotics in

2011. These statistics are questionable, however, as the technology and techniques used to identify and weigh narcotics are rudimentary.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Government of Kyrgyzstan seeks to reduce domestic demand for illicit drugs through working with international partners such as UNODC and Community Anti-Drug Coalitions of America (CADCA). Programs administered by these international organizations focus on both improving the capacity of law enforcement and educating youth. According to UNODC, Kyrgyzstan has rising rates of both intravenous drug use and HIV. This trend is most evident in the south where drugs are heavily trafficked and where prostitution and poverty loom large. Local experts believe that there are between 20,000 and 50,000 drug users in Kyrgyzstan. Several treatment, detoxification, and methadone clinics exist in Kyrgyzstan but they are often poorly staffed and equipped. Methadone clinics came under fire in early 2011 after the release of the film, "The Trap," which presented a negative view of methadone treatment. Several parliamentarians called for the closure of methadone clinics at the time of the film's release, but none have been closed to date.

4. Corruption

As a matter of government policy, the Government of Kyrgyzstan does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, corruption, judicial inefficiency, and organized crime remain ongoing problems for the Government of Kyrgyzstan. The government failed to implement effective civil service, tax, and law enforcement reforms which would reduce corruption. Widespread public perception is that government workers pay for their positions in order to gain direct access to bribes and the lucrative narcotics trade. A prime example of such abuse would be within the Ministry of Internal Affairs. It is not uncommon for traffic police to stop local drivers and demand bribes in exchange for making purported infractions disappear. Many high-ranking government officials are also suspected of supporting and profiting from narcotics trafficking. Several towns in the south are major distribution and trafficking hubs that appear to be controlled by local leaders and mayors' offices.

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

The Government of Kyrgyzstan recognizes the challenges posed by drug trafficking but has not generated a unified, government-wide approach to reduce supply or demand. Kyrgyzstan is developing an integrated national strategy, which it expects to release in early 2013. The United States supports the development of the national strategy through joint consultations facilitated by the UNODC in Bishkek.

The U.S. Department of the Treasury designated Kyrgyz national Kamychbek Kolbayev as part of the Brothers' Circle Transnational Organized Crime group on February 23, 2012. Kolbayev had previously been designated under the Foreign Narcotics Kingpin Designation Act on June 1, 2011. Kolbayev was in custody in Kyrgyzstan as of December 31, 2012. The Treasury

Department designated Zakhary Kalashov, Almanbet Anapiyaev, and Adilet Kasenov all also associated with the Brothers' Circle on December 20, 2012. Kasenov, a Kyrgyz national, is in custody in Kyrgyzstan as of December 31, 2012. These designations were made pursuant to Executive Order (E.O.) 13581, which targets entities or individuals determined by the Secretary of the Treasury, in consultation with the Attorney General and the Secretary of State, to be significant transnational criminal organizations or to have links to such organizations.

The United States' policy objectives in Kyrgyzstan are to enhance the existing capacity of law enforcement agencies, help the Government of Kyrgyzstan expand its ability to investigate and prosecute criminal cases, and to improve overall security in the country. In 2012, the United States provided an estimated $3 million in counternarcotics support to Kyrgyzstan by means of training and technical assistance. In particular, U.S. assistance helped to facilitate the professionalization of the police by promoting information sharing with their counterparts in neighboring countries such as Tajikistan and Kazakhstan. The U.S. supported a multi-year communication program to improve the interdiction capacities of border troops. In addition, DEA established a satellite office inside the SDCS headquarters and provided training programs and operational support to increase the size and scope of drug investigations. SDCS and DEA cooperate under a memorandum of understanding signed in 2011 that allows for the sharing of drug intelligence and promotes closer cooperation on international investigations. The United States also provided technical assistance such as radios and funded the building of border outposts in remote areas of Kyrgyzstan.

D. Conclusion

The Government of Kyrgyzstan faces many challenges in effectively enforcing the drug laws of the Kyrgyz Republic and to eradicate narcotics trafficking and drug abuse within its borders. Over the course of 2013, the United States will continue to support the development of capacity building of law enforcement agencies and legislation which supports counternarcotics efforts. The United States will also encourage better coordination among the various law enforcement agencies that play a role in counternarcotics.

Laos

A. Introduction

The Lao People's Democratic Republic is a major transit country for opium, heroin and amphetamine-type stimulants (ATS) and is a major producer of opium. Laos sits at the heart of the regional drug trade in mainland Southeast Asia, sharing remote and poorly-controlled borders with Burma, Thailand, Cambodia, Vietnam, and China. Economic development and the improvement of Laos' road, bridge and communications networks have created opportunities for the illicit drug trade to grow.

The Lao government recognizes the threat posed by illegal narcotics production and trafficking and has taken some actions to address it, especially in the areas of demand reduction and alternative development. However, the Lao government possesses little ability to act independently of international donor support, since a high percentage of the government's budget comes from donor aid. Lao law enforcement suffers from a lack of training and resources to combat internal drug crime. Additionally, Lao law enforcement must monitor 3,000 miles of mountainous and Mekong River border regions used by drug traffickers to smuggle contraband into and out of the country.

From 1998 to 2007, opium cultivation decreased by 95 percent due to aggressive government action and international cooperation. Since then, however, cultivation has rebounded, rising from 1,500 hectares (ha) in 2007 to 6,800 ha in 2012, as estimated by the UN Office on Drugs and Crime (UNODC). Although reporting does not indicate that ATS tablets are being produced in Laos, drug seizures indicate that they are moving through Laos in increasing quantities.

Intravenous drug use is a contributing factor to HIV transmission. A recent estimate puts the number of intravenous drug users (IDUs) in the country at 1,500.

In April 2012, Lao police arrested Naw Kham, a major Burmese trafficker and source of violence in the Golden Triangle region. Quickly sent to China, Kham and five accomplices were convicted in October of having attacked a Chinese commercial vessel on the Mekong River and killing 13 of its crew members.

B. Drug Control Accomplishment, Policies, and Trends

1. Institutional Development

The National Drug Control Master Plan, 2009-2013, written with international assistance, remains the guiding document for the Lao government's drug control strategy. The Comprehensive National Drug Control Strategy for the Lao National Commission for Drug Control and Supervision (LCDC) includes nine elements covering:

- Trend analysis and risk assessment
- Alternative development and poverty reduction

- Drug demand reduction and HIV/AIDS prevention
- Civic awareness and community mobilization
- Law enforcement
- Criminal justice and the rule of law
- Chemical precursor control and forensics capacity
- International and national cooperation
- Institutional capacity-building

This national strategy calls for a budget of $72 million for the LCDC over the course of the plan, largely funded by international donors and UNODC. As of November 2012, $15 million had been funded.

Since 1998, the United States has provided Laos with $33.7 million in narcotics-related assistance. Cooperation through crop substitution programs helped to significantly reduce opium cultivation from 27,000 ha in 1998 to 1,500 ha in 2007. Since 2007, however, cultivation has been slowly increasing.

The LCDC is responsible for managing efforts to combat the trafficking and abuse of illegal drugs via demand reduction, crop control, and law enforcement. The top policy-making body for counternarcotics is the National Steering Committee to Combat Drugs (NSCCD), chaired by the Prime Minister. The head of LCDC and the Minister of Public Security (MOPS) are co-chairs. The NSCCD helps integrate the domestic law-enforcement activities of MOPS with the broader coordinating functions of LCDC.

Lao drug police are organized into 17 provincial Counter Narcotics Units (CNUs). Although the Lao government participates in regional conferences on counternarcotics cooperation, it rarely shares operational information.

Laos has no bilateral extradition or mutual legal assistance agreements with the United States.

2. Supply Reduction

Between January and June 2012, the Lao government reportedly seized 29 kg of heroin (almost twice as much as in same period of previous year), 15.1 kg of opium (slightly less than previous year), 2.26 metric tons of marijuana (up by more than half), and 8,714,205 methamphetamine tablets (a 6-fold increase, mostly due to seizures of 7.2 million tablets in May).

Most drug-related arrests in Laos in 2012 were for methamphetamine trafficking and use. Methamphetamine is the cheapest and most common illegal drug in Laos. Profit margins for traffickers are higher than for any other illegal drug due to high volume and low production expenses. There has been an increase in the availability of other synthetic drugs. MDMA (ecstasy) and crystal methamphetamine are available in Vientiane and major tourist destinations. Most synthetic drugs come from Burma. Lao authorities moved decisively in the fall of 2012 to close down drug-selling establishments in Vang Vieng (nearly 100 miles north of Vientiane), which had been a haven for young foreign travelers seeking cheap drugs.

Laos continues to struggle against an upward trend in the supply of opium. Opium cultivation was banned in 1972; however, hectares planted or harvested remains over 1,000 (the U.S. "Majors List" criterion) and is unlikely to fall below that milestone in the near future. The demand for opium continues in the remote highlands of Laos, as well as in China and Thailand. Opium cultivation occurs in areas bordering China, Vietnam, and Burma. Most poppy is grown in areas that have received little or no development assistance. Heroin is trafficked from Burma through Laos to markets in China and Vietnam.

Marijuana is also produced in Laos. Commercial quantities for regional export are grown in large plantation-type plots, sometimes financed by foreign customers, primarily in Thailand.

The Lao government seeks international support for supply reduction. A three-year UNODC project to upgrade Laos' law enforcement capacity, at the cost of almost $900,000, ended in 2012.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The LCDC's budget for demand reduction in 2011 included approximately $200,000 for drug-treatment centers. UNODC implemented projects to promote the production of licit crops, alternative livelihoods, and efforts to prevent HIV among injecting drug users.

Out of a Lao population of 6.5 million (2005), the LCDC estimates 40,000 are methamphetamine users, and the UNODC annual report of its 2012 opium survey for Laos estimates 10,776 opium users. Many observers believe that consumption has increased significantly for synthetic drugs. Methamphetamine addicts frequently turn to crime to support their addiction. Drug addiction treatment facilities remain deficient in human resources and post-discharge follow-up. The United States funds the two principal treatment facilities, one near Vientiane and one in Savannakhet.

U.S.-funded UNODC programs in northern Laos remain the only treatment and rehabilitation activities there for opium addicts. A new U.S.-funded pilot project promotes community-based treatment in Vientiane.

4. Corruption

As a matter of government policy, the Lao government does not encourage the illicit production or distribution of narcotic drugs, psychotropic or other controlled substances, or the laundering of the proceeds of illegal drug transactions. The State Inspection Authority is the Lao government organization charged with fighting corruption. Salaries for police, military and civil servants are low, and corruption in Laos continues to plague law enforcement and government. Lao law explicitly prohibits official corruption, and there have been no reported arrests, prosecutions or convictions of officials for drug-related corruption. However, it is likely that corruption in the security forces and government plays a role in narcotics trafficking in Laos.

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

The United States signed initial agreements with Laos to provide international narcotics control assistance in 1989 and has since signed additional letters of agreement with amendments to provide additional assistance for crop control, drug demand reduction, and law enforcement cooperation annually. The United States continues to implement agreements signed in 2011 to assist Lao Customs with training and equipment and with UNODC to promote legal sector reform in cooperation with the Ministry of Justice. In 2012, the United States funded a UNODC effort to assist the Office of the Supreme Public Prosecutor to increase the use of evidence in criminal trials.

Most U.S. counternarcotics assistance to Laos has supported the effort to reduce poppy cultivation and, more recently, to bring about demand reduction. In 2012, U.S. crop control assistance continued winding down in favor of justice-sector and law-enforcement reform, consistent with U.S. priorities. Law enforcement assistance continues to support operations, training and equipment for the Drug Control Division of MOPS, provincial CNUs, and Lao Customs. The Law Enforcement and Narcotics Section of the U.S. Embassy in Vientiane and UNODC continued efforts to raise the profile of money laundering and terrorist financing in Laos in 2012. Laos is currently receiving assistance from the Asia/Pacific Group on Money Laundering (APG) to improve its weak anti-money laundering (AML) regime. In July, the APG found the Lao AML framework seriously deficient. In November, Luxembourg and Mongolia experts visited Vientiane as part of an UNCAC peer review.

In 2012, with funding from the United States, 33 Lao officials participated in regional training at the International Law Enforcement Academy in Bangkok.

D. Conclusion

Counternarcotics cooperation between Laos and the United States continues to evolve, but the significant gains in poppy eradication and crop substitution of the 1990s and 2000s are increasingly at risk due to factors that include high opium prices and a dearth of funding for crop-substitution programs. Even more troublesome is the increase in ATS trafficking and usage in Laos. The effort to treat ATS addiction is straining Laos' limited treatment resources. ATS also figures prominently in the rise in violence along Laos' borders with Burma, Thailand and China in the Golden Triangle area.

Laos' justice, law enforcement and security systems lack the resources necessary to counter the rise in narcotics-related crime that has accompanied the country's increasing economic development. Institution building within the Lao government and basic law enforcement training are needed, emphasizing interdiction, investigation, prosecution and, for the guilty, incarceration. Regional law enforcement cooperation among Vietnam, China, Burma, Thailand, and Cambodia is also vital to Laos' fight against drug trafficking. The United States will continue to work on improving cooperation with Laos as it seeks to address these problems.

Lebanon

A. Introduction

Lebanon is a transit country for cocaine and heroin. Criminal networks based in West Africa, Panama, and Colombia, including some with ties to known weapons smuggling and terrorist networks, work with Lebanese networks to traffic drugs to markets in Europe and the Gulf States. Additionally, minor quantities of heroin may be processed in remote side valleys of the Bekaa Valley which are difficult for Lebanese security forces to control. Despite a robust eradication program, the stagnant economic situation in rural Lebanon makes illicit crop cultivation appealing to local farmers in the Bekaa Valley, a condition recently exacerbated by the worsening security situation in Syria that has interrupted legitimate export opportunities.

B. Drug Control Accomplishments, Policy, and Trends

1. Institutional Development and Supply Reduction

The Lebanese Internal Security Forces (ISF) Counter Narcotics Units are well led, equipped, and disciplined. The ISF estimates that yearly illicit drug production continues to decline from its peak in 2002, due in large part to regular, high-profile eradication campaigns. The ISF Counter Narcotics Units' eradication program came to a halt between August 15 and mid-September due to the redeployment of security forces to other parts of the country to respond to an outbreak of sectarian instability. This redeployment led to the cultivation and some harvesting of marijuana and hashish. Despite the temporary halt to the program, the ISF Counter Narcotics Units estimates that 75 percent of the cultivation was eradicated before it could be harvested.

Different types of drugs transit through and are available in Lebanon, including: marijuana, hashish, heroin, cocaine, amphetamine-type stimulants (ATS), and other synthetics such as MDMA (ecstasy). There has been a rise in synthetic drugs, particularly fenethylline, due to local law enforcement's lack of familiarity with identifying these types of drugs and the lack of import restrictions on precursor chemicals. While some synthetic drugs are manufactured in Lebanon, they are primarily smuggled into the country from Eastern Europe both for sale to high-income recreational users in Lebanon and for transit to the Gulf States.

As of October 2012, the ISF reported 2,198 drug related arrests since the beginning of the year, which is up slightly over the same time period in 2011. The ISF arrested 284 heroin users, 394 cocaine users, 773 hashish users, and 133 drug users of various synthetics. Between January and the end of September, Lebanese authorities seized 69 kilograms (kg) of cannabis, 5 kg of cocaine, and 188 kg of hashish. Authorities also seized 206,000 fenethylline pills, 6 kg of ephedrine powder and 13 liters of ATS. Tourists and international visitors traffic in small quantities of illegal drugs, mostly for personal use, although the extent of this problem remains unknown. The Ministry of Interior conducts thorough entry inspections using recently trained counternarcotics detection canines at Beirut airport.

2. Drug Abuse Awareness, Demand Reduction, and Treatment

There are no reliable estimates of the number of drug users in Lebanon. There are several detoxification and rehabilitation programs, some of which receive support from the Ministries of Social Affairs and Public Health and the UN Office of Drugs and Crime.

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

The Lebanese Government has pledged to work with local farmers affected by eradication programs on a crop substitution program, but it has not finalized the details of remuneration or the substitution of crops.

The United States donated significant resources to ISF Counter Narcotics Units in 2012 including vehicles; communications and tactical gear; patrol boats; and spray trucks to assist in the narcotics eradication program.

The U.S. government has increased cooperation with the Government of Lebanon to combat money laundering and its connections to the international drug trade. Lebanon continues to be a hub for drug money laundering as evidenced by the 2011 designation of Lebanese Canadian Bank (LCB) as a financial institution of primary money laundering concern. The LCB facilitated money laundering activities of an international narcotics trafficking and money laundering network.

There is an ongoing investigation into this network, which moved illegal drugs from South America to Europe and the Middle East via West Africa and laundered hundreds of millions of dollars monthly through accounts held at LCB. This network also used trade-based money laundering tactics involving consumer goods throughout the world, including used-car dealerships in the United States. The terrorist organization Hizballah received financial support from the criminal activities of this network. DEA continues to investigate ongoing money laundering drug trafficking organizations within Lebanon.

D. Conclusion

Lebanon is working to confront drug trafficking networks operating on its territory, despite considerable challenges. Lebanon has a nascent but functioning judicial system that is slowly recovering from the effects of civil war and Syrian occupation, and the number of arrests and convictions for drug trafficking rose in 2012. The United States will continue to support improvements to Lebanon's enforcement institutions to suppress narcotics trafficking and its associated financial crimes.

Liberia

A. Introduction

Liberia is not a significant transit country for illicit narcotics, but the country's weak law enforcement capacity, porous border controls, and proximity to major drug transit routes leave it vulnerable to becoming one. While Liberia is not a significant producer of illicit narcotics, local drug use, particularly of marijuana, is common. Other drug usage includes heroin (mostly smoked) and cocaine (snorted). Local authorities have reported increasing prevalence of amphetamines. However, reliable data on consumption of narcotics or overall drug trends are not readily available. Locally consumed drugs enter Liberia via commercial aircraft and maritime vessels.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Given its long coastline, uncontrolled territorial waters, predominantly open land borders, and years of internal strife, Liberia remains vulnerable to narcotics trafficking networks. Local authorities are aware of the threat and are working with the United States and other donors to prevent illicit criminal networks from gaining a strong foothold in the country. Several local law enforcement agencies work in concert to fight narcotics trafficking in Liberia, including the Liberian National Police, the Coast Guard, the National Security Agency, and the Drug Enforcement Agency.

In 2010 Liberia signed the "West Africa Coast Initiative (WACI) Freetown Commitment," a UN initiative to address the growing problem of illicit drug trafficking, organized crime, and drug abuse throughout the sub-region. A cornerstone of the WACI was the establishment of a Transnational Crime Unit (TCU) in post-conflict states (including Liberia, Côte d'Ivoire, Guinea-Bissau, and Sierra-Leone) with the intent of preventing organized crime networks from working with weapons dealers. Although Liberia's TCU is not yet fully operational, it should provide a coordination mechanism for counternarcotics efforts in Liberia. The Ministry of Justice and the Drug Enforcement Agency, with support from the United States and the UN Office on Drugs and Crime (UNODC), continue to review the draft of new legislation related to drugs and organized crime in Liberia, which, if enacted, should create a stronger foundation for more effective law enforcement activities. Under Liberia's existing legislation, defendants can only be charged under public health laws.

The Liberian Drug Enforcement Agency benefited from new leadership in 2012 and, in recognition of its growing effectiveness, began to receive international donor assistance for the first time.

The U.S.-Liberia extradition treaty dates to 1939 and is in effect.

2. Supply Reduction

Local production of marijuana is not prioritized as a major concern by most of the public; however, local law enforcement authorities occasionally conduct eradication operations. These sporadic efforts have not included provision for alternative livelihoods and have been largely ineffective. Little information exists regarding the extent of local cannabis cultivation, or the networks responsible for local sales, but marijuana is clearly the most widely available drug in the country.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

UNODC's 2011 report notes that overall consumption of cannabis is high, including cannabis combined with other illicit drugs. Occasionally, marijuana is mixed with cocaine, heroin, or pharmaceutical products. Psychotropic drugs are not common in Liberia, since the local population lacks the disposable income to buy them. Low average incomes and high unemployment rates continue to plague Liberia, leaving many without the income to purchase illicit drugs. However, drug use is increasing in the emerging middle class and is likely to grow as the economy continues to recover from years of conflict. Use of other illicit drugs, independent of cannabis, is low to moderate. However, statistical tracking mechanisms are nascent and reliable data are not yet available. Historically, drug abuse was strongly linked to Liberia's civil conflict from 1989-2003, which left behind more than 100,000 ex-combatants. Many of the combatants used drugs during the war and remain users. The government has conducted very little drug rehabilitation and treatment since the pre-war era. Health professionals refer addicts to a psychiatric ward or to one of the few NGOs working in the field. Liberia's unemployment rate also plays a role in its drug abuse problem, with only 15 to 20 percent of the workforce 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. Another local NGO, Teen Challenge, offers drug rehabilitation to a limited number of men each year. Christian Children's Fund lists 40 active NGO youth organizations, with more than one fourth dealing with HIV/AIDS prevention/treatment and general health awareness training, but only three of these NGOs specifically target drug abuse issues.

4. Corruption

The Government of Liberia neither encourages nor facilitates the production or distribution of illicit drugs, nor the laundering of proceeds from illegal drug transactions. The United States has no information of senior government officials engaging in such activity.

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

In cooperation with other donor countries and organizations, the United States is working with the Government of Liberia to fight international narcotics trafficking and reduce local demand. In late 2011, the United States funded UNODC's assessment of drug use, treatment, prevention, and needs in Liberia. In 2012, the United States supported UNODC's special assessment of the Liberian Drug Enforcement Agency. In 2013, the United States plans to introduce new demand

reduction assistance, which will support the integration of preventive drug education into school curriculums, the creation of outreach centers for drug addicts, the professional training of addiction treatment providers, and the increased capacity of governmental service-providers and NGOs to focus their demand reduction efforts on at-risk children and adolescents. In 2013, the United States will also provide an advisor to the Liberian Drug Enforcement Agency.

The United States launched the West Africa Cooperative Security Initiative (WACSI) in 2011, a five-year initiative to increase global security by addressing transnational organized crime, particularly drug trafficking, in West Africa. Under WACSI, U.S. assistance to Liberia will focus on establishing functional and accountable institutions and building basic operational capacity

D. Conclusion

The Government of Liberia is committed to preventing transnational criminal organizations from gaining a foothold in its territory, but currently lacks the resources to respond adequately to this challenge. The Liberian government requires additional training and assistance to be able to successfully investigate and prosecute counternarcotics and financial crimes. The United States will continue to cooperate with international donors to support Liberia's efforts and assist its efforts to fulfill its international drug control commitments.

Malaysia

Malaysia is neither a significant source country nor a major transit point for U.S.-bound illegal drugs. However, regional and domestic drug-trafficking remains a problem. International drug syndicates are increasingly turning to Malaysia as a production site for crystal methamphetamine ("ice") and ecstasy (MDMA). Drugs smuggled into Malaysia include heroin and amphetamine-type stimulants (ATS) from the Golden Triangle (Thailand, Burma, Laos), and ecstasy, cocaine, erimin-5 (nimetazepam), and methamphetamine from several countries, particularly Iran. Nigerian and Iranian drug trafficking organizations use Kuala Lumpur as a hub for illegal trafficking to markets across Southeast Asia and the Asia Pacific region. Drugs transiting Malaysia do not have a significant impact on the U.S. market. Nigerian-based trafficking organizations mail cocaine to Kuala Lumpur for further distribution. There is no significant cultivation of illicit drug crops in Malaysia. While local consumption of drugs is limited in Malaysia, police are concerned about increased use of methamphetamine. Ketamine and erimin-5 remain popular drugs on the local market.

The Malaysian government promotes the Association of Southeast Asian Nations' (ASEAN) "Drug-Free by 2015" policy. Malaysian officials made 90,429 drug-related arrests between January and September 2012. Malaysia's counter-narcotics officials have the support of senior officials, but problems with the legal system hinder enforcement and interdiction efforts. Malaysian law currently stipulates a mandatory death penalty if convicted of "trafficking," with harsh sentences for possession of smaller quantities. In practice, minor offenders generally are placed into treatment programs instead of prison. When major traffickers are arrested, they are often detained without trial or charged under the Dangerous Drugs Act. Often, charges are reduced, or, if convicted of drug trafficking, the sentence is sometimes commuted upon appeal.

Over the last three years, the U.S. Drug Enforcement Administration has deepened its cooperation with Malaysian counterparts on drug investigations. The U.S. Coast Guard continued its maritime law enforcement training program with the Malaysian Maritime Enforcement Agency (MMEA) by conducting Joint Boarding Officer and curriculum development courses to further develop the MMEA's instructional capabilities. U.S. and Malaysian law enforcement authorities cooperate on extradition and mutual legal assistance through treaties in force since 1997 and 2009, respectively.

In 2013, the United States will strengthen coordination and communication with Malaysian law enforcement authorities in counternarcotics efforts, including by assisting interdiction efforts, sharing intelligence, funding counternarcotics training for Malaysian law enforcement officers, and working to improve Malaysia's investigative and prosecutorial processes.

Mexico

A. Introduction

Mexico remains a major transit and source country for illicit drugs destined for the United States (including cocaine, heroin, marijuana, and methamphetamine), and a center for money laundering. Although narcotics trafficking and related violence in Mexico remain significant problems, signs of improvement regarding violence emerged in 2012. According to a major Mexican newspaper, the annual number of organized crime-related homicides through November 2012 declined by an estimated 19 percent from 2011. This overall decline was led by abatement of violence in Chihuahua and several other states. Shifting patterns of violence, however, led to higher homicide rates elsewhere.

Mexico aggressively combats drug trafficking, and U.S.-Mexico cooperation in this area is unprecedented. The bilateral Merida Initiative is a major component of these efforts; since 2008, it has provided some $1.1 billion in training, equipment, and technical assistance to help transform Mexico's judicial and security institutions. Such cooperation has boosted Mexican efforts to bring to justice leaders of transnational criminal organizations (TCOs). That success, however, has also resulted in smaller, fractured organizations that have violently attempted to consolidate their power. Also, as narcotics-driven profits fall, TCOs have increasingly turned to domestic criminal activities such as kidnapping, extortion, human trafficking, and retail drug sales.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Mexico has strengthened its institutional capacity to confront TCOs. The Secretariat of Public Security has restructured and tripled the size of its Federal Police, from 11,000 officers in 2006 to nearly 40,000 by the end of 2012. To fight TCOs at the state level, the Federal District and 29 of 31 states (except Yucatan and Tabasco) are creating Accredited State Police (PEA) units (formerly called Model Police Units) that are composed of specially-trained and vetted investigators, analysts, and operations personnel. To date, over 10,000 PEA officers have received training from the Mexican government.

Similarly, the Mexican customs service has expanded its traditional focus on revenue collection to include enforcing contraband and intellectual property violations. The Office of the Attorney General (PGR) has restructured key divisions, dismissed employees who failed internal vetting, and continued efforts to increase prosecution rates. Additionally, many states are rebuilding their police forces to reduce corruption.

Mexico's 2013 budget for all security-related functions is approximately $ 9.4 billion, an increase of 3.7 percent from 2012 budget levels. Funding is used to combat organized crime, expand crime prevention programs, improve interagency coordination, consolidate police forces, support justice reforms, and encourage citizen participation in crime control.

Justice sector reforms remain uneven. Twenty-two of 31 states have adopted new criminal procedure codes, in compliance with a 2008 federal constitutional reform requiring such legislation by 2016. The Calderon administration presented a new federal code of criminal procedure to Congress in 2011. The Congress did not bring the legislation to the floor, and will thus be taken up by the newly elected body.

A long-awaited anti-money laundering law was approved in October 2012 that aims to: (1) impose harsher sanctions; (2) create a specialized PGR unit for investigations and prosecutions; and (3) restrict the amount of U.S. banknotes and coins that Mexican banks may receive. It will take effect nine months after its passage.

The current U.S.-Mexico bilateral extradition treaty has been in force since 1980. A 2001 Protocol to that instrument allows for temporary surrender for trial of fugitives serving a sentence in one country but wanted on criminal charges in another. A bilateral mutual legal assistance treaty fosters cooperation in judicial assistance matters.

Multilaterally, Mexico is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters, and subscribes to the 1996 Anti-Drug Strategy in the Hemisphere and the 1990 Declaration of Ixtapa. It participates, along with the United States and Colombia, in a tripartite group that meets semi-annually to discuss counternarcotics issues.

Likewise, Mexico plays a leading role in the Central American Integration System and with Central American countries to improve regional security. It also participates in the semi-annual Multilateral Maritime Counterdrug Summit, which includes the United States, Colombia, Ecuador, Peru, Chile, and all Central American countries. Similarly, in September 2012, Mexico attended the International Drug Enforcement Conference, a global forum for senior law enforcement officials.

The U.S. and Mexican governments also use North American Maritime Security Initiative (NAMSI) Standard Operating Procedures for maritime interdiction operations. U.S., Canadian, and Mexican officials convene quarterly NAMSI meetings to develop and execute coordinated operations.

2. Supply Reduction

As of December 27, 2012, the Government of Mexico seized over 3 metric tons (MT) of cocaine, 1,250 MT of marijuana, 182 kilograms (kg) of heroin, over 30 MT of methamphetamine, and 1.46 MT of opium gum. Additionally, it eradicated 8,659 hectares (ha) of marijuana and 14,000 ha of opium poppy, and dismantled 267 methamphetamine labs. Also during this reporting period, 22,964 Mexican nationals and 251 foreign nationals were arrested on organized crime charges. Fifteen high-level drug traffickers were captured or killed, including high-ranking members and co-leaders of the Sinaloa Cartel, Zetas Cartel, and Gulf Cartel.

Marijuana and opium poppy are primarily grown in rural areas of Sinaloa, Chihuahua, Durango, and Guerrero with small crops in Sonora, Nayarit, Michoacan, and Oaxaca.

Mexico accounts for approximately seven percent of the world's heroin supply, producing primarily black tar and brown powder heroin. White heroin is also produced domestically and smuggled into Mexico from South America. While most heroin is smuggled into the United States, its use within Mexico is also increasing.

While the focus on TCOs has produced significant results in Mexico, interdiction of cocaine poses problems. Over 90 percent of U.S.-bound cocaine transits Mexico and Central America. Due to insufficient information about inbound shipments and drug movements inside Mexico, less than two percent of cocaine assessed to be transiting Mexico was seized in 2011-12. Nonetheless, the Government of Mexico cooperates closely with the U.S. government on this issue.

The seizure of drug labs that produce methamphetamine and other synthetic drugs has increased dramatically. During the Calderon administration, officials seized 958 drug labs, a 660-percent increase over the 145 labs seized during the prior administration. Similarly, authorities seized 267 labs through December 27, 2012, compared to 227 in all of 2011.

Since 2008, Mexican smugglers have significantly expanded their presence in Central America. Land corridors through Central America and Mexico are now the most significant transit routes for cocaine from South America. While the United States remains the primary destination for illicit drugs trafficked via Mexico, trafficking routes are evolving due to increased interdiction and TCO efforts to supply growing markets in Latin America, the Caribbean, Europe, and Asia.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the most recent information available from Mexico's National Council Against Addictions (CONADIC), prevelence of marijuana, cocaine, and methamphetamine use nationwide increased steadily from 2002 to 2008, but has since stabilized. Neverthless, recent drug use by men between 18 and 24 years of age has risen significantly. Northern states are disproportionately impacted by increased availability of drugs from failed smuggling attempts and the use of drugs as payment.

Mexico's demand reduction priorities, which receive Merida Initiative support, include: creating a standardized certification program for drug treatment counselors; promoting the development of drug courts; improving addiction research; and connecting government-supported clinics with a private network. Using Merida funds, Mexico has established a drug treatment partnership with the United States to establish clinical trial nodes in Mexico. A primary care provider for drug-addicted youth has expanded its treatment centers in underserved areas of Ciudad Juarez through a Merida grant. And during 2012, six hundred new counselors were trained in a standardized curriculum developed with support from the Organization of American States' Inter-American Drug Abuse Control Commission and Merida assistance, with plans to train 5,000 additional counselors. Mexico's 2012 budget for addiction-related activities (including alcohol and tobacco) is approximately $84 million.

4. Corruption

Corruption remains a substantial impediment to Mexican counternarcotics efforts, but federal anti-corruption standards are improving. The Mexican government took unprecedented steps to reduce corruption in law enforcement, and designated the National System for Public Security (SESNSP) as the agency responsible for overseeing stronger vetting processes for law enforcement, which includes increased use of polygraph exams, toxicological tests, and background investigations. Each Mexican state has established a *"Control de Confianza"* Center (Center for Evaluation and Trust Control) that is responsible for vetting all law enforcement police officers in that state. Also, some Mexican law enforcement entities have established, restructured, or augmented their internal affairs offices, and judges can no longer reinstate police officers fired for corruption.

Long under-resourced and inadequately trained, state and municipal law enforcement officials remain vulnerable to corruption. Although progress in vetting police officers has been uneven, state vetting (*"Control de Confianza"*) centers have begun identifying corrupt police officers and prompted the removal of officers and rejection of police recruits. The Mexican government and some state governors conducted large-scale dismissals of municipal police forces where corruption is prevalent. Public sentiment in Mexico is mixed about these efforts. Some appreciate the focus on corruption, but others are apprehensive about the high turnover among police, minimal police interaction with citizens, and lack of attention to human rights abuses. The mixed public sentiment, new vetting requirements, and uneven reform are symptomatic of the fundamental change Mexico's law enforcement community is experiencing.

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

Since 2008, United States has provided some $1.1 billion in assistance. U.S. assistance goes toward four areas: 1) disrupt and dismantle the capacity of organized criminal groups to operate; 2) institutionalize the capacity to sustain the rule of law; 3) construct a twenty-first century border; and 4) build strong and resilient communities. U.S.-Mexico cooperation has been used to train over 55,000 law enforcement and justice sector officials, including 7,500 Federal Police officers. Likewise, it has helped state criminal justice reforms, strengthened crime prevention/reduction efforts, and funded programs for at-risk youth. It also supports human rights initiatives that help protect human rights defenders and journalists.

U.S. and Mexican law enforcement exchange information from investigations and seizures of illegal weapons at monthly meetings. Such cooperation is especially relevant given that, according to the Department of Justice, of the 99,691 weapons that were recovered in Mexico between 2007 and 2011 and submitted to the ATF for tracing, 68,161 originated in the United States. Also, Mexico extradited 115 people to the United States in 2012, an all-time record including 52 for narcotics-related offenses.

The United States also provided training in maritime law enforcement, port security, and professional development for the Mexican Navy officer and enlisted corps.

D. Conclusion

Mexico has made significant progress in dismantling and disrupting TCOs and their operations. This progress has led to a number of TCO leaders being brought to justice, the fragmentation of cartels, and a reduction in violence, as evidenced by the decline in organized crime-related homicides in 2012. Mexico's efforts to reform its judiciary, improve its police forces, reform its federal prison system, and address money laundering continue. These efforts have fortified Mexico's state institutions while helping to weaken TCOs and their ability to operate. Nonetheless, domestic illegal narcotics production appears to have increased, as has drug use among Mexicans. And, although seizures of methamphetamines have increased, interdiction of cocaine bound for the United States is relatively limited.

Future bilateral efforts should emphasize strengthening Mexican institutions, continued expansion of programs to states and municipalities, and further progress toward achieving our shared goals. The focus of U.S.-Mexico cooperation has shifted from providing large scale equipment to engaging in training and capacity building, and from focusing on the federal-level to building state- and municipal-level capabilities. Accordingly, justice sector reforms, drug demand reduction, and culture of lawfulness initiatives should play a larger role. The United States should also continue programs to curb its domestic drug demand and inhibit the illegal flow of arms and cash into Mexico.

In sum, the U.S.-Mexico relationship remains strong. Both parties are committed to working together to combat TCOs, strengthen Mexican institutions, and support the rule of law.

Moldova

Moldova is neither a major drug trafficking nor drug producing country, but serves as a transit point for drugs destined for Western Europe. Moldova's proximity to the European Union, limited law enforcement capacity, and lack of control of the separatist Transnistria region significantly complicate its drug control efforts. Counternarcotics activities are hampered by insufficient specialized police officers and inadequate funding and equipment. The government has taken some steps to address the situation in the context of ongoing police reform efforts, and plans exist to increase staffing and reorganize specialized anti-drug units.

Moldovan authorities registered 1,134 drug-related cases in the first nine months of 2012, with approximately 60 percent proceeding to prosecution. During that same period, authorities dismantled eight drug trafficking networks. Police, customs, and border officials cooperated in counternarcotics activities, but with limited effectiveness. As in previous years, combating domestic cultivation of marijuana was the biggest challenge facing Ministry of Internal Affairs (MoIA) anti-drug units. However, synthetic cannabinoids and synthetic cathinones emerged as a growing problem in 2012. These substances were imported into the country as plant feeders, "bath salts", aromatherapy treatment incenses, air fresheners, and herbal smoking blends. In response to this trend, the MoIA has petitioned the government to add many of these synthetics to the official list of banned substances.

The recently established National Anti-Drug Commission coordinates interagency cooperation among governmental institutions, and liaises with non-governmental institutions and civil society on all matters relating to drug policy. The Moldovan government does not condone or promote drug trafficking as a matter of policy. However, corruption, including drug related corruption, is a major problem in Moldova.

There is no bilateral extradition or mutual legal assistance treaty between Moldova and the United States. Regardless, Moldovan and U.S. authorities cooperated on criminal cases connected with transnational organized crime. The Moldovan constitution does not permit extradition of its nationals. The Prosecutor General's Office is responsible for handling requests for international legal assistance in the pre-trial phase, whereas the Ministry of Justice handles the in-trial and correctional phases.

Montenegro

Montenegro is a transit country for illegal drugs moving towards Central and Western Europe. A variety of marijuana known as "skunk" trafficked from Albania, heroin from Afghanistan, and cocaine from Latin America are the most prevalent drugs trafficked to Montenegro. Approximately 15 percent of skunk, cannabis, and heroin trafficked are consumed locally. Few cases of illicit drug production were reported in 2012.

While Montenegrin police participated in several international operations, non-governmental organizations (NGOs) criticized the government for its perceived failure to disrupt the activities of major drug kingpins. Police estimate that 25 local gangs are involved in international drug smuggling. In the first ten months of 2012, criminal charges were brought against 155 persons, connected to the seizure of 492.6 kilograms (kg) of marijuana, 7.1 kg of heroin, 0.4 kg of cocaine, and nominal amounts of synthetic drugs and hashish.

Montenegro has stringent laws against illegal drugs, with sentences ranging from two to 15 years in prison for drug production and distribution. During the first ten months of 2012, 75 narcotics–related convictions were handed down by the courts, including one for Dusko Saric, a global drug trafficker. Naser Keljmendi, who the U.S. Department of Treasury designated as a major international drug trafficker in 2012, reached a settlement for illegal construction deals in Ulcinj. Bosnia and Herzegovina issued an arrest warrant for Keljmendi, but Montenegrin prosecutors claimed to lack evidence to prosecute him in Montenegro.

The government continues to prioritize the fight against drug trafficking. However, its counternarcotics efforts were hampered by a lack of resources and capacity. Montenegro's institutional drug abuse and treatment capacity is limited, particularly for women. There are no statistics on the number of drug users in Montenegro. Authorities believe that Montenegro has between 2,500 to 3,000 addicts, but NGOs estimate that the actual number may range from 10,000 to 15,000. According to a 2011 survey, drug consumption rose by 6 percent over the previous year.

Montenegrin police work closely with counterparts from neighboring states to curb drug trafficking, and cooperate with the U.S. Drug Enforcement Administration**,** various EU law enforcement coordination bodies including Europol and the UN Office on Drugs and Crime. Police continue to share information and cooperate in investigations with U.S. law enforcement agencies. The United States provides ongoing technical assistance to Montenegro's police, and in 2012, trained a narcotics supervisor at the U.S. Drug Enforcement Administration Drug Unit Commanders Academy. The 1902 extradition treaty between the United States and Serbia also applies to Montenegro.

Morocco

Morocco remains a leading source country for cannabis, trailing only Afghanistan in hashish (cannabis resin) production. Although Morocco has traditionally been the largest supplier of hashish to Europe, its relative importance as a source country may be waning, according to the UN Office on Drugs and Crime (UNODC), with Afghanistan and India gaining prominence as suppliers for the that market.

Most large shipments of hashish bound for Europe are transported via speedboats and other small vessels. The Moroccan Navy, the Gendarmerie, and Moroccan Customs maintain an aggressive maritime interdiction effort against smuggling activity, with the Moroccan media reporting multiple seizures during 2012.

Authorities have also seized cocaine in Morocco, and given its location and transportation infrastructure, the country serves as a transshipment zone for cocaine originating in Latin America that is smuggled via West Africa to Europe.

The Moroccan government has worked to reduce cannabis production in recent years, but it remains a significant cash crop. According to local press reports, cannabis production in the traditional growing areas of northern Morocco has significant economic impact on the local populace, especially given the generally impoverished conditions of areas where cannabis is cultivated. UNODC estimates that the cannabis crop provides incomes for 800,000 people, and accounts for 3.1 percent of Morocco's agricultural GDP. Police corruption and tacit non-enforcement remains an issue in Morocco.

The Moroccan government implements demand reduction programs that focus on youth, and it also has developed some drug treatment programs.

Moroccan law enforcement agencies cooperate extensively with European counterparts on narcotics interdiction operations. For example, the Interior Ministers of Spain and Morocco recently agreed to establish new narcotics detection strategies targeting airborne narcotics trafficking across the Strait of Gibraltar. Morocco's Air Force is also engaged in efforts to identify aircraft suspected of narcotics trafficking.

Morocco works closely with U.S. law enforcement agencies, including the Federal Bureau of Investigation (FBI), Drug Enforcement Administration (DEA), and Department of Homeland Security (DHS). In addition, the Department of State's Bureaus of International Narcotics and Law Enforcement Affairs and Diplomatic Security maintain a very close and productive working relationship with Moroccan law enforcement agencies.

Mozambique

Mozambique is not a significant producer of illegal drugs or chemical precursors, but is a transit point for drugs moving from South America and Asia to consumer markets in South Africa and Europe. Domestic drug consumption and production is limited primarily to small-scale cannabis.

Weak security infrastructure, inadequately trained and equipped law enforcement personnel, 2,750 miles of porous borders, and 1,550 miles of coastline hamper the Mozambican government's counternarcotics efforts.

The Office to Combat and Prevent Drug Use (GCPCD) reported that in 2011 total drug seizures included 48 kilograms (kg) of hashish, 31.6 metric tons of marijuana (up 900 percent from 2010 and mostly seized in a single province), 4.7 kg of cocaine, and 4.3 kg of heroin. In 2011, 455 Mozambicans and 47 foreign nationals were charged with drug-related offenses, of which 111 Mozambicans and an unknown number of foreign nationals were convicted. Customs officials reported that arrests at airports rose in 2011, although data was unavailable due to poor recordkeeping.

The Government of Mozambique has robust laws and a strong counternarcotics and anti-corruption stance; however, corruption remains widespread and government officials are widely suspected of facilitating or condoning drug trafficking. The GCPCD is responsible for reporting on and analyzing trends in the government and civil society's drug enforcement and treatment efforts and works closely with the UN Office on Drugs and Crime and the Mini-Dublin Group of counternarcotics donors. The GCPCD reported that during 2011 it gave 24,076 anti-drug lectures and reached an audience of 1,076,846 citizens. Mozambique lacks dedicated drug treatment facilities; most treatment for addicts is provided by their families. While under-resourced, some HIV clinics offer drug dependency programs.

The United States provides a wide range of drug-related training to the Government of Mozambique. In 2012, nine Mozambican National Police attended drug interdiction training at the International Law Enforcement Academy in Botswana. Additional trainings included maritime search and boarding. The United States has also provided equipment, including 17 rigid-hull inflatable boats to the Mozambican Navy, and plans to assist the Attorney General's office in preventing and prosecuting drug trafficking and corruption.

Nepal

Nepal is not a significant source or transit state for illegal drugs. However, Nepal's Narcotics Drug Control Law Enforcement Unit (NDCLEU) reports that more Nepalis are investing in and managing trafficking operations. Customs and border controls in Nepal remain weak, but international cooperation has resulted in increased narcotics-related seizures in Nepal and abroad. No new narcotics control legislation was passed or implemented in 2012.

Cultivation of cannabis is on the rise in some areas, most destined for India. Heroin from Southwest and Southeast Asia is smuggled into Nepal across the porous border with India and through Kathmandu's Tribhuvan International Airport (TIA). Pharmaceutical drugs also continue to be diverted and abused. Nepal is not a producer of chemical precursors, but serves as a transit route for precursor traffic between India and China.

Nepal's basic drug law is the Narcotic Drugs Control Act, 2033 (1976, last amended in 1993), making the cultivation, production, preparation, manufacture, export, import, purchase, possession, sale, and consumption of most commonly abused drugs illegal. The NDCLEU has the lead in law enforcement efforts and is focused on supply control. It improved its capacity in recent years, and has made more quality arrests and seizures, particularly through stationing more personnel at TIA.

In 2012, the overall number of drug-related arrests increased, and overall drug seizures also rose. According to the Government of Nepal, between January and September 2012, police arrested 1,983 individuals for drug trafficking. Hashish seizures in 2012 increased 161 percent from 2011. Heroin seizures were up 127.1 percent, and diverted pharmaceutical drugs seizures were up 375.4 percent over 2011 figures.

Evidence suggests that narcotics come through Nepal from India, Pakistan, and Afghanistan en route to China, Iran, Europe, North America, Australia, and other countries in Asia. A small percentage of narcotics (especially hashish) is sent to the United States by individuals involved in trafficking through the use of the international express parcel services.

The United States continues to provide support to various parts of the justice sector to combat corruption and improve the rule of law. The United States also encourages the Government of Nepal to enact and implement updated drug legislation.

The Netherlands

A. Introduction

The Netherlands is a significant transit country for narcotics, and a sizeable percentage of the cocaine consumed in Europe enters through the Netherlands. It remains an important producer of synthetic drugs, such as MDMA (ecstasy), although a sizeable amount of production appears to have shifted to other countries. The Netherlands has a large legal chemical sector, making it an opportune location for criminals to illicitly obtain or produce precursor chemicals. Cultivation of cannabis is extensive. The government places a high priority on combating the illegal drug trade and has had considerable success. The government views domestic drug use as a public health issue first and a law enforcement issue second. The Dutch Opium Act prohibits the possession, commercial distribution, production, import and export of all illicit drugs. The 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) in bars called "coffee shops" which operate under regulated conditions.

Bilateral cooperation with the United States is excellent, and law enforcement agencies maintain excellent operational cooperation, with principal attention given to South American cocaine trafficking organizations, drug related money laundering activities, and countering ecstasy entering the United States.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Dutch Ministry of Health, Welfare and Sport (MOH) coordinates drug policy and the Ministry of Security and Justice (MOSJ) is responsible for law enforcement and criminal prosecution. On May 1, to reduce international drug tourism, the government introduced the "weed pass" in three southern provinces of the country. Coffee shops were designated as private clubs only accessible to adult Dutch nationals and residents upon presentation of IDs and official residency papers from the local city hall. This resulted in a decrease in foreign buyers, but local buyers also began utilizing street dealers. The policy was scheduled to go nationwide on January 1, 2013. On May 14, authorities placed the party drug gamma hydroxybutyric acid (GHB) on Schedule I of the Dutch Opium Act, making it a "hard" drug similar to cocaine and heroin. The MOH announced that khat (Catha edulis), a stimulant narcotic for which the Netherlands serves as a major European distributing hub, would be added to Schedule I on January 1, 2013.

The United States and the Netherlands have fully operational extradition and mutual legal assistance agreements. The Netherlands also has a maritime shiprider agreement with the United States and is a member of the Maritime Analysis and Operation Centre-Narcotics. The Netherlands is also a member of the San Jose Agreement as well as a partner in the Joint Interagency Task Force South, both aimed at combating narcotics trade in the Caribbean. The Caribbean countries within the Kingdom of the Netherlands are members of the Caribbean

Regional Maritime Agreement. The MOSJ plans for the Netherlands to become party to the Council of Europe's Illicit Traffic by Sea Agreement.

2. Supply Reduction

The Netherlands is a significant producer of cannabis and ecstasy, much of which is destined for foreign markets. Ecstasy production had dropped substantially from 2008 to 2011 due to shortages of precursor chemicals from Russia and China. However, in 2012 production had almost recovered to pre-2008 levels due to new manufacturing methods using "pre-precursors." In 2008 the government established the National Taskforce on Organized Hemp Cultivation to focus on fighting criminal organizations behind cannabis plantations. The fight against drugs focused on a chain approach, scrutinizing each step down the criminal chain (from cultivation to distribution). Participating government agencies included the public prosecutor, the financial investigative service, the police, the tax authorities, the MOSJ, local governments, and private housing companies.

In 2012, the government continued its policy of 100-percent security checks on inbound flights from the Netherlands Antilles, Suriname, and some Western African countries. There were also extensive customs checks in place for imports via the Port of Rotterdam.

According to the MOSJ, there were 16,000 fewer drug-related offenses registered by the police in 2011 (latest available data) than in than the previous five years. In 2011, drug-related cases constituted 6.8 percent of the total number of criminal cases handled by the courts. The average prison sentence for a drug offense in 2011 was 236 days (253 for hard drugs, 124 for soft drugs), slightly below the average for the prior five years.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

According to the most recent data (2009), despite a reputation for tolerance of soft drugs, the share of the population abusing drugs was on par with the rest of Europe. Only the use of ecstasy was higher than the European average. Heroin and amphetamine use was below average.

Local governments are responsible for prevention programs, with the national government offering best practices. The main national awareness program for children was "The Healthy School and Substances," a school program offered for students aged 12 and above. The program was not mandatory but approximately 70 percent of Dutch schools participated. Online eHealth services (including chat sessions with experts) and warning systems grew in popularity. The MOH does a biannual research project with the National Institute of Drug Abuse.

Treatment programs are the responsibility of insurance companies and the individual facilities. There is no differentiation between gender and age groups. A recent trend is that more cannabis addicts are seeking professional help (in facilities) to deal with their problem. Exact information on budgets is not available, but estimates were that the prevention budget ranges in the tens of millions of dollars, while the treatment budget was over $125 million.

4. Corruption

The government does not encourage or facilitate illegal activity associated with drug trafficking. No senior official has been found to engage in, encourage or facilitate illegal drug trafficking. Press reports of low-level law enforcement corruption appear sporadically, but the problem is not 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 and the production of synthetic drugs. For example, the United States and the Netherlands have a memorandum of understanding allowing the U.S. Coast Guard to conduct counter drug operations from the platforms of Dutch Naval vessel in the Caribbean. Regulations continued to restrict the use of "criminal infiltrants," i.e., undercover informants in investigations of drug traffickers. Asset forfeiture laws in conjunction with drug-related investigations are not used to the same extent as in the United States. In 2006, the Ministry of Justice decided that the Schiphol airport "black list" of couriers could no longer be shared with DEA, citing privacy concerns. To date the suspension continues.

D. Conclusion

Despite its toleration of soft drug use, the government addresses drug trafficking seriously. In particular, it made the fight against organized cannabis cultivation a priority issue. Although the Netherlands is hampered to some degree by domestic legal restrictions on the extent to which it can cooperate bilaterally, the United States has every reason to believe the Netherlands will remain a close bilateral partner on counternarcotics efforts.

Nicaragua

A. Introduction

Nicaragua is a major transit route for cocaine flowing from South America to the United States. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States in 2012 first transited through the Central American corridor. Nicaragua faces limited law enforcement capabilities and sparsely populated regions that are difficult to police. These factors provide an opportune environment for Drug Trafficking Organizations (DTOs) to transit drugs, weapons, and currency, as well as to establish clandestine labs and warehouse facilities. The unemployment rate on the Atlantic Coast of Nicaragua is over 55 percent, creating a favorable climate for drug traffickers to receive logistical support from isolated communities with few sources of legitimate income. Judicial corruption and political interference remain impediments to meaningful prosecution of narcotics trafficking.

Despite these conditions, Nicaragua's civilian and military law enforcement agencies conducted counternarcotics operations in 2012, mostly along the coasts, within the South and North Atlantic Autonomous Regions (RAAS and RAAN, respectively), which represent the most vulnerable geographical area of the country. Nicaragua remains primarily a transshipment point for illegal drugs, but the country is also at risk for increased domestic drug consumption.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2012, Nicaraguan authorities made efforts to publicize and enforce the country's open-records law as a tool against official corruption tied to drugs and other crimes, known as Law 621 (Access to Public Information, approved in 2007). In January, the Association of Municipalities of Nicaragua (AMUNIC) organized a national meeting of more than 60 officials responsible for implementing the law in 30 municipalities to exchange experiences on the law's application. The United States provided assistance to seven municipalities, which opened new public offices to provide citizens with a designated space to demand the access to official records granted by the law.

Nicaraguan authorities continued to enforce Law 735, which regulates the prevention, investigation, and prosecution of organized crime, as well as the administration of seized, forfeited and abandoned assets. In the first prosecution involving a politically appointed government official, 21 defendants, including the official, were found guilty under Law 735.

The Nicaraguan National Police (NNP) announced the creation of five new police divisions in 2012: Border Security Division; Farm Security Division; Tourism Division; Counter-intelligence Division; and Embassy Protection Division.

In 2012, 200 youth enrolled in the Nicaraguan National Police Youth Center. Inaugurated in 2011, the center will provide psychological counseling and vocational training to students for

one year to help them recover from addictions, seek employment and participate in the development of their communities.

In October, the Nicaraguan National Police and the Government of the Russian Federation signed a cooperation agreement to create a Regional Training Center to fight drug trafficking in the region.

Nicaragua ratified the Central American Simplified Extradition Treaty to facilitate the prosecution of third-country nationals for organized crime and similar offenses. The United States and Nicaragua are parties to an extradition treaty dating back to 1907, but the Nicaraguan constitution bars the extradition of Nicaraguan citizens.

In 2004, the United States and Nicaragua signed agreements to access the Cooperating Nation Information Exchange System, which allows greater law enforcement intelligence sharing among nations. The United States and Nicaragua signed a maritime counterdrug bilateral agreement in November 2001 and ratified the Inter-American Mutual Legal Assistance Convention in 2002, an agreement that facilitates sharing of legal information between countries and improves cooperation with U.S. requests for evidence sharing or transfer. In 2002, Nicaragua also ratified the Inter-American Convention against Terrorism, and signed, but did not ratify, the Caribbean Regional Maritime Counternarcotics Agreement in 2003.

2. Supply Reduction

The Nicaraguan Navy (NNP), U.S. Coast Guard, and U.S. Drug Enforcement Administration (DEA) shared operational information and worked together on a number of counterdrug efforts in 2012.

Border security continued to be concern in 2012, as DTOs used the remote areas of the border with Honduras and the RAAN as a primary transit route. The transshipment methods continue to be varied among land, sea and air routes, though most significant drug interdictions occurred at sea. To strengthen border security, the NNP created a Border Security division that will work in coordination with Nicaraguan Customs and Immigration.

Drug seizures in 2012 remained consistent with 2011 levels. Nicaraguan authorities seized 9.3 metric tons (MT) of cocaine (up from 8.8 MT in 2011), 986 kilograms (kg) of marijuana, 4 kg of crack, and 13 kg of heroin. Authorities also reported eradicating 43,252 marijuana plants and reportedly neutralized 14 drug trafficking cells. Seizures of bulk currency and other assets increased in 2012. Nicaraguan authorities seized $13 million in U.S. currency, up from $5 million in 2011, in addition to 528 vehicles; 46 boats; 195 illegal firearms; 192 real estate properties; and 1,444 items of communication equipment.

In a joint operation with the Nicaraguan Army, Ministry of Health and Customs officials in Managua and the NNP seized 4,400 gallons of chemical precursors. Seven suspects were arrested, including one Mexican national, who were believed to be building a laboratory to produce hallucinogenic synthetic drugs.

3. Drug Awareness, Demand Reduction, and Treatment

Nicaragua remained at risk of increased drug consumption, particularly on the Atlantic coast where transshipment increased. Domestic use of crack cocaine, methamphetamine, and marijuana were on the rise in 2012, particularly among 16 to 35 year olds, according to Nicaraguan community leaders and law enforcement. The Nicaraguan government focused limited education and law enforcement resources on the Hispanic Pacific Coast regions of Nicaragua, neglecting the largely indigenous communities of the Atlantic Coast.

By the end of September 2012, Nicaragua's NNP Drug Abuse Resistance Education (DARE) program reached 14,717 new students from 108 public schools. Since 2001, the DARE program reached more than 84,714 English, Spanish, and Miskito-speaking students in 800 public schools.

The NNP's Second Step Program (Segundo Paso) for drug awareness and prevention at the preschool-level continued in Managua, the RAAS, and the RAAN. The drug prevention program reached 470 students in 16 schools in the Pacific and Atlantic Coast regions by the end of September.

In an effort to prevent drug addiction, the Nicaraguan National Police in conjunction with the Ministry of Education organized 80 anti-drug rallies with 30,000 students and 19,000 parents from across the country.

In 2012, the Gang Resistance Education and Training (GREAT) program graduated 2,689 students from 30 public elementary and high schools in Nicaragua. Through the Community Policing Program sponsored by the U.S. government, the Nicaraguan National Police engaged 15 neighborhoods in critical areas of Managua to educate 404 at-risk youth on the risks of gangs.

The government-affiliated Institute Against Alcohol and Drug Abuse is the only public drug and alcohol treatment center in Nicaragua, working in alliance with seven rehabilitation centers administered by non-governmental organizations (NGOs). Private treatment centers offer two models of attention, out-patient and residential. Various NGOs continue efforts to provide treatment to drug addicts and implement prevention programs.

4. Corruption

As a matter of policy, the Nicaraguan government does not 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, Nicaraguans perceive their government as highly corrupt, and low salaries for police, custom officials, and judges continue to hinder efforts to combat corruption in Nicaragua.

For the first time since the 2007 approval of Law 735, focused on organized crime, a politically appointed official (a former magistrate of the Supreme Electoral Council) was found guilty in 2012 on several corruption charges, including the fraudulent creation of Nicaraguan identification cards to foreigners linked to organized crime.

The management and disposition of seized criminal assets remains problematic. The Nicaraguan National Assembly passed legislation (Law 793) authorizing the creation of a new financial intelligence unit, which could contribute towards more transparent management of assets. However, there is still concern over potential government abuse of the proposed unit.

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

The United States supports a wide range of efforts designed to address crime and violence affecting the security of Nicaraguan citizens. In June 2012, due to ongoing concerns about fiscal transparency within the Government of Nicaragua, the U.S. Department of State ceased providing certain funds to Nicaraguan government agencies. This decision, mandated by U.S. law, led to phasing out of several bilateral programs during the second half of the year. In response, Embassy Managua developed plans to redirect counternarcotics efforts towards drug education and other similar non-government demand reduction programs in 2013.

To develop the maritime interdiction capacity of the Nicaraguan Navy, the United States provided a range of equipment, including night vision goggles for night operations, advanced communication equipment, spare parts for Nicaraguan Navy Patrol boats, marine binoculars, navigation lights, radar reflectors, vapor tracers and waterproof cameras. The Nicaraguan Navy attended the U.S.-sponsored Multilateral Maritime Counterdrug Summit in March 2012, which included participants from Colombia, Ecuador, Peru, Chile, Mexico and all other Central American countries to consider improved strategies and coordination against drug trafficking organizations.

To build the capacity of the NNP Drug Unit, the United States provided equipment including mobile canine kennels, protective vests, motorcycles and trailers to enable mobile inspection operations along the Pan American Highway, specifically targeting the Nicaragua-Honduras border.

The United States also worked with the NNP academy to create a distance learning program to provide police training to officers around the country, which earned praise from the police leadership. The United States donated 136 computers and related equipment to computer labs in police stations throughout the country allowing NNP officers to access the videos and course content remotely. The United States also provided 17 training sessions for 100 members of the NNP.

To support the NNP's new center for at-risk youth, the United States provided two 65-passenger buses to the NNP Juvenile Affairs Division, along with cameras, compact-disc players, and educational material as part of the Drug Abuse Resistance Education (D.A.R.E.) and Gang Resistance Education and Training (G.R.E.A.T.) prevention programs.

D. Conclusion

Nicaragua faces many challenges related to illegal drugs, including the need to combat corruption, address judiciary independence, reduce drug demand and combat drug trafficking.

The Nicaraguan Navy confronts drug trafficking organizations, and achieved interdiction results working in conjunction with the U.S. Navy and U.S. Coast Guard. This level of commitment to upholding Nicaragua's international drug control obligations must be extended across additional institutions within the Nicaraguan government. Demand reduction and treatment resources expanded, but remain inadequate to the country's needs. Nascent efforts to root out official corruption and increase transparency must be reinforced, and the capacities and professionalism of the NNP and the Prosecutor General's office must be further strengthened.

Nigeria

A. Introduction

Nigeria is a transit country for heroin and cocaine destined for Europe, and to a lesser degree, the United States. The Nigerian Drug and Law Enforcement Agency (NDLEA) frequently arrests drug couriers at Murtala Mohammed International Airport (MMIA) in Lagos. Traffickers are increasingly exploiting the country's seaports and land borders to avoid the risk of detection traveling through MMIA.

Nigerian organized criminal networks remain a major factor in moving cocaine and heroin worldwide, and have begun to produce and traffic methamphetamine to and around Southeast Asia. In addition to drug trafficking, some of these criminal organizations also engage in other forms of trafficking and fraud targeting U.S. citizens. Widespread corruption in Nigeria facilitates criminal activity, and, combined with Nigeria's central location along major trafficking routes, enables criminal groups to flourish and make Nigeria an important trafficking hub.

The only drug cultivated in significant amounts domestically is marijuana. Nigerian-grown marijuana is the most commonly abused drug domestically. Traffickers also export marijuana throughout West Africa and to Europe through Nigeria's porous borders.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The NDLEA enforces laws against drug trafficking and abuse and plays the lead role in demand reduction and drug control policy development. Weak inter-agency cooperation contributes to the dearth of apprehensions of major traffickers. Although all law enforcement elements have representatives at Nigeria's ports of entry, joint operations between them are rare. No single law enforcement agency has adequate resources to combat sophisticated international criminal networks.

The NDLEA and the U.S. Drug Enforcement Administration (DEA) signed a memorandum of understanding in 2012 to establish a vetted unit of 14 officers to exclusively work with DEA. The unit has begun operations.

Nigeria's counternarcotics policy derives from a 1998 National Drug Control Master Plan. However, the NDLEA's budget is inadequate to implement the plan. The Government of Nigeria held NDLEA's budget at its 2011 level of approximately $61 million. Of this, 0.02 percent, or approximately $140,497 is allocated for NDLEA staff training. Personnel costs account for 92.4 percent of the NDLEA's budget, while one percent supports capital expenditures.

The 1931 U.S.-United Kingdom Extradition Treaty, made applicable to Nigeria in 1935, remains the legal basis for U.S. extradition requests. Defendants often challenge the continued validity of the extradition treaty.

The NDLEA cooperated with international drug enforcement efforts in 2012, including joint operations with DEA. Most notable among these were the Tin Can Port seizure in May of 113.49 kilograms (kg) of heroin originating in Pakistan and the seizure of a methamphetamine laboratory in Lagos in February. The NDLEA and DEA continue to target clandestine methamphetamine production in Nigeria, which involves transnational criminal groups that legally import and then divert large quantities of precursor chemicals. Criminals have also resorted to new methods of drug trafficking. There were two seizures in 2012 of heroin woven into rugs originating from Pakistan and Iran, as well as heroin packed inside soccer balls originating from Pakistan.

2. Supply Reduction

The NDLEA has made good use of U.S.-provided technology and training. Most of the organization's drug seizures occur at airports using U.S.-donated body scanners, with the vast majority occurring at MMIA. The NDLEA faces challenges with arresting the higher level drug traffickers and financiers who organize the regular traffic of low-level drug couriers.

Although there have been some reports of asset seizures since 2010, authorities do not systematically use asset seizure as an enforcement tool against traffickers and money launderers. The NDLEA reported no money laundering convictions in 2012. Asset forfeiture remains challenging in Nigeria, which lacks non-conviction based forfeiture or plea bargaining laws. Without an appropriate plea bargaining mechanism, the NDLEA encounters difficulty winning cooperation from low-level couriers to build cases against criminal gang bosses. Another problem lies with Nigeria's courts, where intimidation and corruption are common.

Marijuana is the most common illicit drug produced in Nigeria, though in 2012, the NDLEA discovered four clandestine methamphetamine laboratories in Lagos. Traffickers sell marijuana in Nigeria and export it through West Africa and into Europe, but little reaches the United States. The NDLEA continues to pursue an aggressive eradication campaign, which destroyed 893.9 hectares of marijuana cultivation between January and September 2012.

The introduction of vigorous interdiction regimes at Nigeria's five major seaports and its porous land borders would likely yield significant seizures. Drug seizures at the MMIA have increased by 54 percent from last year. Between January and October 2012, the NDLEA Command at MMIA seized 64.1 kg of cannabis, 64.8 kg of cocaine, 61.7 kg of heroin, 77.6 kg of methamphetamine, and 31.8 kg of ephedrine, a precursor chemical used to produce methamphetamine.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Cocaine and heroin use increased in 2012. As in many other drug transshipment countries, traffickers have encouraged greater domestic consumption in Nigeria by offering drug supplies

to local distributors in lieu of cash payment. The NDLEA's Demand Reduction Directorate has reinvigorated its school-oriented programs and other programs targeting youth, professional truck and bus drivers, sex workers, community leaders, and transport workers. In the past year, the NDLEA counseled and rehabilitated 2,493 drug addicts, most of whom were marijuana users.

4. Corruption

The Government of Nigeria does not encourage or facilitate illicit production or distribution of narcotics, or the laundering of proceeds from illegal drug transactions. However, Corruption plays a major role in drug trafficking in Nigeria. Nigeria has anti-corruption laws, but has secured only a few notable convictions, including that of a former NDLEA chief. This high level of impunity encourages narcotic trafficking in Nigeria.

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

Despite NDLEA budget increases, Nigerian government funding for law enforcement agencies remains insufficient. Unless the Government of Nigeria remedies this situation, little progress will be made over the medium to long term. In 2012, the United States facilitated the training of 30 NDLEA officers assigned to Nigeria's four international airports to enhance detection of drug couriers, and donated an additional body scanner for MMIA; the NDLEA now has one scanner dedicated for arrivals and another for departures.

The United States works closely with the NDLEA and other law enforcement agencies to strengthen capacity. The United States also promotes greater cooperation between the Nigeria Customs Service and the NDLEA to improve interdiction at the vulnerable seaports and porous land borders. In 2012, the United States funded a counternarcotics advisor and DEA established its elite vetted unit, both of which will help to improve the NDLEA's ability to conduct complex cases. The United States facilitated the transfer of vessels and provided a wide range of maritime operational and small boat maintenance training to assist in building Nigeria's maritime law enforcement capability.

D. Conclusion

The United States will continue to engage the Government of Nigeria to combat drug trafficking, corruption, money laundering, and other criminal issues. The institutional and societal factors that contribute to these criminal activities remain deeply rooted and will require a comprehensive and collaborative effort. Progress will require sustained Nigerian government efforts and political will.

Pakistan

A. Introduction

Pakistan remains a source and transit country for illicit opiates. Drug-trafficking occurs through the country's seaports, train routes, and along the porous 1,500-mile border with Afghanistan. Pakistan's borders with India and Iran are also exploited by traffickers. In 2012, Pakistani law enforcement units had moderate success at interdicting drug shipments but were underfunded and spread thin, particularly in the remote provinces of Balochistan and the Federally Administered Tribal Areas (FATA), which adjoin Afghanistan's major opium producing regions. Regional trade agreements signed in recent years have contributed to heavy traffic at official border crossings and customs points, making detection and seizure of contraband difficult. Authorities also face challenges of organized crime, political violence, and terrorist and militant activities.

Domestic drug addiction is a continuing problem. Although recent official statistics are unavailable, cannabis is widely grown and freely available. The UN Office on Drugs and Crime (UNODC) estimated in 2010 that at least 20 metric tons (MT) of Afghan heroin was consumed annually within Pakistan. Demand for amphetamine-type stimulants (ATS) is believed to be increasing.

Pakistan remained the world's foremost heroin transit country in 2012, and UNODC estimates that 40 percent of the world supply traversed the country en-route to China, the Gulf States, Africa, and Europe. Seizures in recent years suggest that traffickers are diverting precursor chemicals from Pakistan to clandestine refineries (mainly in Afghanistan) to synthesize heroin from opium.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

President Zardari pledged a renewed commitment to combat illicit narcotics at the 2012 session of the United Nations General Assembly and at the South Asian Association for Regional Cooperation, hosted in Islamabad. In November, Pakistan hosted a minister-level, 12-nation meeting to develop a comprehensive regional counternarcotics strategy. Pakistan was a key participant in the Paris Pact and the Triangular Initiative, two UNODC-led mechanisms that promote regional counternarcotics coordination. Though few agreements were implemented at the working-level, Pakistan hosted 34 foreign Drug Liaison Officers as part of its Paris Pact obligations. Over the course of the year, both the Anti-Narcotics Force (ANF) and Pakistan Customs intermittently collaborated with counterpart agencies in Asia, Europe, and Africa in an effort to interdict contraband.

The ANF remained Pakistan's lead counternarcotics agency. But with only 2,500 personnel stretched across over 30 locations, it was both under-manned and under-funded. Although federal funding paid staff salaries, the ANF depended heavily on foreign assistance for the

procurement and maintenance of workspaces, vehicles, and gear. In August 2012, a court ruled that cases stemming from ANF raids in FATA had to be tried in a politically independent court instead of the special counternarcotics courts established by the ANF.

Pakistan's internal government collaboration improved in 2012, as the ANF chaired quarterly high-level meetings of the Inter-Agency Task Force on counternarcotics. The Task Force was established in 2010 to coordinate counternarcotics analysis and reporting, and 27 federal and provincial law enforcement agencies participated in these high-level coordination meetings. The ANF also partnered with the U.S. Drug Enforcement Administration (DEA) and the United Kingdom's Serious Organized Crime Agency to operate elite Special Investigation Cells (SICs). Its recently inaugurated training academy provided internationally certified instruction to 1,200 trainees from across Pakistan's law enforcement community. With UNODC support, Pakistan Customs continued to host an international training center for selective container inspection in Karachi.

Extradition was once a relatively common mechanism for pursuing drug traffickers based in Pakistan, but enforcement of the 1931 Extradition Treaty between the United States and United Kingdom (adopted by Pakistan upon independence) has become problematic in recent years. In 2011, Pakistani courts denied one U.S. extradition request that had been ongoing since 2004. No suspected narcotics traffickers have been directly extradited to the United States in recent years.

2. Supply Reduction

UNODC estimates that in 2011, Pakistan's dry opium potential production was approximately 9 MT, down from an estimated 40 MT in 2010. In 2011, the most recent statistics available from UNODC, the ANF eradicated 1,053 hectares (ha) out of 1,415 ha of opium poppy in the country. Total cultivation figures in Pakistan are difficult to determine accurately, however, due to insecurity in the FATA that prevents access to survey teams. ANF leadership has underscored the need for alternative livelihood and development for farmers; Pakistan depends heavily on foreign assistance to carry out such endeavors.

According to UNODC, between 160 and 200 MT of Afghan heroin was trafficked into Pakistan in 2011, making Pakistan the world's preeminent opiate transit country. The ANF reports that 7.3 MT of heroin were seized in 2011, an increase over the 5.3 MT confiscated in 2010. UNDOC has reported higher seizure totals, however, estimating that authorities seized 12 MT of heroin in 2011, a significant increase over the 1.9 to 4 MT confiscated annually between 2004 and 2010. According to the ANF, interdiction of raw opium and morphine increased by 16 and 586 percent, respectively, over 2010 levels. Cannabis and acetic anhydride seizures fell by about four and 92 percent, respectively. The ANF led Pakistan's law enforcement community in seizure volume across all drug categories, with Frontier Corps Baluchistan, Customs, Punjab Police, and KPK Police also conducting major confiscations.

In 2011, Pakistani authorities arrested over 103,000 suspects on drug charges, a six percent increase over 2010. However, more than 96 percent of these cases involved low-level possession or trafficking in small quantities. Registered defendants were tried in special narcotics courts, and the ANF employed a sizeable number of prosecutors to move the caseload. Of the 600 cases

that were decided, 84 percent resulted in conviction – less than the 91-percent conviction rate achieved in 2010. Pakistani authorities managed to either freeze or seize $2.2 million in assets linked to narcotics traffickers during 2011, a significant improvement over 2010's $1.3 million figure.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

There are an estimated 500,000 addicts and over 5 million habitual drug users in Pakistan, though no comprehensive measurement has been completed since 2006. UNODC estimated that 20 to 40 MT of heroin remained in Pakistan's domestic market in 2011, suggesting a per-capita consumption rate double to triple that of the United States. While cannabis use has always been high, UNODC believes ATS consumption is growing, particularly among urban women developing chemical dependencies to over-the-counter pills. Pakistan's prescription medicine laws are commonly ignored by all but the most-reputable pharmacies. In 2012, the Drug Authority Regulatory Bill was signed into law, establishing the country's first regulatory body that would oversee the manufacturing and trade of therapeutic goods.

Pakistan's economic crisis precluded a vigorous response to rising drug demand. In 2011, the Government of Pakistan committed $75,000 towards the implementation of a UNODC-designed comprehensive drug user survey. When completed in 2013, this survey will measure the drug consumption rates and preferences of both household and street users across the country. Results should help the Government of Pakistan and international donors in effectively distributing limited resources to educate the public about the dangers of drug addiction, the ANF's Drug Abuse Prevention and Resource Directorate organized 439 low-budget outreach campaigns in 2011, including university lectures, parade walks, and sporting tournaments. Several prominent non-governmental organizations (NGOs) coordinated similar programs.

In 2012, Pakistan's capacity for drug treatment remained insufficient to meet demand, with only 73 treatment facilities operating nationwide – the majority run by NGOs. Few of these centers possessed formal training or certifications. In November 2012, Pakistan officially adopted UNODC-proposed national drug treatment certification standards, while the UNODC launched a "train-the-trainer" campaign to better educate treatment specialists employed at government hospitals. In September 2012, The Colombo Plan, a multi-national organization promoting development in the Asia-Pacific region, launched a similar "train-the-trainer" program targeting NGO treatment specialists; 140 will be certified by 2014. Despite these achievements, demand for treatment far outpaced supply. In 2011, fewer than 30,000 drug users received detoxification therapy in all of Pakistan, as over-worked clinics were forced to turn back thousands more seeking treatment. Because Pakistan lacks the institutional capacity to serve women addicts, virtually all who received treatment were men.

4. Corruption

Government officials, media, and international observers have acknowledged that corruption is a major challenge to law enforcement and the business climate. Although parliamentary oversight committees, an independent judicial system, and the country's critical free press exposed corrupt practices in 2012, the consequences for perpetrators were rarely severe. Accordingly, corruption

continued to facilitate the movement of contraband, principally in the form of bribes to Pakistani officials. Narcotics traffickers are not thought to have major influence on senior-level government policy or law enforcement, and the Government of Pakistan neither encouraged nor facilitated drug trafficking as a matter of policy. In 2012, two government officials were charged with influencing lower-level regulators to improperly modify distribution quotas. These officials were granted bail and await further legal proceedings.

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

Counternarcotics is an area in which Pakistan-U.S. cooperation has remained positive. However, visa delays and restrictions on the movement of U.S. personnel constrain bilateral counternarcotics programs. Multiple U.S. agencies work with the Government of Pakistan to address narcotics issues.

The United States provided funding for a variety of counternarcotics efforts. These efforts included construction of roads and alternative development projects to promote growth of licit crops, particularly in formerly inaccessible areas; support for ANF training, interdiction, and crop eradication activities; and demand reduction and rehabilitation programs. The United States also provided equipment to Pakistan's ANF, Coast Guard, and Marine Security Agency. U.S. law enforcement agencies provided operational assistance to ANF's SIC, and advice and training for Pakistani Customs. U.S. agencies and Pakistani law enforcement units coordinated to provide this support, increasing Pakistan's capacity for conducting narcotics seizures, arrests, and convictions, and drug treatment.

The United States is promoting initiatives to help Pakistan disrupt the narcotics trade. Among these is an effort to increase Pakistan's ability to interdict contraband and dismantle crime rings. To this end, the United States will help Pakistani law enforcement further develop its capacity for conducting sophisticated investigative operations, such as controlled deliveries and intelligent container profiling. By primarily directing this assistance through elite vetted units such as the ANF's SIC, the United States also aims to help Pakistan cultivate a model for corruption-free law enforcement.

The United States also intends to support Pakistan's efforts to treat drug addiction – specifically, by training additional treatment specialists while concurrently enabling the nationwide expansion of treatment facilities for both men and women. The United States may work with Pakistan's entertainment sector to design and distribute compelling anti-drug awareness messages via radio, TV, and film. Improving public perceptions of Pakistani law enforcement will be an additional objective.

D. Conclusion

The complexity of Pakistan's narcotics trade hinders any quick or easy solutions. However, many of the same factors that propel the drug economy – such as border insecurity and illicit finance – also drive terrorism. During a 2012 regional conference in Islamabad, President Zardari acknowledged the connection between drug-trafficking and terrorist operations, along with other forms of crime. The United States has worked with Pakistan on common

counternarcotics objectives for over 30 years. Through a multi-pronged approach targeting both supply and demand, U.S. assistance to Pakistan also serves to promote international security.

Pakistan has made improvements to its counternarcotics capacity and has taken initiative to promote inter-agency and regional cooperation. However, Pakistan continues to face enormous social, economic, and security challenges that often exceed counternarcotics in priority. Pakistan can improve its efforts against drug-trafficking if government agencies and law enforcement coordinate closely, share information, and channel limited resources to avoid duplicative or contradictory efforts. Pakistan should continue and increase cooperation with other governments and international organizations to further reduce drug supply, and increase support for private organizations that focus on demand reduction.

Panama

A. Introduction

Panama remains a transshipment crossroads for illicit trafficking due to its geographic location and the presence of the canal. The United States estimated that more than 80 percent of the primary flow of the cocaine trafficked to the United States first transited through the Central American corridor in 2012. Drug Trafficking Organizations (DTOs), including Mexican and Colombian groups such as the Revolutionary Armed Forces of Colombia (FARC), move illegal contraband through Panama's remote Darién region, its coastline and littoral zones, and its transportation infrastructure, including the second largest free trade zone in the world, four major containerized seaports, the Pan-American Highway, and the fourth busiest airport in Latin America. The U.S. Agency for International Development (USAID) officially closed its Panama office in 2012 and transferred management to its regional office in El Salvador. The United States enjoys a strong partnership with all Panamanian security services.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Developments

In 2012, Panama built on past efforts to strengthen and improve its security institutions, enhance interdiction capacity and ensure citizen security. Despite cutbacks across government agencies in the fiscal year 2013 budget, the Ministry of Public Security's budget increased by 16.2 percent over 2012 levels, the fourth straight year of increase. Most of the increase will cover the costs of new equipment purchased from Italy, including six helicopters, 19 radar stations, and a digital mapping system.

The Panamanian National Police (PNP), with U.S. assistance, continues to implement a modern, statistics-based police philosophy (known as "COMPSTAT"). This implementation includes training in new methods of community policing and technological upgrades to manage workflow, improve response, and generate statistical reports on crime. Connectivity issues and internal cabling deficiencies in police stations slowed the technological upgrades, delaying implementation.

Panama undertook a whole-of-government strategy to improve governance in the Darién province. Largely due to the absence of other Panamanian agencies, the Panamanian National Border Service (SENAFRONT) remains the mainstay of this strategy, performing humanitarian assistance and community policing missions alongside its normal duties. SENAFRONT gained territorial control of the region's population centers and made efforts to recruit from the local Darién population and indigenous communities. In part due to "train-the-trainer" efforts with the United States and Colombia, SENAFRONT is able to meet most of its own training needs at its new Darién training center and offered training opportunities to neighbors such as Costa Rica.

Panama is transitioning to an accusatory system of criminal justice, intending to add two additional provinces into the system per year until it is fully implemented in 2014. Coclé and

Veraguas transitioned to the new system in 2011, and showed favorable results in 2012 with case duration rates declining 70 percent. In September 2012, the system expanded to the Herrera and Los Santos provinces. Panamanian budget shortfalls may negatively affect this program going forward; limited resources will prove particularly problematic as Panama begins to implement in more populous and complex regions. In the meantime, justice sector institutions remain weak, susceptible to corruption and have difficulty prosecuting complex organized crime and money laundering cases, hampering efforts to disrupt sophisticated trafficking organizations.

A mutual legal assistance treaty and an extradition treaty are in force between the United States and Panama, although the Panamanian Constitution does not allow extradition of Panamanian nationals. Both countries signed the Salas-Becker Agreement in 2002, enabling cooperation on bilateral maritime interdiction. Panama has bilateral agreements on counternarcotics with the United Kingdom, Colombia, Mexico, Cuba, and Peru. Panama is also a member of the Organization of American States and is a party to the Inter-American Conventions on Mutual Assistance in Criminal Matters, Against Corruption, on Extradition, against Terrorism, and against the Illicit Manufacturing of and Trafficking in Firearms. Panama is a member of the Central American Integration System. Panama participated in both sessions of the semi-annual Multilateral Maritime Counterdrug Summit, which includes Chile, Colombia, Ecuador, Mexico, Peru and all other Central American countries.

2. Supply Reduction

Panama reported seizing 30.8 metric tons (MT) of cocaine in 2012, largely in cooperation with U.S. law enforcement. This includes cocaine captured by Panamanian authorities, but does not include 8.3 MT of cocaine seized by U.S. Coast Guard (USCG) assets in or near Panamanian waters, or cocaine jettisoned by traffickers during pursuit. Panama continued its downward trend in annual cocaine seizures with a 10-percent drop from the 34 MT seized in 2011. The United States attributes the drop in cocaine seizures to a combination of factors: disruption of established DTOs; a trafficking shift away from multi-ton shipments; reduced production in Colombia; and increased disruptions and seizures in some source countries. Panama continued to increase forward deployment of its interdiction assets in 2012, making it more difficult to traffic narcotics through Panama. Additionally, Panamanian authorities seized 1.5 MT of cannabis, 1.7 MT of coca base, 111 kilograms of heroin, and $4.36 million in drug-related cash, down from $8.4 million over the same period in 2011.

With U.S. assistance, Panama's Air Naval Service (SENAN) is working to overcome a number of shortcomings, including poor logistics and maintenance systems, inadequate human resources, a deficit of maritime expertise among senior officers, limited intelligence collection capability, and insufficient operational intercept assets. SENAN accounted for approximately 40 percent of all narcotics seizures in Panama, the largest among Panama's security institutions. In addition, it supported joint counternarcotics operations, including interdiction, patrolling, providing liaison officers aboard U.S. maritime vessels and patrol aircraft, photographing suspect areas, and identifying suspect aircraft. It also provided the transportation assistance for SENAFRONT officer rotations to remote areas such as the Darién.

In 2012, maritime trafficking along Panama's north coast stabilized at 2011 levels, but movements increased on the southern coast in regions west of Panama City. Based on seizures from containerized-cargo, the United States assesses that the bulk of container-based drug trafficking continued to flow to Europe. The Panama Canal expansion will significantly increase shipping traffic by 2015, with an expected corresponding increase in illicit container traffic.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Panama lacks an official budget for drug demand reduction programs, although funding sources include donations from civil society groups and international cooperation. The Ministry of Education provides drug prevention programs in schools, and the Ministry of Health supports a drug-counseling program. The last drug demand study was conducted in 2008, making it difficult to assess current trends. The Mental Health Institute reported a slight increase of people seeking assistance for addiction-related issues. Panama has not updated its written strategy on drug demand reduction since 2007. In February, Panama published new procedures regulating the operation of drug treatment and rehabilitation centers. The University of Panama now offers the country's first a technical degree in the treatment of drug dependents. The United States partnered with the PNP and other local actors to implement programs like Drug Awareness and Resistance Education (D.A.R.E.). The UN Office on Drugs and Crime (UNODC) worked with local partners to offer instruction in prevention and addiction treatment research.

Panama, with assistance from the United States and the United Nations, improved its prison system by increasing the number of trained rehabilitation personnel and implemented programs aimed to create more humane conditions and lower recidivism rates. The United States and Panama launched a project with a local non-governmental organization to provide rehabilitation services and vocational training for youth in detention.

4. Corruption

The Government of Panama does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering proceeds of illicit drug sales. Corruption nevertheless remains a concern throughout the security services and justice sector. Panama adjudicated few cases of corruption in 2012, in part due to poor investigative capacity and a weak judicial system. DTOs penetrated the security services and several security-service members involved in trafficking were detained. A major reform of the internal affairs process, supported by the Ministry of Public Security, met resistance from within PNP ranks and became the flashpoint for a disagreement between the then-PNP director and the Security Minister, leading to the temporary resignation of the Minister. As a result, the government postponed reforms. In 2012, the PNP Internal Affairs unit received and processed 367 citizen complaints, and 27 police officers of various ranks were removed from service for cause. In an effort to improve transparency in Panama, UNODC inaugurated a Regional Anti-Corruption Academy in November, offering courses to government officials, including members of Panamanian security services.

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

The United States supports citizen security, law enforcement, and rule of law programs in Panama, including through the Central America Regional Security Initiative (CARSI). Efforts included improving Panama's ability to secure its own borders and strengthen the capacity of its law enforcement and judicial system. More specifically, the United States works closely to expand Panamanian capabilities to interdict, investigate, and prosecute illegal drug trafficking and other transnational crimes, while strengthening Panama's justice sector, including its prisons.

In 2012, the United States continued to provide assistance to modernize and maintain SENAN, SENAFRONT, and PNP vessels and facilities in support of interdiction efforts. The United States helped to improve the professionalism and effectiveness of Panama's security services by providing technical training in areas such as small boat operations, small unit tactics, and maritime interdiction, equipment, and logistics support. The United States is advancing a training relationship between Panama and Colombia, through which Colombian police experts train members of Panama's security services, and is exploring future cooperation opportunities in support of Panama's accusatory justice system transition. The United States is assisting the PNP to optimize its management and operational processes by supporting the implementation of the latest policing methods, like the COMPSTAT law enforcement modernization project.

United States and Panamanian law enforcement units collaborated closely on counternarcotics efforts, which in 2012 included high-profile investigations involving a nexus to U.S. cases. Panamanian vetted units, working in partnership with U.S. law enforcement agencies conducted sensitive investigations and operations related to counternarcotics, money laundering, human smuggling, and other transnational crimes.

In advance of closing the USAID mission to Panama, the United States sought to ensure sustainability of USAID programs and minimize the impact of anticipated Panamanian 2013 budget shortfalls. The United States provided assistance in potentially vulnerable project areas, and worked with the Panamanian government on assurances related to turnover of U.S. assistance programs.

The United States and Panama finalized an asset-forfeiture sharing agreement that will provide proceeds from a past money laundering investigation to the Panamanian government. These proceeds will fund jointly-agreed upon projects aimed at furthering anti-money laundering efforts and protecting Panama's robust financial sector.

D. Conclusion

The Government of Panama continued its support for joint counternarcotics operations and investigations in 2012, while continuing to invest in building its own capacity. Nevertheless, reductions in funding throughout Panama's 2013 budget could weaken U.S.-supported initiatives. Despite the two-year downtrend in seizures, Panama remains one of the regional leaders in narcotics interdiction. To that end, the United States will continue to assist Panama in completing and implementing reforms to ensure that the PNP, SENAFRONT, and SENAN become strong, professional security services and Panama's judicial system can capably overcome the corrosive effects of transnational crime. The United States will also encourage Panama to support efforts to prevent, detect, investigate, and prosecute financial crimes and

money laundering. The United States urges the Government of Panama to devote more resources to the modernization of its security and justice institutions to bolster citizen security.

Paraguay

A. Introduction

Paraguay faces various challenges to reduce narcotics trafficking and production. Its location near major source countries for illegal narcotics, as well as institutional challenges within its law enforcement agencies and courts, continue to impede counternarcotics efforts.

Paraguay produces one of the largest marijuana crops in the western hemisphere, largely for export to Brazil and Argentina. It is also a transit country for Andean cocaine, most of which is destined for Paraguay's neighbors or to Europe, Africa, and the Middle East. Significantly smaller quantities are transported to the United States. According to the United Nations Office on Drugs and Crime (UNODC), in 2012, crack cocaine users accounted for two of every three admissions to drug treatment centers for consumption of controlled substances, compared to only one of every 12 when the survey was last conducted in 2005.

Drug traffickers exploit the landlocked country's porous borders, extensive internal waterways, and law enforcement and judicial institutions. Arms trafficking, money laundering, counterfeiting, and other illegal activities linked to narcotics trafficking and other forms of transnational crime are prevalent, with the proceeds contributing to judicial corruption. These activities increasingly involve international criminal organizations operating along the Paraguay-Brazil border, challenging the capacities of Paraguay's primary counternarcotics agency, the National Anti-Drug Secretariat (SENAD), which has just over 380 members.

Despite these challenges, the Government of Paraguay expanded its efforts in 2012 to disrupt the activities of drug traffickers through interdiction, eradication, and demand reduction efforts, led by SENAD and aided by the Paraguayan National Police (PNP) and the Customs Administration. These agencies, along with the Attorney General's Office, the Anti-Money Laundering Secretariat, and the Supreme Court all welcome cooperation with the United States in fighting drug trafficking.

B. Drug Control Accomplishments, Policies and Trends

1. Institutional Development

In 2012, Paraguay's Congress made progress in strengthening legislation against money laundering, terrorist financing, and illegal enrichment. The current administration also began creating an inter-agency Money Laundering and Terrorist Finance Task Force. SENAD has served since 2011 as the country coordinator for a UNODC-led multi-agency and multi-country program to address illicit trafficking and demand reduction and treatment initiatives. With U.S. assistance, in November the UNODC program completed a national baseline drug survey, the first such survey in Paraguay since 2005. SENAD's budget more than doubled to $8.0 million in 2012, from $3.5 million in 2011.

Paraguay is a party to the Inter-American Conventions Against Corruption and Against Terrorism. Paraguay is also a signatory to the Organization of American States Inter-American Drug Abuse Control Commission Hemispheric Drug Strategy and to the 1992 Inter-American Convention on Mutual Assistance in Criminal Matters.

U.S. and Paraguayan law enforcement authorities cooperate in extradition matters pursuant to a 2001 extradition treaty. The United States and Paraguay extended the 1987 bilateral letter of agreement providing counternarcotics assistance in 2004 and have amended it annually through 2012.

2. Supply Reduction

Combined SENAD and PNP seizures in 2012 exceeded the totals for 2011. Precursor chemical seizures increased substantially. Seizures of 11.9 metric tons (MT) of marijuana seeds and wax exceeded 2011's 9.5 MT, and 316 production camps were destroyed during this period compared to 238 in 2011. The seizure of nearly 4 MT of cocaine exceeded the 2.8 MT seized in 2011. Also, 749 drug-related arrests and 226 vehicle seizures during this period were comparable to 2011 year-end totals of 827 arrests and 238 vehicles.

Other seizure statistics lagged behind last year's totals, including: 231 MT of marijuana (540 MT in 2011); six airplanes (eight in 2011); 73 firearms seized (98 in 2011); and 868 hectares of marijuana crops eradicated (2,489 in 2011). Overall, narcotics seizures increased significantly in the second half of 2012 under the new Franco Administration: by 272 and 119 percent when compared to the first half of 2012 for cocaine and marijuana-related substances respectively.

Included in the statistics above, on November 10, Paraguay's Joint Special Forces Battalion raided a clandestine airstrip in Canindeyú department and arrested19 individuals, seized 1,759 kg of cocaine, five airplanes, five vehicles, various precursor chemicals, weapons, and ammunition valued at a total of $6.6 million. The raid resulted in the first discovery of a cocaine conversion lab in Paraguay.

According to UNODC, Paraguay is one of the largest marijuana producers in the hemisphere. Marijuana cultivation takes place primarily in northeastern departments near the Brazilian border.

Various methods are used to smuggle narcotics through Paraguay to regional and international markets, including containerized cargo, cargo trucks, passenger buses, small airplanes, and human mules. Towns along the Brazilian border such as Pedro Juan Caballero, Salto del Guaira, and Ciudad del Este are notorious transit centers for narcotics, arms, and other contraband. Vehicular and foot traffic routinely cross the border unchecked by authorities on either side. Additionally, due to a limited law enforcement presence and lack of radar coverage, traffickers use large farms in the northwestern Chaco region along the Bolivian border as bases of operation for aerial cocaine shipments originating in Bolivia.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

In 2012, SENAD sponsored 189 workshops that reached 14,791 students, parents, and teachers in 99 different educational institutions. It distributed 2,600 informational pamphlets and 45 DVDs to students, teachers and counselors, and conducted 57 drug abuse awareness radio broadcasts.

The Ministry of Health's National Addiction Control Center is the only public drug treatment facility in Paraguay. It offers in-patient, out-patient, and walk-in assistance to all patients seeking treatment regardless of gender or age. There is only one private rehabilitation center in Paraguay.

4. Corruption

The Government of Paraguay neither encourages nor facilitates illegal activity associated with drug trafficking, and no senior government official was implicated in such activity in 2012. Nevertheless, widespread corruption and a lack of resources in the law enforcement and judicial systems often prevented the effective prosecution of narcotics producers and traffickers.

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

The Franco Administration has placed a high priority on counternarcotics efforts, as demonstrated by increased seizures and the appointment of qualified leadership in SENAD. Congress echoed this support through increased counternarcotics funding.

The United States worked closely with the Paraguayan government to disrupt drug trafficking organizations and to strengthen legal and regulatory frameworks in a joint effort to combat narcotics trafficking and associated crimes, such as money laundering and arms trafficking. U.S. operational support, including U.S. Drug Enforcement Administration support for joint investigations, resulted in increased numbers of drug seizures, arrests, and cases presented for prosecution.

D. Conclusion

The Government of Paraguay continued to advance its counternarcotics capacity as evidenced by increased drug seizures as well as SENAD's collaboration with the Brazilian Federal Police on select narcotics cases. Still, Paraguayan interagency collaboration remains underdeveloped. Enhancing the judicial system's ability to prosecute narcotics cases quickly and effectively, combined with strengthening law enforcement efforts underway, would help to deter narcotics producers and traffickers.

The United States encourages Paraguay to continue to institute measures to address corruption across all levels of government and to develop a comprehensive approach to combating the production and trafficking of precursor chemicals. The United States also encourages Paraguay's congress to pass long-pending legislation to support counternarcotics objectives, including the asset forfeiture law.

Peru

A. Introduction

Peru remained the world's top potential producer of cocaine for the second consecutive year. Peru was the second-largest cultivator of coca, with an estimated 49,500 hectares (ha) of coca under cultivation in 2011, the most recent year for which data is available. The majority of cocaine produced in Peru is transported to South American countries for domestic consumption, or for onward shipment to Europe, East Asia, Mexico and the Caribbean via land and maritime conveyances, and commercial and private aircraft. Peru is a major importer of precursor chemicals used for cocaine production.

Under President Ollanta Humala, Peru adopted a comprehensive five-year counternarcotics strategy (2012-2016) in March 2012 and dedicated substantial resources to implement it. The strategy calls for a 200-percent increase in the eradication of illicit coca by 2016. In 2012, some coca growers resorted to violence to resist eradication. Eradication operations were suspended for nearly four weeks in August when several hundred coca growers wielding explosives, grenades, and rocks confronted eradicators and security personnel. Sendero Luminoso (SL or Shining Path) operating in the Apurimac-Ene-Mantaro River Valley (VRAEM) relied on cocaine production and trafficking for funding, and killed or wounded scores of police and military personnel engaged in counternarcotics operations.

Domestic consumption of illicit drugs is growing, and the number of treatment and rehabilitation centers falls short of what is needed to treat the estimated 32,000 to 45,000 cocaine addicts and an even larger number of marijuana addicts nationwide. The general Peruvian population was increasingly concerned about the impact of drug trafficking and abuse on citizen security, political stability, and the nation's youth; the environmental damage of illicit drug production; and the impact of corruption on democratic institutions, including the police and the judiciary.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In March, the Peruvian government adopted its counternarcotics strategy with ambitious goals for eradication, interdiction, and alternative development, as well as associated issues, including: control of precursor chemicals; organized crime; money laundering; and the rule of law. The Humala administration more than doubled its counternarcotics budget from the previous year (from an estimated $102 million in 2011 to $220 million in 2012), which has already resulted in increases in the seizure of precursor chemicals and drugs, as well as the capture or death of several high-profile narco-terrorists. Of this amount, the government approved $48 million to support three programs within its counternarcotics policy agency, DEVIDA ("National Commission for Development and Life Without Drugs"), including alternative development ($27 million), drug supply control ($12.8 million), and drug abuse prevention and rehabilitation ($8.2 million). Peru also hosted the "International Conference against the World Drug Problem" in

June; 61 countries and nine international organizations participated. Peru and Thailand also co-hosted an international conference on alternative development in November.

The government implemented extensive reforms of the Peruvian National Police (PNP), including changes in the PNP organizational structure, disciplinary regulations, personnel system classifications, enhanced PNP specializations, and citizen safety and security policies. The government also increased the total number of police officers and established additional police stations in the VRAEM and Huallaga Valley.

The Public Ministry continued to provide training on the New Criminal Procedure Code (NCPC), which transitions the Peruvian legal system from an inquisitorial to an accusatory system. By the end of 2012, the NCPC was implemented in 23 of the 31 judicial districts in Peru. Nationwide implementation will likely be delayed by a year, with Lima anticipated to be the final (and largest judicial) district to implement the code in 2014. The NCPC has been applied to corruption cases nationwide since September 2010.

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 probation in Peru before becoming eligible for extradition. There were three pending U.S. extradition and provisional arrests in 2012 related to narcotics trafficking, murder, and fraud. Two subjects of extradition requests remain at large. Four individuals were extradited to the United States in 2012, two for fraud, one for murder, and one for sexual assault charges. One extradition request – for attempted murder – was denied.

2. **Supply Reduction**

The U.S. government estimates that 49,500 ha of coca were under cultivation in Peru in 2011, a 6.6-percent decrease from the 2010 estimate of 53,000 ha. The United Nations, using a different methodology, estimated 62,500 ha of cultivation in 2011, a 2.1-percent increase from its 2010 estimate of 61,200 ha. The U.S. government 2011 estimate for potential pure cocaine production dropped to 305 metric tons (MT), a 6.1-percent decrease from 2010. The U.S. government 2011 estimate of potential export-quality cocaine also decreased three percent to 360 MT.

In 2012, the Peruvian Government eradication agency, CORAH, focused its efforts on central Peru's Huánuco and Ucayali regions. Despite coca growers' attempts to pressure the government to halt or limit eradication, Peru eradicated 14,171 ha of illicit coca, exceeding the 10,290 ha eradicated the previous year. By that same date, Peru officials also destroyed a total of 142 rustic maceration pits found at eradication sites. Due to the prohibitive security environment, CORAH does not yet eradicate in the VRAEM, a region that accounted for as much as 40 percent of all of Peru's potential pure cocaine production in 2011.

DIRANDRO, the police anti-drug unit, received a $13 million budget in 2012, up from $7.7 million in 2011, and reported significant increases in the seizure of precursor chemicals and a moderate increase in the monthly average of drug seizures. DIRANDRO reported the seizure of approximately 35 MT of cocaine (19.6 MT of cocaine base and 12.5 MT of HCL cocaine) – surpassing the 24.5 MT of cocaine seized in 2011. In addition, DIRANDRO seized 3 MT of

marijuana, and destroyed 1,172 cocaine laboratories and 15 MT of coca leaf in the UHV and the VRAEM.

Peru produces precursor chemicals, such as sulfuric acid, required for the processing of coca to cocaine base. Peru is also a major importer of other essential chemicals for cocaine production. DIRANDRO's Precursor Chemical unit (DEPCIQ) seized 1,926 MT of precursor chemicals, 46 percent more than what was seized in 2011 (1,053 MT). Ongoing interdiction operations on major roads east of the Andes, assisted by two U.S.-donated backscatter x-ray scanners, are responsible for much of this increase.

As of October, authorities from SUNAT (the Peruvian customs and tax agency) and the PNP seized 1,345 kilograms (kg) of cocaine in maritime counterdrug operations within the Callao and Paita ports. Of an estimated 1.8 million containers handled at Peruvian ports, SUNAT officers inspected approximately 11,900 – up from 5,800 containers inspected in 2011. SUNAT and PNP officers conducted the majority of these inspections using dogs and non-intrusive inspection instruments donated by the United States. The PNP-SUNAT Maritime Task Force continued to conduct profile exams from analysis of export cargo, generating alerts that lead to several successful interdiction operations.

Maritime smuggling is the primary method for transporting large cocaine shipments. Peruvian, Colombian and, increasingly, Mexican traffickers maintain sophisticated networks in Peru to ship cocaine to Europe, East Asia, Mexico, the Caribbean, the United States, and other Latin American countries. Peru and the United States exercise maritime operational procedures that enable U.S. authorities to board Peruvian flagged vessels in international waters. In September, Peru hosted the Multilateral Maritime Counterdrug Summit, which offered an opportunity for coast guard and naval representatives from across the Western Hemisphere to improve strategies and cooperation against drug trafficking organizations. In joint investigations with U.S. law enforcement, DIRANDRO identified and disrupted major international cocaine trafficking organizations using maritime and air conveyances to ship cocaine for export. Police noted an increase in the use of small aircraft to transport cocaine from clandestine runways in the Peruvian jungle to unknown locations in Bolivia. In two separate operations in September, DIRANDRO seized more than 500 kg of cocaine and impounded two Bolivian-registered Cessna aircraft.

In February, Peruvian law enforcement and armed forces captured "Comrade Artemio," wanted for drug trafficking and terrorism charges and the organizational head of Shining Path Upper Huallaga Valley (SL-UHV), effectively dismantling this faction of SL. Peruvian authorities deployed more than 300 police and 500 military personnel for this operation. This four-year investigation, dubbed Operation Eclipse, resulted in the arrest of over 90 SL-UHV members. In September, Peruvian forces killed the second-most-senior military commander of SL in the VRAEM, "Comrade William," delivering a second blow to the narco-terrorist organization.

The PNP also conducted successful investigations resulting in the seizure of financial assets, including the January seizure of $40 million from a chemical trafficking organization. A second case involved the seizure of $100 million in assets related to SL-VRAEM leader Victor Quispe

Palomino. Peruvian authorities, however, struggle to effectively manage and dispose of these assets once in custody.

3. Drug Abuse Awareness, Demand Reduction and Treatment

Drug abuse in Peru is increasing. DEVIDA completed a nationwide study indicating that 5.1 percent of Peruvians had used an illegal substance in their lifetime, and 1.6 percent of the population (roughly 265,000 people) had abused a drug in the past year. Marijuana accounts for the majority of drug use, with cocaine paste and cocaine hydrochloride a distant second and third.

DEVIDA launched a media campaign to advertise a hotline for drug counseling services and produced a movie for distribution in coca-cultivating areas promoting licit livelihoods. DEVIDA also provided funding to local governments for drug awareness and prevention campaigns nationwide.

Public treatment facilities in Peru provide 200 beds for drug addicts requiring services. There are private treatment centers in urban areas, but many suffer from a shortage of trained staff. Peru has approximately 300 "therapeutic community centers" (a participative, group-based approach to drug addiction treatment) nationwide, but the majority of these centers are unregulated, often run by former addicts with no formal training. In 2012, fires in two of these centers resulted in the deaths of more than 50 patients locked in their rooms. Only 13 of 80 prisons nationwide offer treatment programs for inmates. There are no rehabilitation centers or clinics specifically designed to treat adolescents, women, or their children.

4. Corruption

As a matter of policy, the Government of Peru 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. Nonetheless, corruption remains a concern. According to a 2012 national survey, 47 percent of Peruvians believe corruption is one of the biggest problems in the country, and 55 percent perceive the judiciary and the police as corrupt.

A whistleblower statute, which falls under the 2011 legislation providing the Office of the Comptroller General with greater authorities to sanction public officials guilty of corruption, generated 4,681 complaints from April 2011 to December 2012. These complaints come from public servants who have denounced colleagues and private citizens they suspect are guilty of corruption.

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

The U.S. government funds projects to support key areas identified in the Peruvian counternarcotics strategy through training, technical assistance, intelligence, and the targeted provision of equipment through international organizations, local non-governmental implementers, and the government of Peru. A primary focus of U.S. government interagency

support is to enhance the capacity of the Peruvian police and military to more effectively counter SL's narco-terrorist activities in the VRAEM and to increase state presence in this remote area.

To reduce dependence on illicit coca cultivation, the U.S. government partners with the Peruvian government to implement alternative development projects in recently eradicated areas of coca cultivation. In 2012, the U.S. Agency for International Development coordinated the U.S. approach and successfully promoted farmer participation in the cacao, coffee, and palm oil industries, helping increase productivity and quality to boost sales in San Martin, Huánuco, and Ucayali. U.S. assistance supported over 19,000 families with the cultivation of over 37,000 ha of alternative crops in 2012. U.S. assistance also supported programs to improve farmers' access to credit, thereby building producer associations' capacity and linking producers to national and global buyers.

D. Conclusion

Although Peru is the world's foremost producer of cocaine, the Peruvian government is demonstrating strong political will to address this problem, particularly through its comprehensive counternarcotics strategy. The U.S. partnership with and support to Peru in implementing its counternarcotics strategy is a critical element in combating the production and export of cocaine. The United States encourages Peru to continue its efforts to implement its comprehensive five-year counternarcotics strategy, including by dedicating sufficient resources to achieve its goals.

Philippines

The Philippines faced significant challenges in combating illegal drug trafficking in 2012, particularly the manufacture and importation of large quantities of methamphetamine by transnational criminal organizations. Domestic cultivation of marijuana for domestic consumption remains problematic, and methamphetamine and marijuana remain the two most-widely consumed illicit drugs domestically. Philippine law enforcement and justice sector agencies lack necessary resources, staff, and effective investigative tools, such as the ability to execute telephone intercepts and plea bargaining, to effectively identify, investigate, and prosecute transnational drug trafficking organizations (DTOs).

The Philippine Drug Enforcement Agency (PDEA), the nation's counternarcotics and chemical-control agency, led successful illicit drug enforcement operations over the course of 2012 and seized considerable quantities of precursor chemicals, methamphetamine, and marijuana. An investigation into methamphetamine laboratories hidden in an affluent community led to the capture of members of transnational DTOs. The PDEA, in coordination with the Bureau of Customs and other Philippine law enforcement agencies, continued to develop a Manila Airport Drug Task Force that resulted in increased apprehensions of drug couriers at Manila's international airport.

The government implemented several drug demand reduction initiatives and educational programs in 2012. Limited funding, however, hampered efforts to build a rehabilitation center in every province as planned. Prosecuting drug cases remained difficult and many cases were dismissed for failure to follow the strict evidence collection and chain of custody rules in the Comprehensive Dangerous Drugs Act of 2002. Bills to amend the law remained pending at the end of the reporting period. The government conducted seminars on the law for judges, prosecutors, and law enforcers in an effort to increase prosecution of drug cases. The drug conviction rate increased by only one percent in 2012.

Philippine drug law enforcement units continued to effectively cooperate with U.S. law enforcement and other international and regional law enforcement agencies. In 2012, the United States provided maritime law enforcement training to the Philippine Coast Guard.

Corruption among law enforcement remained a concern. Several officers, including top leaders of the PDEA, were dismissed for alleged corrupt practices and irregularities. Several incarcerated Chinese drug traffickers escaped from prison with the aid of a prison official.

Although the Philippine government takes the problems of drug trafficking and drug abuse seriously, the lack of resources and effective investigative tools, combined with a high degree of law enforcement corruption, continued to make the Philippines vulnerable to exploitation by transnational criminal organizations.

Portugal

Portugal continues to be a gateway for drugs entering Europe, particularly from South America and Western Africa. Traffickers are increasingly using former Portuguese colonies Guinea Bissau and Cape Verde as transshipment, refueling, and storage points for cocaine-laden vessels from South America en route to Europe through the Iberian Peninsula. It is not a significant center of drug production nor a significant source of drugs destined for the United States. While cocaine is the most-significant drug threat in Portugal, MDMA (ecstasy), hashish, and heroin are also readily available. Portugal cooperates well with U.S. law enforcement to combat drug trafficking. In July 2012, the U.S. Drug Enforcement Administration and the Portuguese Judicial Police conducted a joint investigation resulting in 340 kilograms of cocaine seized in Lisbon, multiple arrests, and the dismantling of an international drug trafficking organization.

Portugal and the United States have a customs mutual assistance agreement, which is enforced, as are protocols to the 2003 U.S.-EU extradition and mutual legal assistance agreements. Portugal is also a member country of the Maritime Analysis and Operations Center-Narcotics, headquartered in Lisbon.

Portugal focuses much of its counternarcotics efforts on treatment and prevention. Drug use remains stable and below the EU average, despite nationwide decriminalization of personal drug use in 2001. "Problem" drug use and HIV cases are referred to the Drug Addiction Dissuasion Commission, consisting of multi-disciplinary teams that assess users and decide the 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 prevention programs that include training sessions, awareness-raising activities, and dissemination of informational pamphlets. Universal drug prevention is part of the Portuguese school curriculum. In addition, as part of the "Safe Schools" program, law enforcement patrols 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.

Republic of Korea (ROK or South Korea)

Narcotics production and abuse is a minor problem in Republic of 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. Anomalously, because of its reputation for not having a drug abuse problem, South Korea is favored as a transshipment location for drug traffickers. With one of the region's largest ports, Busan, located on its Southeast tip, South Korea remains an attractive location for illegal drug transshipments coming from countries that are more likely to attract a contraband inspection upon arrival. Some narcotics smuggled through South Korea are en route to the United States. South Korea is a party to the 1988 U.N. Drug Convention.

As a matter of government policy, 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 ROK Customs Service, there were 546 drug interdictions of persons, carriers, cargo, and mail into and out of the country in the first eight months of 2011, resulting in the seizure of approximately 25 kg of illicit drugs. The number of interdictions during the first eight months increased by approximately five times over the first six months of last year. The drugs seized included methamphetamine, marijuana, hashish, and previously rarely seen substances such as cocaine, MDMA (methylenedioxymethamphetamine), JWH-018-artificial marijuana, and other synthetic prescription drugs.

According to the Supreme Prosecutors' Office, Korean authorities arrested 4,228 individuals for drug violations in the first six months of 2011, an approximately 9.5 percent decrease from 4,673 arrests in the same period last year. Of the arrests, 63.1 percent were for use, 22.1 percent were for supply, and 5.6 percent were for possession of illicit drugs. Synthetic psychotropic drugs continued to be the most widely used illicit drugs, accounting for approximately 73.9 percent of drug arrests. Marijuana seizures were 72.8 kg, an approximate 97% increase from 36.9 kg in the same period last year. Each District Prosecutor's Office, in conjunction with local governments, conducts annual surveillance into suspected 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 had seized 70,864 marijuana plants. Some traditional Korean garments are made from the hemp of marijuana plants. Hemp production is illegal, but the Korean Food and Drug Administration issues licenses to farms that produce traditional Korean garments. This year Korean authorities conducted a crackdown on unlicensed hemp farms and many owners have abandoned their farms, resulting in a spike of marijuana plant seizures. Opium poppy production is also 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 these opium poppy-growing areas. According to the Supreme Prosecutors' Office, as of September this year, Korean authorities seized 37,270 opium poppy plants.

The Ministry of Health and Welfare Affairs conducts programs to treat drug addicts at 22 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 12 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 remain 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. 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.

Romania

Romania is not a significant source of illicit drugs but continues to be an important transit country due to its location along the well-established Northern Balkan Route. Opium, morphine base, and heroin typically move from Afghanistan to Europe along this route, while synthetic drugs and precursor chemicals transit from west to east. The effects of the global economic crisis, coupled with domestic political turmoil, continued to impact all Romanian government agencies, while resources for counternarcotic units were scarcer than in previous years.

Drug use has increased in recent years, with a noted rise in the use of synthetic drugs and heroin. Reports indicate there are between 28,000 and 30,000 drug abusers in Bucharest. Cannabis and hashish are more widely used than heroin; however, a new trend developing is the use of amphetamine-type stimulants and MDMA (ecstasy). These synthetic drugs are easier to use than heroin or cannabis, and more affordable than cocaine.

The Romanian National Police Narcotics Unit, under the Romanian Ministry of the Interior Organized Crime and Anti-Drug Unit, is responsible for investigating major drug trafficking offenses. Between January and June, the Unit seized: 44.73 kilograms (kg) of heroin; 54.55 kg of cocaine; 175.14 kg of cannabis; 5,553 tablets of MDMA; 3.27 kg of methamphetamine; and approximately 2.17 kg of designer synthetic drugs and other smaller quantities of chemical and pharmaceutical substances.

As a matter of government policy, Romania does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. There is no evidence that senior Romanian officials engage in, encourage, or facilitate the illicit production or distribution of drugs or that they launder proceeds from illegal transactions. However, low-level corruption and judicial inefficiency remain serious problems for the Romanian government. Criminal convictions, including those that are drug-related, are difficult to obtain, and as many as 50 percent of those convicted do not serve their full sentences.

Romanian authorities continue to work closely with international partners, including the U.S. Drug Enforcement Administration, the Southeast European Law Enforcement Center and regional counterparts, for successful and effective international seizure operations.

Russia

A. Introduction

Russia is a major destination country for heroin from Afghanistan and a significant market for opium, hashish, marijuana, and synthetic drugs. UN Office on Drugs and Crime (UNODC) data continue to identify Russia as the largest single market for Afghan-origin heroin, consuming approximately 70 metric tons (MT) per year, and as the largest per capita consumer of heroin in the world.

Approximately 25 percent of Afghanistan's annual heroin production traverses neighboring Central Asian states along the so-called "northern route" to Russia. According to a May 2012 UNODC report, approximately 90 MT of heroin was trafficked along this route in 2010. Russia's 4,107-mile border with Kazakhstan accounts for the overwhelming majority of smuggling activity. Opiate trafficking along this route may have increased due to the 2010 customs union between Russia and Kazakhstan, as Russia relies on customs inspections at the union's external borders, and Kazahkstan's seizure rate is very low.

Between 1992 and 2010, the number of drug addicts in Russia increased more than nine fold, and as of 2011 there were more than 670,000 officially registered drug users, with some estimates being five times higher. Up to 100,000 people are believed to die every year from drug overdoses and other causes associated with drug use. In Moscow alone, drug deaths for the year reached 202 through June 2012, twice the number for the same period in 2011. According to official statistics of the Federal AIDS Center, as of September 15, 682,000 HIV-positive people have been registered in Russia since 1987. A main driver of the epidemic is intravenous drug use.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In June 2012, the government launched the "State Counternarcotics Strategy until 2020" that calls all agencies and all levels of government to join in the fight against illicit drugs. The Strategy urges improvements in supply and demand reduction, and outlines new legislation aimed at deterring drug trafficking. An important development in implementing the Strategy in 2012 was the signing in March by then-President Medvedev of a law stipulating life sentences for trafficking large quantities of drugs. Previously, the maximum sentence was 20 years. The law also allows for the confiscation of property and money obtained by drug dealing.

Russia maintains bilateral counternarcotics cooperation agreements with over 35 nations, and the Federal Narcotics Service (FSKN) maintains drug liaison officers in many countries of the region. FSKN recently assigned liaison officers to the Central Asian Regional Information and Coordination Center, after joining as a member last year. In the capacity of Chairperson of the Russian State Anti-Narcotics Committee, FSKN Director Viktor Ivanov participated in the third meeting of the "Central-Asian Quartet" composed of the heads of the anti-narcotics agencies of

Afghanistan, Pakistan, Russia, and Tajikistan, held September 2012 in Dushanbe. Participants adopted a "road map" for 2012-17 including joint countermeasures against drug threats from Afghanistan, prevention of drug abuse, treatment measures, and international cooperation.

As part of the NATO-Russia Council's counternarcotics project, Russian trainers continued to conduct training courses for Afghan, Pakistani and Central Asian counterparts at the MVD training center outside Moscow and the Counternarcotics Training Center in St. Petersburg. Russia also continued to partner with the United States in implementing an Organization for Security and Cooperation in Europe project to improve drug interdiction capacity building for border guards in Tajikistan and Turkmenistan, and with UNODC to support the State Drug Control Service in Kyrgyzstan.

A 1999 mutual legal assistance treaty is in force between the United States and Russia.

2. Supply Reduction

Seizure statistics for 2012 were not available at the end of the reporting period. Total seizures of illegal narcotics over the first nine months of 2011 by type of substance were as follows: 1.64 MT of heroin; 19.66 MT of cannabis; 1.92 MT of hashish; 188.1 kg of cocaine; and 533.6 kg of synthetic substances.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Russian government addresses demand reduction and drug abuse prevention in the State Counternarcotics Strategy. The Strategy outlines 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. At present, there exist only four state-run and 70 non-governmental organization (NGO) centers for rehabilitation of drug addicts. The few government-supported drug addiction treatment programs that do exist are generally ineffective, with high rates of recidivism.
Most drug replacement therapies, such as methadone, are illegal in Russia, although treatment centers in St. Petersburg and Orenburg are implementing a few new models of cognitive therapy which expand the breadth of substance abuse programs and rehabilitation. A new medication-assisted therapy study on Naltrexone abuse, supported by the United States and Russian governments, is ready for publication. The Russian Orthodox Church continues to operate approximately 40 faith-based rehabilitation centers.

Local NGOs are also active in drug prevention activities. The Health and Development Foundation (formerly Healthy Russia Foundation), for example, has established a peer-to-peer outreach program. The program 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. From October 2011 to September 2012, program activities of the Health and Development Foundation reached over 100,000 young people, and trained over 2,500 volunteer peer educators.

4. Corruption

As a matter of policy, the Government of Russia does not encourage policies that facilitate illegal activity associated with drug trafficking, nor were senior Russian officials known to engage in, encourage or facilitate the illicit production or distribution of such drugs, or the laundering of proceeds from illegal drug transactions. However, corruption among law enforcement officials in Russia continues to present major challenges. In 2012, the FSKN internal security service continued to publicize corruption cases among low-level FSKN officers ranging from extortion to drug trafficking to bribery and fraud.

At a March 2012 meeting of the Anti-Corruption Council, then-President Medvedev introduced a new anti-corruption bill targeting government officials. According to this bill, public officials (including members of parliament, governors, and public and municipal civil servants) will be required to declare their own and immediate families' expenditures for purchasing real estate, securities, and vehicles.

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

U.S.-Russian counternarcotics cooperation continued in 2012, particularly between the U.S. Drug Enforcement Administration (DEA) and FSKN. 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 Viktor Ivanov conducted productive meetings during the year. Joint participation in DEA-FSKN training programs continued on tactical operations, intelligence analysis, investigative techniques, and financial investigations. DEA and FSKN continued joint investigative work on both heroin trafficking derived from Afghanistan and cocaine trafficking emanating from South and Central America. Meetings of the Northern Route Working Group also continued in 2012. In addition to operational law enforcement cooperation, the United States has, since 2002, conducted a range of programs to promote counternarcotics and law enforcement cooperation with the Russian government. The FSKN and DEA will co-host the International Drug Enforcement Conference in Moscow in 2013. The two agencies worked in close coordination throughout 2012 in developing themes and objectives for the conference.

D. Conclusion

Russia treats counternarcotics efforts as a top national priority, as reflected by its efforts to implement the 2010 National Counternarcotics Strategy. Russia's active participation in international, regional, and bilateral counternarcotics activities and the productive work in the U.S.-Russia Bilateral Presidential Commission's Counternarcotics Working Group reflect this emphasis, as do the numerous recent operational successes involving both U.S. and Russian law enforcement. Russia and the United States have been especially successful in jointly addressing new trends in cocaine trafficking, and intend to achieve the same level of success with other types of narcotics. Russia and the United States share a commitment to continuing bilateral and multilateral cooperation in counternarcotics.

Senegal

Senegal's location on Africa's west coast and the country's established transportation infrastructure make it an enticing transit point for drug traffickers moving narcotics from South America to Europe. Cocaine is trafficked into Senegal by land and sea from neighboring countries, namely Guinea-Bissau and Guinea, and then on to Europe by sea and air. Cannabis is cultivated in the southern Casamance region for local use and regional trafficking. The United States is not a destination point for drugs cultivated in or trafficked through Senegal.

Senegal's Drug Law, first passed in 1997, was amended in 2006 to include tougher penalties for drug trafficking. Senegal's national counternarcotics plan, drafted in 1998, seeks to control the cultivation, production, and trafficking of drugs, inform the population of the dangers of drug use, and reintroduce former drug addicts into society. The Senegalese government lacks the financial resources to ensure the capacity of state agencies responsible for border control to identify and seize narcotics.

Senegal works with partners in the Economic Community of West African States to combat narcotics trafficking. Senegal has several bilateral agreements to combat narcotics trafficking and signed mutual legal assistance agreements with the United Kingdom and France to facilitate the exchange of enforcement information on narcotics trafficking and other transnational crimes. In April 2011, the United States and Senegal signed a bilateral agreement that strengthens Senegal's capacity to counter maritime drug trafficking through joint U.S.-Senegalese maritime operations.

In July 2012, the U.S. Navy and Coast Guard conducted an African Maritime Law Enforcement Partnership mission involving joint training, surveillance, and law enforcement operations with the Senegalese Navy to suppress illicit transnational maritime activity in and around Senegalese waters. The operation showed a marked increase in communication, allowing the Senegalese Maritime Operation Center to coordinate national efforts and bilateral efforts with The Gambia. Also in July, the United States provided basic drug enforcement training in Dakar for officers from Senegal and neighboring countries.

Limited infrastructure and funding hamper Senegalese efforts to fight drug trafficking. Although the national plan to counter narcotics trafficking and cooperation with regional neighbors are positive steps to help Senegal in this fight, Senegal continues to struggle against well-financed traffickers.

Serbia

Serbia is a transit country for illicit narcotics, mainly heroin and marijuana originating from Afghanistan, smuggled along the traditional Balkan smuggling corridor to Europe. Serbian organized crime groups also smuggle cocaine directly from South America to Europe. Serbia is not a major producer or consumer of organic, synthetic drugs, or precursor chemicals.

There is no government-wide coordinating body responsible for counternarcotics law enforcement. Resource constraints hamper a more centralized and robust response. Serbia prioritizes international law enforcement cooperation, and Serbian law enforcement agencies routinely interact and exchange information with counterparts in the United States, Europe and South America. Serbian police worked closely with Spanish authorities to investigate and dismantle the transnational criminal organization led by Luka Bojovic, who was arrested in February 2012. Serbia participates in regional cooperation bodies, but does not recognize Kosovo and has not cooperated directly with Kosovo government representatives in the past. In 2012, Serbia modified its policy to allow participation in regional fora with Kosovo under certain conditions. Serbia legally succeeded 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 Criminal Procedure Code adopted in September 2011 is now under revision.

The majority of drug seizures in Serbia result from intelligence sharing abroad and interagency cooperation at home, with trends remaining constant. Drug abuse prevention and treatment capacity is limited. A government-run drug rehabilitation clinic provides services, and public and prison hospitals run drug rehabilitation programs.

As a matter of policy, the Serbian government does not facilitate the illicit production or distribution of narcotics or launder proceeds from illegal transactions. Senior government officials do not encourage or facilitate illicit drug production or distribution, but corruption remains a serious concern, however.

Serbia works closely with the United States, the Organization for Security and Cooperation in Europe, and European Union countries to reform and improve law enforcement capacity. The United States has provided technical assistance to police, customs, border police, prosecutors, and the judiciary to professionalize the police and customs services, and improve domestic capacity to prosecute corruption and organized crime. Negotiations continue on a new extradition treaty that would supersede the 1902 Extradition Treaty between the United States and the Kingdom of Serbia, which is still in force.

More-effective cooperation with Kosovo is needed, as is improved communication and strategic coordination among domestic criminal justice entities. The United States will continue to support Serbian law enforcement and judicial institutions through training, capacity-building, and equipment donations.

Singapore

Singapore is not a producer of narcotics, but as a major regional financial and transportation center, it is an attractive target for money laundering and a transshipment point for narcotics. Traffickers use Singapore as a transit point for narcotics moving to other countries such as Indonesia and Malaysia via parcels, maritime containers and air cargo. Air and maritime ferry passengers have also frequently transited Singapore in possession of narcotics for delivery to neighboring countries such as Malaysia. The Government of Singapore enforces stringent counternarcotics policies through strict penalties (including the death penalty and corporal punishment), vigorous law enforcement, and active prevention programs. Domestic rates of illegal drug use are low by global standards.

According to the Government of Singapore, the total number of drug arrests during the first six months of 2012 dipped slightly by 2.5 percent from the same period in 2011, from 1,756 to 1,712. Heroin and methamphetamine remain the top two drugs consumed in Singapore, accounting for 93 percent of the drug offenders arrested in the first half of 2012. In the first half of 2012, the number of registered heroin abusers (1,090) increased by 6.1 percent compared to the same period in 2011 (1,027). While methamphetamine remained the second most commonly used illegal drug, arrests of methamphetamine offenders declined 10.6 percent, with 60 fewer methamphetamine abusers arrested in 2012.

Between January and June of 2012, Singapore seized 44.9 kilograms (kg) of heroin, a 13 percent increase from the same time period in 2011; 9 kg of cannabis, a 62 percent increase from 2011; 9.5 kg of methamphetamine, a 137 percent increase from 2011; 624 tablets of methamphetamine tablets, a 45.1 percent increase since 2011; and 130 tablets of buprenorphine, a 465-percent increase since 2011. According to the Singapore Central Narcotics Bureau (CNB), Singapore seized approximately $7.75 million worth of drugs in the first half of 2012, which is $1.25 million more than during the same time period in 2011.

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. In 2012, the United States hosted one Singaporean officer at a Coast Guard Maritime Law Enforcement Officer course in the United States.

South Africa

A. Introduction

South Africa remains an important market and international distribution hub for illegal narcotics, as well as a source of domestically-produced cannabis and synthetic drugs. Drug-related crimes increased in all nine provinces in 2012 for a country-wide increase of 17 percent, according to the South African Police Service (SAPS) annual crime statistics report. The South African Central Drug Authority's (CDA) has delayed plans to launch a national narcotics database, part of the 2012-2017 National Master Plan on Drugs. A new asset forfeiture unit and an independent police corruption agency became operational in 2012, increasing tools available to South Africa to counter narcotics. The United States provided specialized training for detectives in 2012 that was well-received.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The current draft of the CDA 2012-2017 National Master Plan calls for the creation of a nationwide database to track drug crimes more thoroughly. The plan is still in the review process.

Border control responsibility remains with the South African National Defense Force (SANDF), which struggles to control South Africa's porous borders. In August 2012, the government instructed SANDF to assist SAPS with intelligence-driven operations in the Eastern and Western Cape provinces to decrease "gang warfare" and "drug hotspots." The SAPS Directorate of Priority Crimes (DPCI), also known as the "Hawks," created a Financial Asset Forfeiture Investigative Unit (FAFI) to target the organized crime syndicates that are partly responsible for drug trafficking and money laundering in South Africa. This initiative is based on provisions of the South African racketeering statute, the Prevention of Organized Crime Act (POCA), which is similar to U.S. racketeering statutes. POCA allows for the seizure of assets used in the commission of crimes and the profits from illegal activities, such as drug trafficking. The statute allows for stiffer penalties when the perpetrators are gang members.

The United States and South Africa have bilateral extradition and mutual legal assistance treaties in force. The United States and South Africa also have a letter of agreement on law enforcement and counternarcotics assistance and a customs mutual legal assistance agreement.

2. Supply reduction

Cannabis has long been cultivated in South Africa. Manufacturing of amphetamine-type stimulants (ATS), methaqualone (mandrax), methcathinone (khat), and methamphetamine (known locally as "tik") is increasing, according to the CDA.

According to South Africa's annual crime statistics report released in September 2012, drug-related crime increased nationwide, rising from 150,673 between April 2010 and March 2011 to 176,307 cases between April 2011 and March 2012.

Gauteng province, with the highest urban population in South Africa, recorded a record increase of drug-related cases, up 58 percent from the prior year. Gauteng's drug-related arrests increased from 16,457 to 25,949. Western Cape Province's arrests increased by nine percent (from 70,588 to 77,069). Rural Mpumalanga Province, which borders Kruger National Park and Mozambique, had a 30-percent increase in drug-related arrests, from 3,178 to 4,153.

The South African Police Service achieved some law enforcement successes in 2012, thanks partly to specialized counternarcotics training as well as new tools such as the asset forfeiture legislation and the asset forfeiture investigation unit. For example:

- In July, the DPCI arrested a man in possession of approximately $34,483 worth of methamphetamine. Police seized cannabis and equipment valued at approximately $2.3 million during a raid on a drug laboratory in the same area as the methamphetamine arrest.
- In May, police seized 1,100 kilograms of hashish with a street value of approximately $4.4 million.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Substance abuse is a major social problem in South Africa, contributing to the overall crime rate. Drug-related crime increased in 2012. According to the CDA, the Western Cape Province continues to be affected by gang violence linked to illegal drug sales. Heroin is starting to appear on the South African drug scene, and youth in South Africa appear to be increasingly using methamphetamine, particularly in the Western Cape. A popular mixture of methamphetamine and ecstasy has become a health risk and has led to an increasing number of deaths among users. School-age children in Limpopo province chew khat and are increasingly using "kuber," a highly addictive nicotine based drug. South Africa lacks addiction research, and treatment availability is limited, with demand widely exceeding availability.

4. Corruption

As a matter of policy, the South African government does not encourage or facilitate the illicit production or distribution of narcotics or launder proceeds from illegal drug transactions. The South African government actively combats narcotics-related corruption. The government implemented an Independent Police Investigative Directorate (IPID) Act in 2012 to place greater emphasis on police corruption and enhance public confidence in the efforts of the police. This Directorate replaced the Independent Complaints Directorate with more powers and a direct line of reporting to the Minister of Police. The IPID will investigate most police-related criminality and other corruption for the SAPS.

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

The United States continued to support substance abuse and prevention programs in partnership with the South African National Council on Alcoholism and Drug Dependence. The U.S. Drug Enforcement Administration office in South Africa provided a two-week course in Basic Narcotics Investigations in September in Pretoria to 14 SAPS and nine Tanzanian Police Force members. The SAPS has requested additional iterations of this course for 2013.

D. Conclusion

Drug use has not abated in South Africa. There is still a lack of sufficient information to formulate an adequate profile on drug addiction victims. The SAPS is committed to improving the counternarcotics investigative skills of its detectives and achieving greater success with drug interdiction efforts. South Africa's Prevention of Organized Crime Act, particularly its robust new asset forfeiture provisions, is proving a useful tool in the war against illicit drugs. The country's new asset forfeiture unit should play an increasing role in countering organized drug sales and trafficking. The United States encourages South Africa to build on these incremental steps and finalize its National Master Plan to provide a unified strategy for reducing the supply and consumption of illicit drugs.

Spain

Spain remains an important European transit point to Europe for narcotics originating in Latin America and for hashish from Morocco, especially via its North African exclaves of Ceuta and Melilla. There was an increase in the use of small aircraft to move hashish shipments as an alternate to sea-based shipments. There is growing concern over possible consolidation of links between drug trafficking networks in Latin America and West Africa, though there is no evidence of greater inflows of cocaine via North Africa. A shift continues away from large containerized shipments from Latin America to smaller more dispersed shipments transiting North Africa. Spanish law enforcement efforts continued to achieve success through a robust combination of border control and coastal monitoring, sophisticated application of technology, domestic police action, and international cooperation.

The UN 2012 World Report on Drugs noted that usage rates of cannabis and cocaine among Spanish citizens declined modestly, although rates remain amongst the highest in Europe, especially among the 15 to 34 age group. Despite drastic cuts in the 2012 national budget, funding for counternarcotics programs were largely unaffected. Thirty percent of assets seized in counternarcotics operations continued to go towards supply reduction programs, supplementing operational budgets.

Domestic drug production is minor. There is limited marijuana production and a small number of labs involved in cutting, mixing, and reconstituting cocaine products. Law enforcement seizures declined for hashish (3.9 percent), cocaine (1.7 percent), and MDMA (43.2 percent) in the first six months of 2012. In contrast, seizures of amphetamine-type stimulants increased 9.2 percent and heroin by 25.5 percent.

Spain enjoyed excellent bilateral and multilateral law enforcement cooperation in 2012. Cooperation on EU operations in the Mediterranean improved, and EU funds are being used to construct an EU command and control center to oversee maritime operations. Spain provides law enforcement liaisons to two EU operational platforms in Dakar, Senegal and Accra, Ghana, and law enforcement cooperation improved with countries in Latin America. In a joint operation with Venezuela, authorities seized 5.644 metric tons of cocaine and dismantled the largest drug-trafficking and money laundering organization in Spain's history. U.S. law enforcement agencies maintained strong working relationships with Spanish police services, resulting in multiple significant cocaine seizures in 2012.

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. Suriname's sparsely populated coastal region and isolated jungle interior, together with weak border controls and infrastructure, make narcotics detection and interdiction efforts difficult. Traffickers are able to move drug shipments into and through Suriname by land, water, and air with little resistance. There is little evidence of drug production in Suriname, although national police officials (widely known as "Korps Politie Suriname" in Dutch, or KPS) have advised U.S law enforcement officials of increased cultivation of cannabis.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

As a matter of official policy, the Government of Suriname is committed to combating illegal narcotics trafficking. However, Suriname's practical ability to apprehend and prosecute narcotics traffickers remains inhibited by drug-related corruption, bureaucratic hurdles, and inadequate legislation.
Under the coordination of the Office of the President, the National Anti-Drug Council and the Ministries of Health, Justice/Police, and Education formulated the draft National Drug Master Plan for 2011-2015. The National Assembly approved the Plan, which addresses both supply and demand, in October 2011.

Suriname passed four laws intended to satisfy the recommendations of the Caribbean Financial Action Task Force, in order to implement common countermeasures to address the problem of criminal money laundering: a law regulating oversight of money transfer offices; an amendment on reporting unusual transactions; a law regulating bank and credit system supervision; and additional legislation on money laundering and terrorism financing.

Suriname is a party to the Inter-American Convention against Corruption and Migrant Smuggling and the Inter-American Convention on Mutual Assistance in Criminal Matters. Since 1976, Suriname has been sharing narcotics information with the Netherlands pursuant to a mutual legal assistance agreement. In 1999, the United States and Suriname completed a comprehensive bilateral maritime counternarcotics enforcement agreement that remains in force. Suriname has also signed bilateral agreements to combat drug trafficking with Brazil, Venezuela and Colombia.

Suriname has two memoranda of understanding (MOU) with the U.S. Drug Enforcement Administration (DEA) that provide for a DEA presence in Suriname and the establishment of the Narcotics Intelligence Unit, a vetted unit of five to eight officers. In 2012, Suriname signed an MOU with the UN Office on Drugs and Crime (UNODC) to participate in their Container Control Program. Current law prohibits the extradition of Surinamese nationals and this is upheld in practice.

In 2012, Suriname began the installation of an automated biometrics border control management system that will identify and record people traveling to and from Suriname at the principal airport and border crossings. Suriname also participated in the Caribbean Basin Security Initiative-funded digitized fingerprint system to link its criminal databases among the major law enforcement entities in the country as well as internationally.

2. Supply Reduction

In 2012, the Government of Suriname seized 395 kilograms (kg) of cocaine, 102 kg of cannabis, 8000 ecstasy pills and 80 grams of hashish. Two hundred and sixty-nine people were arrested for drug-related offenses, of which two hundred and sixteen cases were sent to the Office of the Attorney General for prosecution. One hundred and forty-one people were prosecuted for drug-related offenses.

Suriname is working on legislation to control precursor chemicals, but currently is unable to detect the diversion of precursor chemicals for drug production. The Government of Suriname focuses significant narcotics interdiction resources on the country's western border with Guyana, a key route for cocaine trafficking by land and water.

Suriname's international airport, Johan Adolf Pengel International, continues to work with the Government of Suriname and a Canadian partner to implement an air-traffic radar and control system first installed in 2010, but which is still not operational. Interdiction efforts at the airport are run by the Combating International Drug Trafficking (BID) team composed of approximately 32 KPS members. The team focuses almost exclusively on searching passengers and cargo on flights bound for the Netherlands, where the majority of narcotics are trafficked from Suriname. The use of foodstuffs to move narcotics through the airport continued in 2012. In October, 57 kg of cocaine were recovered from hollowed-out sweet potatoes.

The BID team utilizes urine test kits at the airport to identify suspected drug mules, and "sniffer dogs" for additional narcotics detection. Drug mules who evade detection in Suriname may be arrested upon arrival in Amsterdam, where 100-percent inspection of all bags and passengers from Suriname is routine.

The bulk of cocaine smuggled from Suriname to Europe and Africa occurs via container cargo. Smaller fishing vessels also carry drugs out to sea and transfer them to large freight vessels in international waters. The Government of Suriname is working to create a coast guard, though its current maritime capability is limited. Suriname does not operate a maritime radar system to track movements at sea.

There is local cultivation of cannabis in Suriname but little data exists on the amount under cultivation. There was one seizure of 20 kg at the Zorg en Hoop Airport from luggage intended for Guyana. However, there is no additional evidence that cannabis is exported in significant quantities.

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

The Organization of American States' Inter-American Drug Abuse Control Commission will begin a survey on Suriname's drug consumption in 2013. A new National Anti-Drug Council was installed in 2012 and worked to raise drug awareness, held prevention meetings with children, parents, and teachers and focused efforts on educating dropouts. There is one government-run detoxification center that is free of charge; other treatment centers are run by non-governmental organizations.

4. Corruption

During 2012, the Government of Suriname officially maintained its commitment to combat narcotics trafficking and took measures to apprehend government officials for drug-related corruption. However, corruption remained pervasive throughout all levels of government and there was evidence of drug-related corruption among government officials.

Two high-level officials within the Suriname government have previous convictions for drug trafficking: President Desire Bouterse and Member of Parliament Ronnie Brunswijk have been convicted in absentia in separate court cases in the Netherlands. France also has an outstanding arrest warrant for Brunswijk on similar charges. Neither has served the sentence associated with the conviction, as Suriname does not extradite its citizens.

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

In 2012, the United States provided training, technical assistance and material support to several elements of the KPS, as well as to the Suriname Navy and other maritime authorities. The operational effectiveness of Suriname's law enforcement institutions continued to be hampered by government reorganization efforts within the law enforcement structures and unfilled vacancies within law enforcement units.

D. Conclusion

The United States encourages the Government of Suriname to increase efforts to pursue major narcotics traffickers, dismantle their organizations, and strengthen regional and international cooperation. Additionally, the United States encourages Suriname to work to eliminate bureaucratic obstacles that limit law enforcement's effectiveness and to continue to develop the capacity of its counternarcotics-focused units. Suriname's participation in UNODC's Container Control Program is a positive sign that the Government of Suriname intends to improve enforcement at seaports, the primary conduits for shipments of narcotics exiting Suriname. Increased monitoring and protection of porous borders and the interior with a radar detection system and adequate air support to conduct arrests in Suriname's interior should also be a priority.

Taiwan

Taiwan is neither a major transshipment point for nor a significant producer of illicit narcotics. Aggressive law enforcement action targeting domestic production, coupled with enhanced surveillance of smuggling routes, led to reduced availability and higher black market prices for all categories of illicit drugs and diverted precursor chemicals in 2012.

Seizures decreased in all categories except ketamine, which increased by 85 percent from the previous year. A serious problem in Taiwan, ketamine remains popular among teenagers as a party drug due to its perceived low potential for addiction and the absence of criminal penalties for possession of small amounts (less than 20 grams). China is the source of 80 percent of the ketamine seized or sold in Taiwan. Consumption of amphetamine-type stimulants (ATS) is also a significant domestic problem, but greater efforts to monitor sales of legally produced precursor chemicals and aggressive efforts to identify and seize illegal drug factories have significantly decreased domestic ATS production. In August, authorities reported seizing 77 kilograms of heroin originating from Cambodia – the largest heroin seizure in ten years.

The Ministry of Justice leads Taiwan's counternarcotics efforts with respect to manpower, budgetary, and legislative responsibilities. The Ministry of Justice Investigations Bureau, National Police Agency, Coast Guard, Customs Directorate, and Military Police contribute to counternarcotics efforts and cooperate on joint investigations, openly sharing information with the U.S. Drug Enforcement Agency and other law enforcement counterparts in the Asia Pacific region. Taiwan's undercover and electronic surveillance laws hamper law enforcement efforts to investigate drug cases, while geographic challenges limit authorities' abilities to provide long-term witness protection.

Addiction is viewed primarily as a health issue, and efforts focus on treatment, rehabilitation, and support of recovering addicts. The criminal justice system offers users the option of voluntary long-term treatment in lieu of incarceration. Most prisons lack the infrastructure and resources to treat addicts, and the recidivism rate is high.

Taiwan's inability to participate in the United Nations and other international organizations presents obstacles to its full involvement in regional and international counternarcotics efforts. However, Taiwan continues to forge relationships with other Asia-Pacific countries, including China, to exchange drug intelligence resulting in drug seizures and arrests.

Although there is no bilateral extradition treaty between the United States and Taiwan, a bilateral mutual legal assistance agreement is in place through which Taiwan regularly affords mutual legal assistance to U.S. counterparts.

Tajikistan

A. Introduction

Tajikistan is a major transit country for heroin moving from Afghanistan to Russia and Eastern Europe. Tajikistan shares a 749-mile border with Afghanistan, where more than 80 percent of the world's opium and heroin originates. Drug trafficking contributes to corruption throughout all levels of the Tajik government and is a revenue source for militants and terrorists in Afghanistan.

The UN Office on Drugs and Crime (UNODC) estimates that about approximately 90 metric tons (MT) of the heroin produced in Afghanistan is smuggled through Central Asia, and that between 75 and 80 MT of heroin is smuggled through Tajikistan each year.

Reported domestic consumption in Tajikistan is relatively low, with only 7,255 registered addicts. However, UNODC and the International Red Cross Society estimate that about 70,000 people regularly use opiates in the country. These estimates suggest that roughly one percent of the population is addicted to opium or heroin.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, the Government of Tajikistan adopted a National Border Management Strategy (NBMS), drafted by the Organization for Security and Cooperation in Europe. In August 2011, President Emomali Rahmon took the first step toward implementing the NBMS when he established an Inter-Agency Secretariat to oversee it. However, the government has yet to fully implement the Strategy. Since September 2011, the Secretariat has not convened and some Ministries have opposed its formation

2. Supply Reduction

According to Tajikistan's Drug Control Agency (DCA), in 2012 law enforcement agencies seized 5.98 MT of narcotics, 41 percent more than in 2011. Of this amount, 515 kg were heroin; 627 kg were opium; and 4.83 MT were cannabis. Cannabis seizures increased by 49.6 percent, and for the second year in a row, accounted for about 80 percent of total seizures. Heroin seizures increased slightly by one percent and opium by 28 percent.

All government agencies increased their seizure rates in 2012 with the exception of the DCA, which experienced a 2.6 percent decrease. The Ministry of Internal Affairs (MVD) seized 2.56 MT of narcotics. The State Committee on National Security (GKNB) dramatically increased seizures since 2010 from just seven kg up to 2.38 MT, almost equaling the DCA. The Customs Service continues to seize the least amount of drugs, but increased their total by 11 percent in 2012, reaching 65.6 kg. In addition to the drugs listed above, the DCA reported an increase in synthetic drugs transiting Tajikistan, and confiscated a small amount, including barbiturates and

benzodiazepine. One seizure in May reportedly interdicted 63 kg of methamphetamine, according to media reports.

UNODC estimates that 70 to 75 percent of opiates are transported by truck or other vehicle through Central Asia. Air and rail account for another 15 to 25 percent of trafficking, possibly utilizing direct flights and rail lines from southern Tajikistan to Moscow. Low-level smugglers often use body concealment to transport drugs by air. Better connected traffickers hide drugs in all types of goods, especially concrete, which makes up the bulk of truck cargo from Afghanistan, and obstructs the detection power of scanners and drug sniffing dogs. If smugglers are unable to use official border crossing points (BCPs), they must cross the Panj River from Afghanistan on rafts, or they simply wade across in areas where the water level is low.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Tajikistan's Ministry of Health funds five drug rehabilitation centers throughout the country, with 295 beds and 52 doctors. Over 80 percent of the 7,255 registered drug addicts in the country are addicted to heroin. Women account for less than four percent of registered drug users. Over 55 percent of Tajik citizens infected with HIV are intravenous drug users. The United States sponsors a "Dialogue on HIV and TB Project" which provides technical assistance, training, and direct outreach services to treatment centers and drug users.

In October 2012, the United States concluded a year-long drug demand reduction program which used a community-based approach to educate youth about the dangers of drugs and provide them with healthy alternatives to drug use such as sports, music, art, theater, and dance. The DCA self-financed similar campaigns to spread an anti-drug message. The Ministry of Health has developed a five-year DDR program that builds on DCA activities.

4. Corruption

Based on UNODC estimates that Central Asia received $1.4 billion in profits from the drug trade in 2010, the value of the illicit drug trade could be equivalent to as much as 21 percent of Tajikistan's gross domestic product. The scale of profits to be made and the extremely low salaries of law enforcement officers create strong incentives for facilitating the drug trade in Tajikistan.

As a matter of government policy, the Government of the Tajikistan does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, the DCA does not monitor drug-related criminal cases, which are sometimes dismissed for connected individuals, or used by corrupt officials to go after internal opponents. In the past year, several law enforcement officials, including the brother of the First Deputy Head of the GKNB and the head of MVD's counternarcotics department were arrested and prosecuted for drug trafficking and corruption.

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

The United States continues to provide salary supplements to Tajikistan's DCA, and will also support an elite DCA unit as part of the Central Asia Counternarcotics Initiative. Since 2003, the United States has provided $11.3 million to the DCA. The United States and the DCA support a Drug Liaison Office (DLO) in Taloqan, Afghanistan, where DCA officers work with Afghan officials to prevent drug smuggling from Afghanistan to Tajikistan. While DCA's seizure rates declined in 2012, the efforts of the DLOs led to significant seizures and destruction of several drug laboratories in Afghanistan.

In July, the U.S. Embassy's Office of Military Cooperation (OMC) organized training for Customs officials operating U.S.-provided vehicle scanners at the Nizhny-Panj BCP on the Tajik-Afghan border. Despite efforts to improve operator techniques and repair technical problems, the scanners remain underused and have produced negligible drug seizures. In June, the customs chief at Nizhny-Panj was arrested for corruption.

D. Conclusion

The significant increase in drug seizures this year is a sign of progress, but continued lack of commitment to implement the NBMS, negligible seizures at the U.S.-built Nizhny-Panj BCP, and cases of high-level corruption continue to hinder the success of counternarcotics programs in Tajikistan. However, the Government of Tajikistan has shown a strong willingness to combat militants and extremists crossing into Tajikistan. The United States plans to build on this shared goal to engender more robust cooperation on border security and counternarcotics.

Thailand

A. Introduction

Thailand is a transit and destination country for illicit narcotics. Heroin and methamphetamine move from Burma directly across Thailand's northern border and indirectly via Laos and Cambodia for consumers in Thailand and for export markets. Most marijuana consumed in Thailand is grown along the Laos-Thailand border.

2011 saw a significant growth in the seizure of heroin, methamphetamine tablets (in Thai: *yaa-baa*), crystal methamphetamine, and MDMA (ecstasy). The cultivation of opium and cannabis, and production of amphetamine-type stimulants, remain minimal. According to the UN Office on Drugs and Crime (UNODC), Thai authorities eradicated 205 hectares (ha) of poppy in 2012, a decrease of 1 percent from 2011 when 208 ha were eradicated. While notable, this decrease should not be judged as a significant trend in opium cultivation and heroin use in Thailand. The small quantities of opium produced in Thailand are primarily intended for local consumption by hill tribe growers.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Responding to the growing and widespread problem of methamphetamine abuse, the Thai government implemented a comprehensive anti-drug campaign beginning in September 2011. The new national policy aims to reduce drug-related social problems, the number of drug addicts, and recidivism, and to increase awareness of the dangers of drug use.

Thailand's counternarcotics assets are insufficient to patrol the long and remote borders with Laos, Burma, and Cambodia. Thailand continues to increase its efforts to coordinate with neighboring law enforcement entities, assisted by U.S. support for equipment and training, to enhance effectiveness and cooperation.

The United States and Thailand have extradition and mutual legal assistance treaties in force. Thailand is among the most effective and cooperative partners of the United States in Southeast Asia.

2. Supply Reduction

Drug seizures by Thai law enforcement agencies continued to increase throughout 2011 and into 2012. The U.S. Drug Enforcement Administration (DEA) has worked closely with Thai law enforcement on joint investigations, resulting in the successful disruption of several international drug trafficking organizations. One investigation resulted in the seizure of 4,164,800 methamphetamine tablets (416 kg) and 153 kg of crystal methamphetamine.

Heroin seizures in Thailand significantly decreased during the first eight months of 2012 and were on pace to be the lowest since 2006. Between January and August 2012, 71.9 kg of heroin were seized, compared to 540.7 kg for 2011. This decline, however, has been largely offset by higher methamphetamine seizures (582 million seized tablets over the first 8 months of 2012, compared to 54 million for all of 2011). Burma-based traffickers are believed to produce thousands of kilograms of methamphetamine annually, in both tablet and crystal form, for regional export. A substantial portion is trafficked into Thailand, where it remains the primary drug of abuse. In addition, Iran and Africa-sourced crystal methamphetamine continues to enter the country, though at much lower detected quantities than in 2011.

Thailand has a small domestic market for ecstasy and cocaine, largely among affluent residents in large cities, as well as tourists and expats in Thailand. Ecstasy is customarily smuggled into Thailand on commercial aircraft from Europe, although Malaysia remains a primary route for ecstasy entering southern Thailand. Limited quantities of cocaine continue to be imported into Thailand, mostly destined for international markets. While the cocaine market is still largely controlled by African drug syndicates, South American and Chinese trafficking groups are also involved in the regional importation of bulk quantities, typically for export to China, Hong Kong, and Australia.

Marijuana remains less visible, but is readily available in Thailand and throughout the region. Marijuana is domestically cultivated in limited quantities, with bulk shipments imported from Laos for domestic use and regional export. Kratom (mitragyna speciosa), a local drug with modest psychotropic properties, is grown locally and consumed primarily in Thailand's southern provinces.

Ketamine use appears to be limited to use as an alternative to methamphetamine tablets. Seizures of ketamine within Thailand have declined greatly in 2012, with 2.3 kg seized from January to August 2012, compared to 77.9 kg seized in 2011. Most of the ketamine entering Thailand is transshipped from other countries, specifically India, Malaysia, and Singapore. Thailand-based enterprises continue to market steroids and human growth hormone for worldwide sale.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Thailand carries out comprehensive demand reduction programs, combining drug abuse prevention programs with treatment for addicts. According to the Office of the Narcotics Control Board, drug treatment programs have reached over 550,000 drug addicts since the government announced its counternarcotics priorities in September of 2011, with nearly 400,000 of those being voluntary cases. The Thai government also invests in building awareness of the perils of drug addiction, but the effectiveness of awareness programs is difficult to gauge, with the methamphetamine problem growing rather than shrinking. Heroin and opium usage remain relatively low and stable.

4. Corruption

As a matter of policy, the Thai government does not permit, encourage, or facilitate illicit production or distribution of narcotic/psychotropic drugs or other controlled substances, or the laundering of drug proceeds, by individuals or government agencies. However, corruption remains a problem in Thailand, some officials are susceptible to bribery. No current senior Thai government official is known to have engaged in those types of activities, but drug-related corruption at working levels is likely, given the volume and value of drugs consumed in and moving through Thailand.

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

Thailand and the United States enjoy a strong cooperative relationship. U.S. law enforcement agencies receive willing cooperation from their Thai counterparts and are supported at the highest levels of Thai government. Thailand is one of several countries in which DEA maintains Sensitive Investigative Units (SIUs). Thai SIU participants receive specialized training and undergo a rigorous vetting process.

Additionally, the United States provides a stream of training and assistance to Thai law enforcement and criminal justice entities on some of Thailand's top priorities, including counternarcotics. Through the U.S.-funded International Law Enforcement Academy and other programs, the U.S. and Thailand are working to enhance regional cooperation to combat transnational crime. The U.S. Joint Interagency Task Force West provides wide-ranging support, including training, equipment, and infrastructure.

Thailand also took part in the U.S.-led Gulf of Thailand Initiative, an ongoing maritime law enforcement capacity building initiative involving Southeast Asian states.

D. Conclusion

The U.S. government enjoys a particularly close and collaborative relationship with Thai law enforcement. The U.S. government has encouraged laws and regulations more closely aligned with international standards, and helped Thailand develop more consistent adherence to rule of law principles. All such activities contribute to the fight against illicit drug trafficking and other transnational crime.

The United States will continue to work with Thailand to build on drug control successes in all phases of the effort, from reducing the demand for illegal drugs to law enforcement cooperation leading to the criminal convictions of drug traffickers. U.S. efforts will continue to: promote greater cooperation between police and prosecutors; promote legal and institutional development related to narcotics control; help Thailand combat corruption; and bolster regional cooperation.

Trinidad and Tobago

A. Introduction

Trinidad and Tobago's location, porous borders, and direct transportation routes to Europe, West Africa, Canada, and the United States make it an ideal location for cocaine and marijuana transshipment. Drug production and use in Trinidad and Tobago (TT) centers on marijuana, but other drugs, including cocaine, heroin, solvents, pharmaceuticals, and ecstasy, are also available.

The Government of Trinidad and Tobago has long struggled to effectively coordinate and adequately fund its counternarcotics efforts. Interdiction efforts are robust and continuing, but overall seizures in 2012 were down from 2011. Treatment efforts for cocaine addiction, including crack cocaine, place a significant burden on rehabilitation facilities. Many state-supported drug prevention and treatment programs must raise additional operating funds from local and international donors. Sustainability, corruption, and gaps in legislative and organizational implementation remain challenges to the country's efforts to curb the trafficking and use of illegal narcotics.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Trinidad and Tobago's drug control institutions continue to be challenged by deficiencies in staffing, organization, funding, and interagency communication. Barriers to interagency communication persist as supply-side operational units only work together on specific cases and do not trust one another due to allegations and rumors of corruption. Operational units are also heavily dependent upon international donors for physical assets such as cars, computers, or tactical equipment that repeatedly go unfunded by government budget streams.

The National Drug Council (NDC) and National Alcohol and Drug Abuse Prevention Programme (NADAPP) received funding increases in TT's 2013 budget. These funds will be used to expand demand reduction programs, public awareness campaigns, and usage studies. Furthermore, the NDC, working closely with the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) and the Canadian High Commission, launched a pilot drug treatment court for chemically dependent offenders in September and plans to open two more pilot courts in the first half of 2013. The NDC is also leading the revision of the National Anti-Drug Plan (2008-2012) of Trinidad and Tobago.

Trinidad and Tobago's mutual legal assistance treaties with the United States, Canada, and United Kingdom remain in force. The United States also maintains a maritime law enforcement agreement, an extradition treaty, and a narcotics control and law enforcement letter of agreement with Trinidad and Tobago. Several pieces of anti-crime legislation progressed on the path to proclamation in 2012, most notably regarding asset forfeiture, electronic monitoring, and the admission of DNA into evidence.

2. Supply Reduction

Marijuana is the only known locally produced illicit narcotic. Producers are small farmers, often families seeking additional income. Crop production may be interspersed among other crops or planted intermittently among dense vegetation in the mountainous regions. There is no average field size or large controlling syndicate, but local producers compete with imports from St. Vincent and the Grenadines, Jamaica, Grenada, and Guyana.

Other illicit substance operations – primarily cocaine, but also small amounts of heroin and ecstasy – are trafficked through the country by international organized crime groups operating in Trinidad and Tobago, exploiting its close proximity to Venezuela and weaknesses at ports of entry. The main destination for these substances is the European market.

Law enforcement entities in Trinidad and Tobago seized 146.3 kilograms (kg) of cocaine and 2.26 metric tons of marijuana in 2012 and made five major seizures at seaports during the year. National seizures and interdictions, however, were down for the year in comparison to 2011, while trends in importation, production, and usage are conjectured to have remained static. The root cause for the decrease in seizures is unknown, but may be attributable to cyclical variations in trafficking methodologies, which commonly result in seizure reductions for a period of time.

Similarly, narcotics prosecutions, convictions, and extraditions continued to remain low relative to the scale of drug trafficking in Trinidad and Tobago. While 4,027 people were arrested for possession and another 468 for trafficking, only 58 small scale traffickers were convicted during the year.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Most information on drug-use trends in Trinidad and Tobago is anecdotal, as empirical evidence on usage trends is limited. The National Alcohol and Drug Abuse Prevention Programme, in cooperation with the National Drug Council, plan to conclude secondary school and prison-based usage surveys in early 2013.

The primary drug used in Trinidad and Tobago is marijuana, with cocaine, including crack cocaine, the second-most frequently used drug. Use of ecstasy, solvents, pharmaceuticals, and heroin has been reported. Rehabilitation providers are particularly concerned by the increasingly younger age of initiation into drug usage and the growing availability of heroin.

The rising price of drugs, specifically of the so-called “black” cigarettes that combine tobacco and marijuana with cocaine, indicates that the middle and upper classes are increasingly involved in recreational drug use. Given the close-knit nature of Trinidad and Tobago society, wealthier or politically affiliated persons would seek or send family members to treatment in Antigua, Barbados, or the United States. On Tobago, the main tourist destination, visitors are partly responsible for the demand.

There are 10 substance abuse residential rehabilitation programs that are publicly and privately supported, providing less than 200 beds for a population of 1.2 million. Only one facility, with

14 beds, specifically addresses the needs of female addicts and their minor dependents. There is no residential rehabilitation program specifically designated for minors, so most are placed in delinquent youth homes operated by religious organizations or receive out-patient treatment. Non-governmental organizations, religious groups, and hospitals also provide treatment options, as well as inpatient, outpatient and prison-based modalities that last from several weeks to two years.

Drug prevention efforts include school education at all levels; training for educators; anti-drug media campaigns; and special event outreach. Outreach programs are performed by the NADAPP in conjunction with rehabilitation facility counselors and members of the police services. The government is working to strengthen its programs with the assistance of OAS/CICAD.

4. Corruption

The Government of Trinidad and Tobago neither encourages nor facilitates illicit production or distribution of drugs nor the laundering of proceeds from the sale of illicit drugs. No charges of drug-related corruption were filed against senior government officials in 2012. Media and anecdotal reports of corruption in the ranks of the Police Service, Defense Force, Customs and Excise Division, and port employees are common.

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

The United States government's regional security partnership, the Caribbean Basin Security Initiative (CBSI), began in 2010 with goals of reducing illicit trafficking, increasing public safety and security, and promoting social justice. Trinidad and Tobago's CBSI programming focuses on law enforcement, military strengthening, youth development, juvenile justice, and demand reduction. In 2012, the United States trained hundreds of military and law enforcement personnel, with specific courses on tactical event management, the use of intercept software for law enforcement intelligence gathering, and canine handler training. Training was also provided to Trinidad and Tobago's Coast Guard to boost maritime law enforcement capacity.

Regional projects are also underway in maritime and aerial domain awareness; law enforcement information-sharing; law enforcement capacity-building; corrections reform; criminal justice reform; preventing financial crimes; demand reduction; and reducing illicit trafficking in firearms.

D. Conclusion

The entities and individuals working to combat narcotics in Trinidad and Tobago face considerable challenges and insufficient support from political leadership. Additional reforms are necessary to expedite case prosecution, revise outdated laws, and establish an evidence-based criminal justice system as fundamental prerequisites for raising conviction rates and deterring traffickers. Insufficient interagency cooperation and information sharing remain concerns. The Government of Trinidad and Tobago should take concrete steps to address these issues in order to improve the country's narcotics control efforts in the coming years.

Turkey

A. Introduction

Turkey remains a significant transit country for illicit drug trafficking. Heroin, opium, and cocaine are generally trafficked through Turkey to European markets, and methamphetamine and amphetamine-type stimulants (ATS) are trafficked to markets in the Middle East and elsewhere in Asia. Large amounts of opiates and precursor chemicals continue to be seized in Turkey, and the Government of Turkey remains committed to upholding its international drug control obligations.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Turkish National Police (TNP) is the country's most proactive counterdrug force and has jurisdiction for drug-related crimes in urban areas. The Jandarma, a branch of the Turkish Armed Forces responsible for rural areas outside the jurisdiction of the TNP, also plays a significant role. TNP intelligence frequently leads to rural areas, in which case the two agencies conduct investigations and seizures together. Turkey's Coast Guard, under the Ministry of Interior, has some counternarcotics responsibilities under, and the Ministry of Customs and Trade's Directorate General of Customs Guards is the Turkish counterpart to the U.S. Drug Enforcement Administration (DEA). The Ministry of Health (MOH) is responsible for issues relating to importation of chemicals for legitimate use. The Ministry of Finance oversees the financial intelligence unit, which investigates potential money laundering activities.

The Turkish International Academy Against Drugs and Crime (TADOC) is an important resource for providing advanced training to law enforcement professionals from within Turkey and across neighboring states. The UN Office on Drugs and Crime (UNODC) sponsors training sessions at TADOC for narcotics police from Central Asia and other states. TADOC also partners with the NATO-Russia Council, the Organization for Security and Cooperation in Europe, the Turkish International Cooperation and Development Agency and other mutual security organizations in the planning and execution of training projects, instructor fellowship exchanges, and workshops throughout the region.

U.S.-Turkey extradition and mutual legal assistance relations are governed by the 1981 U.S.-Turkey extradition and mutual legal assistance treaty.

2. Supply Reduction

Most heroin trafficked via Turkey is marketed in Western Europe, where Turkish-based traffickers control much of the distribution. Turkey also acts as a transit route for opium smuggled overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia en route to Western Europe. Major Turkish smugglers are frequently involved in both heroin sales and transport, as well as limited production and smuggling of synthetic drugs. Some criminal

elements in Turkey reportedly have interests in heroin laboratories operating in Iran near Turkey's border. Heroin increasingly arrives in Turkey as a finished product from Afghanistan. Turkish authorities have stated that no labs have been detected in Turkey since 2008.

Turkey also serves as a transit route for methamphetamine smuggled from Iran and bound for markets in Southeast Asia, as well as ATS originating in Eastern Europe bound for countries in the Middle East. Methamphetamine is more widely available in Turkey, and authorities fear that local addicts will turn to this less expensive drug.

Cocaine arrives from either South America or via trans-shipment locations in West Africa. TNP intelligence indicates most cocaine transported to Turkey is brought via couriers onboard commercial aircrafts. Seizures indicate cocaine is predominantly hidden inside passenger luggage or hidden on persons. Many West African drug smugglers in Turkey have obtained citizenship through marriage with Turkish nationals.

Cannabis, primarily as hashish, enters Turkey through Afghanistan, Lebanon, and Albania, and is primarily for local consumption. Turkey also acts as a transit route for opium smuggled overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia en route to Western Europe. While the Balkan Route into Western Europe remains heavily used, intelligence suggests that traffickers also use a more northerly route through Azerbaijan, Georgia, Russia, and Ukraine.

Turkey and India are the only two licit traditional poppy-growing countries recognized by the United States Government and the International Narcotics Control Board. Opium is produced in Turkey under strict domestic controls and international treaty obligations. The Turkish Grain Board strictly controls licit opium poppy cultivation and pharmaceutical morphine production, with no apparent diversion into the illicit market.

The TNP uses TADOC to train officers on interdiction and investigation techniques to fight trafficking. Border control initiatives and upgrades include the deployment of x-ray machines and ion scanners to Turkey's Eastern borders.

Turkish-based heroin traffickers operate in conjunction with smugglers, laboratory operators, and money launderers who finance and control the smuggling of drugs into Turkey from Afghanistan. Many major drug traffickers in Turkey are ethnic Kurds or Iranians. In recent years, many ethnic Kurdish traffickers have expanded operations to larger cities in Turkey and other countries in Europe. In February 2012, the U.S. Treasury Department sanctioned supporters of the Kurdistan Workers' Party (PKK) who ran significant drug trafficking networks based in Moldova and Romania, and in July, an estimated 1700 Turkish police and soldiers participated in a major crackdown on drug trafficking by the PKK in southeast Turkey.

Drug proceeds are often moved to and through Turkey informally, despite the fact only banks and authorized money transfer companies can legally move money. Money exchange bureaus, jewelry stores, and other businesses believed to be part of the hawala banking system are investigated only if the business is directly tied to an existing drug or other criminal investigation.

Over the first nine months of 2012, Turkish authorities seized slightly over 11.1 metric tons (MT) of heroin, more than twice the total seized in 2011. Seizures of ATS (1,746,000 tablets) increased by approximately 30 percent, and seizures of methamphetamine increased from 70 kilograms (kg) in 2011 to approximately 446 kg in 2012.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Turkish Science Committee for Methods of Drug Addiction is responsible for the national coordination of treatment. Its main tasks are to monitor, accredit and evaluate treatment services. Drug-related treatment is provided mainly by public agencies, private entities and non-governmental organizations and is mainly funded through the state and health insurance.

Most Turkish treatment services for drug abusers are aimed at achieving a drug-free life and dealing with addiction in general and not specifically for users of illicit drugs. These programs include psychotherapeutic and supporting methods, with the majority of drug-related treatment services taking place within inpatient settings.

While abuse remains modest in scale in Turkey compared to other countries, the number of addicts seeking treatment is increasing. The Ministry of Health has responsibility for promoting drug awareness and providing treatment, but it remains under-funded and does not conduct regular, periodic drug abuse surveys.

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 in 2012.

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

The United States works closely with Turkey to offer regional training opportunities to Turkish Law Enforcement officials throughout the country and at the TADOC center to provide additional tools to Turkish officials and their international counterparts. Turkey hosts several international counter drug forums with goals to enhance investigative abilities, cooperation, and relationships between international law enforcement agencies.

D. Conclusion

Turkish law enforcement agencies remain strongly committed to disrupting illicit drug trafficking. The United States will continue to work with Turkish law enforcement agencies to strengthen Turkey's ability to combat drug trafficking, money-laundering, and financial crimes. The United States will also continue to support Turkey's work as a regional leader in counternarcotics training and education.

Turkmenistan

A. Introduction

Turkmenistan is a transshipment route for Afghan opiates destined for 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. Most illegal drug seizures occur along Turkmenistan's rugged and remote 446-mile border with Afghanistan and its 595-mile frontier with Iran.

Counternarcotics efforts continue to be a government policy priority. Although reliable statistics remain difficult to obtain, internal narcotics sales reportedly dropped in 2012 due to a government decision to end the granting of pardons to prisoners previously convicted of drug-related crimes.

Turkmenistan continues its limited cooperation with international organizations and diplomatic missions, but its law enforcement agencies are still hampered by a lack of resources, training and equipment.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Turkmenistan 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, and in some cases, by concealment in the stomach or body cavities of humans and animals. 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 in official settings that combating drug trafficking should be a consistent and uncompromising priority for his administration. Internal narcotics sales have reportedly dropped since President Berdimuhamedov stopped pardoning prisoners previously convicted of drug-related crimes. The price of heroin, opium and marijuana, though generally lower along established drug trafficking routes, continues to be high in the population centers, reflecting decreased supply. The State Counter Narcotics Service of Turkmenistan (SCNS) held a "drug burn" ceremony destroying 635 kilograms (kg) of narcotics in June, an event that coincided with the UN International Day against Drug Abuse and Illicit Trafficking.

In August, the SCNS was renamed the State Service of Turkmenistan for the Protection and Security of a Healthy Society. The government also adopted a law governing the treatment of persons suffering from alcoholism, drug addiction, or dependence on psychoactive substances in

March. The new law reduced the period of compulsory treatment from one-two years to six months.

In May, the SCNS concluded an inter-agency agreement with Iran's Ministry of Internal Affairs. The agreement envisages bilateral cooperation on the control of narcotics, and promotes the exchange of information and other joint activities. The United States does not have a bilateral extradition treaty with Turkmenistan.

2. Supply Reduction

According to official statistics, the total amount of narcotics seized in Turkmenistan over the first six months of 2012 totaled 635 kg. This is on pace to exceed 2011 numbers, the most recent year for which full annual statistics are available, when 747.6 kg were seized. Most seizures appear to be of raw opium. Officials seized over 11.6 metric tons (MT) of "nass" – a smokeless powder produced from dried plant leaves which produces a slight narcotic effect when placed under the tongue – along the Uzbekistan border in August 2012. The substance, which was banned in Turkmenistan in 2009, was hidden in a shipment of cement being sent by rail into Turkmenistan. There is no evidence of synthetic drug production in Turkmenistan, and the government reported no seizures of synthetic drugs in 2012 or 2011.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The Ministry of Health operates six drug treatment clinics and one out-patient facility for drug addicts in Ashgabat, as well as a Psychological and Narcological Hospital in the Ilyaly district of Dashoguz province, and one in each of other four provincial administrative centers. Addicts can receive free de-toxification treatment at these clinics without revealing their identity as clinic visits are kept confidential. Additionally, each of the hospitals has fee-based treatment facilities which cost approximately $10 per day. The only available drug abuse-related statistics are more than six years old. The statistics from this period show that the total number of registered intravenous drug users nearly tripled during this period, to 33,697 official users, most of whom were male.

Citing more recent information, the UNODC office in Ashgabat reported in September 2011 that there were 26,312 registered drug users in Turkmenistan in 2010, down from 28,978 registered users in 2009. Heroin users were reported to constitute the bulk of registered addicts. Government-run facilities provided specialized, inpatient treatment to 16,495 patients. The services offered nationwide by the government included a referral system for specialized services, treatment planning, detoxification, counseling, HIV prevention and testing, and counseling. It is likely that a significant number of drug users are not registered and thus not reflected in these statistics.

In honor of the International Day against Drug Abuse and Illicit Trafficking in June 2012, the United States renewed its "Sport against Drugs" Small Grant Program to assist Turkmenistan's registered sport unions, federations and organizations to implement projects and activities promoting a healthy lifestyle free of narcotics for the country's citizenry. Recipients used the funds to organize sporting events, competitions, shows, workshops and other public activities.

4. Corruption

The Government of Turkmenistan does not encourage or facilitate the illicit production or distribution of narcotics or other controlled substances. Nevertheless, law enforcement officials' low salaries and broad 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 junior officials at border crossing points to facilitate passage of smuggled goods occur frequently. Allegations persist that law enforcement officials are directly linked to the drug trade.

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

In March 2012, the United States launched the sixth round of English Language Training classes for law enforcement officials. Twenty-three officials graduated from the course in September. By expanding English-language competency among Turkmen law enforcement officers, the course increases the potential for international cooperation, including training opportunities and information sharing.

Also in March, the United States organized two, one-week advanced drug enforcement seminars for 24 SCNS officers in Ashgabat and 14 SCNS officers in Turkmenabat. U.S. Drug Enforcement Administration's (DEA) Central Asia Regional Training Team (CARTT) experts resident in Almaty, Kazakhstan conducted the training.

On August 24, the U.S. and Turkmenistan governments signed a modification to the existing bilateral letter of agreement on narcotics control and law enforcement assistance. The modification provides an additional $250,000 to improve the State Counter Narcotics Service's training facility.

D. Conclusion

The Turkmen government has begun to acknowledge openly the country's narcotics trafficking and drug abuse problems. Law enforcement efforts targeting drug cultivation and drug trafficking receives high profile coverage in state-controlled media. The government has conducted public awareness efforts to discourage illegal drug successfully throughout the country. The Turkmen government's efforts to provide drug seizure reports seem to indicate a desire for enhanced cooperation with international donors.

The U.S. government plans to expand counternarcotics law enforcement agency training, in particular with DEA's CARTT. Capacity building will continue to focus on supply reduction through interdiction training, law enforcement institution building, the promotion of regional cooperation, and the exchange of drug-related intelligence. The U.S. government will also encourage the Government of Turkmenistan to intensify long-term demand reduction efforts and to continue its partnership with international organizations such as UNODC and regional bodies such as the Central Asian Regional Information and Coordination Center.

Ukraine

Although Ukraine is not a major drug producing country, its location astride several important drug trafficking routes into Western Europe makes it an important transit country. Ukraine's numerous ports on the Black and Azov seas, its extensive river routes, and its porous northern and eastern borders make Ukraine an attractive route for drug traffickers into the European Union's illegal drug market.

Heroin from Afghanistan is trafficked to Ukraine through routes in Russia, the Caucasus, and Turkey. Latin American cocaine is moved through seaports and airports for both domestic use and further transit to EU countries. Ukrainian law enforcement occasionally seizes large quantities of drugs in commercial shipments transiting southern ports. The largest in 2012 was 38.3 kilograms of cocaine seized in Illichivsk port in a shipment of pineapples. More commonly, drugs are found in small quantities, ranging from several grams to several hundred grams.

The use of synthetic drugs and psychotropic substances, especially amphetamines, has been rapidly increasing in Ukraine over the past decade following the general trend in Europe. Synthetic drugs are trafficked to Ukraine primarily from Poland, Lithuania, and the Netherlands, but they are also produced locally in small clandestine labs.

Most domestic drug abuse continues to be focused, however, on drugs made from regionally grown narcotic plants (hemp and poppy), which account for more than 90 percent of the total drug market in Ukraine. In most instances these drugs are either locally produced or supplied from Russia or Moldova.

The number of registered drug addicts has dropped slightly from 151,786 in 2011 to 147,876 in 2012. However, various experts estimate the total number of actual drug addicts in Ukraine is much higher, between 300,000 and 500,000. As a matter of policy, the Ukrainian government does not promote or condone drug trafficking. However, corruption, including drug related corruption is a significant problem.

The Ukrainian Government continues to implement its five year (2010-15) anti-drug plan, aimed at a "balanced but persistent" policy of prevention, control, and enforcement. In pursuit of this policy, Ukraine works with United States and other international partners as opportunities present themselves.

United Arab Emirates

The United Arab Emirates' (UAE) role as a sea and air transportation hub, in addition to its proximity to Afghanistan, Pakistan, and Iran, has made the country a target for the transshipment of heroin and other narcotics. Increased volumes of drug seizures since 2010 indicate that traffickers may be increasingly utilizing the UAE as a staging point to warehouse, stockpile, and distribute narcotics. There is no evidence of major drug cultivation or production in the UAE.

Between January and early October 2012, UAE authorities interdicted approximately 720 drug smuggling attempts and successfully convicted 1,022 smugglers related to those incidents, according to press reports. This represents a 13-percent increase from a similar period the previous year, resulting primarily from increased bilateral cooperation between the Department of Anti-Narcotics in Dubai and international law enforcement partners as well as awareness campaigns resulting in better collaboration with residents.

The UAE has a zero-tolerance policy towards illegal drug use and drug trafficking is a severe criminal offense. The rate of illegal drug use in the UAE is low by international standards. The most common drug threats are hashish, illegal pharmaceutical drugs, and heroin. Of the pharmaceutical drugs, fenethylline, a methamphetamine-related drug, may be the most widely-available drug in the Persian Gulf. Additionally, a synthetic drug marketed as "spice," targeted to youth drug users has become a growing problem. The UAE banned the drug in May.

The UAE government has made significant commitments of financial and human resources toward building new drug control institutions and conducting counter-narcotics law enforcement operations. The UAE hosts and funds a UN Office on Drug and Crime semi-regional office.

The UAE Government coordinates with the U.S. Drug Enforcement Administration's (DEA) Dubai office to combat drug trafficking organizations based in the UAE and the region. In 2012, this cooperation resulted in the sharing of information on 40 drug couriers and the subsequent arrest of a majority of those suspects. DEA also works with the Dubai police in schools to increase drug awareness. UAE law enforcement officials also coordinate with the Abu Dhabi and Dubai offices of U.S. Homeland Security Investigations to investigate smuggling in the UAE and neighboring countries. These investigations include shipments of contraband in cargo containers and/or by passengers traveling through air, land, and sea borders throughout the region.

United Kingdom

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 sometimes use the UK as a transshipment route. The UK plays an important role in the khat (Catha edulis) trade, serving as the most significant transshipment route to the United States and Canada. More than 90 percent of the heroin sold in the UK originates from Afghanistan and is trafficked through Iran, Pakistan, Turkey, and the Balkans. The UK is an active U.S. partner on counternarcotics efforts worldwide, particularly in Afghanistan, West Africa, and the Caribbean.

Cannabis is the most widely used drug in the UK, followed by cocaine as the second most used drug. Organized criminals often use the proceeds from trafficking in cannabis to fund other illicit activities

The UK has a robust drug-control institutional capability. The UK published a National Security Strategy in 2010 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 be implemented in 2013.

Excellent bilateral cooperation on illicit drug enforcement continues between U.S. and UK authorities. For example, the United States and UK have a memorandum of understanding allowing joint operations from the platforms of UK naval vessels in the Caribbean. Cooperation on extradition and mutual legal assistance in drug-related cases is strong. Additionally, UK and U.S. authorities continue to collaborate in multinational joint operations such as Operation Rubix Cube, which focuses on West African criminal organizations smuggling narcotics to the United States and European Union. The United States has also supported the Metropolitan Police Service with khat trafficking and terrorist financing investigations. UK authorities are actively engaged in cyber-crime enforcement, particularly as it relates to trafficking in counterfeit or gray market pharmaceuticals.

Uruguay

Although Uruguay is not a major narcotics-producing country, foreign drug traffickers take advantage of its strategic maritime location and borders with Argentina and Brazil, using Uruguay as a base for logistics and transit operations. Local consumption of the highly addictive and inexpensive cocaine base product, "pasta base," remains a serious problem. The Uruguayan government proposed controversial legislation in 2012 to legalize the sale of marijuana through government dispensaries. The draft legislation remained pending at year's end.

Uruguay's demand reduction strategy focuses on prevention, rehabilitation, and treatment, and pays special attention to "pasta base." The National Drug Rehabilitation Center trains health care professionals and sponsors teacher training, public outreach, and other programs. The National Anti-Drug Secretariat trains educators to run an anti-drug program for adolescents, and Uruguayan government's interagency treatment and prevention program Portal Amarillo serves addicts seeking help. The National Drug Police (DGRTID) continued to implement Uruguay's 2009-2012 National Plan against Drug Trafficking and Money Laundering, which focused on coordinating interagency efforts to combat drug-related illicit activities.

In national and multi-jurisdictional counternarcotics operations, the DGRTID seized 647 kilograms (kg) of cocaine in 2012. The DGRTID also seized 194 kg of "pasta base," 1.84 metric tons of marijuana, and just under four kg of lidocaine, a chemical precursor often procured inexpensively in Uruguay and smuggled into Brazil to be mixed with pure cocaine.

In May 2012, Uruguay's National Drug Board released the results of a 2011 U.S. government-supported survey, reporting that 8.3 percent of Uruguayans (between the ages of 15 and 65) had used marijuana in the previous twelve months, while 1.9 percent had used cocaine in the previous twelve months. In 2012, U.S. assistance included support to demand reduction programs and operational assistance from the U.S. Drug Enforcement Administration's (DEA) office in Buenos Aires. In September, DEA opened an office in Montevideo. The Uruguayan Navy received training from the United States in maritime law enforcement, port security, search and rescue, container inspections, and canine interdiction units.

The United States and Uruguay are parties to a bilateral extradition treaty (since 1984) and mutual legal assistance treaty (since 1994).

Uzbekistan

A. Introduction

Uzbekistan is a major transit country for heroin, opium and marijuana moving from Afghanistan through Central Asia to markets in Russia and Europe. Uzbekistan shares an 85-mile border with Afghanistan and borders every other Central Asian country. In addition to 134 legal crossing points, Uzbekistan's borders include thousands of miles of rugged terrain that is difficult to police and affords drug traffickers opportunities to enter Uzbekistan's territory undetected. Superior infrastructure relative to its neighbors, difficult to control borders, and corruption have all led to Uzbekistan becoming a transit route for Afghan drugs to international markets.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Uzbek law enforcement agencies continue to develop their counternarcotics capacity with assistance from the United States.

In September 2012, the U.S. Drug Enforcement Administration signed a memorandum of understanding (MOU) with the Ministry of Interior (MOI). This document lays the legal foundation for increasing communication, information sharing, and conducting bilateral law enforcement counterdrug investigations.

In 2012, the United States continued specialized training for Uzbek law enforcement and prosecutors. Training covered anti-money laundering, financial investigations, ethics and anticorruption, and investigation techniques. In 2012, Government of Uzbekistan agencies used U.S.-funded training and equipment in counternarcotics activities. U.S. assistance also provided training and equipment to Uzbek border-control agencies that, as an offshoot to their main objectives, increased drug interdiction capacity.

The United States does not currently have an extradition treaty or mutual legal assistance agreement in place with Uzbekistan.

2. Supply Reduction

The Government of Uzbekistan continues to list combating drug trafficking and associated criminal activity as one of its three major security goals.

Uzbekistan is generally a leader among Central Asian states in seizing illicit narcotics. This reflects the strength of its police, customs, and national security service, bolstered by assistance from the U.S. government and other international organizations such as UNODC, which receives funding from the United States and other donors.

Uzbek officials continue to note that the long, rugged, poorly protected border with Tajikistan, not the 85-mile border with Afghanistan, is their biggest border security concern. To emphasize this, the government-controlled press routinely reports on drug seizures from trains, vehicles, and travelers originating in Tajikistan. Because it does not see membership in regional organizations as beneficial, Uzbekistan is developing its border security policies largely in isolation from other Central Asian countries, which significantly reduces the overall effectiveness. It is, however, a full member of the Central Asian Regional Information and Coordination Center and participates in a number of regional UNODC and European Union projects. Uzbekistan hosts the UNODC Regional Office for Central Asia and provides rent-free premises.

The Uzbek National Center for Drug Control, the coordinating agency for counternarcotics in Uzbekistan, reported that drug seizures over the first nine months of 2012 decreased by 46.5 percent over the same period in 2011, to 2.56 metric tons. Seized drugs consisted of marijuana (48.3 percent), opium (23.8 percent), poppy straw (12.8 percent), heroin (8.0 percent), and hashish (7.1 percent).

Although Uzbekistan is not a significant producer of illegal narcotics, in 2011 over 11,000 Uzbek law enforcement officers carried out the annual countrywide eradication campaign, but eliminated only 2.59 hectares of illicit crops.

Uzbek law enforcement reports that they are seeing Iranian methamphetamine transiting Uzbekistan on its way to Southeast Asian countries.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Official data on drug use is unreliable. In 2011, the Government of Uzbekistan reported 18,179 illegal drug users, a decrease of 3.9 percent. UNODC, however, estimates that there are over 100,000 intravenous drug users in Uzbekistan.

Neighborhood drug education programs, demand reduction, and some treatment programs are available, though they are widely considered to be inadequate. Only recently has drug addiction been treated as a chronic disease, and not as a crime.

In 2012, Uzbekistan turned down a U.S.-proposed and funded Drug Abuse Resistance Education (DARE) pilot project in schools.

4. Corruption

In March 2012, the Organization for Economic Cooperation and Development released its final Anticorruption Network for Eastern Europe and Central Asia Program report. The report commended Uzbekistan for its efforts to raise awareness and educate public officials on corruption, but found little evidence of progress in the criminalization of corruption or increased integrity in the public sector.

As a matter of policy, the Government of Uzbekistan does not encourage or facilitate the production or distribution of illegal narcotics. However, corruption continues to permeate all

levels of government, with either tacit approval of or participation by high government officials. UNODC found that border security continues to be compromised through the regular occurrence of bribes and informal payments at border crossings. In many such cases, officials are being paid to overlook illicit activity rather than to participate in the smuggling process.

In 2012, government media reported the arrests of corrupt government officials. Yet, with very few exceptions, reports highlighted the arrests of administrative personnel rather than law enforcement personnel.

At the request of the Prosecutor General's Office, the United States continued funding its UNODC-implemented anticorruption program in Uzbekistan. The program is focused on developing and strengthening the legal framework in Uzbekistan against corruption.

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

Counternarcotics cooperation between the United States and Uzbekistan continues to grow, paralleling the trajectory of the overall bilateral relationship. The September 2012 MOU signing is a landmark event that provides the legal framework for the bilateral counternarcotics partnership to expand rapidly into areas such as joint investigations, previously severely limited.

Increased capacity through training is one of the cornerstones of Uzbekistan's counternarcotics strategy. The continuing implementation of the DEA Central Asia Regional Training Team in Almaty, Kazakhstan helps to address this priority by providing direct law enforcement and counterdrug training to law enforcement agencies in Uzbekistan and elsewhere in Central Asia. Uzbek officers also participate in the NATO-Russia Council Counternarcotics Training Project.

In 2012, the United States launched a pilot program to address illicit financing and build investigative capacity within the Uzbek Financial Intelligence Unit (FIU) by embedding two Uzbeks FIU officers within a DEA Money Laundering Enforcement Group. The Uzbek FIU is a relatively new division (established in 2006), allowing further investigation of suspicious financial transactions.

D. Conclusion

The completion of the Uzbek Ministry of Interior's MOU with DEA was a landmark event in the growth of bilateral counternarcotics cooperation. The MOU signing highlights the political will of the Government of Uzbekistan to address the challenges of drug trafficking and transit through the country. In the coming year the United States will focus on implementing the operational activities for which the MOU provides a framework.

As training and technical assistance provided by the United States becomes more institutionalized and part of the everyday operations of Uzbek law enforcement, the ability of these agencies to investigate and interdict illicit counternarcotics in Uzbekistan should continue to grow and become self-sustaining.

Venezuela

A. Introduction

In 2012, Venezuela remained a major drug-transit country. Its easily permeated western border with Colombia, weak judicial system, sporadic international counternarcotics cooperation, generally permissive law enforcement, and a corrupt political environment have made Venezuela one of the preferred trafficking routes for cocaine from South America to the Eastern Caribbean, Central America, the United States, western Africa, and Europe.

Limited coca cultivation occurs along Venezuela's border with Colombia. Low-grade marijuana is grown in various parts of Venezuela but is not exported due to its poor quality. Some precursor chemicals are trafficked through the country. According to a 2009 drug-consumption study by the Venezuelan National Anti-Narcotics Office (ONA), illegal drug use remained a problem, with marijuana being the most commonly consumed illicit drug, followed by "crack" cocaine and "basuco" (cocaine paste). Effective prosecution of drug traffickers is hindered by corruption and a lack of judicial independence.

The President of the United States determined in 2012 that Venezuela had failed demonstrably to adhere to its obligations under international counternarcotics agreements, though a waiver allowing for continued assistance was granted in the interests of national security. Bilateral counternarcotics cooperation between Venezuela and the United States is limited. Although a party to the 1988 UN Drug Convention, Venezuela has not signed the addendum to the 1978 bilateral counternarcotics memorandum of understanding (MOU) with the United States that was negotiated in 2005. Additionally, Venezuelan law enforcement lacks the equipment, training, and reach to match the resources and scope of major drug trafficking organizations.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In June, Venezuela introduced a security program, Mission Life for All, which incorporated anti-drug efforts led by the ONA. The program calls for prevention efforts that include sports, music, and educational activities.

Mission Life for All built upon ONA's National Anti-Drug Plan for 2009-2013 which promoted the creation of state and municipal anti-drug offices to implement national policies. The Plan originally proposed the creation of a counternarcotics judicial jurisdiction – composed of specially trained judges and personnel – to expedite prosecution of drug-related offenses, but no implementation of this proposal was apparent in 2012.

The 2010 Organic Law on Drugs replaced the previous Organic Law on Narcotic and Psychotropic Substances and, among other things, increased potential penalties for drug trafficking and gave ONA the authority to seize and use assets of individuals connected with drug trafficking. In 2012, evidence of enforcement of this directive was not made available.

The Venezuelan government has signed bilateral law enforcement agreements with the United States, including a mutual legal assistance treaty that entered into force in March 2004. The U.S. and the Venezuelan governments also signed a customs mutual assistance agreement as well as a 1991 bilateral maritime counterdrug agreement, updated in 1997, that authorizes the United States to board suspect Venezuelan-flagged vessels in international waters with Venezuelan permission. The U.S. and Venezuelan governments also signed a bilateral MOU concerning counternarcotics cooperation in 1978 but, since 2005, Venezuela has not signed an addendum that would extend the agreement.

Venezuela is 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. Venezuela remains an active member of the Inter-American Drug Abuse Control Commission.

The United States and Venezuela are parties to an extradition treaty that entered into force in 1923; however, the treaty has limited application, as the 1999 Venezuelan constitution bars the extradition of Venezuelan nationals. Venezuela periodically deports non-Venezuelan nationals to the United States.

2. Supply Reduction

Venezuela remains a major transit country for cocaine shipments via aerial, terrestrial, and maritime routes. According to a U.S. government estimate, approximately 161 to 212 metric tons (MT) of cocaine likely departed from Venezuela to global destinations in 2011, the same as in 2010. Suspected narcotics trafficking flights depart from Venezuelan states bordering Colombia. Nearly all of the illicit drug flights arriving in Honduras originate from Venezuela. Large cargo containers, fishing vessels, and “go-fast” boats are used to move cocaine out of Venezuela via maritime routes.

The vast majority of illicit narcotics that transited Venezuela during 2012 were destined for the Eastern Caribbean, Central America, the United States, West Africa, and Europe. Colombian drug trafficking organizations, including the Los Rastrojos, the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), facilitate the transshipment of narcotics through Venezuela. Media reports alleged that elements of Venezuela’s security forces directly assisted these organizations and also reported on the presence of Mexican drug trafficking organizations in Venezuela, including the Sinaloa Cartel and Los Zetas.

The Venezuelan government reports drug seizures, arrests, and destruction of drugs and airstrips on an ad hoc basis. It is not a member of the Cooperating Nations Information Exchange System and does not share data or evidence needed to verify seizures or the destruction of illicit drugs. According to Minister of the Interior and Justice Nestor Luis Reverol, who also serves as President of the ONA, Venezuelan authorities seized 45 MT of illegal drugs in 2012, compared to 42 MT in 2011 and 63 MT in 2010. Of the 45 MT figure, cocaine comprised 60.15 percent and marijuana 39.58 percent. The 2011 UN World Drug Report noted that cocaine seizures in Venezuela “peaked at 59 metric tons in 2005, and have fallen to approximately one half that

level since then, amounting to 28 metric tons in 2009." Anecdotal evidence indicates that Venezuelan authorities pad their measurements by including suitcases and equipment in weigh-ins.

The Venezuelan government reported that during 2012, operations "Centinela" and "Boquete Jaque" led to the seizures of drugs, aircraft, and precursor chemicals, as well as the destruction of drug laboratories and clandestine airstrips. According to government agencies, as of September 21, 2012, the Venezuelan government seized 25 aircraft involved in illicit drug trafficking, destroyed 36 clandestine drug trafficking airstrips in the state of Apure, and dismantled 22 drug processing labs. The Venezuelan government reported in 2012 that it performed 7,403 counternarcotics operations and arrested 9,692 suspects in related cases, 220 of whom were foreigners from 23 different countries.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

The use of illegal drugs in Venezuela remained a significant problem in 2012. The 2012 UN World Drug Report noted that cocaine use among adults grew to 0.7 percent in 2011, a small increase from the previous estimate of 0.6 per cent. It also reported that cannabis use grew to 1.7 percent from 0.9 in 2010, and that opioid use was at 0.03 percent.

The Venezuelan government incorporated drug abuse prevention efforts into its new security program, Mission Life for All, in June 2012. The program focuses on the 79 Venezuelan municipalities with the highest crime rates, and in September of 2012, the ONA director for demand reduction announced that ONA would visit 26,000 schools as part of the Mission. The ONA effort is designed to educate students on the dangers and prevent use of alcohol, tobacco, and drugs. In November, Venezuelan officials stated that they funded 697 social prevention programs during 2012. Non-governmental organizations throughout the country offer drug abuse awareness, demand reduction, and treatment programs.

4. Corruption

Public corruption continued to be a major problem in Venezuela and likely bolstered the use of Venezuela by drug trafficking organizations to move and smuggle illegal drugs. As a matter of stated government policy, the Venezuelan government does not encourage or facilitate illegal activity associated with drug trafficking. Senior government officials are, however, believed to have engaged in drug trafficking activity. In 2008, the former Minister of Defense, Henry Rangel Silva, the Vice Minister of Integrated Systems and Penal Investigations; former Director of Military Intelligence, General Hugo Armando Carvajal Barrios; and the former Minister of Interior and Justice, Ramón Emilio Rodríguez Chacín, were designated by the U.S. Treasury Department as having assisted the narcotics trafficking activities of the FARC.

In 2011, the U.S. Treasury Department designated four other senior government officials, including Major General Cliver Antonio Alcalá Cordones and National Assembly Deputy Freddy Alirio Bernal Rosales for acting on behalf of the FARC. The Venezuelan government did not take action against these or other government and military officials known to be linked to the FARC.

The 2010 Organic Law on Drugs imposes penalties, ranging from eight to 18 years in prison, on military and security officials convicted of participating in or facilitating narcotics trafficking. In 2012, however, there was no public information available regarding investigations of senior government officials involved in drug trafficking.

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

The Venezuelan government has maintained only limited, case-by-case counternarcotics cooperation with the United States since the cessation of formal cooperation with the U.S. Drug Enforcement Administration in 2005. Since 2005, the United States has proposed that the Venezuelan government sign an addendum to the 1978 U.S.-Venezuelan bilateral counternarcotics MOU that would allow for expanded cooperation. Venezuelan officials regularly made clear that Venezuela would neither sign a bilateral agreement nor cooperate with the United States on counternarcotics. The Venezuelan government rarely shares information with the United States on money laundering or drug trafficking. Since 2009, when former Interior and Justice Minister El Aissami prohibited police officers from receiving training abroad without the Ministry's prior approval, Venezuelan law enforcement authorities have not participated in U.S.-sponsored counternarcotics training programs.

Bilateral cooperation with the United States in 2012 included of the deportation of Puerto Rican Oscar “Cali” Martínez Hernández to the United States. In 2012, Venezuela detained four Colombian citizens who are wanted by the United States and deported all but one of them to Colombia in November.

The Venezuelan government continued to permit U.S. Coast Guard (USCG) boarding of Venezuelan-flagged vessels suspected of engaging in narcotics trafficking in international waters. During 2012, the Venezuelan government cooperated with the USCG in five maritime drug interdiction cases, compared to three cases in 2011 and nine in 2010. The United States is unaware of the Venezuelan Navy or Coast Guard making any drug seizures independently.

D. Conclusion

In 2012, Venezuela maintained minimal counternarcotics cooperation with Colombia and deported some fugitives to the United States, Colombia, and other countries. As in prior years, the United States remains prepared to deepen cooperation with Venezuela to help counter the increasing flow of cocaine and other illegal drugs transiting Venezuelan territory. Productive cooperation would require a change in Venezuelan government policy, and could be improved through a formal re-engagement between Venezuelan and U.S. law enforcement agencies on counternarcotics issues. One specific avenue for improving the counternarcotics relationship is for Venezuela to sign the addendum to the 1978 MOU. Signature and enforcement of this agreement could allow for joint counternarcotics projects and demand reduction programs. Other areas of cooperation could possibly include counternarcotics and anti-money laundering training programs for law enforcement and other officials. Such training would require the Venezuelan government to permit law enforcement officials to participate in capacity-building programs hosted by other countries.

Better and more transparent cooperation with the United States could also improve Venezuela's port security, and reduce Venezuela's role as a major drug transit country. Port security programs could help Venezuela assess security at its major seaports and develop best practices for enhanced maritime security. Since the last assessment in 2004, the Venezuelan government has denied permission for U.S. officials to return to conduct an updated assessment.

These cooperative activities and actions could increase the exchange of information and ultimately lead to more drug-related arrests, help dismantle organized criminal networks, aid in the prosecution of criminals engaged in narcotics trafficking, and stem the flow of illicit drugs transiting through Venezuela.

Vietnam

Vietnam remains an attractive illicit drug transshipment point for local and international criminal organizations, including West African drug syndicates. Abuse of amphetamine type-stimulants (ATS) appears to be increasing among urban youth. Cultivation and production of illicit narcotics in Vietnam remains limited. Vietnamese law enforcement in the last year detected Vietnamese and foreign nationals smuggling illicit narcotics from China, Laos, and Cambodia through Vietnam and onwards to Australia, Canada, and the United States. In addition to conventional land- and sea-based drug trafficking routes, increasing use of commercial aviation routes has been observed during the first six months of 2012. Official statistics show heroin continues to be the most widely abused drug among users, at 85 percent of all registered cases.

The Government of Vietnam is committed to implementing a comprehensive national drug control policy. The Prime Minister allocated $121 million for drug-control efforts between 2012 and 2015 through a new national target program approved on August 31, 2012. In June 2012, Vietnam ratified the UN Convention against Transnational Organized Crime (UNCTOC). In July, Vietnam's National Assembly passed the Administrative Violations Law which mandates judicial review for admission of drug users to compulsory drug detention and rehabilitation centers (commonly known as "06 Centers") beginning in January 2014.

Between January and August 2012, Vietnam's law enforcement forces detected 14,070 cases of drug trafficking involving 20,576 suspects, a five- to seven- percent increase in activity compared to the same period in 2011. Seizures of illicit narcotics continue to be dominated by heroin, with smaller amounts of opium, cannabis, and ATS.

Vietnam works closely with neighboring countries to carry out interdiction operations, including through newly established border liaison offices on both sides of the Sino-Vietnamese border with support from the UN Office on Drugs and Crime. The United States promotes counternarcotics information sharing and coordination of operations between Vietnam's Ministry of Public Security and the U.S. Drug Enforcement Administration, and also supports capacity building efforts within the Ministry. The United States supports Methadone Maintenance Therapy for over 10,000 drug users, thereby lowering their risk for HIV infection and transmission.

Vietnam also took part in the U.S.-led Gulf of Thailand Initiative, an ongoing maritime law enforcement capacity building initiative involving Southeast Asian states. The United States also provided maritime law enforcement training to the Vietnamese Maritime Police and hosted two Vietnamese officers at a Coast Guard Maritime Law Enforcement Officer course in the United States.

United States Department of State

Bureau for International Narcotics and Law Enforcement Affairs

International Narcotics Control Strategy Report

Volume II

Money Laundering and Financial Crimes

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Table of Contents
Volume II

Common Abbreviations ..... *i*
Legislative Basis for the INCSR *5*
Introduction *6*
Bilateral Activities *7*
Training and Technical Assistance *7*
Board of Governors of the Federal Reserve System *8*
Department of Homeland Security *8*
Homeland Security Investigations *8*
Department of Justice *10*
Drug Enforcement Administration *10*
Federal Bureau of Investigation *11*
Office of Overseas Prosecutorial Development, Assistance and Training; the Asset Forfeiture and Money Laundering Section; and the Counterterrorism Section *12*
Department of State *14*
International Law Enforcement Academies *17*
Department of the Treasury *18*
Financial Crimes Enforcement Network *18*
Internal Revenue Service, Criminal Investigative Division *19*
Office of the Comptroller of the Currency *20*
Office of Technical Assistance *21*
Federal Deposit Insurance Corporation *22*
Treaties, Agreements, and Asset Sharing *22*
Multi-Lateral Organizations & Programs *25*
The Financial Action Task Force and FATF-Style Regional Bodies *25*
The Organization of American States Inter-American Drug Abuse Control Commission Group of Experts to Control Money Laundering *27*
United Nations Global Programme against Money Laundering, Proceeds of Crime, and the Financing of Terrorism *29*
The Egmont Group of Financial Intelligence Units *32*
Major Money Laundering Countries *34*
Countries and Jurisdictions Table *38*
Comparative Table Key *39*
Comparative Table *42*
INCSR Volume II Template Key *52*
Countries/Jurisdictions of Primary Concern *56*
Afghanistan *56*
Antigua and Barbuda *59*
Argentina *61*
Australia *64*
Austria *66*
Bahamas *69*

Belize ***71***
Bolivia ***73***
Brazil ***76***
British Virgin Islands ***78***
Burma ***80***
Canada ***86***
Cayman Islands ***88***
China ***90***
Colombia ***92***
Costa Rica ***96***
Curacao ***99***
Cyprus ***101***
Dominican Republic ***105***
France ***108***
Germany ***110***
Greece ***112***
Guatemala ***115***
Guernsey ***118***
Guinea-Bissau ***120***
Haiti ***122***
Hong Kong ***124***
India ***126***
Indonesia ***129***
Iran ***131***
Iraq ***135***
Isle of Man ***137***
Israel ***139***
Italy ***141***
Japan ***143***
Jersey ***145***
Kenya ***148***
Latvia ***151***
Lebanon ***153***
Liechtenstein ***156***
Luxembourg ***158***
Macau ***160***
Mexico ***162***
Netherlands ***164***
Nigeria ***167***
Pakistan ***169***
Panama ***171***
Paraguay ***174***
Philippines ***177***
Russia ***180***
Singapore ***183***
Somalia ***185***
Spain ***188***
St. Maarten ***191***
Switzerland ***193***
Taiwan ***195***
Thailand ***197***
Turkey ***199***
Ukraine ***202***
United Arab Emirates ***204***
United Kingdom ***207***
Uruguay ***208***
Venezuela ***211***

Zimbabwe ***213***

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
FTZ	Free Trade Zone
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
HSI	Homeland Security Investigations
IBC	International Business Company
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
MVTS	Money Value Transfer Service
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
PEP	Politically Exposed Person
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TTU	Trade Transparency Unit

UNCAC	United Nations Convention against Corruption
UN Drug Convention	1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution
UNTOC	United Nations Convention against Transnational Organized Crime
USAID	United States 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 2013 INCSR is the 30th 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" ("1988 UN Drug Convention") (FAA § 489(a)(1)(A)).

Although the 1988 UN Drug 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 2013 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 also is 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

[1] The 2013 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 2013 report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. Specifically, the U.S. Treasury Department's Financial Crimes Enforcement Network, which, as a member of the international Egmont Group of Financial Intelligence Units, has unique strategic and tactical perspective on international anti-money laundering developments. Many other agencies also provided information on international training as well as technical and other assistance, including the following: Department of Homeland Security's Homeland Security Investigations; Department of Justice's Asset Forfeiture and Money Laundering Section of Justice's Criminal Division, Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development Assistance; and, Treasury's 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.

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. Additionally, money laundering activity has moved beyond banks and traditional financial institutions to other non-financial businesses and professions and alternative money and value transfer systems. This year's list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions whose financial institutions and/or non-financial businesses and professions or other value transfer systems 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 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 and/or sophistication 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 2012:

Afghanistan, Antigua and Barbuda, Argentina, Australia, Austria, Bahamas, Belize, Bolivia, Brazil, British Virgin Islands, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Curacao, 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, St. Maarten, 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/jurisdictions, as required by section 489 of the FAA.

Introduction

The *2013 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 it has 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. 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 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 2012, U. S. Government personnel continued to leverage 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. The United Nations Office on Drugs and Crime estimates $1.6 trillion or 2.7 percent of global Gross Domestic Product was laundered in 2009. It is believed financial flows related to drug trafficking and other related transnational organized crime were approximately $580 billion. 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 among illegal activities that generate considerable proceeds, transnational criminal organizations, 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, as reflected in this report, is vital to countering these threats. Political stability, democracy and free markets depend on solvent, stable, and honest financial, commercial, and trade systems. The Department of State's Bureau for 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 2012, 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, supervisors, prosecutors and the judiciary 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.

Board of Governors of the Federal Reserve System

An important component in the United States' efforts to combat and deter money laundering and terrorist financing is to verify that supervised financial organizations comply with the U.S. anti-money laundering/counter-terrorist financing (AML/CFT) laws and regulations and have programs in place to comply with the Office of Foreign Assets Control's sanctions programs. The Federal Reserve Board (FRB) monitors its supervised domestic financial institutions and organizations for compliance with these elements.

Internationally, during 2012, the FRB conducted training and provided technical assistance to banking supervisors in AML/CFT tactics during a seminar in Washington, D.C. Countries participating in this FRB initiative were Bangladesh, Czech Republic, Ghana, Haiti, Hong Kong, Italy, Kuwait, Malaysia, Nigeria, Philippines, Russia, Slovakia, and South Korea.

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 and the Basel Committee on Banking Supervision's AML Expert Group. Staff also meets frequently with industry groups and foreign supervisors to communicate U.S. supervisory expectations and support industry best practices in this area.

Department of Homeland Security

Homeland Security Investigations

During Fiscal Year 2012, 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 Illicit Finance and Proceeds of Crime Unit conducted and/or participated in training provided to over 1,874 members of foreign law enforcement, regulatory agencies, and bank and trade officials from over 100 nations around the world. Utilizing their broad experience and expertise in conducting international financial investigations, HSI designed the training to provide the attendees with the critical skills necessary to successfully identify and investigate financial crimes. The programs included such topics as an introduction to money laundering, investigating bulk cash smuggling, asset forfeiture, an overview of unlicensed money services business/informal value transfer systems, prepaid access devices, and interviewing techniques.

Cross Border Financial Investigations Training Seminar

The Cross Border Financial Investigation Training (CBFIT) program provides specialized training, technical assistance, and best practices related to cross-border financial investigations to foreign law enforcement personnel, intelligence and administrative agencies, and judicial authorities.

CBFIT provides foreign partners with the capability to implement international standards, with special emphasis on new technologies, dissuasive actions, competent authorities, international cooperation, alternative remittance, and cash couriers.

Using primarily U.S. Department of State Bureau for International Narcotics and Law Enforcement Affairs (INL) funding, HSI provided blocks of training detailing the various aspects of money laundering and sharing of best practices on how to initiate multi-jurisdictional investigations from interdiction incidents. These countries included: Afghanistan, Bolivia, Brazil, Colombia, Dominican Republic, Egypt, Ethiopia, Indonesia, Mexico, Morocco, Panama, Paraguay, Peru, and Saudi Arabia, among others.

Through the U.S. Department of State's International Law Enforcement Academy (ILEA) programs, HSI conducted financial investigations and anti-money laundering training programs at various ILEA Training Centers.

Resident Cross Border Financial Investigations Advisor

HSI Special Agents and Intelligence Analysts have been deployed for extended periods of time to foreign posts to serve as Resident Cross Border Financial Investigations Advisors (R/CBFIA). The R/CBFIA acts as the point of contact to host nation authorities for the coordination of training sessions. Once training is completed, the R/CBFIA remains available for in–person and/or telephone mentoring of host nation partners related to incidents involving the interdiction of currency or other financial instruments. In 2012, R/CBFIAs were deployed to Afghanistan, Argentina, Malaysia, Morocco, Pakistan, Panama, Paraguay, and the Philippines.

Trade Transparency Units

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 also have 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 support from the U.S. Department of State's INL, HSI continues to expand the network of operational TTUs which now include: Argentina, Brazil, Colombia, Ecuador, Guatemala, Mexico, Panama, and Paraguay. As part of the TTU initiative, HSI provided equipment and increased operational support to these TTU partners to ensure the network's successful development.

In 2012, HSI updated the technical capabilities of existing TTUs and trained TTU and financial intelligence unit personnel from Brazil, Colombia, Ecuador, Guatemala, Mexico, Panama, and Paraguay. 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 U.S. and foreign TTUs, increased their effectiveness and enhanced joint criminal investigations.

Department of Justice

Drug Enforcement Administration

The Drug Enforcement Administration's (DEA's) Office of Financial Operations (FO) provides expert guidance to DEA's domestic and foreign offices, as well as international law enforcement agencies, on issues relating to all aspects of financial investigations. FO works in conjunction with DEA offices, foreign counterparts and other agencies to effectively identify the financial infrastructure supporting drug trafficking organizations and provide its financial expertise to fully dismantle and disrupt all aspects of these criminal organizations. Additionally, FO facilitates cooperation among countries, resulting in the identification and prosecution of drug money laundering organizations as well as the seizure of assets and denial of revenue. FO regularly briefs and educates United States diplomats, foreign governmental officials, and military and law enforcement counterparts regarding the latest trends in money laundering, narco-terrorism financing, international banking, offshore corporations, international wire transfers of funds, and financial investigations.

During 2012, FO conducted numerous international seminars for hundreds of foreign law enforcement and military counterparts to strategize regarding effective techniques to be utilized in financial investigations. Some of the foreign officials briefed by FO include representatives from Bulgaria, Colombia, Hong Kong, Italy, Kazakhstan, Macau, Mexico, Nigeria, Peru, Russia, Saudi Arabia, Tajikistan, Turkey and the United Kingdom. Additionally, FO briefed Ambassadors from Costa Rica and Malaysia. During 2012, FO conducted seminars in Costa Rica, Mexico, the Philippines, Trinidad and Tobago, Turkey, and Uruguay. FO also hosted an International Money Laundering Symposium in Ft. Lauderdale, Florida. This symposium was attended by over 120 law enforcement money laundering investigators from 32 countries. These investigators discussed the money laundering trends they were observing in their jurisdictions and effective law enforcement techniques to counter these trends. There were also several presentations

concerning emerging money laundering trends being used by criminal organizations around the world.

Federal Bureau of Investigation

During 2012, with the assistance of Department of State funding, the Federal Bureau of Investigation (FBI) continued extensive international training in combating terrorist financing, money laundering, financial fraud and complex financial crimes, as well as training in conducting racketeering enterprise investigations. One such training program is the FBI's International Training and Assistance Unit (ITAU), located at the FBI Academy in Quantico, Virginia. ITAU coordinates with the Terrorist Financing and Operations Section 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 2012, the FBI delivered training to 237 students from 15 countries at ILEA Budapest. At ILEA Bangkok, the FBI provided training to 50 students from nine countries in the Supervisory Criminal Investigators Course. At ILEA Gaborone, the FBI provided training to 164 students from 19 African countries. At ILEA San Salvador, the FBI provided training to 144 students from 19 Latin American countries.

Also in 2012, the FBI and the Internal Revenue Service, Criminal Investigative Division, conducted a one-week course on combating terrorist financing and money laundering for 364 international students from Brazil, Indonesia, Iraq, Jordan, Kenya, Morocco, Paraguay, Qatar, and Turkey.

At the FBI Academy, the FBI included blocks of instruction on combating terrorist financing and/or money laundering for 36 students participating in the Latin American Law Enforcement Executive Development Seminar; the students were from Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Panama, and Spain. The FBI included similar blocks of instruction for 23 students participating in the Arabic Language Law Enforcement Executive Development Seminar; the students were from Bahrain, Egypt, Jordon, Kuwait, Lebanon, Libya, Morocco, Palestinian Authority, Saudi Arabia, Tunisia, the United Arab Emirates, and Yemen. In addition, the FBI trained 35 Saudi Arabian students who participated in the first session of the Saudi Arabia Law Enforcement Executive Development Seminar held at the FBI Academy.

In addition, as part of the FBI's Pacific Training Initiative, the FBI included terrorist financing instruction for 50 participants from Cambodia, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, and Thailand.

Office of Overseas Prosecutorial Development, Assistance and Training; the Asset Forfeiture and Money Laundering Section; and the Counterterrorism Section

Office of Overseas Prosecutorial Development, Assistance and Training's (OPDAT) Training and Technical Assistance Program

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 the Department of Justice (DOJ), including the Criminal Division's Asset Forfeiture and Money Laundering Section (AFMLS), the National Security Division's Counterterrorism Section (CTS), and U.S. Attorney's Offices to train and advise foreign AML/CFT partners. The training and technical assistance provided by OPDAT is funded through the U.S. Department of State, 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 work directly with counterparts in legal and law enforcement agencies to provide in-country technical assistance to improve capacity, efficiency, and professionalism within foreign criminal justice systems. To promote reforms within the criminal justice sector, RLAs provide assistance in legislative drafting; modernizing institutional structures, policies and practices; and training law enforcement personnel, including prosecutors, judges, and – in collaboration with DOJ's International Criminal Investigative Training Assistance Program (ICITAP) – police and other investigative officials. OPDAT often works with other donors and multilateral organizations as well.

In 2012, OPDAT, AFMLS, and CTS met with and provided presentations to more than 150 international visitors from more than 17 countries on AML and/or CFT topics. Presentations covered U.S. policies to combat terrorism, U.S. legislation and 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.

Anti-Money Laundering/Asset Forfeiture/Fraud

In 2012, OPDAT and AFMLS provided assistance in drafting AML statutes compliant with international standards and provided training to foreign judges, prosecutors, and law enforcement officials; legislators; customs, supervisory, and financial intelligence unit personnel; and private sector participants. The content of individual technical assistance programs varied depending on the participants' specific needs, but topics addressed in 2012 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; real estate fraud; and international mutual legal assistance.

AFMLS experts participated in a variety of conferences and seminars around the world including in Brazil, China, Malaysia, Taiwan, the United Arab Emirates (UAE) and Vietnam. Of note, OPDAT and AFMLS delivered an AML and asset forfeiture training program for an interagency audience of Pakistani government officials in Dubai, UAE. The program focused on identifying, investigating and prosecuting money laundering crimes and managing seized assets. AFMLS was instrumental in designing a core financial investigation and asset recovery program tailored to Pakistan's law and practice.

AFMLS, an RLA, and co-organizer the People's Republic of China (PRC) Ministry of Justice, conducted an Asset Recovery Workshop focusing on non-conviction based forfeiture in Beijing, PRC, for approximately 100 participants. The workshop provided the PRC attendees, in particular officials from its legislative committee, an understanding of the operation of a civil forfeiture system, setting the foundation for PRC-requested U.S. assistance on its drafting of proposed domestic civil forfeiture legislation.

In 2012, OPDAT, often in conjunction with other DOJ entities, hosted a number of U.S.-based programs and seminars on international law enforcement cooperation and judicial capacity. An example is AFMLS' participation in a judicial money laundering seminar organized by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), and attended by judges from Superior Courts of common law jurisdictions in West Africa. The seminar was targeted at those at the highest level of decision making in their jurisdictions, and aimed to improve the skills and knowledge of judges concerning economic and financial crimes.

Other 2012 international initiatives include seminars on corruption investigation and prosecution for members of Pakistan's National Accountability Bureau (NAB) in Islamabad, Lahore, and Karachi, Pakistan. The primary goal of the program was to demonstrate the interagency task force approach to the investigation and prosecution of public corruption.

Terrorism/Terrorist Financing

OPDAT, drawing on the expertise and assistance of other DOJ components, plays 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, AFMLS, and CTS work as integral parts of the U.S. Interagency Terrorist Financing Working Group (TFWG), chaired by the State Department.

In 2012, the TFWG supported five RLAs, located in Bangladesh, Iraq, Kenya, Turkey, and the UAE. The RLA for the UAE is responsible for OPDAT program activities in the UAE, Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, and Yemen. Working in countries deemed to be vulnerable to terrorist financing, RLAs focus on money

laundering and financial crimes and developing counter-terrorism legislation that comports with international standards. The RLAs implement these programs by providing training, assistance in legislative drafting, and support for the countries' AML/CFT efforts.

Some highlights of the RLAs' efforts in 2012 include an AML roundtable in Kenya and assistance to the Government of Kenya on the development of landmark counter-terrorism legislation; and assistance to the Government of Bangladesh on the development of key AML/CFT laws. Additionally, OPDAT organized workshops and seminars for the Turkish Ministry of Justice's Justice Academy, National Police and Financial Crimes Investigation Board on combating terror financing and prosecutorial approaches/tools to fighting terrorism. The programs presented the participants with investigative tools and techniques with the aim of increasing their capacity to disrupt, dismantle, and prosecute terror financing schemes.

Additional OPDAT conferences were held in Bangladesh, Indonesia, Jordan, the Philippines, and the UAE.

Department of State

The U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) Office of Anti-Crime Programs 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 agencies, the INL Office of Anti-Crime Programs addresses a broad cross-section of law enforcement and criminal justice sector areas including: counter-narcotics; drug demand reduction; money laundering; financial crime; terrorist financing; transnational crime; smuggling of goods; illegal migration; trafficking in persons; border controls; document security; corruption; cybercrime; intellectual property rights; police academy development; and assistance to law enforcement, judiciaries and prosecutors.

INL and the State Department's Bureau for Counterterrorism 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 2012, 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 2012 a variety of law enforcement, regulatory and criminal justice programs worldwide. This integrated approach includes assistance with the drafting of legislation and regulations

that comport with international standards; the training of law enforcement, the judiciary and financial sector 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 anti-money laundering/counter-terrorist financing (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 AML/CFT 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' Homeland Security Investigations and the Department of Treasury, supports eight trade transparency units (TTUs) in Latin America: three in the tri-border area of Brazil, Argentina, and Paraguay, and others in Colombia, Ecuador, Guatemala, Mexico, and Panama. TTUs, designed to help identify significant disparities in import and export trade documentation, 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 fosters the sharing of disparities in trade data between countries and is 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 financing.

The continuing and well publicized problems with narcotics and money laundering in the western hemisphere have caused us to focus on those jurisdictions closest to us through the Central American Regional Security Initiative and the Caribbean Basin Security Initiative. These programs provide support for law enforcement and supervisory initiatives in Central American and Caribbean jurisdictions.

West Africa is facing a growing danger from transnational organized crime (TOC), particularly narcotics traffickers, whose activities threaten the collective security and regional stability interests of the United States, our African partners, and the international community. Money laundering and financial crimes are particular concerns as the proceeds from TOC flow back to organizations that move illicit drugs to America and fuel corruption by government officials. To combat this threat, INL, working closely with the regional Africa Bureau, has spearheaded the West Africa Cooperative Security Initiative (WACSI), a whole-of-government approach towards fighting TOC. With its programming and through coordination with African and international partners, WACSI

works to build accountable institutions; establish legal and policy frameworks to counter TOC; strengthen security operations; reinforce justice operations; and address the socio-economic causes and consequences of TOC.

INL also provided support to the UN Global Programme against Money Laundering (GPML) in 2012. In addition to sponsoring money laundering conferences and providing short-term training courses, GPML's mentoring program provides 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 and have focused on providing support to regional asset recovery networks in South Africa and South America as well as promoting the establishment of similar asset forfeiture support networks in West Africa and the Asia Pacific region. The resident mentor based in South Africa 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.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2012, INL supported The Financial Action Task Force (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 with the U.S. Department of the Treasury and DOJ, INL is a financial supporter of FATF-style regional bodies' secretariats and training programs, including the Council of Europe's MONEYVAL, the Caribbean Financial Action Task Force, the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), and the Eastern and Southern Africa Anti-Money Laundering Group. 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. OAS/CICAD has focused successfully on improving the capacity of investigators, prosecutors and judges throughout Latin America through its mock investigation and trial workshops and its confiscated criminal assets management programs.

INL supported anti-piracy efforts by substantively working with other bureaus within DOS, GPML, other 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 supervisory authorities to design and provide training and technical assistance to countries with the political will to develop viable AML/CFT 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, and Eastern Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including assistance to the International Law Enforcement Academies.

International Law Enforcement Academies

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 among American law enforcement agencies and their counterparts around the world.

Since the first ILEA opened in 1995, the program has grown to five academies worldwide, and has provided training to over 42,000 students from countries in Africa, Europe, Asia, and across Latin America. ILEAs offer three different types of programs to address global threats: a core program; specialized courses; and seminars and workshops. The core program is a six-week intensive professional development program, the Law Enforcement Leadership Development (LELD) program, designed for mid-level law enforcement practitioners, and is tailored to region-specific needs and emerging global threats. The core program typically includes 50 participants, normally from three or more countries. The specialized courses, comprised of about 30 participants, are one or two-week courses for law enforcement or criminal justice officials on a specific topic. Lastly, regional seminars or workshops present various emerging law enforcement topics such as transnational crimes, financial crimes, and counter-terrorism.

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 coordinates with the Departments of Justice, Homeland Security and Treasury, and with foreign government counterparts to implement the ILEA programs.

Africa. ILEA Gaborone (Botswana) opened in 2001. ILEA Gaborone delivers four LELD programs annually and 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 anti-corruption, financial crimes, border security, drug enforcement, firearms, explosives, and wildlife investigation. ILEA Gaborone provided training to approximately 740 students in 2012.

Asia. ILEA Bangkok (Thailand) opened in 1999, and focuses on enhancing regional cooperation against transnational crime threats in Southeast Asia. Courses focus on combating illicit drug

trafficking, terrorist financing and financial crimes, illicit wildlife trafficking, environmental crimes, and human trafficking. Each year, ILEA Bangkok provides one LELD program and specialized courses on a variety of criminal justice topics. ILEA Bangkok trained approximately 1,330 students in 2012.

Europe. ILEA Budapest (Hungary) was the first ILEA, established in 1995. ILEA Budapest delivers five LELD programs annually and also offers specialized courses on regional threats such as organized crime, environmental crime, terrorist financing and financial crimes, and cybercrime. ILEA Budapest trained approximately 1,100 students in 2012.

Global. ILEA Roswell (New Mexico) opened in September 2001. ILEA Roswell provides the tools necessary to enable partner countries to formulate and execute effective and responsible criminal justice public policy. Unlike other ILEAs, ILEA Roswell draws its recruits from graduates of regional Academies in Budapest, Bangkok, Gaborone, San Salvador and the ILEA Regional Training Center (RTC) in Lima, Peru. ILEA Roswell trained approximately 60 students in 2012.

Latin America. ILEA San Salvador (El Salvador) opened in 2005. ILEA San Salvador delivers four LELD programs annually and also offers specialized courses on regional threats as well as specialized courses for police, prosecutors, and judicial officials. ILEA San Salvador courses concentrate on anti-gang programs, international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing and financial crimes. ILEA San Salvador trained approximately 1,170 students in 2012.

The **ILEA Regional Training Center** in Lima (Peru) opened in 2007 to complement the mission of ILEA San Salvador. The RTC 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 trained approximately 340 students in 2012.

Department of the Treasury

Financial Crimes Enforcement Network

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 2012, FinCEN hosted representatives from a variety of foreign government agencies, focusing on topics such as money laundering trends and patterns, U.S. anti-money laundering legislation, 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 it is co-sponsoring for membership in the Egmont Group of FIUs. The Egmont Group is comprised of FIUs that agree to share financial intelligence, and has become a key standard-setting body for FIUs. FinCEN is currently co-sponsoring FIUs from eight jurisdictions for Egmont Group membership: China, Dominican Republic, Ghana, Kuwait, Oman, Pakistan, Tanzania, and Yemen. As a member of the Egmont Group, FinCEN also works multilaterally through its participation in the Egmont Training Working Group to design, implement, and instruct Egmont-sponsored training programs for Egmont Group members as well as Egmont candidate FIUs.

FinCEN regularly engages with foreign FIUs 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 2012, FinCEN conducted orientation sessions for the FIUs of Algeria and Tanzania as well as analyst exchanges with the FIUs of Azerbaijan, India, Indonesia, Kazakhstan, Nigeria, Pakistan, Qatar, Saudi Arabia, South Africa, and Thailand.

Internal Revenue Service, Criminal Investigative Division

For calendar year 2012, the Internal Revenue Service, Criminal Investigation (IRS-CI) continued international training and technical assistance efforts designed to assist international law enforcement officers in detecting tax, money laundering, and terrorist financing crimes. With funding provided by the U.S. Department of State and other sources, IRS-CI delivered training through agency and multi-agency technical assistance programs to international law enforcement agencies. Training consisted of Basic and Intermediate Financial Investigative Techniques, Money Laundering, Public Corruption, Special Investigative Techniques, Bribery Awareness and Terrorist Financing.

Financial Investigative Techniques Training

IRS-CI conducted Financial Investigative Techniques (FIT) courses funded by an interagency agreement between the Department of State and IRS-CI in Algeria, Bosnia and Herzegovina, Cambodia, Egypt, Honduras, Hong Kong, Hungary, Indonesia, Mexico, Montenegro, Nigeria, Singapore, South Korea, and Thailand.

Other Training Initiatives

IRS-CI delivered multiple training programs that were funded through various sources. Bribery Awareness/Money Laundering training was conducted in cooperation with the Organization for Economic Cooperation and Development. Sessions were held in Korea, Mexico, South Africa, and Turkey. IRS-CI assisted the Department of Justice Office of Overseas Prosecutorial Development, Assistance and Training in delivering training to Mexican government officials on the topics of Financial Intelligence Analysis in Money Laundering Investigations. The Transnational Crimes Affairs Section sponsored a one week Fraud and Public Corruption course that was delivered to 46 participants. This curriculum included an extensive case study which stressed the numerous methods of bribery and corruption.

IRS-CI also assisted the Federal Bureau of Investigation in delivering Terrorist Financing/Money Laundering sessions to over 256 law enforcement officials in Indonesia, Jordan, Kenya, Morocco, Paraguay, Qatar, and Thailand.

International Law Enforcement Academy Training

IRS-CI provided instructor support at the International Law Enforcement Academies (ILEA) located in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; San Salvador, El Salvador; and the satellite office in Lima, Peru.

ILEA Bangkok: IRS-CI participated in one Supervisory Criminal Investigator Course which included 49 law enforcement officials from eight countries. A one-week Fraud and Public Corruption course was presented to 41 participants from nine countries. A FIT course was presented to 49 students from Cambodia, China, Hong Kong, Indonesia, Korea, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

ILEA Budapest: IRS-CI participated in delivering five sessions of the ILEA core program. Participating countries include: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, and Ukraine. A FIT course was presented to 29 law enforcement officials from Georgia, Moldova, and Serbia.

ILEA Gaborone: IRS-CI provided instructor support for four Law Enforcement Executive Development programs. Countries participating were Benin, Botswana, Burkina Faso, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Mauritius, Namibia, Nigeria, South Africa, Seychelles, Swaziland, Tanzania, Togo, Uganda, and Zambia.

ILEA San Salvador: IRS-CI assisted in the delivery of four sessions of the Law Enforcement Management Development Program (LEMDP). LEMDP stresses the importance of conducting a financial investigation to further develop a large scale criminal investigation. Participants from Antigua and Barbuda, Argentina, Bahamas, Belize, Colombia, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, Jamaica, Panama, St. Kitts and Nevis, St. Vincent and the Grenadines, and Uruguay attended. IRS-CI also led two week-long FIT courses. One session was held at the El Salvador training facility and the other in Lima, Peru. The 78 participants were members of their respective national police agencies and prosecutors' offices. The FIT course provided an overview of global and regional investigative issues using a highly interactive simulated investigation.

Non-routine Training Events

IRS-CI completed several non-routine training events including sessions in Barbados, Cambodia, and Lithuania. IRS-CI personnel also served as guest instructors for foreign law enforcement training sessions at the Canadian financial intelligence unit. Training needs assessments were completed in China, Honduras and Nigeria.

Office of the Comptroller of the Currency

The U.S. Department of Treasury's Office of the Comptroller of the Currency (OCC) charters, regulates and supervises all national banks and federal savings associations in the U.S. Its goal is to ensure these institutions operate in a safe and sound manner and comply with all consumer protection and anti-money laundering laws and implementing regulations. In 2012, the OCC sponsored several initiatives to provide anti-money laundering/counter-financing of terrorism (AML/CFT) training to foreign banking supervisors. These initiatives include its annual AML/CFT School, which is designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing typologies and improve their ability to examine for and enforce compliance with national laws. The 2012 school was attended by foreign supervisors from Australia, Brazil, Canada, China, Columbia, Ghana, India, Indonesia, Netherlands, Philippines, Singapore, South Korea, and Turkey. The OCC also conducted an AML/CFT School for the Association of Banking Supervisors of the Americas in San Salvador, El Salvador. The school was attended by foreign supervisors from Brazil, Chile, Columbia, Costa

Rica, the Dominican Republic, El Salvador, Honduras, Mexico, Nicaragua and Panama. In addition to organizing and conducting schools, OCC officials also met individually, both in the U.S. and overseas, with representatives from foreign law enforcement authorities, financial intelligence units and AML/CFT supervisory agencies to discuss the U.S. AML/CFT regime, the agencies' risk-based approach to AML/CFT supervision, examination techniques and procedures, and enforcement actions.

The OCC continued its industry outreach efforts to the international banking community during 2012 by participating with other federal banking agencies in regulator panels at the Association of Certified Anti-Money Laundering Specialists' 11th Annual International Anti-Money Laundering Conference. The focus of the regulator panels was keeping pace with global regulatory changes.

The OCC also participated in a series of Financial Action Task Force (FATF) working group and plenary meetings held in February, June, and October 2012, as well as the Basel Committee on Banking Supervision Anti-Money Laundering Expert Group. On an ad hoc basis, OCC meets with delegations from various countries to discuss the U.S. AML regime and approach to conducting supervisory examinations. In 2012, OCC met with a delegation from China and Columbia.

Office of Technical Assistance

OTA is part of the Treasury Department and is comprised of five subject-matter teams focused on technical assistance to governments to promote financial sector development. OTA receives direct appropriations funding from the U.S. Congress. Additional funding sources include the U.S. State Department, Bureau of International Narcotics and Law Enforcement Affairs; the U.S. Agency for International Development; U.S. embassies; and the Millennium Challenge Corporation, among others.

The mission of the Economic Crimes Team (ECT) is to provide technical assistance in the development of anti-money laundering/counter-terrorist financing (AML/CFT) regimes. In that context, the ECT also addresses other financial and predicate crimes, including corruption and organized crime. The ECT mission entails a comprehensive approach to technical assistance, and its engagements are predicated on express requests by foreign government counterparts. ECT management conducts an on-site assessment of the jurisdiction, to consider not only non-compliance with international standards and the corresponding need for technical assistance, but also willingness by the counterpart to engage in a partnership with the ECT to address those deficiencies.

An ECT engagement, tailored to the specific conditions of the jurisdiction, may involve placement of a resident advisor (RA) or utilize intermittent advisors, under the coordination of a team leader. The nature of ECT technical assistance is broad and can include awareness-raising aimed at the full range of AML/CFT stakeholders and efforts to improve the legal framework and/or the technical competence of stakeholders. The range of training provided by the ECT is equally broad and includes financial investigative techniques; forensic accounting; financial analytic techniques; cross-border currency movement and trade-based money laundering; supervisory techniques; electronic evidence collection; the use of interagency task forces; and measures to address corruption as well as organized crime.

In 2012, the ECT delivered technical assistance programs in 23 jurisdictions. In the Western Hemisphere, the ECT operated RA programs in Costa Rica, Guatemala, and Honduras, as well as

intermittent advisor programs in El Salvador, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago. Highlights for 2012 include an ongoing regional initiative in Central America aimed at cross border movements; a regional law enforcement working group; designated non-financial businesses and professions; money laundering prosecutions; asset management; and AML supervision in the insurance, securities and pension sectors. The ECT also laid the groundwork for program expansion in the Eastern Caribbean in 2013.

In Africa and the Middle East in 2012, the ECT operated RA programs in Botswana, Iraq, Morocco, the Palestinian Authority and Saudi Arabia, as well as an intermittent advisor program in Ghana. Program highlights include support for the development of financial intelligence units in each of those jurisdictions. In Iraq, the ECT program focused its partnership on the Iraqi Commission on Integrity and the interplay among corruption, money laundering and asset recovery.

Likewise, in Europe and Asia in 2012, the ECT operated RA programs in Afghanistan, Kosovo and the Mekong Region (Cambodia and Vietnam) and intermittent programs in Armenia, Azerbaijan, Georgia, Moldova and Turkmenistan. Particular attention was focused on financial analytical and investigative skills development.

Federal Deposit Insurance Corporation

In 2012, 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/counter-financing of terrorism (AML/CFT) training sessions for 68 representatives from Bahrain, Bangladesh, Djibouti, Ethiopia, India, Indonesia, Kuwait, Malaysia, Niger, Oman, Philippines, Qatar, Thailand, and Yemen. The training addressed current trends and methodologies, the AML examination process, suspicious activity monitoring, customer due diligence, and foreign correspondent banking risks and controls

During the year, the FDIC met with six representatives from the Financial Monitoring Service of Azerbaijan and one representative from the Insurance Regulatory and Development Authority of India to discuss AML issues. Topics included AML examination policies and procedures, the USA PATRIOT Act rules, suspicious activity reporting requirements, and government information sharing mechanisms.

Treaties, Agreements, and Asset Sharing

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 and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Belize, Bermuda, 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, Bonaire, Curacao, Saba, St. Eustatius and St. Maarten), Nigeria, Panama, Philippines, Poland, Romania, Russia, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, Ukraine, United Kingdom (including the Isle of Man, Cayman Islands, Anguilla, British Virgin Islands, Montserrat, and Turks and Caicos), Uruguay, and Venezuela. In addition, on February 1, 2010, 27 U.S.-EU Instruments/Agreements/Protocols entered into force that either supplemented existing MLATs or created new mutual legal assistance relationships between the United States and every member of the EU. A mutual legal assistance agreement has been signed by the United States but not yet brought into force with 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 a Mutual Legal Assistance Agreement (MLAA) with China, as well as a MLAA between the American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States. The United States also has entered into bilateral executive agreements on forfeiture cooperation with 19 countries, including: Anguilla, Austria, British Virgin Islands, Canada, the Cayman Islands, Colombia, the Dominican Republic, Ecuador, Hong Kong, Jamaica, Mexico, Monaco, Montserrat, the Netherlands, Singapore, the Turks and Caicos Islands, the United Kingdom, and the Bailiwicks of Jersey and Guernsey (in drug cases only).

Treasury's Financial Crimes Enforcement Network (FinCEN) has a Memorandum of Understanding (MOU) or an exchange of letters in place with many other financial intelligence units (FIU) 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 Afghanistan, Albania, Argentina, Aruba, Australia, Belgium, Bermuda, Brazil, Bulgaria, Canada, Cayman Islands, Chile, Croatia, Cyprus, Egypt, France, Fiji, Guatemala, Indonesia, Israel, Italy, Japan, Macedonia, Malawi, Malaysia, Mauritius, Mexico, Moldova, Montenegro, the Netherlands, Nigeria, Panama, Paraguay, Philippines, Poland, Romania, Russia, San Marino, Saudi Arabia, Senegal, Serbia, Singapore,

Slovenia, South Africa, South Korea, Spain, Sri Lanka, the Money Laundering Prevention Commission of Taiwan, Turkey, 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 includes asset forfeiture. To date, Antigua and Barbuda, 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 2012, the international asset sharing program, administered by the Department of Justice, shared $246,745,918 with 42 foreign governments that cooperated and assisted in investigations. In 2012, the Department of Justice agreed to transfer $1,750,000 in forfeited proceeds to the Government of the Cayman Islands, and $1,646,237 in forfeited proceeds to the Government of Mexico. Prior recipients of shared assets include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belgium, Bermuda, British Virgin Islands, Canada, Cayman Islands, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Germany, Greece, Guatemala, Guernsey, Honduras, Hong Kong, Hungary, Indonesia, Ireland, Isle of Man, Israel, Jersey, Jordan, Liechtenstein, Luxembourg, Mexico, Netherlands Antilles, Panama, Paraguay, Peru, Romania, South Africa, Switzerland, Thailand, Turkey, the United Kingdom, and Venezuela.

From Fiscal Year (FY) 1994 through FY 2012, the international asset-sharing program administered by the Department of Treasury shared $34,916,198 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2012, the Department of Treasury transferred $2,052,555 to the Bailiwick of Jersey, $364,999 to Cayman Islands, $119,203 to Canada, $1,291,616 to Luxembourg and $609,802 to the United Kingdom. Prior recipients of shared assets include: Aruba, Australia, the Bahamas, Brazil, Cayman Islands, China, Dominican Republic, Egypt, Guernsey, Honduras, Isle of Man, Japan, Jersey, Mexico, Netherlands, Nicaragua, Palau, Panama, Portugal, Qatar, St. Vincent & the Grenadines, and Switzerland.

Multi-Lateral Organizations & Programs

The Financial Action Task Force and FATF-Style Regional Bodies

The Financial Action Task Force

The Financial Action Task Force (FATF), created in 1989, 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 currently has 36 members, comprising 34 member countries and territories and two regional organizations, as follows: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, India, Ireland, Italy, Japan, Luxembourg, Mexico, The Kingdom of the Netherlands (includes the Netherlands, Aruba, Curacao and Saint Maarten), New Zealand, Norway, 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.

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

The Asia/Pacific Group on Money Laundering (APG) was established in 1997. The APG has 41 members: Afghanistan, Australia, Bangladesh, Bhutan, Brunei Darussalam, Burma, Cambodia, Canada, China, 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, Samoa, Singapore, Solomon Islands, South Korea, Sri Lanka, Taiwan, Thailand, Timor-Leste, Tonga, United States, Vanuatu, and Vietnam.

The Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF) was established in 1992. CFATF has 29 members: Anguilla, Antigua and 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 and Nevis, St. Lucia, St. Maarten, St. Vincent

and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, and Venezuela.

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) was established in 1997. MONEYVAL is comprised of 28 permanent members; two temporary, rotating FATF members; and two active observers. The permanent members are Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Macedonia, Malta, Moldova, Monaco, Montenegro, Poland, Romania, Russian Federation, San Marino, Serbia, Slovak Republic, Slovenia, and Ukraine. The active observers are the Holy See and Israel. Temporary members, designated by the FATF for a two-year membership, are currently Austria and France.

The Eastern and Southern Africa Anti-Money Laundering Group

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) was established in 1999. Fifteen countries comprise its membership: Botswana, Comoros, 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

The Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was established in 2004. The EAG has nine members: Belarus, China, India, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, Turkmenistan, and Uzbekistan.

The Financial Action Task Force on Money Laundering in South America

The Financial Action Task Force on Money Laundering in South America (GAFISUD) was established in 2000. The 12 GAFISUD members are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Paraguay, Peru, and Uruguay.

Inter-Governmental Action Group against Money Laundering in West Africa

The Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) was 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

The Middle East and North Africa Financial Action Task Force (MENAFATF) was 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 Group of Experts to Control Money Laundering

The Organization of American States (OAS), through the Inter-American Drug Abuse Control Commission (CICAD) under the Secretariat for Multidimensional Security (SMS), is responsible for addressing illicit drug trafficking and related crimes, including money laundering. CICAD's training programs seek to enhance the knowledge and capabilities of law enforcement agencies to detect, investigate and prosecute these crimes in Latin America and the Caribbean. The U.S. Department of State, through its Bureau for International Narcotics and Law Enforcement Affairs, provided full or partial funding for many CICAD training activities.

Expert Group to Control Money Laundering

The Expert Group, comprised of legal and law enforcement specialists appointed by member states, met twice in 2012, focusing on two areas: cooperation among financial intelligence units (FIU) and law enforcement agencies, and the seizure and forfeiture of assets resulting from money laundering and related offenses. The CICAD Commission adopted several documents produced by the Expert Group: a comparative study of legislation in the countries in the hemisphere and a normative guide for the creation and development of specialized methods to administer seized and forfeited assets; a document on asset forfeiture and mechanisms to share forfeited assets; and a document on principles and best practices on the use and protection of FIU information and the coordination and integration of FIUs and criminal investigation agencies.

Capacity Building

The CICAD Executive Secretariat sponsored or participated in 12 training events, both country- and region-specific, that reached 440 judges, prosecutors, public defenders, law enforcement agents and FIU analysts. In March, it delivered two workshops (Ecuador and Uruguay) to train FIU analysts in performing links and relationships analysis related to reporting on suspicious banking activity and cash transactions.

CICAD's Anti Money Laundering section continued working jointly with the Inter-American Committee against Terrorism (OAS/CICTE) and organized workshops for

judges and prosecutors on terrorism financing in the Dominican Republic and El Salvador.

As part of a coordinated effort by international organizations, CICAD joined with OAS/CICTE, the Executive Directorate of the United Nations Counter-Terrorism Committee, the Terrorism Prevention Branch of the United Nations Office on Drugs and Crime, and the Financial Action Task Force on Money Laundering in South America to create the MECOOR Initiative to develop joint capacity building projects to prevent and fight money laundering and terrorism financing. In 2012, they organized a national training event on combating money laundering and terrorism financing for judges and prosecutors in Santa Cruz de la Sierra, Bolivia, and a regional training event in Lima, Peru for judges and prosecutors from four countries.

In order to strengthen the capacities of investigators responsible for conducting investigations of money laundering and organized crime, three workshops on Special Investigative Techniques (SIT) took place in Paraguay (1) and Peru (2). The course is based on the analysis of money laundering convictions in which SIT played an important function in the investigation and prosecution process, with the discussion of cases, experiences and best practices with a team of CICAD experts.

Seized and Forfeited Assets

CICAD's Project on the Management of Seized and Confiscated Assets in Latin America continued working with national governments, mainly El Salvador and the Dominican Republic. In June, it brought together in Costa Rica 50 participants from Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama to discuss the current consensus on best practices and procedures in this field. The CICAD Executive Secretariat developed and implemented coursework on the maintenance, custody and disposition of seized and forfeited assets with the goal of strengthening the technical capacity of the agencies involved. It delivered six workshops on proper and efficient management of these assets in order to prevent their loss or deterioration, training around 330 officers in Argentina, Chile, Costa Rica, the Dominican Republic, Guatemala, and Panama.

Technical Assistance and Cooperation

The CICAD Executive Secretariat followed through on technical assistance to the Government of Peru, initially reviewing the legal framework concerning money laundering offenses. It provided recommendations to the government for developing the National Commission on Seized Assets and drafting internal manuals for organization and operations. The CICAD Executive Secretariat and the Superintendency of Banking and Insurance (SBS) of Peru implemented an agreement for a regional training program on combating money laundering and terrorism financing, based in the SBS Lima facilities. Under this agreement, among other events, in October 2012 the center held a seminar on money laundering in the gaming industry for judges, prosecutors, FIU

analysts and casino operators on topics related to the detection, analysis and investigation of suspicious transactions in the gaming industry.

United Nations Global Programme against Money Laundering, Proceeds of Crime, and the Financing of Terrorism

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. Since 2001, GPML's technical assistance work on counter-terrorist financing (CFT) also has been a priority. GPML now incorporates a focus on CFT in all its technical assistance work. In 2012, GPML provided long term assistance in the development of anti-money laundering/counter-terrorist financing (AML/CFT) programs to 42 countries. GPML also delivered 43 training events worldwide and three international conferences, often in partnership with other agencies and organizations. GPML trained 1,378 representatives of law enforcement agencies, financial intelligence units (FIUs), judicial authorities, and reporting entities.

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. By giving in-depth support upon request, the mentors have gained the confidence of the recipient institutions. 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. During 2012, GPML employed five mentors, two of which are shared with the World Bank. GPML mentors stationed in Central Asia, Kenya, South Africa, Vietnam, and West Africa worked extensively on the development and implementation of a wide variety of AML/CFT programs and procedures in individual countries and surrounding regions.

GPML Initiatives

Illicit Financial Flows: In 2012, the tracking of illicit financial flows linked to piracy was a high priority. The focus was on Somalia and the Horn of Africa. GPML continued to raise awareness of the issue and highlight practical steps that member states in the region can take to combat illicit financial flows. GPML conducted several field research missions for the joint UNODC - World Bank - INTERPOL study on illicit financial flows linked to piracy.

As part of a UNODC initiative which aims to reduce the supply, trafficking and consumption of opiates in Afghanistan and neighbouring countries, GPML has taken the lead in combating financial flows to and from Afghanistan linked to the illicit drug

production and trafficking. GPML conducted follow-up meetings from the 2011 technical meeting in Abu Dhabi, United Arab Emirates, on illicit financial flows and was instrumental in helping to organize the third round of Paris Pact meetings in Vienna, which resulted in the Vienna Declaration.

Asset Recovery: In 2012, GPML continued to support the establishment and operation of two asset forfeiture mechanisms. Dedicated attention has been applied to the development of the Asset Recovery Network for Southern Africa (ARINSA), and continued support has been given to the Red de la Recuperation de Activos de GAFISUD (RRAG). Based on the model of Europol's Camden Asset Recovery Inter-Agency Network (CARIN), these regional mechanisms encourage collaboration, information sharing, and cooperation among prosecutors, investigators, and law enforcement dealing with asset confiscation and recovery at the national and regional levels. GPML also has supported efforts to launch regional asset forfeiture networks for prosecutors and financial investigators in the Asia-Pacific, and West Africa regions. A specific workshop on the recovery of stolen assets was provided in Senegal under the banner of the joint World Bank and UNODC Stolen Asset Recovery (StAR) Program.

Other GPML Tools and Services

AML/CFT Awareness Raising for Domestic Authorities, Compliance Officers and the Private Sector: This training focuses on raising awareness of AML/CFT vulnerabilities and reporting and compliance obligations. It encourages cross-agency operational cooperation, and builds bridges between the private and public sectors. In 2012, training was delivered in Cambodia, Cape Verde, Kenya, Mauritania, Niger, Senegal, and Togo.

National AML/CFT Risk Assessment Training: This training helps member states understand and implement Financial Action Task Force Recommendations on risk assessments. In 2012, training was delivered in Kazakhstan, the Kyrgyz Republic, and Serbia.

Financial Intelligence Unit Analyst Course: The course focuses on analysis of suspicious transactions related to possible money laundering and terrorist financing. The course also addresses relationships among the FIU and agencies responsible for investigation of money laundering and terrorist financing. In 2012, training was delivered in Algeria, Ethiopia, Jordan, and the Philippines.

Financial Investigation Course: 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. In 2012, the training was delivered in Cambodia, Laos, and Vietnam.

Countering Cash Couriers: GPML's cash courier training provides an opportunity for border control, police and FIU staff to develop their knowledge and skills in the

mechanisms for monitoring cross-border transportation of cash and bearer negotiable instruments as well as the identification and interdiction of cash couriers. In 2012, the course was delivered in Cambodia, Ethiopia, Kenya, Laos, and Vietnam, as well as to Afghanistan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan via regional training. GPML also developed a short course for Customs supervisors and managers, which it delivered in Indonesia and the Philippines. In addition, GPML assists national border control agencies in the development of operations manuals to serve as resource guides for border control officers.

Development of AML/CFT Experts/Trainers: This program, which can be customized for national law enforcement training institutions, involves the 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. In 2012 GPML conducted workshops in Tunisia and Vietnam.

Prosecutor Placement Program: This is a sustainable capacity building program designed to give newly appointed confiscation prosecutors a practical understanding of asset seizure and forfeiture practices by placing them in the office of an experienced and capable confiscation legal team. The Program operates in Southern Africa in conjunction with the South African National Prosecution Authority's Asset Forfeiture Unit.

AML/CFT Advisory Services and Model Legislation: GPML has developed a model law for civil law legal systems in collaboration with UNODC's Legal Advisory Program and the International Monetary Fund (IMF); and for common law legal systems, jointly with the Commonwealth Secretariat and the IMF, to assist countries in setting up their AML/CFT legislation. GPML provides legal advisory services to member states requesting assistance in modifying their domestic legislation. In 2012, assistance was provided to Ethiopia and Zimbabwe.

Training in Leveraging AML systems to Combat Trafficking in Persons and Smuggling of Migrants: The training for police, FIU staff, prosecutors, and specialists in investigation and victim counseling covers various aspects of financial investigation which can be used to identify and investigate organized crime groups involved in human trafficking and migrant smuggling. This training was delivered in 2012 to Cameroon.

Information Technology Solutions for AML/CFT

Computer Based Training: GPML has produced and disseminated 13 computer-based training modules on AML-related topics aimed at law enforcement personnel and other key officials involved in combating money laundering. These particular modules provide an overview of AML issues and a basic understanding of the methods and practical measures required to address them. Since 2003 over 50,000 people have been trained in 20 countries.

goAML: The program is an analytical and integrated database and intelligence analysis system for operational deployment in FIUs to assist them in managing their activities,

particularly data collection, analysis, and dissemination. Version one of goAML has been installed in a range of countries, to include Bermuda, Denmark, Kosovo, Morocco, Namibia, Netherlands, Nigeria, Palestine, South Africa, and Tanzania.

IMoLIN/AMLID: GPML has developed and continues to maintain the International Money Laundering Information Network (http://www.imolin.org) on behalf of a partnership of 11 international organizations. IMoLIN provides a wide range of tools and AML/CFT-related information for professionals, including the Anti-Money Laundering International Database (AMLID), a compendium and analysis of AML/CFT legislation and regulations.

The Egmont Group of Financial Intelligence Units

The Egmont Group of Financial Intelligence Units began in 1995 as a small group of national entities—today referred to as financial intelligence units (FIUs)—seeking to explore ways to cooperate internationally among themselves. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve support to their respective governments in the fight against money laundering, terrorist financing, and other financial crimes. This support includes expanding and systematizing the exchange of financial intelligence, improving expertise and capabilities of personnel employed by such organizations, and fostering better and more secure communication among FIUs through the application of technology.

To meet the standards of Egmont membership, an FIU must be a centralized unit within a nation or jurisdiction established to detect criminal financial activity and ensure adherence to laws against financial crimes, including terrorist financing and money laundering. Today the FIU concept is an important component of the international community's approach to combating money laundering and terrorist financing. The Egmont Group has grown dramatically from 14 units in 1995 to a recognized membership of 131 FIUs in 2012. The FIUs of Gabon, Jordan, Tajikistan, and Tunisia joined the Egmont Group in 2012.

The Egmont Group is organizationally structured to meet the challenges of the large membership and its workload. The Egmont Committee is an intermediary group between the 131 heads of member FIUs and the Egmont working groups. This Committee addresses the administrative and operational issues facing the Egmont Group. In addition to the Committee, there are five working groups: legal, operational, training, information technology, and outreach. The Egmont Group's secure Internet system permits members to communicate with one another via secure email, requesting and sharing case information as well as posting and assessing information on typologies, analytical tools and technological developments.

As of 2012, the 131 members of the Egmont Group are the FIUs of Afghanistan, Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belarus, Belgium, Belize, Bermuda, Bosnia and Herzegovina, Brazil, British Virgin Islands, Bulgaria, Cameroon, Canada, Cayman

Islands, Chile, Colombia, Cook Islands, Costa Rica, Cote d'Ivoire, Croatia, Curacao, Cyprus, Czech Republic, Denmark, Dominica, Egypt, El Salvador, Estonia, Fiji, Finland, France, Gabon, Georgia, Germany, Gibraltar, Greece, Grenada, Guatemala, Guernsey, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Jordan, Kazakhstan, Kyrgyz Republic, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macao, Macedonia, Malawi, Malaysia, Mali, Malta, Marshall Islands, Mauritius, Mexico, Moldova, Monaco, Mongolia, Montenegro, Morocco, Netherlands, New Zealand, Nigeria, Niue, Norway, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Samoa, San Marino, Saudi Arabia, Senegal, Serbia, Singapore, Slovak Republic, Slovenia, Solomon Islands, South Africa, South Korea, Spain, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sweden, Switzerland, Syria, Tajikistan, Taiwan, Thailand, Tunisia, Turkey, Turks and Caicos, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Vanuatu, and Venezuela.

Major Money Laundering Countries

Every year, U.S. officials from agencies with anti-money laundering responsibilities 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 2013 INCSR identifies money laundering priority jurisdictions and countries using a classification system that consists of three categories: Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

"Jurisdictions of Primary Concern" are those 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 or are particularly vulnerable to such activity because of weak or nonexistent supervisory or enforcement regimes or weak political will. 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 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 and/or sophistication 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 factors that contribute to making a country or jurisdiction particularly vulnerable to money laundering or other illicit financial activity, however, provides a basic guide. The checklist includes, but is not limited to:

- 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 prohibit or inhibit large value and/or suspicious or unusual transaction reporting by both banks and non-bank financial institutions.
- Lack of or inadequate "know your 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 the 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.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering, and financial crime enforcement, and lack of trained investigators or regulators.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward the business and banking communities.
- Jurisdictions where the U.S. dollar is readily accepted, especially jurisdictions where banks and other financial institutions allow dollar deposits.
- Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai, and Mumbai.
- Jurisdictions where there is significant trade in or export of gold, diamonds, and other gems.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

Changes in INCSR Priorities for 2012

There were no changes to the classifications of countries or jurisdictions for 2012.

In the Country/Jurisdiction Table directly below, "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.

Countries and Jurisdictions Table

Countries/Jurisdictions of Primary Concern

Afghanistan
Antigua and Barbuda
Argentina
Australia
Austria
Bahamas
Belize
Bolivia
Brazil
British Virgin Islands
Burma
Cambodia
Canada
Cayman Islands
China, People Rep
Colombia
Costa Rica
Curacao
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
St. Maarten
Switzerland
Taiwan
Thailand
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Venezuela
Zimbabwe

Countries/Jurisdictions of Concern

Albania
Algeria
Angola
Aruba
Azerbaijan
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Bosnia and Herzegovina
Bulgaria
Chile
Comoros
Cook Islands
Cote d'Ivoire
Czech Republic
Djibouti
Ecuador
Egypt
El Salvador
Ghana
Gibraltar
Grenada
Guyana
Holy See
Honduras
Hungary
Ireland
Jamaica
Jordan
Kazakhstan
Korea, North
Korea, South
Kosovo
Kuwait
Laos
Malaysia
Marshall Islands
Moldova
Monaco
Mongolia
Montenegro
Morocco
Nicaragua
Peru
Poland
Portugal
Qatar
Romania
Saudi Arabia
Senegal
Serbia
Seychelles
Sierra Leone
Slovakia
South Africa
St. Kitts and Nevis
St. Lucia
St. Vincent
Suriname
Syria
Tanzania
Trinidad and Tobago
Turks and Caicos
Vanuatu
Vietnam
Yemen

Other Countries/Jurisdictions Monitored

Andorra
Anguilla
Armenia
Benin
Bermuda
Botswana
Brunei
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Congo, Dem Rep of
Congo, Rep of
Croatia
Cuba
Denmark
Dominica
Equatorial Guinea
Eritrea
Estonia
Ethiopia
Fiji
Finland
Gabon
Gambia
Georgia
Guinea
Iceland
Kyrgyz Republic
Lesotho
Liberia
Libya
Lithuania
Macedonia
Madagascar
Malawi
Maldives
Mali
Malta
Mauritania
Mauritius
Micronesia FS
Montserrat
Mozambique
Namibia
Nauru
Nepal
New Zealand
Niger
Niue
Norway
Oman
Palau
Papua New Guinea
Rwanda
Samoa
San Marino
Sao Tome & Principe
Slovenia
Solomon Islands
South Sudan
Sri Lanka
Sudan
Swaziland
Sweden
Tajikistan
Timor-Leste
Togo
Tonga
Tunisia
Turkmenistan
Uganda
Uzbekistan
Zambia

Comparative Table Key

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2012, that jurisdictions have, or have not, taken to combat money laundering. This reference table provides a comparison of elements that include legislative activity and other identifying characteristics that can have a relationship to a jurisdiction's money laundering vulnerability. With the exception of the fifth item, all items should be answered "Y" (yes) or "N" (no). **"Y" is meant to indicate that legislation has been enacted to address the captioned items. It does not imply full compliance with international standards.** All deficiencies within the country's/jurisdiction's AML/CFT regime should be explained in the "Enforcement and implementation issues and comments" section of the template.

Glossary of Terms

- "Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to the drug trade.
- "Criminalized Beyond Drugs": The jurisdiction has enacted laws criminalizing the offense of money laundering related to crimes other than those related to the drug trade.
- "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.
- "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.
- "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.
- "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.
- "Disclosure Protection - 'Safe Harbor'": By law, the jurisdiction provides a "safe harbor" defense against civil and criminal liability to banks and/or other covered entities and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
- "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
- "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 of FIUs.

- "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.
- "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.
- "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.
- "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.
- "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.
- "Report Suspected Terrorist Financing": By law or regulation, banks and/or other covered entities are required to record and report to designated authorities transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities.
- "Ability to Freeze Terrorist Assets w/o Delay": The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations).
- "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.
- "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.
- "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.
- "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.
- **"**US or International Sanctions/Penalties": The U.S., 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 recommends countermeasures against the country/jurisdiction.

Comparative Table

"Y" is meant to indicate that legislation has been enacted to address the captioned items. It does not imply full compliance with international standards. Please see the individual country reports for information on any deficiencies in the adopted laws/regulations.

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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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	Y	N	Y	Y	N	Y	Y	Y	Y	N
Albania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Algeria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	N	Y	Y	Y	Y	N
Andorra	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Angola	Y	Y	Y	Y	Y	Y	Y	N	Y	Y*	N	N	N	N	N	N	Y	Y	Y	Y	N
Anguilla[2]	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	N	Y	Y	Y	N	N	Y	N	N	Y	Y	Y	Y	N
Armenia	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Aruba[3]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Austria	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

[2] **The UK extended its application of the 1988 UN Drug Convention to Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, and Turks and Caicos. The International Convention for the Suppression of Terrorism Financing has been extended to the British Virgin Islands, Guernsey, Isle of Man, and Jersey. The UNCAC has been extended to British Virgin Islands, Guernsey, Isle of Man, and Jersey. The UNTOC has been extended to the British Virgin Islands, Cayman Islands, Gibraltar, and the Isle of Man.**

[3] **The 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.**

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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
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	Y	Y	Y	Y	Y	Y	Y	N
Bahamas	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bahrain	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bangladesh	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	N	Y	N
Barbados	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Belarus	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	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	N	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	Y	Y*	Y	Y	N	N	Y	Y	Y	Y	Y	Y	N
Bermuda[2]	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	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Bosnia & Herzegovina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Botswana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	N	N	N	Y	Y	Y	Y	N
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
British Virgin Islands[2]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Brunei	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	N	Y	Y	Y	Y	Y	N
Bulgaria	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Burkina Faso	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Burma	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	N	N	Y	Y	Y	Y	Y
Burundi	Y	Y	Y	Y	Y	Y	N	N	N	Y*	Y	Y	N	Y	Y	N	Y	N	Y	Y	N
Cambodia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
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	N	Y	Y*	Y	Y	N	N	N	N	Y	Y	Y	Y	N
Cayman Islands[2]	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N
Central African Rep.	Y	Y	Y	N	Y	Y	Y	Y	N	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Chad	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	N	N	Y	Y	Y	Y	Y	Y	N	N
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	Y	Y	N	Y	Y	Y	Y	N
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Comoros	Y	Y	N	N	N	N	Y	Y	Y	Y*	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Congo, Dem Rep. of	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y
Congo, Rep. of	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	N	Y	Y	Y	Y	N	Y	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	N	Y	Y	Y	Y	Y	Y	Y	N
Cote d'Ivoire	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Croatia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Cuba	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Curacao[3]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Cyprus[4]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

[4]

Area administered by Turkish Cypriots	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	Y	N	Y	Y	Y	N/A	N/A	N/A	N/A	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
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	N	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	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Dominica	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	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	N	Y	Y	Y	Y	Y	N
Equatorial Guinea	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	Y	N	Y	Y	Y	N	Y	Y	N	N
Eritrea	N	N	N	Y	Y	Y	N	N	Y	Y*	N	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	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Fiji	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	N
Finland	Y	Y	Y	Y	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	N	Y	Y	Y	Y	Y	Y	Y	N
Gabon	Y	Y	Y	Y	Y	Y	N	N	N	Y	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Gambia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	N	N
Georgia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	N	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	N	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Gibraltar[2]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	N
Greece	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Guatemala	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Guernsey[2]	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	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Guyana	Y	Y	Y	Y	Y	Y	Y	N	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Haiti	Y	Y	Y	Y	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Holy See	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	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[5]	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	N	Y	Y	Y	Y	Y	Y	Y	N
India	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Indonesia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	N
Iran	Y	Y	Y	N	Y	Y	N	N	N	Y*	N	N	N	N	N	N	Y	N	N	Y	Y
Iraq	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N	Y	Y	N
Ireland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Isle of Man[2]	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Israel	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Italy	Y	Y	Y	N	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	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

[5] **The People's Republic of China extended the 1988 UN Drug Convention, the International Convention for the Suppression of Terrorism Financing, the UNTOC and the UNCAC 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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Japan	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	N	N	N
Jordan	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Kazakhstan	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Kenya	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	Y	Y	Y	N
Kosovo	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	N	N	N	N	N
Kuwait	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	N	N	N	Y	N	Y	Y	N
Kyrgyz Republic	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Laos	Y	Y	Y	N	Y	Y	N	N	Y	Y*	Y	N	N	N	N	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	N
Lebanon	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y	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	Y	Y	Y	Y	Y	N	N	N	N	N	N	N	Y	Y	Y	Y	N
Libya	Y	Y	Y	N	Y	Y	N	N	N	Y*	N	N	N	N	N	N	Y	Y	Y	Y	Y
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	N	Y	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[5]	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	N	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	N	Y	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	Y	N	Y	N	N	N	N	Y*	Y	Y	N	Y	Y	N	Y	Y	N	Y	N
Mali	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	N
Malta	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Marshall Islands	Y	Y	N	N	Y	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Mauritania	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Mauritius	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Mexico	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Micronesia, FS	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	N	Y	Y	Y	Y	Y	N
Moldova	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Monaco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Mongolia	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Montenegro	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Montserrat[2]	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Morocco	Y	Y	Y	N	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	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Namibia	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	N	N	N	N	Y	N	Y	Y	N
Nauru	Y	N	Y	Y	Y	Y	Y	Y	Y	Y*	N	Y	N	Y	Y	Y	N	Y	Y	Y	N
Nepal	Y	Y	Y	Y	Y	N	N	Y	Y	Y*	N	Y	N	Y	Y	Y	Y	Y	Y	Y	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	Y
Niger	Y	Y	Y	N	Y	Y	N	Y	Y	Y*	N	Y	N	Y	Y	N	Y	Y	Y	Y	N
Nigeria	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	N
Niue	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	N	N	N	N	Y	N	N
North Korea	Y	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N	N/A	N/A	N/A	N/A	N/A	Y	N	N	N	Y
Norway	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Oman	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Pakistan	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Palau	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	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	N	Y	Y	Y	Y	N	Y*	Y	Y	Y	N	N	N	N	Y	N	Y	N
Paraguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Peru	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Philippines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Poland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Portugal	Y	Y	Y	Y	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	Y	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	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Rwanda	Y	Y	Y	Y	Y	Y	N	N	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
St. Kitts and Nevis	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
St. Lucia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N
St. Maarten	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
St. Vincent and the Grenadines	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Samoa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	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 And Principe	Y	Y	Y	N	Y	N	N	N	N	Y*	N	N	N	Y	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Saudi Arabia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Senegal	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Serbia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Seychelles	Y	Y	N	N	Y	Y	Y	Y	N	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Sierra Leone	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	N	N	N	Y	Y	N	Y	N
Singapore	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
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	N
Solomon Islands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N	Y	N
Somalia	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y
South Africa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
South Korea	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	N
South Sudan	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	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	Y	Y	N	Y	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Sudan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Suriname	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	N	Y	N	N
Swaziland	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Sweden	Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y	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	N	Y	N	Y	Y	N	Y	Y	Y	N	Y
Taiwan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N	N	N
Tajikistan	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	N	N	Y	Y	N	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	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Criminalized Financing of Terrorism	Report Suspected Terrorist Financing	Ability to Freeze Terrorist Assets w/o Delay	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																					
Tanzania	Y	Y	Y	N	Y	Y	Y	Y	N	Y*	Y	Y	N	Y	Y	N	Y	Y	Y	Y	N
Thailand	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y	N
Timor-Leste	N	N	Y	N	Y	N	N	N	Y	N	N	N	N	N	N	N	N	N	Y	Y	N
Togo	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Tonga	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	N	N	N
Trinidad and Tobago	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	N	Y	Y	Y	Y	Y	Y	Y	N
Turkey	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N	N	Y	N	Y	Y	Y	Y	N
Turkmenistan	Y	Y	Y	Y	Y	Y	N	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Turks and Caicos[2]	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	N
Uganda	N	N	Y	Y	Y	Y	N	N	N	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y	N
Ukraine	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
UAE	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y	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
Uruguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Uzbekistan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	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	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N
Vietnam	Y	Y	Y	Y	Y	Y	Y	N	Y	Y*	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Yemen	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	Y	N	Y	Y	Y	Y	N
Zambia	Y	Y	N	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N
Zimbabwe	Y	Y	Y	N	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y

INCSR Volume II Template Key

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. 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 also should 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. Deficiencies in any of these areas will be further discussed in the "Enforcement and Implementation Issues and Comments" section, below.

The below referral statement and link to the Department of State's Country Reports on Terrorism follows the introductory paragraph.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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.

CRIMINALIZATION OF MONEY LAUNDERING:

All serious crimes approach or list approach to predicate crimes: (specify)
Are 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?

The second question addresses whether legal persons, that is, corporations, partnerships, or any legal entity, are liable for money laundering/terrorist financing activity and whether they are subject to criminal penalties, such as fines. Additionally, are they subject to civil or administrative penalties, such as civil money penalties, or suspension or loss of license?

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: (Y/N) **Domestic:** (Y/N)

KYC covered entities: A list of the types of financial institutions and designated non-financial businesses and professions (DNFBPs) covered by KYC rules

Countries should be using a risk-based approach to customer due diligence (CDD) or KYC programs. 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; and important political party officials. This response should indicate whether the jurisdiction applies enhanced due diligence procedures to foreign PEPs and/or domestic PEPs.

CDD or KYC programs should apply not only to banks or financial institutions but also to 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.

This response should list the specific types of financial institutions and DNFBPs covered by KYC laws and rules, whether or not they actually have programs in place in practice.

REPORTING REQUIREMENTS:

Number of STRs received and time frame:

Number of CTRs received and time frame:

STR covered entities: A list of the types of financial institutions and DNFBPs covered by reporting rules

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, preferably the activity in 2012, will be included.

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.

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, preferably the activity in 2012, will be included. The report will not include information on CTRs not required to be forwarded to a designated government body but held in institutions for government review.

This response should list the specific types of financial institutions and DNFBPs covered by reporting laws and rules, whether or not they are reporting in practice.

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: (Number and time frame)
Convictions: (Number and time frame)

If available, the report will include the numbers of prosecutions and convictions and the relevant time frames. The most recent information, preferably the activity in 2012, will be included.

RECORDS EXCHANGE MECHANISM:

With U.S.: **MLAT:** (Y/N) **Other mechanism:** (Y/N)
With other governments/jurisdictions: (Y/N)

(Country/jurisdiction) is a member of the Financial Action Task Force OR _____, a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: (relevant FATF or FSRB website)

This response will indicate if the country/jurisdiction has in place a mutual legal assistance treaty with the United States and/or other mechanisms, such as memoranda of understanding or other agreements, to facilitate the sharing with the United States of records and information related to financial crimes, money laundering and terrorist financing.

Similarly, it will indicate if the country/jurisdiction has in place treaties, memoranda of understanding or other agreements with other governments to share information related to financial crimes, money laundering and terrorist financing.

The report will indicate if the country/jurisdiction is a member of the Financial Action Task Force (FATF) and/or one or more FATF-Style Regional Bodies (FSRB). A link to the website with its most recent mutual evaluation will be shown.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Information in this section should include changes in policy, law, and implementation of regulations occurring since January 1, 2012, 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 U.S. Government (USG) agencies, or has refused to cooperate with the USG or 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

The Islamic Republic of Afghanistan is not a regional or offshore center. Terrorist and insurgent financing, money laundering, cash smuggling, abuse of informal value transfer systems, and other illicit activities designed to finance organized criminal activity continue to pose serious threats to the security and development of Afghanistan. Afghanistan remains a major narcotics trafficking and producing country, and is the world's largest opium producer and exporter. The narcotics trade, corruption and contract fraud are major sources of illicit revenue and laundered funds. Corruption permeates all levels of Afghan government and society and the country rates very poorly on various indices.

The growth in Afghanistan's banking sector has slowed considerably in recent years; and traditional payment systems, particularly hawala networks, remain significant in their reach and scale. Official corruption and weaknesses in the banking sector incentivize the use of informal mechanisms and exacerbate the difficulty of developing a transparent formal financial sector in Afghanistan. The unlicensed and unregulated hawaladars in major drug areas such as Helmand likely account for a substantial portion of the illicit proceeds being moved in the financial system. Afghan business consortiums that control both hawaladars and banks allow criminal elements within these consortiums to manipulate domestic and international financial networks to send, receive, and launder illicitly-derived monies or funds intended for criminal, insurgent, or terrorist activities. The rapid depreciation of the Iranian rial in October 2012 led to increased demand for U.S. dollars in Iran and a reported increase in cash smuggling from Afghanistan to Iran.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES
KYC covered entities: Central Bank of Afghanistan (DAB), banks, registered money service businesses (MSBs), insurance companies, dealers in precious metals and stones, lawyers, accountants, securities dealers, and real estate agents

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 684 in 2012
Number of CTRs received and time frame: 1,921,129 in 2012
STR covered entities: Banks, MSBs, hawaladars, insurance companies and securities dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 22 in 2012
Convictions: 0

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Afghanistan 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 at: http://www.apgml.org/documents/docs/17/Afghanistan%20-%20published%20DAR.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Afghanistan (GOA) has no formal extradition or mutual legal assistance arrangements with the United States. Requests for extradition and mutual legal assistance are processed on an ad hoc basis, with assistance from the Afghan Attorney General's Office. The government should adopt the drafted extradition-related legislation, which is pending in Afghan parliament.

Using Presidential executive orders the GOA has frozen bank accounts owned by hawala networks listed under UNSCR 1988. There are no instances of seized bank accounts, and there is no mechanism for asset sharing. The GOA should work with the international community to train enforcement officers, prosecutors, and judges to provide them a better understanding of the basis for seizing and forfeiting assets. Afghanistan should provide regulators and enforcement officers with the resources to carry out their oversight and investigative duties.

Afghanistan's ability to enforce relevant laws and regulate institutions is hampered by corruption. Limited resources and lack of technical expertise and infrastructure also hamper effective regulatory oversight. Insurance companies and securities dealers are technically under the regulatory regime and are required to file STRs, but the GOA does not enforce this requirement. Dealers in precious metals and stones, lawyers, accountants, and real estate agents are not supervised in Afghanistan. The GOA should

pass and enforce legislation to regulate financial institutions and designated non-financial businesses and professions and comply with anti-money laundering/combating the financing of terrorism (AML/CFT) regulations.

Less than five percent of the Afghan population uses banks, depending instead on the traditional hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. Approximately 90 percent of financial transactions run through the hawala system, including foreign exchange transactions, funds transfers, micro and trade finance, as well as some deposit-taking activities. There is not a clear division between the hawala system and formal financial sector. Hawaladars often keep accounts at banks and use wire transfer services to settle their balances with other hawaladars abroad. Due to limited bank branch networks, banks occasionally use hawaladars to transmit funds to hard-to-reach areas within Afghanistan. Afghanistan's financial intelligence unit (FIU) reports that no MSBs or hawaladars have ever submitted STRs.

The GOA should issue the necessary regulatory instruments to increase the number of MSB/hawaladar inspections, and expand implementation of the MSB/hawala licensing program. The GOA also should create an outreach program to notify and educate hawaladars about the licensing and STR filing processes.

Border security continues to be a major challenge throughout Afghanistan, with the country's 14 official border crossings under central government control. Cargo is often exempted from any screening or inspection due to corruption at the border crossings and customs depots. Outside of official border crossings, most border areas are under-policed or not policed at all, and are particularly susceptible to cross-border trafficking, trade-based money laundering, and bulk cash smuggling. Kabul International Airport lacks stringent inspection controls for all passengers, and includes a VIP lane that does not require subjects to undergo any inspections or controls. The GOA should strengthen inspection controls for airport passengers.

Afghanistan's Central Bank reported that approximately $4.6 billion in cash left Afghanistan via Kabul International Airport in 2011. Tracking cash movements across borders or through airports has become increasingly difficult with implementation of an executive order that makes it illegal to take more than $20,000 out of the country, but eliminates the need to report outbound currency.

Afghanistan's laws related to terrorist financing are not in line with international standards and do not criminalize all elements of the terrorist financing offense. Afghanistan has taken steps towards improving its AML/CFT regime, including by establishing high-level AML/CFT coordination mechanisms. However, certain strategic AML/CFT deficiencies remain. Afghanistan should continue to work to adequately criminalize money laundering and terrorist financing; establish and implement an adequate legal framework for identifying, tracing and freezing terrorist assets; implement an adequate AML/CFT supervisory and oversight program for all financial sectors; establish and implement adequate procedures for the confiscation of assets related to

money laundering; establish a fully operational and effectively functioning FIU; and establish and implement effective controls for cross-border cash transactions.

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 transhipment of narcotics and from financial crimes occurring in the United States are laundered in Antigua and Barbuda. During the past year, the Government of Antigua and Barbuda's Office of National Drug Control and Money Laundering Policy (ONDCP) compiled evidence that money laundering related to drug trafficking takes place through local financial institutions. The ONDCP's analysis shows both that criminals abuse the system and financial institutions, in some instances, fail to apply sufficiently rigorous due diligence in relation to transactions that should be seen as questionable. The funds involved include Eastern Caribbean dollars traced to the sale of local property by at least one person U.S authorities identified as trafficking drugs through Antigua and Barbuda to U.S. territory. Funds also include significant quantities of U.S. currency found in bank safety deposit boxes.

Domestic casinos are required to incorporate as domestic corporations. Internet gaming companies are required to incorporate as international business corporations (IBCs), and as such are required to have a physical presence. Internet gaming sites are considered to have a physical presence when the primary servers and the key person are resident in Antigua and Barbuda. The Government of Antigua and Barbuda (GOAB) receives approximately $2,800,000 per year from license fees and other charges related to the Internet gaming industry. A nominal free trade zone in the country seeks to attract investment in areas the GOAB deems priority. 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.

Bearer shares are permitted for international companies. However, the license application requires disclosure of the names and addresses of directors (who must be natural persons), the activities the corporation intends to conduct, the names of shareholders and number of shares they will hold. Registered agents or service providers are required by law to know the names of beneficial owners. Failure to provide information or giving false information is punishable by a fine of $50,000. Offshore financial institutions are exempt from corporate income tax. All licensed institutions are required to have a physical presence, which means presence of at least a full-time senior officer and availability of all files and records. Shell companies are not permitted.

Currently, the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector, along with the domestic sectors of seven other Caribbean jurisdictions.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks, agricultural credit institutions, money exchangers, accountants, notaries, gaming centers, auto dealers and securities dealers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 102: January 1 – November 7, 2012

Number of CTRs received and time frame: 591: January 1 – November 7, 2012

STR covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, and securities dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 3 in 2012

Convictions: 3 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Antigua and Barbuda 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: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=355&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS

The Money Laundering Prevention Act of 1996 (MLPA), as amended, covers banks, offshore banks, IBCs, money transmitters, credit unions, building societies, trust businesses, casinos, Internet gaming companies, and sports betting companies. Intermediaries such as lawyers and accountants are not included in the MLPA.

The Banking (Amendment) Act 2012 requires the ECCB to approve the appointment of bank directors, senior management and significant shareholders. The Financial Services Regulatory Commission is responsible for the regulation and supervision of all institutions licensed under the International Business Corporations Act of 1982, including offshore banks and all aspects of offshore gaming. This includes issuing licenses for IBCs, maintaining the register of all corporations, and conducting examinations and reviews of offshore financial institutions as well as some domestic financial entities, such as insurance companies and trusts.

The GOAB adopted regulations for the licensing of interactive gaming and wagering entities to address possible money laundering through client accounts of Internet gaming operations. Internet gaming companies are required by the Interactive Gaming and Interactive Wagering Regulations to report to the ONDCP all payouts over $25,000. The Interactive Gaming and Interactive Wagering (Amendment) Regulations 2012 removes the provision that previously allowed the duplicate reporting of STRs to authorities other than the ONDCP. Internet gaming companies are required to submit quarterly and annual audited financial statements, enforce KYC verification procedures, and maintain records relating to all gaming and financial transactions of each customer for six years.

The GOAB should continue to work on strengthening all provisions of its AML/CFT legislation and enforcement.

Argentina

Argentine and international observers express concern that money laundering related to narcotics trafficking, corruption, contraband, and tax evasion occurs throughout the financial system. Observers also believe 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, corporate structures, and in the real estate sector. The widespread use of cash (including U.S. dollars) in the economy also leaves 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. Traditionally, Argentina is an economy with strong links to U.S. currency. Many Argentines prefer to hold their savings in U.S. dollars and/or dollar-denominated assets as a hedge against the high levels of inflation and peso devaluation that commonly occur in the Argentine economy. Approximately 30 percent of the labor market is informal, and it is estimated that Argentines hold billions of U.S. dollars outside the formal financial system, both offshore and in country, much of it legitimately earned money that was not taxed. The general vulnerabilities in the system also expose Argentina to a risk of terrorist financing.

Argentina is a source country for precursor chemicals and a transit country for cocaine produced in Bolivia, Peru, and Colombia, and for marijuana produced in Paraguay.

While most of the cocaine transiting Argentina is bound for the European market, virtually all of the marijuana is for domestic or regional consumption; there has been an increase in domestic drug consumption and production. Argentine officials also identified smuggling, corruption and different types of fraud as major sources of illegal proceeds. A substantial portion of illicit revenue also comes from black market peso exchanges or informal value transfers. Informal value transfers occur when unregistered importers, for example, use entities that move U.S. currency in bulk to neighboring countries where it is deposited and wired to U.S. accounts or to offshore destinations. Products from the United States are often smuggled into Argentina, or the shipping manifests are changed to disguise the importer and merchandise. U.S. law enforcement agencies consider the tri-border area (Argentina, Paraguay and Brazil) to be a major source of smuggling, especially of pirated products.

The Financial Action Task Force's (FATF) third-round mutual evaluation report of Argentina found the country partially compliant or non-compliant with 46 of the then 49 FATF Recommendations. The Government of Argentina (GOA) developed an action plan to address the deficiencies, and has made substantial progress carrying out this action plan by passing, and at least partially, implementing several new laws. However, the effectiveness of these laws has not yet been demonstrated in terms of enforcement and increased convictions.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, financial companies, credit unions, tax authority, customs, currency exchange houses, casinos, securities dealers, insurance companies, accountants, notaries public, dealers in art and antiques, jewelers, real estate registries, money remitters, charitable organizations, auto dealers, and postal services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 13,308 in 2011

Number of CTRs received and time frame: Not available
STR covered entities: Banks, financial companies, credit unions, tax authority, customs, currency exchange houses, casinos, securities dealers, insurance companies, accountants, notaries public, dealers in art and antiques, jewelers, real estate registries, money remitters, charitable organizations, auto dealers, and postal services

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 31: Unknown time frame
Convictions: 2: June - December 2011

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Argentina is a member of the FATF and the Financial Action Task Force against 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:

On December 27, 2011, Argentina passed Law 26.734, which broadens the definition of terrorism, and increases monetary fines and prison sentences for crimes linked to terrorist financing. The law closes several loopholes in previous legislation, empowers the Argentine financial intelligence unit (UIF) to freeze assets, and criminalizes the financing of terrorist organizations, individuals, and acts. To date, this law has been used in human rights cases related to individuals wanted for criminal actions taken during Argentina's military dictatorships thirty-plus years ago. The law was used to freeze funds related to both the wanted persons and to family members and associates who allegedly provided the fugitives recent financial assistance. The UIF brought 44 such cases in the past year, and froze funds related to four individuals. While this does demonstrate that the law can be used to quickly freeze the assets, the investigation and prosecution of long-standing cases does not demonstrate an ability to detect and prevent ongoing or more current terrorist activities.

Argentine exchange houses are significantly more regulated than similar operations in other Latin American countries. However, in 2012 Argentina sharply limited access to foreign exchange in the formal market for most purposes, which drove most foreign exchange activities away from formal actors and into the informal sector. The market shift away from formal methods of exchange makes it difficult to evaluate the effectiveness of new regulations.

The UIF claims it made significant progress in formalizing transactions in the real estate sector, a significant area for money laundering operations. Its efforts were directed toward triangulating the reports of notaries, real estate agents, and real estate registrars to

insure consistency. Consequently, there was a significant decrease in real estate sales in Argentina in the past year as these policies were implemented. However, it is difficult to determine if this change is due to increased difficulties in acquiring foreign currency (traditionally real estate in Argentina has been priced in U.S. dollars), an economic slowdown, or efforts to make money laundering through real estate more difficult. There was a significant increase in the number of STRs filed in 2011 when compared to 2010.

Notwithstanding these improvements, technical deficiencies and challenges still remain in closing legal and regulatory loopholes and improving interagency cooperation. Argentina demonstrated a commitment to expand the knowledge of personnel involved in fighting financial crime and a willingness to act on the results of those trainings. For example, after officials attended a sponsored training on money laundering using pre-paid credit cards, Argentina implemented new regulations to try to prevent this practice. The GOA is open to advice on structuring new legal frameworks from international organizations. Most of the challenges Argentina now faces are in implementing these new laws and regulations in a proper, non-politicized manner. There have been two convictions from 31 money laundering cases opened after the 2011 revision of the law criminalizing money laundering.

Argentina continues to update its legal structures with an eye toward meeting international standards. Going forward, Argentina should continue to address the implementation of these laws to demonstrate the effectiveness of its anti-money laundering/counter-financing of terrorism (AML/CFT) infrastructure. Argentina should also take steps to foster the principals of transparency and good governance, criminalize tipping off, foster a culture of AML/CFT compliance, combat corruption, insure the court system is efficient, and build high ethical standards for police officers, prosecutors and judges, as well as professionals such as lawyers, accountants and auditors. Structural elements such as these are critical to establishing a functional legal and institutional AML/CFT framework.

Australia

Australia has deep, liquid financial markets and is recognized as a leader in investment management, as well as areas such as infrastructure financing and structured products. Australia is a financial services hub within the Asia-Pacific region, supported by a number of government initiatives such as the implementation of an investment manager regime and measures to provide taxation exemption or tax relief for foreign managers. Finance and insurance are the largest sectors in the Australian economy. Australia has one of the largest pools of consolidated assets under management globally, valued at about A$1.8 trillion (approximately $1.9 trillion). It is also a significant destination for foreign direct investment, with total inflows growing by over 16 percent in the first half of 2012 compared with the same period of 2011.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks; gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters; 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 in currency on behalf of other persons; and, currency couriers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 48,155: July 2011 - June 2012

Number of CTRs received and time frame: 16,332: July 2011 - June 2012

STR covered entities: Banks; gaming and bookmaking establishments and casinos; bullion and cash dealers and money exchanges and remitters; 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 in currency on behalf of other persons; and, currency couriers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 65: July 2011 - June 2012

Convictions: 53: July 2011 - June 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Australia is a member of the Financial Action Task Force (FATF) and of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body. Its most recent evaluation can be found here: http://www.fatf-gafi.org/dataoecd/60/33/35528955.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Australia maintains a comprehensive system to detect, prevent, and prosecute money laundering. The Attorney-General's Department is the policy agency responsible for the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) in collaboration with the Australian Transaction and Reports Analysis Center (AUSTRAC) who administers the Act and is also the country's anti-money laundering regulator and financial intelligence unit. Australia's financial system benefits from its global best practices regulatory regime. AUSTRAC works collaboratively with Australian industries and businesses in their compliance with anti-money laundering/counter-terrorism financing (AML/CFT) legislation. Australia has active interagency task forces, and consultations with the private sector are frequent. Australian law enforcement agencies investigate an increasing number of cases that directly involve offenses committed overseas.

Third-party deposits, which can be used as vehicles to facilitate money laundering, are legal in Australia. However, authorities are working to limit the associated risks in Australia's financial system. In 2011, additional AML/CFT provisions came into effect, which require banking institutions to identify third parties undertaking transactions of $10,000 or more. This obligation is in addition to reporting the details of the account holder involved in the transaction, and builds on existing customer due diligence and STR obligations.

The Australian government recently established a new Criminal Assets Confiscation Taskforce, which brings together agencies with key roles in the investigation and litigation of proceeds of crime matters. The Taskforce should enhance the identification of potential asset confiscation matters and strengthen their pursuit.

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 conviction and investigation statistics. Austria is not an offshore jurisdiction and has no free trade zones.

Casinos and gambling are legal in Austria. The laws regulating casinos include anti-money laundering/countering the financing of terrorism (AML/CFT) provisions. There are migrant workers in Austria who send money home via all available channels, regular bank transfers and money transmitters (e.g., Western Union), but also informal and illegal remittance systems. No information is available to what extent such informal systems are used.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 2,075 in 2011

Number of CTRs received and time frame: Not applicable

STR 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 537 in 2011

Convictions: 6 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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:

A bilateral forfeited asset sharing agreement with the United States that entered into force in March 2011 still has not taken effect in Austria. The agreement applies retroactively to a June 2004 request from the United States that asked the Austrian authorities to recognize a final U.S. forfeiture judgment against drug proceeds in a bank account in Austria belonging to a convicted drug trafficker. Subsequent court decisions, including both an Austrian interim appeals court decision and a Supreme Court decision – ordered the Vienna bank holding the assets to turn them over to the Government of Austria. However, the Austrian courts are now considering a series of appeals to that decision and the latest action has been pending before the Austrian Supreme Court since April 2012. Under the 2011 asset sharing agreement, the United States is seeking the recovery of 50 percent of the forfeited proceeds, with the remainder going to the Government of Austria.

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 standards. Asset freezing authority applies to all economic resources including financial funds, real estate, companies, and vehicles.

Austrian banks have strict legal requirements regarding secrecy. Banks and other financial institutions must not divulge or exploit secrets which are revealed or made accessible to them exclusively on the basis of business relations with customers. However, the law stipulates that secrecy regulations do not apply with respect to banks' obligation to report suspicious transactions in connection with money laundering or terrorist financing, or with respect to ongoing criminal court proceedings. Any amendment of these secrecy regulations requires a two-thirds majority approval in Parliament.

The Austrian Financial Market Authority (FMA) regularly updates a regulation issued January 1, 2012, which mandates banks and insurance companies apply additional special due diligence in doing business with designated countries. The FMA regulation currently includes 21 jurisdictions. This regulation implements Austria's new AML/CFT regime requiring banks to exercise enhanced customer due diligence, and is based on the Austrian Banking Act, the Insurance Supervision Act, and FATF statements on jurisdictions with AML/CFT deficiencies.

As of May 1, 2012, administrative fines in Austria have been doubled. This measure also affects the administrative fines in the Banking Act. The fine for violating due diligence or STR filing requirements rose to €150,000 (approximately $197,400).

While there is no enhanced customer due diligence for Austrian PEPs, procedures are being established. Austria should ensure that domestic PEPs are subject to increased due diligence.

A January 2012 report criticized Austria's anti-money laundering controls, stating that Austria should implement stronger measures to fight cross-border corruption and money laundering. The report also singled out the Austrian Banker's Association by citing the

group as an obstacle to law enforcement investigations and also noted that Austria's gambling sector needs stricter monitoring.

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 financial sector. The Bahamas is a transshipment point for cocaine bound for the United States and Europe. The major sources of laundered proceeds stem from drug trafficking, human smuggling, and illegal gambling. There is a significant black market for smuggled cigarettes and guns. Money laundering trends include the purchase of real estate, large vehicles, boats, and jewelry, as well as the processing of money through a complex web of legitimate businesses and international business companies (IBCs) registered in the offshore financial sector. Drug traffickers and other criminal organizations take advantage of the large number of IBCs and offshore banks registered in The Bahamas to launder significant sums of money, despite strict know-your-customer and transaction reporting requirements.

The archipelagic nature of The Bahamas and its proximity to the United States make the entire country accessible by medium-sized boats; smuggling and moving bulk cash is relatively easy. The country has one large free trade zone (FTZ), Freeport Harbor. The FTZ is managed by a private entity, the Freeport Harbor Company, owned and operated through a joint venture between Hutchison Port Holdings, and The Port Group (The Grand Bahama Port Authority, the Bahamian parastatal regulatory agency). Businesses at the harbor include private boats, ferry and cruise ship visits, roll-on/roll-off facilities for containerized cargo, and car transshipments. Freeport Harbor has the closest offshore port to the United States.

Gaming is legal for tourists. The Bahamas has three large casinos and a fourth is scheduled to open in March 2013 in Bimini. Ferry service between Florida and Bimini, located just 50 miles off the Florida coast, also is scheduled to begin in March 2013. The $2.6 billion Chinese Export-Import Bank-funded Baha Mar Casino and Resort will open in 2014 in New Providence as the largest casino in the Caribbean. Current law excludes Bahamian citizens, permanent residents, and temporary workers from gambling in the Bahamas. Illicit gaming operations based on U.S.-based lottery results and the internet, locally known as "web shops," flourish in The Bahamas. The Government of the Commonwealth of The Bahamas (GOB) has scheduled a referendum for January 2013, to consider the legalization of web shop gaming.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, credit unions, financial and company service providers, cooperatives, societies, casinos, lawyers, accountants, and real estate agents

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 183 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks and trust companies, insurance companies, securities firms and investment fund administrators, credit unions, financial and company service providers, cooperatives, societies, casinos, lawyers, accountants, and real estate agents

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2011

Convictions: 0 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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: https://www.cfatf-gafic.org/index.php?option=com_content&view=category&layout=blog&id=376&Itemid=561&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2011, the Financial Intelligence Unit (FIU) of the Ministry of Finance signed a Memorandum of Understanding with the Financial Monitoring Service of the Russian Federation.

The GOB should provide adequate resources to its law enforcement, judicial, and prosecutorial bodies in order to enforce existing legislation and to safeguard the financial system from possible abuses. Gaming will expand in 2013, from the growth of casino

gaming and possibly from the legalization of web shop gaming. With this expansion, the government should ensure proper safeguards are in place, and provide additional suspicious transaction report (STR) training. The FIU should continue its outreach, training and coordination with the Royal Bahamas Police Force financial investigators. The GOB should further enhance its anti-money laundering/counter-terrorist financing regime by criminalizing bulk cash and human smuggling; implementing the National Strategy on the Prevention of Money Laundering; ensuring full compliance with UNSCRs 1267 and 1373; criminalizing participation in an organized criminal group; establishing a currency transaction reporting system; and implementing a system to collect and analyze information on the cross-border transportation of currency. It also should ensure there is a public registry of the beneficial owners of all entities licensed in its offshore financial center.

Belize

While Belize is not a major regional financial center, it is an offshore financial center. In an attempt to diversify Belize's economic activities, the Government of Belize (GOB) 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. The Belizean dollar is pegged to the U.S. dollar, and Belizean banks continue to offer financial and corporate services to nonresidents in its offshore financial sector. Additionally, some money laundering is believed to be related to proceeds from U.S. residents participating in unlawful Internet gaming.

Belizean officials suspect there is money laundering activity in their two free trade zones known as Commercial Free Zones or CFZs. The largest, the Corozal Commercial Free Zone, is located on the border with Mexico, and the smaller one, the Benque Viejo Free Zone, recently started operating on the western border with Guatemala. The Corozal Free Zone was designed to attract Mexicans for duty free shopping, and Belizean authorities believe it is heavily involved in trade-based money laundering and the illicit importation of duty free products.

As Belize is a transshipment point for marijuana and cocaine, there are strong indications that money laundering proceeds are increasingly related to local drug trafficking organizations and organized criminal groups involved in the trafficking of illegal narcotics, psychotropic substances, and chemical precursors.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Domestic and offshore banks; venture risk capital; money brokers, exchanges, and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions; building societies; trust and safekeeping services; casinos; motor vehicle dealers; jewelers; international financial service providers; attorneys; notaries public; accountants and auditors

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 82: January 1 - November 8, 2012

Number of CTRs received and time frame: Not applicable

STR covered entities: Domestic and offshore banks; venture risk capital; money brokers, exchanges, and transmission services; moneylenders and pawnshops; insurance; real estate; credit unions; building societies; trust and safekeeping services; casinos; motor vehicle dealers; jewelers; international financial service providers; attorneys; notaries public; accountants and auditors

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 14: January 2009 - September 2012

Convictions: 11: January 2009 - September 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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 can be found here: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=352&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The August 2012 "Domestic Banks and Financial Institution Act" strengthens internal anti-money laundering (AML) controls. The Act improves provisions to govern domestic banks and financial institutions by strengthening the supervisory powers and regulatory independence of the Central Bank, addressing deficiencies and vulnerabilities in the domestic banking sector, and providing for the appointment of a statutory license

administrator, where appropriate, to protect the interests of depositors, creditors and shareholders. While the Act enhances the Central Bank's control of domestic banks and financial institutions, the GOB should determine how the act can be used to strengthen money laundering investigations and prosecutions.

The GOB should provide additional resources to effectively enforce AML regulations. The responsibility for enforcement and implementation of all financially-related regulations as well as international sanctions lists, domestic tax evasion, and all money laundering investigations lies with the financial intelligence unit (FIU). There is limited assistance from other law enforcement agencies, governmental departments, and regulatory bodies. The FIU has a broad mandate and a small staff, and does not have sufficient training or experience in identifying, investigating, reviewing, and analyzing evidence in money laundering cases. Prosecutors and judges should receive additional training on financial crimes, including money laundering, to increase prosecutions. The FIU currently contracts outside attorneys for prosecutions.

The Prime Minister and other government officials have made public statements supportive of the U.S. Department of the Treasury's Office of Foreign Assets Control's 2012 designations of Belizeans, and all local banks comply and prohibit business with the designated entities.

In August 2012, Belize successfully convicted three people in a case involving Moneygram's local owners and employees laundering money gained through an Internet gaming website. Three individuals were convicted on money laundering charges in November 2012. This is Belize's first significant money laundering conviction.

The GOB should increase monitoring and control of the offshore financial sector and CFZs. It is widely believed there is illicit financial activity in both sectors, although no one has been charged with a financial crime. Belize should require the CFZs to be reporting entities.

Belize also should become a party to the UN Convention against Corruption.

Bolivia

Bolivia is not a regional financial center but remains vulnerable to money laundering. Illicit financial activities are related primarily to cocaine trafficking, but include corruption, tax evasion, smuggling, and trafficking in persons. Criminal proceeds laundered in Bolivia are derived from smuggling contraband and from the foreign and domestic drug trade.

There is a significant market for smuggled goods in Bolivia. Chile is the primary entry point for illicit products, which are then sold domestically or informally exported to Brazil and Argentina. An estimated 70 percent of Bolivia's economy is informal, with proceeds entering the formal market through the financial system. There is no indication

the illicit financial activity is linked to terrorist financing, though lack of proper safeguards creates a vulnerability to such activity.

Much of the informal economy occurs in non-regulated commercial markets where many products can be bought and sold outside of the formalized tax system. Public corruption is common in these commercial markets and money laundering activity is likely.

The Bolivian financial system is moderately dollarized, with some 31 percent of deposits and 24 percent of loans distributed in U.S. dollars rather than Bolivianos, the national currency. Bolivia has 13 free trade zones for commercial and industrial use located in El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, Desaguadero and Cobija. Casinos (hard gaming) are illegal in Bolivia. Soft gaming (e.g., bingo) is regulated; however, many operations have questionable licenses.

Bolivia is included in the October 2012 Financial Action Task Force (FATF) Public Statement because it has not made sufficient progress in implementing its action plan and continues to have certain strategic anti-money laundering/counter-terrorist financing (AML/CFT) deficiencies, including inadequacies in its criminalization of both money laundering and terrorist financing.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, micro-financial institutions, insurance companies, exchange houses, remittance companies, securities brokers, money transporter companies and financial intermediaries

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

STR covered entities: Banks, micro-financial institutions, insurance companies, exchange houses, remittance companies, securities brokers, money transporter companies and financial intermediaries

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 70: January through October 2012
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** NO ***Other mechanism:*** NO
With other governments/jurisdictions: Not available

Bolivia is a member of the Financial Action Task Force in 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 December 2008, the Egmont Group of Financial Intelligence Units (FIU) expelled Bolivia's Financial Investigation Unit (UIF), Bolivia's FIU, and continues to bar 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. To regain Egmont membership, Bolivia must reapply and provide written evidence of compliance with Egmont definitions and requirements. A continued lack of personnel in the UIF, 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.

Cash transporters, informal exchange houses, and wire transfer businesses are not subject to anti-money laundering controls. Non-registered currency exchanges are illegal.

The September 2011 legislation criminalizing terrorist financing is not sufficiently broad to meet international standards. According to the law, all terrorist activity must be connected to a group, and "terrorism" is narrowly defined. The financing of an individual terrorist would be covered only if he/she also takes part in such a group. Additionally, the Government of Bolivia (GOB) should demonstrate that procedures for freezing assets can be completed in a timely manner, and the freeze can be maintained indefinitely.

While Bolivia does not have a mutual legal assistance treaty with the United States, various multilateral conventions to which both countries are signatories are used for requesting mutual legal assistance.

The GOB should address AML/CFT legislative deficiencies and extend its laws to broaden the list of predicate offenses. Additionally, the GOB should strengthen the current legal and regulatory framework of the UIF and fulfill the requirements for reinstatement into the Egmont Group.

Brazil

Brazil was the world's sixth largest economy by nominal gross domestic product (GDP) in 2011, and is considered a regional financial center for Latin America. It is also a major drug transit country, as well as one of the world's largest consumer countries. Money laundering in Brazil is primarily related to domestic crimes, especially drug trafficking, corruption, organized crime, illegal 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 specific 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 originating in Asia), 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, report 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.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** NO ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame:
Number of CTRs received and time frame:
1,289,087 STRs/CTRs in 2011 (only combined figures are available)
STR 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Brazil is a member of the Financial Action Task Force (FATF) and the Financial Action Task Force 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/documents/documents/mutualevaluationreportofbrazil.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOB achieved visible results over the last few years from the increased anti-smuggling and law enforcement efforts by state and federal agencies. Brazilian Customs and the Brazilian Tax Authority continue to take effective action to suppress the smuggling of drugs, weapons, and contraband goods along the border with Paraguay. Because of the effective crackdown on the Friendship Bridge connecting Foz do Iguaçu, Brazil, and Ciudad del Este, Paraguay, most smuggling migrated to other sections of the border. The Federal Police Special Maritime Police Units aggressively patrol the maritime border areas.

In June 2012, the GOB passed a new anti-money laundering law. The new legislation provides Brazilian legal authorities with greater latitude in defining and prosecuting money laundering offenses and significantly increases the maximum fine for money laundering crimes. The law also allows assets held by third parties to be seized more easily; however, the 2012 legislation does not criminalize terrorism financing in a manner consistent with international standards and does not provide the GOB with the ability to quickly freeze terrorists' assets. The GOB should take steps to correct these deficiencies by passing draft legislation that addresses these issues.

Legal persons are not subject to direct civil or administrative liability for committing money laundering offenses. Corporate criminal liability is not possible due to fundamental principles of domestic law. The GOB should enact legislation that imposes criminal and/or civil/administrative penalties for legal persons involved in money laundering/terrorist financing activity.

Some high-priced goods in the TBA are paid for in U.S. dollars, and cross-border bulk cash smuggling is a concern. Large sums of U.S. dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay into Brazil. From there, the money may make its way to banking centers in the United States. However, the GOB maintains some controls over capital flows and requires disclosure of the ownership of corporations.

Brazil's Trade Transparency Unit (TTU), operating in partnership with the U.S. Department of involved in trade-based money laundering activities between Brazil and the United States. As a result of the TTU, the GOB has identified millions of dollars of lost revenue. The GOB has generally responded to U.S. efforts to identify and block terrorist-related funds, including U.S. designations related to terrorist financing activity within the country. Homeland Security, aggressively analyzes, identifies, and investigates companies and individuals

British Virgin Islands

The British Virgin Islands (BVI) is a United Kingdom (UK) overseas territory with a population of approximately 22,000. The economy is heavily dependent on tourism and its offshore operations. BVI is a well-established financial center offering accounting, banking and legal services, captive insurance, company incorporations, mutual funds administration, trust formations, and shipping registration. The Financial Services Commission (FSC) is the sole supervisory authority responsible for the licensing and supervision of financial institutions under the relevant statutes. BVI's unique share structure does not require a statement of authorized capital and the lack of mandatory filing of ownership information poses significant money laundering risks.

Tourism accounts for 45 percent of the economy and employs the majority of the workforce; however, over one-half of government revenues derive from the financial sector. BVI's proximity to the U.S. Virgin Islands and the use of the U.S. dollar for its currency pose additional risk factors for money laundering. The BVI is a major target for drug traffickers, who use the jurisdiction as a gateway to the United States. Drug trafficking, in general, is a serious problem.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks; currency exchanges and money remitters; trusts and company service providers; mutual and public fund managers; non-governmental organizations; insurance companies, agents and brokers; dealers in autos, yachts and heavy machinery; dealers in precious metals and stones; lawyers and accountants; real estate agents; casinos; and leasing companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 152 in 2011

Number of CTRs received and time frame: 59: January - June 2012

STR covered entities: Banks; currency exchanges and money remitters; trusts and company service providers; mutual and public fund managers; insurance companies, agents and brokers; non-governmental organizations; dealers in autos, yachts, and heavy machinery; dealers in precious metals and stones; leasing companies; money service businesses; lawyers and accountants; real estate agents; casinos

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 7 in 2011

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=327&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In July 2012, The Proceeds of Criminal Conduct (Amended) Act (PCCA), 2012 significantly increased penalties for most money laundering criminal acts. Additionally,

the Anti-Money Laundering and Terrorist Financing (AML/TF) Code of Conduct (Amended, 2012) supplements the PCCA and provides risk-based approach guidance to businesses while allowing for stiff administrative penalties for violations. The FSC has increased its staffing in order to meet the recommended inspection and reporting requirements.

While real estate agents, lawyers, other independent legal advisers, accountants, dealers in precious metals and stones, and non-governmental organizations are covered by the AML/CFT regulations, there appears to be no effective mechanism to ensure compliance with AML/CFT requirements. Furthermore, although casinos also are covered, there are no casinos in the BVI at the present time.

As a United Kingdom (UK) Caribbean overseas territory, the BVI 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 were extended to the BVI on May 17, 2012.

Burma

Burma is not a regional or offshore financial center. Its economy is underdeveloped and its historically isolated banking sector has just started taking tentative steps to connect to the international financial system. However, Burma's prolific drug production, relationship with the North Korean government, the growing use of credit/debit cards connected to international financial institutions and lack of transparency make it attractive for domestic and possibly international money laundering. While its underdeveloped economy remains unattractive as a destination to harbor funds, the low risk of enforcement and prosecution makes it appealing to the criminal underground. Trafficking in persons and public corruption are also major sources of illicit proceeds. Additionally money launderers exploit the illegal trade in wildlife, gems, and timber; and trade-based money laundering is of increasing concern.

Burma continues to be a major source of opium and exporter of heroin, second only to Afghanistan. However, Burma's level of poppy cultivation is considerably lower than in the peak during the 1980s and 1990s. Burma's 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 government allow organized crime groups to function with minimal risk of interdiction. The Government of Burma (GOB) considers drug enforcement secondary to security and is willing to allow narcotics trafficking in border areas in exchange for cooperation from ethnic armed groups.

Corruption is endemic in both business and government. State-owned enterprises and military holding companies control a substantial portion of Burma's resources, although

there is a continued push for the privatization of more government assets. China, Japan and the United Arab Emirates have recently provided large amounts of investment which increase corruption and illicit activities. The privatization process provides potential opportunities for graft and money laundering, including by business associates of the former regime and politicians in the current civilian government, some of whom are allegedly connected to drug trafficking. Over the past several years, the GOB has enacted several reforms intended 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. There are at least five casinos that operate, including one in the Kokang special region near China; however, little information is available about the regulation or scale of these institutions.

In July 2012, the United States eased economic sanctions related to new U.S. investments in Burma and the exportation of financial services to Burma. In November 2012, the ban on Burmese imports imposed in 2003 under the Burmese Freedom and Democracy Act and Executive Order 13310 was also eased to a large extent. However, U.S. legislation and Executive Orders that block the assets of members of the former military government and three designated Burmese foreign trade financial institutions, freeze the assets of additional designated individuals responsible for human rights abuses and public corruption, and impose travel restrictions on certain categories of individuals and entities remain in force.

In 2003, the United States also designated Burma as a jurisdiction of primary money laundering concern and imposed countermeasures, pursuant to Section 311 of the USA PATRIOT Act, because of its extremely weak anti-money laundering /counter-terrorist financing (AML/CFT) regime.

In its October 2012 Public Statement, the Financial Action Task Force (FATF) notes that Burma has taken steps to improve its AML/CFT regime, including by removing its reservations to the extradition articles of several international conventions. However, FATF expressed concern that Burma has not made sufficient progress in implementing its action plan and continues to have certain strategic AML/CFT deficiencies. The United States continues to issue advisories to financial institutions, alerting them of the risk posed by Burma's AML/CFT deficiencies and of the need to conduct enhanced due diligence with respect to financial transactions involving Burma.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 97: January 1 to October 31, 2012

Number of CTRs received and time frame: 172,559: January 1 to October 31, 2012

STR covered entities: Banks (including bank-operated money changing counters); GOB bodies such as the Customs Department, Internal Revenue Department, Trade Administration Department, Marine Administration Department and Ministry of Mines; state-owned insurance company and small loans enterprise; securities exchange; accountants, auditors, the legal and real estate sectors; and dealers of precious metals and stones

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** NO

With other governments/jurisdictions: YES

Burma 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/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. Regulation of financial institutions is likewise extremely weak. While some Burmese financial institutions may engage in currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency, the absence of publicly available GOB information precludes confirmation of such conduct. Burmese law does not contain any customer due diligence (CDD) requirements, although the Central Bank (CB) issues guidelines for banks to follow and some entities implement CDD procedures under other, non-AML related legal provisions. The government should

draft new KYC/CDD rules and expand the number of organizations required to have such rules.

Burma does not specifically criminalize terrorist financing or designate it as a predicate offense for money laundering, nor is terrorist financing an extraditable offense. Burma should continue implementing its action plan in order to address these and other deficiencies, including by passing the draft Counter Terrorism Law (finalized in October 2012) that will criminalize terrorist financing, establish procedures to identify and freeze terrorist assets, and further strengthen the extradition framework for terrorist financing.

Government workers do not receive a living wage and routinely seek bribes as additional "compensation." Efforts to address the rampant corruption are impeded by the military's influence over civilian authorities, including the police, especially at the local level. The GOB should end all policies that facilitate corrupt practices and money laundering, including strengthening regulatory oversight of the formal financial sector and strengthening CDD measures in the 2002 Control of Money Laundering Law. The financial intelligence unit 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 also should move the CB from under the operational control of the Ministry of Finance and make it an operationally independent entity.

The GOB should become a party to the UN Convention against Corruption.

Cambodia

Cambodia is neither a regional nor an offshore financial center. Several factors, however, contribute to Cambodia's significant money laundering vulnerability. These include Cambodia's weak and ineffective anti-money laundering regime; cash-based, dollarized economy; fast-growing formal banking sector and active informal banking system; porous borders; loose oversight of casinos; and limited capacity to oversee the fast growing financial and banking industries through the National Bank of Cambodia. A weak judicial system and endemic corruption are additional factors negatively impacting enforcement.

Cambodia has a significant black market for smuggled goods, including drugs and imported substances for local production of methamphetamine. Both licit and illicit transactions, regardless of size, are frequently done outside of formal financial institutions and are difficult to monitor. Cash proceeds from crime are readily channeled into land, housing, luxury goods, and other forms of property without passing through the formal banking sector. Casinos along the borders with Thailand and Vietnam also are another potential avenue to convert ill-gotten cash.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO

KYC covered entities: Banks, microfinance institutions, and credit cooperatives; securities brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals and stones; post offices offering payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; NGOs and foundations

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 58: January - October 2012

Number of CTRs received and time frame: 778,408: January - October 2012

STR covered entities: Banks, microfinance institutions, and credit cooperatives; securities 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 offices offering payment transactions; lawyers, notaries, accountants, auditors, investment advisors and asset managers; casinos and gambling institutions; NGOs and foundations

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0: January - October 2012

Convictions: 0: January - October 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO ***Other mechanism:*** NO

With other governments/jurisdiction: YES

Cambodia is a member of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force-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:

In July, the Government of Cambodia (GOC) signed a memorandum of understanding with the Japan Financial Intelligence Center, formalizing a mechanism for anti-money laundering/counter-terrorist financing (AML/CFT) information sharing.

Cambodia's AML/CFT law allows authorities to freeze assets relating to money laundering or terrorist financing until courts have decided the case, but the AML/CFT regime lacks a clear system for identifying, seizing, and sharing assets with foreign governments. Furthermore, although Cambodia has the legal ability to identify and freeze terrorist assets, the GOC should establish and implement adequate procedures to perform this function. The GOC should adequately criminalize money laundering and terrorist financing; establish and implement adequate procedures for the confiscation of funds related to money laundering; ensure a fully operational and effectively functioning financial intelligence unit (FIU); and establish and implement effective controls for cross-border cash transactions. Given the high level of corruption, the GOC also should require enhanced due diligence for domestic politically exposed persons (PEPs).

The primary enforcement and implementation issues involve the willingness and ability of commercial bankers to comply with, and law enforcement to enforce, money laundering laws and regulations. The GOC should work to increase the reporting of STRs and increase the capability of the nascent and understaffed FIU. The FIU's effectiveness is severely limited by the inability of the FIU to receive reports in an electronic format, to store received reports in an electronic database, and to perform systematic analyses on the electronic database. This is compounded by the paucity of reports received from reporting entities, probably due to the lack of credible regulatory enforcement. Effectiveness is further limited by the practice of sending analyses exclusively to Cambodia's Interpol National Central Bureau rather than directly to relevant law enforcement bodies.

The law on AML/CFT excludes pawn shops from its explicit list of covered entities but does allow the FIU to designate any other profession or institution to be included within the scope of the law. In April 2012, the GOC issued a sub-decree to establish a National Coordination Committee on Anti-Money Laundering and Combating the Financing of Terrorism (NCC), as a permanent and senior-level coordination mechanism for preventing and controlling money laundering and terrorist financing in Cambodia. The NCC has the authority to coordinate with all stakeholders and to make decisions on the prevention and control of money laundering and terrorism financing in Cambodia. The key role of the NCC is to ensure the effective implementation of the AML/CFT law, including the development of national policy and a monitoring system to measure AML/CFT efforts. It is too early to tell what effect this committee will have on the country's AML deficiencies.

The GOC should work to strengthen control over its porous borders. Cambodia should design and implement effective operational procedures both within affected agencies as well as among agencies, and measure the effectiveness of these procedures on an ongoing basis. It must also provide training to increase the capacity of commercial banks, law

enforcement agencies, and regulatory bodies, as well as empower law enforcement and regulators to strictly enforce AML/CFT laws and regulations.

Canada

Money laundering activities in Canada are primarily a product of illegal drug trafficking and financial crimes, such as credit card and securities fraud. The criminal proceeds laundered in Canada derive primarily from domestic activity which is controlled by drug trafficking organizations and organized crime.

Canada does not have a significant black market for illicit or smuggled goods. Cigarettes are the most commonly smuggled good in the country. There are indications that trade-based money laundering occurs in the jurisdiction. There is no certainty that this activity is tied to terrorist financing activity.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks and credit unions; life insurance companies, brokers, and agents; securities dealers; casinos; real estate brokers/agents; agents of the Crown; money services businesses; accountants and accounting firms; lawyers; dealers in precious metals and stones; and notaries in Quebec and British Columbia

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 70,392 in 2012

Number of CTRs received and time frame: 35,026 in 2012

STR covered entities: Banks and credit unions; life insurance companies, brokers, and agents; securities dealers; casinos; real estate brokers and agents; agents of the Crown; money services businesses; accountants and accounting firms; dealers in precious metals and stones; and notaries in British Columbia and Quebec

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 180 in 2011
Convictions: 18 in 2011

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Canada 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/countries/a-c/canada/documents/mutualevaluationofcanada.html.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Canada has a rigorous detection and monitoring process in place to identify money laundering and terrorist financing activities, but a weak enforcement and conviction capability. A report released in June 2012 by the Canadian Centre for Justice Statistics found that actual suspects were identified in only 20 percent of reported money laundering cases and convictions were obtained in only one third of those cases. Industry experts cite several reasons for the problem: privacy rules that prevent Canada's financial intelligence unit, the Financial Transaction Reports Analysis Centre of Canada (FINTRAC), from freely sharing information with law enforcement; complex investigations that can take understaffed police agencies years to finish; and overworked Crown Prosecutors who often plea bargain away difficult money laundering cases, instead prioritizing drug trafficking charges since they are viewed as having a stronger likelihood of conviction.

In Canada, the possession of proceeds of crime is a criminal offense under the Criminal Code which would be considered money laundering. A maximum term of imprisonment of 10 years applies to both money laundering convictions and possession of crime proceeds convictions involving more than $5,000. As such, possession of proceeds of crime is not considered to be a lesser offense and is equally effective in pursuing criminals and forfeiting their illicit assets.

Deficiencies were identified in Canada's anti-money laundering/counter-terrorist financing (AML/CFT) regime relating to its customer due diligence obligations. The Government of Canada published proposed regulations amending the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations in October 2012, in order to address those deficiencies. The proposed changes would require reporting entities to better identify customers and understand their business, consequently enabling the reporting entities to identify transactions and activities that are at greater risk for money laundering or terrorist financing. The final regulations will go into effect one year after publication.

Canada should continue its work to strengthen its AML/CFT measures within the casino industry and reduce the length of time needed for FINTRAC to prepare reports used by

law enforcement authorities. Canada also should continue to ensure its privacy laws do not excessively prohibit providing 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 jurisdictions.

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 September 2011, the banking sector had $1.60 trillion in assets. There are more than 92,000 companies licensed or registered in the Cayman Islands. According to the Cayman Islands Monetary Authority, at the end of December 2012, there were 226 banks, 143 active trust licenses, 741 captive insurance companies, six money service businesses, and 10,841 registered mutual funds, of which 408 were administered and 121 were licensed. Shell banks are prohibited, as are anonymous accounts. Bearer shares can only be issued by exempt companies and must be immobilized.

Gambling is illegal; nor does the Cayman Islands 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 in the jurisdiction.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 406: July 1, 2011 - June 30, 2012
Number of CTRs received and time frame: Not applicable
STR 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 6: Time frame unknown
Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The Cayman Islands 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/Cayman_Islands_3rd_Round_MER_(Final)_English.pdf.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

While the Cayman Islands 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.

Registered agents of private trust companies are obligated to maintain ownership and identity information for all express trusts under their control. International reporting suggests agents for private trust companies and individuals carrying on trust businesses may not consistently maintain identity and ownership information for all express trusts for which they act as trustees. In addition, there remains a lack of penalties for failing to report ownership and identity information, which undermines the effectiveness of identification obligations. There also is a need to pay greater attention to the risks and proper supervision of non-profit organizations.

The regulation of Master Funds (numbering 1,849 as of September 2012) under the Mutual Funds Law (2012 Revision) reduced the estimated number of unregulated funds. There is a fine for not maintaining identity information.

The Cayman Islands continues to develop its network of exchange of information mechanisms. The Cayman Islands has signed additional tax information exchange agreements with Argentina, China, and Guernsey. The Cayman Islands now has a network of 27 information exchange agreements, with 24 of those already in force.

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 Transnational Organized Crime was extended to the Cayman Islands on May 17, 2012. The UN Convention against Corruption has 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 been finalized by the UK, although the provisions of the Convention also are implemented by domestic laws.

China

The development of China's financial sector has required increased enforcement efforts to keep pace with the sophistication and reach of criminal and terrorist networks. 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. Criminal proceeds are generally laundered via methods that include: bulk cash smuggling; trade-based money laundering; manipulating the invoices for services and the shipment of goods; the purchase of valuable assets such as real estate; the investment of illicit funds in lawful sectors; gambling; and the exploitation of the formal and underground financial systems, in addition to third-party payment systems.

Most money laundering cases currently under investigation involve funds obtained from corruption, fraud, drug smuggling, and bribery. Chinese officials have noted that corruption in China often involves state-owned enterprises, including those in the financial sector.
While Chinese authorities continue to investigate cases involving traditional money laundering schemes, they have also identified the adoption of new money laundering methods, including illegal fund raising activity, cross-border telecommunications fraud, and corruption in the banking, securities, and transportation sectors. Chinese authorities have also observed that money laundering crimes are spreading from the developed coastal areas such as Guangdong and Fujian provinces to underdeveloped, inland regions.

China is not considered a major offshore financial center. However, China has multiple Special Economic Zones (SEZs) and other designated development zones at the national, provincial, and local levels. SEZs include Shenzhen, Shantou, Zhuhai, Xiamen, and Hainan, along with 14 coastal cities and over 100 designated development zones.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks and credit unions, securities dealers, insurance and trust companies; financial leasing and auto finance companies; and currency brokers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 61,852,018 in 2010

Number of CTRs received and time frame: Not available

STR covered entities: Banks, securities and futures institutions, and insurance companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 11,380 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** 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. 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:

While China's October 2011 legislation has addressed some deficiencies in the implementation of the requirements of UNSCRs 1267 and 1373, some deficiencies remain to be addressed. These include guidance for designated non-financial businesses

and professions; delisting and unfreezing procedures; and the rights of bona fide third parties in seizure/confiscation actions.

The Government of China (GOC) has strengthened its preventative measures, with an emphasis on requiring financial institutions to collect and maintain beneficial ownership information, and to make the STR reporting regime more comprehensive. China should enhance coordination among its financial regulators and law enforcement bodies to better investigate and prosecute offenders. China's Ministry of Public Security should continue ongoing efforts to develop a better understanding of how anti-money laundering/counter-terrorist financing (AML/CFT) tools can be used to support the investigation and prosecution of a wide range of criminal activity.

The GOC should ensure all courts are aware of and uniformly implement the mandatory confiscation laws. In domestic cases, once an investigation is opened, all law enforcement entities and the Public Prosecutors are authorized to take provisional measures to seize or freeze property in question in order to preserve the availability of the same for later confiscation upon conviction. At present, although China's courts are required by law to systematically confiscate criminal proceeds, enforcement is inconsistent and no legislation authorizes seizure/confiscation of assets of equivalent value. Confiscation is conviction based, while civil forfeiture is unavailable.

The United States and China are parties to the Agreement on Mutual Legal Assistance in Criminal Matters. U.S. law enforcement agencies note the GOC has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information. In addition to the lack of law enforcement-based cooperation, the GOC's inability to enforce U.S. court orders or judgments obtained as a result of non-conviction based forfeiture actions against China-based assets remains a significant barrier to enhanced U.S. - China cooperation in asset freezing and confiscation. Such unwillingness and failure to provide seizure and forfeiture assistance increases the likelihood of the U.S. resorting to unilateral measures in cases where criminal forfeiture has been unavailable as no known defendants can be identified or returned to the U.S. for prosecution, thereby making civil forfeiture the only viable means to recover the criminal proceeds located in China.

The GOC should expand cooperation with counterparts in the United States and other countries, and pursue international AML/CFT linkages more aggressively. U.S. agencies consistently seek to expand cooperation with Chinese counterparts on AML/CFT matters and to strengthen both policy and operational level cooperation in this critical area. While China continues to make significant improvements to its AML/CFT legal and regulatory framework and is gradually making progress toward meeting international standards, implementation remains lacking, particularly in the context of international cooperation.

Colombia

The Government of Colombia (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. Laundered funds are derived from commercial smuggling for tax and import duty evasion; kidnapping; arms trafficking; and terrorism connected to violent, illegally-armed groups (known as bandas criminales or BACRIM) and U.S. government-designated terrorist organizations, like the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), operating locally and regionally. Official corruption and the growth of illegal mining have also aided money laundering and terrorist financing in geographic areas controlled by both the FARC and the BACRIM. It is reported that drug and money laundering groups have influenced high-level bank officials, especially in the stock brokerage market, in order to circumvent both established AML controls and government regulations. Colombian money brokers, primarily concentrated in Bogota, but also in Medellin and Cali, are additional actors that facilitate money laundering activities.

Smuggled merchandise remains a source for money laundered through the financial system. It occurs via trade and the non-bank financial system and is visible through Colombian criminal organizations with connections to financial institutions in Mexico, China, Ecuador, Peru, Panama, and Venezuela. This trend grew exponentially in recent years. In the black market peso exchange (BMPE), goods are bought with drug dollars from abroad, often Mexico. Many of the goods are either smuggled into Colombia via Panama or brought directly into Colombia's customs warehouses, thus avoiding various taxes, tariffs, and customs duties. In other trade-based money laundering schemes, goods are over- or under-invoiced to transfer value. According to experienced BMPE industry workers, evasion of the normal customs charges is frequently facilitated through corruption of Colombian oversight authorities.

Casinos, the postal money order market, bulk cash smuggling, wire transfers, remittances, the securities markets in the U.S. and Colombia, electronic currency, prepaid debit cards, and illegal mining all are being utilized to repatriate illicit proceeds to Colombia. The trade of counterfeit items in violation of intellectual property rights is an ever increasing method to launder illicit proceeds.

Free trade zones (FTZs) in Colombia present opportunities for criminals to take advantage of inadequate regulation and transparency. Colombia's FTZ law opens investment to international companies, allows one-company or stand-alone FTZs, and permits the designation of pre-existing plants as FTZs. As of October 2012, there are 104 FTZs in Colombia. Companies within FTZs enjoy a series of benefits such as a preferential corporate income tax rate and exemption from customs duties and value-added taxes on imported materials. The Ministry of Commerce administers requests for establishing FTZs, but the government does not participate in their operation.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found at: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, stock exchanges and brokers, mutual funds, investment funds, export and import intermediaries (customs brokers), credit unions, wire remitters, money exchange houses, public agencies, notaries, casinos, lottery operators, car dealers, gold dealers, foreign currency traders, sports clubs, cargo transport operators, and postal order remitters

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 4,842: January through August 2012

Number of CTRs received and time frame: 7,943,732: January through August 2012

STR covered entities: Banks, securities broker/dealers, trust companies, pension funds, savings and credit cooperatives, depository and lending institutions, lotteries and casinos, vehicle dealers, currency dealers, importers/exporters and international gold traders

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 97 in 2012

Convictions: 80 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Colombia is a member of the Financial Action Task Force in South America (GAFISUD), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:
http://www.gafisud.info/pdf/InformedeEvaluacinMutuaRepblicadeColombia_1.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The President takes a hard line on corruption and demonstrates a serious intent to punish corrupt officials at all levels. The President also has directed the Colombian National Police to assign more resources to illegal mining activities throughout Colombia.

The Government of Colombia (GOC) continues to make progress in the development of its financial intelligence unit (FIU), regulatory framework, and interagency cooperation within the government. Placing greater focus and priority on money laundering and terrorist financing investigations, including increasing resources and training, is necessary to ensure continued and improved progress. Congestion in the court system, procedural impediments in the asset forfeiture prosecutions, and corruption remain problems that should be addressed. While the GOC still should take steps to foster better interagency cooperation, including improved case coordination between the Unidad Aministrativa Especial de Información Análisis Financiero (UIAF), Colombia's FIU, and the Colombian National Police's specialized judicial police units, Colombia stands out as a regional leader in the fight against money laundering and terrorist financing and is a key part of a Regional FIU Initiative.

The DIAN, Colombia's Tax and Customs Authority, regulates activities and materials in FTZs, and there are identification requirements for companies and individuals who enter or work in the FTZs. The current administration is revising the FTZ and tax exemption scheme.

The Government of Colombia tried to pass a law in 2012 that would allow money to be transferred electronically through cell phones. After over two months in Congress, and due in part to a procedural misstep in April 2012, the e-money law did not pass to a vote. In general, banks were concerned with the proposal, which lacked sufficient controls and an enhanced regulatory framework to avoid potential problems.

In September 2012, the Ministry of Foreign Affairs, the Fiscalia General, and the Treasury Ministry's Financial Superintendency and UIAF signed an interagency memorandum of understanding (MOU) to allow for coordination and implementation of the Colombian government's authority to block assets of individuals and entities on the UN 1267 and UN 1373 Sanctions Committees' consolidated lists and to freeze the funds of designated terrorists, terrorist financiers, and terrorist groups. The MOU gives legal authority to the Fiscalia to implement the necessary seizure orders against the assets of individuals and entities on the UN 1267 Sanctions Committee's consolidated list and provides administrative authorities to the Ministry of Foreign Affairs, the Financial Superintendency, and UIAF to provide the relevant UN orders and supporting information to the Fiscalia to assist it to locate and freeze any identified assets in Colombia.

The GOC should put in place streamlined procedures for the liquidation and sale of seized assets under state management and should revise procedures to permit expedited forfeiture of seized assets. An average seven- to ten-year time frame for forfeiture opens opportunities for waste, fraud, and abuse while limiting the deterrent effect that could result from rapid forfeiture. Colombian prosecutors should take steps to not only seize

the physical assets (real property) of narcotics traffickers but also seize their Colombian bank accounts. This element is frequently not a part of regular Colombian asset seizure operations. In addition, the GOC should increase the number of judges and related administrative support resources that oversee asset forfeiture and money laundering cases to expedite the judicial process. The GOC is currently working on a revision of its asset forfeiture law. Key steps to the new streamlined approach include one expedited personal notification about forfeiture (at present, notifications can take up to six months or two years), the ability to notify and seize at the same time, and elimination of the appellate hierarchy that currently allows three opportunities to appeal. An important component will be a provision to allow Colombian courts to enforce asset forfeiture judgments of foreign courts without needing to resort to the current lengthy process. This law is slated to reach Congress during its next session in February 2013.

The GOC works extensively with U.S. law enforcement agencies to identify, target and prosecute groups and individuals engaged in drug and other financial crimes. In November 2012, a GOC money laundering unit took steps to seize the property of former retired General Mauricio Santoyo, head of security for former President Uribe, due to his ties to the United Self-Defense Forces of Colombia (AUC), named a foreign terrorist organization by the United States in September 2001. The Attorney General's Office seized property including nine farms, five vehicles, a commercial establishment, and a factory. The goods will go to the National Drugs Directorate for further action. In September 2012, the GOC worked closely with the U.S. on a case involving Juliana Rubio Isaza, a Colombian woman who was extradited to the U.S. on money laundering charges. A U.S. investigation revealed she worked as a stock broker for Stanford, S.A. and belonged to the organization of Manuel Madero Luzardo alias "El Pato". Rubio is said to have laundered money totalling more than $1.5 million from drug related activities in Mexico and the U.S. Colombia's technical investigations body captured Rubio in January 2012, along with seven other key members of the El Pato organization.

Costa Rica

Proceeds from international cocaine trafficking represent the most significant source of assets laundered in Costa Rica. The Costa Rican-based internet gaming industry also launders millions of dollars in illicit proceeds through Costa Rica and offshore centers annually. Proceeds from domestic criminal activities, including narcotics trafficking, financial frauds, human trafficking, corruption and contraband smuggling, are also laundered in Costa Rica. The Government of Costa Rica (GOCR) reports that Costa Rica is primarily used by foreign organizations as a bridge to send funds to and from other jurisdictions using bulk cash shipments and companies or financial institutions located offshore.

Criminal organizations utilize financial institutions, licensed and unlicensed money remitters, and the free trade zones (FTZs) to launder the proceeds of their illicit activities. The money services businesses are a significant risk for money laundering and a potential mechanism for terrorist financing. The smuggling of bulk currency across borders with Panama and Nicaragua is also prevalent. Trade-based money laundering, while used, is

not detected with the same frequency as the above typologies. There is no recent investigation related to terrorism financing.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, savings and loan cooperatives, pension funds, insurance companies and intermediaries, money exchangers, and money remitters; securities broker/dealers, credit issuers, sellers or redeemers of travelers checks and postal money orders; trust administrators and financial intermediaries; asset managers, real estate developers and agents; manufacturers, sellers and distributors of weapons; art, jewelry and precious metals dealers; sellers of new and used vehicles; casinos, virtual casinos, and electronic or other gaming entities; lawyers and accountants

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 186: January 1 – November 19, 2012

Number of CTRs received and time frame: Not available

STR covered entities: Banks, savings and loan cooperatives, pension funds, insurance companies and intermediaries, money exchangers, and money remitters; securities broker/dealers, credit issuers, sellers or redeemers of travelers checks and postal money orders; trust administrators and financial intermediaries; asset managers, real estate developers and agents; manufacturers, sellers and distributors of weapons; art, jewelry and precious metals dealers; sellers of new and used vehicles; casinos, virtual casinos, and electronic or other gaming entities; lawyers and accountants

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: 3: January 1 – November 19, 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Costa Rica is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: http://www.gafisud.info/eng-evaluaciones.php

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The GOCR made substantial progress enhancing its anti-money laundering (AML) regime through modifications to the legal and regulatory frameworks. Additional AML regulations for financial institutions and designated non-financial businesses and professions (DNFBPs) were implemented in 2012. Moreover, Costa Rica enacted a law to facilitate greater fiscal transparency through the international exchange of tax information.

However, various obstacles still exist that prevent the GOCR from effectively investigating and prosecuting money laundering crimes. Underutilized investigative tools, such as cooperating witnesses, confidential informants, electronic surveillance, and undercover operations reduce the ability of investigators to pursue these investigations. Costa Rica enacted a non-conviction based asset forfeiture law in 2009. However, the GOCR has not successfully pursued a case under this law, and it will likely need to be reformed. Costa Rican law does not contemplate the sharing of forfeited assets with other countries.

Pursuant to an interpretation of Costa Rican law, 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). This practice diminishes the independent nature of the offense and greatly reduces the amount of potential money laundering prosecutions. In addition, criminal liability does not extend to legal persons.

The unregulated online gaming and casino industries pose significant risks for money laundering. The legislature rejected proposed provisions to create a regulatory body when it passed a recent gaming bill. It is difficult for the GOCR to verify the source of funds used for local real estate purchases on behalf of foreign buyers.

Despite these limitations, the attorney general's office successfully prosecuted an individual for laundering millions of dollars generated from contraband cigarette sales in the United States. The case represented the first sophisticated money laundering prosecution in Costa Rica. 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 United States.

Curacao

Curacao is an autonomous entity within the Kingdom of the Netherlands (KON). Curacao enjoys a high degree of autonomy on most internal matters, but defers to the KON on matters of defense, foreign policy, final judicial review, human rights, and good governance. 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 free zone areas, and resort/casino complexes to place, layer and launder drug proceeds. Another possible area of money laundering activity may be through wire transfers between the island and the Netherlands. Bulk cash smuggling is a continuing problem due to the close proximity of Curacao to South America.

Curacao has two economic free 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. The worldwide financial recession continues to slow the economic activities of the zones, although local merchants are confident this will change soon. Curacao has an active "e-zone" which provides e-commerce investors a variety of tax saving opportunities and could be vulnerable to illegal activities.

Curacao's offshore financial sector consists of trust service companies providing financial and administrative services to an international clientele, including offshore companies, mutual funds, and international finance companies. The extent of this sector is not clear, but it has declined in scale due to the worldwide financial crisis. Also, several international financial services companies have relocated their businesses elsewhere because the island suffers from a negative international perception as a tax haven. Banking regulations require international banks to have a physical presence and maintain records on the island. Owning bearer shares is prohibited for onshore companies, and international companies must maintain bearer shares in custody. Several casinos and Internet gaming companies operate on the island, although the number of Internet gaming companies is declining.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES
KYC 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, and administration offices

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 13,005: January – early November 2012
Number of CTRs received and time frame: 4,557: January – early November 2012
STR covered entities: Local and international banks, saving banks, money remitters, credit card companies, credit unions, life insurance companies, insurance brokers, company and other service providers , casinos, Customs, lawyers, notaries, accountants, tax advisors, jewelers, car dealers, real estate agents, and administration offices

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0
Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Curacao 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: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=349&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS*:*

During the past year, the Public Prosecutor's Office initiated an ongoing money laundering investigation into Robbie Dos Santos, a member of the board of the Curacao Lottery Foundation and a major lottery operator. The Government of Curacao's (GOC) cooperation with the U.S. government led to the freezing of over $30 million of Dos Santos' assets in the United States. Dos Santos is the half-brother of former Finance Minister George Jamaloodin, and reportedly a major donor to the Movementu Futuro Kòrsou political party in Curacao. Dos Santos reportedly has business ties to the owner of Atlantis World Group (owner of several casinos in Curacao and St. Maarten),

Francesco Corallo. Italy has an outstanding arrest warrant for Corallo on charges related to money laundering.

The GOC should continue its regulation and supervision of the offshore sector and free trade zones, as well as its pursuit of money laundering investigations and prosecutions. Curacao should work to fully develop its capacity to investigate and prosecute money laundering and terrorist financing cases.

The Mutual Legal Assistance Treaty between the KON and the United States applies to Curacao; however, the treaty is not applicable to requests for assistance relating to fiscal offenses addressed to the Netherlands Antilles.

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 March 1999. The International Convention for the Suppression of the Financing of Terrorism was extended to the Netherlands Antilles, and as successor, to Curacao in March 2010. The United Nations Convention against Transnational Organized Crime and the UN Convention against Corruption have not been extended to Curacao.

Cyprus

Since 1974, Cyprus has been divided de facto into the Republic of Cyprus (ROC)-controlled two-thirds of the island and the remaining one-third, administered by Turkish Cypriots. The ROC government is the only internationally recognized authority; in practice, it does not exercise effective control over the area administered by Turkish Cypriots, a part of the island Turkish Cypriots declared independent in 1983. The United States does not recognize the area administered by Turkish Cypriots, nor does any country other than Turkey. This section of the report discusses the area controlled by the ROC. A separate section on the area administered by Turkish Cypriots follows.

The ROC is a regional financial center with a robust financial services industry and a significant number 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 45 countries (including the United States, several European Union (EU) nations, and former Soviet Union nations); well developed and modern legal, accounting and banking systems; a sophisticated telecommunications infrastructure; and EU membership. Companies formerly classified as offshore are now free to engage in business locally. There are over 240,000 international business companies (IBCs) registered in Cyprus, many of which belong to non-residents. The same disclosure, reporting, tax and other laws and regulations apply equally to all registered companies. The ultimate beneficial owners of IBCs registered in Cyprus must be disclosed to the authorities.

The biggest threats for money laundering in the ROC are primarily from domestic and international financial crime. There is no significant black market for smuggled goods in the ROC. 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 dividing the island.

The ROC has two free trade zones (FTZs) located in the main seaports of Limassol and Larnaca, which are used for transit trade. 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, value added tax, or excise tax. FTZs are governed under the provisions of relevant EU and ROC legislation. The Department of Customs has jurisdiction over both areas and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods. Additionally, the Ministry of Commerce, Industry and Tourism has management oversight over the Larnaca FTZ.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, cooperative credit institutions, securities and insurance firms, payment institutions including money transfer businesses, electronic money institutions, trust and company service providers, auditors, tax advisors, accountants, real estate agents, dealers in precious stones and gems, and attorneys

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 525 in 2011

Number of CTRs received and time frame: Not available

STR covered entities: Banks, cooperative credit institutions, securities and insurance firms, payment institutions including money transfer businesses, trust and company service providers, auditors, tax advisors, accountants, real estate agents, dealers in precious stones and gems, attorneys, plus any person who in the course of his profession, business or employment knows or reasonably suspects that another person is engaged in money laundering or terrorist financing activities

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 76 in 2011
Convictions: 18 in 2011

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The ROC 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-style regional body (FSRB). Its most recent mutual evaluation report can be found here:
http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Cyprus_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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. Cyprus has no provisions allowing civil forfeiture of assets without a criminal case. The police and the financial intelligence unit (FIU) are responsible for tracing, seizing and freezing assets and they 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.

In December 2012, Cyprus passed several new laws upgrading its existing anti-money laundering (AML) legal framework within the context of its request for bailout assistance from the EU. The changes clarify the nature of information subject to exchange with foreign tax authorities; enhance the ability of the FIU to cooperate with foreign authorities; provide increased jail sentences for persons convicted of offenses pertaining to stalling or avoiding paying taxes; address certain deficiencies in Cyprus' existing framework for regulating and supervising lawyers, accountants, and trustees; and call for a comprehensive review of the ROC's existing bank AML supervisory framework.

Area Administered by Turkish Cypriots

The Turkish Cypriot community lacks 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 banks (seven of which are branches) in the area administered by Turkish Cypriots, and Internet banking is available.

The offshore banking sector remains a concern. The offshore sector consists of nine banks and 90 companies. The offshore banks may not conduct business with residents of

the area administered by Turkish Cypriots and may not deal in cash. The "Central Bank" provides the regulation and licensing of offshore banks and audits the offshore entities, which must submit an annual report on their activities. The "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.

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC 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, and lawyers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 105: January 1 - October 30, 2011

Number of CTRs received and time frame: Not available

STR 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** NO

With other governments/jurisdictions: YES

The area administered by Turkish Cypriots is not part of any FSRB and thus is not subject to normal peer evaluations.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Despite the 2009 promulgation of stricter "laws," the 24 operating casinos (four in Nicosia, five in Famagusta and 15 in Kyrenia) 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.

Banks and other designated entities must submit STRs to the "FIU". The "FIU" then forwards STRs to the five-member "Anti-Money Laundering Committee" which decides whether to further refer suspicious cases to the "attorney general's office," and then if necessary, to the "police" for further investigation. The five-member committee is composed of representatives of the "Ministry of Economy," "Money and Exchange Bureau," "Central Bank," "police" and "customs."

The EU continues to provide technical assistance to the Turkish Cypriots to combat money laundering more effectively. The EU is evaluating the continuance of its assistance in light of the area's continuing AML/CFT risks.

The Turkish Cypriot "AML Law" provides better banking regulations than were in force previously, but without ongoing enforcement its objectives cannot be met. A major weakness remains the many casinos, where a lack of resources and expertise leave the area essentially unregulated, and therefore, especially vulnerable to money laundering abuse. Amendments to a "law" to regulate potential AML activity in casinos that would essentially decriminalize failure to implement KYC rules have been pending for over one year. The largely unregulated consumer finance institutions and currency exchange houses are also of concern.

Turkish Cypriots are currently drafting new AML "legislation" that will take into account UNSCRs 1267 and 1373 as well as address other sectors that face money laundering risks, such as casinos and exchange bureaus.

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

The Dominican Republic (DR) is not a major regional financial center, despite having one of the largest economies in the Caribbean. The DR continues to be a major transit point for the transshipment of illicit narcotics destined for the United States and Europe. The six international airports, 16 seaports and a large porous frontier with Haiti present Dominican authorities with serious challenges.

Corruption within the government and the private sector, the presence of international illicit trafficking cartels, a large informal economy, and a fragile formal economy make the DR vulnerable to money laundering and terrorist financing threats. The large informal economy is a significant market for illicit or smuggled goods. The under-invoicing of imports and exports by Dominican businesses is a relatively common practice for those seeking to avoid taxes and customs fees. U.S. law enforcement has identified networks smuggling weapons into the DR from the United States. The increase in drug-related violence throughout the DR is partially attributable to arms trafficking as evidenced by the seizures of illicit weapons at ports of entry over the past year. The major sources of laundered proceeds stem from illicit trafficking activities, tax evasion and fraudulent financial activities, particularly transactions with forged credit cards.

There are no reported hawala or other money or value transfer services operating in the DR. A significant number of remittances are transferred through banks. Casinos are legal in DR and unsupervised gaming activity represents a significant money laundering risk. While the country has a law creating an international financial zone, implementing regulations will not be issued until the law is reformed to avoid perceptions that the zone will be left out of the DR's anti-money laundering (AML) regulatory regime.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, currency exchange houses, 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 dealers in firearms and precious metals

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 13,130: January 1 through December 1, 2012

Number of CTRs received and time frame: 1,286,870: January 1 through December 1, 2012
STR covered entities: Banks, agricultural credit institutions, money exchangers, notaries, gaming centers, securities dealers, art or antiquity dealers, jewelers and precious metals vendors, attorneys, financial management firms and travel agencies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 12 in 2012
Convictions: 1 in 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The Dominican Republic 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: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=347&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Egmont Group of Financial Intelligence Units (FIUs) expelled the DR's FIU in 2006 due to a lack of compliance with the definition of an FIU. The Egmont Group specified the formal steps the DR needs to take to re-apply for Egmont membership, thereby allowing the FIU to efficiently and securely share and exchange sensitive financial information with international FIUs. The function of the FIU improved, but problems remain. Specifically, the creation of an additional FIU-like organization to regulate international financial zones, as stipulated under Law 480/08, is in contravention of Egmont Group rules. The DR should modify Law 480/08 to eliminate the possibility of a second FIU, and re-apply for membership in the Egmont Group.

The DR strengthened its laws on politically exposed persons (PEPs) and correspondent relationships, but international experts have outlined key weaknesses. In addition, the DR needs to pass legislation to provide safe harbor protection for STR filers and criminalize tipping off. The government should better regulate casinos and non-bank businesses and professions, specifically real estate companies, and strengthen regulations for financial cooperatives and insurance companies.

The DR's weak asset forfeiture regime is improving, but does not cover confiscation of instrumentalities intended for use in the commission of a money laundering offense, property of corresponding value, and income, profits, or other benefits from the proceeds of crime. The DR should implement legislation to align its asset forfeiture regime with international standards.

The DR's weak asset forfeiture regime is improving, but does not cover confiscation of instrumentalities intended for use in the commission of a money laundering offense, property of corresponding value, and income, profits, or other benefits from the proceeds of crime. The DR should implement legislation to align its asset forfeiture regime with international standards.

France

France's banking, financial and commercial relations, especially with Francophone countries, make it an attractive venue for money laundering because of its sizeable economy, political stability and sophisticated financial system. Public corruption, narcotics trafficking, human trafficking, smuggling, and other crimes associated with organized crime generate illicit proceeds.

Casinos are regulated. France can designate portions of its customs territory as free trade zones and free warehouses in return for employment commitments. France has taken advantage of these regulations in several specific instances. The French Customs Service administers these zones.

France has a large informal sector, and informal value transfer systems such as hawalas may be used by immigrant populations used to such systems in their home countries, but there is little information on the scale of such activity.

Since 2011, France has considerably expanded its financial intelligence unit (FIU), TracFin. TracFin is looking into the ways in which new anonymous electronic payment instruments are offering an alternative to cash. The use of virtual money is growing in France through online gaming social networks.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, credit and 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 betting and horse racing tips, and casinos

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 22,856 in 2011
Number of CTRs received and time frame: Not available
STR covered entities: Banks, credit and 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 to stock exchange settlement and delivery, commercial registered office providers, gaming centers, companies involved in sports betting and horse racing tips, and casinos

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 297 in 2011
Convictions: 28 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

France is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/dataoecd/3/18/47221568.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of France (GOF) 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 should review its procedures to ensure all PEPs undergo enhanced due diligence.

TracFin has hired new officers, updated its investigative methods, modernized its information system, and made more data available to the public online. In April 2012, France's bank supervisor improved its bank questionnaires on prevention of money laundering and terrorism financing, provided guidelines to financial institutions for their dealings with occasional clients versus regular business clients, and updated its guidance on vigilance measures concerning fund transfers. These efforts should be continued to ensure effective implementation.

The GOF should examine the compliance with AML reporting requirements of company registration agents, real estate agents, jewelers, casinos and lawyers to ensure they are complying with their obligations under the law.

France does not have the capacity to share forfeited assets with other jurisdictions. The country should reform its laws to allow forfeited assets to be shared.

Germany

While not an offshore financial center, Germany is one of the largest financial centers in Europe. Germany is a member of the eurozone, using a currency widely available in Europe, thus making it attractive to organized criminals and tax evaders. Many indicators suggest Germany is susceptible to money laundering and terrorist financing because of its large economy, advanced financial institutions and strong international linkages. 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 sources of laundered funds in Germany. There is little current data on the volume of these proceeds. Terrorists have carried out terrorist acts in Germany and in other nations after being based in Germany. Germany is estimated to have a large informal sector, and informal value transfer systems such as hawalas may be used by immigrant populations accustomed to such systems in their home countries, but there is little idea of the scale of this activity.

Trends in money laundering include electronic payment systems; financial agents, i.e., persons who are solicited to make their private accounts available for money laundering transactions; and trade in rare metals, electronics, and energy. Free zones of control type I, i.e., freeports, exist in Bremerhaven, Cuxhaven, and Hamburg. Deggendorf and Duisburg are control type II Free zones, i.e., unfenced inland ports.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO
KYC covered entities: Credit, financial services, payment and e-money institutions as well as their agents; financial enterprises; insurance companies and intermediaries; investment companies; lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents; trust or company service providers; real estate agents; casinos; and persons trading in goods

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 12,868 in 2011
Number of CTRs received and time frame: Not applicable
STR covered entities: Credit, financial services, payment and e-money institutions as well as their agents; financial enterprises; insurance companies and intermediaries; investment companies; lawyers, legal advisers, auditors, chartered accountants, tax advisers and tax agents; trust or company service providers; real estate agents; casinos; and persons trading in goods

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 1,070 in 2011
Convictions: 903 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: YES ***Other mechanism:*** 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/countries/d-i/germany/documents/mutualevaluationofgermany.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In December 2012, German prosecutors opened investigations against 25 employees of the Deutsche Bank. Five of them were arrested on charges of serious tax evasion, money laundering and attempted obstruction of justice in connection with emissions certificate trading.

On December 29, 2011, a law on Optimizing the Prevention of Money Laundering entered into force, tightening existing regulations. The law provides for the expansion of due diligence and reporting obligations in the non-financial sector. It also increases punishments for money laundering violations. The law also incorporates new provisions for e-money, enacting stricter reporting requirements for all e-money transactions greater than €100 (approximately $129). Finally, the new law expands the number and type of obliged entities required to appoint a money laundering officer. On November 8, 2012, the German Parliament passed an amendment to Germany's Law Against Money Laundering to tighten control over the increasing number of casinos and slot machines

and to regulate online gaming, which previously had been prohibited in Germany. The new law bans gift cards, subjects online gaming companies to KYC rules, requires online gaming operators to have better risk management, and strengthens the power of regulators.

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 STRs. Otherwise, it is an administrative offense that carries a fine of up to €100,000 (approximately $129,000) under the Money Laundering Act. Legal persons are only covered by the Administrative Offenses Act, and are not criminally liable under the Criminal Code. While Germany has no automatic CTR requirement, large currency transactions frequently trigger a STR. Germany should consider strengthening the above provisions and also tightening the regulations on domestic PEPs.

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. Germany has no federal statistics on the amount of assets forfeited in criminal money laundering cases. Assets can be forfeited as part of a criminal trial or through administrative procedures such as claiming back taxes.

Germany should become a party to the UN Convention against Corruption.

Greece

Greece is a regional financial center for the Balkans, as well as a bridge between Europe and the Middle East. Official corruption, the presence of organized crime, and a large informal economy make the country vulnerable to money laundering and terrorist financing. Greek law enforcement proceedings indicate 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.

Evidence suggests financial crimes have increased in recent years and 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, the Balkans, Georgia, and Russia 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, although the government is trying to crack down on both trends. Due to the large informal economy 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.

Greece has three free trade zones (FTZs), located at the Piraeus, Thessaloniki, and Heraklion port areas. Goods of foreign origin may be brought into the FTZs without

payment of customs duties or other taxes and remain free of all duties and taxes if subsequently transshipped or re-exported. Similarly, documents pertaining to the receipt, storage, or transfer of goods within the FTZs are free from stamp taxes. The FTZs also may be used for repacking, sorting, and re-labeling operations. Assembly and manufacture of goods are carried out on a small scale in the Thessaloniki Free Zone. These FTZs may pose vulnerabilities for trade-based and other money laundering operations.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, money exchanges, 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; auctioneers, dealers in high value goods, and pawnbrokers; notaries, lawyers, and trust and company service providers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 3,586: January 1 - November 30, 2012

Number of CTRs received and time frame: 47: January 1 - November 30, 2012

STR covered entities: Banks, savings banks, and cooperative banks; credit companies, money remitters, financial leasing and factoring companies, money exchanges, 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; auctioneers, dealers in high value goods, and pawnbrokers; notaries, lawyers, and trust and company service providers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 279 in 2012
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Greece is a member of the Financial Action Task Force. Its most recent mutual evaluation report can be found here: http://www.fatf-gafi.org/documents/documents/mutualevaluationofgreece.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Greece (GOG) has been working to improve the effectiveness of the Greek financial intelligence unit (FIU). Although the FIU has technical and data management systems and capacities to support its functions, the GOG, due mainly to austerity measures, has not provided adequate financial resources to ensure the FIU will be able to fulfill its responsibilities and ensure its powers are in line with international standards. It also remains unclear whether the Ministry of Justice has enough resources available to deal with money laundering or terrorism financing cases.

Greece should take steps to ensure a more effective confiscation regime. While the anti-money laundering/countering the financing of terrorism (AML/CFT) law contains provisions allowing civil asset forfeiture under special circumstances, Greek authorities advise it is not practical to initiate civil procedures and currently do not do so, except in cases involving the death of a suspect. The GOG also should develop procedures for the sharing of seized assets with third party jurisdictions that assist in the conduct of investigations.

The GOG requires transactions above €3,000 (approximately $3,965) be executed with credit cards, checks or cashiers' checks and all business-to-business transactions in excess of €3,000 (approximately $3,965) be carried out through checks or bank account transfers. All credit and financial institutions, including payment institutions, also must report on a monthly basis all transfers of funds abroad executed by credit card, check or wire transfer. Transfers in excess of €100,000 (approximately $132,150) are subject to examination. Nevertheless, the GOG should ensure its system for reporting large currency transactions is applied equally across all regulated sectors and explicitly abolish company-issued bearer shares. It also should continue to deter the smuggling of currency across its borders. Greece also should ensure companies operating within its FTZs are subject to the same level of enforcement of AML/CFT controls as other sectors. The GOG should ensure domestic PEPs are also subject to enhanced due diligence, ensure that designated non-financial businesses and professions are adequately supervised and subject to the same reporting requirements as financial institutions, and work 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 cash returning to South America. Smuggling of synthetic-drug precursors is also a problem. Reports suggest 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, firearms, 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 among 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 is a category of "offshore" banks in Guatemala in which the money of the customers (usually Guatemalans with average deposits of $100,000) is legally considered to be deposited in the foreign country where the bank's head office is based. In 2012, there were seven "offshore" entities, with head offices in Panama, the Bahamas and Puerto Rico. These "offshore" banks are subject to the same anti-money laundering/counter-terrorist financing (AML/CFT) regulations as any local bank. Guatemala has 18 active free trade zones (FTZs) and nine more are scheduled to start operations soon. FTZs are mainly used to import duty-free goods utilized in the manufacturing of products for exportation, and there are no known cases or allegations that indicate the FTZs are hubs of money laundering or drug trafficking. There are no reported hawala or other money or value transfer services operating in Guatemala. A significant number of remittances are transferred through banks and appear to pose little risk for money laundering.

Casinos are currently unregulated in Guatemala and a number of casinos, games of chance and video lotteries operate, both onshore and offshore. Unregulated gaming activity represents a significant money laundering risk.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks; credit unions, finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; notaries and accountants; casinos, raffles and games of chance; dealers in precious metals and stones, motor vehicles, and art and antiquities; and real estate agents

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 417: January 1 - October 31, 2012

Number of CTRs received and time frame: 6,873,560: January 1 - October 31, 2012

STR covered entities: Banks; credit unions, finance and leasing companies; credit card cooperatives, issuers, or payment agents; stock brokers; insurance companies; money remitters and exchanges; notaries and accountants; casinos, raffles and games of chance; dealers in precious metals and stones, motor vehicles, and art and antiquities; and real estate agents

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 108: January 1 - November 15, 2012

Convictions: 20 people in 19 cases: January 1 - November 15, 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Guatemala 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/Guatemala_3rd_Round_MER_(Final)_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Staffing of the Financial Intelligence Unit (IVE) has increased over the last several years and the number of STRs filed has also increased since the unit's beginning. However, there are still relatively few convictions for money laundering, most of which are for illegal transport of cash. The limited capacity and number of law enforcement officials and of Public Ministry (i.e., the Attorney General's office) staff may hamper these authorities from enforcing the law and prosecuting and successfully convicting more cases.

In December 2009, former President Alfonso Portillo was indicted on one count of conspiracy to commit money laundering in the United States. On August 26, 2011, Guatemala's Constitutional Court unanimously upheld the U.S. request to extradite former President Portillo on that charge. The Public Ministry is still awaiting the outcome of its appeal of Portillo's May 9, 2011 acquittal on embezzlement charges in Guatemala, and the extradition remains pending based on the outcome of that case. On August 29, 2012, the Constitutional Court rejected a request from Portillo's lawyers for an injunction against former President Alvaro Colom's administrative approval of the extradition.

Law enforcement agencies report that money laundering continued to increase 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 law regarding asset forfeitures took effect in June 2011, and allows Guatemalan authorities to seize cash used in structuring transactions and transfer it to the state without first having to obtain a criminal conviction against the courier. The same law also prevents 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 2010, Guatemalan monetary authorities approved a regulation to establish limits for cash deposits in foreign currency, notably requiring more information and bank certification for transactions totaling over $3,000 per month. According to law enforcement authorities, banks' purchases of foreign currency declined 34 percent during the first nine months of 2011, and an additional 16 percent during a similar period in 2012.

Guatemala's anti-money laundering law does not cover all designated non-financial businesses and professions included in the international standards. However, real estate agents and dealers of vehicles, art and antiquities, and precious metals and stones are covered under the CFT law. Notaries, auditors, and lawyers are also covered under the CFT law, but no implementing procedures have been adopted for them. Under the CFT law, STR filing is optional for lawyers.

The Government of Guatemala (GOG) should put into force a gaming law to regulate the industry and reduce money-laundering potential. Lotteries and raffles are subject to local jurisdiction licensing but are not subject to Anti-Money Laundering Unit supervision. A

draft gaming law is now under consideration by key members of Congress. In October 2012, the Guatemalan Congress approved an anti-corruption law that increases penalties for existing crimes and adds new crimes such as illicit enrichment and trafficking in influence. If implemented well and enforced, the new law should help to reduce corruption as one of the main sources of money laundering in the country.

Tipping off is not criminalized and there is no provision to protect STR filers from liability. Reportedly, concerns have been expressed by covered entities that fear there may be repercussions if they file reports. The GOG should amend its AML/CFT legislation to include such provisions.

Guernsey

The Bailiwick of Guernsey (the Bailiwick) encompasses a number of the Channel Islands, Guernsey, Alderney, Sark, and Herm. As a Crown Dependency of the United Kingdom (UK), it relies on the UK for its defense and international relations. 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 authorities undertake efforts to reduce vulnerability to money laundering.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, lending firms, financial instrument issuers and managers, and money service businesses; insurance companies and intermediaries; investment firms and funds, safekeeping and portfolio management services; trust and company service providers; lawyers, accountants, notaries, and estate agents; dealers of precious metals and stones; and eGambling services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 537: January – October 2012

Number of CTRs received and time frame: Not applicable
STR covered entities: All businesses

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 4 in 2012
Convictions: 4 in 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: NO ***MLAT:*** NO ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The IMF's 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 U.S., using the full range of investigatory powers in the law. The legal framework provides an ability to freeze and confiscate assets in appropriate circumstances.

Guernsey has a comprehensive AML/CFT legal framework and most shortcomings appear to be technical in nature. 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 raise questions concerning the effective application of money laundering provisions.

Some concerns have been raised about relatively recent changes to the law on foundations which appear to increase risks for secrecy and tax evasion. Authorities should ensure due diligence and public reporting requirements are strengthened for foundations.

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

Guinea-Bissau continues to experience political disruptions due to the transit of narcotics and the flow of money related to the trade. The cohesion and effectiveness of the state itself is very poor; corruption is a major problem and the judiciary has demonstrated its lack of integrity on a number of occasions. The Bissau-Guinean police have seized a number of major drug shipments in past years, and there have been links between representatives of the state and drug trafficking networks. Some of the arrested traffickers and seized narcotics have later vanished from the state's prisons and coffers, with no explanation forthcoming from the Bissau-Guinean authorities. In April 2010, the United States Treasury froze the assets of two top Bissau-Guinean military officers and designated them as drug kingpins.

One of the poorest countries in the world, the value of the illicit narcotics trade in Guinea-Bissau is a significant contributor to its economy. Traffickers from Latin America and collaborators from the region continue to take 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. A multitude of small offshore islands, upon or near which plane drops are made, and officials able to sidestep weak and under-resourced enforcement efforts with impunity contribute to the problem. Transition President Nhamadjo has declared the problem a top priority for his administration.

The formal financial sector in Guinea-Bissau is undeveloped and poorly supervised. It is also dwarfed by the size of the underground economy.

On May 18, 2012, the United Nations Security Council (UNSC) adopted resolution 2048 imposing sanctions in relation to Guinea-Bissau in response to the seizure of power from the civilian government by military officers on April 12, 2012. On May 31, 2012, the European Union followed with a travel ban and freezes on the assets of the military junta running the government.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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
Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES
KYC covered entities: Banks, microfinance institutions, exchange houses, securities broker/dealers and firms, insurance companies, casinos, charities, nongovernmental organizations (NGOs), lawyers, accountants, and notaries

REPORTING REQUIREMENTS:
Number of STRs received and time frame: Not available
Number of CTRs received and time frame: Not available
STR covered entities: Banks, microfinance institutions, exchange houses, securities broker/dealers and firms, insurance companies, casinos, charities, NGOs, lawyers, accountants, and notaries

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 0
Convictions: 0

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** NO ***Other mechanism:*** 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-style regional body. Its most recent mutual evaluation can be found here: http://www.giaba.org/

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Guinea-Bissau (GOGB) is not in full compliance with international conventions against money laundering and terrorist financing due to inadequate resources, weak border controls, under-resourced and understaffed police, and other compelling national priorities.

The Anti-Money Laundering Uniform Law, which is a requirement for members of the Economic Community of West African States (ECOWAS), is ineffectively enforced. There is still no operating financial intelligence unit (FIU), making much of the legislation ineffective. An FIU is expected soon, as is a new terrorist financing law.

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 amount to informing the subject of an investigation. In addition, banks are reluctant to file transaction reports for

fear of alerting the subject because of an allegedly indiscrete judiciary. 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 GOGB needs to improve the coordination of efforts at the national, sub-regional, regional and international levels, reforming the country's institutions and conducting further research to gain an accurate understanding of the scale of the problem. Guinea-Bissau needs assistance to finance, staff, train and equip its justice and police departments.

The GOGB should continue to work with its partners in the GIABA and the 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 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 also undertake efforts to eradicate systemic corruption.

Haiti

Haitian criminal gangs are engaged in international drug trafficking and other criminal and fraudulent activity, but do not at this time appear to be involved in terrorist financing. While Haiti itself is not a major financial center, regional money laundering enterprises utilize Haitian couriers, especially via air hub routes to Central America. Much of the drug trafficking in Haiti, as well as the related money laundering, is connected to the United States. Further, most of the identified money laundering schemes involve significant amounts of U.S. currency, and all property confiscations involve significant drug traffickers convicted in the United States.

Foreign currencies comprise approximately 57% of Haiti's bank deposits, according to Haitian Central Bank estimates, likely due to the large influx of remittances, which reached $1.5 billion in 2011.

The weakness of the Haitian judicial system and prosecutorial mechanism continue to leave the country vulnerable to corruption and money laundering, despite improving financial intelligence and enforcement capacity.

Haiti has two operational free trade zones in Ouanaminthe and Carrefour. There are at least 62 casinos in Haiti, the majority unlicensed; however, online gaming is illegal.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC covered entities: Banks, casinos, securities dealers, insurance companies, notaries and attorneys, dealers in jewelry and precious metals, art dealers, real estate agents, automobile dealers, and money remittance institutions

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 43: January 1 through October 31, 2012

Number of CTRs received and time frame: 264,099: January 1 through October 31, 2012

STR covered entities: Banks

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 6: Time frame unknown

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** NO

With other governments/jurisdictions: YES

Haiti 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: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=342&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In the past year, the Government of Haiti (GOH) passed a new banking law that includes provisions relating to anti-money laundering (AML) prevention. The new provisions

give the Central Bank the authority to issue regulations binding on banks and money service businesses relating to money laundering, and the power to impose penalties for non-compliance. The Central Bank issued guidelines to commercial banks, currency exchange agencies and money transfer companies on customer due diligence obligations. Significantly, there was a 49% decrease in the number of STRs from the previous reporting period. Anti-corruption and AML legislation are currently under consideration in Parliament and are identified as a priority by the executive branch.

The GOH should continue to devote resources to building an effective anti-money laundering/counter-terrorism financing regime, to include continued support to units to investigate financial crimes and the development of an information technology system. The GOH remains hampered by ineffective and outdated criminal and criminal procedural codes, and by the inability of judges and courts to address cases referred for prosecution. New criminal and criminal procedural codes that address these problems are currently pending in the Council of Ministers. The GOH should pass the long pending anti-terrorism legislation that will criminalize terrorist financing and allow the immediate freezing of terrorist assets without delay. Haiti also should take steps to establish a program to identify the cross-border movement of currency and financial instruments.

Hong Kong

Hong Kong, a Special Administrative Region (SAR) of the People's Republic of China, is a major international financial and trading center. As of December 2012, Hong Kong's stock market was the world's sixth largest, with $2.83 trillion in market capitalization. Already the world's tenth-largest banking center in terms of external transactions and the sixth-largest foreign exchange trading center, Hong Kong has continued its expansion as an offshore renminbi (RMB) financing center, accumulating as of November 2012 over $91 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 tax rates 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. Casinos are illegal in Hong Kong. Horse races, a local lottery, and soccer betting are the only legal gaming activities, all under the direction of the Hong Kong Jockey Club (HKJC), a non-profit organization. The HKJC's compliance team collaborates closely with law enforcement to disrupt illegal gambling outlets. Government of Hong Kong (GOHK) officials indicate the primary sources of laundered funds—derived from local and overseas criminal activity—are fraud and financial crimes, illegal gambling, loan sharking, smuggling, and vice. They attribute a relatively low percentage of laundered funds to drug trafficking organizations.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, securities and insurance entities, money exchangers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 17,795: January 1 – September 30, 2012

Number of CTRs received and time frame: Not applicable

STR covered entities: All persons, irrespective of entity or amount of transaction involved

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 131: January 1 - September 30, 2012

Convictions: 137: January 1 - September 30, 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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:

Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT, Financial Institutions) Ordinance, or AMLO, went into effect in April 2012. It mandates preventive AML measures, including customer due diligence and record keeping requirements. AMLO also establishes a licensing and regulatory regime for remittance agents and money changers and provides statutory powers to financial regulators to supervise compliance. The GOHK is evaluating the feasibility of a cross-border currency reporting system, along with necessary legislative and resource requirements.

Hong Kong should 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. The recent increase in the number of STRs submitted by financial institutions should be addressed through allocation of sufficient analytical and investigative resources. The GOHK also should establish threshold reporting requirements for currency transactions and put in place structuring provisions to counter efforts to evade reporting. As a major trading hub, Hong Kong should also closely examine trade-based money laundering.

The United States and Hong Kong SAR are parties to the Agreement Between the Government of the United States of America and the Government of Hong Kong on Mutual Legal Assistance in Criminal Affairs, which entered into force in 2000. As a SAR of China, Hong Kong cannot sign or ratify international conventions in its own right. China is responsible for Hong Kong's international affairs and may arrange for its ratification of any convention to be extended to Hong Kong. The 1988 Drug Convention was extended to Hong Kong in 1997. The UN Convention against Corruption, the International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime were extended to Hong Kong in 2006.

India

India is developing as both a regional economic power and financial center. Its rapidly growing economy has both formal and informal financial systems. India's extensive informal economy and remittance systems, persistent corruption, and onerous tax administration and currency controls contribute to its vulnerability to economic crimes, including fraud, cybercrime, identity theft, money laundering and terrorist financing. India's porous borders and location between heroin-producing countries in the Golden Triangle of Southeast Asia and Golden Crescent of Central Asia make it a frequent transit point for drug trafficking. Proceeds from Indian-based heroin traffickers is widely known to re-enter the country via bank accounts, the hawala system, and money transfer companies.

High-level corruption both generates and conceals criminal proceeds. Illicit funds are often laundered through real estate, educational programs, charities, and election campaigns. The most common money laundering methods include: opening multiple bank accounts, intermingling criminal proceeds with assets of legal origin, purchasing bank checks with cash, and routing funds through complex legal structures. Transnational criminal organizations use offshore corporations and trade-based money laundering to disguise the criminal origin of funds. Companies use trade-based money laundering to evade capital controls. Tax avoidance and the proceeds of economic crimes are significant vulnerabilities but laundered funds are also derived from narcotics trafficking, trafficking in persons and illegal trade. Counterfeit Indian currency is also a significant problem. Criminal networks exchange high-quality counterfeit currency for genuine notes.

India remains a target of terrorist groups, both foreign and domestic. Several indigenous terrorist organizations coexist in various parts of the country; some are linked to external terrorist groups with global ambitions. Terrorist groups often use hawalas and currency smuggling to move funds from external sources to finance their activities in India. Indian authorities report they have seized drugs sold by India-based extremist elements to production and/or trafficking groups in neighboring countries.

India licenses seven offshore banking units (OBUs) to operate in Special Economic Zones (SEZs), which were established to promote export-oriented commercial businesses. As of November 2012, there were 158 SEZs in operation, and 588 SEZs which have received formal approval but have yet to start operations. Customs officers control access to the SEZs. OBUs essentially function as foreign branches of Indian banks, but with defined physical boundaries and functional limits. OBUs are prohibited from engaging in cash transactions, can only lend to the SEZ wholesale commercial sector, and are subject to the same anti-money laundering/counter-terrorism financing (AML/CFT) regulations as the domestic sector.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, merchant banks, and depositories; insurance companies; housing and non-bank finance companies; casinos; payment system operators, authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; financial intermediaries; stock brokers, sub-brokers, and share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; foreign institutional investors; credit rating agencies; venture capital funds and collective schemes including mutual funds; and the post office

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 31,317 in 2011

Number of CTRs received and time frame: 10,198,262 in 2011

STR covered entities: Banks, merchant banks and depositories; insurance companies; housing and non-bank finance companies; casinos; payment system operators, authorized money changers and remitters; chit fund companies; charitable trusts that include temples, churches and non-profit organizations; financial intermediaries; stock brokers, sub-brokers, and share transfer agents; trustees, underwriters, portfolio managers and custodians; investment advisors; foreign institutional investors; credit rating agencies; venture capital funds and collective schemes including mutual funds; and the post office

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available
Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

India is a member of the Financial Action Task Force (FATF), as well as 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 can be found here: www.fatf-gafi.org/dataoecd/60/56/45746143.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

India has worked to implement an effective AML/CFT regime. The Government of India (GOI) made significant changes to its legal framework to bring it into compliance with international standards. In November 2012, the Lok Sabha (lower house of Parliament) unanimously passed amendments to the Prevention of Money Laundering Act (PMLA). In December 2012, the Rajya Sabha (upper house) also passed the amendments. The amendments to the PMLA widen the definition of money laundering and bring domestic law in line with international standards.

Despite these important steps, deficiencies in India's AML/CFT regime remain. India should address noted shortcomings in both the criminalization of money laundering and terrorist financing and in the domestic framework of confiscation and provisional measures, and ensure all relevant sectors of designated non-financial businesses and professions are complying with AML/CFT regulations.

Even with passage of the PMLA amendments, observers and law enforcement professionals express concern about effective implementation of the current laws. As of December 2012, the GOI had not successfully won any court cases involving money laundering or confiscations. Law enforcement agencies typically open substantive criminal investigations reactively and seldom initiate proactive analysis and long-term investigations. Furthermore, while the GOI has taken action against certain hawala activities, these successes generally stem from prosecuting primarily non-financial businesses that conduct hawala transactions on the side.

Levels of training and expertise in financial investigations involving transnational crime or terrorist-affiliated groups vary widely among the federal, state, and local levels and depend on the particular jurisdiction's financial capabilities and perceived necessities. U.S. investigators have had limited success in coordinating the seizure of illicit proceeds with their GOI counterparts. While intelligence and investigative information supplied by U.S. law enforcement authorities have led to numerous money seizures, a lack of follow-through on investigational leads has prevented a more comprehensive offensive against violators and related groups.

The GOI is taking steps to increase financial inclusion through "small [banking] accounts," but should consider further facilitating the development and expansion of alternative money transfer services in the financial sector, including mobile banking, domestic funds transfer, and foreign remittances. Such an increase in lawful, accessible services would allow broader financial inclusion of legitimate individuals and entities and reduce overall AML/CFT vulnerabilities by shrinking the informal network, particularly in the rural sector. India's current safe harbor provision is too limited and only protects principal officers/compliance officers of institutions who file STRs in good faith. The GOI should extend its safe harbor provision to also cover staff or employees of institutions.

Indonesia

While Indonesia is neither a regional financial center nor an offshore financial haven, the country remains vulnerable to money laundering and terrorist financing due to gaps in financial system legislation and regulation, a cash-based economy, weak rule of law and ineffective law enforcement institutions. Additionally, major indigenous terrorist groups, such as Jemaah Islamiyah (JI), a loose network of JI spin-off groups, and Jemaah Anshorut Tauhid (JAT), which obtain financial support from both domestic and foreign sources, are present in the country.

Most money laundering in Indonesia 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 of illicit goods and bulk cash, facilitated by thousands of miles of unpatrolled coastline, sporadic law enforcement, and poor customs infrastructure. Proceeds from illicit activities are easily moved offshore and repatriated as needed for commercial and personal use. While Indonesia has made some progress in combating official corruption via a strong yet embattled Corruption Eradication Commission, endemic corruption remains a significant concern and poses a challenge for anti-money laundering/counter-terrorist financing (AML/CFT) regime implementation.

In October 2012, the Financial Action Task Force (FATF) placed Indonesia on its Public Statement due to Indonesia's failure make sufficient progress in implementing its AML/CFT action plan. According to the FATF announcement, Indonesia should

adequately criminalize terrorist financing; establish and implement adequate procedures to identify and freeze terrorist assets; and amend and implement laws or other instruments to fully implement the International Convention for the Suppression of the Financing of Terrorism.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES D***omestic:*** YES

KYC covered entities: Banks, finance companies, insurance companies and brokers, pension fund financial institutions, securities companies, investment managers, providers of money remittance and foreign currency traders

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 14,383: January 1 to July 31, 2012

Number of CTRs received and time frame: 1,350,643: January 1 to July 31, 2012

STR covered entities: Banks and financing companies; insurance companies and brokers; pension fund financial institutions; securities companies, investment managers, custodians, and trustees; postal services as providers of fund transfer services, money remitters and foreign currency changers (money traders); providers payment cards, e-money and e-wallet services; cooperatives doing business as savings and loans institutions; pawnshops; commodities futures traders; property companies and real estate agents; car dealers; dealers of precious stones, jewelry, precious metals, art and antiques; and auction houses

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 5: January 1 to July 31, 2012

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Indonesia 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/Indonesia%20MER2_FINAL.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although Indonesia's AML legislation provides for the freezing of terrorist assets linked to the UN list of designated terrorists and terrorist organizations, Indonesia continues to lack an effective mechanism to implement UNSCRs 1267 and 1373. Indonesia made little progress in freezing assets of JAT and three of its individual members after they were placed on the UNSCR 1267 list in March and May, 2012. Draft terrorism finance legislation that may address some of the noted deficiencies continues to move forward through the Indonesian legislative process, but progress has been slow and it is uncertain if and when the draft law will be enacted. Prosecution of terrorism finance cases also remains problematic, as prosecutors and police need additional training to be able to convincingly follow and explain the money trail in a court of law. Judges also need training on money laundering and financial crimes. Corruption, particularly within the police ranks, also impedes effective investigations and prosecutions.

Indonesia's financial intelligence unit (PPATK) works closely with the Central Bank to oversee and implement Indonesia's AML regime. The October 2010 AML legislation, however, has taxed the institution's capacity, and PPATK needs a significant increase in staff to meet its responsibilities under the AML law. In an effort to place some of the legal burden on industry and bank partners, PPATK and the Central Bank work closely with educational institutions throughout Indonesia to develop financial expertise and responsibility among banking and industry in Indonesia.

Iran

Although not considered a financial hub, Iran has a large underground economy, spurred by restrictive taxation, widespread smuggling, currency exchange controls, capital flight, and a large Iranian expatriate community. Iran is a major transit route for opiates smuggled from Afghanistan through Pakistan to the Persian Gulf, Turkey, Russia, and Europe. At least 40 percent of opiates leaving Afghanistan enter or transit Iran for domestic consumption or for consumers in Russia and Europe. 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 money and value transfer systems, including hawala and moneylenders. Counter-valuation in hawala transactions is often accomplished via trade, thus trade-based transactions are 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. There are reports that billions of dollars in Iranian capital have been invested in the United Arab Emirates, particularly in Dubai real estate. Iran's real estate market also is used to launder money. Iran is ranked 133 out of 174 countries listed in Transparency

International's 2012 Corruption Perception Index. There is pervasive corruption within the ruling and religious elite, government ministries, and government-controlled business enterprises.

On November 21, 2011, the U.S. Government identified Iran as a state of primary money laundering concern pursuant to section 311 of the USA PATRIOT Act. Widespread corruption and economic sanctions, as well as evasion of those sanctions, have undermined the potential for private sector growth and facilitated money laundering. The Financial Action Task Force (FATF) has repeatedly warned of Iran's failure to address the risks of terrorist financing. In October 2012, the FATF again urged jurisdictions around the world to impose countermeasures to protect their financial sectors from illicit finance emanating from Iran.

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, Lebanese Hizballah, and the Palestinian Islamic Jihad (PIJ) maintain representative offices in Tehran, in part to help coordinate Iranian financing and training.

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. Presently, Iranian banks have a diminishing international presence in these regions as a growing number of governments move to sanction Iranian financial institutions in response to UN, U.S., and autonomous sanctions regimes as well as the FATF statements on Iran's lack of adequate anti-money laundering/counter-terrorist financing (AML/CFT) controls. Iran is known to use its state-owned banks to channel funds to terrorist organizations and finance its nuclear and ballistic missile programs. Many of the world's leading financial institutions have voluntarily chosen to reduce or cut ties with Iranian banks; and, in March 2012, some Iranian financial institutions were disconnected from the SWIFT international network to curtail their ability to send and receive international wires due to European Union (EU) sanction violations. The United States has designated at least 20 banks and subsidiaries under counter-proliferation and terrorism authorities.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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.: Not available

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: Not available ***Domestic:*** Not available
KYC covered entities: All legal entities, including but not limited to the Central Bank, banks, financial and credit institutions, insurance companies, state regulator and reinsurance provider, the Central Insurance, interest-free funds, charity foundations and institutions as well as municipalities, notaries, lawyers, auditors, accountants, official experts of the Ministry of Justice and legal inspectors

REPORTING REQUIREMENTS:
Number of STRs received and time frame: Not available
Number of CTRs received and time frame: Not available
STR covered entities: All legal entities, including but not limited to the Central Bank, banks, financial and credit institutions, insurance companies, state regulator and reinsurance provider, the Central Insurance, interest-free funds, charity foundations and institutions as well as municipalities, notaries, lawyers, auditors, accountants, official experts of the Ministry of Justice and legal inspectors

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** NO ***Other mechanism:*** NO
With other governments/jurisdictions: Not available

Iran is not a member of a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

For nearly two decades the United States has undertaken targeted financial actions against key Iranian financial institutions, entities, and individuals drawing on non-proliferation, counter-terrorism, human rights, and Iraq-related authorities that include legislation and more than a dozen Executive Orders (E.O.). To date, the Departments of State and Treasury have designated over 300 Iranian entities and individuals for proliferation-related activity, support for terrorism, and human rights abuses. Noteworthy actions taken against Iran under E.O.s include: 20 Iranian-linked banks, located in Iran and overseas, designated in connection with Iran's proliferation activities (E.O. 13382); one state-owned Iranian bank (Bank Saderat and its foreign operations) designated for funneling money to terrorist organizations (E.O. 13224); the Qods Force, a branch of Iran's Islamic Revolutionary Guard Corps (IRGC), designated for providing material support to the Taliban, Lebanese Hizballah, and PIJ (E.O. 13224); and 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 PIJ, designated along with Lebanon- and U.S.-based affiliates (E.O. 13224).

Additionally, Iran has been the subject of several United Nations Security Council resolutions (UNSCR) and International Atomic Energy Agency resolutions for its failure to comply with its international nuclear obligations. UNSCR 1929 recognizes the potential connection between Iran's revenues derived from its energy sector and the funding of its proliferation sensitive nuclear activities. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 amending the Iran Sanctions Act of 1996, makes sanctionable certain activities in Iran's energy sector, including the provision of refined petroleum or goods and services for Iran's refined petroleum sector.

On December 31, 2011, the National Defense Authorization Act for Fiscal Year 2012 was signed into law. Under Section 1245 of the Act, foreign financial institutions that knowingly facilitate significant financial transactions with the Central Bank of Iran or with U.S.-designated Iranian financial institutions risk being cut off from direct access to the U.S. financial system. On August 10, 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012 was enacted, expanding sanctions on Iran's energy sector and against human rights violators. These build upon the sanctions from previous U.S. legislation and UNSCRs.

In February 2009, the FATF first 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. In October 2012, the FATF reiterated its call for countermeasures, urging all members and jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. The FATF urges Iran to immediately and meaningfully address its AML/CFT deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements.

The EU also has adopted numerous measures to implement the UNSCRs on Iran and further protect the EU from Iranian threats. For example, in 2010, the EU adopted several measures, including sanctions on several Iranian banks and the IRGC; enhanced vigilance by way of additional reporting and prior authorization for any funds transfers 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. In October 2012, the EU approved legislation placing further restrictions on financial transactions with Iran, and strengthening prohibitions on the export of dual-use items and technologies, and the import of Iranian gas.

Iraq

Iraq's economy is primarily cash-based, and there is little data available on the extent of money laundering in the country. Narcotics trafficking and narcotics-based money laundering are not major problems. However, smuggling is endemic, often involving consumer goods, cigarettes, and petroleum products. Bulk cash smuggling, trafficking in persons, and intellectual property rights violations have also been reported. Ransoms from kidnappings and extortion are often used to finance terrorist and criminal networks. Credible reports of counterfeiting exist. Trade-based money laundering, customs fraud, and other forms of value transfer allow criminal organizations the opportunity to earn, move and store supporting funds and illicit proceeds under the guise of legitimate trade. Hawala networks, both licensed and unlicensed, are widely used for legitimate as well as illicit purposes. Corruption is a major challenge and is exacerbated by capacity constraints in public institutions, weak financial controls in the banking sector, and weak links to the international law enforcement community. U.S. dollars are widely accepted and are used for many payments made by the U.S. government, as well as foreign assistance agencies and their contractors.

Iraq has four free trade zones (FTZs): the Basra/Khor al-Zubair seaport; Ninewa/Falafel area; Sulaymaniyah; and al-Qaim, located in western Al Anbar province. Under the Free Trade Zone Authority Law, goods imported or exported from the FTZs 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 FTZs are exempt from taxes and fees throughout the life of the project, including the foundation and construction phases. Trade-based money laundering is a significant problem in Iraq and the surrounding region. Iraq is investigating the application of a new customs tariff regime.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

KYC covered entities: Banks; investment fund 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; and, dealers in precious metals and stones

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 43 in 2011
Number of CTRs received and time frame: 1,320 in 2011
STR covered entities: Banks; investment fund 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; and, dealers in precious metals and stones

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None
Convictions: None

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Iraq 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 mutual evaluation can be found here:
http://www.menafatf.org/images/UploadFiles/Final_Iraq_MER_En_31_12.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Although the only anti-money laundering (AML) statute in Iraq, the AML Act of 2004 issued under Coalition Provisional Authority Order 93, is broad enough to reach even beyond serious crime, the criminalization under the 2004 law is only that of a misdemeanor. Iraq does not prosecute cases under this law because the law does not effectively criminalize money laundering. New draft anti-money laundering/countering the financing of terrorism (AML/CFT) legislation is currently under review by Iraq's Shura Council, Council of Ministers and some members of the Iraqi Parliament.

Some advancement has been made regarding the Iraqi government's support of a viable AML/CFT regime, with the formation in late October 2012 of the Financial Crimes Task Force, a multi-agency body to coordinate investigations of suspected large-scale money laundering and terrorist financing. Senior-level support and increased capacity for all parties are necessary to ensure AML/CFT cases can be successfully investigated and prosecuted. Investigators are frustrated when judges do not pursue their cases; similarly, judges claim the cases they receive are of poor quality and not prosecutable. In addition, the current lack of implementing legislation, weak compliance enforcement by the

Central Bank of Iraq (CBI), and the lack of support to the CBI's Anti-Money Laundering Unit (AMLU) all undermine Iraq's ability to counter terrorist financing and money laundering.

The CBI generally does not provide sufficient financial or political support to the AMLU. The AMLU has inadequate staffing and lacks sufficient training, computer equipment, and software to receive, store, retrieve, and analyze data from the reporting institutions. Without a database, the AMLU staff must process the data received manually as is common in other Iraqi government institutions. The AMLU is empowered to exchange information with other Iraqi and foreign government agencies. Historically the AMLU received little support from Iraqi law enforcement, but that changed in 2011 when the AMLU demonstrated its added value to many of the government's investigations. The Government of Iraq should ensure the AMLU 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 serve as a platform for international cooperation.

Regulation and supervision of the financial sector are still quite limited, and enforcement is subject to political constraints. 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 45 state-owned and private banks. Also, rather than file STRs in accordance with the law, most banks either conduct internal investigations or contact the AMLU, which executes an account review to resolve any questionable transactions. In practice, very few STRs are filed.

Iraq should become a party to the UN Convention for the Suppression of the Financing of Terrorism. Iraq also should ensure adequate political and resource support for the Financial Crimes Task Force and the FIU to allow them to do their work effectively.

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, and 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 originate from fraud schemes and narcotics trafficking in other jurisdictions, including the UK. Additionally, identity theft and internet abuse are growing segments of financial crime activity.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 2,334 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, accountants, building societies, company service providers, financial advisors, investment/fund managers, life assurance/insurance companies, money service businesses, online gaming entities, post office, stockbrokers, and trust companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2012

Convictions: 0 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** 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 also allow information to be obtained about that person's financial affairs, and can be used to assist

in criminal investigations abroad. The Terrorism (Finance) Act 2009 allows IOM authorities to compile their own list of suspects subject to sanctions as appropriate.

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.

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; its ratification of the International Convention for the Suppression of the Financing of Terrorism was extended to IOM on September 25, 2008; and its ratification of the UN Convention against Transnational Organized Crime was extended to the IOM on June 1, 2012.

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 an increasing extent, with Asia. 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. Israel's illicit drug trade is regionally focused, with Israel more of a transit country than a market destination. The majority of money laundered originates from criminal activities abroad, including "carousel fraud," which takes advantage of international value added tax loopholes. Proceeds from domestic criminal activity also continue to contribute to money laundering activity. Electronic goods, liquor, cigarettes, cell phones, and pharmaceuticals, especially Viagra and Cialis, have all been seized in recent smuggling operations. Officials continue to be concerned about money laundering in the diamond industry, illegal online gambling rings, retail businesses suspected as money laundering enterprises, and public corruption—including the recent indictment of the former chairman of a major national bank on fraud and money laundering charges.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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
Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO
KYC covered entities: Banking corporations, credit card companies, trust companies, stock exchange members, portfolio managers, and the Postal Bank

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 34, 548 (33,874 related to money-laundering and 674 related to terrorism financing): January 1-October 16, 2012
Number of CTRs received and time frame: 839,550: January 1-October 16, 2012
STR covered entities: Banking corporations, credit card companies, trust companies, 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 55: January-September 2012
Convictions: 23: January-September 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Israel has observer status with the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:
http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Israel_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Israel's "right of return" citizenship laws mean that criminal figures find it easy to obtain an Israeli passport without meeting long residence requirements. It is not uncommon for criminal figures suspected of money laundering to hold passports in a home country, a third country for business, and Israel.

Israel's Financial Intelligence Unit, under the Ministry of Justice's Israel Money Laundering Prohibition Authority, cooperates closely with the two bodies responsible for enforcement: the Israel Tax Authority's (ITA) Anti-Drug and Money Laundering Unit and the Israeli National Police.

The ITA also is the responsible agency for bulk cash smuggling interdiction, and a March 2012 bulk cash smuggling interdiction operation seized more than $200,000 in undeclared currency. Israel also cooperates on extradition requests.

Italy

Italy's economy is large both in the European and global context. Its financial and industrial sectors are significant. The proceeds of domestic organized crime groups (especially the Camorra, the 'Ndrangheta, and the Mafia) operating across numerous economic sectors in Italy and abroad compose the main source of laundered funds. Numerous reports by Italian non-governmental organizations identify domestic organized crime as Italy's largest enterprise.

Drug trafficking is a primary source of income for Italy's organized crime groups, which benefit from Italy's geographic position and links to foreign criminal organizations in Eastern Europe, South America, and Africa. Other major sources of laundered money are proceeds from tax crimes, smuggling and sale of counterfeit goods, extortion, and usury. Based on limited evidence, the major sources of money for financing terrorism seem to be petty crime, document counterfeiting, and smuggling and sale of various legal and contraband goods. Italy's total black market is estimated to generate as much as 15 percent of GDP ($330 billion). A sizeable portion of this black market is for smuggled goods, with smuggled tobacco a major component. However, the largest use of this black market is for tax evasion by otherwise legitimate commerce. Money laundering and terrorist financing in Italy occurs in both the formal and the informal financial systems, as well as offshore.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks; the post office; electronic money transfer institutions; agents in financial instruments and services; investment firms; asset management companies; insurance companies; agencies providing tax collection services; stock

brokers; financial intermediaries; lawyers; notaries; accountants; auditors; insurance intermediaries; loan brokers and collection agents; commercial advisors; trusts and company service providers; real estate brokers; entities that transport cash, securities, or valuables; entities that offer games and betting with cash prizes; and casinos

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 34,458: January 1 - June 30, 2012
Number of CTRs received and time frame: Not applicable
STR covered entities: Banks; the post office; electronic money transfer institutions; agents in financial instruments and services; investment firms; asset management companies; insurance companies; agencies providing tax collection services; stock brokers; financial intermediaries; lawyers; notaries; accountants; auditors; insurance intermediaries; loan brokers and collection agents; commercial advisors; trusts and company service providers; real estate brokers; entities that transport cash, securities, or valuables; auctioneers and dealers of precious metals, stones, antiques, and art; entities that offer games and betting with cash prizes; and casinos

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 499: January 1 - October 31, 2012
Convictions: 9 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Italy is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/countries/d-i/italy/documents/mutualevaluationofitaly.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Italy continues to combat the sources of money laundering and terrorist financing. The current government has undertaken a number of reforms to curb tax evasion and strengthen anti-corruption measures, and the government's fight against organized crime is ongoing.

In 2012, Italy made the following key legal, regulatory, and policy changes related to money laundering and terrorist financing: Italy's financial intelligence unit, the Financial Information Unit (FIU), drafted and distributed to KYC- and STR-covered entities guidance for detecting and reporting on unusual practices related to the use of anomalous payment cards for cash withdrawals, international tax evasion and fraud in invoicing and factoring.

In an effort to increase the quantity of STRs reported and the quality and timeliness of the data reported by STR-covered entities, in 2012 the FIU set up a new automated infrastructure for reporting and receiving STRs, issued guidance on the data and

information to be included in the reports, and began outreach to STR-covered entities to train them on the new reporting system. The FIU claims the new system has improved the quality of in-depth financial analysis and the timeliness of information flows. Italy should continue its efforts to improve the quality of its STRs.

Although several of the actions taken in 2011 and 2012 were intended to increase the number of STRs filed by non-financial businesses and professions, since these entities continue to file less than one percent of the STRs, Italy must continue to implement measures that will significantly increase the number of STRs from selected categories of these entities, especially from lawyers. Italy also should work to ensure domestic PEPs are subject to enhanced due diligence requirements. Italy requires large transactions be reported only in the aggregate.

As in previous years, in 2012 the Guardia di Finanza, the primary Italian law enforcement agency responsible for combating financial crime and smuggling, cooperated on a number of occasions with various U.S. authorities in investigations of money laundering, bankruptcy crimes, and terrorist financing. The Direzione Centrale per i Servizi Antidroga, a task force comprised of the Guardia di Finanza, Carabinieri, and the Italian National Police, also plays a central role in these efforts.

Japan

Japan is a regional financial center but not an offshore financial center. It has one free-trade zone, the Okinawa Special Free Trade Zone, established 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.

Japan continues to face substantial risk of money laundering by organized crime including Boryokudan, Japan's organized crime groups, 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. Bulk cash smuggling also is of concern.

In the past several years, there has been an increase in financial crimes by citizens of West African countries, such as Nigeria and Ghana, who reside in Japan. There is not a significant black market for smuggled goods, and the use of alternative remittance systems is believed to be limited.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC covered entities: Banks; credit, agricultural and fishery cooperatives; insurance companies; securities firms; 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; and trust companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 337,341 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks; credit, agricultural and fishery cooperatives; insurance companies; securities firms; trust companies; real estate agents and professionals; precious metals and stones dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 156 in 2011

Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Japan 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/media/fatf/documents/reports/mer/MER%20Japan%20full.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

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's compliance with international standards specific to financial institutions is notably deficient. In April 2011, Japan amended its basic AML law, the Criminal Proceeds Act, to improve customer due diligence requirements, including

requiring financial institutions to identify the customer's name, address, and date of birth, and to verify the purpose of transaction, business activities, and beneficial owners. However, while the government is in the process of finalizing the subordinate decrees, these requirements do not come into effect until April 28, 2013.

The Government of Japan (GOJ) has not implemented a risk-based approach to AML/CFT, and there is currently no mandate for enhanced due diligence for higher-risk customers, business relationships, and transactions. While April 2011 amendments to the Criminal Proceeds Act call for financial institutions to verify a customer's assets and income in certain higher risk situations, the Act delineates those situations as being instances where the use of false identity is suspected, rather than those presented by such factors as business type, customer location, or type of transaction. The current regulations also do not authorize simplified due diligence, though there are exemptions to the identification obligation for customers or transactions believed to pose no or little risk for 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 limited cooperation to other GOJ agencies, and most foreign governments, on nearly all criminal, terrorism, or counter-intelligence related matters. 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 jurisdictions.

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 regulate its own financial service sector and to negotiate and sign tax information exchange agreements directly with other jurisdictions.

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 with nonresidents, adherence to know-your-customer rules is an area of focus for efforts to limit illicit money from foreign criminal activity. Jersey also requires beneficial ownership information to be obtained and held by its company registrar. Island authorities undertake efforts to protect the financial services industry against the laundering of the proceeds of foreign political corruption.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, traveler's checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, fund and portfolio managers; insurance companies and brokers; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high value goods; notaries, accountants, lawyers and legal professionals

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,847 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks; money exchanges and foreign exchange dealers; financial leasing companies; issuers of credit and debit cards, traveler's checks, money orders and electronic money; securities brokers and dealers; safekeeping, trust, fund and portfolio managers; insurance companies and brokers; casinos; company service providers; real estate agents; dealers in precious metals and stones and other high value goods; notaries, accountants, lawyers and legal professionals

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: None in 2011

Convictions: None in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES

With other governments/jurisdictions: NO

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:

The Terrorist Asset Freezing (Jersey) Law 2011 came into force in April 2011 and replaced previous provisions on the freezing of terrorist assets. Under this law, a person designated by the UN or the UK for terrorist purposes is automatically designated in Jersey, and any funds or economic resources of the designated persons are subject to asset freezes. The Jersey Financial Services Commission website contains a link to the United Kingdom Consolidated List of asset freeze targets, which covers all designations by the UN, the European Union and the UK. Registered persons in Jersey are also encouraged to sign up to an email alert system coordinated by Her Majesty's Treasury in the UK, which alerts people to changes in the asset freeze designations.

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 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 in September 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 these crimes.

Jersey requires an obliged entity to obtain all necessary customer due diligence (CDD) information from an introducer immediately at the beginning of a relationship. However, such information may not be required for an intermediary that is considered to present a lower risk. Jersey authorities should explicitly require that all obliged entities obtain all necessary CDD information from the intermediary or introducer at the beginning of a relationship and should consider requiring relevant persons to perform spot-testing of an intermediary or introducer's performance of CDD obligations.

Some concerns have been raised about relatively recent changes to the law on foundations which appear to increase risks for secrecy and tax evasion. Authorities should ensure due diligence and public reporting requirements are strengthened for foundations.

Kenya

Kenya is the largest financial center in East Africa, and its banking and financial sectors are growing in sophistication. It remains vulnerable to money laundering and other financial fraud.

Money laundering/terrorist financing activity derives from both domestic and foreign criminal activity. Kenya is a transit point for international drug traffickers. Trade-based money laundering is a problem in Kenya, though the Kenya Revenue Authority has made recent strides in increasing its internal monitoring and collection procedures. There is a black market for smuggled goods in Kenya, which serves as a major transit country for Uganda, Tanzania, Rwanda, Burundi, eastern Democratic Republic of Congo, and South Sudan. Goods marked for transit to these northern corridor countries avoid Kenyan customs duties, but authorities acknowledge they are often sold in Kenya. Many entities in Kenya are involved in exporting and importing goods, including nonprofit entities. Trade goods are often used to provide counter-valuation in regional *hawala* networks.

The laundering of funds derived from corruption, smuggling, illicit trade in counterfeits, drugs, wildlife trafficking and other financial crimes is a substantial problem. Its proximity to Somalia makes Kenya an attractive and likely destination for the laundering of piracy-related proceeds. As a regional financial and trade center for Eastern, Central, and the Horn of 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. Foreign nationals, in particular the large Somali refugee population, primarily use hawala to send and receive remittances internationally. Mobile money, using telecom networks for cash transfers, is increasingly important and makes tracking and investigating suspicious transactions more difficult. Kenya ranks 139 out of 174 countries on the 2012 Transparency International Corruption Perceptions Index.

Kenya is included in the October 2012 Financial Action Task Force (FATF) Public Statement because it has not made sufficient progress in implementing its action plan and continues to have certain strategic anti-money laundering/counter-terrorist financing (AML/CFT) deficiencies

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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 approach

Legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks and institutions accepting deposits from the public; lending institutions, factors, and commercial financiers; financial leasing firms; transferors of funds or value by any means, including both formal and informal channels; issuers and managers of credit and debit cards, checks, traveler's checks, money orders, banker's drafts, and electronic money; financial guarantors; traders of money market instruments, including derivatives, foreign exchange, currency exchange, interest rate and index funds, transferable securities, and commodity futures; securities underwriters and intermediaries; portfolio managers and custodians; life insurance and other investment-related insurance underwriters and intermediaries; casinos; real estate agencies; accountants; and dealers in precious metals and stones

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 63: January - October 2012

Number of CTRs received and time frame: 0

STR covered entities: Banks and institutions accepting deposits from the public; lending institutions, factors, and commercial financiers; financial leasing firms; transferors of funds or value by any means, including both formal and informal channels; issuers and managers of credit and debit cards, checks, traveler's checks, money orders, banker's drafts, and electronic money; financial guarantors; traders of money market instruments, including derivatives, foreign exchange, currency exchange, interest rate and index funds, transferable securities, and commodity futures; securities underwriters and intermediaries; portfolio managers and custodians; life insurance and other investment-related insurance underwriters and intermediaries; casinos; real estate agencies; accountants; and dealers in precious metals and stones

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Kenya is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. Kenya's most recent mutual evaluation report can be found here: www.esaamlg.org

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) provides a comprehensive framework to address AML issues and contains appropriate sanctions. The POCAMLA has never been used to prosecute any crimes. The POCAMLA allows for enhanced regulations to evaluate politically exposed persons (PEPs). With Kenya's new constitution, there are now increased vetting procedures in place for PEPs, who are now subject, for the first time, to financial disclosure requirements. Key implementing structures called for in the POCAMLA, like the financial intelligence unit (FIU) and the Assets Recovery Unit, are established and are in the process of becoming fully operational.

The GOK established its FIU, the Financial Reporting Center (FRC), in April 2012 and named an interim director. The FRC has obtained its own office space and is completing its staffing requirements, but still needs an automated system to analyze suspicious transaction reports (STRs). The FRC issued guidance notes to commercial banks, non-bank financial institutions, and mortgage finance companies regarding their responsibilities and began receiving STRs in October 2012. While currency transaction reports for currency transactions in excess of $10,000 are required, entities are not actively filing.

The Central Bank of Kenya (CBK) has closed down several foreign exchange bureaus for failing to comply with new, more stringent AML standards. The CBK does not distribute UN lists to financial institutions. Instead, it refers all banks to the public lists posted on the internet. Four times per year, each bank is required to confirm to the CBK that it has ensured none of its clients are on any of the lists. Although the FRC receives STRs from some alternative remittance system (ARS) entities, the GOK cannot consistently track transactions by ARS entities. The lack of regulation/supervision of this sector, coupled with a lack of reporting from the obliged entities, contribute to the vulnerability posed by this sector. Tracking, reporting, and investigating suspicious transactions related to the ARS are more difficult for the Kenyan authorities than those using the formal financial sector.

Kenyan law enforcement authorities lack the institutional capacity, investigative skill, and resources to conduct complex financial investigations, and a number of bureaucratic impediments present challenges. 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. The confidentiality of this process is difficult to maintain, and because of leaks, account holders are tipped off about the investigations and then move their accounts or contest the warrants. The Office of the Public Prosecutor is organizing a special unit to address financial crimes and is collaborating with the Ethics and Anti-Corruption Commission to investigate illicit financial flows. Kenya's criminal justice system is being completely overhauled, including the establishment of a new Supreme Court. The GOK, especially the police, must allocate appropriate resources and enhance its institutional capacity and investigative skill to conduct complex investigations

independently. It must also address the bureaucratic impediments that are preventing it from addressing these crimes.

In September 2012, Kenya passed the Prevention of Terrorism Act (PTA), which criminalizes material support provided to commit a terrorist act; however, the implementing regulations have not been published in the Kenyan Gazette.

POCAMLA provides for legal mechanisms to freeze or seize criminal accounts; however, the law has not yet been used to do this. Kenya does have a mechanism to seize accounts used for terrorist financing, but the PTA does not explicitly provide for freezing terrorist assets. This provision may be added to the Act's regulations, yet to be published. The Prevention of Organized Crimes Act also provides for seizure of cash and property used by organized criminals to commit an illegal act. The Mutual Legal Assistance Act of 2011 provides for greater law enforcement cooperation in obtaining and sharing evidence or information with foreign states or international entities, without the need for an MLAT.

Latvia

Latvia is a regional financial center with a large number of commercial banks and a sizeable non-resident deposit base. Total bank deposits have increased in the past year, with non-residential deposits increasing by 19.7 percent and comprising 49.5 percent of total bank deposits (as of November 2012). The scope of the "shadow" (untaxed) economy (estimated at around 30 percent of the overall economy), geographic location, and public corruption make it challenging to combat money laundering.

Local officials do not consider proceeds from illegal narcotics to be a major source of laundered funds in Latvia. Authorities report that the primary sources of money laundered in Latvia are tax evasion; organized criminal activities, such as prostitution, tax evasion, and fraud, perpetrated by Russian and Latvian groups; as well as other forms of financial fraud. Officials also report that questionable transactions and the overall value of laundered money have remained below pre-financial crisis levels. Latvian regulatory agencies closely monitor financial transactions to identify instances of terrorist financing. Public corruption remains a problem in Latvia.

There is a black market for smuggled goods, primarily cigarettes, alcohol, and gasoline; however, contraband smuggling does not generate significant funds that are laundered through the financial system.

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. The zones are covered by the same regulatory oversight and enterprise registration regulations that exist for other areas.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, credit institutions, life insurance companies, intermediaries, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, payment service providers or other money transmission or remittance offices, and e-money institutions; tax advisors, external accountants, and sworn auditors; sworn notaries, lawyers, and other independent legal professionals; trust and company service providers; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; European Union-owned entities; and any merchant, intermediary or service provider, where payment for goods or services is accepted in cash in an amount equivalent to or exceeding 15,000 EUR (approximately $20,000)

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 16,379: January 1 - October 31, 2012

Number of CTRs received and time frame: 12,925: January 1 - October 31, 2012

STR covered entities: Banks, credit institutions, life insurance companies, intermediaries, private pension fund administrators, investment brokerage firms and management companies, currency exchange offices, payment service providers or other money transmission or remittance offices, and e-money institutions; tax advisors, external accountants, and sworn auditors; sworn notaries, lawyers, and other independent legal professionals; trust and company service providers; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; any merchant, intermediary or service provider, where payment for goods or services is accepted in cash in an amount equivalent to or exceeding 15,000 EUR (approximately $20,000); and public institutions

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 35: January 1 - October 31, 2012

Convictions: 10: January 1 - October 31, 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Latvia 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-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:

In 2012, Latvia adopted amendments to the regulations on enhanced customer due diligence (CDD) to include a requirement for payment service providers and e-money institutions to apply enhanced CDD measures. The Latvian Financial and Capital Market Commission (FCMC) has prepared amendments to the law to eliminate exemptions from CDD. Under Latvian law, foreign politically exposed persons (PEPs) are always subject to enhanced due diligence procedures but domestic PEPs are not. The Latvian government should adopt the proposed legislation to change this.

In 2011, the State Revenue Service uncovered the largest fraud case in the history of the Riga Free Port; the criminal investigation into tax evasion and smuggling is ongoing. In September 2012, the Corruption Prevention and Combating Bureau asked the Prosecutor General to initiate criminal prosecutions against four former officials and 13 other individuals from the state-owned electrical company Latvenergo. The charges allege the misuse of official positions for the purposes of acquiring property, bribery, and the laundering of criminally acquired assets from 2006 to 2010. In October 2012, the Prosecutor's Office reversed the decision of the state police not to investigate whether Latvian banks helped launder at least $63 million from Russia in connection with the alleged Hermitage Capital tax fraud case. The chief prosecutor responsible for organized crime told journalists that having studied the evidence from Latvian banks, he has determined the state police's decision not to start a criminal investigation was contrary to law and unjustified. He has returned the evidence to the police for re-investigation.

Latvian law enforcement officials and regulators are making progress. FCMC reports that Latvian banks continue to substantially invest in their IT systems to develop further programs for identifying suspicious activities, especially with regard to high-risk clients. FCMC should continue its work to strengthen its capacity by increasing its human and financial resources, specifically for anti-money laundering purposes.

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 approximately $7.6 billion annually in the last three years. Reports suggest that a number of Lebanese abroad are involved in underground finance and trade-based money laundering (TBML) activities. In 2011, Lebanese Canadian Bank (LCB) was designated as a financial institution of primary money laundering concern under Section 311 of the USA PATRIOT Act.

Laundered proceeds come primarily from foreign criminal activity and organized crime, and Hizballah, which the United States has designated as a terrorist organization, though the Government of Lebanon (GOL) does not recognize this designation. Domestically, there is a black market for cigarettes; cars; counterfeit consumer goods; and pirated software, CDs and DVDs. However, the sale of these goods does not generate significant proceeds that are laundered through the formal banking system. In addition, the domestic illicit narcotics trade is not a principal source of laundered proceeds.

Lebanese expatriates in Africa and South America have established financial systems outside the formal financial sector, and some are reportedly involved in TBML schemes. Lebanese diamond brokers and purchasing agents are reportedly part of an international network of traders who participate in underground activities including the trafficking of conflict diamonds, diamond trade fraud (circumventing the Kimberly process) and TBML.

Exchange houses are reportedly used to facilitate money laundering and terrorism financing, including by Hizballah. Although offshore banking and 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.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** NO
KYC covered entities: Banks, lending institutions, money dealers, financial brokerage firms, leasing companies, mutual funds, insurance companies, real estate developers, promotion and sale companies, high-value goods merchants (jewelry, precious stones, gold, works of art, archeological artifacts)

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 136: January through October 2012
Number of CTRs received and time frame: 20: January through October 2012
STR covered entities: Banks, lending institutions, money dealers, financial brokerage firms, leasing companies, mutual funds, insurance companies, real estate developers, promotion and sale companies, high-value goods merchants (jewelry, precious stones, gold, works of art, archeological artifacts)

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 6: January through October 2012
Convictions: None

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO ***Other mechanism:*** YES
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 mutual evaluation can be found here:
http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Three laws intended to strengthen Lebanon's anti-money laundering/counter-terrorist financing (AML/CFT) regime were passed by the Council of Ministers on March 14, 2012, and, as of early December 2012, are awaiting Parliament's approval. These include: amendments to the existing money laundering Law 318/2001 which would, among other provisions, add new offenses to the existing law, impose financial penalties on obliged entities for reporting violations, and require lawyers and accountants to report suspicious transactions; new legislation imposing requirements for declaring the cross-border transportation of cash; and new legislation on the exchange of tax information, which would authorize the Ministry of Finance to join bilateral and multilateral agreements to exchange information related to tax evasion and tax fraud.

On April 5, 2012, the Banque du Liban issued Basic Circular No. 126 governing the relationship between banks and financial institutions and their correspondents abroad. This Circular requires banks and financial institutions operating in Lebanon to abide by the same laws, procedures, sanctions, and restrictions adopted by international legal

organizations or by the sovereign authorities in their correspondent banks' home countries.

The Special Investigation Commission (SIC), Lebanon's financial intelligence unit, sent 29 allegations to the Office of the Prosecutor General for prosecution between January 2012 and October 2012. Although the number of filed STRs and subsequent money laundering investigations coordinated by the SIC has steadily increased over the years, prosecutions and convictions are still lacking. In addition, there should be more emphasis on proactive targeting and not simply a reliance on STRs filed by financial institutions to initiate investigations. This deficiency could be attributable to a lack of political will to effectively prosecute cases or a lack of resources and familiarity with AML/CFT standards. Customs is required to inform the SIC of suspected TBML or terrorist financing; however, high levels of corruption within Customs are problematic. Existing safeguards also do not address the laundering of diamonds. Another unaddressed vulnerability is the trading of bearer shares of unlisted companies. The GOL should take action to immobilize those shares.

From January 2012 to October 2012, Lebanon's Internal Security Forces (ISF) received 16 allegations of money laundering and 26 allegations of terrorist financing, mostly from Interpol, and the ISF is in the process of investigating each of these cases. The ISF Money Laundering Department staff lacks the training and skill set to conduct effective money laundering investigations, as well as equipment and software programs to effectively track cases. Additionally, law enforcement entities often do not coordinate activities. The GOL should encourage more efficient cooperation, including the development of task forces, among financial investigators and other relevant agencies such as Customs, the ISF, the SIC, and the judiciary.

Lebanon should increase overall efforts to disrupt and dismantle money laundering and terrorist financing activities, including those carried out by Hizballah. The GOL should enforce cross-border currency reporting. Law enforcement authorities should examine domestic ties to the international network of Lebanese brokers and traders. The GOL also 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. 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 contribute significantly to the ability of financial intermediaries in Liechtenstein to attract both licit and illicit funds from abroad. Liechtenstein's financial services sector includes 17 banks, 107 asset management companies, 40 insurance companies, 71 insurance intermediaries, 33 pension schemes, 6 pension funds, 392 trust companies, 21 fund management companies

with approximately 469 investment funds, and 637 other financial intermediaries. The three largest banks control 85 percent of the market.

In recent years Liechtenstein has made continued progress in its efforts against money laundering as banking secrecy has been softened to allow for greater cooperation with other countries to identify tax evasion. The Government of Liechtenstein (GOL) has renegotiated a series of double taxation agreements to include administrative assistance on tax evasion cases.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, securities and insurance brokers; money exchangers or remitters; financial management firms, investment companies, and real estate companies; dealers in high value goods; insurance companies; lawyers; casinos; the Liechtenstein Post Ltd.; and financial intermediaries

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 295 in 2011

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, securities and insurance brokers; money exchangers or remitters; financial management firms, investment companies, and real estate companies; dealers in high value goods; insurance companies; lawyers; casinos; the Liechtenstein Post Ltd.; and financial intermediaries

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 1 in 2011

Convictions: 0 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Liechtenstein 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-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:

Because there are no laws for declaration of currency and monetary instruments, Liechtenstein's authorities cannot effectively monitor cross-border movement of currency or conduct bulk cash investigations.

The 2011 reporting year saw a decrease of suspicious activity reports (SAR) by 12 percent compared to 2010. Fifty percent of the SARs were based on fraud concerns, 6 percent on money laundering (a decline from last year), and 44 percent on other enumerated offense categories. In 2011, 66 percent of Liechtenstein's SARs were forwarded to the Office of the Public Prosecutor. The present SAR reporting requirements do not clearly indicate whether attempted transactions related to funds connected to terrorist financing or terrorism are covered.

In practice, many of the customer characteristics often considered high-risk in other locales, including non-resident and trust or asset management accounts, are considered routine in Liechtenstein, subject only to normal customer due diligence procedures. The GOL also decided not to include entities with bearer shares, trusts and foundations, or entities registered in privately-held databases in the high-risk category. Liechtenstein should consider reviewing whether this decision makes its financial system more vulnerable to illegal activities.

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.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here:
http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks and payment institutions; investment, tax, and economic advisers; brokers, custodians, and underwriters of financial instruments; commission agents, private portfolio managers, and market makers; managers and distributors of units/shares in undertakings for collective investments (UCIs); financial intermediation firms, registrar agents, management companies, trust and company service providers, and operators of a regulated market authorized in Luxembourg; foreign exchange cash operations; debt recovery and lending operations; pension funds and mutual savings fund administrators; corporate domiciliation agents, company formation and management services, client communication agents, and financial sector administrative agents; primary and secondary financial sector IT systems and communication network operators; insurance brokers and providers; auditors, accountants, notaries, and lawyers; casinos and gaming establishments; real estate agents; and high value goods dealers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 10,856 STRs: January 1 to December 15, 2012

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks and payment institutions; investment, tax, and economic advisers; brokers, custodians, and underwriters of financial instruments; commission agents, private portfolio managers, and market makers; managers and distributors of units/shares in UCIs; financial intermediation firms, registrar agents, management companies, trust and company service providers, and operators of a regulated market authorized in Luxembourg; foreign exchange cash operations; debt recovery and lending operations; pension funds and mutual savings fund administrators; corporate domiciliation agents, company formation and management services, client communication agents, and financial sector administrative agents; primary and secondary financial sector IT systems and communication network operators; insurance brokers and providers; auditors, accountants, notaries, and lawyers; casinos and gaming establishments; real estate agents; and high value goods dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 156: January 1 - December 15, 2012
Convictions: 122: January 1 - December 15, 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Luxembourg is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/countries/j-m/luxembourg/documents/mutualevaluationofluxembourg.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

During 2012, the Government of Luxembourg (GOL) continued the implementation of the comprehensive package of legislative and administrative actions that were put in place in 2010. The Law of 26 December 2012 extends the terrorist financing offense and introduces additional terrorism offenses, such as the provocation to commit a terrorist offense, recruitment, and terrorist training. The new offenses were added as predicate crimes for money laundering. Also in 2012, the authority to investigate and prosecute money laundering cases was extended to both District Courts.

Grand Ducal Decree of 21 December 2012, published on December 28, 2012, provides a new form to be used for the declaration of incoming and outgoing transportation of currency and bearer negotiable instruments. This form replaces the former declaration forms for European and national cash declarations. Its purpose is to facilitate the declaration of information regarding physical transportation of currency and bearer negotiable instruments entering, transiting or leaving Luxembourg.

The Supervisory Authority of the Financial Sector adopted a new regulation in December 2012 which aims to strengthen preventive anti-money laundering/counter-terrorist financing (AML/CFT) measures. It addresses a risk-based approach, customer due diligence, internal control provisions, and the monitoring of auditors. The financial intelligence unit has hired additional analysts and continues to modernize its AML/CFT IT system. In terms of quantitative data, the number of transaction reports, money laundering criminal cases and convictions has continued to rise in comparison to 2011 following the systematic implementation of the new legislation. The GOL should continue to increase the quantity and quality of its reporting. The GOL also should ensure financial sector supervisory authorities conduct more on-site AML/CFT inspections and address concerns about beneficial ownership of legal persons on various accounts.

Macau

Macau, a Special Administrative Region (SAR) of the People's Republic of China, is not a significant regional financial center. Its financial system, which services a mostly local population, consists of banks and insurance companies as well as offshore finance

businesses, such as credit institutions, insurers, underwriters, and trust management companies. Both sectors are subject to similar supervisory requirements and oversight by Macau's Monetary Authority.

With annual gaming revenues of $38 billion in 2012, Macau is the world's largest gaming market by revenue. The gaming industry relies heavily on loosely-regulated gaming promoters and collaborators, known as junket operators, for the supply of wealthy gamblers, mostly from nearby mainland China. Increasingly popular among gamblers seeking inscrutability and alternatives to China's currency movement restrictions, junket operators are also popular among casinos aiming to reduce credit default risk and unable to legally collect gambling debts in China, where gambling is illegal. This inherent conflict of interest together with the anonymity gained through the use of the junket operator in the transfer and commingling of funds, as well as the absence of currency and exchange controls, present vulnerabilities for money laundering.

Macau Government officials indicate the primary sources of laundered funds—derived from local and overseas criminal activity—are gaming-related crimes, property offenses, and fraud.

For additional information focusing on terrorism financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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, notaries, registrars, commercial offshore service institutions, lawyers, auditors, accountants, and tax consultants

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,591: January 1 – October 31, 2012

Number of CTRs received and time frame: Not applicable

STR covered entities: All persons, irrespective of entity or amount of transaction involved

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 0: January 1 - June 30, 2012
Convictions: 1: January 1 - June 30, 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
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:

Macau continues making considerable efforts to develop an anti-money laundering/counter-terrorist financing (AML/CFT) framework that meets international standards. Its financial intelligence unit (FIU) has been an essential component in coordinating efforts to develop long-term AML/CFT infrastructure and for close collaboration with other FIUs.

While Macau's AML law does not require currency transaction reporting, gaming entities are subject to threshold reporting for transactions over MOP 500,000 (approximately $62,640) under the supplementary guidelines of the Gaming Inspection and Coordination Bureau (DICJ). Macau should continue to strengthen interagency coordination to prevent money laundering in the gaming industry, especially by introducing robust oversight of junket operators, mandating due diligence over non-regulated gaming collaborators, and implementing cross-border currency reporting. Macau also should enhance its ability to support international AML/CFT investigations.

As a SAR of China, Macau cannot sign or ratify international conventions in its own right. China is responsible for Macau's international affairs and may arrange for the ratification of any convention to be extended to Macau. The 1988 Drug Convention was extended to Macau in 1999, the UN Convention against Transnational Organized Crime was extended to Macau in 2003, and both the UN Convention against Corruption and the International Convention for the Suppression of the Financing of Terrorism were extended to Macau in 2006.

Mexico

Mexico is a major drug-producing and drug-transit country. Proceeds from the illicit drug trade leaving the United States are the principal sources of funds laundered through the Mexican financial system. Other significant sources of laundered illegal proceeds include corruption, kidnapping, extortion, piracy, alien smuggling, 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, the large flow of legitimate remittances, Mexico's proximity to other Central American countries and the high volume of legal commerce to conceal transfers coming into 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, though the use of trade-based money laundering is an increasing trend. Although the combination of a sophisticated financial sector and a large cash-based informal sector complicates the problem, the implementation of U.S. dollar deposit restrictions reduced the amount of bulk cash repatriation back to the U.S. via the formal financial sector by approximately 70%, or $10 billion. According to U.S. authorities, drug trafficking organizations send between $19 and $29 billion annually to Mexico from the United States, though the Government of Mexico disputes this figure. Mexico has seized over $500 million in bulk currency shipments since 2002.

For additional information focusing on terrorism financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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, centros cambiarios (unlicensed foreign exchange centers), savings and loans institutions, money remitters, SOFOMES (multiple purpose corporate entity), SOFOLES (limited purpose corporate entity), and general deposit warehouses

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 44,591: January through October 2012

Number of CTRs received and time frame: 5 million: January through October 2012

STR 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, centros

cambiarios (unlicensed foreign exchange centers), savings and loans institutions, money remitters, SOFOMES (multiple purpose corporate entity), SOFOLES (limited purpose corporate entity), and general deposit warehouses

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 155: November 2011 to November 2012
Convictions: 160: November 2011 to November 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Mexico is a member of the Financial Action Task Force (FATF) 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/countries/j-m/mexico/documents/mutualevaluationofmexico.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

On October 11, 2012, Mexico's Senate approved the modifications to the anti-money laundering law introduced by the executive in August 2010, and approved by the lower house in April 2012. The President signed the bill into law on October 16, 2012. The legislation obliges designated non-financial businesses and professions (DNFBP) to identify their clients and report suspicious operations or transactions above designated thresholds to the Secretariat of Finance. The thresholds vary by sector. The legislation establishes a Specialized Financial Analysis Unit in the Office of the Attorney General; restricts cash operations in Mexican pesos, foreign currencies and precious metals for a variety of "vulnerable" activities; and imposes criminal sanctions and administrative fines on violators of the new legislation. The government must publish the implementing regulations 30 days after the law enters into force (on/about July 17, 2013) and the affected entities and persons must begin reporting under the new regime no later than 60 days from that date.

Under the above regulations, casinos, notaries, lawyers, accountants, jewelers, realtors, non-profit organizations, armored car transport companies, armoring services, construction companies, art dealers and appraisers, and non-bank institutions providing credit card, pre-paid card, or traveler check services will also be subject to KYC and STR requirements.

Netherlands

The Netherlands is a major financial center and consequently an attractive venue for laundering funds generated from illicit activities, including activities 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. There are a few indications of syndicate-type structures in organized crime or money laundering, but there is virtually no black market for smuggled goods in the Netherlands. Although there are few controls on national borders within the Schengen Area of the European Union (EU), 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. Eustatius, and Saba are special municipalities of the country The Netherlands. Aruba, Curacao, and St. Maarten are countries within the Kingdom of the Netherlands. The Netherlands is responsible for the courts and for combating crime and drugs trafficking within the Kingdom. As special municipalities, Bonaire, St. Eustatius and Saba are officially considered "public bodies" under Dutch law.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, credit institutions, securities and investment institutions, providers of money transaction services, life insurers and insurance brokers, credit card companies, casinos, traders in high value goods, other traders, accountants, lawyers and independent legal consultants, business economic consultants, tax consultants, real estate brokers, estate agents, civil law notaries, trusts and asset administrative companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 23,224 in 2012

Number of CTRs received and time frame: Not available

STR covered entities: Banks, credit institutions, securities and investment institutions, providers of money transaction services, life insurers and insurance brokers, credit card companies, casinos, traders in high value goods, other traders, accountants, lawyers and independent legal consultants, business economic

consultants, tax consultants, real estate brokers, estate agents, civil-law notaries, trust and asset administrative companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 1,300 in 2010
Convictions: 812 in 2010

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The Netherlands is a member of the Financial Action Task Force (FATF). Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/countries/n-r/netherlandskingdomof/documents/mutualevaluationreportofthenetherlands.html

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of The Netherlands (GON) is largely in compliance with international standards but some implementation shortcomings exist. To address concerns about the operational independence and effectiveness of the Dutch financial intelligence unit (FIU), the Ministry of Security and Justice has plans to reorganize the National Police to create more flexibility and enhance its effectiveness in responding to money laundering cases. The government should ensure implementation of these actions in 2013.

The Dutch legal system does not include an autonomous offense of terrorism financing; the current legal framework is being changed to provide for it. The Netherlands has proposed legislation for a number of measures. The GON should enact the following proposed amendments, including: a flexible maximum fine based on business profits and gains; criminalization of abuse of public funds and corruption by public servants and the private sector; an increase in punishment to combat the commission of crimes within the context of the Economic Offenses Act; and a faster procedure to determine the right to seize documents in cases where lawyers and civil law notaries, among others, invoke their right not to submit evidence.

The Netherlands utilizes an “unusual transaction” reporting system. Designated entities are required to file unusual transaction reports (UTRs) with the 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 STR. There were 167,237 UTRs in 2012.

The GON should enact the draft legislation to strengthen its reporting regime and enact stronger KYC rules. The draft legislation includes specific requirements for customer due diligence (CDD) related to legal arrangements; an exchange of information among supervisory authorities; good faith as a condition for protection from criminal liability; a

requirement to immediately obtain information in case of reliance on third parties for CDD; and politically exposed person (PEP)-related requirements that include non-Dutch PEPs resident in the Netherlands. The GON also should consider the draft law to modernize the supervision of lawyers, which has been sent to parliament.

The Netherlands cooperates fully with international investigations. The assignment of dedicated money laundering prosecutors is bringing change to historically low asset seizure rates. To further increase the confiscation of criminal assets, the Dutch Minister of Security and Justice introduced a new law including confiscation as a standard procedure of any money-driven criminal case, aimed at increasing law enforcement agencies' capacity to take such action. The government should move to pass this law.

Nigeria

Nigeria remains a major drug transshipment point and a significant center for criminal financial activity. Individuals, such as internet fraudsters and corrupt officials and businessmen, as well as criminal and terrorist organizations take advantage of the country's location, porous borders, weak laws, corruption, lack of enforcement, and poor socioeconomic 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. Drug traffickers reportedly also use Nigerian financial institutions for currency transactions involving U.S. dollars derived from illicit drugs.

Proceeds from drug trafficking, illegal oil bunkering, bribery and embezzlement, contraband smuggling, theft, and financial crimes, such as bank fraud, real estate fraud, and identity theft, constitute major sources of illicit proceeds in Nigeria. Advance fee fraud, 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; importing goods such as used cars and consumer electronics; and, cash smuggling. Nigerian criminal enterprises adeptly subvert international and domestic law enforcement efforts and evade detection. Nigeria is ranked 139 of 176 on Transparency International's 2012 Corruption Perception Index.

Nigeria's anti-money laundering/counter-terrorist financing (AML/CFT) progress in 2012 relative to its action plan was not considered sufficient by the Financial Action Task Force (FATF), which highlighted Nigeria's lack of adequate progress by including Nigeria in its October 2012 Public Statement.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, investment and securities broker/dealers, and discount houses; insurance institutions; debt factorization and conversion firms, money exchanges, and finance companies; money brokerage firms whose principal business includes factoring, project financing, equipment leasing, debt administration, fund management, private ledger service, investment management, local purchase order financing, export finance, project and financial consultancy, or pension funds management; dealers in jewelry, cars and luxury goods; chartered accountants, audit firms, and tax consultants; clearing and settlement companies and legal practitioners; hotels, casinos, and supermarkets

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,153: January 1, 2012 – November 30, 2012

Number of CTRs received and time frame: 3,386,117: January 1, 2012 – November 30, 2012

STR covered entities: Banks, investment and securities broker/dealers, and discount houses; insurance institutions; debt factorization and conversion firms, money exchanges, and finance companies; money brokerage firms whose principal business includes factoring, project financing, equipment leasing, debt administration, fund management, private ledger service, investment management, local purchase order financing, export finance, project and financial consultancy, or pension funds management; dealers in jewelry, cars and luxury goods; chartered accountants, audit firms, and tax consultants; clearing and settlement companies and legal practitioners; hotels, casinos, and supermarkets

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 14: October 1, 2011 – September 30, 2012

Convictions: 5: October 1, 2011 – September 30, 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Nigeria is a member of the Inter Governmental Action Group against Money Laundering in West Africa (GIABA), a 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:

Nigerian authorities are working toward full implementation of a regime capable of thwarting money laundering and terrorist financing. The 2011 Terrorism (Prevention) Act (TPA) represents progress toward criminalizing terrorist financing, but it is not consistent with international standards. For example, terrorist financing is not listed as a predicate offense for money laundering. The Government of Nigeria (GON) should amend the law to bring it into compliance. In 2012, Nigeria developed amendments to both the TPA and Money Laundering (Prohibition) Act (MLPA). The amendments include all the required predicate offenses, including terrorist financing; the draft amendments to both laws are being negotiated in the National Assembly reconciliation committee, to work out differences between the House and Senate versions.

Lack of investigative capacity as well as judicial corruption have hindered the progress of and thwarted many prosecutions and investigations. The GON should ensure the autonomy and independence from political pressures of the Economic and Financial Crimes Commission (EFCC) and the Nigerian Financial Intelligence Unit (NFIU). The GON also should strengthen its supervision of designated non-financial businesses and professions. Moreover, the GON should work to eradicate any corruption existing within law enforcement bodies and ensure the range of agencies that pursue money laundering cases, including the EFCC, Nigerian Drug Law Enforcement Agency, Independent Corrupt Practices and Other Related Offenses Commission, Nigerian Agency for the Prevention of Trafficking in Persons, and National Police Force have the capacity to function as investigative partners in financial crimes cases. The National Assembly should amend the MLPA to provide for increased autonomy of the NFIU and adopt safe harbor provisions to protect STR reporting entities and their employees. The GON should consider developing a cadre of specially trained judges with dedicated portfolios in order to handle financial crime cases effectively, and the National Assembly also should adopt a non-conviction based asset forfeiture bill.

Pakistan

Pakistan is strategically located between south, central and western Asia, with a coastline along the Arabian Sea. Its porous borders with Afghanistan, Iran, and China facilitate the smuggling of narcotics and contraband between Afghanistan and overseas markets. The country suffers from financial crimes associated with tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, and terrorism. The

black market economy generates substantial demand for money laundering and illicit financing.

Common methods for transferring illicit funds include fraudulent trade invoicing, phony currency exchange, and bulk cash smuggling. Criminals utilize import/export firms, front businesses, and the charitable sector to carry out such activities. Pakistan's real estate sector is another common money laundering destination, since real estate transactions tend to be poorly documented.

Money laundering in Pakistan affects both the formal and informal financial systems. In 2012, the Pakistani diaspora legitimately remitted $13.2 billion back to Pakistan via the formal banking sector. Though it is illegal to change foreign currency without a license, unlicensed hawala/hundi operatorss are prevalent throughout Pakistan. These entities also are commonly used to transfer and launder illicit money.

In October 2012, the Financial Action Task Force (FATF) included Pakistan on its Public Statement because of continuing deficiencies in its anti-money laundering/counter-terrorist financing (AML/CFT) regime.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, Developmental Financial Institutions (DFIs), exchange companies, mutual funds, asset management companies, investment banks, leasing companies, modarabas—a kind of partnership, wherein one party provides finance to another party for the purpose of carrying on a business, pension funds, stock exchanges and brokers, insurance and reinsurance companies, insurance brokers and insurance surveyors

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 560 in 2011

Number of CTRs received and time frame: 204,417 in 2011

STR covered entities: Banks, DFIs, exchange companies, mutual funds, asset management companies, investment banks, leasing companies, modarabas, pension funds, stock exchanges and brokers, insurance and reinsurance companies, insurance brokers and insurance surveyors

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** NO
With other governments/jurisdictions: YES

Pakistan 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/Pakistan%20MER%20-%20final%20version.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Though Pakistan has taken some progressive steps towards remedying its AML/CFT regime, the FATF has noted Pakistan's failure to adequately implement the totality of its action plan, or to address certain deficiencies in its terrorism finance laws. Pakistan should adopt legislation to address these deficiencies. Pakistani authorities also need to investigate and prosecute money laundering and terrorism financing and not focus on the predicate offense creating the proceeds of crime. Awareness raising on AML/CFT issues is critical to the judicial sector.

Weak legislation and lack of implementation also have stymied Pakistan's AML regime. Enforcement deficiencies, particularly regarding the movement of cash, leave Pakistan's informal financial sector vulnerable to illicit exploitation. For example, the State Bank of Pakistan (SBP) requires all money exchange companies to obtain licenses and meet minimum capital requirements. As a result, it is illegal for money exchange companies or hawaladars to operate without a license. However, few hawaladars have been registered by the authorities, and unlicensed hawaladars continue to operate illegally throughout Pakistan, particularly in Peshawar and Karachi.

To address these deficiencies, Pakistan should resolve remaining legal inadequacies related to the criminalization of money laundering; demonstrate effective regulation over exchange companies, specifically by creating an appropriate sanctions regime and increasing the range of preventive measures applicable to such services; implement effective controls for cross-border cash transactions; and develop an effective asset forfeiture regime.

Panama

Panama's strategic geographic location, dollarized economy, and status as a regional financial, trade and logistics center make it an attractive target for money launderers. The Colon Free Zone (CFZ), the second largest free trade zone in the world, is located on Panama's Atlantic coast. Money laundered in Panama is believed to be primarily from the proceeds of drug trafficking due to the country's location along major drug trafficking routes. Numerous factors hinder the fight against money laundering, including a weak regulatory framework, the existence of bearer share corporations, a lack of collaboration among government agencies, inconsistent enforcement of laws and regulations, and a weak judicial system susceptible to corruption and favoritism.

The Government of Panama (GOP) has issued 14 permits to operate free trade zones (FTZs) in Panama. Currently, there are only nine active FTZs, all concentrated in Panama City and Colon.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC 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 zone companies; finance companies; real estate brokers; and lawyers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 652 in 2011

Number of CTRs received and time frame: 517,267: January 1 - September 30, 2012

STR covered entities: Banks, cooperatives, money exchanges, money transfer companies, casinos, betting and gaming companies, fiduciaries, insurance and insurance brokerage companies, the national lottery, investment and brokerage houses, real estate companies, pawnshops, the CFZ, Panama Pacifico Special Economic Zone, Baru Free Trade Zone and other free trade zones

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 25: January 1 – October 1, 2012
Convictions: 26 in 2011

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Panama is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here: http://www.gafisud.info/eng-evaluaciones.php#informes_evaluaciones_mutuas

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Panama cooperates well with U.S. law enforcement agencies. However, the GOP's success in interdicting illegal drug flows is not matched by success in addressing money laundering concerns. There is limited cooperation and communication among the various government agencies tasked with addressing money laundering. Agencies are under-resourced, often lacking the personnel and training to investigate and prosecute complex money laundering schemes.

Panama's financial intelligence unit, the UAF, is responsible for analyzing suspicious financial transactions; however, it is ineffective due to a lack of resources and political independence. The UAF does not have the capability to receive STRs in an electronic format, hindering analysis and timely investigations. The UAF reports to the Ministry of the Presidency and, according to a broad range of sources, inquiries initiated by the UAF mainly concern political figures, leading to questions about its independence.

The judicial branch's capacity to successfully prosecute and convict money launderers remains weak, and judges remain susceptible to corruption. The transition to an accusatory penal system, which began in September 2010, is expected to be fully implemented by 2015, but has not yet had a noticeable effect on money laundering prosecutions.

Panama's Customs Authority is taking steps to reduce the use of Tocumen Airport as an artery for cash couriers to move cash into Panama. More targeted enforcement action, in collaboration with U.S. law enforcement agencies, has led to increased scrutiny of passengers and notable seizures of undeclared cash at the airport. Panamanian Customs has also been effective in identifying potential trade-based money laundering (TBML) with information from the Trade Transparency Unit (TTU), a multi-national trade data-sharing entity. The trade information is analyzed to identify anomalies indicative of TBML, trade fraud and other financial crimes. Despite these advances, Customs lacks sufficient resources to fulfill its mandate. Although Customs generates significant revenue for the government, its limited budget constrains its ability to hire skilled personnel and purchase necessary equipment.

As of November 2012, Panama has 14 double taxation treaties and eight tax information exchange agreements, including one with the United States signed in 2010.

The CFZ continues to be vulnerable to illicit financial activities and abuse by criminal groups, due primarily to weak customs, trade and financial transactions oversight. Bulk cash is easily introduced into the country by declaring it is for use in the CFZ. If the CFZ's electronic transaction recording information system is fully integrated with the TTU, better identification of potential TBML activity will be possible.

The continued existence of bearer share corporations remains a vulnerability of the anti-money laundering (AML) regulatory framework. Additionally, only banks have enhanced due diligence procedures for foreign and domestic PEPs. Executive Decree 55 of February 1, 2012 expands the list of supervision entities, which now includes the Superintendent of Banks; the Panamanian Institute of Autonomous Cooperatives; the Superintendent of Securities Markets; the Colon Free Zone Management; the National Lottery; the Panama Pacifico Agency; the Free Zone of Baru Management; and five offices under the Ministry of Industry and Commerce: the Gaming Control Board, Directorate General of Financial Companies, Real Estate Board, National Directorate of Investments, and Superintendent of Insurance and Reinsurance. Cabinet Decree, Number 43 of November 13, 2012, sets the framework for Panama to become a participant in the Kimberley Process and allows the import and export of rough diamonds. This has raised concerns that rough diamonds could become a new channel for TBML. A new AML law, which has been in process since 2011, would strengthen the UAF's authority and further increase the number of sectors required to report suspicious transactions. The government has not announced a time frame for enactment.

The GOP must improve its AML legal framework, strengthen the prosecutor's office and the judicial system, and create a more transparent financial network so that 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, or TBA) 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 domestic and/or international drug trafficking organizations, organized crime, or terrorist groups. Weak controls in the financial sector, open borders, bearer shares, casinos, a surfeit of unregulated exchange houses, lax or no 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 allow 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, and nearby Salto del Guairá and Pedro Juan Caballero represent the heart of Paraguay's "informal" economy. The area is well known for arms and narcotics trafficking, document forging, smuggling, counterfeiting, 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, and trade-based money laundering occurs in the region.

As a land-locked nation, Paraguay does not have an offshore sector. Paraguay's port authority manages free trade ports and warehouses in Argentina (Buenos Aires and Rosario); Brazil (Paranagua, Santos, and Rio Grande do Sul); Chile (Antofagasta and Mejillones); and Uruguay (Montevideo and Nueva Palmira).

Money laundering likely occurs in the formal financial sector and definitely occurs in the non-bank financial sector, particularly in exchange houses, which are 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 to Uruguay and Brazil, with onward transfers likely to destinations including banking centers in the United States.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** YES

KYC covered entities: Banks, credit and consumer cooperatives, and finance companies; insurance companies; exchange houses, stock exchanges, securities dealers, investment and trust companies; mutual and pension fund administrators; gaming entities; real estate brokers; nongovernmental organizations; pawn shops, and dealers in precious stones, metals, art, and antiques

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,487 in 2012
Number of CTRs received and time frame: 2,073,289 in 2012
STR covered entities: Banks, credit and consumer cooperatives, and finance companies; insurance companies; exchange houses, stock exchanges, securities dealers, investment and trust companies; mutual and pension fund administrators; gaming entities; real estate brokers; nongovernmental organizations; pawn shops, and dealers in precious stones, metals, art, and antiques

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 8 in 2012
Convictions: 0 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
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 (FATF)-style regional body. Its most recent mutual evaluation, conducted by the International Monetary Fund (IMF), can be found here: http://www.imf.org/external/pubs/ft/scr/2009/cr09235.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

For reporting entities that do not have a natural supervisory authority, the Secretariat for the Prevention of Laundering of Money or Assets (SEPRELAD) is the competent supervisor. Both SEPRELAD's budget and staff increased in 2012. In January, SEPRELAD began using software to collect suspicious transaction reports (STR) directly from obligated institutions. The software better establishes the requirements for a STR for obligated institutions and provides a streamlined workflow for collecting supporting documentation. STRs increased 180 percent compared to the average of the previous two years, with a marked increase in reports from exchange houses (98 in 2011; 891 in 2012) and from banks (293 in 2011; 518 in 2012). In 2012, SEPRELAD continued extensive money laundering investigations of four banks and one exchange house in Ciudad del Este that began in late 2011.

The non-bank financial sector operates in a weak regulatory environment with limited supervision. The non-governmental organization responsible for regulating and supervising credit unions, the National Institute of Cooperatives, lacks the capacity to enforce compliance. Exchange houses are another critical non-bank sector where enforcement of compliance requirements remains limited. A 2012 law requires that politically exposed persons (PEPs) of foreign nationality be subject to enhanced due diligence procedures, as is required of domestic PEPs. SEPRELAD is still developing procedures to implement this expanded requirement.

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. Money laundering criminal prosecutions/convictions data only represents cases prosecuted by the Attorney General's Economic Crimes Office. Paraguay does not have a centralized system for tracking money laundering cases prosecuted by other offices or by local prosecutors outside of Asuncion.

In 2012, the GOP enacted a law and implementing regulations that require obligated institutions to freeze preemptively any financial assets they suspect of being linked to terrorism, including terrorism financing and acts of terrorism. This law complements the 2011 terrorist asset freezing law. Paraguay needs to enact effective asset forfeiture legislation. Apart from the terrorist asset freezing laws, 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 and do not include bank accounts. When a seizure does occur, law enforcement authorities cannot dispose of these assets until a defendant is convicted, which frequently takes years.

People entering or leaving the country are required to declare to Customs values exceeding $10,000 or its equivalent in other currencies. However, Customs operations at the airports or overland entry points provide little control of cross-border cash movements. Customs officials are often absent from major border crossings, and required customs declaration reports are seldom checked.

Although Paraguay has made overall progress in improving its anti-money laundering/counter-terrorism financing (AML/CFT) regime, and Paraguay's efforts and political commitment are reflected in the issuance of new legislation, the authorities' broader coordination capacity and the strengthening of the institutional frameworks should be enhanced. The GOP should demonstrate the effectiveness of the legislation in force and of mechanisms it has put in place.

Philippines

The Republic of the Philippines is not a regional financial center, but with a growing economy it is increasingly becoming an important player in Asia. Corruption is a source of laundered funds, and smuggling, particularly bulk cash smuggling, is a major problem. The Philippines continues to experience foreign organized criminal activity from players in China, Hong Kong, and Taiwan. In addition, insurgent groups operating in the Philippines engage in money laundering through ties to organized crime, and criminal activities are partially funded through kidnapping for ransom as well as narcotics and arms trafficking. In terms of narcotics trafficking, methamphetamine use is particularly high in the Philippines. While there are significant domestic clandestine

methamphetamine laboratories, the drug also enters the country through bulk importation/smuggling via maritime vessels as well as air passenger couriers.

Casinos currently are not covered institutions under the Anti-Money Laundering Act (AMLA), although the laws surrounding online gaming are less clear. In 2011, gaming generated $1.3 billion and the revenue streams will expand further with a large, new casino slated to open soon in Manila. The Philippine Amusement and Gaming Corporation, a fully owned government entity, regulates the gaming industry.

Remittances sent to the Philippines by its large expatriate community also provide a channel for money laundering. However, banks and money remitters are now able to capture the bulk of remittances, approximately 80 - 90 percent, sent by overseas foreign workers to the Philippines.

The Philippines, dubbed the "world's texting capital," is a leader in the use of cell phone technology for funds transfers. Although less prevalent, the Government of the Philippines (GOP) has also started using this technology for government-to-persons (G2P) payments, such as through its Conditional Cash Transfer Program. The technology/systems used by telecom firms for facilitating financial transfers are subject to study and approval by the Philippine Central Bank.

The Philippine Economic Zone Authority (PEZA) regulates the 273 economic zones that are established throughout the country, and a handful of other zones are regulated locally or by the Bases Conversion Development Authority. Overall, the PEZA economic zones are properly regulated, but smuggling can be a problem in locally regulated zones. In addition, the Central Bank exercises regulatory supervision over four offshore banking units and requires them to meet reporting provisions and other banking rules and regulations.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks (universal, commercial, thrift, rural, and Islamic) and quasi banks; pawn shops and dealers in precious metals and stones; life insurance and pre-need companies, agents and brokers; mutual benefit associations; professional reinsurers and reinsurance brokers; holding companies; trusts for charitable uses; securities dealers and brokers/sales representatives, investment houses, mutual funds, trusts, and other entities managing securities as agent/consultant; foreign exchange dealers, money changers, and remittance/transfer agents; entities dealing in currency, financial derivatives, cash substitutes, and similar monetary instruments; and accountants

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 17,711 in 2012
Number of CTRs received and time frame: 49,061,986 in 2012
STR covered entities: Banks (universal, commercial, thrift, rural, and Islamic) and quasi banks; pawn shops and dealers in precious metals and stones; life insurance and pre-need companies, agents and brokers; mutual benefit associations; professional reinsurers and reinsurance brokers; holding companies; trusts for charitable uses; securities dealers and brokers/sales representatives, investment houses, mutual funds, trusts, and other entities managing securities as agent/consultant; foreign exchange dealers, money changers, and remittance/transfer agents; entities dealing in currency, financial derivatives, cash substitutes, and similar monetary instruments; and accountants

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 13 in 2012
Convictions: 0 in 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** NO
With other governments/jurisdictions: YES

The Philippines is a member of the Asia/Pacific Group on Money Laundering, 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/The%20Philippines%20DAR%20-%20Final%20%20210809.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In June 2012, the Philippines enacted legislation to address some noted major deficiencies. The changes authorize the Anti-Money Laundering Council (AMLC) to apply to the courts for ex parte inquiry into deposits and investments in relation to all unlawful activities enumerated under the AMLA. The changes also make terrorism financing a stand-alone crime and empower the AMLC to freeze funds and properties of designated terrorists and terrorist organizations, without delay, for cases involving terrorist financing.

Revised Implementing Rules and Regulations issued in August 2012 now define a politically exposed person (PEP) and require covered institutions to take reasonable measures to determine whether a customer or beneficial owner is a PEP. The rules call for enhanced due diligence only for domestic PEPs assessed as high risk for money laundering and terrorist financing, including obtaining senior management approval for establishing or continuing business relationships and establishing their source of wealth/source of funds. Foreign PEPs are automatically subject to enhanced due diligence.

Legislation pending in the Philippine Senate seeks to address other deficiencies by expanding the definition of a money laundering offense according to standards specified by international conventions to which the Philippines is a party, and expanding the lists of covered institutions and predicate crimes. The country should pass this legislation. In addition, the country should seek to include casinos in the proposed list of covered institutions.

While the GOP has made notable progress in enacting legislation and issuing regulations, limited human and financial resources constrain tighter monitoring and enforcement.

Russia

The Russian financial sector is considered large, but not in relation to the size of the large corporations that dominate the economy. The current Russian administration aspires to transform Moscow into an international financial center. While there has been significant progress in improving the legal and enforcement framework, the prevalence of money laundering in Russia, high levels of organized crime, and corruption stand as major obstacles to this goal. A lack of transparency in the financial sector generally helps to enable corruption.

Domestic sources of laundered funds include organized crime, evasion of tax and customs duties, fraud, public corruption, and smuggling operations. The country is considered a significant transit and destination country for international narcotics traffickers who also use the country to launder the proceeds of their crimes. 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 securities instruments, both domestic and foreign real estate, and luxury consumer goods.

Russia's money laundering risk factors include an economic environment conducive to fraud; many large-scale financial transactions associated with its vast natural resources; the state's major role in the economy; and chronic under-funding and lack of capacity of regulatory and law enforcement agencies. These factors help create an enabling environment for corruption and financial criminality. The country's vast territory means that relations with both its regions and quasi-autonomous regions, especially in the

Caucasus region, have relatively low oversight. Considerable vulnerabilities exist in relation to money laundering and the funding of terrorism in these areas.

Gaming is only allowed in particular regions, with regulation shared across multiple agencies, including the Ministries of Finance and Internal Affairs. Russian gaming regulations are strict, although it is difficult to make broad conclusions about the effectiveness of enforcement beyond a few high profile cases. Online gaming is not allowed. Cybercrime is also a problem. Russia's highly skilled hackers and traditional organized crime structures have followed the global trend of increasingly combining forces, resulting in an increased threat to the financial sector.

There is a large migrant worker population in Russia. While the majority of workers likely use formal banking mechanisms, there is likely to be a considerable amount of transfers through informal value transfer systems that may pose a vulnerability.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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 approach

Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks and credit institutions; Russian Post; payment acceptance and money transfer services; securities, insurance and leasing companies; investment and non-state pension funds; casinos and gaming outlets; dealers in precious metals and stones; real estate agents; pawnshops, microfinance organizations, and consumer credit cooperatives; and persons providing legal or accounting services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,316,872: January 1 – March 31, 2012

Number of CTRs received and time frame: 826,444: January 1 - March 31, 2012

STR 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; microfinance organizations; consumer credit

cooperatives; and non-commercial organizations receiving funds from certain foreign entities

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 81: January 1 – March 31, 2012
Convictions: 173 in 2011

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Russia is a member of the Financial Action Task Force (FATF) and two FATF-style regional bodies: the Council of Europe 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.fatf-gafi.org/countries/n-r/russianfederation/

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Russia (GOR) has an effective legal and enforcement framework to deal with money laundering and terrorist financing. While amendments to the law are being proposed they have not yet been taken up for consideration by the Duma. The amendments are expected to contain several positive measures, including establishment of beneficial ownership requirements, such as criteria under which a person might be deemed a beneficial owner, and identification requirements. The amendments also are expected to expand the list of entities subject to anti-money laundering/countering the financing of terrorism (AML/CFT) requirements and the scope of transactions falling under the financial intelligence unit's control. The GOR should pass these legislative changes.

In 2010, self-laundering of amounts lower than RUB 6 million (approximately $196,800) was decriminalized with the rationale being it would allow authorities to better focus on third party laundering. This contradicts international standards, however; and Russian authorities have been encouraged to reconsider this limit. Russia also should ensure that obligated entities are able to report every type of suspicious activity related to money laundering.

Though the overall STR regime is working well in practice, presently there is no legal basis for reporting attempted transactions by occasional customers. There is also no prohibition on maintaining existing accounts under fictitious names, even in cases where bona fide identification was shown at the time of opening the account. The Central Bank requires banks to conduct repeat identification of customers when there is doubt over previously submitted identification, but other financial institutions are not subject to such requirements. Banks also lack the authority to refuse to carry out a transaction or to open an account when they have strong AML concerns regarding the transaction or prospective

clients. The above proposed amendments may address some of these issues, including allowing banks to refuse to open accounts when there is suspicion of fraud as well as prohibiting accounts for anonymous owners or those using pseudonyms. 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.

Although the GOR continues to establish and develop anti-corruption measures, corruption continues to be a problem. Domestic PEPs still are not monitored with the same scrutiny as foreign PEPs. The government should ensure that domestic PEPs are put under the same scrutiny as foreign PEPs.

Singapore

Singapore is a major international financial and investment center as well as a major offshore financial center. Secrecy protections, a lack of routine large currency reporting requirements, and the size and growth of Singapore's private banking and asset management sectors pose significant risks and make the jurisdiction a potentially attractive money laundering/terrorist financing destination for drug traffickers, transnational criminals, foreign corrupt officials, terrorist organizations and their supporters. 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 1, 2012, there were 37 offshore banks in operation, all foreign-owned. Singapore is a center for offshore private banking and asset management. Assets under management in Singapore total approximately S$1.34 trillion (approximately $1.03 trillion). As of December 2011, Singapore had at least $700 billion in foreign funds under management. Singapore does not permit shell banks or anonymous accounts.

There are two casinos in Singapore with estimated combined annual revenue of $3.98 billion, but online gaming is illegal. Casinos are regulated by the Casino Regulatory Authority. Given the scale of the financial flows associated with the casinos, there are concerns that casinos could be targeted for money laundering purposes.

Singapore has nine free trade zones (FTZs) which 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.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 13,557 in 2011

Number of CTRs received and time frame: Not applicable

STR 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

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 32 in 2011

Convictions: 26 in 2011

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** 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 has a comprehensive STR regime and applies AML/CFT requirements to a broad range of entities. Currently, there is no requirement for reporting large currency transactions, which limits the ability to track significant financial movements. Singapore should consider the adoption of such reporting.

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 and criminal investigators are encouraged to identify money laundering that originates from foreign predicate offenses, and use stand-alone money laundering charges to prosecute foreign offenders in Singapore.

Somalia

In 2012, Somalia made significant progress in recovery from its status as a failed state by completing its political transition. In September 2012, a new Parliament elected a new President, who named a Prime Minister and Cabinet. Somali National Army forces, alongside troops from the African Union Mission in Somalia, made significant gains against the U.S.-designated terrorist group al-Shabaab, pushing the extremist militia out of all major cities it previously held. Nevertheless the country is still attempting to stabilize, and the government struggles with weak institutions. A provisional constitution was adopted by a Constituent Assembly of Somali leaders in 2012.

The financial system in Somalia operates almost completely outside of government oversight, either on the black market or via remitters and hawalas. Smuggling is rampant. Somalia has one of the longest land borders as well as the longest coastline in Africa. Officials are unable to maintain control over these points of entry, and goods flow in and out of Somalia unchecked. Piracy ransoms are laundered, especially in northern Somalia, and perhaps in neighboring countries, the Middle East, or Europe. There is some evidence that piracy revenues are laundered through Nairobi and Dubai. The ransoms are delivered through cash drops to pirates holding ships off Somalia's coast. They are divided among the pirates themselves, their support networks on shore, and possibly national and international sponsors. Much of the ransom reportedly remains in cash. Anecdotal reports are that real estate, luxury goods and businesses are financed by ransoms. In Somalia's small, impoverished towns, these purchases and investments are difficult to hide, however, making laundering money in Somalia difficult.

Public corruption significantly facilitates money laundering. For example, some government officials in Somalia's northern region of Puntland are reportedly benefiting from pirate ransoms. They may facilitate ransom laundering or the transfer of ransom money to foreign destinations. Somalia ranks 174 of 174 countries on Transparency International's 2012 Corruption Perception Index, although the new government is taking important steps to improve its public financial management and appears more committed to transparency than the transitional government that preceded it.

Somalia is also a center for terrorist financing. Al-Shabaab remains the most significant threat to Somalia and the region. Its insurgency against the Government of Somalia (GOS) receives financing from multiple sources, including through financial donations

from non-Somali and Somali sympathizers both inside Somalia and abroad, taxation of and extortion targeting local businesses and private citizens, and a monopoly on the charcoal trade which both the Somali government and the UN have banned as a means of depriving al-Shabaab of a significant revenue stream. Some funds enter as cash, but a significant portion reportedly passes through hawaladars and other money or value transfer services. There also are occasional reports of U.S. dollar counterfeiting in al-Shabaab-controlled areas as well as reports of al-Shabaab extorting ransom payments from pirates. There are concerns that money is laundered into the country in support of al-Shabaab.

A 2006 World Bank study pegged remittances at roughly $1 billion per year, mostly sent by Somali workers overseas to their relatives. To the extent Somalis may be 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.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** Not applicable ***civilly:*** Not applicable

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC covered entities: None

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not applicable

Number of CTRs received and time frame: Not applicable

STR covered entities: None

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** NO

With other governments/jurisdictions: NO

Somalia is not a member of any Financial Action Task Force-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Until the completion of its political transition in September 2012, Somalia was essentially without a functioning central government since 1991. While the new government is identifying priority areas for new legislation and working with the international community to enhance its institutional capacity and create regulatory bodies, existing laws – anti-money laundering (AML), counter-terrorism financing (CFT), or otherwise – are currently unenforceable, given the lack of policing and investigative capacity and Somalia's insecurity.

The lack of credible AML/CFT laws, regulatory bodies, and enforcement mechanisms to counter money laundering and financial crimes is believed to be due to a lack of capacity within the federal government, and not a lack of political will. Obstacles to enacting AML/CFT laws include the federal government's limited territorial control over parts of southern and central Somalia beyond Mogadishu, threats to the government by the al-Shabaab insurgency, lack of capacity at all levels of government, and insufficient policing and investigative capacity.

Somalia essentially lacks a formal financial sector with the exception of two commercial banks, one operating in Somaliland and the other in Mogadishu. There are no functioning government regulatory agencies to oversee the financial sector. As such, formal financial institutions and hawala companies in Somalia are not subject to know-your-customer (KYC) or STR reporting programs under Somali law. These entities have no credible government authority to which to report these types of transactions. There are virtually no financial record-keeping requirements enforced by the GOS. International standards, to the extent they exist, 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. Money remittance companies, for example, almost all use electronic AML/CFT systems which flag names listed on the UN 1267 Sanctions Committee's consolidated list.

The legal system in Somalia is composed of traditional courts ("xeer") as well as a variety of local and regional court systems. A legal system with both civilian and military courts operates under the federal government, but the laws that exist are difficult to enforce given the weak capacity of judicial and law enforcement institutions and general instability.

In theory, the Ministry of Finance and Treasury would be responsible for investigating financial crimes. The ministry lacks the capacity, including financial, technical and human resources, to investigate money laundering and terror financing. There are no government entities charged with, or capable of, tracking, seizing, or freezing illegal assets. Somalia has no modern laws requiring forfeiture of terrorist or laundered assets,

and what laws may lend themselves to AML/CFT are not being enforced. The government has called on regional governments to help stem the flow of terrorist financing, including requesting local governments to trace, freeze, and seize al-Shabaab financing.

The Ministry of Finance and Treasury, and the wider government, still struggle to combat internal corruption and the embezzlement of public funds. While government corruption was rampant in the previous transitional administration, the new government has taken steps to combat corruption, including public declarations against corruption. The GOS has already increased transparency in government revenues, requiring that donations to the government be deposited directly to the Central Bank of Somalia. The new constitution provides for the establishment of an Anti-Corruption Commission to investigate allegations of corruption in the public sector. Somalia has not yet established the Commission.

Somalia has cooperated with foreign law enforcement on investigations concerning suspected terrorists, kidnapping, piracy and terrorist acts committed both inside and outside Somalia. Somalia has no mechanisms in place under which to share information related to financial crimes, money laundering, and terrorist financing with other countries but has said it welcomes collaboration.

Somalia should continue taking steps to combat corruption and cooperate internationally, and begin to give itself the legal authorities to combat money laundering and terrorist financing domestically, including by criminalizing both. The GOS should work toward equipping its law enforcement and judicial authorities with the resources and capacity – staffing, budget and training – to investigate and prosecute financial crimes.

Spain

Spain is a major European center of money laundering activities as well as an important gateway for illicit narcotics entering Europe from Central and South America and North Africa, although the serious focus of Spanish law enforcement on combating organized crime, drug trafficking, and money laundering during the past five years has reduced the country's attractiveness as an entry point.

Money laundering is related to drug trafficking and organized crime, as well as financial support for terrorism and for tax evasion purposes. Proceeds continue to be invested in real estate in the once-booming coastal areas in the south and east of the country but criminal groups also place money in other sectors, including services, communications, automobiles, art work, and the financial sector. Access in Spain to European financial institutions allows for the introduction of illicit funds into the global financial system with diminished scrutiny.

Moroccan hashish and Latin American cocaine enter the country and are distributed and sold throughout Europe, with the resulting proceeds often returned to Spain. Passengers traveling from Spain to Latin America reportedly smuggle sizeable sums of bulk cash.

Informal money transfer services also facilitate cash transfers between Spain and Latin America, particularly Colombia. Law enforcement cites an emerging trend in drugs and drug proceeds entering Spain from new European Union (EU) member states with less robust law enforcement capabilities.

Tax evasion in internal markets also continues to be a source of illicit funds in Spain. In a recent operation targeting a group of Chinese businesses, Spanish law enforcement discovered the systematic falsification of invoices for goods entering Spain, the sale of the goods, and an elaborate money laundering network that was used to repatriate the illicit proceeds back to the People's Republic of China. The Spanish authorities estimated that the total amount of money laundered, and therefore associated tax revenue lost, was in the hundreds of millions of euros.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally*:** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 2,975 in 2011

Number of CTRs received and time frame: 644,006 in 2011

STR covered entities: Banks, professional money changers, credit intermediaries, payment systems and managers, and lending firms; life insurance entities and insurance companies that provide investment services; securities and investment service companies, collective investment, pension fund, and risk capital managers; mutual guarantee companies; postal wire services; real estate brokers, agents and developers; auditors, accountants, and tax advisors; notaries and registrars of

commercial and personal property; lawyers, attorneys, or other independent professionals when acting on behalf of clients in financial or real estate transactions; company formation and business agents; trustees; casinos, gaming and lottery enterprises; dealers of jewelry, precious stones and metals, art, and antiques; safekeeping or guaranty services; and foundations and associations

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Spain 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/59/15/46253063.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Spain has long combated both domestic and foreign terrorist organizations and Spanish law enforcement entities have identified various vulnerabilities, including donations to finance nonprofit organizations; establishment of publishing companies that print and distribute books or periodicals for the purposes of propaganda, fraudulent tax and financial assistance collections; the establishment of "cultural associations"; and alternative remittance system transfers. 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 Muslim community.

In April 2010, Spain enacted a law to prevent money laundering and terrorist financing. The law 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. Additionally, the law greatly enhances authorities' capacity to combat terrorist financing by placing greater requirements on financial institutions and other businesses, and by strengthening penalties and monitoring and oversight. The law entered into force immediately; however, implementing regulations will not be approved until 2013. Until then, many of its provisions are not being implemented. In the interim, the implementing regulations for an earlier 2005 law remain in force. Spain should implement the provisions of the new law.

Spanish law does not allow civil forfeiture. Carrying more than 100,000 euros (approximately $131,700) in cash within the country is not allowed. If the authorities discover an amount larger than that, they can seize and hold it until proof of legal origin is provided.

The Spanish government has increased its efforts to combat fraud and tackle Spain's large underground economy. An anti-fraud law, which entered into effect on October 31, 2012, restricts cash transactions between businesses and professionals to less than 2,500 euros (approximately $3,300). Failure to comply with the new norm can result in an administrative fine equivalent to 25 percent of the total value of the payment. The limit for cash transactions for non-resident individuals is €15,000 (approximately $19,950), to allow for tourists' expenditures. The anti-fraud law also establishes a new obligation to report on foreign assets and expands the liability of successor corporations, among other measures.

In 2010, the Financial Crimes Enforcement Network (FinCEN), the financial intelligence unit of the U.S., suspended information sharing with its Spanish counterpart, the Executive Service for the Prevention of Money Laundering (SEPBLAC) due to an unauthorized disclosure of FinCEN information by Spanish authorities. SEPBLAC has addressed the improper disclosure issues and has taken steps to ensure the protection of FinCEN's information, including negotiating an updated version of a memorandum of understanding (MOU) with FinCEN. FinCEN will resume information exchange with SEPBLAC after signing the MOU. The security forces and the judiciary exchange information with the U.S. related to money laundering.

A working group has been created within the Commission for the Prevention of Money Laundering to promote the collection of statistics. Spain currently does not track the total number of prosecutions and convictions for money laundering. When money laundering occurs in conjunction with a predicate offense, only the predicate offense is tracked in a central statistics database. The numbers tracked for money laundering crimes only include those cases in which the conviction was for money laundering alone, without another offense. Spain should maintain and disseminate statistics on investigations and prosecutions.

St. Maarten

Sint Maarten (St. Maarten) is an autonomous entity within the Kingdom of the Netherlands (KON). St. Maarten enjoys sovereignty on most internal matters and defers to the KON in matters of defense, foreign policy, final judicial review, human rights, and good governance.

Drug trafficking is an ongoing concern for St. Maarten, and money laundering is primarily related to proceeds from illegal narcotics. Bulk cash smuggling and trade-based money laundering may be problems due to the close proximity of other Caribbean islands and Saint Martin, the French part of the shared island, which is also a free trade zone.

St. Maarten does not have an offshore banking industry. There are 14 casinos on the island and online gaming is legal and subject to supervision.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, law offices, insurance companies, casinos, Customs, money remitters, the Central Bank, trust companies, accountants, car dealers, administrative offices, Tax Office, jewelers, credit unions, real estate businesses, notaries, currency exchange offices, and stock exchange brokers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

STR covered entities: Banks, law offices, insurance companies, casinos, Customs, money remitters, Central Bank, trust companies, accountants, car dealers, administrative offices, Tax Office, jewelers, credit unions, real estate businesses, notaries, currency exchange offices, and stock exchange brokers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

St. Maarten is a member of the Caribbean Financial Action Task Force (CFATF), a Financial Action Task Force (FATF)-style regional body. Its first mutual evaluation was recently completed. Once published, it will be found here: https://www.cfatf-gafic.org/index.php?option=com_docman&Itemid=418&lang=en

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of St. Maarten's (GOSM) anti-money laundering/counter-terrorist financing (AML/CFT) regime needs improvements in regard to KYC rules, STR collection, criminalizing terrorist financing in line with international standards, and general enhancement of AML/CFT supervision in all sectors. Additionally, shortcomings are noted within the financial intelligence unit (FIU).

Under the former Netherlands Antilles jurisdiction, most governmental organizations were based in Curacao. Following the dissolution of the Netherlands Antilles in 2010, St. Maarten created its own FIU under the Ministry of Justice. The FIU has signed memoranda of understanding for information exchange with several countries and is pursuing membership in the Egmont Group of FIUs.

While St. Maarten and Curacao have a joint Central Bank, St. Maarten has established a Tax Office Criminal Investigation Unit and a Financial Investigation Department.

The GOSM is amending legislation to provide for AML monitoring of casinos, and is pursuing money laundering investigations and prosecutions. In 2012, the GOSM conducted a major money laundering investigation, and in August, $687,000 was seized from suspected launderers. Two additional criminals were prosecuted for smuggling $15,000 into the country in September 2012.

The Mutual Legal Assistance Treaty between the KON and the United States extends to St. Maarten. As part of the KON, St. Maarten cannot sign or ratify international conventions in its own right. Rather, the KON may arrange for the ratification of any convention to be extended to St. Maarten. The 1988 Drug Convention was extended to St. Maarten in 1999. The International Convention for the Suppression of the Financing of Terrorism was extended to the Netherlands Antilles, and as successor, to St. Maarten in 2010. The UN Convention against Transnational Organized Crime and the UN Convention against Corruption have not yet been extended to St. Maarten.

Switzerland

Switzerland is a major international financial center. 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 continue to expose Switzerland to potential money laundering abuse.

Media reports indicate 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.

There are currently 21 casinos in Switzerland. Every casino must obtain a concession from the Federal Council (highest authority of the executive branch) that needs to be renewed every 20 years. While generally well regulated, there are concerns about the use of casinos to launder money. One possible method involves the structuring of cash purchases of casino chips or tokens to avoid reporting requirements and subsequently redeeming the chips for checks drawn on, or wire transfers from, casino bank accounts. Corrupt casino employees also have facilitated drug money laundering activities.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks; securities and insurance brokers; money exchangers or remitters; financial management firms; investment companies; insurance companies; casinos; financial intermediaries; wealth managers and investment advisors

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,625 in 2011

Number of CTRs received and time frame: Not available

STR covered entities: Banks; securities and insurance brokers; money exchangers or remitters; financial management firms; casinos; financial intermediaries; wealth managers and investment advisors

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 290 in 2011

Convictions: 219 in 2010

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Switzerland is a member of the Financial Action Task Force. 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:

From 2010 to 2011, the number of suspicious activity reports increased by 40 percent to 1,625, encompassing a total of CHF 3.3 billion (approximately $3.4 billion), compared to CHF 850 million (approximately $962 million) in 2010. In 2011, ten reports were related to terrorism finance, amounting to CHF 152,000 (approximately $160,000).

There is a lack of adequate regulation of some designated non-financial business sectors, such as real estate, jewelry, luxury cars, works of art, and commodities like oil and gas. The authorities should work to regulate these sectors.

Sports associations like the International Federation of Association Football or the International Olympic Committee are not businesses but associations. They do not pay taxes, and as associations, are exempted from the Swiss anti-corruption legal framework. The exception provided to these entities makes them more vulnerable to money laundering activity. The government should consider efforts to change these laws.

Since 2009, persons physically transferring money worth more than $10,600 into or out of Switzerland need to declare this cash and have to be able to specify to the authorities its origins, its destination, and its owner.

Taiwan

Taiwan is a regional financial center. Its modern financial sector, strategic location on international shipping lanes, expertise in high-tech sectors, and role as an international trade hub make it vulnerable to transnational crimes, including money laundering, drug trafficking, telecom fraud, and trade fraud.

Domestic money laundering is generally related to tax evasion, drug trafficking, public corruption, and a range of economic crimes. Jewelry stores increasingly are being used 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 makes it difficult for law enforcement to detect and deter money laundering in this sector. Gambling is only allowed in limited parts of Taiwan's territory but the extent of either online or other illegal gaming is unknown.

Official channels exist to remit funds, which greatly reduces the demand for unofficial remittance systems. However, although illegal in Taiwan, a large volume of informal financial activity takes place through unregulated and possibly organized crime-linked non-bank channels. Taiwan has five free trade zones and a growing offshore banking sector which are regulated by Taiwan's Central Bank and the Financial Supervisory Commission. There is no significant black market for smuggled goods in Taiwan.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, trust and investment corporations, credit co-operative associations, credit departments of Farmers' Associations and the Fishermen's Association, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, and retail jewelry businesses

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 5,257: January to October 2012

Number of CTRs received and time frame: 3,098,660: January to October 2012

STR covered entities: Banks, trust and investment corporations, credit co-operative associations, credit departments of Farmers' Associations and the Fishermen's Association, Department of Savings & Remittances of Chunghwa Post Co., securities firms, life insurance companies, and retail jewelry businesses

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 13: January to October 2012

Convictions: 10: January to October 2012

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** 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 anti-money laundering/counter-terrorist financing (AML/CFT) regime, but is not in full compliance with international standards on combating terrorist financing. While Taiwan criminalized the financing of terrorist activities, 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. The government should abolish all shell companies and prohibit the establishment of new shell companies of any type.

New regulations regarding the reporting of transactions by jewelry stores came into force in January 2012, with stricter reporting requirements and a lower reporting threshold for transactions. Violations of these reporting requirements will be subject to penalties under Taiwan's money laundering law. The responsible agency governing jewelry stores is the Department of Commerce within the Ministry of Economic Affairs, and it is unclear if this department has the capacity to audit jewelry stores. It is too early to evaluate the effectiveness of the new rules in discouraging illegal remittance via jewelry shops.

Taiwan's AML/CFT requirements do not apply to several types of designated non-financial businesses and professions (DNFBPs), which remain vulnerable to money laundering/terrorist financing activity. Taiwan should raise awareness of the vulnerabilities of non-profit organizations to terrorist financing and should exert more authority over this sector. Taiwan should take steps to amend its legislation and regulations to bring all DNFBPs, as listed in the international standards, and the non-profit sector within the scope of its AML/CFT coverage. 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.

The United States and Taiwan, through their respective legal representatives, are parties to the Agreement on Mutual Legal Assistance in Criminal Matters Between the American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States. 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 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism.

Thailand

Thailand is a centrally located Southeast Asian country with an extremely porous border. Thailand is vulnerable to money laundering within its own underground economy as well as to many categories of cross-border crime, including illicit narcotics and other contraband smuggling. 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 a center for the production and sale of fraudulent travel documents. The proceeds of illegal gaming, corruption, underground lotteries, and prostitution are laundered through the country's financial system. 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 presence of hawalas via money shops that service Middle Eastern travelers in Thailand.

Thailand was publicly identified by the Financial Action Task Force (FATF) in February 2010 for its strategic anti-money laundering/counter-terrorist financing (AML/CFT) deficiencies, for which it has developed an action plan. In October 2012, the FATF determined that Thailand's progress against the agreed action plan's timeline continues to be insufficient and the Government of Thailand (GOT) needs to take adequate action to address its main deficiencies.

For additional information focusing on terrorism financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks (including state banks), finance companies, mortgage finance companies, securities dealers, insurance companies, money exchangers 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 businesses, credit card businesses, and electronic payment businesses, as well as deposit/lending cooperatives with total operating capital exceeding $67,000

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 92,392: January - September 2012

Number of CTRs received and time frame: 824,082: January - September 2012

STR covered entities: Private and state-owned banks, finance companies, insurance companies, savings cooperatives, securities firms, asset management companies, and mortgage finance companies; land registration offices, moneychangers, remittance

agents, jewelry and gold shops, automotive hire-purchase businesses and car dealerships, real estate agents and brokers, antique shops, personal loan companies, electronic and credit card companies, and electronic payment companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 44 in 2012
Convictions: 31 in 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Thailand is a member of the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Its most recent mutual evaluation can be found here: http://www.apgml.org/documents/docs/17/Thailand%20DAR.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Political and civil unrest, natural disasters and elections have impeded Thailand's implementation of its AML/CFT action plan. Thailand's legislative framework still does not adequately criminalize terrorist financing and does not establish adequate procedures for identifying and freezing terrorist assets. The GOT should pass the necessary laws in its end-of-year Parliamentary session to address the Thai financial system's vulnerabilities to money laundering and terrorist financing.

Thai banking regulations cover financial institutions adequately but are ineffective against less formal operations.

The GOT has made some progress in improving its financial intelligence unit and its regulatory framework. The government has increased salaries of Anti-Money Laundering Office (AMLO) investigators to counter historically high turnover. The AMLO is responsible for monitoring compliance with AML/CFT requirements, coordinating information sharing and ensuring that financial supervisors carry out their responsibilities effectively. Thailand also has made progress in the training and supervision of reporting entities, particularly money changers and transfer businesses.

Thai law does not adequately prohibit tipping off, leaving financial institutions and their employees subject to potential liability for filing STRs. The GOT should amend its legislation as necessary to ensure this deficiency is corrected.

Turkey

Turkey is an important regional financial center, particularly for Central Asia and the Caucasus, as well as for the Middle East and Eastern Europe. It continues to be a major transit route for Southwest Asian opiates moving to Europe. However, narcotics trafficking is only one source of the funds laundered in Turkey. Other significant sources

include smuggling, invoice fraud and tax evasion, and to a lesser extent, 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. Informed observers estimate as much as half of the economic activity is derived from unregistered businesses. Money laundering methods in Turkey include: the large scale cross-border smuggling of currency; bank transfers into and out of the country; trade fraud; and the purchase of high-value items such as real estate, gold, and luxury automobiles. Turkish-based traffickers transfer money and sometimes gold via couriers, the underground banking system, and bank transfers to pay narcotics suppliers in Pakistan or Afghanistan. Funds are often transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries.

In October 2012, the Financial Action Task Force (FATF) included Turkey in its Public Statement for Turkey's continuing lack of adequate terrorist financing legislation and a legal framework within which to freeze terrorist assets. The FATF also announced it would take the countermeasure of suspending Turkey's FATF membership if appropriate actions to address its concerns are not taken by its February 22, 2013 plenary.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** NO ***Domestic:*** NO

KYC covered entities: Banks, the Central Bank, post office banks, and money exchanges; issuers of payment and credit cards; lending, financial leasing, custody, settlement, and factoring companies; securities brokers, investment partnerships, and fund and asset managers; insurance, reinsurance and pension companies, and insurance and reinsurance brokers; Islamic financial houses; Directorate General of the Turkish Mint and precious metals exchange intermediaries; auctioneers, and dealers of precious metals, stones, jewelry, all types of transportation vehicles, art and antiquities; lawyers, accountants, auditors, and notaries; sports clubs; lottery and betting operators; and post and cargo companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available
Number of CTRs received and time frame: Not applicable
STR covered entities: Banks, the Central Bank, post office banks, and money exchanges; issuers of payment and credit cards; lending, financial leasing, custody, settlement, and factoring companies; securities brokers, investment partnerships, and fund and asset managers; insurance, reinsurance and pension companies, and insurance and reinsurance brokers; Islamic financial houses; Directorate General of the Turkish Mint and precious metals exchange intermediaries; auctioneers, and dealers of precious metals, stones, jewelry, all types of transportation vehicles, art and antiquities; lawyers, accountants, auditors, and notaries; sports clubs; lottery and betting operators; and post and cargo companies

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Turkey is a member of the 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:

For the past two years, various draft terrorism finance laws, which were supposed to address international concerns, were circulated and submitted to Parliament, the most recent in October 2011. However, the FATF, upon review of the legislation, informed the Government of Turkey (GOT) that the draft law currently before Parliament is insufficient to address the vulnerabilities identified.

The GOT's nonprofit sector is vulnerable to terrorist financing. Turkey's investigative powers, law enforcement capability, oversight and outreach are weak and lacking in all the necessary tools and expertise to effectively counter this threat through a comprehensive approach; all these areas need to be strengthened. The nonprofit sector is not audited on a regular basis for terrorist financing activity and does not receive adequate anti-money laundering/counter-terrorist financing (AML/CFT) outreach or guidance from the GOT. The General Director of Foundations issues licenses for charitable foundations and oversees them. However, there are an insufficient number of auditors to cover more than 70,000 institutions.

Other significant weaknesses exist in Turkey's AML regime that should be addressed. These include: improving customer due diligence; making PEPs subject to enhanced due diligence; ensuring cross-border wire transfers and cash transfers are recorded in

accordance with international standards; ensuring designated non-financial businesses and professions are scrutinized and are subject to reporting requirements; and increasing the capacity of the financial intelligence unit to allow greater data collection and analysis. The GOT should ensure adequate resources are made available to improve the deficiencies in its AML/CFT framework and implementation.

Ukraine

Although Ukraine does not have a regional banking or financial industry, it has had close ties with other European banks. Recently, however, several international banks have pulled out of the country. 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 and fraud; trafficking in drugs, arms or persons; organized crime; prostitution; cybercrime; and tax evasion.

The large shadow economy represents a significant vulnerability. An additional vulnerability is the level of corruption throughout society – both in the private and public sectors. The high level of corruption in the financial sector allows banking regulations to be bypassed or ignored. Transnational organized crime is also present and both transits the country as well as conducts business in Ukraine. It is involved in drug trafficking, economic crimes, cigarette trafficking, trafficking in persons, public corruption, real estate and other frauds, violent crimes and extortions. It is able to operate in Ukraine due to the corruption of the justice system.

Various laundering methodologies are used, including the use of real estate, insurance, bulk cash smuggling, and through shell companies and financial institutions. There is a significant market for smuggled goods and a large informal financial sector in the country. These activities are linked to evasion of taxes and customs duties. As many Ukrainians work abroad, worker remittances using banking transfers or via international payment systems are reported at $1.9 billion in 2011. However, not all worker remittances come through banking channels. The State Financial Monitoring Service acknowledges the existence and use of alternative remittance systems in Ukraine.

For additional information focusing on terrorist financing, please refer to the Department of State‘s Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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
Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO
KYC covered entities: Banks, non-banking institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawn shops, mail service operators and other operators conducting money transfers, real estate traders, certain traders of precious metals and stones, notaries, auditors, independent lawyers, leasing providers, and private entrepreneurs

REPORTING REQUIREMENTS:
Number of STRs received and time frame: Not available – combined with CTRs
Number of CTRs received and time frame: 716,821 from January – September 2012
STR covered entities: Banks, non-banking institutions, insurance companies, gambling institutions, credit unions, depositories, securities traders, registers, pawn shops, mail service operators and other operators conducting money transfers, real estate traders, certain traders of precious metals and stones, notaries, auditors, independent lawyers, leasing providers, and private entrepreneurs

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 42: January - June 2012
Convictions: 34: January - June 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

Ukraine 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-style regional body. Its most recent mutual evaluation can be found here: http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Ukraine_en.asp

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Ukraine should address the rise of cybercrime and related transnational organized criminal activities by examining the significant amounts of U.S. currency which appear to be diverted into this region using financial institutions. Ukraine should increase its attention to investigating large-scale corruption and money laundering schemes. Ukraine also should adopt and implement a system to provide for asset freezing, confiscation and forfeiture.

While Ukraine has the necessary treaties signed and ratified, in many instances they are not applied or are applied poorly. This is particularly true in the area of international law

enforcement cooperation, mutual legal assistance and asset forfeiture. Furthermore, while Ukraine is a party to the UN Convention against Corruption and the UN Convention against Transnational Organized Crime, the provisions of these conventions are not implemented or are not working properly in Ukraine. Ukraine should work to implement its treaty obligations.

United Arab Emirates

The United Arab Emirates (UAE) is the primary transportation and trading hub for the Persian Gulf States, East Africa, and South Asia. Its robust economic development, political stability, and liberal business environment have attracted a massive influx of people, goods, and capital, which may leave the country vulnerable to money laundering activity. Dubai, especially, is a major international banking and trading center. The potential for money laundering is exacerbated by the large number of resident expatriates, roughly 80 to 85 percent of the total population, who send remittances to their homelands.

A significant portion of the money laundering/terrorist financing (ML/TF) activity in the UAE is likely related to proceeds from illegal narcotics produced in South West Asia. Narcotics traffickers from Afghanistan, where most of the world's opium is produced, are increasingly reported to be attracted to the UAE's financial and trade centers. Groups operating primarily outside the country almost certainly control the funds. Domestic public corruption contributes little to money laundering or terrorist financing.

Regional hawaladars and associated trading companies in various expatriate communities, most notably the Somalis, have established clearinghouses, the vast majority of which are not registered with the UAE government. Likewise, the UAE's proximity to Somalia has generated anecdotal reports suggesting some influx and/or transit of funds derived from piracy. There is no significant black market for smuggled goods in the UAE, but contraband smuggling (including alcohol) probably generates some funds that are laundered through the system. There are some indications that trade based money laundering occurs in the UAE and that such activity might support terrorist groups in Afghanistan, Pakistan and Somalia.

Other money laundering vulnerabilities in the UAE include exploitation of cash couriers, the real estate sector, and the misuse of the international gold and diamond trade. The country also has an extensive offshore financial center and 38 free trade zones (FTZs). There are over 5,000 multinational companies located in the FTZs, and thousands more individual trading companies. Companies located in the free trade zones are considered offshore or foreign entities for legal purposes. However, UAE law prohibits the establishment of shell companies and trusts.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, insurance companies, exchange houses, and securities traders

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 479: January 1 – March 31, 2011

Number of CTRs received and time frame: Not available

STR covered entities: Banks, insurance companies, exchange houses, and securities traders

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available

Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other mechanism:*** YES

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-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 (GOUAE) continues to work on enhancing its anti-money laundering/countering the financing of terrorism (AML/CFT) program; however, several areas require ongoing action by the GOUAE. The GOUAE should increase the capacity and resources it devotes to investigation of ML/TF both federally at the Anti-Money Laundering/Suspicious Cases Unit (AMLSCU) and at emirate-level law enforcement. AMLSCU needs to improve its timely financial information sharing capability to conform to international standards. The AMLSCU also needs additional resources to be able to execute its mandate of hawaladar supervision – currently it is not capable of

supervising the vast number of hawaladars in the country or enforcing hawaladar compliance.

On August 13, 2012, the GOUAE issued Federal Legal Decree No. 5 for 2012 on combating cyber crimes. Article 37 of the law stipulates seven years' imprisonment and a fine of not less than 500,000 Dirhams (approximately $136,128) and not exceeding 2 million Dirhams (approximately $544,514) against any person using electronic sites or any information technology means to transfer or deposit illegal funds with the intention to hide or camouflage their source, or to hide or camouflage the facts about illegal funds, their source, movement and ownership.

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.

While firms operating in the Dubai International Financial Center (DIFC) are subject to the UAE AML law, the Dubai Financial Services Authority (DFSA), regulator of the DIFC, has its own AML regulations and supervisory regime which it has based on regulatory regimes and standards found in the United States and Europe. This has caused some ambiguity about the Central Bank's and the FIU's respective authorities within the DIFC; however, the overlapping authorities can result in financial institutions holding to a more rigorous standard in compliance matters.

Enforcement of cash declaration regulations is weak. Law enforcement and customs officials should conduct more thorough inquiries into large declared and undeclared cash imports into the country, as well as enforce outbound declarations of cash and gold utilizing existing smuggling laws.

Law enforcement and customs officials should proactively develop cases based on investigations, rather than wait for STR-based case referrals from the AMLSCU. 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 abuse of trade to launder narcotics proceeds. The GOUAE 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 also should continue its regional efforts to promote sound charitable oversight. The GOUAE has been looking at moving forward with formulating a policy on all aspects of asset forfeiture, including asset sharing; it should continue to act upon this interest. The cooperation between the Central Bank and the DFSA can be improved, 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. *Bureau de change*, cash smugglers (into and out of the UK), and traditional gatekeepers (including lawyers and accountants) are used to move and launder criminal proceeds. Also on the rise are credit/debit card fraud, internet fraud, and the purchase of high value assets to disguise illegally obtained money.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** NO

KYC covered entities: Banks, credit unions, building societies, e-money issuers, and credit institutions; insurance companies; securities and investment service providers and firms; independent legal professionals, auditors, accountants, tax advisors, and insolvency practitioners; estate agents; casinos; high value goods dealers; and trust or company service providers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 285,000: January 1, 2012 – November 29, 2012

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, credit unions, building societies, e-money issuers, and credit institutions; insurance companies; securities and investment service providers and firms; independent legal professionals, auditors, accountants, tax advisors, and insolvency practitioners; estate agents; casinos; high value goods dealers; and trust or company service providers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 2,721 in 2010
Convictions: 1,587 in 2010

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
With other governments/jurisdictions: YES

The United Kingdom is a member of the Financial Action Task Force. Its most recent mutual evaluation can be found here: http://www.fatf-gafi.org/media/fatf/documents/reports/mer/FoR%20UK.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 continuously reviews and assesses the effectiveness and proportionality of its AML/CFT regime – including through the approval of updated and more accessible industry guidance.

Late in 2012, in cooperation with U.S. authorities, the British Financial Services Authority (FSA) put in place a 25-point regulatory plan with which a large British-based bank must comply. The bank also agreed to pay a record $1.92 billion in fines to U.S. authorities for allowing itself to be used for several years to launder drug money flowing out of Mexico, and for other banking lapses, including transferring funds from countries under international sanctions. In a deferred prosecution agreement with the U.S. Department of Justice, the bank acknowledged it failed to maintain an effective program against money laundering and failed to conduct adequate due diligence on some account holders.

There is no enhanced customer due diligence for British PEPs. The UK should consider changing its rules to ensure domestic PEPs are identified and, if appropriate, subject to increased due diligence requirements in accordance with international recommendations.

In April 2013, the FSA is due to be reorganized. The new Prudential Regulation Authority will be the prudential supervisor and the Financial Conduct Authority will monitor the conduct of business across markets and services. The reorganization is dependent on the Financial Services Bill being approved by Parliament. Also, the Serious Organized Crime Agency, which includes the UK financial intelligence unit, is due to transition to the National Crime Agency in 2013. It is important these changes not impede the UK's AML/CFT efforts.

Uruguay

Although the Government of Uruguay (GOU) took affirmative steps to counter money laundering (ML) and terrorism financing (TF) activities and continues to make progress in enforcement, Uruguay remains vulnerable to these threats. Uruguay has a highly dollarized economy, with the U.S. dollar often used as a business currency; about 75 percent of deposits and 50 percent of credits are denominated in U.S. dollars. Officials from the Uruguayan police and judiciary assess that Colombian criminal organizations are operating in Uruguay and Mexican criminal organizations are also likely present. There is additional concern about organized crime moving south from Brazil.

To the extent known, laundered criminal proceeds derive primarily from foreign activities related to drug trafficking organizations. Drug dealers are increasingly participating in other illicit activities like car theft and trafficking in persons, and violent crime is rising. Publicized ML cases are primarily related to narcotics and/or involve the real estate sector. Public corruption does not seem to be a significant factor behind money laundering or terrorist financing. Uruguay has porous borders with Argentina and Brazil and, despite its small size, there is a market for smuggled goods, determined by price differentials between Uruguay and its neighbors. Bulk cash smuggling and trade-based money laundering are likely to occur; however, there is no indication they are tied to terrorist financing.

Given the longstanding free mobility of capital in Uruguay, the informal financial sector is practically non-existent. Money is likely to be laundered via the formal financial sector (onshore or offshore). Six offshore banks operate in Uruguay, three of which cannot initiate new operations since they are in the process of being liquidated. Offshore banks 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. Three accommodate a variety of tenants offering a wide range of services, including financial services. Two were created exclusively for the development of the pulp industry, one is dedicated to science and technology, and the rest are devoted mainly to warehousing. Some of the warehouse-style FTZs and Montevideo's free port and airports are used as transit points for containers of counterfeit goods or raw materials bound for Brazil and Paraguay. A decree passed in November 2010 discourages shell companies from establishing a presence in FTZs.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** NO ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC 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

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 199: January – November 2012

Number of CTRs received and time frame: 6.1 million: January – October 2012

STR 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 other persons who carry out transactions or administer corporations on behalf of third parties

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 11

Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Uruguay is a member of the Financial Action Task Force on Money Laundering in South America (GAFISUD), a Financial Action Task Force-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 continued making progress on AML/CFT in 2012. Main developments include: the approval of the new National Strategy against money laundering for 2012-2015; the passage of a law banning bearer shares corporations; the signature of several tax information exchange agreements; the compilation of all AML/CFT-related legislation in a single body (with a view to harmonization and improvement); and, the launching of a Strategic Information Unit within the AML Secretariat (AMLS) (Decree 334/12).

Additionally, the GOU created a working group to analyze the inclusion of tax evasion as a predicate crime for ML. The financial intelligence unit (UIAF) released a "Guide to Risky Operations and Alerts Related to Terrorism Finance" (Communication 2012/191), and the AMLS launched its web page.

The AML/CFT Strategy, approved in August 2012 via Decree 289/12, is expected to be a major improvement from the previous 2007 strategy. It was developed in two stages with donor support: identification of the most vulnerable areas (2010) and design of a strategy to address them (2011). The new Strategy seeks to strengthen Uruguay's overall AML/CFT system by improving three areas: prevention; detection/financial intelligence; and criminal justice. UIAF personnel are hopeful the Strategy will help the GOU address several weak points on prevention and control. The Strategy's work plan includes a precise set of goals, lays out responsibilities for different agencies, and sets a timeline for each goal.

Law No 18,914, passed in June 2012, mandates all government offices supply information to two judges and two prosecutors specialized in organized crime. The law expedites the procedures for judges and enables prosecutors to require reporting. In 2012, the GOU continued strengthening its AMLS, which organized several training events to create awareness about the importance of seizing assets and imprisoning criminals. In December 2011 and May 2012, the UIAF extended the obligation to report CTRs to securities intermediaries and wire transferors/remitters (Communications 2011/228 and 2012/036). In 2012, the UIAF designed a set of early warning indicators to leverage its comprehensive database. Over 96 percent of STRs were made by the financial sector.

The GOU does not have precise public records on prosecutions, convictions or amount of seized assets related exclusively to AML/CFT cases. Reportedly, 11 individuals were prosecuted in January - late November 2012, in two money laundering cases that had trafficking in persons and corruption as predicate crimes. The National Drug Council, which administers Uruguay's Seized Assets Fund, indicates that between January and late November 2012, the GOU seized 47 vehicles and $1.2 million in cash, and confiscated one house. In 2012, the UIAF did not freeze any assets.

The GOU should amend its legislation to provide for criminal liability for legal persons. It also should continue improving its statistics related to money laundering, and should work with non-financial obligated entities, such as notaries or real estate brokers, to improve suspicious operations reporting.

Venezuela

Venezuela is a major cocaine transit country. The country's proximity to drug producing countries, weaknesses in its anti-money laundering regime, limited bilateral cooperation, and 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.

Money laundering occurs through commercial banks, exchange houses, gambling sites, fraudulently invoiced foreign trade transactions, smuggling, real estate, agriculture and livestock businesses, securities transactions, and trade in precious metals. Trade-based money laundering remains a prominent method for laundering regional narcotics proceeds. One such trade-based system is 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. It is reported many black market traders ship their goods through Margarita Island's free port.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

Are legal persons covered: ***criminally:*** YES ***civilly:*** YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: ***Foreign:*** YES ***Domestic:*** YES

KYC covered entities: Banks, leasing companies, money market and risk capital funds, savings and loans, foreign exchange operators, regulated financial groups, and credit card operators; hotels and tourist institutions that provide foreign exchange; general warehouses or storage companies; regulated securities and insurance entities; casinos, bingo halls, and slot machine operators; and regulated notaries and public registration offices

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,427 in 2011

Number of CTRs received and time frame: Not available

STR covered entities: Banks, leasing companies, money market funds, savings and loans, foreign exchange operators, regulated financial groups, and credit card operators; hotels and tourist institutions that provide foreign exchange; general warehouses or storage companies; regulated securities and insurance entities; casinos, bingo halls, and slot machine operators; and regulated notaries and public registration offices

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 14: January 1 - November 29, 2012
Convictions: 8: January 1 - November 29, 2012

RECORDS EXCHANGE MECHANISM:
With U.S.: ***MLAT:*** YES ***Other mechanism:*** YES
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://www.cfatfgafic.org/downloadables/mer/Venezuela_3rd_Round_MER_(Final)_English.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Venezuela (GOV) has implemented its 2010 action plan and improved anti-money laundering/counter-terrorism financing (AML/CFT) deficiencies. Venezuela's executive branch approved new regulations to strengthen the supervision of banks and securities intermediaries through the Superintendent of Banking Sector Institutions and National Superintendent of Securities, respectively. In the banking sector, the new regulations require enhanced due diligence for higher-risk activities, customer profiles, and categories of customers – distinctions that did not exist prior to these regulations. In the securities sector, the new regulations require securities intermediaries to determine the origin and destination of the funds being used, conduct comprehensive customer due diligence, appoint compliance officers, maintain internal committees for prevention and control of money laundering, and have a code of ethics. In January 2012, the national assembly passed a law that defines and sanctions both organized crime and terrorist financing. However, the politicized judicial system compromises the law's effectiveness. The GOV should increase institutional infrastructure and technical capacity to effectively implement the new AML/CFT legislation and legal mechanisms.

The U.S. Department of the Treasury Financial Crimes Enforcement Network (FinCEN) continues to suspend the exchange of information with Venezuela's National Financial Intelligence Unit, after the unauthorized disclosure of information provided by FinCEN in January 2007.

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 is 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 efforts by the Government of Zimbabwe (GOZ) to sell diamonds through sanctions-skirting approaches including high-value cash transactions and obfuscating actual entities involved in electronic financial transactions.

Nearly all transactions in Zimbabwe are now carried out with either the U.S. dollar or the South African rand. The GOZ's switch to this "multi-currency regime" dramatically reduced opportunities for money laundering and financial crime arising from the multiple exchange rates and opaque foreign exchange controls that were in place until 2009. Legislators from all parties in the coalition government have increased scrutiny of government activities, and ministers from former opposition parties have pushed for further reforms. For example, the parliamentary committee on mining has held officials to account for GOZ actions in the Marange diamond fields. As a result, the Ministry of Finance promised to tighten controls by introducing a Diamond Act and to enhance the revenue authority's oversight on production and sale of diamonds. Ultimate responsibility for the Diamond Act lies with the Ministry of Mines and Mining Development, and a draft Act has not yet been produced. In addition, the minister of finance implemented a new law to improve accountability at the Reserve Bank of Zimbabwe.

The United States, Canada, Australia, and the European Union have imposed targeted financial sanctions and travel restrictions on political leaders and a limited number of companies and state-owned enterprises believed to have been complicit in human rights abuses and undermining Zimbabwe's democracy.

For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found here: http://www.state.gov/j/ct/rls/crt/

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

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Commercial banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change*, legal practitioners, accounting firms, pension funds, real estate agents, cash dealers, and finance houses

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 142: January 1 - November 5, 2012
Number of CTRs received and time frame: Not available
STR covered entities: Commercial banks, acceptance houses, discount houses, money transfer agencies, *bureaux de change*, legal practitioners, accounting firms, pension funds, real estate agents, cash dealers, and finance houses

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:

With U.S.: ***MLAT:*** NO ***Other Mechanism:*** NO
With other governments/jurisdiction: YES

Zimbabwe 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 can be found here:
http://www.esaamlg.org/userfiles/Zimbabwe_detailed_report.pdf

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

AML legislation is sometimes abused for political purposes. More broadly, corruption sometimes impedes application of Zimbabwe's anti-money laundering mechanisms.

Zimbabwe has developed an action plan to address its strategic anti-money laundering/counter-terrorist financing deficiencies. Zimbabwe now has a fully operational and functioning financial intelligence unit. The GOZ, however, still needs to adequately criminalize money laundering and terrorist financing, and establish and implement procedures to adequately identify and freeze terrorist assets to effectively implement UNSCRs 1267 and 1373.

Law-enforcement and regulatory agencies lack the resources to combat money laundering vigorously. Zimbabwe has criminalized money laundering and put in place mechanisms for freezing and forfeiting assets; however, deficiencies remain in being able to do so in a timely manner. The banking system can quickly freeze accounts, but financial institutions typically receive information related to designations from private sources and not government agencies. Zimbabwe has broad legislation on mutual legal assistance in both civil and criminal cases. In general, there are no legal or practical impediments to rendering assistance, providing both Zimbabwe and the requesting country criminalize the conduct underlying the offense. There were a number of prosecutions and convictions between January and November 2012, although exact figures are not available because of lack of a centralized system for compiling and collating the information.

The Government of Zimbabwe (GOZ) should ensure obliged entities comply with the STR filing requirements. The GOZ should improve its implementation of obligations under UNSCRs 1267 and 1373, and become a party to the International Convention for the Suppression of the Financing of Terrorism.