



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

International Narcotics Control Strategy Report

Volume I

**Drug and Chemical
Control**

March 2017



United States Department of State

**Bureau for International Narcotics and Law
Enforcement Affairs**

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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 Asia Regional Information Coordination Center
CARSI	Central America Regional Security Initiative
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 of 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
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
NPS	New Psychoactive Substances
SELEC	Southern European Law Enforcement Center
SIU	Special Investigative Unit

SOUTHCOM	U.S Military Command for the Caribbean, Central and South America
TOC	Transnational Organized Crime
UNODC	United Nations Office on Drugs and Crime
UNCAC	United Nations Convention against Corruption
UNTOC	United Nations Convention against Transnational Organized Crime
USAID	U.S. Agency for International Development
USCG	U.S. Coast Guard
WACSI	West Africa Cooperative Security Initiative
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 2017 INCSR, published in March 2017, covers the year January 1 to December 31, 2016 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 2017 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. The reports vary in the extent of their coverage. For key drug-control countries, where considerable information is available, we have provided comprehensive reports. For some smaller countries or entities where only limited information is available, we have included whatever data the responsible post could provide.

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

Some countries and other entities are not yet parties to the 1988 UN Drug Convention; some do not have status in the United Nations and cannot become parties. For such countries or entities, we have nonetheless considered actions taken by those countries or entities in areas covered by the Convention as well as plans (if any) for becoming parties and for bringing their legislation into conformity with the Convention’s requirements. Other countries have taken reservations, declarations, or understandings to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, the Department has insufficient information to

make a judgment as to whether the goals and objectives of the Convention are being met. Unless otherwise noted in the relevant country chapters, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

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

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

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

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

These countries are identified below.

Major Illicit Drug Producing and Major Drug-Transit Countries

A major illicit drug producing country is one in which:

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

A major drug-transit country is one:

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

The following major illicit drug producing and/or drug-transit countries were identified and notified to Congress by the President on September 14, 2015, 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 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, Belize, Bolivia, Brazil, Burma, Canada, Chile, China, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, El Salvador, Germany, Guatemala, Honduras, India, Indonesia, Mexico, the Netherlands, Nigeria, Pakistan, Peru, Republic of Korea, Singapore, South Africa, Switzerland, Taiwan, Thailand, the United Kingdom, and Venezuela.

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, Albania, Algeria, Argentina, Azerbaijan, Bahamas, Barbados, Belize, Benin, Bolivia, Bosnia and Herzegovina, Brazil, British Virgin Islands, Burma, Cabo Verde, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cuba, Dominican Republic, Dutch Caribbean, Eastern Caribbean, Ecuador, Egypt, El Salvador, Georgia, Ghana, Guatemala, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Italy, Jamaica, Kazakhstan, Kenya, Kyrgyzstan, Laos, Lebanon, Liberia, Malaysia, Mexico, Morocco, Netherlands, Nicaragua, Nigeria, North Korea, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Russia, Senegal, Serbia, South Africa, Spain, Suriname, Tajikistan, Tanzania, Thailand, Timor-Leste, Trinidad and Tobago, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Uzbekistan, Venezuela, and Vietnam.

Further information on these countries/jurisdictions and United States money laundering policies, as required by section 489 of the FAA, is set forth in Volume II of the INCSR in the section entitled "Money Laundering and Financial Crimes."

Presidential Determination

THE WHITE HOUSE

WASHINGTON

September 12, 2016

Presidential Determination No. 2016-10

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for Fiscal Year 2017

Pursuant to Section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228) (FRAA), I hereby identify the following countries as major drug transit 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 foregoing list is not a reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e)(2) and (5) of the Foreign Assistance Act of 1961, as amended (FAA), the reason 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) of the FRAA. Explanations for these decisions are published with this determination.

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

In addition to emphasizing the importance of international cooperation, this determination highlights a number of recent developments concerning various aspects associated with the worldwide drug problem.

Growing Consensus on International Narcotics

There is a growing international consensus that counternarcotics programs must be designed and implemented with the aim of improving the health and safety of individuals while preventing and reducing violence and other harmful consequences to communities.

In concert with international partners, the United States is expanding its domestic and international funding for drug treatment and recovery support programs based on empirical scientific evidence that shows that substance use disorders are medical conditions and must be treated as such. To achieve greater balance, U.S. drug policy also includes stepped-up promotion of effective alternative development programs for farmers and others who agree to stop illegal drug cultivation and associated activities. Such efforts also focus on advancing the rule of law through improving and strengthening civil and law enforcement institutions. United States polices support overall citizen security, including deepening worldwide adherence to fundamental human rights guaranteed by international law.

This consensus was demonstrated at the United Nations General Assembly Special Session on the World Drug Problem (UNGASS) held on April 19-21m 2016, in New York. The meeting served as the first high-level, global gathering on counternarcotics in a generation, and its resulting outcome document forged international consensus behind a balanced and pragmatic approach to drug control. A central theme of UNGASS was to further develop and implement strategies based on the UN Commission on Narcotic Drugs (CND) 2009 Political Declaration and Action Plan aimed at reducing drug production, trafficking, and use from the standpoint of effective public health practices. UNGASS participants, including the United States, also highlighted the importance of substantive advancement of the UN's 2030 Agenda for Sustainable Development, which for the first time in history incorporates rule of law objectives into global development policy.

UNGASS further underscored the broad consensus among United Nations member states with regard to many major drug control themes. At the special session, member states demonstrated their common cause to reinforce efforts to counter drug cultivation, production, distribution, and use through pragmatic approaches that balance both law enforcement and public health perspectives. As stated by the UN International Narcotics Control Board (INCB), we have a “common obligation to employ effective drug abuse prevention, treatment and rehabilitation of our citizens.” Participants also reaffirmed their ongoing commitment to the 1961, 1971, and 1988 UN Conventions on drugs as the essential backdrop for worldwide drug control efforts. These Conventions leave sufficient room for individual states to pursue drug policies that are in accord with their own laws and national realities.

The foreign policy approaches to drug control of the United States are explained in detail in the U.S. National Drug Control Strategy, and our policies and programs are designed to help reach the goals established at UNGASS and work effectively with partners around the world. They include, for example, on-going bilateral cooperation and continuation of the collaborative work through numerous regional and sub-regional multilateral organizations such as the Organization of American States; the European Union; regional affiliates of the global Financial Action Task Force; the Economic Community of West African; the Association of Southeast Asian Nations; and many others. The United States also joins other nations in supporting the important, positive

contributions of many nongovernmental organizations in the academic and private sectors that work on improving counternarcotics policies and programs.

Growing Challenges of Heroin Use, Adulterants, and Opium Poppy Cultivation

According to the UN Office on Drugs and Crime (UNODC), the use of heroin and other opium poppy derivatives is the greatest worldwide drug problem today. Heroin is also the greatest drug threat in the United States, according to the 2015 U.S. National Drug Threat Assessment, published by the U.S. Drug Enforcement Administration. Especially dangerous is the increasing adulteration of heroin with synthetic opioids, such as fentanyl, leading to an increase in the number of deaths as the result of drug overdoses. In 2014, the Centers for Disease Control reported that approximately 10,500 Americans died from heroin-related overdoses; the true number is likely higher given inconsistent testing across the States.

Opium poppy cultivation is expanding beyond Afghanistan, Burma and Laos – the traditional primary producing countries in the world. While Afghanistan is still the major supplier of opium derivatives to Europe and Canada, nearly all opium derivatives found in the United States are primarily grown in or trafficked through Mexico or by Mexican-based drug trafficking organizations. In Mexico, for example, international officials estimate that the number of hectares of heroin poppy under cultivation increased from 11,000 hectares in 2013 to as much as 28,000 hectares in 2015. Limited poppy cultivation has also been detected in Colombia and Guatemala.

According to UNODC, 201,000 hectares of opium poppy were cultivated in Afghanistan in 2015, a five percent decline from 2014. Comparative data, however, shows that while cultivation and yields declined relative to previous years, cultivation is still at historically high levels.

The 2016 U.S. International Narcotics Control Strategy indicates that insurgent groups in Afghanistan generate significant revenue by taxing drugs passing through regions they control. Afghan government drug control efforts are hampered by broad security challenges associated with intensive, long-term conflict and combat. The U.S. government continues to support a broad range of multilateral and bilateral drug control programs in Afghanistan.

Although many treatment and recovery facilities established in Afghanistan show great promise, the 2015 Afghanistan National Drug Use Survey conducted by the Department of State and the Afghan Ministry of Health Institutional Review Board found an 11 percent drug positive rate in Afghanistan. Use of heroin and other opium poppy products, according to international analysis, is also significant in Iran, Kazakhstan, Kyrgyzstan, and Uzbekistan. The INCB is also concerned about the increasing use of Afghan sourced heroin throughout the Middle East.

Heroin in the United States is being increasingly adulterated with low-cost synthetic opioids, especially fentanyl. Research has shown that fentanyl and its analogues can be 25 to 50 times more potent than heroin. According to U.S. law enforcement, most illicit fentanyl, precursors, and fentanyl analogs that have been identified in the United States originate in China, and enter the country via Mexico, Canada, or direct mail. The United States has taken a number of steps to

address this issue. The United States is working with Mexico and Canada to develop bilateral and multilateral approaches to combating opioid production and trafficking, particularly heroin and fentanyl. Law enforcement cooperation with Mexico includes programs to strengthen Mexico's capacity to identify, investigate, interdict and dismantle clandestine drug laboratories and disrupt trafficking networks. The United States conducts regular – and positive – discussions with China to enhance controls on many chemicals used to make fentanyl and other synthetic drugs. In a welcome development in late 2015, China placed controls on 116 substances including a dangerous analog to fentanyl, acetyl fentanyl. Much work remains to be done in this area, and developing compatible, consistent, enforceable international standards is crucial to successfully controlling this growing drug threat.

Cocaine and Coca Cultivation

Although international and U.S. surveys indicate overall production of coca leaf for cocaine has remained stable from a decade ago, Colombia has seen a 42 percent increase in illegal coca crop cultivation from 2014 to 2015. Colombia remains the major provider of cocaine available in the United States, though data shows that cocaine use is declining in the United States and in Europe. However, U.S. rates of overdose involving cocaine were up in 2014.

Increased Colombian coca cultivation can be attributed to a number of factors, including Colombia's decision to end the aerial coca eradication program in October 2015 throughout the country. Even prior to the end of spray eradication, coca growers began to implement "counter" eradication techniques, such as migrating their plantings to areas where spray was not permitted by law or policy. Illegal coca cultivators also began to cultivate smaller, better concealed fields to avoid detection by law enforcement. Colombia has reformulated its counternarcotics strategy to prioritize robust law enforcement activity against criminal drug trafficking organizations, including enhanced interdiction, over that of crop eradication. In 2015, the country seized 295 metric tons of cocaine along with other illegal drugs.

To reach the United States, cocaine is primarily trafficked by land, air, and sea via Central America, Mexico, and the Caribbean. Over the past decade, roughly 97 percent of U.S.-bound cocaine is smuggled out of South America on noncommercial maritime conveyances. Smaller amounts are smuggled via commercial maritime vessels and noncommercial aircraft. Using similar conveyances, cocaine destined for Europe is often routed through Brazil, Bolivia, and Venezuela, as well as via West Africa.

Numerous large shipping containers have been interdicted on Atlantic routes, sometimes with a first stop in Portuguese-speaking countries in Africa. Using these routes reduces language barriers before the drugs are smuggled to their final destination. A variety of U.S. assistance programs, especially those designed to enhance national interdiction capabilities and target kingpin traffickers, are carried out in Africa.

U.S. assistance programs to disrupt the flow of cocaine and other harmful products are designed to build the capacity of judicial, law enforcement, and treatment institutions in partner countries. For example, in Central America these programs are carried out through the Central America Regional Security Initiative, while those in the Caribbean are conducted through the Caribbean

Basin Security Initiative. The Merida Initiative provides the framework for assistance and bilateral cooperation with Mexico. Key activities of these programs include drug interdiction cooperation, especially maritime-based efforts in Central America and the Caribbean; law enforcement capacity building; anticorruption initiatives and support; and enhanced prosecution and judicial reform strengthening efforts.

Looking to the Future

Future action by the international community to address drug cultivation, production, trafficking, and use should be closely tied to the important priorities described in the 2016 UNGASS outcome document. These include, for example, utilization of sound scientific evidence for prevention and treatment programs, effective law enforcement, and appropriately balanced responses to drug-related crime. Areas of special concern include the connections between drug use and human rights, especially as they pertain to vulnerable groups such as women and children. The exchange of information among nations and between professionals engaged in reducing drug trafficking and use, and efforts to stay ahead of new and threatening developments, such as synthetic substances, are central to progress by communities, countries, and regions around the world.

The U.S. government will continue to work with fellow United Nations member states to galvanize the international community toward implementation of the principles that were agreed upon at the 2016 UNGASS. General coordination among concerned United Nations entities is particularly important. This includes collaboration among bodies within the UN structure as a whole, but particularly those that concern themselves to some extent with drug control and related social issues.

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 2017

Bolivia

During the past 12 months, the Bolivian government has failed demonstrably to make sufficient efforts to meet its obligations under applicable international counternarcotics agreements or uphold the counternarcotics measures set forth in Section 489 (a)(1) of the Foreign Assistance Act (FAA) of 1961, as amended. Bolivia is the world's third largest cultivator of coca leaf used for the production of cocaine and other illegal narcotics derivatives.

Bolivia's policy of allowing the cultivation of 20,000 hectares (ha) of coca exceeds the amount of coca needed for traditional purposes, as assessed by the European Union, by approximately 36 percent and exceeds the current Bolivian legal limit by 67 percent. While the Bolivian government and the United Nations Office on Drugs and Crime (UNODC) estimated that coca cultivation decreased to 20,200 hectares in 2015, the United States Government – using different methodology – estimated that coca leaf cultivation increased in Bolivia to 36,500 hectares in 2015, representing a 15-year high.

UNODC data from 2015 shows that 65 percent of the coca produced in Bolivia is sold through local legal markets; the rest is unaccounted for and likely diverted for illicit purposes. UNODC officials have noted that 95 percent of coca grown in the Chapare region is not used for traditional consumption and that 89 percent of the coca grown in the Chapare region did not make it to the legal market in 2015. Bolivia's precursor chemical law, enacted in 1988, is outdated and does not effectively control the import or trade of precursor chemicals.

Bolivia re-acceded to the 1961 U.N. Single Convention on Narcotic Drugs with a reservation permitting coca to be used only within Bolivia for traditional, cultural, and medicinal purposes. Despite these stated conditions, Bolivia continues to promote the use of coca in other countries by not prohibiting the export of coca leaf (prohibited under the 1961 UN Convention) for consumption by Bolivians residing in Argentina and discussing potential export opportunities for coca products with other countries.

Peruvian officials estimate that 50 percent of all Peruvian cocaine transits Bolivia via aerial transshipment, commonly known as the "air bridge." Most Bolivian cocaine is exported to other Latin American countries, especially Brazil and Argentina, for domestic consumption or for onward transit to West Africa and Europe rather than to the United States. During 2015, Bolivia signed counternarcotics cooperation agreements with Peru and Paraguay. It previously negotiated agreements with Argentina in 2000 and Brazil in 1978. Bolivia and Chile also maintain limited bilateral cooperation on counternarcotics despite their ongoing dispute over access to the Pacific Ocean. The present impact of these agreements is unclear.

As a matter of official policy, the Government of Bolivia does not encourage or facilitate illegal activity associated with drug trafficking. Nevertheless, high-level government officials

acknowledge serious corruption in the judiciary and police. In 2015, corruption accusations were frequent and often unaddressed by an already strained judiciary.

If passed, Bolivia's new counternarcotics laws could permit Bolivia to enhance its controls of precursor chemicals and its monitoring of coca cultivation. Implementation of those new laws will be crucial to bolstering Bolivia's counternarcotics efforts. Bolivia should also strengthen efforts to stem the diversion of coca for cocaine processing by tightening controls over the coca leaf trade, achieve net reductions in coca cultivation, and improve law enforcement and judicial efforts to investigate and prosecute drug-related criminal activity. Enacting new asset forfeiture legislation to complement the new counternarcotics laws would also provide Bolivian law enforcement with improved tools and funding for future counternarcotics efforts.

At present, however, Bolivia's actions represent counter-productive national drug control policies. Bolivia fails to account for excess coca production, it remains a major transit country for Peruvian coca and lacks adequate controls over its internal coca markets. Serious shortcomings in arrests and prosecutions expose its judicial system as ineffective in dealing with producers and traffickers. Therefore, Bolivia's narcotics control performance in the Fiscal Year 2017 Majors List cycle again demonstrates that the country continues to make a smaller contribution than required to meet its obligations in the worldwide effort to control drugs.

Increased Bolivian counternarcotics cooperation with other countries and in international fora would be welcome. There are no U.S. counternarcotics assistance programs in Bolivia, but Bolivian law enforcement officials attended International Law Enforcement Academy training programs in 2015. There is little data on the potency of Bolivian coca, crop yields, and cocaine production in the country. The air bridge between Peru and Bolivia is a pressing issue that calls for improved cooperation between the two countries. Bilateral counternarcotics and law enforcement agreements with Brazil, Paraguay and Argentina should be energetically implemented and enhanced.

At the end of 2015, the Bolivian customs office was in the process of finalizing an agreement with the U.S. government that would permit information exchanges and collaboration to prevent illegal shipments and related criminal activities, including drug trafficking. In February 2015, the Bolivian government assisted the United States Coast Guard in seizing 1,017 kilograms of cocaine with an estimated U.S. street value of \$125 million on a Bolivian-flagged vessel in Panamanian waters. Bolivia subsequently waived its right of primary jurisdiction over the vessel and crew, which enabled criminal prosecution in the United States.

In accordance with U.S. legislation, the determination that Bolivia has failed demonstrably to make substantial efforts to adhere to its obligations under international counternarcotics agreements and to take counternarcotics measures set forth in the FAA does not result in the withholding of humanitarian and counternarcotics assistance. It is not in the vital interest of the United States to grant a national interest waiver to Bolivia. As United States assistance to and relations with Bolivia are extremely limited, there is no bilateral programming in place that is vital to the national interest of the United States.

MEMORANDUM OF JUSTIFICATION FOR MAJOR DRUG TRANSIT OR ILLICIT DRUG PRODUCING COUNTRIES FOR FY 2017

Burma

During the past 12 months the Burmese government has failed demonstrably to make sufficient efforts to meet its obligations under applicable 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. During this period, however, 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 increased collaboration with the United States government, it is in the interest of the United States government to grant Burma a national interest waiver.

According to the 2015 United Nations Office of Drugs and Crime (UNODC) Southeast Asian Opium Survey, Burma remains the second largest cultivator of illegal opium poppy in the world, after Afghanistan. Burma cultivated 55,000 hectares of poppy in 2015, a four percent decrease from 2014. As in previous years, cultivation in Shan state accounted for the vast majority of opium poppy cultivation (50,300 hectares – or 91 percent of cultivation nationwide). Especially in the poor and underdeveloped state of Burma, farmers are incentivized to grow poppy because it provides the largest amount of income in the shortest amount of time in an area lacking any other major cash crops.

Although opium poppy and heroin are trafficked through all of Burma's porous borders, the most significant routes lead to Laos, China, and Thailand. The Mekong River is also a vital trafficking route, and there are growing signs of new routes to the western part of Burma for onward trafficking to South Asia. Since 1996, there has been a sharp increase in production, consumption, and export of synthetic drugs in Burma, especially amphetamine-type stimulants (ATS). ATS attributed to Burma are trafficked along routes to Thailand, China, Laos, and Bangladesh. Reports from India, Nepal, and Bangladesh indicate that South Asia is also increasingly affected by the trafficking of methamphetamine pills originating in Burma.

As a matter of policy, the Burmese government does not encourage or facilitate the illicit production or distribution of drugs, or the laundering of proceeds from illegal drug transactions. According to Burmese statistics, law enforcement officers destroyed 13,450 hectares of opium poppies in 2015 compared to 15,188 hectares in 2014. Such government statistics cannot, however, be independently verified. Furthermore, U.S. and UNODC reporting often reflect the fact that eradication occurs after the poppies have been harvested.

The Government of Burma has intensified its focus on increasing the country's capacity to conduct counternarcotics activities. The Central Committee for Drug Abuse Control (CCDAC), chaired by the Minister of Home Affairs, is in the process of restructuring and expanding its counternarcotics task forces, pledging to fight drug production, trafficking, and drug use. The

CCDAC has expanded its task forces from 26 to 50 units located throughout the country – with a greater presence in high-traffic areas such as Shan and Rakhine states.

In 2015, the Burmese government organized extensive legal reform workshops to amend the 1993 Narcotic Drugs and Psychotropic Substances Law. The goal of amending the law would be to shift from a law enforcement-dominated approach to an approach that balances the role of law enforcement with a public health, victim-centered response, with a focus on treatment and rehabilitation. The reform process is ongoing and is expected to continue under the newly-elected government.

Notwithstanding these efforts, counternarcotics police officers still lack adequate training and resources to sufficiently address the breadth of the country's narcotics problems. In addition, the willingness and ability of police and prosecutors to collaborate and bring trafficking networks to justice is extremely limited.

Burma continues to cooperate with the United States and is increasing engagement with the international community. Burma has demonstrated a commitment to work regionally on counternarcotics initiatives, including those coordinated through the UNODC, such as the Border Liaison Office program and the Colombo Plan.

Despite these improvements, Burma's current counternarcotics performance is not sufficient to meet its international counternarcotics cooperation obligations. The Burmese government needs to dedicate more adequate resources to its counternarcotics efforts, increase illegal crop eradication in a timely and comprehensive manner, and redouble its efforts to obtain and maintain ceasefires with ethnic minorities – which would allow for increased access to areas with high drug cultivation, trafficking, and use. In addition, credible reporting from non-governmental organizations and the media claim that mid-level military officers and government officials are engaged in drug-related corruption, though no military officer above the rank of colonel has ever been charged with drug-related corruption.

The U.S. decision to grant Burma a national interest waiver, for the fifth year in a row, reflects political change taking place in Burma and the country's interest in improving its international drug control cooperation and overall rule of law. The United States supported Burmese participation at the International Law Enforcement Academy in Bangkok. The United States is supporting expanded counternarcotics programming, including a poppy cultivation survey carried out by the UNODC interdiction and justice sector reform training opportunities, and comprehensive drug demand reduction activities. Additionally, The United States provides small grants to civil society and media organizations throughout Burma to foster public participation in political life, encourage government transparency, and promote the rule of law.

Burma is a state party to the 1988 UN Convention.

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 2017

Venezuela

During the past 12 months, the Venezuelan government failed demonstrably to make sufficient efforts to meet its obligations under applicable 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. A national interest waiver for 2017 for Venezuela permits support for programs vital to the national interest of the United States, such as democracy building and human rights advocacy.

Due to Venezuela's porous border with Colombia, its weak judicial system, sporadic international counternarcotics cooperation, and permissive and corrupt environment, Venezuela remains a major drug-transit country. It is one of the preferred trafficking routes for illegal drugs, predominately cocaine, from South America to the Caribbean region, Central America, the United States, Western Africa, and Europe.

In 2015, the Venezuelan government engaged in minimal bilateral law enforcement cooperation with the United States. Venezuelan authorities do not effectively prosecute drug traffickers, in part due to political corruption. Additionally, Venezuelan law enforcement officers lack the equipment, training, and resources required to significantly impede the operations of major drug trafficking organizations. Venezuelan authorities reported the seizure of 69 metric tons (MT) of illegal drugs during the first nine months of 2015. Cocaine (83 percent) and marijuana (16 percent) comprised the overwhelming majority of seizures. Venezuelan authorities did not share evidence about destruction of illicit drugs with U.S. officials and Venezuela's reported drug control operations cannot be verified.

Although the Venezuelan government, as a matter of policy, neither encourages nor facilitates illicit drug production or distribution, and although it is not involved in laundering the proceeds of the sale of illicit drugs, public corruption is a major problem in Venezuela that makes it easier for drug-trafficking organizations to operate. Additionally, the Venezuelan government has not taken action against government and military officials with known links to FARC members involved in drug trafficking.

In July 2015, the Venezuelan National Guard announced the arrest of two retired Venezuelan National Guard officers, one captain and one lieutenant, for drug trafficking. One of the individuals had been on the Department of the Treasury's Specially Designated Nationals (SDN) list since 2013. In 2015, the Venezuelan government cooperated with the United States Coast Guard in 10 documented maritime drug-interdiction cases, compared to two cases in 2014, 10 cases in 2013, and five cases in 2012. Venezuelan counternarcotics officials participated in the International Drug Enforcement Conference (IDEC) for the third consecutive year in 2016. Beyond this, counternarcotics cooperation between Venezuela and the United States has been limited and inconsistent since 2005.

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Pursuant to section 706 of the Foreign Relations Authorization Act of Fiscal Year 2003, though Venezuela has failed demonstrably, a national interest waiver under the FAA allows the continuation of U.S. bilateral assistance programs to Venezuela; counternarcotics and humanitarian assistance can be provided to Venezuela without a national interest waiver.

POLICY AND PROGRAM DEVELOPMENTS

Overview

In 2016, the global community achieved notable progress in reaching a new international consensus on priorities to frame international cooperation against the dangers of illicit drugs. At the United Nations General Assembly Special Session (UNGASS) on the world drug problem in April 2016, the United States joined over 190 governments in reaffirming the international community's responsibility for working together to counter transnational organized criminal involvement in the production and distribution of illegal narcotics and to elevate the role of public health global drug control efforts. These commitments, based on principles of collective responsibility and respect for human rights, reflect a balanced approach to promoting public health as well as effective law enforcement. This was the first such global gathering on international drug policy since 1998, and included contributions from civil society, academia, and the scientific community.

The UNGASS also strongly affirmed the global community's continuing obligation to reduce the availability of illicit drugs. This includes taking effective law enforcement action against the organized criminal networks responsible for supplying the global consumption of illicit drugs. The UNGASS consensus further reflects that organized crime and transnational drug trafficking undermine sustainable development, sap the strength of developing countries, and threaten efforts to build a safer, more prosperous world.

The most urgent drug-related public health crisis within the United States remains the ongoing opioid epidemic. This long-developing epidemic, spurred originally by misuse of prescription opioids within the United States, is now increasingly fueled by heroin and synthetic opioids, such as fentanyl, trafficked into the United States by transnational criminal networks. Public health officials have called the current opioid epidemic the worst drug crisis in U.S. history, costing the lives of more than 33,000 people in 2015. In 2015, for the first time, deaths from heroin alone surpassed gun homicides.

Transnational crime's role in fueling this public health crisis underscores the importance of international engagement to reduce the production of illegal drugs at their source and disrupt the movement of drugs in transit. Partnering with source and transit countries to reduce supplies of these drugs at points of origin and transit remains the most effective and cost-efficient means to achieve this goal. Most of the heroin available in the United States originates in Mexico, with lesser amounts originating from opium poppy cultivated in Colombia and Guatemala. The United States has committed partners in the governments of these countries willing to target heroin production and trafficking, and we will look to expand upon ongoing initiatives in 2017 to achieve further progress.

We will also expand international cooperation to reduce the availability of illicitly-produced fentanyl and other synthetic drugs, including fentanyl analogues. Again, there is a solid platform on which to build, particularly our growing drug control cooperation with a wide array of international partners, including China, the source of much of the fentanyl and other non-controlled synthetic drug compounds (known as New Psychoactive Substances, or NPS) entering the United States. In 2016, the United States and China agreed to enhance cooperation and

information sharing to support mutual consideration of controls on NPS, including fentanyl analogues. Working through the United Nations, the United States will seek support in 2017 from the global community to establish new international controls on the precursor chemicals most commonly used by criminals to produce illicit fentanyl. At the International Narcotics Control Board's Third International Conference on Precursor Chemicals and NPS held in February 2017, the United States joined over 40 governments in agreeing to additional measures to improve controls over precursor chemicals and reduce the prevalence of NPS.

The opioid epidemic demands urgent action as a top priority of U.S. and international drug control efforts, but we must also remain vigilant to prevent backsliding where progress has been achieved, such as the long-term reduction in cocaine use and availability within the United States. There are troubling early signs that cocaine use and availability is on the rise in the United States for the first time in nearly a decade. Coca cultivation in Colombia increased by 39 percent in 2014 and again by 42 percent in 2015 to 159,000 hectares, nearing record highs, and this surge in production may be having effects within the United States. According to U.S. Customs and Border Protection, there was an increase in cocaine seizures nationwide between 2014 and 2015, and the number of overdose deaths within the United States involving cocaine in 2015 was the highest since 2007. Due to the lag time between coca cultivation and cocaine distribution, the full impact of this surge in coca cultivation likely remains to materialize.

Colombian authorities remain among the closest collaborators of U.S. law enforcement agencies, and the United States is capitalizing on opportunities to deepen law enforcement cooperation as Colombia implements its peace accord with the Revolutionary Armed Forces of Colombia (FARC), Colombia's largest drug-trafficking organization. Colombia's interdiction of cocaine and cocaine base in 2016 increased over 40 percent to a record high of approximately 421 metric tons. However, the amount of cocaine being trafficked out of Colombia is also at record levels. The increased flow of cocaine threatens to increase pressure on law enforcement in neighboring transit states, particularly in Central America and Mexico, where most of the cocaine transits before entering the United States. The illicit earnings from this traffic will enable criminal organizations to fuel corruption, undermine citizen security, and potentially challenge the rule of law and legitimate state institutions.

Implementing the UNGASS recommendations will also require comprehensive, integrated, and well-resourced policies to reduce demand, expand access to treatment and promote recovery. There is no contradiction between these related challenges. Reducing the availability of dangerous drugs and targeting the violent transnational criminals who profit from them is necessary to provide time and space for policies and programs to effectively reduce drug demand and support recovery. The United States government devoted over \$14 billion in Fiscal Year 2016 to support domestic programs that work to prevent drug use, reduce barriers to treatment, and expanded opportunities for sustained recovery. Internationally, the United States is committed to sharing examples of effective practices with countries facing similar challenges, including technical assistance to help partner governments develop drug demand reduction workforces and professionalize drug treatment and prevention services.

These are difficult challenges that directly threaten not only the well-being of communities across the United States, but the stability and success of our allies and partners across the globe.

The scope of the challenge has evolved over many decades, and effective solutions to this inherently transnational problem will by definition require long-term, concerted global efforts. The 2016 UNGASS provides a useful and long awaited framework for such global cooperation. The United States is committed to taking advantage of this momentum and joining with international partners to pursue a concerted, long-term effort commensurate to the challenge.

Demand Reduction

Drug demand reduction is a key foreign policy tool for addressing the interconnected threats of drugs, crime, and violence. 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 calls for a comprehensive, balanced approach to the drug-problem that targets prevention, treatment, 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 countries are requesting INL-sponsored technical assistance to improve development of effective policy and programs. INL works closely with international partners to coordinate and place into practice capacity building and training activities for service providers in drug prevention, treatment, and recovery. INL also promotes the sharing of critical information and evidence-based studies to preserve the stability of societies that are threatened by the narcotics trade.

The drug demand reduction program has four pillars: (1) develop the drug demand reduction workforce, (2) professionalize drug treatment and prevention services, (3) build global networks and community coalitions, and (4) address populations with special clinical needs. In achieving these objectives, INL supports the following:

- Capacity building, training, mentoring, and credentialing aimed to educate governments and public organizations on evidence-based practices in drug prevention, treatment and recovery;
- Development of drug-free community coalitions internationally, involving law enforcement and public/private social institutions;
- Research, development, and evaluation efforts to determine the effectiveness of drug prevention and treatment programs; and
- Dissemination of evidence-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 substance use disorders and related violence.

Significant completed and ongoing INL-funded demand reduction projects for 2016 include:

Establishment of the International Consortium of Universities for Drug Demand Reduction (ICUDDR): In March 2016, INL and a consortium of international organization partners and universities from around the world held its first ICUDDR meeting. The ICUDDR is a network of universities working together to promote academic programs in addition studies (drug prevention and treatment) to further the dissemination of evidence-based practices and develop the drug demand reduction workforce. Upcoming efforts of this network in 2017 include establishing an advisory board for each region to coordinate training, academic programs, exchanges, and technical assistance between the universities.

Universal Prevention Curriculum: INL's Universal Prevention Curriculum (UPC) consists of two series, one for coordinators/managers of prevention programs and one for prevention implementers/prevention workers. This training program is based on the United Nations Office on Drugs and Crime (UNODC) Standards for Drug Use Prevention, offering innovative evidence-based approaches to drug prevention in a variety of settings such as family, school, workplace, media, and the community. The development of examinations and an International Certified Prevention Specialist credential is in the process of being developed.

Child Addiction Initiative: INL is supporting the development of evidence-based training to establish effective and appropriate drug prevention and treatment practices to young children (aged 12 and under) exposed to drugs. This initiative is in response to increasing reports of acute and growing substance use disorders among children in Asia, Africa and South America, where age-appropriate treatment may be unavailable or not scientifically sound. Working with a panel of global child drug addiction experts, INL developed six child-focused psychosocial and pharmacological treatment training courses to serve as a tool to help strengthen international capacities in this field.

Global Treatment Mapping: INL is partnering with five international organizations to map the treatment capacity in Asia, Africa, and Latin America. The mapping will form a living registry of all substance use disorder treatment services and indicate the type of services offered, targeted groups, and capacity, among other items. The mapping will help identify the characteristics of national treatment systems and areas requiring assistance.

Women Drug Treatment Initiatives: INL supports research-based prevention, treatment, and recovery programs in high-risk countries to improve services for addicted women and their children, a chronically under-served and stigmatized population. INL's Guiding the Recovery of Women (GROW) curriculum addresses the unique needs of female addicts worldwide. The full curriculum has been translated into Spanish and all 10 courses have been trained and echo-trained to treatment providers throughout Peru.

Pregnant and Addicted Women: INL collaborated with UNODC, the World Health Organization, and Johns Hopkins University to create the first universal protocols for pharmacological detoxification and psycho-social interventions for the treatment of pregnant and addicted women. The guidelines for the treatment of substance use disorders during pregnancy will provide guidance and support for front-line service providers around the world in developing treatment and prevention interventions for pregnant women. These guidelines are currently being translated into several of the official World Health Organization languages and will be disseminated worldwide.

Research Programs: Evaluations are an important tool to help identify and determine where resources can be effective. INL's latest evaluation conducted the first drug use survey that included toxicological testing in Afghanistan, the first survey of its kind to be completed anywhere in the world. The survey revealed that 31 percent of all households in Afghanistan, and 11 percent of the population as a whole tested positive for one or more drugs, with drug use three times greater in rural than urban areas of the country. As a result of the survey, INL is

plans to expand treatment to rural areas and initiate a new prevention program to mainstream prevention across the government ministries.

Regional Treatment Training: INL supports the work of the Colombo Plan, UNODC, and the Organization of American States to establish a national-level training and certification system for drug addiction counselors, aimed at improving the delivery of drug treatment services and management skills in select countries of Asia, Africa, and Latin America. This professionalization of treatment leads to higher quality interventions, improved treatment outcomes, lower relapse rates, and overall greater confidence in the treatment system. The basic level of the Universal Treatment Curriculum is currently being utilized in over 45 countries. Advance courses will be disseminated beginning in January 2017.

Drug-Free Communities: INL assists civil society and grassroots organizations to form and sustain effective community anti-drug coalitions aimed at preventing substance use disorders in their communities. INL support has resulted in the establishment of over 160 active coalitions in 24 countries around the world (Bolivia, Brazil, Cabo Verde, Colombia, Costa Rica, Ghana, Guatemala, Haiti, Honduras, Indonesia, Iraq, Kazakhstan, Kenya, Kyrgyzstan, Mexico, Nigeria, Peru, Philippines, Senegal, South Africa, Tajikistan, Tanzania, Togo, and Uruguay).

Intranasal Naloxone Feasibility Study: In 2016, INL supported UNODC and the World Health Organization to begin a feasibility study on intranasal naloxone at the community level. In some countries, injectable naloxone is effectively used for opioid overdose prevention. This feasibility study will look at the adaptability of the medication using the intranasal form of naloxone in other countries. Field assessments were conducted in Ukraine, Tajikistan, Kyrgyzstan, and Kazakhstan. UNODC will hold the first protocol meeting in December 2016.

Methodology for U.S. Government Estimates of Illegal Drug Production

Introduction

Illicit drug crops are grown, refined into illegal drugs, 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 of illicit drug production presented in the INCSR represent the United States government's best effort to assess 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.

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 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 affects our ability to gather data, particularly in the Andes, where cloud cover can be a major problem.

Improved technologies and analytical techniques may also lead us to 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. These illicit drug statistics represent the current 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 areas with strategic amounts of cultivation or areas 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 necessary. They then estimate cultivation in the new survey area using proven statistical techniques.

The resulting 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 U.S. government, making scientific information difficult to obtain, we continually strive to improve our production estimates. The relative productivity of poppy crops in some cases can be estimated using imagery, and our confidence in coca leaf yield estimates continues to improve as a result of field studies conducted in Latin America. Coca fields which are less than 18 months of age ("new fields") produce much less leaf than mature fields. In Colombia, for example, fields on average get their first small harvest at six months of age; in Bolivia and Peru, fields are usually first harvested at 12 months of age. 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, cannabis, 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 do not remove for coca leaf locally chewed and used in products such as coca tea. In Southwest and Southeast Asia and Latin America, it is not unrealistic to assume that virtually all poppy is harvested for opium gum, but substantial amounts of Asian opium are consumed as opium rather than being processed into heroin; the proportion of this 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 different methodologies, and 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 the U.S. government and the UN to understand each other's methodologies with the goal 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 non-governmental organizations. Such data is attributed to the source organization, especially when we cannot independently verify it.

Worldwide Potential Illicit Drug Production 2008-2016 (in metric tons)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Opium									
Afghanistan	5,500	5,300	3,200	4,400	4,300	5,500	6,300	4,100	In process
Burma	340	305	530	450		795	900		In process
Colombia		22					20	24	In process
Guatemala					4	6	14	6	In process
Laos	17	12	23	57					In process
Mexico				250	220	225	360	600	In process
Pakistan	26	26			28	220	105	29	In process
Total Potential L. America heroin				30	27	27	47	74	In process
Potential Pure Cocaine									
Bolivia	170	180	190	195	165	190	225	255	In process
Colombia	320	315	280	220	205	230	310	495	In process
Peru	230	230	320	305	300	340	330	380	In process
Total Potential Pure Cocaine	720	725	790	720	670	760	865	1,100	In process
Potential Export-Quality Cocaine									
Bolivia	190	205	210	220	190	240	300	310	In process
Colombia	400	420	380	290	270	300	405	670	In process
Peru	260	270	370	360	385	410	405	495	In process
Total Potential Export-Quality Cocaine	850	890	960	880	840	950	1,100	1,500	In process

Notes:

Opium production is reported at zero percent moisture.
Some Asian opium is consumed and not processed into heroin.

Pakistan opium production: Estimates use yield values from similar growing areas in Afghanistan because of the lack of Pakistan yield data.

Guatemala opium production: Estimates use yield values from Mexico because of the lack of Guatemala yield data.

Colombian opium production:	Production estimates in 2014 and 2009 were backcast in 2015 with newly available yield data.
Mexico opium production:	2011 and later surveys incorporate a major methodological change; 2007-2010 estimates have therefore been removed.
Potential Latin America heroin:	Combined potential heroin production estimates for Mexico, Guatemala, and Colombia. The 2011 estimate does not include Guatemala or Colombia. The 2012-2013 estimates do not include Colombia.
Andean cocaine production:	Production estimates for 2008-2015 were adjusted in 2016 based on increases in immature plant productivity

Worldwide Illicit Drug Crop Cultivation 2008-2016

(all figures in hectares)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Poppy									
Afghanistan	157,000	131,000	119,000	115,000	180,000	198,000	211,000	201,000	<i>In Process</i>
Burma	22,500	19,000	45,500	36,500		51,000	52,000		<i>In Process</i>
Colombia		1,100					800	1,100	<i>In Process</i>
Guatemala					220	310	640	260	<i>In Process</i>
Laos	1,900	940	1,800	4,400					<i>In Process</i>
Mexico				12,000	10,500	11,000	17,000	28,000	<i>In Process</i>
Pakistan	700	705			755	4,300	2,800	930	<i>In Process</i>
Coca									
Bolivia	26,500	29,000	29,000	25,500	25,000	27,000	35,000	36,500	<i>In Process</i>
Colombia	119,000	116,000	100,000	83,000	78,000	80,500	112,000	159,000	<i>In Process</i>
Peru	41,000	40,000	53,000	49,500	50,500	59,500	46,500	53,000	<i>In Process</i>
Total Coca	186,500	185,000	182,000	158,000	153,500	167,000	193,500	248,500	
Cannabis									
Mexico				12,000	11,500	13,000	11,000		<i>In Process</i>

Notes:

Estimates may not add to totals due to rounding.

Note on Colombia poppy cultivation:

No estimates in 2008 and 2010-2013 due to cloud cover.

Note on Guatemala poppy cultivation:

2012 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 expanded.

Note on Mexico poppy and cannabis cultivation:

2011 and later surveys incorporate a major methodological change; 2007-2010 estimates have therefore been removed

Note on Pakistan poppy cultivation:

2008 and 2012 estimates are for Bara River Valley in Khyber Agency only. 2009 estimate is for Khyber, Mohmand, and Bajaur Agencies only. 2013 includes Khyber, Mohmand, Bajaur, and selected areas in Balochistan. 2014 includes Khyber and areas in Balochistan.

Parties to UN Conventions

(with dates ratified/acceded)

As of 1 December, 2016

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	1 April 2013	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	11 November 2014	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	12 December 2016
19. Benin	30 August 2004	23 May 1997	14 October 2004
20. Bhutan		27 August 1990	21 September 2016
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	24 September 2013	30 December 1993	29 November 2013
47. Democratic People's Republic of Korea	17 June 2016	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	17 May 2013	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	25 September 2014	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	8 July 2015
66. Georgia	5 September 2006	8 January 1998	4 November 2008

67. Germany	14 June 2006	30 November 1993	12 November 2014
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	1 April 2015
71. Guatemala	25 September 2003	28 February 1991	3 November 2006
72. Guinea	9 November 2004	27 December 1990	29 May 2013
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	19 September 2016
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	5 November 2015	28 December 1998	27 March 2008
93. Kiribati	15 September 2005		27 September 2013
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	12 January 2005	13 October 1993	13 April 2007

Yugoslav Rep.			
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	4 February 2013	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	1 December 2015
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	9 January 2014
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	16 July 2013	21 August 1995	25 November 2011
150. St. Vincent and the Grenadines	29 October 2010	17 May 1994	
151. Samoa	17 December 2014	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	29 April 2013
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	12 August 2014	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. South Sudan			23 January 2015
165. Spain	1 March 2002	13 August 1990	19 June 2006
166. Sri Lanka	22 September 2006	6 June 1991	31 March 2004
167. Sudan	10 December 2004	19 November 1993	5 September 2014
168. Suriname	25 May 2007	28 October 1992	
169. Swaziland	24 September 2012	3 October 1995	24 September 2012
170. Sweden	30 April 2004	22 July 1991	25 September 2007
171. Switzerland	27 October 2006	14 September 2005	24 September 2009
172. Syria	8 April 2009	3 September 1991	
173. Tajikistan	8 July 2002	6 May 1996	25 September 2006
174. Thailand	17 October 2013	3 May 2002	1 March 2011
175. Tanzania	24 May 2006	17 April 1996	25 May 2005
176. Timor-Leste	9 November 2009	3 June 2014	27 March 2009
177. Togo	2 July 2004	1 August 1990	6 July 2005
178. Tonga	3 October 2014	29 April 1996	
179. Trinidad and Tobago	6 November 2007	17 February 1995	31 May 2006
180. Tunisia	19 July 2003	20 September 1990	23 September 2008
181. Turkey	25 March 2003	2 April 1996	9 November 2006
182. Turkmenistan	28 March 2005	21 February 1996	28 March 2005

183. Tuvalu			4 September 2015
184. UAE	7 May 2007	12 April 1990	22 February 2006
185. Uganda	9 March 2005	20 August 1990	9 September 2004
186. Ukraine	21 May 2004	28 August 1991	2 December 2009
187. United Kingdom	9 February 2006	28 June 1991	9 February 2006
188. United States	3 November 2005	20 February 1990	30 October 2006
189. Uruguay	4 March 2005	10 March 1995	10 January 2007
190. Uzbekistan	9 December 2003	24 August 1995	29 July 2008
191. Vanuatu	4 January 2006	26 January 2006	12 July 2011
192. Venezuela	13 May 2002	16 July 1991	2 February 2009
193. Vietnam	8 June 2012	4 November 1997	19 August 2009
194. Yemen	8 February 2010	25 March 1996	7 November 2005
195. Zambia	24 April 2005	28 May 1993	7 December 2007
196. Zimbabwe	12 December 2007	30 July 1993	8 March 2007

*Not included on this list is the “State of Palestine,” which the United Nations informed the Government of the United States on April 9, 2014 had purportedly acceded to the UN Convention against Corruption. Similarly, on January 6, 2015, the United Nations informed the Government of the United States that the “State of Palestine” had purportedly acceded to the UN Convention against Transnational Organized Crime. The Government of the United States of America notified the United Nations that it does not believe the “State of Palestine” qualifies as a sovereign state and does not recognize it as such. Therefore, the Government of the United States of America believes that the “State of Palestine” is not qualified to accede to the Conventions and does not believe that it is in a treaty relationship with the “State of Palestine” under the Conventions.

USG ASSISTANCE

U.S. Department of State FY 2016-2017 Budget

Counternarcotics Program Area

\$ in thousands for all items	FY 2016 Initial Actual	FY 2017 Request
TOTAL	\$ 405,297	\$ 382,373
Africa	\$ 400	\$ 300
Liberia	\$ 400	\$ 300
East Asia and Pacific	\$ 5,325	\$ 3,385
Burma	\$ 1,300	\$ 1,450
Indonesia	\$ 475	\$ 375
Laos	\$ 250	\$ 250
Philippines	\$ 2,300	\$ -
State East Asia and Pacific Regional	\$ 1,000	\$ 1,310
Europe and Eurasia	\$ 200	\$ -
Albania	\$ 200	\$ -
South and Central Asia	\$ 95,000	\$ 99,694
Afghanistan	\$ 79,000	\$ 83,000
Kazakhstan	\$ 230	\$ 324
Kyrgyz Republic	\$ --	\$ 200
Pakistan	\$ 11,500.00	\$ 11,500.00
Tajikistan	\$ 270	\$ 670
Central Asia Regional	\$ 4,000.00	\$ 4,000.00
International Narcotics Control and Law Enforcement	\$ 4,000.00	\$ 4,000.00
Western Hemisphere	\$ 235,035	\$ 209,557
Colombia	\$ 87,695	\$ 95,000
Mexico	\$ 57,500	\$ 33,335
Peru	\$ 35,100	\$ 32,500
State Western Hemisphere Regional (WHA)	\$ 54,740	\$ 48,722
INL - International Narcotics and Law Enforcement Affairs	\$ 69,337	\$ 69,437
INL - CFSP, Critical Flight Safety Program	\$ 8,000	\$ 7,000
INL - Demand Reduction	\$ 12,500	\$ 12,500
INL - Inter-regional Aviation Support	\$ 33,886	\$ 34,886
INL - International Organizations	\$ 3,100	\$ 3,200
INL - Program Development and Support	\$ 11,851	\$ 11,851

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 United States 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 United States 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 approximately 65,000 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 and 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 up to 50 participants, 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 or advanced skill. Lastly, regional seminars or workshops present various emerging law enforcement topics such as transnational crimes, financial crimes, and anticorruption.

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 program.

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, crime scene investigations, drug enforcement, firearms, explosives, wildlife investigation, gender-based violence and many others. A Regional Training Center is operated in Accra, Ghana in coordination with the ILEA, and addresses the unique needs of the West African region. ILEA Gaborone together with the RTC Accra provided training to approximately 744 students in 2016.

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 1,283 students in 2016.

Europe. ILEA Budapest (Hungary) was the first ILEA and was established in 1995. ILEA Budapest delivers four 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 1,172 students in 2016.

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. Participants are at the senior levels of leadership and decision making in their countries, and are positioned to implement substantive changes to the criminal justice systems upon their return. Unlike other ILEAs, ILEA Roswell draws senior officials

from all participating ILEA countries. ILEA Roswell trained approximately 243 students in 2016.

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, human rights, illegal trafficking in drugs, alien smuggling, terrorist financing and financial crimes. ILEA San Salvador trained approximately 1,133 students in 2016.

Drug Enforcement Administration (DEA)

The mission of the DEA is to enforce the controlled substances laws and regulations of the United States and bring to the criminal and civil justice system of the United States, or any other competent jurisdiction, those criminal organizations and principal members of Drug Trafficking Organizations (DTOs) based in the United States or foreign nations involved in the cultivation, manufacture, or distribution of controlled substances, as well as, the money laundering of illicit finances derived from drug trafficking.

To achieve this mission, DEA has nearly 10 percent of its Special Agent and Intelligence Analyst work force permanently assigned overseas at 92 DEA foreign offices located in 70 countries. DEA's foreign offices act as conduits of actionable and strategic information, intelligence, and evidence to law enforcement and prosecutorial components in the United States and vice versa. In this manner, DEA is able to identify, target, and dismantle the entire global spectrum of the DTO. DEA's foreign offices are tasked with four principle missions:

- Conduct bilateral and multilateral investigations with host law enforcement partners;
- Coordinate counternarcotic intelligence gathering with host governments;
- Implement training programs for host country police and prosecutor agencies;
- Support the advancement and development of host country drug law enforcement institutions;

The emphasis placed on each objective is determined by the host nation's unique conditions and circumstances as it relates to their drug trafficking threat, infrastructure and law enforcement capabilities. DEA works side by side with host nation counterparts to develop relevant training, promote intelligence sharing, conduct bilateral investigations, and support joint counter-drug operations. The vast majority of DEA's foreign efforts and resources are dedicated to conducting international drug and drug money laundering investigations. In addition to that mandate, in 2016 DEA dedicated considerable effort in the fields of training, multinational law enforcement collaboration, and forensic science as detailed herein.

International Training: In 2016, DEA's Training Division conducted 129 formal (bilateral) and multilateral seminars for over 3,668 participants from 94 countries. DEA has been conducting international counter-narcotics training since its creation in 1973. DEA is recognized as the world pioneer in international training and serves as the model for a variety of international law enforcement training efforts. The specific courses and curricula offered by DEA have evolved over the years in response to experiences, changes in law enforcement emphasis, current international narcotics trafficking situations, new technologies, and specific requests of the host governments. All DEA international training programs have as a major objective the building of regional working relationships between countries.

International Drug Enforcement Conference (IDEC) - Strengthening International Relations: IDEC was established by DEA in 1983 with the objective of creating a multilateral forum for the international police and prosecutor community to strengthen international relations and counternarcotics cooperation, share drug-related intelligence and to develop operational strategies that can be used to combat transnational, organized criminal organizations involved in

the illicit drug trade. What began with less than a dozen countries in 1983 has grown to well over 100 member and observer IDEC countries, and several affiliate police observer organizations. The conference is co-sponsored each year by the United States and hosted by one of the international participating IDEC member nations. Over the years, IDEC has emerged from a liaison and policy forum to an operational and strategic planning platform. Critical and sensitive issues in international drug enforcement, international money laundering, and narco-terrorism are deliberated upon, and investigative targets and operational objectives are prioritized, selected, and agreed upon by member nations. The 33rd annual IDEC was held in April 2016 in Lima, Peru co-hosted by the Peruvian National Police. The IDEC was attended by 105 countries, including more than 290 official delegates. Among these were high-level police and government leaders. In addition to the General Assembly various geographical regional and multi-regional working groups were held to identify collective targets, agree upon multilateral counter-drug enforcement and interdictions operations and assess the progress and evaluate the intelligence on existing and emerging targets. The 34th annual IDEC will be hosted by the Government of the Dominican Republic in 2017 and the Dominican Republic National Police.

The Special Testing and Research Laboratory's Programs: The Heroin and Cocaine Signature Programs (HSP/CSP) at the DEA's Special Testing and Research Laboratory (STRL) are intelligence gathering, science-based initiatives which determine the geographic origins of heroin and cocaine exhibits. In addition, the laboratory maintains a Methamphetamine Profiling Program (MPP) that determines the synthetic routes and precursors employed in producing methamphetamine. The classification schemes for these programs were developed using authentic exhibits collected from drug source countries world-wide, as well as drug processing laboratories within those countries. By collaborating with partner nations, numerous such "authentic" are submitted annually to the laboratory from the DEA foreign offices. Currently, the laboratory classifies several thousand U.S. seized and foreign seized drug exhibits every year. The CSP has the capability to determine the sub-regional geographic origin of seized cocaine, meaning that cocaine can be traced back to known illicit growing regions in South America to include 16 regions in Colombia, two regions in Peru, and one region in Bolivia. In 2016, the HSP announced a new classification for heroin produced in Mexico with South American heroin processing methodology. The Signature and Profiling Programs provide the counterdrug intelligence community with science-based heroin and cocaine source data and intelligence information regarding methamphetamine synthesis. The HSP, CSP, and the MPP are viewed as crucial tools to investigate and support strategic intelligence regarding illicit production, trafficking, and availability of these three high profile drugs within the United States and foreign countries. Over the past several years the laboratory has established a robust Emerging Trends Program to analyze new (or novel) psychoactive substances for enforcement and intelligence purposes. This group has identified over 350 synthetic cannabinoids, substituted cathinones, and powerful hallucinogenic compounds that have come into the drug market.

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 maintains a multi-faceted, layered approach to attack Transnational Organized Crime (TOC) networks and their transport of illicit contraband from South America toward the United States via the Caribbean Sea, the Eastern Pacific Ocean, and through the littorals of Central America and Mexico. The overarching strategy is to increase maritime border security through a layered offensive system that extends beyond U.S. land borders to attack the networks responsible for smuggling drugs. This system begins overseas, spans the offshore regions, and continues into U.S. territorial seas and ports. USCG's mix of cutters, aircraft, boats, and deployable specialized forces, as well as international and domestic partnerships, allow the Coast Guard to leverage its unique maritime law enforcement authorities and competencies to address threats and improve security throughout the maritime domain.

Coast Guard efforts focus on removing illegal drugs close to their origins in South America and as far from U.S. shores as possible, where drug shipments are in their most concentrated bulk form. Moreover, these illicit cargoes are most vulnerable when they are being moved at sea through international waters where interdiction forces have the highest tactical advantage and best opportunity to interdict drug movements. The next step in the maturation of maritime law enforcement is conducting operations to disrupt and dismantle the TOC networks by targeting any illicit activity in which they are engaged, to include drug, migrant, weapons and bulk cash smuggling, human trafficking and illegal, unreported, or unregulated fishing.

Counternarcotics Operations: Detection of narcotics trafficking vessels occurs principally through the collection, analysis, and dissemination of tactical information and strategic intelligence combined with effective sensors operating from land, air and surface assets. The six million square mile transit zone is far too expansive to randomly patrol; targeting information is necessary to focus efforts. Upon detection, 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, and takes tactical control of U.S. and Allied assets for the interdiction and apprehension operational phase. A crucial ingredient for continued maritime drug interdiction success is the USCG's counter drug bilateral agreements and operational procedures held with over 40 partner nations. By facilitating operational communications and enabling USCG law enforcement officers to stop, board, and search vessels suspected of illicit maritime activity, these agreements deter smugglers from using another nation's vessel and/or territorial seas as a haven from U.S. law enforcement efforts.

International Cooperative Efforts: In 2016, USCG had personnel permanently assigned overseas as Coast Guard Liaison Officers, Defense Attachés, and Support to Interdiction and Prosecution team members to facilitate maritime counterdrug activities, including security assistance, intelligence collection and dissemination, and to liaise with the US interagency and international community. The USCG, in concert with the Department of State, hosts three counter drug summits per year: two biannual Multilateral Maritime Counter Drug Summits

(Central and South America) and an annual Multilateral Maritime Interdiction and Prosecution Summit (Caribbean). These summits have a combined annual attendance of more than 35 countries, over 60 international agencies and more than 300 people. Topics include maritime interdiction, prosecution, criminal investigations, and improving regional success in all aspects of the interdiction continuum. To counter trans-Atlantic drug flows, 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 provides international training and technical assistance to enhance the interdiction capacities of international partners. The Technical Assistance Field Team (TAFT), a joint initiative between USCG and the U.S. Southern Command (SOUTHCOM), is a team of eight USCG engineers and logisticians whose purpose is to professionalize and improve the operational readiness of 13 Caribbean maritime forces through technical assistance visits. 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 2016, the USCG deployed 75 MTTs to 36 countries, and approximately 189 students from 61 countries attended 41 resident courses at USCG training installations.

Operational Highlights: In 2016, the USCG expended over 2,200 cutter days, 1,400 Airborne Use of Force capable helicopters days, and 3,100 surveillance aircraft hours on counterdrug patrols, and USCG Law Enforcement Detachments (LEDET) deployed for over 1,000 days aboard U.S. Navy, British, Dutch and Canadian warships. As a result, the USCG disrupted 263 drug smuggling attempts, which included the seizure of 172 vessels, detention of 585 suspected smugglers, and removal of 189 metric tons (MT) of cocaine and 22 MT of marijuana.

U.S. Customs and Border Protection (CBP)

The Department of Homeland Security's U.S. Customs and Border Protection (CBP) processes all goods, vehicles, and people entering and exiting the United States. CBP officers are charged with identification and prevention of terrorist travel to the United States and interception of narcotics and other contraband, improperly classified merchandise, unlicensed technology and material, weapons, ammunition, fugitives, undocumented immigrants, and unreported currency at America's 329 international ports of entry (POEs).

United States Border Patrol (USBP) agents are 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/undocumented aliens, drug smugglers, potential terrorists, wanted criminals, and persons seeking to avoid inspection at the designated POEs. CBP's drug interdiction activity includes staffing 35 permanent and 140 tactical checkpoints nationwide. CBP checkpoints utilize experienced agents, canine teams, technology, and shipper-CBP partnerships to detect and apprehend the above mentioned threats. Additionally, agents patrol targeted border areas that are frequent entry points for the smuggling of drugs and people into the United States.

Since its creation, CBP has also been charged with the border regulatory functions of passport control and agriculture inspections in order to provide comprehensive, seamless border control services. This merger of responsibilities is intended to simplify border security operations and is termed: "One face at the border." CBP is the nation's first line of defense against the introduction of narcotics and dangerous drugs from foreign sources.

U.S. Customs and Border Protection's (CBP) Air and Marine Operations (AMO) is a critical component of CBP's risk-based and layered approach for border security. With 1,200 federal agents, 237 aircraft, and 296 marine vessels operating throughout the United States and Puerto Rico. AMO interdicts unlawful people and cargo approaching U.S. borders, investigates criminal networks and provides domain awareness in the air and maritime environments, and responds to contingencies and national taskings.

International Training and Assistance: As part of its efforts to extend the nation's zone of security beyond U.S. ports of entry, CBP works with other U.S. government and foreign government partners to provide a wide array of short-term and long-term technical training and assistance to countries throughout the world in conjunction with the Department of State, as appropriate. These programs are designed to standardize and build the capacity of foreign government organizations to implement more effective customs trade operations, border policing, and immigration inspection.

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

Port of Entry Interdiction Training: The correct approach to border interdiction varies with border environments, i.e., land, seaport, rail and airport. Training has been designed for the problems encountered and interdiction techniques useful for each type of operation. CBP also provides specialized U.S. Border Patrol training in techniques used by smugglers who do not use official ports of entry to cross borders, but who attempt to smuggle contraband in lightly patrolled green border areas.

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

Overseas Enforcement Training: Overseas Enforcement Training encompasses a curriculum which includes Border Enforcement Training; Supply Chain Security; Detection, Interdiction and Investigation; Concealment Methods; Bulk Currency Smuggling; False and Fraudulent Documents; Train-the-Trainer; Anti-Corruption; Targeting and Risk Management; Hazardous Materials; and X-ray Systems. These courses can also be conducted at foreign ports of entry. They include both basic training and refresher training/mentoring abroad for graduates of training at U.S. port facilities.

CBP Attachés, Representatives and Advisors and Special Customs' Programs:

A growing network of attachés, representatives and advisors who serve in U.S. diplomatic missions, U.S. military bases, or directly for foreign border security agencies. Attachés have a broad mandate, including enforcement and investigative activities on behalf of CBP. They also exchange expert information with foreign counterparts, improving the effectiveness of law enforcement activity, policies, and resources relating to border enforcement. Their efforts help to ensure that enforcement cooperation is seamless across borders and that the battle against illegal transnational activity is effective.

Customs Mutual Assistance Agreements: CBP is the lead negotiator of Customs Mutual Assistance Agreements (CMAAs). Under the provisions of CMAAs, CBP provides assistance to its foreign counterparts, and receives assistance from them in an exchange of information that facilitates the enforcement of each country's laws. There are currently 77 CMAAs in force, with two being signed during Fiscal Year 2016.

CBP Preclearance Field Office: Preclearance provides for the inspection and clearance of commercial air passengers prior to departure from 15 locations in six foreign countries and seven time zones. Precleared travelers do not have to undergo a second CBP inspection upon arrival in the U.S. All mission requirements are completed at the preclearance port of entry prior to departure, including customs, immigration and agriculture inspections. Passengers found to be inadmissible to the United States are denied aircraft boarding.

National Targeting Center: The National Targeting Center (NTC) collaborates with international partners to identify, disrupt, and manage risks in the cargo and passenger

environments through information sharing and implementing joint targeting operations in accordance with memoranda of understanding and CMAAs. The Center hosts representatives from participating foreign agencies, and works with these international liaisons as well as with other U.S. government agencies to detect and disrupt narcotic smuggling operations and drug trafficking organizations and their associates.

CHEMICAL CONTROLS

Introduction

“Precursor” and “essential” chemicals play two critical roles in the production of illegal drugs: as compounds required in the production of synthetic drugs or as refining agents and solvents for processing plant-based materials such as coca into cocaine and opium poppy into 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 that do not become part of the finished drug and can be readily replaced by other chemicals with similar properties. Both sets of chemicals (precursor and essential) are often referred to as “precursor” chemicals and for conciseness, this term is used interchangeably for both categories throughout this report.

International efforts have long targeted the illicit diversion of the most common precursors for cocaine and heroin, potassium permanganate and acetic anhydride, respectively. The large licit market for these chemicals makes this a difficult task. For instance, diversion of less than one percent of worldwide licit commercial use of acetic anhydride would be sufficient to produce the world’s supply of heroin. Precursors can also be obtained from licit medicines as is the case for ephedrine and pseudoephedrine in finished cold medicine products. The international community is also increasing efforts to target the precursor chemicals used to produce illicit fentanyl, a powerful Schedule II synthetic opioid that has been responsible for thousands of overdose deaths in the United States over the past decade and has emerged as a critical public health threat in countries around the world.

The International Framework

The 1988 UN Convention against Illicit Traffic in Narcotics Drugs and Psychotropic Substances (1988 UN Convention) is one of the three main international treaties intended to promote international cooperation to counter the harms caused by drugs. 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 their international trade in chemicals listed in Tables I and II of the Convention. 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 the International Narcotics Control Board (INCB) on their international transactions involving these chemicals. Article 12, Sections 8 and 9 of the Convention requires licensing or similar control of all persons and enterprises involved in the manufacture and distribution of listed chemicals.

Resolutions from the UN Commission on Narcotic Drugs (CND) – the UN’s primary drug control policy-making body – have provided additional guidance to states parties on how to implement their obligations according to specific best practices, and have encouraged greater dissemination and use of the INCB’s International Special Surveillance List (ISSL) – a mechanism for monitoring chemicals that are not regulated by the Convention but for which substantial evidence exists of their use in illicit drug manufacture.

The INCB is an independent, quasi-judicial monitoring body for the implementation of the three UN international drug control conventions – the 1988 UN Convention, the Single Convention on Narcotic Drugs of 1961 as amended by the 1972 Protocol, and the Convention on Psychotropic Substances of 1971. The INCB encourages compliance with the drug control treaties and proposes appropriate remedial measures to governments that are not fully applying the provisions of the treaties or are encountering difficulties in applying them and, where necessary, assists governments in overcoming difficulties. The United States provides funding to the INCB to monitor the measures called for in the Conventions, and improve detection and tracking of chemicals subject to diversion.

In addition to ISSL, the INCB has developed a number of instruments to address the challenges of precursor chemicals:

- The Pre-Export Notification Online system (PEN Online) is an online database system that enables the exchange of information between member states on shipments (export and import) of the chemicals required for the manufacture of illegal addictive drugs such as heroin, cocaine and amphetamines and to provide the ability to raise alerts to stop suspect shipments before they reach illicit drug manufacturers. The system facilitates full electronic responses to acknowledge receipt and to notify exporting countries of clearance to export of chemicals. Since the PEN Online system was first launched in March 2006, 153 exporting as well as importing governments have so far registered to use the system. On average, 2600 PEN pre-export notifications are submitted via the online application on a monthly basis.
- The Precursors Incident Communication System (PICS) is another INCB tool that provides real-time communication to share intelligence and facilitate direct contact between national authorities to further investigations into chemical trafficking. PICS has shared final intelligence on more than 800 chemical trafficking interdictions to various registered law enforcement and regulatory agencies around the world. Since March 2016, 59 new users from 41 agencies in 26 countries have newly registered to use PICS, bringing the overall number of users between agencies and countries to nearly 450.

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 Organization of American States (OAS), actively work in partnership with the United States on multilateral chemical control initiatives, including implementation of CND resolutions.

Chemical Control Activities and New Trends

Fentanyl. Fentanyl is a powerful Schedule II synthetic opioid more potent than morphine or heroin. Within North America, drug dealers are increasingly lacing illicit fentanyl into low-grade heroin to create a more potent high for consumers. Fentanyl is also pressed into pill form and sold as counterfeit prescription opioid pills. In many instances, buyers are not aware of the large quantities of fentanyl in the composition of powder heroin. In recent years, the use of

fentanyl among drug users has been responsible for thousands of overdose fatalities in the United States, Canada, and some European countries.

The two most prevalent precursor chemicals used to produce illicit fentanyl and many fentanyl-related substances (for example, acetyl fentanyl) within the United States are N-phenethyl-4-piperidinone (NPP) and 4-anilino-N-phenethylpiperidine (ANPP). While many chemicals can potentially be used to manufacture fentanyl, the NPP and ANPP processing method appears to be the preferred method currently used by clandestine manufacturers, as revealed in the profiles of seizures obtained from law enforcement seizures. While the United States domestically controls the manufacture, diversion, and sale of NPP and ANPP, a coordinated international control of these precursor chemicals is necessary to reduce the recent increase of illicitly produced fentanyl.

The United States and other UN member states are adopting preventive measures to curb fentanyl's negative effects on global public health and safety. This includes the implementation of evidence-based prevention programs to reduce the number of new initiates to illicit opioid use, and treatment programs to assist those with opioid use disorders in their path to long-term recovery. It is also important to combine preventive health measures with the overall efforts to reduce the global availability and use of all illicit opiates, including heroin and morphine.

As part of its larger strategy to curb diversion, production, distribution, and use of illicit fentanyl, the United States is working to increase law enforcement information sharing; enhance medical research on treatment methodologies for cases presenting with fentanyl consumption; advocate with key international partners to curb illicit production, diversion, and distribution of fentanyl. Furthermore, the United States has also requested that the UN Secretary General to internationally control fentanyl precursor chemicals under the 1988 UN Convention. The UN Commission on Narcotic Drugs will most likely vote on whether to internationally control these chemicals at its next meeting in March 2017.

New Psychoactive Substances (NPS). NPS are difficult to track because of the speed in which they can be formulated and marketed, often outpacing that the ability of authorities to identify them. Many cannot be identified through commonly available drug tests, and if they are truly new, they are not listed in the tables established by the international drug conventions. Producers modify and experiment with chemical formulas in search of new NPS that can go undetected by law enforcement and avoid international control. Distributors are able to spread the NPS widely before legislation to control it can be enacted. As of 2016, 103 countries provided reports on the presence of NPS and alerted the global community through the UN Office on Drugs and Crime (UNODC) tool, "Global Synthetics Monitoring: Analyses, Reporting and Trends" (SMART). The number of NPS listed with Global SMART increased from 644 in 2015 to 730 in 2016.

At the 2016 CND, the United States supported a resolution to expand the international response to the challenge of NPS by promoting cooperation to (1) collect and share data through UNODC; (2) increase efforts to more expeditiously control NPS under the conventions; and (3) promote operational efforts targeting NPS through the INCB.

Heroin. The main precursor chemical used to produce heroin is acetic anhydride, a substance that is also widely used in legitimate industry. Drug trafficking organizations continue to channel acetic anhydride to illicit producers through diversion, or smuggling. Acetic anhydride may also be used as a compound substance to produce a chemical reaction in the production of methamphetamine. To counter increased heroin consumption in and trafficking into the United States, the United States has intensified its cooperative efforts to target acetic anhydride diversion and smuggling.

The United States continues to work closely with participant countries of the INCB Precursor Task Force of Project Prism and Project Cohesion. Project Cohesion focuses on chemicals related to illicit heroin and cocaine manufacture, and Project Prism targets chemicals related to illicit manufacture of amphetamine-type stimulants. These ongoing mechanisms serve as international communication platforms for the monitoring of chemical transactions and for coordinating targeted, time-bound intelligence-gathering operations. The INCB Precursor Task Force is currently focusing on legitimate domestic trade and end-use of acetic anhydride. The United States also provides assistance to expand the International use of the INCB's PEN Online and the PICS systems to control the diversion of acetic anhydride. As of 1 November 2016, 134 and 92 countries had nominated focal points for activities under Project Prism and Project Cohesion.

Methamphetamine. Methamphetamine is produced using a variety of methods, but most require one or more of the following precursor chemicals; pseudoephedrine, ephedrine, pharmaceutical products containing these chemicals, phenyl-2-propanone (P-2-P), and phenylacetic acid. As these precursor chemicals have become more difficult to obtain due to increased controls, traffickers have started using other chemicals, or seeking non-controlled pre-precursor chemicals or esters, and derivatives of phenylacetic acid to produce the precursor chemicals necessary for methamphetamine production. Traffickers, particularly in Europe, continue to use the pre-precursor, APAAN, or alpha-phenylacetoacetonitrile. This chemical was added to the list of internationally controlled chemicals under the 1988 UN Convention in 2014.

In response to the international scheduling of APAAN, the 2017 edition of the World Customs Organization's "Harmonized System Nomenclature," which entered into force effective 1 January 2017, includes a new harmonized system code number for the separate identification of APAAN. Additionally, in December 2016, the Drug Enforcement Administration (DEA) proposed to designate APAAN and its salts, optical isomers, and salts of optical isomers, as a list I chemical under the Controlled Substances Act. This action will allow regulations to be imposed in all transactions involving APAAN, regardless of size. It also proposes that chemical mixtures containing APAAN would not be exempt from regulatory requirements at any concentration. Therefore, all transactions of chemical mixtures containing any quantity of APAAN would be regulated pursuant to the Controlled Substances Act.

Methamphetamine production takes place worldwide and in the United States. Domestic small production capacity laboratories (SPCLs) are the most frequently encountered type of clandestine laboratory. These SPCLs tend to be low production operations (grams or ounces), and make up only a small percentage of the drug that is consumed in the United States. The emergence of the "one-pot labs" (a.k.a. "shake-n-bake" labs) constitute the majority of SPCLs

found domestically. These laboratories are normally found in 2 liter plastic soda bottles, 16 – 20 oz. drink containers, and other such receptacles. The SPCLs utilize chemicals that are easily obtained. Many of the supplies required can be purchased over the Internet, in hardware stores, gas stations, convenience stores, and at other retail establishments. Pseudoephedrine and ephedrine are the principal precursor chemicals used in the SPCLs and are purchased over the counter from retail pharmacies and convenience stores.

There are indications that methamphetamine trafficking across the United States' southern border increased in 2016. As with other synthetic drugs, traffickers substitute chemicals for production based on availability and price. Most large-scale manufacturers in Mexico now use a production process known as P-2-P (from the precursor chemical phenyl-2-propanone) method. This alternative process does not require pseudoephedrine to produce the chemical base of the drug, allowing drug traffickers to circumvent controls.

The use of the nitrostyrene method to produce P-2-P, which starts from benzaldehyde and nitroethane, or from the intermediary product 1-phenyl-2-nitropropene, has also been an alternate method used by Mexican drug trafficking organizations in recent years to manufacture the precursor chemicals required to produce methamphetamine. In 2015, Mexican authorities seized more than 4,000 liters of benzaldehyde and almost 5,500 liters of 1-phenyl-2-nitropropene. In August 2016, U.S. authorities seized an illicit cargo of nearly 36 metric tons (MT) of benzaldehyde en route from India to Mexico. In 2016, ephedrine-based and pseudoephedrine-based methods were not found in any of the selected samples analyzed by DEA.

Countries in Africa and Asia where precursors like P-2-P and APAAN are relatively unknown continue to rely on ephedrine and pseudoephedrine to produce top quality methamphetamine. There are indications, however, that Mexican alternate methods to produce methamphetamine are becoming known in Africa. In March 2016, the Nigerian authorities dismantled an industrial-scale illicit methamphetamine laboratory, where traffickers used the nitrostyrene method to produce the drug. Most of the chemicals seized during the law enforcement operation are not yet scheduled in Nigeria and were purchased in country from legitimate sources.

In Europe, the legitimate uses for APAAN are limited, and therefore imports are likely to be intended for conversion to benzyl methyl ketone (BMK), an amphetamine precursor. According to the INCB, APAAN seizures between 2015 and 2016 amounted to 1.5 MT and were all reported by countries in Europe. The diversion and smuggling of APAAN is not just a European problem. In recent years, Canada has also reported large seizures of APAAN. On February 24, 2016, Canada added APAAN, its salts, isomers, and salts of isomers to schedule VI of its Controlled Drugs and Substances Act and to the schedule of the Precursor Control Regulations.

Cocaine. Potassium permanganate, an oxidizer, is the primary chemical used to remove the impurities from cocaine base. It has many legitimate industrial uses, including waste-water treatment, disinfectant, and deodorizer. Potassium permanganate also can be combined with pseudoephedrine to produce methcathinone, a synthetic stimulant that is a controlled substance.

In South America, the only region of the world where large quantities of coca leaf are cultivated, chemical trends continue along the lines outlined in previous years, with traffickers continuing to

divert chemicals from legitimate industry either from domestic or international sources. A growing trend cited by law enforcement officials is the recycling of chemicals used in cocaine production. This allows clandestine laboratory operators to reuse the chemicals up to four times before they need to be replaced.

INCB's Project Cohesion monitors the imports of potassium permanganate to cocaine processing areas. This chemical is primarily used as a disinfecting agent and water purification and as a key reagent in synthetic organic chemistry. Alternative precursor chemicals used in cocaine manufacturing have also been detected. Additionally, traffickers continue to recycle the chemical containers, making it difficult to trace the origin of the chemicals inside.

The United States, the INCB, and others encourage countries in South America to continue obtaining and sharing information on these new trends; at the same time, developing an effective multilateral effort focused on potassium permanganate has been difficult because of the large number of licit uses for this chemical. The illicit manufacture of the substance and diversion from domestic distribution channels remain the major sources of potassium permanganate for cocaine production.

Continuing Trends. Illicit drug producers are adapting. In the past, diversion of international shipments accounted for a greater proportion of precursor chemicals than it does now. Now, precursor chemicals are produced outside of domestic controls, and subsequently mislabeled for shipment or smuggled abroad. Domestic chemical diversion is the biggest challenge in countries where controlled substances are already produced. It is critical to continue efforts to strengthen the capacity of law enforcement and public health institutions to minimize illicit precursor chemical diversion.

Increasingly, drug traffickers use chemicals that are not controlled under the convention or the domestic laws of the source or importing country. They exploit countries that have limited enforcement and regulatory capacity. International cooperation against chemical diversion has also pushed trafficking groups to exploit domestic industry in a significant way. Additionally, traffickers continue to obtain chemicals produced in the country where illicit drugs are produced, thereby escaping international monitoring, surveillance, and interdiction efforts.

The Internet continues to facilitate bulk sales and distribution of chemical compounds containing controlled substances, as well as the sale of uncontrolled NPS, and now fentanyl.

The Road Ahead

To counter the shifts in diversion, trafficking, and production of chemicals, the United States is committed to expanding its work with international partners, to implement the provisions of the 1988 UN Convention, to monitor those substances on the ISSL, and identify and stop diversion and/or smuggling of new substitute chemicals that can be used for illicit drug production.

The development and reliable implementation of effective chemical control regimes and legislation are critical. Additionally, it is important to develop and utilize the administrative, investigative, and prosecutorial tools to successfully identify suspicious transactions and bring

chemical traffickers to justice, as well as to make better use of watch lists and voluntary control mechanisms to target listed chemicals and substitute chemicals as well as to identify the latest production and trafficking methods.

Increased cooperation with domestic industry, including chemical and shipping companies, and other public-private partnerships is critical to targeting precursor chemicals. International guidelines and best practices have much to offer in this regard, particularly the INCB Voluntary Code of Conduct for Industry. The United States will seek to work with other countries to encourage the application of domestic control measures similar to those applied to international trade in these chemicals.

Against this backdrop, the United States will continue to promote efforts through the INCB and engage other member states through the CND and other multilateral venues. In the Western Hemisphere, for example, the Inter-American Drug Abuse Control Commission (CICAD) advances voluntary cooperation on precursor chemical controls. CICAD's Group of Experts on Chemical Control and Pharmaceutical Substances carries out a variety of initiatives in this important field. Of note, this expert group explores options for soliciting private sector input from the Western Hemisphere into the discussion on controlling substances that are legal but used to make illegal drugs.

Moreover, the United States is supporting partner nation efforts in various regions of the world to develop and strengthen precursor laws and regulations to ensure compliance with international drug control conventions, including further steps to enhance and foster communication among national authorities, promote increased communication and follow-up on exports and imports of controlled chemicals through the INCB task forces, and expand diplomatic engagement on precursor initiatives bilaterally, and through multilateral and regional institutions. The United States also provides training to international entities to improve the monitoring and control of chemical commercialization through the Internet.

Major Chemical Source Countries and Territories

This section focuses on individual countries with large chemical manufacturing industries that have significant trade with drug-producing regions and those with significant chemical commerce susceptible to diversion domestically for smuggling into 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.

Africa**Nigeria**

Since 2011, eleven clandestine methamphetamine laboratories have been detected in Nigeria, making Nigeria an emerging major producing country for methamphetamine. In February 2016, the National Drug Law Enforcement Agency (NDLEA) discovered one clandestine laboratory capable of producing between 3,000 and 4,000 kilograms (kg) of methamphetamine every seven to 10 days. In addition to the emerging methamphetamine threat, Nigeria is also developing into a major transshipment country for ephedrine, a precursor chemical used in the production of methamphetamine. Precursor chemicals – mainly ephedrine – are imported from India and China then diverted to the laboratory operators. One kg of 99-percent pure locally-produced methamphetamine sells for as little as \$7,500 in Lagos and over \$150,000 in Southeast Asian countries such as Malaysia.

In 2015, the UNODC reported that Nigeria imported 8.3 tons of ephedrine from India over an eight-month period, making Nigeria the world's largest importer of ephedrine and pseudoephedrine from India. Nigeria was also the largest importer of tramadol from India, a pharmaceutical drug becoming increasingly abused in Nigeria. Both drug imports far exceeded the amount legitimately used in Nigeria.

According to UNODC, Nigeria is not in full compliance with CND Resolution 49/3 and has not been accurately tracking the licit use of precursor chemicals. UNODC worked with the National Agency for Food, Drug Administration Control (NAFDAC) and the Federal Ministry of Health (FMOH) over 2016 to develop a process based on international best practice of properly estimating these needs. NAFDAC is responsible for submitting an estimation of its requirements of precursors for Nigeria.

UNODC has also been working with the FMOH on the related issue of quantification of narcotics and psychotropic substances for medical and scientific purposes. In September 2016, the UNODC trained data collectors and has plans to train six analysts – three from NAFDAC and three from FMOH – to analyze the data. These trained officers completed the data collection in six pilot states in Nigeria in October 2016. UNODC planned to review and analyze the data collected from the pilot and subsequently finalize the guidelines for eventual nationwide data collection by the end of the year.

UNODC hopes to see a more informed estimation of the need for precursors in Nigeria being reported in 2017, and plans to train data collectors in every state in the country by March 2017.

South Africa

South Africa is a leading regional importer of chemicals used in the production of illegal drugs, particularly synthetic drugs. Chemicals used to manufacture methamphetamine and methaqualone arrive primarily from Asia (including India and China) and Nigeria. Seizures from flights arriving in Johannesburg from the United Arab Emirates have also increased since 2015.

The South African Police Service (SAPS) have a trained, dedicated clandestine laboratory team. The SAPS Directorate for Priority Crime Investigation (DPCI) has annually dismantled between 40 and 50 clandestine laboratories in recent years. The dry climate in Gauteng is optimal for methamphetamine production. The frequent flights from the airports in Gauteng also make it an ideal transshipment location. SAPS report annual seizures and the South African Revenue Service (SARS) publishes the trade of chemical products, but only as a broad category in the trade statistics report. SARS Customs and Enforcement teams seize illicit drugs and substances scheduled as precursors. Chemicals confiscated in 2016 included ethanol and toluene. Container shipments identified by the United States as suspected of carrying possible illicit materials, to include precursors, are consequently investigated by South African authorities and acted upon. South African efforts to engage with the countries of origin have had limited success. Investigative collaborations between U.S. and South African authorities are productive, yet more regular and enhanced interactions would prove useful.

No regulatory entity exists within the South African government to address precursor chemical diversion, largely due to insufficient resources. Instead, South Africa relies primarily on companies to perform self-regulation. It is not clear to what extent South Africa reported on its trade in controlled precursors to the INCB, as required under the 1988 UN Convention, but it is registered with the INCB's PICS System. Controlling and analyzing the trade in precursors is included as a goal within the South Africa National Drug Policy, which mandates the establishment of computerized inventory control systems for scheduled chemicals and regular regulation and monitoring of the purchase of medicines containing precursors via a registry system. Such measures have not been fully implemented.

North America

Canada

Canada's "Controlled Drugs and Substances Act" (CDSA) and its regulations provide a legislative framework for the control of chemical precursors. Scheduling of substances under the CDSA and its regulations provides law enforcement agencies with the authority to take action against activities that are not in accordance with the law. These instruments also authorize Health Canada to communicate information collected to law enforcement agencies, border control officers, foreign competent authorities and the INCB if necessary.

Health Canada submits an annual report to the INCB with respect to its obligations under the 1988 UN Convention. The annual report provides information on licit imports and exports for the previous year, as well as stopped shipments and seizures, and refusals of permit applications due to objections from foreign authorities, information received from the INCB, and incomplete or invalid application information. Canada cooperates fully with the INCB in cases where shipments may pose a concern.

In February 2016, Health Canada published the regulation that added APAAN to Schedule VI of the CDSA. In May, Health Canada published the regulation that added 2C-phenethylamines to schedule III of the CDSA. In June, Health Canada published the regulation that added opioid

analgesics AH-7921, MT-45, W-18 to schedule I of the CDSA and Lefetamine to schedule III of the CDSA. Health Canada also announced a proposal to amend Schedule VI to the CDSA and regulations to amend the schedule to the Precursor Control Regulations to add chemicals used in the production of fentanyl (propionyl chloride, 1-Phenethyl-4-piperidone and its salts, 4-Piperidone and its salts, Norfentanyl (N-phenyl-N-piperidin-4-ylpropanamide) and its salts, 1-Phenethylpiperidin-4-ylidenephethylamine and its salts; and N-Phenyl-4-piperidinamine and its salts.

As a State Party to the 1988 UN Convention, Canada is also obligated to impose controls on substances in response to decisions of the CND. Canada's decision to schedule APAAN was the result of the CND's decision to place the substance under international control. In addition, Health Canada announced proposals to amend Schedule III to the CDSA to expand the scope of the scheduling entry for methylphenidate and its salts to include its isomers, derivatives and analogues, as well as salts of the derivatives, isomers and analogues.

To address the problem of chemical diversion, the Royal Canadian Mounted Police (RCMP) instituted the National Chemical Precursor Diversion Program in 2001. Program coordinators liaise with Health Canada and the chemical industry, assist investigators who are conducting clandestine laboratory investigations, and provide training to the chemical industry in the identification, monitoring, and prevention of suspicious transactions.

Mexico

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, pseudoephedrine and ephedrine are not produced legally within the country. In 2008, Mexico outlawed imports of pseudoephedrine and ephedrine, except hospital use of liquid pseudoephedrine. Mexico has enhanced regulatory laws on the importation of precursor chemicals, including regulations for imports of phenylacetic acid (including its salts, esters, and derivatives), methylamine, hydriodic acid, and red phosphorous. Imports of essential chemicals are limited by law to 17 of 49 Mexican ports of entry. Of these 17, imports of precursor chemicals are permitted at only four ports of entry.

Ammonium chloride and formaldehyde/paraformaldehyde are precursor chemicals used in Mexico to manufacture methylamine. Ammonium chloride is also used to manufacture heroin, used during the extraction of morphine. In January 2016, the Government of Mexico regulated four chemicals – nitroethane, nitromethane, benzaldehyde, and benzyl chloride – under Article 4 of the Federal Law for the Control of Precursor Chemicals, Essential Chemicals, and Tableting Machines. Mexico also classified these chemicals as psychotropic substances under Article 245 of the General Health Law. These chemicals were previously purchased in bulk quantities to manufacture methamphetamine.

Methamphetamine production and importations of precursor chemicals continue to pose challenges. Mexico controls all chemicals listed in the 1988 UN Convention. Mexican laws regulate the production and use of many of these substances, and the Mexican Office of the

Attorney General is responsible for enforcing chemical control laws. Mexico's regulatory agency is the Sanitary Risk Protection Federal Commission (COFEPRIS). The United States is currently working with COFEPRIS to control all ketamine products. COFEPRIS controls ketamine for human use, but not veterinary ketamine products, which are smuggled into the United States. Mexican ketamine seized in the U.S. is usually in vials and is mostly as a recreational high. To date, there has not been a large-scale consumption of this drug in the United States. Most of the domestic diversion is from veterinarian clinics or obtained via the Internet.

With respect to precursor chemical seizures, in April 2016 Mexican officials reported seizing a container with 80 drums of methyl ethyl ketone, with an approximate weight of 14.64 MT. The shipment originated in Qingdao, China with a final destination in Puerto Quetzal, Guatemala. During the first six months of 2016, Mexican officials reported seizing 48 MT of ammonium chloride; 14 MT of magnesium chloride; 19 MT of barium dihydrate chloride; 14 MT of barium anhydride chloride; 750 kg of potassium sorbate; one and half MT of sodium fluoride; four MT of citric acid; 500 kg of boric acid; and an unknown quantity of oxalic acid. Mexican seizures of methamphetamine totaled 26.5 MT from April 2014 to September 2015.

Regarding the production of fentanyl and its related substances by Mexican traffickers, the most widely used precursor chemicals for illicit production are the NPP and ANPP; as revealed in the profiles of samples obtained from law enforcement seizures. The international control of both NPP and ANPP is necessary to prevent the illicit production of fentanyl and related fentanyl-like substances. In this regard, the United States requested the initiation of steps to add fentanyl precursor chemicals to the international chemical tables under the 1988 UN Convention. The request is currently under review by the INCB.

Mexico participates in international efforts 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 in 2012 to address precursor chemicals and clandestine laboratories. The two governments also cooperate to share best practices with Central American countries affected by the trafficking of precursor chemicals. This cooperation includes a bi-monthly meeting on synthetic drugs, clandestine laboratories, and precursor chemicals with participants from the United States, Mexico, and other affected countries.

The United States

The United States manufactures and/or trades in almost all 24 chemicals listed in Tables I and II of the 1988 UN Drug Convention to which it is a party; and it has laws and regulations implementing chemical control provisions.

The foundation of U.S. chemical control is the Chemical Diversion and Trafficking Act of 1988. This law and subsequent chemical control provisions of the U.S. drug law are interwoven into the Controlled Substances Act of 1970, rather than individual stand-alone legislation. The DEA is responsible for administering and enforcing these laws. The Department of Justice, primarily through its U.S. Attorneys, handles criminal and civil prosecutions at the federal level. In

addition to registration and recordkeeping requirements, the legislation requires importers and exporters to file import or export notifications at least 15 days before the transaction is to take place. The 15-day advanced notification permits DEA to evaluate the transaction. However, the legislation and regulations allow for a waiver of the 15-day advance notification if a company has an established business relationship for a specified listed chemical or chemicals with its foreign customer that has been reported to DEA subject to the criteria in the Code of Federal Regulations. In these cases, same-day notification is permitted for future shipments. Diversion investigators and special agents communicate with exporting and importing government officials in this process. The legislation also gives the DEA the authority to suspend shipments.

U.S. legislation requires chemical handlers to report to DEA suspicious transactions such as those involving extraordinary quantities or unusual methods of payment. 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. If the diversion of listed chemicals is detected, persons or companies may be prosecuted or the DEA registration may be revoked.

The Combat Methamphetamine Epidemic Act of 2005 (CMEA) mandated DEA to establish total annual requirements, import quotas, individual manufacturing quotas, and procurement quotas for three List 1 chemicals: pseudoephedrine, ephedrine, and phenylpropanolamine. This affected those DEA-registered importers and manufacturers that wish to import or conduct manufacturing activities with these chemicals. The CMEA also restricted retail level transactions of nonprescription drug products that contain ephedrine, pseudoephedrine, or phenylpropanolamine, now known as “scheduled listed chemical products.” The CMEA and other chemical control legislation are aimed at preventing the illicit manufacture of illegal drugs domestically and internationally.

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 and non-controlled substances used in the illicit production of drugs. U.S. officials are members of a 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 to prevent chemical diversion.

Central America and the Caribbean

Belize

Belize became a party to the 1988 UN Drug Convention in 1996. The guiding laws for chemicals in Belize are outlined in the Misuse of Drugs Act (2011) and the Chemist and Druggist Act (2000). Belize controls the importation of precursor chemicals through the Ministry of Health and the Ministry of Agriculture. Belize permits the importation of chemicals for the agriculture industry, which must be certified by the Ministry of Agriculture before

Customs will allow importation. Belize has no pharmaceutical industry; however, chemicals may be imported with a Ministry of Health certificate for legal use. Belize does not manufacture illicit drugs and no illegal drug laboratories have been seized.

Diverted precursor chemicals likely enter Belize through illegal border crossings and transit Belize to other countries undetected. Diversion of chemicals at legal crossings and ports likely also occurs through corrupt officials. Customs officers scrutinize containers and prioritize screenings because Belize lacks the human and financial resources to conduct extensive inspections of all containers. If a chemical were to be confiscated, the National Forensic Science Services would be challenged to identify precursor chemicals.

Costa Rica

Costa Rica has a stringent licensing process for the importation and distribution of precursor chemicals. In 2010 it also adopted recommendations from the INCB. Costa Rica has controls for Table I and Table II precursor and essential chemicals as defined by the 1988 UN Drug Convention.

The Costa Rican government's National Plan on Drugs for 2013-2017 includes preventing the illicit diversion of chemical precursors as a priority. Costa Rica has yet to seize large amounts of diverted precursor chemicals compared to other states in the region and has a low volume of imports. The Costa Rican Drug Institute has a special unit dedicated to the control and regulation of precursor chemicals, and this unit has broad powers to monitor and respond to illegal activity. By law, importers and businesses that handle chemical precursors or certain types of prescription drugs are required to submit monthly reports through an online tracking system. During the first 10 months of 2016, 27 imports were licensed to 37 registered importers of Table I chemical precursors and 88 imports were licensed to 155 importers of Table II chemicals. The system tracks the movement of chemical precursors and solvents and also generates alerts. Costa Rica received no specific alerts during this 10-month period in 2016.

Dominican Republic

In accordance with its obligations under Article 12 of the 1988 UN Drug Convention, the Dominican Republic has implemented a chemical control regime to prevent precursor chemical diversion. Dominican laws regulate the production and use of the 24 chemicals listed in the Convention and the Dominican Republic annually submits information required by the Convention. The Dominican Republic has also ratified the Convention on Psychotropic Substances of 1971. The National Directorate for Drug Control (DNCD) is responsible for enforcing chemical control laws.

The Dominican Republic does not have a large petrochemical industry engaged in the manufacturing, importation, and exportation of chemical products. Chemicals for industrial production are imported from the United States. The two largest chemical imports are sodium carbonate and toluene, which is used in the Dominican Republic as an additive for gasoline and as a solvent for paint. Production of methamphetamines is not significant in the Dominican Republic.

The DNCD regulates and enforces the importation and use of precursor chemicals. The DNCD receives pre-notifications for precursor imports and issues certificates of importation. The DNCD also controls and regulates prescription drugs and issues annual permits to medical doctors, clinics, and hospitals, maintaining a register of the type of drug and amount each doctor prescribes each year, especially for drugs containing opiates. Clinics and hospitals are mandated to report prescriptions for certain drugs before dispensing them and the DNCD verifies that the prescription number and the doctor are valid before authorizing the sale. The DNCD is taking steps to automate its paper-based chemical control registration.

El Salvador

El Salvador is party to the 1988 UN Drug Convention, and invokes its rights to pre-notification of scheduled precursor chemicals under Article 12. However, precursor chemical trafficking continues to be a developing problem as methamphetamine production continues to spread from Mexico into neighboring Guatemala. Major but sporadic seizures of precursor chemicals imported from China have been reported at the Acajutla seaport in prior years, though none were recorded in 2016.

The OAS, with U.S. funding, is working with Central American countries to destroy existing stockpiles of seized precursor chemicals. The OAS signed a cooperative agreement with the Government of El Salvador in February 2015, for technical assistance in the management and disposal of controlled chemical substances.

Guatemala

The manufacture of methamphetamine and other synthetic drugs in Guatemala remains a major problem. Large quantities of precursor chemicals enter and transit Guatemala via its land borders and seaports, presenting the government with both law enforcement and chemical disposal challenges. Inefficiency and corruption at ports of entry likely facilitate the entry of precursor chemicals into the country. Currently, authorities have 2,662 MT of seized precursors in storage at four different locations in Guatemala, including the two busiest commercial seaports at Puerto Quetzal and Santo Tomas de Castilla. Ethyl phenyl acetate comprises the bulk of the seized contraband.

Although the Guatemalan government has a system in place to safely destroy precursor chemicals, the current method is unable to neutralize the large backlog of stored goods or keep up with the pace of ongoing seizures. In response, the United States is in the process of purchasing a high-capacity incinerator for Guatemala's Anti-Narcotics Police. Once operational in mid-2017, the incinerator will be able to efficiently destroy precursor chemicals used to manufacture controlled substances, as well as processed narcotics seized by law enforcement agencies. According to best estimates, the incinerator will be able to dispose of all precursors in Guatemala seized to date in two years or less. The Guatemalan government concluded an agreement with its Central American neighbors that will permit the transportation and subsequent disposal of seized precursors from El Salvador, Honduras, and Belize.

Honduras

Precursor chemical diversion continues to be a problem in Honduras, with the main shortcoming being a lack of oversight and enforcement over the importation of controlled chemicals. Currently, the Health Ministry (*MS*) is the only entity with the authority to investigate chemical companies, but lacks the funding and personnel to implement this function effectively. Furthermore, the *MS* does not effectively communicate with Honduran law enforcement and intelligence communities, which has hindered inspections of precursor chemical shipments. Most precursor chemicals diverted through Honduras originate in Asian source countries such as China, and often transit additional countries which mask the points of origin. Law enforcement sources estimate that the majority of these precursor chemicals are ultimately destined for methamphetamine production labs in Guatemala and Mexico. Some precursor chemicals also remain in Honduras, as evidenced by the detection and seizure of a cocaine processing lab in 2016.

The United States provides training to Honduran authorities to detect and prevent precursor chemical diversion. The Honduran government may wish to consider adopting additional penalties for illegal chemical diversion. The United States has also offered to assist the Government in Honduras in creating a task force comprised of key Honduran agencies to identify, investigate, and prosecute companies and individuals that import illegal precursor chemicals.

Latin America**Brazil**

Brazil is one of the world's 10 largest chemical producers. Brazil licenses, controls, and inspects essential and precursor chemical products, including potassium permanganate and acetic anhydride. The controls on both allow for either product to be commercialized without restriction for quantities of up to one kg for potassium permanganate and one liter of acetic anhydride.

The Brazilian Federal Police (DPF) Chemical Division controls and monitors 146 chemical products in conjunction with 27 DPF regional divisions and 97 resident 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. However, both divisions routinely coordinate and share information when conducting administrative inspections and criminal investigations.

Regulatory guidelines require all chemical handlers to be registered and licensed for conducting activities such as manufacturing, importing, exporting, storing, transporting, commercializing and distributing chemicals. The DPF uses a National Computerized System of Chemical Control to monitor all chemical movements in the country, including imports/exports, and licensing. This system requires all companies to use an on-line system for registration and to report all activity being conducted, including the submission of mandatory monthly reports of all chemical related movements as well as existing chemical stocks in their inventories.

The Government of Brazil adheres to the 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 and pseudoephedrine for quantities above 10 grams, and P-2-P in any amount. This is done through PEN Online. The DPF routinely uses PEN Online in cases of international trade and in coordination with member states to alert importing countries with details of an export transaction.

Ecuador

Under Ecuadorian law, potassium permanganate and acetic anhydride are designated as controlled chemicals. Buying, selling, or importing such chemicals requires the permission of the Technical Secretariat for Drugs, the primary agency responsible for precursor chemical control in Ecuador. According to Article 219 in the 2014 Penal Code, the use of precursor chemicals to produce, manufacture, or prepare illicit materials such as cocaine or heroin is punishable by three to five years in prison.

The chemical unit of the National Antinarcotics Directorate (DNA), under the Ecuadorian National Police, plays an active role in chemical control by carrying out investigations and intelligence operations. Although DNA's chemical unit is a highly competent entity, its small size and outdated technology hinder operations. The unit employs only 20 people, 10 in Quito and 10 in Guayaquil, and does not have a presence in northern Ecuador where drug labs and trafficking are most pronounced due to the porous land border with Colombia. Due to its small workforce, the chemical unit must often rely on ad-hoc support from police officers from other units that generally lack adequate chemical training.

Ecuador has been importing large quantities of potassium permanganate for at least the past decade. At the time of this report, chemical import data for 2016 was not available. According to the Central Bank of Ecuador, during the first eight months of 2015, Ecuador imported 34.79 MT of potassium permanganate, compared to 35.96 MT in 2014. Potassium permanganate is a controlled chemical and requires an import license in order to be imported into the country. Most imports originate from China.

Similar to potassium permanganate, acetic anhydride is also a controlled chemical requiring an import license. During the first eight months of 2015, Ecuador imported 67.22 MT of acetic anhydride, a significant increase from the 48.66 MT imported in 2014. By contrast, Ecuador imported only 370 kg of acetic anhydride in 2012, and only 10 kg in 2011. Ecuadorian authorities have not been able to explain this significant jump. Most imports originate from India and the United States.

Asia

Bangladesh

Transnational drug trafficking organizations operate within Bangladesh with connections to Burma and India, and narcotics enforcement agencies have reported increased trafficking of synthetic drugs such as "yaba" (a mixture of caffeine and methamphetamine, sometimes with

heroin) and diverted pharmaceuticals, such as phensedyl (codeine-based cough syrup). Drug traffickers continue to divert precursor chemicals and chemical preparations (incorporating ephedrine, pseudoephedrine, toluene, and acetone) from Bangladeshi pharmaceutical or chemical companies' illicit drug production. Bangladesh has successfully engaged bilaterally with India to control the diversion of phensedyl, and Bangladeshi law enforcement agencies work closely with the DEA to seize and disrupt illicit drugs and chemicals.

The Government of Bangladesh is committed to the implementation of the 1988 UN Convention and regional agreements regarding control of narcotic drugs, psychotropic substances and precursor chemicals. Twenty-two of the 24 precursor chemicals listed in the 1988 UN Convention are included in the "Schedule of Drugs" of Bangladesh's Narcotics Control Act (NCA) to comply with the provisions of Article 12 of the 1988 UN Convention. The NCA also allows financial investigations and freezing of assets derived from trafficking in drugs and precursors. The government provides the INCB with annual estimates of Bangladesh's legitimate use requirements for imports of the four precursors frequently used in the manufacture of amphetamine-type-stimulant (ATS) — 3, 4-MDP-2-P, pseudoephedrine, ephedrine, and P-2-P under CND Resolution 49/3.

The Directorate General of Drug Administration has developed a draft national drug policy, which was approved by the Cabinet but it has not yet been published in the gazette, in response to the threat posed by the abuse of and trafficking in pharmaceutical preparations and other drugs. The Department of Narcotics Control (DNC) issues licenses for the import, export, transport, shipment, manufacture, sale, distribution, purchase, possession, storage, or other use of controlled precursors. The NCA implementing rules regulate the control, monitoring, and use of precursors for industrial, scientific and medical purposes through a licensing system.

The DNC, however, lacks sufficient staff and equipment to detect and interdict precursors consistently. Bangladesh has also established District Drug Control Committees (DDCC) to monitor and coordinate the activities among the agencies responsible for drug and precursor chemical enforcement. The Police, Customs, Rapid Action Battalion, Border Guard, and Coast Guard are empowered to detect and intercept illegal precursor chemical and drug operations. The counterdrug unit of the Dhaka Metro Police has successfully assisted DEA in conducting investigations targeting Dhaka-based traffickers of pseudoephedrine chemical preparations. Despite government efforts, Bangladesh continues to struggle to allocate sufficient resources to control precursors through consistent enforcement of existing laws.

Bangladesh has a nascent but growing commercial pharmaceutical industry. Beximco Pharmaceuticals in August became the first Bangladeshi company to receive Federal Drug Administration (FDA) authority to export a prescription drug to the United States. Beximco now has FDA approval for two drugs.

China

China remains one of the world's top producers and exporters of precursor chemicals. The majority of precursor chemical production and export are intended for legitimate use, but precursors are not only being diverted by transnational criminal organizations but also

manufactured in large, sophisticated, illegal factories within China. China's close proximity to the illicit drug source countries in Southeast and Southwest Asia, in conjunction with insufficient regulatory oversight of the precursor chemical industry, corruption among government and business officials, lower production costs, myriad transportation options, and illegal factories make it an ideal source for precursor chemicals intended for illicit drug production.

India

The Government of India adheres to the chemical control provisions of the 1988 UN Convention. The Government of India has three pieces of legislation that restrict illicit narcotics trafficking, and there are three agencies in the government that enforce counternarcotics law.

The diversion of precursor chemicals from licit producers to the illicit drug trade is a serious problem. India-based precursor trafficking organizations are involved in the illicit exportation and domestic sale of precursor chemicals such as ephedrine and pseudoephedrine, both of which are used in the manufacture of methamphetamine. In light of this challenge, India has undertaken significant efforts to control precursor chemicals produced in its large chemical industry and actively participates in international precursor control initiatives such as the INCB-led Project Cohesion and Project Prism.

India issues pre-export notifications for exports of precursors using an online system developed by the INCB, and administers a sophisticated licensing regime to control dual use pharmaceutical products. India regulates 17 of 24 precursor chemicals listed by the 1988 UN Convention. Of the 17 chemicals, India's NDPS Act designates five as "Schedule A" substances subject to the most stringent controls: acetic anhydride, ephedrine, pseudoephedrine, n-acetylanthranilic acid, and anthranilic acid.

Singapore

Singapore's geographic advantage and robust port infrastructure contribute to its rank as one of the world's top trade hubs, including for the trade of precursor chemicals. The Government of Singapore continues to partner with concerned countries in international chemical control initiatives to prevent the diversion of synthetic drug precursor chemicals, including ephedrine, pseudoephedrine and other essential primary chemicals such as potassium permanganate and acetic anhydride. Singapore is one of the largest distributors of acetic anhydride in Asia. Used in film processing and the manufacture of plastics, pharmaceuticals, and industrial chemicals, acetic anhydride is also the primary acetylating agent for heroin.

Singapore does not produce ephedrine or pseudoephedrine, but significant volumes of both chemicals transit the country's ports. Singapore exported 43.95 MT of pseudoephedrine and 8.75 MT of ephedrine in 2015, and imported 47.62 MT and 8.1 MT of both chemicals respectively. Most of the ephedrine imported to Singapore originated from India and Taiwan, and the bulk of which is then re-exported to pharmaceutical companies in Indonesia. The imported pseudoephedrine originates mostly from India, China, Germany, and Taiwan, and then is often re-exported to pharmaceutical companies in Indonesia. Singapore also exports both chemicals to Vietnam, Cambodia, Malaysia, and Nepal for pharmaceutical purposes. Ephedrine

and pseudoephedrine that are not re-exported are used primarily by the domestic pharmaceutical industry. Singapore exported only 200 grams of phenyl-2-propanone and imported 100 grams in 2015.

The Singapore Central Narcotics Bureau (CNB) is the competent authority in Singapore for the 1988 UN Convention, and is tasked with undertaking measures to prevent the diversion of controlled precursor chemicals. All imports, exports and transshipments of these controlled substances require a permit from the CNB, and supporting documentation must be kept by the companies for a minimum of two years and made available for inspection by the CNB. Supporting documents may include invoice, sale contracts and documentary proof from the competent authority of the exporting countries. The movement of these controlled substances is also tracked and monitored by CNB. If the permit application is approved, CNB will provide Pre-Export Notification to the competent authority of the importing country for any exportation of substances.

Information on all goods imported and exported through Singapore's borders must be provided in advance to enable Singapore Customs, the Immigration and Checkpoints Authority, or other controlling agencies to facilitate legitimate and secure trade through measures such as timely pre-clearance risk assessment. Singapore does not screen containerized transshipments unless they involve vessels from select countries of international concern, a Singapore consignee or contain strategic or controlled items, including certain chemicals. In instances where precursor diversion for illicit drug manufacturing purposes was suspected, Singapore authorities have assisted foreign law enforcement agencies. The Government of Singapore conducts site visits on companies dealing with controlled chemicals to ensure awareness of the requirements and overall compliance.

The Port of Singapore is the world's second busiest port in terms of shipping tonnage and is the world's busiest transshipment port. The presence of several designated Free-Trade Zones in Singapore presents a potential risk for the undetected transshipment of diverted narcotics. Singapore authorities have never reported a diversion of precursor chemicals used in the manufacturing of methamphetamine from Singapore's pharmaceutical, biotechnology and fine chemical industries, nor have they reported the seizure of any domestic clandestine methamphetamine laboratories. Singapore's Health Sciences Authority and the Civil Defense Force and the DEA hold regular cross trainings to increase Singapore's capability to address any surge in clandestine manufacturing.

Taiwan

The Taiwan Ministry of Economic Affairs Industrial Development Bureau imposes strict reporting requirements in tracking the production, distribution, sale, storage, and export/import of precursor chemicals such as acetic anhydride, piperonal, safrole, piperidine, hydrogen chloride, and potassium permanganate. In 2015, the most recent year for which data is available, approximately 905 companies reported through this web-based system every quarter. In April 2015, the Taiwan authorities added benzyl cyanide to the list of chemicals requiring quarterly reporting.

Taiwan's Food and Drug Administration (TFDA) supervises the trade in and use of finished products containing ephedrine, pseudoephedrine, and other chemicals, including by end-users such as hospitals. In 2015, TFDA inspected 17,454 drug manufacturers and hospitals subject to law and found 371 violations, primarily for administrative errors or use of expired medicines containing those chemicals. The Taiwan authorities report that there were no domestic cases in 2015 and 2016 involving the use of controlled pharmaceutical ingredients, such as ephedrine, in the production of illegal drugs.

Thailand

Precursor chemicals are not produced in Thailand, but the government imports chemicals in bulk for licit medical and industrial purposes. The Precursor Chemical Control Committee is responsible for formulating the national strategy on precursor controls. The Office of the Narcotics Control Board (ONCB) is the principal Thai law enforcement agency responsible for enforcing the laws against the illicit diversion of prohibited chemicals.

Improved law enforcement capabilities of Thai authorities and more intense scrutiny of end-user requirements have led to a decrease in illicit diversion through Thailand over the past several years. The growing availability of drugs and chemicals from sources in China and India has further mitigated the use of Thai chemical diversion channels. Nevertheless, it is probable that acetic anhydride and ephedrine continue to transit Thailand en route to clandestine laboratories in Burma. Acetic anhydride is produced in Indonesia, while other chemicals are brokered through Indonesian chemical houses and transported through Malaysia into Thailand. Pseudoephedrine and ephedrine enter Thailand by couriers or by air, or containerized maritime cargo before being transshipped overland from northern or northeastern Thailand provinces to methamphetamine production centers in Burma, Laos, and/or Cambodia.

The sale of pseudoephedrine tablets has been prohibited at local pharmacies for several years. In 2013, due to the determination of an imminent threat to the public safety, the Thai Ministry of Public Health signed into law the control of mephedrone, methylenedioxypyrovalerone (MPDV), and methylone. These substances have been designated narcotics in schedule I under the Narcotic Drugs Act B.E. 2522 (1979) and their importation, exportation, and possession are strictly prohibited.

Thailand is a signatory to the 1988 UN Convention and has placed stringent controls on the 24 chemicals listed in Table I and Table II of that Convention. The Royal Thai Government has further imposed controls on seven additional chemicals because of its unique domestic situation and its geographic proximity to the major Burma-based drug-producing and trafficking organizations. These chemicals include: acetyl chloride, chloroform, ethylidene diacetate, glacial acetic acid, phosphorus trichloride, phosphorus pentachloride, and thionyl chloride. Controls are also in place for caffeine, which is used in the production of methamphetamine tablets. Further, Thailand provides pre-export notifications via the INCB's PEN Online system as a mean of discouraging diversion of precursors and essential chemicals in the illicit manufacture of narcotic drugs and psychotropic substances.

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Europe

Chemical diversion control within the EU is based upon EU regulations binding on all 28 Member States. 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. EU regulations are updated regularly and directly applicable in all EU Member States.

EU regulations establish common risk management rules to counter chemical diversion at the EU's borders. Member States are responsible for investigating and prosecuting violators.

The U.S.-EU Chemical Control Agreement, signed May 28, 1997, is the formal basis for U.S. cooperation with the EU and its 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, such as national or joint positions on chemical control matters before larger multilateral fora, including the CND.

In December 2013, the EU adopted new basic legislation that strengthens controls on ephedrine and pseudoephedrine, and tightens controls on companies in the EU using acetic anhydride.

For external trade, the change strengthened controls on medicinal products containing ephedrine or pseudoephedrine exported from or transiting through the EU. The EU developed a new category of scheduled substances (Category 4), imposed mandatory export authorization and pre-export notification, and extended enforcement power to stop and seize cargo if there is "reasonable doubt" concerning the shipment. For trade within EU territory, compulsory registration of end-users for acetic anhydride was introduced by creating a new subcategory (2A). Additionally, a definition of "user" was added for natural or legal persons possessing substances for purposes other than placing them in the market.

Other amendments to the regulation to facilitate tracking and enforcement include introducing definitions for scheduled substance and natural products, strengthening the rules for licensing and registration by introducing explicit criteria for granting or refusing licenses and registrations, increasing the power of competent authorities to control non-scheduled substances, implementing a quick reaction mechanism to add new chemicals to the list of scheduled substances, developing an EU database on drug precursors, and improving data protection provisions.

On 1 July 2015, a Commission Delegated Regulation and a Commission Implementing Regulation entered into force (replacing previous implementation legislation). These regulations complete the revision of the EU drug precursor legislation which started at the end of 2013.

Bilateral chemical control cooperation continues between the United States, and EU and its Member states. Many EU Member 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. A new version of these guidelines now titled “Guidelines for operators – Drug Precursors’ control in the European Union” is expected to be published in 2017.

Belgium

Belgium is neither a major producer nor a destination for the chemical precursors used to produce illicit drugs, and the country manufactures methamphetamine precursors for licit products only to a very limited extent. In recent years, however, Belgium has emerged as a transshipment point for methamphetamine precursors. Belgium requires and enforces strong reporting requirements for the import and export of precursor chemicals (bulk pseudoephedrine, ephedrine, safrole oil and benzyl methyl ketone), and the Belgian Federal Police have the lead role in enforcing these controls. However, shipments of pharmaceutical preparations (medication in tablet form) containing pseudoephedrine and ephedrine are only controlled on a regulatory level by the Belgian Ministry of Safety and Public Health.

Mexican traffickers are moving away from the use of ephedrine and pseudoephedrine for the production of methamphetamine, turning instead to processing methamphetamine using ethyl phenyl acetate (and its derivatives), benzaldehyde and nitroethane. These traffickers may also utilize APAAN in the production of methamphetamine. The import of APAAN has dropped (possibly due to its designation as a scheduled chemical under the 1988 UN Convention in 2014), but there continue to be seizures of trucks transporting the chemical from Eastern Europe to Belgium and the Netherlands for the production of amphetamine-type substances and 3,4-methylenedioxy-methamphetamine (MDMA – a.k.a. “ecstasy”). Mexican traffickers can produce APAAN using benzylicyanide, sodium ethoxide and ethylacetate.

Belgian officials report an increase in the shipment of APAA (3-oxo-2-phenylbutanamide), a pre-precursor used to produce APAAN. During the first six months of 2016, over 1,000 kg of APAA were seized coming from China. The increase in seizures of APAA is significant given the increased use of “dark” web sales of MDMA to the United States. Although individual parcels sent to the United States are usually small (in the grams), the overall volume sent to the United States is significant. Though very little methamphetamine is produced in Belgium for local consumption, there is evidence that it is being produced for export (using the Internet), to the United States and other European countries. Belgium has also seen seizures of nitropropene, 1-phenyl-2-nitropropene entering the country from China.

In instances where precursor diversion for drug manufacturing purposes has been suspected, Belgian authorities have cooperated by executing international controlled deliveries (i.e., illicit deliveries monitored by law enforcement in order to further investigations) to the destinations, or by seizing the shipments when controlled deliveries are 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 legal pharmaceuticals and chemicals. According to the most recent available data from 2014 (2015 data could not be confirmed), Germany was one of the largest global exporter of ephedrine (40.2 MT) and pseudoephedrine (313.5 MT). Most of the 24 scheduled substances under international control as listed in Tables I and II of the 1988 UN 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 and pharmaceutical industry, merchants, and German authorities is a key element in Germany's chemical control strategy. Germany works closely with the 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 bilateral information 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. The Netherlands has strong legislation and regulatory controls over the industry, and law enforcement authorities track domestic shipments and work closely with international partners. Trade in precursor chemicals is governed by the 1995 Act on the Prevention of Misuse of Chemicals to Prevent Abuse of Chemical Substances (WVMC), which aims to prevent the diversion of legal chemicals. Chemical substances are also governed under The Act on Economic Offences and the Opium Act, and EU regulations.

Production of synthetic drugs is significant in the Netherlands. Recent trends show an increase in new types of precursors and pre-precursors to circumvent national and international legislation. APAAN is used in amphetamine production and acetic anhydride is used as a pre-precursor for BMK. Safrole continues to be used as a pre-precursor for piperonyl methyl ketone (PMK), though availability has decreased since 2014. The main (pre-) precursors used in the Netherlands are APAA (similar to APAAN), PMK, and BMK-glycidates. In recent years, law enforcement, especially in the south, reinforced its efforts to combat synthetic drugs and pre-precursors.

The Financial Investigation Service (FIOD) of the Ministry of Finance oversees implementation of the WVMC and has responsibility for law enforcement efforts targeting precursors. Customs monitors the trade and production of chemicals. The chemical industry is legally obliged to report suspicious transactions. The Netherlands abides by all EU regulations for drug precursors.

The Prosecutor's Office strengthened cooperation with countries playing an important role in precursor chemicals used in the manufacture of MDMA.

The Netherlands is one of the initiators of and an active participant in the INCB-led Project Prism taskforce. It provides the INCB annual estimates of legitimate commercial requirements for chemical precursors. The Dutch government continues to work closely with the United States on precursor chemical controls and investigations. The Netherlands has had a memorandum of understanding with China since 2004 concerning chemical precursor investigations.

The Netherlands requires a license for the manufacture and trade of ephedrine. Relevant reports on suspicious transactions are shared nationally and internationally. The Netherlands also monitors a number of non-registered substances used in the production of methamphetamine.

Switzerland

The Government of Switzerland continues to be a strong partner of the United States and other countries in international chemical control initiatives to prevent the diversion of synthetic drug precursor chemicals, including ephedrine and pseudoephedrine, and other essential chemicals, namely potassium permanganate and acetic anhydride. Switzerland was the third largest importer of pseudoephedrine in the first nine months of 2016, with 37.13 MT imported globally.

Switzerland participates in multilateral chemical control initiatives led by the INCB, including Project Prism and Project Cohesion. Specifically, ephedrine and pseudoephedrine are subject to import and export license requirements and Swiss chemical manufacturers must provide "end-user" certificates in concert with the exportation of ephedrine and pseudoephedrine. In addition, an export license is required to export acetic anhydride to "risk" countries where significant illicit drug production occurs.

Swiss law enforcement agencies have established close cooperation with the Swiss chemical manufacturing and trading industries and counterparts in major chemical manufacturing and trading countries. This cooperation includes information exchanges in support of chemical control programs and in the investigation of diversion attempts. Cooperation between U.S. and Swiss law enforcement agencies, particularly the Swiss Federal Criminal Police, on chemical control related issues is excellent.

The United Kingdom

The United Kingdom (UK) remains a leading producer of precursor chemicals, particularly ephedrine, which can be used in the production of illicit drugs. However, because the UK applies a strict regulatory regime to the production and trade of precursor chemicals, including mandatory licensing and reporting obligations, relatively small amounts are believed to be diverted for illicit use. The Home Office Drug Licensing and Compliance Unit is the regulatory body for precursor chemical control in the UK. The United States and UK cooperate closely in international bodies to promote global regulation of precursor chemicals.

Middle East**Egypt**

Egypt oversees the import and export of all internationally-recognized chemicals through a committee composed of the Ministry of Interior (ANGA), Ministry of Finance (Customs), and Ministry of Health (Pharmaceutical). This committee approves or denies requests to import or export chemicals. Over the past few years, there was a spike in the importation of ephedrine. With the large amounts of ephedrine imported relative to the population of Egypt, it is possible that not all of it is used for legitimate medicinal production. The Egyptian government, however, has not reported any large-scale diversion of ephedrine or other chemicals, made any significant seizures, or observed any increase in the use of methamphetamine in the local populace.

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 related efforts.

Asia**Afghanistan**

Inadequate border security and weak enforcement capacity hamper control of precursor chemicals in Afghanistan. During 2016, Afghan officials noted a decrease in the amount of precursors shipped into Afghanistan, attributing this to a shift of opium processing facilities to areas outside Afghanistan.

Both acetic anhydride and ammonium nitrate are illegal in Afghanistan and have no legitimate commercial uses. Hydrochloric acid, acetone, and sulfuric acid are controlled substances and subject to seizure for other reasons, such as customs violations. Ammonium chloride is not illegal; however, if found at a laboratory site, Afghan authorities will seize and destroy it. Since 2013, the United States has supported the UNODC Container Control Program (CCP) to develop units in Kabul and at key ports of entry on the Afghan borders with Pakistan, Uzbekistan, Tajikistan, Iran, and Turkmenistan. Through training and assistance, CCP promotes effective container controls to not only identify and seize illicit cargo, but also to facilitate legitimate trade. The program also enables effective information sharing with other countries participating in CCP, especially neighboring Central Asian states.

The Precursor Control Unit (PCU) of the Counternarcotics Police of Afghanistan is a specialized unit devoted to combating the burgeoning precursor problem. Afghanistan uses the on-line PICS developed by the INCB to enhance information sharing between national authorities on precursor incidents. The PCU also communicates directly with the Central Asian Regional Information and Coordination Centre for Combating Illicit Trafficking of Narcotic Drugs, Psychotropic Substances and their Precursors, and the Pre-Export Notification system. In mid-2016, the United States funded increased capacity building for regional PCU staff through a UNODC training program.

Under the existing counternarcotics law, Afghanistan maintains a Drug Regulation Committee (DRC) to monitor and regulate the licit precursor chemical trade. The DRC licenses chemicals for licit use and stores data on the use of chemicals so that the authorities can better understand emerging trends. The DRC also can authorize investigations and spot checks on companies importing chemicals.

Burma

Significant amounts of heroin and ATS produced in Burma reflect the volumes of essential and precursor chemicals smuggled into the country for illicit drug production. The illicit production and export of synthetic drugs in Burma continued to increase in 2016. Burma does not have a significant chemical industry and does not manufacture ephedrine, pseudoephedrine or acetic anhydride used in synthetic drug manufacturing. Organized criminal syndicates smuggle precursor chemicals into Burma through borders shared with Bangladesh, China, Laos, India and Thailand. The precursors are then transported to heroin refineries and ATS laboratories, many located in regions of Shan State which are under the control of armed militia groups or in other areas that are lightly policed. There are also mobile ATS laboratories along the Burma-Bangladesh border where law enforcement requires military security due to ongoing communal tensions.

Burmese authorities faced challenges in controlling the illicit import and diversion of precursor chemicals for use in production of illegal narcotics, exacerbated by the extremely porous borders, including along non-government controlled areas in Burma and India. The Burmese police continued to make significant precursor seizures in government-controlled areas such as in Mandalay, Burma's main distribution center for precursor chemicals. Additional international seizures of precursors destined for or synthetic drugs manufactured in Burma are a further sign of growing production. The Government of Burma has not provided estimates on the size of its licit domestic market for ephedrine or pseudoephedrine; however, Burmese officials have noted that all pseudoephedrine smuggled across the Burma-India border is destined for illicit ATS laboratories in Shan State and not the legal domestic market. Importers of licit chemicals are required to use a Pre-Import Notification system to obtain a certificate of verification from the Burma's Drug Enforcement Division (DED), and retailers must also apply for a certificate to transport chemicals across and within Burma's borders.

According to official seizure statistics, 61.5 kg of pseudoephedrine, 534.204 kg of ephedrine, and 19.847 MT of caffeine powder were seized from January to December 2016. Burmese police also seized 98.35346 million ATS tablets and 2,464.08 kg of crystal methamphetamine during this reporting period. Burma is a party to the 1988 UN Convention, but has not yet instituted laws that meet all UN chemical control provisions. Burma's Precursor Chemical Control Committee, established in 1998, is responsible for monitoring, supervising, and coordinating the sale, use, manufacture, and transportation of imported chemicals. To date, the Committee has identified 26 substances as precursor chemicals, and prohibited their import, sale or use in Burma.

Indonesia

Indonesia's 2009 National Narcotics Law gave the country's National Narcotics Board (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 several laws and regulations exist regarding the import and export of precursor chemicals, the extent of enforcement remains largely unknown. Regarding the two most widely sought after precursor chemicals used for cocaine and heroin production – potassium permanganate (cocaine) and acetic anhydride (heroin) – the United States is unaware of a single seizure in 2016 by Indonesian law enforcement. BNN reports that it regularly conducts unannounced inspections to companies that are listed importers of precursor chemicals. Every year, through the Ministry of Health, Indonesia reports estimates of its legal domestic narcotics precursors to the INCB.

Pakistan

Pakistan is a destination and transshipment point for diverted shipments of acetic anhydride and other illicit precursor chemicals used in the production of heroin and amphetamine-type stimulants. Pakistan does not domestically produce industrial-scale quantities of either acetic anhydride or ephedrine, though it has chemical and pharmaceutical industries with a legitimate, albeit modest, demand for these substances.

Pakistan enforces a basic precursor control regime as part of its obligations under the UN drug control conventions, covering the import of seven multi-use chemicals: acetic anhydride; pseudoephedrine; anthranilic acid; acetone; potassium permanganate; methyl-ethyl ketone; and toluene. The Anti-Narcotics Force (ANF), the country's anti-drug enforcing organization, is charged with managing precursor control and does so largely by conducting ground checks on importing businesses, licensing those businesses, and reviewing Pre-Export Notifications requesting the sale of these substances within Pakistan. Between January and September of 2016, ANF received 123 Pre-Export Notifications, approving 70 and denying 53. It is likely that significant imports of precursor chemicals circumvent the Pre-Export Notification system via mislabeled shipping containers and by maritime smuggling along Pakistan's coastline, which parts of which are not well patrolled. During the first nine months of 2016, ANF reported seizing 18,614 liters of acetic anhydride.

In 2016, both ANF and Pakistani Customs continued to provide information in the INCB's PICS System, which distributes real-time information on precursor seizures to law enforcement agencies worldwide.

The Andean Region**Bolivia**

Bolivia continues to be a transit country for precursor chemicals, mostly from the black market (contraband) for cocaine processing. According to the Chemical Substances Investigations Group (GISUC) of the counternarcotic police, the majority of those chemicals originate from

Peru (about 40 percent), followed by Paraguay (30 percent), Brazil (20 percent), and Argentina and Chile, with five percent each.

The most common chemicals seized from contraband match those commonly found in drug factories (where base paste is prepared) and cocaine labs (where base paste is transformed into cocaine HCl). Bolivia is also a processing country for Peruvian cocaine, as well as a coca/cocaine source country. The number of labs has significantly increased in the last three years; these labs process Peruvian base paste as well as Bolivian coca into cocaine.

The most common chemicals found in cocaine factories and labs are sulfuric acid, hydrochloric acid, sodium carbonate, caustic soda, ammonia, phenacetin, sodium metabisulfite, isopropyl alcohol, activated carbon, urea, ethyl acetate, and levamisole. The last seven products are not listed under controlled substances and GISUQ believes they are alternate products that drug producers use to avoid law enforcement controls.

The GISUQ is charged with locating and interdicting chemicals used in the traditional cocaine process, such as sulfuric acid, hydrochloric acid, gasoline, diesel oil and limestone. The GISUQ coordinates activities with the General Directorate for Controlled Substances, a civilian entity under the GOB that administers and licenses the commercialization and transport of controlled substances listed under Bolivian CN Law 1008. Per Bolivian law, unless controlled substances are found next to a cocaine lab, unlicensed transport and commercialization generates only an administrative violation, penalized by a fine and the possible loss of 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 illegal methamphetamine.

In 2011, the GISUQ found drug traffickers using isopropyl alcohol, liquid ethyl acetate, sodium bisulphate, and cement to produce cocaine. In 2012, the GISUQ found traffickers using ethyl acetate to purify cocaine into HCL. In 2013, drug traffickers continued using the aforementioned chemicals in addition to activated carbon and phenacetin. Traffickers use activated carbon to deodorize and discolor water and other liquids and phenacetin, a highly toxic analgesic, to increase volume of cocaine. These chemicals are not among the precursor chemicals controlled under the Bolivian Counternarcotic Law. During 2016, the GISUQ seized only 502 MT of solid substances and 943,792 liters of liquid precursor chemicals, a four percent and seven percent increase respectively over the same period in 2015. Bolivia should not only introduce and pass stronger precursor chemical controls, but also ensure that they are enforced.

Colombia

Precursor chemical diversion continues to be a serious problem in Colombia. There are approximately 2,704 chemical companies authorized to handle controlled chemicals for legitimate use, down from 5,000 in early 2015. The number fell dramatically after the Government of Colombia implemented a new computer system to track the importation and sale of controlled chemicals, requiring sellers to enter all sales information and for buyers to acknowledge the purchase and receipt of the chemicals. Colombian authorities inspected and

audited 2,200 Colombian chemical companies during Fiscal Year 2016, which uncovered 178 firms with regulatory issues, and resulted in the seizure of 120.6 MT of listed chemicals. In addition, the Government of Colombia immobilized approximately 5.99 MT of listed chemicals.

Although chemical companies require government permission to import or export specific chemicals and controlled substances, the police have the burden to prove seized chemicals were intended for illicit drug production. While the Colombian government has tightened controls on coca processing chemicals as well as strengthened chemical control legislation, traffickers are still able to camouflage precursors to clandestinely import them into Colombia. Additionally, traffickers and clandestine laboratories recycle controlled chemicals and use non-controlled chemicals to replace controlled chemicals.

The Government of Colombia implements restrictions on other needed chemicals for coca processing, such as gasoline, cement, sulfuric acid, hydrochloride acid, and potassium permanganate. These restrictions include reduced numbers for production, distribution and storage of chemicals and, in some areas, prohibition of particular chemicals in certain zones. Additionally, 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. During the first months of 2016, Colombian authorities seized over 301.4 MT of listed chemicals and immobilized almost ten million MT.

Peru

Peru produces precursor chemicals such as sulfuric acid and is a major importer of other chemicals essential to cocaine production. Chemicals are principally imported into Peru licitly by wholesalers through the Port of Callao and are later diverted for illicit purposes by smaller actors for cocaine production. Peru requires all chemical sector entities to obtain a license.

Peru's authority to regulate the precursor chemicals used in illicit drug production is based on Legislative Decree 1126 and the regulation set forth in Supreme Decree 010-2015EF, which establish protocols for sanctions and fines related to the chemical industry. However, Supreme Decree 010-2015EF is not effectively enforced. The National Superintendence of Customs and Taxes (SUNAT) is the regulatory agency handling all issues related to the chemical industry, but SUNAT does not have law enforcement powers and is limited to investigative activities. SUNAT coordinates with the Peruvian National Police (PNP) to combat diversion of precursor chemicals.

DIREJANDRO's Precursor Chemical Unit (DEPCIQ), reported a significant increase in the seizure of precursor chemicals – from 3.862 MT in 2015 to 6.528 MT in 2016. Peru continued to implement the 2015 Precursor Chemicals Initiative to obtain coverage of approximately 65 percent of roads in the VRAEM, Puerto Maldonado, and Puno regions utilizing 12 backscatter x-ray scanners in strategic corridor routes. In October, a scanner was deployed along the border with Bolivia.

Suspected PNP corruption is a factor in SUNAT's unwillingness to provide investigative information related to precursor chemicals. In May, six police officers in Ayacucho were

arrested for complicity in allowing traffickers to transport precursor chemicals through the VRAEM.

Peru has worked to implement CND Resolution 49/3 by tasking SUNAT and the PNP to conduct joint investigations, with SUNAT providing intelligence developed from their import and distribution records and PNP conducting regulatory and enforcement activities.

The Ministry of Health manages estimates of Peru's INCB licit demand for ephedrine, pseudoephedrine, and P-2-P. The Ministry's Health Department does not have a regulatory or enforcement arm to prevent the diversion of chemicals. According to INCB records, Peru does not have strict controls to prevent the diversion of ephedrine, pseudoephedrine, and P-2-P. Indications suggest that ephedrine and pseudoephedrine are entering the country in larger quantities than required by the INCB assessment.

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

This section of the INCSR is produced in response to the CMEA's Section 722 requirement to report on the five major importing and exporting countries of the identified methamphetamine precursor chemicals. In meeting the CMEA 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. The available data does not address illicit trafficking and production.

Ephedrine and pseudoephedrine are the preferred chemicals for methamphetamine production, although traffickers are increasingly using substitutes or pre-precursors. The phenomenon of substitute chemicals used in methamphetamine production is particularly pronounced in Europe where the method using APAAN is largely used. 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 U.S. Food and Drug Administration (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 ephedrine and pseudoephedrine.

The Global Trade Atlas (GTA), compiled by Global Trade Information Services, Inc. (WWW.GTIS.COM), provides export and import data for ephedrine and pseudoephedrine collected from major trading countries. However, given the reporting cycles by participating countries, data often lags behind one year. The most recent year for which full-year data is available is 2015. 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 this section.

During the preparation of the 2016 CMEA report, GTA data for U.S. exports and imports for both ephedrine and pseudoephedrine for calendar years 2012-2014 were updated in light of revised estimates provided by DEA. For the 2017 CMEA report, GTA data for U.S. exports and imports for both ephedrine and pseudoephedrine for calendar years 2013-2015 were also updated in light of revised estimates provided by DEA.

Obtaining data on legitimate demand also remains problematic. Such data is still not 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 on their reasonable estimates about the trade in the end products that form the basis of legitimate demand – although each year the number of countries reporting is increasing.

Nevertheless, 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, reporting licit market trade and demand for ephedrine and pseudoephedrine as well pharmaceutical products derived from them is voluntary. Even so, the trend toward better reporting has been positive.

According to the 2016 INCB report, in 2015, a total of 29 countries and territories reported seizures of ephedrine (either as raw material or in the form of pharmaceutical preparations) totaling nearly 25 MT, with China alone accounting for almost 23.5 MT, followed by New Zealand with more than 950 kg, Australia (457 kg), India (97 kg) and Malaysia (75 kg). Also in 2015, a total of 24 countries and territories reported seizures of pseudoephedrine. However, with the exception of India (730 kg) and the United States (210 kg), none of the amounts reported by individual countries exceeded 100 kg, neither as raw material nor in the form of pharmaceutical preparations.

Since the passage of the 2006 CND resolution sponsored by the United States, and as of November 2016, 160 countries had provided import requirements for the bulk chemicals and ephedrine and pseudoephedrine (and their preparations, where applicable) to the INCB. Additionally, 154 governments provided estimate for ephedrine raw material and 145 governments provided estimates for pseudoephedrine raw material. This also included “zero” estimates.

A further challenge to analyzing the data is that most countries have not attempted to reconcile trade data and their own reporting of licit requirements, although this continues to change. Countries are beginning to make efforts to reconcile data either from commercial industry, domestic use, or onward exports. For instance, some countries that noted licit requirements, but had not reported into the GTA data exports or imports, have begun to do so.

Thus far, the economic analysis required by the CMEA remains challenging because of insufficient, unreliable, and changing data. Often the collection and reporting of such data requires a regulatory infrastructure that is beyond the means of some governments. It is also important to note that not all countries are familiar with the methodology and data sources used by the GTA to report the final numbers. This increases the difficulty of comparing import or export totals across years.

Nevertheless, 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. The United States will continue to work with the INCB and with authorities in the reporting countries to secure explanations for anomalies between reported imports and reported licit domestic requirements, and to follow the development of other chemicals used in the production of methamphetamine.

This report provides export and import figures for both ephedrine and pseudoephedrine for calendar years 2013-2015. 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 major producers will not release this proprietary data.

Top Five Exporting Countries and the United States Ephedrine and Its Salts 2013-2015 (GTA Year-To-Date Dec 2015)				
Reporting Country	Unit	Quantities		
		2013	2014	2015
India	KG	58,829	84,600	57,362
Germany	KG	91,900	39,935	19,456
United Kingdom	KG	1,200	4,068	8,950
Singapore	KG	31,150	10,325	8,875
Denmark	KG	3,400	2,055	2,203
Top Five Total		186,479	140,983	96,846
United States (GTA)	KG	265	2	9
United States (DEA)	KG	0	1	2

Analysis of Export Data: The top-five exporters of ephedrine in 2015 were India, Germany, Singapore, the UK, and Denmark. According to the Global Trade Atlas (GTA) database, ephedrine exports decreased 31.3 percent in 2015, due to a substantial decrease in exports from India, Germany, and Singapore. India's exports had a 32.2 percent decrease; going from 84,600 kg in 2014 to 57,362 kg in 2015. Despite the decrease, the country is ranked as the top global

exporter of ephedrine for this year's report. Germany exports has also decreased from 39,935 kg in 2014 to 19,456 kg in 2015; a 51.3 percent decrease. Singapore continues as the third leading exporter with a modest decrease of 14 percent between 2014 and 2015. The UK, however, doubled its exports between 2014 and 2015, going from 4,068 kg to 8,950 kg; a 54.5 percent increase. This year, Denmark returned as the fifth leading exporter with a 6.7 percent increase between 2014 and 2015. The top-five economies in 2014 included: India, Germany, Singapore, The UK, and Taiwan.

The aggregated amount of ephedrine exported by the top-five economies in 2015 was 96,846 kg. This is the first time in the last three years that the aggregated amount of ephedrine exported dropped below the 100,000 kg mark. The decrease in 2015 represents an export reduction of 31.3 percent compared to 2014, and 48.1 percent decrease when compared to 2013.

According to the most current information provided by DEA, U.S. exports were zero in 2013, and increased from one kg in 2014 to two kg in 2015.

Top Five Exporting Countries and the United States Pseudoephedrine and Its Salts 2013-2015 (GTA Year-To-Date Dec 2015)				
Reporting Country	Unit	Quantities		
		2013	2014	2015
India	KG	440,132	356,074	355,351
Germany	KG	389,100	314,415	313,715
United Kingdom	KG	51,500	312,046	220,663
China	KG	90,650	65,678	68,144
Singapore	KG	92,117	34,913	43,220
Top Five Total		1,063,499	1,082,126	1,001,093
United States (GTA)	KG	6,597	1,819	1,275
United States (DEA)	KG	21,925	19,282	23,870

Analysis of Export Data: According to the GTA database, the aggregated volume of worldwide exports for the 2015 top-five exporters slightly decreased from 1,082,126 kg in 2014 to 1,001,093 kg in 2015; a 7.5 percent decrease. The top-five exporters of pseudoephedrine in 2015 were India, Germany, the UK, China, and Singapore. In 2014, the top-five were India, Germany, the UK, Taiwan, and China. Only China and Singapore increased their pseudoephedrine exports in 2015. China exports slightly increased from 65,678 kg in 2014 to 68,144 kg in 2015; a 3.6 percent increase. Singapore exports substantially increased between 2014 and 2015, going from 34,913 to 43,220; a 19.2 percent increase. On the other hand, the UK's exports dropped 29.3 percent, going from 312,046 kg in 2014 to 220,663 kg in 2015. India and Germany's exports decreased an average of 0.2 percent in both countries.

According to the most current information provided by the DEA, the United States increased its pseudoephedrine exports from 19,282 kg in 2014 to 23,870 kg in 2015; a 19.2 percent increase.

Top Five Importing Countries and the United States Ephedrine and Its Salts 2013-2015 (GTA Year-To-Date Dec 2015)				
Reporting Country	Unit	Quantities		
		2013	2014	2015
South Korea	KG	22,811	21,250	23,352
Egypt	KG	6,057	21,844	11,472
Indonesia	KG	12,612	10,502	9,260
Singapore	KG	11,512	9,606	8,107
Canada	KG	4,384	5,852	7,238
Top Five Total		57,376	69,054	59,429
United States (GTA)	KG	15,972	18,119	3,925
United States (DEA)	KG	2,298	2,541	3,093

Analysis of Import Data: According to the GTA database, the top-five ephedrine importers in 2015 were South Korea, Egypt, Indonesia, Singapore, and Canada. Egypt's imports dropped significantly; going from 21,844 kg in 2014 to 11,472 in 2015; a 47.5 percent decrease. India, Egypt, South Korea, Indonesia, and Singapore were the top-five ephedrine importers in 2014. Canada appears in fifth place in 2015, with imports increase of 19.2 percent between 2014 and 2015.

According to the most current information provided by DEA, U.S. ephedrine imports increased from 2,541 kg in 2014 to 3,093 kg in 2015; a 17.8 percent increase.

Top Five Importing Countries and the United States Pseudoephedrine and Its Salts 2013-2015 (GTA Year-To-Date Dec 2015)				
Reporting Country	Unit	Quantities		
		2013	2014	2015
Switzerland	KG	93,322	71,275	56,466
Singapore	KG	61,671	36,293	52,627
Indonesia	KG	56,033	34,495	49,406
Greece	KG	2,600	2,702	48,750
France	KG	40,900	20,946	41,682
Top Five Total		254,526	165,711	248,931
United States (GTA)	KG	166,424	175,859	145,310
United States (DEA)	KG	159,588	184,267	154,126

Analysis of Import Data: The quantity of pseudoephedrine imported by the top-five importers increased in 2015. The aggregated amount of pseudoephedrine imported by the top-five

economies in 2015 was 248,931 kg; a 33.4 percent increase compared to 2014. According to the GTA database, Greece has substantially increased its pseudoephedrine imports between 2014 and 2015. In 2013, Greece imported 2,600 kg of pseudoephedrine, followed by a slight increase of 102 kg in 2014. However, Greece imported 48,750 kg of pseudoephedrine in 2015. The reason for such demand increase is unknown. The new rank of top pseudoephedrine importers in 2015 includes Switzerland, Singapore, Indonesia, Greece, and France. Except for Switzerland, all other top-five importing economies increased their pseudoephedrine imports. The 2014 list included Switzerland, Turkey, Egypt, Singapore, and South Korea.

According to the most current information provided by DEA, the United States remains the top importer of pseudoephedrine in the overall rank of countries. However, U.S. imports decreased 16.4 percent, going from 184,267 kg in 2014 to 154,126 kg in 2015. It should be noted that the United States no longer bulk manufactures pseudoephedrine.

INCB Tables on Licit Requirements

Annual legitimate requirements (ALR) as reported by Governments for imports of ephedrine, pseudoephedrine, 3,4-methylenedioxyphenyl-2-propanone, 1-phenyl-2-propanone and their preparations

(Kilograms, rounded up)

Status: 4 November

2016

<i>Country or territory</i>	<i>Ephedrine</i>	<i>Ephedrine preparations</i>	<i>Pseudoephedrine</i>	<i>Pseudoephedrine preparations</i>	<i>3,4-MDP-2-P^a</i>	<i>P-2-P^b</i>
Afghanistan	0	50	0	3 000	0	0
Albania	6	0	5	0	0	0
Algeria	20		17 000		0	1
Argentina	18	0	19 000	144	0	0
Armenia	0	0	0	0	0	0
<i>Ascension Island</i>	0	0	0	0	0	0
Australia	5	8	4 800	1680	0	1
Austria	146	23	1	1	1	1
Azerbaijan	20		10		0	0
Bahrain	0	0			0	
Bangladesh	200		49 021		0	0
Barbados	200		200	58	0 ⁱ	
Belarus	0	25	25	20	0	0
Belgium	300	100	9 000	8 000	0	5
Belize			P	P	0 ⁱ	
Benin	2	1	8	55	0 ⁱ	
Bhutan	0	0	0	0	0	0
Bolivia	41	0	3649	2902	0	0
Bosnia and Herzegovina	25	1	1 502	1201	1	1
Botswana	300				0 ⁱ	
Brazil	900 ^c		22 000 ^c	0	0	0
Brunei Darussalam	0	2	0	113	0	0
Bulgaria	100	296	0	0	0	0
Burundi		5		15	0 ⁱ	
Cabo Verde	0	1	0	0	0	0
Cambodia	200	50	300	900	0 ⁱ	
Cameroon	25			1	0 ⁱ	
Canada	5000	5	15 000	10 000	0	0
Chile	38	0	6 715	175	0	0

China	60 000		200 000		0 ⁱ	
<i>Hong Kong SAR of China</i>	3 050	0	8 255	0	0	0
<i>Macao SAR of China</i>	1	10	1	159	0	0
<i>Christmas Island</i>	0	0	0	1	0	0
<i>Cocos (Keeling) Islands</i>	0	0	0	0	0	0
Colombia	0 ^d	2 ^e	1845 ^d	P	0	0
Cook Islands	0	0	0	1	0	0
Costa Rica	0	0	734	172	0	0
Cote d'Ivoire	30	1	25	500	0	0
Croatia	30	1	1	1	10	5
Cuba	200			6	0 ⁱ	
<i>Curacao</i>	0		0		0	0
Cyprus	10	10	600	270	0	0
Czech Republic	266	4	819	396	0	0
Democratic People's Republic of Korea	1 000	1 200	0	0	2	0
Democratic Republic of the Congo	300	10	720	900	0 ⁱ	
Denmark					0	0
Dominican Republic	75	4	300	175	0	0
Ecuador	10	6	600	2 500	0	0
Egypt	4 500	0	55 000	2 500	0	0
El Salvador	P(6) ^f	P(10) ^f	P	P	0	0
Eritrea	0	0	0	0	0	0
Estonia	5	5	1	500	0	0
Ethiopia	1,000			100	0	
<i>Faroe Islands</i>	0	0	0	0	0	0
<i>Falkland Islands (Malvinas)</i>	0	1	0	1	0 ⁱ	0
Finland	4	60	1	650	0 ⁱ	1
France	3 500	10	22 000	500	0	0
Gambia	0	0	0	0	0	0
Georgia	5	25	2	15	0	0
Germany	200		2 000		1	8
Ghana	4 500	300	3 000	200	0	0
Greece	1 000		600		0	0
<i>Greenland</i>	0	0	0	0	0	0
Guatemala	0		P	P	0	0
Guinea	36				0 ⁱ	
Guinea-Bissau	0	0	0	0	0	0
Guyana	120	61	120	24	0	0
Haiti	200	1	350	11	0	0
Honduras	P	P(1) ^e	P	P	0	1800
Hungary	850	0	1		0	

Iceland	0	0	0	0	0	0
India	410 983	112 729	43 004	193 801	0	0
Indonesia	13 000	0	52 000	6 200	0	0
Iran (Islamic Republic of)	2	1	17 000	1	1	1
Iraq	3 000	100	14 000	10 000	0	P ^h
Ireland	0	30	0	426	0	0
Israel	30	3	3600	360	0 ⁱ	
Italy	100	0	30 000	0	0	0
Jamaica	50	150	500	300	0	0
Japan	1 000		12 000		0 ⁱ	
Jordan	750		25 000		0 ⁱ	P
Kazakhstan	0		0		0	0
Kenya	1 200	5	1 200	950	0	0
Kyrgyzstan	0	0	0	100	0	0
Lao People's Democratic Republic	0	0	1 000	130	0	0
Latvia	20	35	65	350	0	0
Lebanon	52	2	500	800	0	0
Lithuania	1	1	1	600	1	1
Luxembourg	1	0	0	0	0	0
Madagascar	142	2	0	132	0	0
Malawi	1 000				0 ⁱ	
Malaysia	6	8	3406	2310	0	0
Maldives	0	0	0	0	0	0
Malta	0	220	0	220	0	0
Mauritius	0	0	0	0	0	0
Mexico	P(500) ^f	P ^f	P	P	0	0
Monaco	0	0	0	0	0	0
Mongolia	3				0 ⁱ	
Montenegro	0	2	0	150	0	0
<i>Montserrat</i>	0	1	0	1	0	0
Morocco	41	15	2929	0	0	0
Mozambique	3				0 ⁱ	
Myanmar	2	11	0	0	0	0
Namibia	0	0	0	0	0	0
Nepal		1	5 000		0 ⁱ	
Netherlands	1 200	50	500	0	0	0
New Zealand	50	0	1000		0	3
Nicaragua	P ^g	P ^g	P	P	0	0
Nigeria	9 650	500	5 823	15 000	0	0
<i>Norfolk Island</i>	0	0	0	0	0	0
Norway	26	0	1	1	0	0

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Chemical Controls

Oman	1		228		0	i	
Pakistan	10 000		48 000	500	0	i	
Panama	6	6	400	500	0		
Papua New Guinea	1		200		0		0
Paraguay	0	0	2 500	0	0		0
Peru	46		2 524	1 078	0	i	0
Philippines	12	0	149	0	0		0
Poland	170	100	5 170	3000	1		4
Portugal	8	0	9565	0	0		0
Qatar	0	0	0	80	0		0
Republic of Korea	29 951		34 700		1		1
Republic of Moldova	0	0	0	600	0		0
Romania	135		2 424		0		0
Russian Federation	1 500				0	i	
Rwanda		10		10	2		2
Saint Helena	0	1	0	1	0		0
Saint Lucia	0	0	0	15	0		0
Saint Vincent and the Grenadines	0		0		0		0
Sao Tome and Principe	0	0	0	0	0		0
Saudi Arabia	1	0	12 000	0	0		0
Senegal	82	1	0	510	0		0
Serbia	25	0	1 265	0	0		1
Singapore	8910	6	52 385	2 387	1		1
Slovakia	4	6	1	1	0		0
Slovenia	6		250		0		0
Solomon Islands	0	1	0	1	0		0
South Africa	13 900	0	10 444	10 816	0		0
Spain	236		3838		0		111
Sri Lanka		0		0	0		0
Sweden	186	167	2	1	1		11
Switzerland	2 600		80 000		1		500
Syrian Arab Republic	1 000		50 000		0	i	
Tajikistan	38				0	i	
Thailand	53	0	1	0	0	i	0
Trinidad and Tobago					0	i	0
<i>Tristan da Cunha</i>	0	0	0	0	0		0
Tunisia	1	18	4 000	0	0		30
Turkey	200	0	26 500	5 000	0		0
Turkmenistan	0	0	0	0	0		0
Uganda	150	35	3 000	200	0		0
Ukraine	0	36	0	0	0		0
United Arab Emirates	0		3 000	2 499	0		0
United Kingdom	64 448	1 011	25 460	1 683	8		1

United Republic of Tanzania	100	1 500	2 000	100	0 ⁱ	
United States of America	5 000		224 507		0	41740
Uruguay	0	0	1	0	0	0
Uzbekistan	0	0	0		0	0
Venezuela (Bolivarian Rep. of)	60	0	2425	0	0	0
Yemen	75	75	3000	2000	0 ⁱ	
Zambia	50	25	50	100	0 ⁱ	
Zimbabwe	150	1	150	50	0	0

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

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

A zero (0) signifies that the country or territory 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.

3,4-Methylenedioxyphenyl-2-propanone.

1-Phenyl-2-propanone.

Including the licit requirements for pharmaceutical preparations containing the substance.

The required amount of ephedrine is to be used for the manufacture of injectable ephedrine sulphate solution. The required amount of pseudoephedrine is to be used exclusively for the manufacture of medicines for export.

In the form of injectable ephedrine sulfate solution.

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.

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.

Includes products containing P-2-P.

The Board is currently unaware of any legitimate need for the importation of this substance into the country.

COUNTRY REPORTS

Afghanistan

A. Introduction

Illicit narcotics production and trafficking flourish in Afghanistan, particularly in areas where state institutions are weak. The United Nations Office of Drugs and Crime (UNODC) and the Afghan Ministry of Counter Narcotics (MCN) estimate 201,000 hectares (ha) of opium poppy were cultivated in 2016, potentially yielding 4,800 metric tons (MT) of raw opium. Compared to 2015, this is an increase of 10 percent in area and 43 percent in potential opium production. Poppy cultivation remained at near historically high levels compared with the past several decades. Afghan opium is typically refined into morphine or heroin in Afghanistan or neighboring countries for export.

A symbiotic relationship exists between the insurgency and narcotics trafficking. Traffickers provide weapons, funding, and material support to the insurgency in exchange for protection. Some insurgent commanders traffic drugs to finance operations. However, trafficking is not limited to insurgent-controlled areas, and the narcotics trade undermines governance and rule of law throughout Afghanistan.

Afghanistan suffers from widespread illegal drug use. The U.S.-supported 2015 Afghanistan National Drug Use Survey profiling urban, rural, and national drug use conservatively estimated that roughly 11 percent of the population tested positive for one or more drugs, including 5.3 percent of the urban population and 13 percent of the rural population. Drug use among women and children is among the highest documented worldwide and 30.6 percent of households tested positive for some form of illicit drug. These statistics portend a massive health crisis, something Afghans are gradually acknowledging.

Senior Afghan government officials state that the government recognizes the deleterious impact of illegal drugs and is addressing the problem, citing the late 2015 adoption of the National Drug Action Plan (NDAP) as proof. Despite public displays of support for this comprehensive national counternarcotics strategy, the Afghan government has been slow to implement the ambitious plan. The Afghan government will require financial and technical assistance from the international community for the foreseeable future to achieve the NDAP's objectives.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Afghan government is publicly committed to confronting the drug problem in Afghanistan, particularly focusing on what it identifies as the underlying root causes of the drug economy, including instability, poverty, organized crime, and lack of economic opportunity. The MCN is the lead agency for developing policy and coordinating government activities involved in counternarcotics. As part of President Ashraf Ghani's reform agenda, the Afghan Government of National Unity (GNU) has pledged "to intensify efforts to control narcotic production and sale." MCN is also working to "mainstream" counternarcotics into the activities of the entire

government. Enlisting the support of other ministries to counternarcotics requires top-level Afghan government support, which has been lacking historically.

To combat narcotics trafficking, the Afghan government, with assistance from the United States and other donors, operates the Criminal Justice Task Force (CJTF), a self-contained judicial unit established under the 2010 Counternarcotics Law housed at the Counternarcotics Justice Center (CNJC). CNJC also houses the Counternarcotics Tribunal and a detention center. It serves as the central facility for the investigation, prosecution, and trial of major narcotics and narcotics-related corruption cases. During the first nine months of 2016, the CNJC processed 575 cases involving 770 suspects. As a result of these cases, over three MT of heroin were confiscated, along with 7.6 MT of raw opium, 2.5 MT of morphine, and 80 MT of hashish.

The United States and Afghanistan have neither a bilateral extradition treaty nor a mutual legal assistance treaty in force, but they do cooperate on investigations on a case-by-case basis. Afghanistan's draft penal code authorizes confiscating assets used in, or earned by, narcotics production and trafficking. Enactment and enforcement of this law may dissuade landowners from supporting the cultivation of poppy or other illicit crops.

2. Supply Reduction

According to the 2016 Afghanistan Opium Survey – jointly produced by UNODC and MCN – Afghanistan cultivated 201,000 ha of poppy in 2016, a 10 percent increase over 2015. Afghan poppy crops yielded an estimated potential 4,800 MT of raw opium, up 43 percent from 2015. Helmand, Kandahar, and Badghis provinces accounted for 67 percent of the cultivation, and some increases in cultivation were seen in the northern region, with Badghis Province experiencing an increase in cultivation of 180 percent. U.S. government estimates for 2016 Afghanistan opium production were not available for this report. Aside from opium, Afghanistan cultivates cannabis and manufactures significant levels of hashish. The latest available cannabis survey (2012) estimated that 10,000 ha of commercial cannabis cultivation is sufficient to potentially produce approximately 1,400 MT of hashish.

Poppy eradication declined significantly in 2016, with only 355 ha of opium poppy fields destroyed (compared to 3,760 in 2015, 2,692 in 2014, and 7,348 in 2013). The majority of 2016 eradication took place in Badakhshan province (270 ha destroyed). The number of provinces that conducted eradication fell from 12 last year to seven in 2016. Deteriorating security conditions, a lack of political will, and MCN's ineffective management of the Afghan inter-ministerial process all contributed to anemic eradication efforts in 2016. The United States supports the GNU-led eradication efforts through the Governor-Led Eradication (GLE) program that reimburses provincial governors \$250 per every UNODC-verified hectare of eradicated poppy.

The Afghan counternarcotics police increasingly are able to plan and conduct effective counternarcotics operations. The United States supports specialized units within the Counternarcotics Police of Afghanistan, including the Sensitive Investigative Unit (SIU) and the National Interdiction Unit (NIU). These units are partnered with the U.S. Drug Enforcement Administration. During the first nine months of 2016, the NIU and the SIU conducted 54 joint

operations, resulting in the seizure of 20.15 MT of opium, 1.34 MT of heroin, and 27.19 MT of morphine base. In total, over 61 MT of drugs and precursor chemicals were seized and over 100 individuals were arrested in 2016.

Primary trafficking routes into and out of Afghanistan are through the Balkan route (Iran to Turkey to Eastern and Western Europe); the southern route (Pakistan and Iran to Africa, Europe, Asia, and the Middle East); and through the northern route (Central Asia to the Russian Federation). Drug laboratories within Afghanistan and in neighboring countries process a large portion of the country's raw opium into heroin and morphine. Traffickers illicitly continue to import large quantities of precursor chemicals into Afghanistan for heroin manufacturing.

3. Public Information, Prevention, and Treatment

The Afghan government acknowledges that Afghanistan has one of the highest substance abuse rates in the world. Studies show that rural drug use is far higher than urban use, and over 30 percent of Afghan households tested positive for some form of illicit drug in 2015. To stem the effects of this public health crisis, the United States funded a new rural treatment program to expand substance abuse treatment to the hardest hit local communities, in addition to continuing to fund 86 drug treatment centers across the country. The demand for treatment and prevention services far exceeds the capacity of the centers, most of which have extensive waiting lists for new patients. The United States also supports UNODC's global child addiction program to develop protocols for treating opioid-addicted children, training treatment staff, and delivering services through non-governmental organizations.

The United States engages in robust public information programming through the Counter Narcotics Community Engagement program, which funds communication and outreach programs aimed at discouraging poppy cultivation, preventing drug use, and encouraging licit crops. The United States also supports an anti-drug curriculum in Afghan schools, which has trained over 300 teachers and reached over 30,000 students. Surveys indicate that the public messaging campaigns are having a slow but steady impact on Afghan attitudes about illicit narcotics.

4. Corruption

As a policy matter, the Government of Afghanistan does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering illicit proceeds. Widespread and longstanding credible allegations and media reporting suggest, however, that many government officials directly engage in and benefit from the drug trade. Corrupt practices range from facilitating drug activities to benefiting from drug trade revenue streams to thwarting arrests and prosecutions.

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

In October, 2015, President Ghani approved a new four-year National Drug Action Plan (NDAP), establishing three interrelated goals the Afghan government intends to pursue: (1) decrease the cultivation of opium poppy; (2) decrease the production and trafficking of opiates;

and (3) reduce the demand for illicit drugs while increasing the provision of treatment for users. The NDAP targets all facets of the drug trade, from cultivation and production to trafficking and use, by employing incentives such as alternative development and deterrents such as eradication, interdiction, and prosecution.

The U.S. government's counternarcotics priorities for Afghanistan include disrupting the drug trade, developing licit alternative livelihoods, strengthening law enforcement and eradication, reducing the demand for drugs, and building the Afghan government's counternarcotics capacity. More broadly, the United States seeks to restore Afghanistan's agriculture economy, to strengthen its institutional capacity, and to disrupt the nexus of drugs, insurgents, and corruption. Agriculture accounts for one quarter of Afghanistan's gross domestic product and employs approximately 40 percent of its workforce, so a key challenge to reducing drug production is developing alternative cash crops to replace illicit cultivation and sustain workforce employment. The United States, in coordination with our Afghan and international partners, promotes licit crop production where poppy is cultivated and funds projects designed to support farmers and agri-businesses in targeted value chains, including wheat, livestock, and high-value horticulture.

With U.S. support, alternative development efforts have irrigated thousands of hectares of land, increased productivity, and boosted small-scale farming efforts and household incomes. Alternative development programs include a network of national canals; promotion of modern agricultural practices, which increase the yield and quality of food production; and successful interventions that promote backyard poultry farming, animal husbandry, livestock management, and herbal plant extraction.

D. Conclusion

The illicit cultivation, production, trade, and use of narcotics undermine public health and good governance in Afghanistan, while fueling corruption, providing funds for insurgents, and eroding security. Opium cultivation is prevalent where physical and economic infrastructure is least developed and where the Afghan government lacks control due to deteriorating security conditions. Afghanistan will not succeed in combating the narcotics trade until Afghans view narcotics as a domestic problem. That comprehension is slowly building, but will remain incomplete until the Government of Afghanistan demonstrates the political will to challenge vested political and economic interests more fully.

The Afghan government must do more to promote alternatives to poppy cultivation for farmers, laborers, and rural communities. While alternative development is an important element of a comprehensive poppy reduction strategy, it must be accompanied by efforts to enforce Afghan laws against illicit poppy cultivation and to arrest traffickers. Besides mainstreaming counternarcotics efforts into other existing national strategies and programs, Afghanistan must combat corruption actively at all levels of government to regain public trust in its counternarcotics campaigns and ensure that provincial governors and other subnational officials genuinely cooperate on national counternarcotics plans and policies.

Improvements in security and governance, as well as continued long-term concentrated efforts to increase agricultural and other alternative development initiatives, will remain keys to combatting the illicit drug economy and the insurgency in Afghanistan. The Government of Afghanistan's commitment to addressing the serious problems associated with the cultivation, production, trade, and use of illicit narcotics will continue to be tested in the years ahead.

Albania

Albania remains a significant source country for marijuana, as well as a transit route for cocaine and heroin destined for European markets. While Albanian authorities reported an increase in arrests and destruction of cannabis plantations in 2016, there were also reports of increased cannabis cultivation within the country. Albanian authorities continued regional cooperation with Italian Police surveillance units, and the number of drug surveillance flights increased from the previous year. 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 maintain drug-use prevalence statistics. Except for marijuana, illegal drug use does not appear to be common.

According to Albanian State Police (ASP), a total of 30.14 metric tons (MT) of marijuana was seized in 2016, and a total of 2,4536,288 cannabis plants were eradicated. Italian Guardia di Finanza surveillance flights identified 2,086 suspected cannabis plantations and also measured a fivefold increase in the overall level of cultivation. The ASP also seized 57.33 kilograms (kg) of heroin and 7.16 kg of cocaine.

The ASP, including border police, arrested 1,349 people for offenses linked to drug trafficking during 2016. The Serious Crimes Prosecutors Office (SCPO) investigated 273 criminal proceedings for narcotics trafficking. Of this total, 115 investigations were carried over from previous years while 158 investigations were initiated in 2016. In 2016 the SCPO sent 55 cases to court against 81 defendants. The Serious Crimes Court rendered 65 guilty verdicts, to include verdicts in cases already pending in 2016.

Albania continues to receive assistance from the United States and European Union countries to enhance its drug enforcement capacities. The government implemented 31 joint operations with international law enforcement agencies through October, mostly in cooperation with Italian authorities. The United States continues to provide assistance for integrated border management with risk analysis to identify potential traffickers, counternarcotic investigations training, and judicial sector assistance programs. In 2016, the United States provided a two-week training course to members of the Albanian Coast Guard and the Border Police to enhance maritime interdiction capacity. To reduce demand for illegal drugs, the ASP and the Albanian Education Ministry, with U.S. support, continued to co-sponsor a drug-awareness and demand reduction project in 365 public elementary schools in 2016, reaching over 30,000 students.

Algeria

Algeria is primarily a transit country for drug trafficking from Morocco to Europe and the Middle East, and Algerian officials assert that some transit operations are connected to terrorist financing in the Maghreb. Domestic consumption is also increasing within Algeria, particularly of cannabis among youth. According to local media reports citing Algerian officials, the annual amount of cannabis seized in Algeria increased from approximately eight metric tons (MT) in 2003 to more than 211 MT in 2013. During the first nine months of 2016, Algerian authorities seized approximately 20 MT of cannabis, 10.7 kilograms of cocaine, trace amounts of heroin, and 355,000 psychotropic pills nationwide, according to media reports citing police officials.

Algeria's vast borders make drug-smuggling difficult to monitor and control. Algerian officials assert that Morocco is the principal source of illicit drugs found in Algeria. Algerian officials have identified the smuggling of illicit substances hidden among licit pharmaceuticals as an emerging risk, and Algeria is working with the United Nations Office of Drug and Crime to improve the capacity of the country's customs authority to identify new psychoactive substances and to better screen for illicit drugs entering through ports and airports.

Algeria models its domestic drug policy on the provisions of the 1988 UN Drug Convention. The Algerian government has updated its drug control regulations in areas such as the incineration of seized narcotics and the control of the legal production and storage of opioids and psychotropic substances to remain in accordance with its international agreements. Algeria is a member of the Euro-Mediterranean cooperation network MedNET, created in 2006 to link countries including France, Egypt, Italy, Lebanon, Morocco, Portugal and Tunisia to expand cooperation in the fight against drugs.

The Algerian Government works to combat individual consumption through domestic social programs. Algeria has invested in public awareness programs and treatment facilities to educate the public and treat drug users. The Ministry of Justice claimed in 2016 that law enforcement and security forces had successfully enhanced land border security to the extent that some drug trafficking networks had shifted to sea routes between Algeria and Morocco, reflected by increasing seizures made by the Algerian Coast Guard and the National Gendarmerie.

The United States continues to cooperate with the Algerian government to counter- drug trafficking. In May, U.S. Embassy Algiers hosted a regional conference addressing the ties between terrorist financing and drug trafficking. The event provided participating judges, prosecutors, financial intelligence investigators, and law enforcement officers an opportunity to exchange observations and good practices, as well as engage on practical scenarios to increase intra-government and international cooperation.

Argentina

Argentina is primarily a transit country for Andean-produced cocaine on account of its geography and transportation infrastructure. Cocaine processing and consumption within Argentina are growing domestic concerns, with domestically produced cocaine base, known as “paco,” being a particular problem among the poor. A majority of Argentines believe drug-linked violent crime is increasing and October 2016 public opinion polls revealed that crime tops the list of concerns for most Argentines. U.S.-Argentine law enforcement cooperation has increased under the administration of President Mauricio Macri, who took office in December 2015, and the Security Ministry has adopted best practices from U.S. law enforcement models, such as encouraging coordination between federal and provincial forces to gather and share criminal intelligence, including through joint task forces. Many of these efforts have focused on enhancing border security and countering the flow of narcotics.

The Security Ministry’s drug control mandate grew in 2014 with the establishment of a sub-secretariat dedicated to analysis and coordination. In 2016, the government unveiled a new national program to combat drug trafficking that proposed harsher sentences for traffickers, increased deployment of federal law enforcement forces to target drug trafficking organizations, and efforts to reduce the consumption of paco.

While most cocaine transiting through Argentina is destined for European markets, government officials believe local consumption has increased in recent years. Seizures of cocaine production facilities and the widespread availability of paco suggest domestic processing is growing. Argentina has not published annual seizure statistics since 2010, though partial data indicates cocaine and marijuana seizures increased in 2016. The Argentine government does not encourage or facilitate the illicit production or distribution of narcotics or laundering of proceeds. An independent judiciary and press pursue allegations of corrupt practices involving government authorities.

Argentina has taken important steps to improve its drug control efforts, but more resources, capabilities, and coordination are needed to fully address the challenge. Constructive measures Argentina could consider include focusing interdiction efforts on targeted investigations; improving coordination among federal and provincial entities; boosting judicial efficiency in processing investigations and prosecutions; making comprehensive statistics available; and coordinating strategies for supply and demand reduction.

Argentina has extradition and mutual legal assistance treaties with the United States which are utilized to the benefit of both countries.

Azerbaijan

Azerbaijan remains a significant transit country for illegal drugs due to its location along major Southern Caucasus trafficking routes from Southwest Asian source countries to European markets. Substances commonly trafficked through the country include opiates originating from Afghanistan (particularly heroin), synthetic drugs, and drug precursor chemicals, which enter into Azerbaijan by sea (primarily from Turkmenistan) and by land (from Iran). Azerbaijan has also expressed concerns related to its inability to secure international borders in the occupied territories that surround Nagorno-Karabakh.

Azerbaijan's Ministry of Internal Affairs provided drug seizure and arrest statistics covering the first six months of 2016. Over this period, the Ministry of Internal Affairs reported investigations of 1,675 drug related criminal acts, including 429 separate drug sales. These investigations resulted in over 1,332 drug related convictions. Of these convictions, 1,023 defendants (90.4 percent) were unemployed and not enrolled in any educational institution. Recidivists accounted for 430 (38 percent) convictions, and only 13 convictions (1.1 percent) involved women. During this same six-month period, Azerbaijani security services reportedly detected and destroyed approximately 102 metric tons of hemp and opium poppy. During the first 10 months of the year, security services reportedly seized 1,172 kilograms (kg) of heroin and 186 kg of opium.

In April, the United States sponsored two State Customs Committee agents to attend the International Drug Enforcement Conference in Lima, Peru. Other Azerbaijani state agencies cooperate and implement joint activities with the U.N. Office of Drugs and Crime, Central Asia Regional Information and Coordination Centre, and World Customs Organization, among other international organizations.

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 its location on Caribbean transshipment routes, makes it a natural conduit for drug smuggling. The Bahamas' 700 islands and cays, the vast majority of which are uninhabited, provide near-ideal conditions for smuggling. Smugglers readily blend in among numerous pleasure craft traveling throughout the Bahamian archipelago, which covers nearly 100,000 square nautical miles. Smuggling also occurs through commercial and private plane traffic; some smuggling continues by means of remote airfields and airdrops from South and Central America. Smuggling is enabled and accompanied by organized crime and gang activity.

The United States and The Bahamas enjoy a long-standing history of counternarcotics cooperation, including under Operation Bahamas, Turks and Caicos (OPBAT). In 2016, OPBAT operations resulted in the seizure of cocaine and marijuana, as well as the destruction of marijuana plants on multiple sparsely-populated islands, an indicator suggesting that marijuana cultivation has remained steady in the Bahamas.

Bahamian government surveys suggest that demand for cocaine within the country has diminished, though a domestic market does continue to exist. Experimental and chronic use of marijuana, including among adolescents, remains a concern. The Bahamas' National Anti-Drug Strategy places significant emphasis on drug abuse awareness, demand reduction, and treatment policies, though programs in these fields would be enhanced by additional resources.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Bahamian government and law enforcement authorities are committed to combating illicit trafficking, and the United States and the Bahamas have a strong counternarcotics relationship. The Bahamian government's 2012-2016 National Anti-Drug Strategy outlines the Bahamian government's framework for action to reduce drug demand and supply, strengthen drug control institutions, build international cooperation, and resource anti-drug efforts. Implementation of the strategy remains ongoing. The National Anti-Drug Secretariat announced plans to release its new strategy at the conclusion of 2016.

Launched in 2012, the government's "Urban Renewal 2.0" program includes a community-based policing program that seeks to prevent crime, gang activity, and drug consumption through directed patrols, community partnerships, and after-school programming for youth.

Further implementation of the government's "Swift Justice" program, which seeks to reduce processing time for legal matters, continued in 2016. During the year, the Ministry of Legal Affairs formed a public defender unit to minimize delays caused by unrepresented defendants.

Full implementation of the program would help improve the Bahamian judiciary's capacity to process drug crimes and address the case backlog, which dates back many years.

The United States signed a comprehensive maritime agreement with the Bahamas in 2004 that continues to enable cooperation in counternarcotics and migrant interdiction operations in and around Bahamian territorial waters, including through the use of Royal Bahamas Defense Force (RBDF) shipriders aboard U.S. Coast Guard (USCG) vessels.

The United States and the Bahamas are bilateral parties to both a mutual legal assistance treaty and an extradition treaty. Though the United States and the Bahamas have a strong mutual legal assistance relationship, improved procedures to expedite extraditions would bring drug crime offenders to trial more quickly and serve as a more credible deterrent for traffickers. Currently, defendants can appeal a magistrate's decision and then continue appeals up to the Privy Council in London, a process that can add years to extradition proceedings.

2. Supply Reduction

Under OPBAT, U.S. law enforcement agencies integrate with the Royal Bahamas Police Force (RBPF) to gather intelligence, conduct investigations, and execute interdictions. These operations are supported by marine, technical, and training resources provided through U.S. assistance programs. With a small population base (353,000 according to the 2010 census) and significant territory to cover, pooling U.S. and local resources and knowledge are essential to efficient deterrence and interdiction. The RBDF and law enforcement personnel in the Turks and Caicos Islands also participate in counternarcotics operations.

In 2016, OPBAT operations in the Bahamas led to 91 arrests and the seizure of approximately 1,543 kilograms (kg) of cocaine, 4.45 metric tons of marijuana, and \$687,142 in currency. This represented a 242 percent increase in the amount of seized cocaine compared to 2015, when 637 kg were seized, and a return to high levels recorded in 2014. OPBAT also identified and eradicated three marijuana fields and 3,175 marijuana plants on multiple sparsely-populated islands – an indication that marijuana cultivation remains steady. U.S. and local law enforcement investigations indicate that illicit trafficking through the Bahamas remains high.

Smugglers exploit the wide distribution of numerous islands and the high number of recreational vessels flowing through the Bahamas. Large loads are split up into smaller loads before entering the southern Bahamas, sometimes bypassing 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, maritime shipping containers, and small aircraft. Small sport fishing vessels and pleasure craft move cocaine from the Bahamas to Florida by blending in with legitimate traffic that transits these areas. Larger “go-fast” and sport fishing vessels transport marijuana from Jamaica both to the Bahamas and through the Bahamas into Florida. Haitian and Haitian-Bahamian drug trafficking organizations, networked between Haiti and the significant Haitian diaspora in the Bahamas, continue to play a role in the movement of cocaine.

Investigations also reveal that Bahamian drug trafficking organizations use the Turks and Caicos Islands as a transshipment point. Strong familial connections between the Turks and Caicos Islands and the Bahamas, coupled with direct flights between Haiti and the Turks and Caicos Islands, result in many Bahamian smugglers traveling to Haiti via the Turks and Caicos Islands with large amounts of cash for future smuggling ventures. The Turks and Caicos Islands represent a regional vulnerability due to a lack of sufficient law enforcement resources.

Aviation routes are a cause for concern. Small, privately owned and operated planes ferry loads of cocaine from and between significant source countries in South America into the Caribbean. Law enforcement information suggests that drug trafficking organizations utilize airdrops and remote airfields to deliver cocaine shipments to the Turks and Caicos Islands and to the Bahamas from Venezuela and Colombia.

Customs and Border Protection officers working at preclearance facilities at the Nassau and Freeport international airports have interdicted cocaine, marijuana, steroids, and currency. To attract tourism from its Spanish-speaking neighbors, the Bahamas concluded an agreement in 2011 to allow Panama-based Copa Airlines to begin flights between Nassau and Panama. The four flights a week remain a transshipment route for contraband smuggling.

Bahamian law enforcement agencies leverage their small fleet of vessels by prepositioning them in strategic locations on the archipelago. 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. The RBDF operates a fleet of nine offshore patrol vessels, 11 coastal patrol vessels, and various small boats which conduct regular patrols.

3. Public Information, Prevention, and Treatment

The Bahamian government determined in its National Anti-Drug Strategy that cocaine dependency in the Bahamas is predominantly limited to those who became addicted during the 1980s and 1990s. The Bahamian government further determined that experimentation and use of marijuana is increasing among school-aged groups. With U.S. support, the Bahamian government is partnering with the Organization of American States to conduct a comprehensive drug use survey, which will provide additional data in 2017.

The Bahamian government's anti-drug strategy employs a multi-tiered approach, incorporating civil society organizations that work with youth, substance abusers, and former convicts. Its main institutional bodies are the National Anti-Drug Secretariat, the Bahamas National Drug Council, and the Sandilands Rehabilitation Center.

The Sandilands Rehabilitation Center offers residential substance abuse treatment programs, drop-in treatment programs, substance abuse prevention programs, and relapse prevention programs. Health care professionals report that women and residents of the outer islands (islands in the archipelago outside of New Providence) are under-represented in the treatment population. The United States partners with the Sandilands Rehabilitation Center to train, mentor, and certify drug treatment professionals both from within and outside government.

The Bahamas Department of Correctional Services has a small residential drug treatment program, which can accommodate up to 10 inmates at a time. The United States has provided training for the corrections officers that provide drug treatment programs at the facility. In 2016, the Bahamas concluded a long-term project with U.S. support to further professionalize all substance use treatment staff in the country through the dissemination of U.S.-developed treatment curriculum and international credentialing through the Colombo Plan's International Centre for Certification and Education of Addiction Professionals.

4. Corruption

The Government of the Bahamas does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. However, corruption remains a significant impediment to law enforcement efforts in the country. No charges of drug-related corruption were filed against government officials in 2016.

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 Bahamian citizens, primarily through the Caribbean Basin Security Initiative (CBSI). CBSI is a security partnership between the United States and nations of the Caribbean that seeks to substantially reduce illicit trafficking, advance public safety and citizen security, and promote justice. To support the development of regional public security capacities, the United States funds RBDF participation in U.S. maritime exercises and foreign security assistance training programs, as well as maritime training programs, on topics including maritime law enforcement, small boat operations, port security, engineering, and maintenance. Additionally, the United States provides equipment and training to the RBDF to enhance maritime domain awareness and command and control. To improve local capacities in the region, the U.S. Department of Defense and USCG provide professional exchange and training opportunities, including between the RBDF and the United States Northern Command and the Rhode Island National Guard. Subject matter expert exchanges also occur in conjunction with USCG cutter visits to the Bahamas.

The United States has delivered training, technical assistance, and equipment needed by Bahamian government counterparts to combat transnational organized crime networks and improve citizen security in The Bahamas. For example, the United States provided training and consultations to RBPF officials on port harbor security management, and conducted a series of mobile training events on maritime law enforcement to help develop a cadre of RBDF instructors. The United States also provided the RBPF with a new 41-foot interceptor vessel in March to increase maritime capabilities in and around Nassau. The boat participated in multiple successful interdiction operations during the year. The United States also provided three trucks and boat trailers to facilitate the use of the interceptor vessels in Exuma and Great Inagua, as well as New Providence.

The United States sent RBPF officers for anti-gang operations training and homicide investigation training at the International Law Enforcement Academy in San Salvador. The

United States organized a sentencing and plea bargaining workshop for judges and magistrates to increase the consistency in sentencing practices and encourage the use of plea bargaining to decrease case backlog. The workshop provided justice sector professionals with training on best practices in intelligence gathering, evidence analysis, and use of informants. Participants also received a variety of materials including statutes, indictments, plea agreements, intelligence gathering instruments, and case management tools. The United States supported Bahamian participation in the International Drug Enforcement Conference and other regional counterdrug training opportunities.

U.S. assistance for demand reduction supports the Ministry of National Security, the Sandilands Rehabilitation Center, and nongovernmental organizations, including the Bahamas Association for Social Health – the only non-governmental organization providing comprehensive residential drug treatment and rehabilitation programs in the Bahamas. Additionally, the United States supported training focused on drug demand reduction and improved corrections policies addressing drug use and demand within prisons.

D. Conclusion

The United States and the Bahamas enjoy a long-standing cooperative relationship against drug trafficking and transnational organized crime. Drug trafficking and related smuggling will remain a primary concern for the United States in The Bahamas. The United States will continue to assist Bahamian efforts to counter these networks and increase efficiencies in the administration of justice through a range of assistance, and the CBSI framework will continue to bolster Bahamian drug-control institutions and enhance U.S. and Bahamian law enforcement relationships.

Belize

A. Introduction

Belize is a major transit country for illegal drugs destined for the United States from source countries in South America. Belize is susceptible to the transshipment of illegal drugs due to its position along the Central American isthmus between the United States and drug producing countries in South America. Large stretches of unpopulated jungles on the border with Guatemala and a relatively unpatrolled coastline that includes hundreds of small islands and atolls make it difficult to conduct interdictions. Remote jungles provide a hospitable environment for the growing and transferring of cannabis. Belize is bordered by countries where the drug trade is controlled by well-organized and extremely violent drug trafficking organizations.

According to the U.S. Drug Enforcement Administration (DEA), the drug routes are predominately maritime and via air. Due to Belize's unique geography, maritime craft are able to avoid law enforcement detection by moving at night and using the hundreds of cayes (islands) to conceal their movement. Drugs are moved in vessels ranging from container ships to more common "go-fast" vessels, which can utilize their small profile, and powerful motors to evade law enforcement. Belize's Coast Guard (BCG) lacks adequate patrol boats to effectively patrol Belize's Exclusive Economic Zone. Alternately, drug trafficking organizations use air routes over Belize to smuggle narcotics. The remote and sparsely populated terrain of Belize is well suited for low-trafficked roads and undetectable airstrips on which planes can quickly land and refuel to continue their flight to countries north or south. Belize has no air defense systems and limited capability to monitor aircraft at night.

Despite enhanced efforts to monitor coastal waters, limited funds, unreliable equipment, and limited human resources hamper the BCG and the Anti-Narcotics Unit (ANU). The ANU was upgraded to a U.S.-vetted unit in 2015 with additional support and a full-time DEA advisor. Belize's counternarcotics efforts are adversely affected by corruption, deficiencies in investigative capacities, an ineffective judicial sector, and a lack of political will by some senior officials. According to Belizean authorities, marijuana is the most prevalent illegal drug used in Belize and while Belize generally tolerates the use of cannabis, it remains a crime to use, cultivate, or sell it.

B. Drug Control Accomplishment, Policies, and Trends

1. Institutional Development

The Government of Belize has implemented some successful initiatives to enhance citizen security, including many funded by the United States. In 2016, these included steps to improve precinct-level policing in Belize City, modernize police department technology, and expand the COMPSTAT crime-tracking system that combines statistical analysis with geographic information to better allocate police resources to high-crime areas. With U.S. support, the Belize Police Department (BPD) continued a vigorous canine interdiction program, implemented community policing programs throughout the country, and provided support for neighborhood

watch programs. The United States supported ongoing reforms in the Belize Police Academy, as well as the Field Training Officer Program currently in Belize City.

According to annual government statistics, major crimes have been falling for several years – from 3,204 in 2007 to 2,216 in 2015 – constituting a 31 percent decrease. The number of murders has fluctuated over the past few years, with a 14 percent increase in 2016 from the previous year.

In 2012, the United States assisted the Government of Belize in establishing a Mobile Interdiction Team (MIT), which initially consisted of 13 members of the Belize Immigration and Nationality Departments and the BPD. Currently, the MIT operates with 42 members and is focused on the interdiction of narcotics and other illegal materials that are transported around ports of entry. The MIT targets roads, highways, and clandestine border crossing areas throughout the border regions. With U.S. government support, the MIT is working towards establishing forward operating bases along the northern and western borders to enhance its response to illegal cross border smuggling activities.

Belize is one of six countries (along with Costa Rica, the Dominican Republic, France, Guatemala, and the United States) that ratified the Caribbean Regional Maritime Counterdrug Agreement, which is now in force. To assist this program, the United States has provided training, boats and equipment to the BCG to assist its interdiction activities.

2. Supply Reduction

Belize is not a source country for illegal drugs or precursor chemicals, but it continues to be used as a transshipment point for narcotics and precursor chemicals. Belizean and U.S. authorities have identified Belizean coastal areas as rich targets for drug traffickers pushing north from South America. Belizean security organizations have had minimal success in limiting this criminal activity. The BCG continues to receive U.S. assistance in the form of training and equipment, but is unable to routinely utilize its assets due to insufficient resources for fuel and maintenance.

In April and again in October 2016, Belizean authorities led a successful interagency eradication mission targeting cannabis cultivation, with U.S. assistance including support provided by the U.S. Southern Command. In 2016, Belizean authorities eradicated 43,621 cannabis plants (down from 74,025 in 2015). Authorities also seized 901.9 kilograms (kg) of processed marijuana, 17.4 kg of cocaine, and one kg of crack cocaine in 2016.

3. Public Information, Prevention, and Treatment

The National Drug Abuse Control Council (NDACC) is the central coordinating authority responsible for the activities of demand reduction, supply reduction, and control measures. The council has 25 employees and a government budget of approximately \$420,702 for the 2016 and 2017 fiscal years. The NDACC supports special projects such as a training and certification program for personnel specializing in drug and violence prevention, treatment, and rehabilitation. NDACC staff reportedly visited 551 classrooms countrywide and taught prevention education

classes to 15,005 students. The NDACC assisted 17 high schools in hosting “drug week” activities, as well as 136 community empowerment activities nationwide.

According to the NDACC, marijuana is the most widely used illicit drug in Belize, followed by crack cocaine. The NDACC also reported a gradual increase in the prevalence of stimulants and inhalants in 2015, though methamphetamine and pharmaceutical drug abuse appears virtually non-existent. In 2015, the NDACC Outreach Unit made referrals for 276 clients to rehabilitation centers and counseling and support groups, a 10 percent increase from the previous year. Eleven drug educators and seven outreach case workers work for the NDACC countrywide, conducting demand-reduction education programs in schools as well as public education campaigns during community activities.

The Organization of American States signed a memorandum of understanding to fund a drug treatment court in Belize in 2014. The steering committee is led by Belize’s Chief Justice. Supporting legislation and regulations were still pending before the Cabinet at the close of 2016. While these implementing laws and policies awaited approval, the country’s Chief Magistrate launched a concurrent drug treatment court pilot project in the Belize City Magistrates Court. For the first time in Belizean history, two offenders have been sentenced through this pilot project for treatment instead of incarceration.

Belize has three operational drug rehabilitation centers. The primary facility is operated at the Belize Central Prison and run by the Kolbe Foundation, a non-governmental organization, which also manages the prison. The prison-based program, started in 2006, is a residence program open to inmates and members of the public who are willing to overcome addiction. The program can treat up to 120 inmates and 20 non-inmates for a three-month program.

The other rehabilitation centers are privately run by religious organizations. Jacob’s Farm, a faith-based residential center, has capacity for 15 clients for up to six months. Remar Rehabilitation Center is also a faith-based residential program and has capacity for approximately 30 clients for up to six months.

U.S. funding through the Central America Regional Security Initiative (CARSI) supports a Gang Resistance Education And Training (GREAT) program. Seventy-five new GREAT instructors were trained in 2016, bringing the total number of country instructors to 173. These instructors worked with 71 schools around the nation. Since its inception, 11,200 students have participated in GREAT programs.

4. Corruption

The Belizean government does not, as a matter of government policy, encourage nor facilitate illicit drug production or distribution. However, a lack of resources, weak law enforcement institutions, an ineffective judicial system, and inadequate compensation for civil service employees and public safety officials facilitate corruption. Belize lacks laws that specifically address narcotics-related corruption. The Prevention of Corruption Act, passed in 2000, includes measures to combat corruption related to illicit monetary gains and the misuse of public funds while holding public office. It also provides a code of conduct for civil servants. The

Government of Belize did not charge anyone under this act during the reporting period. A Special Audit of the Immigration and Nationality Department found multiple cases of fraud and corruption within the department. After this revelation and other reports of corruption among senior government officials and significant public pressure, the Belizean Government responded by becoming a party to the United Nations Convention against Corruption on December 12, 2016, and pledged to take further steps to promote good governance.

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

The United States supports citizen security, law enforcement, and rule of law programs in Belize, mainly through CARSI. Through CARSI, the United States works with Belize to disrupt and decrease the flow of narcotics, weapons, and illicit proceeds generated by sales of illegal drugs, and to combat gangs and criminal organizations. The Government of Belize and the International Organization for Migration are currently developing a passport production and control project to build upon previously-funded U.S. projects to improve management of the country's borders. Additionally, the Government of Belize drafted legislation to enable participation in the Advance Passenger Information System. Both initiatives have the potential to provide greater monitoring and control of land, sea, and air based entries. Other CARSI-funded projects, including the expansion of the MIT, support for justice sector institutions, and the provision of equipment and training for police, have resulted in improvements to law enforcement efforts around the country. Through CARSI, the United States is also funding a full-time Customs and Border Protection Advisor who works with Belizean Customs, Border Patrol, Immigration and the MIT.

The Government of Belize readily assists in the capture and repatriation of U.S. citizen fugitives. While Belizean authorities assist in the capture and repatriation of U.S. citizen fugitives facilitated through provisions of the Belize Immigration Act, extraditions from Belize have been less successful. A bilateral extradition treaty between the United States and Belize has been in force since 2001, though the constitutional legitimacy of the treaty is being contested in Belizean court.

D. Conclusion

Belize faces a challenging battle against the threats of drug trafficking, and continuing efforts are needed to reduce the impact of drug trafficking and crime in the country. The United States will continue to assist Belize by providing additional training, equipment, and advisory support, as well as support for program development in the law enforcement and justice sectors. The United States encourages Belize to strengthen its public security and law enforcement institutions through more effective anti-corruption legislation, comprehensive background checks and vetting of new and existing personnel, better training, and continuing education programs. The United States will maintain its strong partnership with Belize and assist in its fight against transnational criminal organizations.

Benin

Benin is a transit country for cocaine, heroin, methamphetamine, and chemical precursors. Cocaine from South America and heroin from Southwest Asia via East Africa transit Benin for major markets in Western Europe, as well as a small but growing domestic market in Benin. Locally cultivated cannabis remains the most accessible illegal drug for consumption in Benin. Methamphetamine produced in Nigeria transits Benin for markets in Europe, Southeast Asia, and South Africa. Benin is the fifth-largest recipient of registered commercial freight shipments from India of the prescription opioid tramadol, destined for the Sahel, with high levels of local consumption and abuse. Beninese authorities intercept and destroy tramadol imported without a license.

The Central Office for Repression of Illicit Trafficking of Drugs and Precursors (OCERTID) was created in 1999 under the national police to coordinate drug enforcement operations. Information sharing and cooperation between the police, the gendarmerie, and other drug law enforcement units is not systematic. Drug traffickers reportedly launder drug proceeds through the purchase and import of used vehicles, and the Government of Benin continues to try to build competence in investigating illicit financial flows.

Benin is reliant on support from the United States and France for drug enforcement activities. Although Benin has improved drug control cooperation with neighbors through activities under the U.S. government's West Africa Cooperative Security Initiative, additional efforts remain needed to build trust and improve information-sharing between Benin and international counterparts. Interagency coordination within Benin must also improve in order to achieve long-term success with complex case investigations. With technical assistance from the United States, Benin developed a significant written protocol in 2016 for the handling of narcotics prosecutions, drafted by a team of senior prosecutors and investigators. Benin does not have a bilateral extradition treaty or a mutual legal assistance treaty with the United States, though it is party to multilateral conventions that enable cooperation.

Benin's Law on Control of Drugs and Precursors provides penalties of up to 20 years in prison for trafficking drugs. The government's coordinating body for national drug issues is the Inter-ministerial Committee for the Control of Drugs and Psychotropic Substances, which has the potential to serve an important role in the coordination, analysis, and dissemination of aggregated data for categories of drugs seized by the country's various enforcement authorities. In 2016, the United States provided training to the Benin Navy on maritime vessel maintenance to support its drug interdiction efforts.

Benin's national anti-drug policy addresses drug abuse through education programs. The United States supports a substance use treatment program jointly administered by the UN Office on Drugs and Crime and the World Health Organization that focuses on integrating drug treatment into the public health system.

Bolivia

A. Introduction

According to coca cultivation estimates from the United States government, the Government of Bolivia, and the UN Office on Drugs and Crime (UNODC), Bolivia is the third largest producer of cocaine in the world. It is also a major transit zone for Peruvian cocaine. The United States estimates that coca cultivation increased by 1,500 ha (to 36,500 ha) from 2014 to 2015. The Government of Bolivia has inadequate controls over its domestic coca cultivation. Most Bolivian cocaine is exported to other Latin American countries, especially Brazil, for domestic consumption or for onward transit to West Africa and Europe, rather than to the United States.

In September 2016, the United States again determined that Bolivia “failed demonstrably” to adhere to its obligations under international counternarcotics agreements and the U.S. Foreign Assistance Act of 1961, as amended. This Presidential determination was based, in part, on insufficient Bolivian law enforcement efforts to disrupt and dismantle drug trafficking organizations and inadequate Bolivian controls to prevent the diversion of “legal” coca cultivation to illicit cocaine production during the previous year.

According to 2015 data from the latest UNODC/Bolivian government report, more coca is sold in the Yungas legal market than is grown in that region, the largest coca growing region in Bolivia. Nearly all of the coca grown in Cochabamba’s Chapare region (the second largest area for coca cultivation), is diverted away from the legal market. Bolivian President Evo Morales is also the president of the coca growers’ federation in that region. Peruvian officials estimate that 50 percent of all Peruvian cocaine departs to or through Bolivia via aerial transshipment, commonly known as the “air bridge.” Bolivia reportedly confiscated 11 aircraft involved in drug trafficking in 2016, down from 39 reportedly seized in 2015 by the Special Counter-Narcotics Police Force (FELCN), and the Bolivian government destroyed 24 clandestine air strips in 2016. In October 2016, Argentina reported an average of one illegal drug flight per day from Bolivia.

In traditional coca cultivation areas, Bolivia maintains a “social control” policy to illicit coca production. Under this approach, the government usually negotiates with coca growers to obtain their consent for eradication. In nontraditional areas, including national parks, eradication is mandatory.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Bolivia has numerous entities involved in drug control. The National Drug Control Council (CONALTID), chaired by the Ministry of Government, is the central counternarcotics policy-making body in Bolivia. The Vice Ministry for Social Defense (VMSD) is mandated to combat drug trafficking, regulate coca production, advance coca eradication and drug prevention, and execute rehabilitation programs. The FELCN is focused on interdiction and money laundering cases, has approximately 1,600 personnel, and reports to the VMSD. The Joint Eradication Task Force (FTC) conducts manual coca eradication with approximately 2,300 personnel. The Unit

for the Execution of the Fight against Narcotics (UELICN) plans and budgets for counternarcotics operations. In 2016, UELICN's budget was \$48.3 million, and a budget within five percent of this 2016 budget is expected for 2017. Internationally, Bolivia signed or renewed counternarcotic cooperation agreements with Peru, Paraguay, Brazil, Argentina and Colombia in 2016.

Bolivia's 2016-2020 Strategy to Combat Drug Trafficking and Reduction of Excess Cultivation of Coca Leaf prioritizes actions against criminal organizations rather than what the Bolivian government considers legitimate farmers who cultivate coca for traditional uses. For several years the Bolivian government has pledged to re-write its counternarcotics law to allow more licit coca cultivation purportedly for traditional consumption, but no legislative changes were enacted in 2016. Current Bolivian coca cultivation far exceeds the country's demand for coca for traditional purposes. The Inter-American Drug Abuse Control Commission of the Organization of American States continues to recommend that Bolivia implement a system to monitor narcotics and psychotropic drugs used in healthcare settings to ensure the medicines are not diverted for illegitimate uses.

Bolivia receives most of its foreign counternarcotic financial support from the European Union (EU), with the EU currently implementing approximately \$11 million in funding for technical support and another \$55 million in funding pledged for the next three years. The Bolivian government denies that foreign drug cartels operate within its borders, but acknowledges the presence of cartel emissaries.

The United States and Bolivia are parties to a 1995 extradition treaty that permits the extradition of nationals for the most serious offenses, including drug trafficking. Bolivia and the United States do not have a mutual legal assistance treaty, but both countries can request assistance through various multilateral conventions to which both are signatories.

2. Supply Reduction

FELCN reported destroying 125 cocaine hydrochloride processing labs and 4,065 rustic cocaine labs during 2016, a 19 percent increase and four percent decrease, respectively, from 2015. According to the Bolivian government, FELCN seized 12.2 MT of cocaine base and 17.76 MT of cocaine hydrochloride in 2016 – a four percent decrease in cocaine base seizures, but a 206.5 percent increase in cocaine hydrochloride from 2015.

FELCN arrested 3,598 individuals (including 173 foreign nationals) on narcotics-related offenses in 2016. Corruption, interference by other branches of government, and insufficient judicial resources undermine due process and create delays in the administration of justice. According to the Bolivia Office of the UN High Commissioner for Human Rights, only 41 percent of municipalities have a prosecutor and, nation-wide, only 69 public defenders serve urban areas and only 15 serve rural areas.

The United States government estimated that coca cultivation was 36,500 ha in 2015, a nearly three percent increase from 2014, and that the production potential of the coca has doubled over the last decade, to 255 metric tons (MT). UNODC estimated that 20,200 ha of coca were

cultivated within Bolivia in 2015, a one percent decrease from 2014. UNODC's estimate would have nearly achieved the Bolivian government's 2011-2015 strategy coca cultivation reduction target of 20,000 ha, but is 60 percent over the Bolivian legal limit for coca cultivation in 2015. UNODC officials have noted that 95 percent of the Chapare region's 6,000 ha of coca cultivation is destined for illicit cocaine production and not traditional consumption.

The United States estimates that coca leaf cultivation increased by approximately 26 percent from 2010-2015. The Bolivian government and UNODC estimated that total coca leaf cultivation declined by more than one third the same period. According to the most recently available information from the Bolivian government, Bolivian authorities eradicated 6,577 ha of coca in 2016, down from 11,019 ha in 2015 (a decrease of 40 percent), which resulted in a net reduction of coca cultivation of 200 ha.

3. Public Information, Prevention, and Treatment

Illicit drug consumption remains low in Bolivia, according to UNODC and the 2015 World Drug Report. According to a 2013 university study cited in Bolivia's 2016-2020 counternarcotics strategy, 0.32 percent of Bolivians consumed cocaine, and 1.2 percent consumed marijuana.

There are approximately 80 drug treatment and rehabilitation centers in Bolivia. According to the Bolivian government's 2016-2020 strategy, 98 percent of those centers are run by non-governmental organizations. There are only two public treatment centers, in Tarija and Santa Cruz.

The Ministry of Education and UNODC are training 3,800 teachers in methodologies for drug prevention. These teachers, in turn, are training more than 80,000 students in preventing drug abuse, domestic violence, bullying, and trafficking in persons.

Through a separate UNODC project, "Prevention of Drug Abuse in Educational Communities of Bolivia," student training is being implemented in 140 elementary, middle, and high schools in municipalities in the departments of La Paz, Cochabamba, Oruro, Santa Cruz and Chuquisaca. The project is supported by the Ministry of Government, the Bolivian National Drug Control Board (CONALTID), the EU, Denmark, and Spain.

4. Corruption

As a matter of official policy, the Government of Bolivia does not encourage or facilitate illegal activity associated with drug trafficking. President Morales and other senior government officials have acknowledged serious corruption problems in the judiciary and police. Minister of Government Carlos Romero publicly supported the Ministry of Transparency and Anticorruption's September 2015 decision to require all police officers to provide a sworn statement acknowledging all assets as of 2017, as a mechanism to monitor unjustified income. The Ministry of Transparency and Anticorruption and the Prosecutor's Office are responsible for preventing and combating corruption. Approximately 60 police officers were investigated for corruption associated with drug trafficking in 2015, the most recent year for which data is available. The Prosecutor's office reported that during the first nine months of 2016, there were

799 narcotics trafficking sentences, resulting in 715 guilty verdicts and 84 acquittals. Of the individuals arrested, 242 were foreign nationals.

FELCN is the only police unit with a polygraph program. All FELCN members are required to take an annual polygraph test and those who do not pass are supposed to transfer out of the program. However, reports vary as to whether those two requisites are applied.

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

The United States Embassy meets periodically with the Vice Ministry for Social Defense and Controlled Substances to discuss Bolivia's counternarcotics efforts. Bolivia sent participants to seven courses at the U.S.-funded International Law Enforcement Academy in 2016. The participants represented two Bolivian institutions: FELCN and Bolivian Customs. A memorandum of understanding between Bolivian Customs and the U.S. Department of Homeland Security that would permit information exchanges and collaboration against drug trafficking and other criminal activity has been pending completion since 2015. The United States does not have a counternarcotics presence in Bolivia, but it consults with international organizations and third party governments involved in supporting Bolivian efforts to strengthen the rule of law and drug control efforts.

D. Conclusion

Bolivia remains the third largest producer of coca and cocaine in the world and a major transit country for Peruvian cocaine. U.S. data shows that Bolivian coca cultivation is increasing. The Bolivian government and UNODC claim coca cultivation is decreasing. More importantly, according to U.S. data, potential cocaine production in Bolivia has doubled over the past decade, to 255 metric tons. Neither UNODC nor the Government of Bolivia has information that would confirm or dispute this assessment. Further, there appears to be no data to support the Bolivian government's claims that traditional, cultural, and medicinal coca consumption has increased to justify raising the legal limit of coca cultivation from 12,000 ha to 20,000 ha, as the Government of Bolivia has proposed.

Bolivia's inadequate controls over its legal markets are also a matter of concern. Similarly, the regular use of Bolivia as a transit point for cocaine trafficking has transnational impacts, particularly on Bolivia's neighbors. Bolivia's policy allowing the cultivation of 20,000 ha of coca exceeds the amount of coca needed for traditional purposes by approximately 36 percent, per recent EU reporting, and exceeds current Bolivian legal limits by 60 percent. In 2013, Bolivia re-acceded to the 1961 U.N. Single Convention on Narcotic Drugs with a reservation permitting coca to be used only within Bolivia for traditional, cultural, and medicinal purposes. Despite these stated conditions, Bolivia continues to promote the use of coca in other countries and discusses potential export opportunities for coca products. These actions continue to undermine Bolivia's commitments to its international drug control obligations.

Bosnia and Herzegovina

Bosnia and Herzegovina is not a major producer or consumer of illegal narcotics, nor is it a producer of precursor chemicals. It is primarily a transit country, positioned between drug production and processing centers in Southwest Asia and markets in Western Europe. Drugs are trafficked through Bosnia and Herzegovina from Albania, Macedonia, Montenegro, and Croatia for storage and eventual distribution throughout Europe. Law enforcement and security institutions in Bosnia and Herzegovina remain limited, and require further enhancements to effectively deter trafficking through the country.

During the first nine months of 2016, Bosnian and Herzegovinian police agencies reported seizing: 1.49 kilograms (kg) of heroin; 1.78 kg of cocaine; 120.5 kg of marijuana; 2.5 kg of other cannabis products; 19 kg of amphetamine-type stimulants; 2,031 tablets of MDMA (ecstasy); and 6,773 tablets of diverted pharmaceutical products. Many of these seizures resulted from joint investigations between Bosnian and Herzegovinian law enforcement agencies and the Ministries of the Interior of the Republics of Serbia and Croatia.

At the state level, the State Information and Protection Agency (SIPA, an FBI-equivalent agency) is responsible for drug control enforcement. At the entity-level, the Federation Ministry of Interior and Republika Srpska Ministry of Interior oversee entity, cantonal, and municipal law enforcement agencies engaged on drug issues. During the first nine months of 2016, authorities recorded 1,388 felonies related to illegal production and trade in narcotics and narcotics misuse in the country.

Bosnian and Herzegovinian law enforcement agencies face challenges with funding and staffing. However, they continue to work closely with the United States to develop their capacity for strategic planning and resource management in order to overcome some of these challenges.

Bosnia and Herzegovina cooperates with other international partners on drug issues. The European Union and individual European governments work with state agencies at various levels on training and institutional support.

Brazil

A. Introduction

Brazil is a major transit and destination country for cocaine. The country's border with narcotics source countries Colombia, Peru, Bolivia, and Paraguay is porous and over three times the length of the U.S. border with Mexico. The majority of cocaine transiting Brazil is destined for its domestic market and Europe, sometimes via West Africa. The Brazilian drug trade is controlled by large, violent, and well-organized drug trafficking organizations operating throughout the country. Brazil suffers from a substantial and growing domestic drug consumption problem. It is the world's second-largest consumer of cocaine hydrochloride and likely the largest consumer of cocaine-base products. The Government of Brazil appreciates the gravity of the illicit drugs issue and is committed to combating drug trafficking but does not have the institutional capacity to fully stem the flow of illegal drugs across its borders.

In 2016, Brazil faced a deep economic recession and a fiscal short-fall, resulting in austerity cuts across the government, including at the enforcement and social welfare agencies that address drug flow and substance use disorders. President Michel Temer, in office since the end of August, has prioritized efforts on border security and is pursuing a whole-of-government approach to counter organized crime, drugs and arms trafficking, and violent crime. Brazil's Ministry of Justice as the Ministry of Justice and Citizenship, formerly the Ministry of Justice prior the ministry's reorganization in May, is the lead on counternarcotics and drug policy. The new ministry has assumed a broader portfolio to include human rights and social inclusion as well as traditional rule-of-law issues.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Government of Brazil's lead agency for combating narcotics trafficking is the Federal Police (DPF), while the lead agency for policy on reducing drug demand is the National Secretariat for Drug Policy (SENAD). Both DPF and SENAD are part of the Ministry of Justice and Citizenship.

The DPF's 2016 budget was cut 12 percent from 2015 levels, reflecting across-the-board fiscal austerity. The DPF is capable and well paid by global standards. Since 2013, the DPF has maintained its force at about 11,000 agents, but recognizes that more agents are needed to effectively combat narcotics trafficking. SENAD's National Anti-Drug Fund budget was cut by 57 percent from 2015 levels, reflecting fiscal austerity as well as the planned end of its signature five-year program, "Crack: It's Possible to Beat It."

There is an ongoing political debate in Brazil on reform of drug sentencing laws, as nearly a third of its prison population is incarcerated for drug-related crimes (180,000-200,000 people), more than any other single crime. The National Justice Council, which oversees Brazil's federal

judiciary, is spearheading creation of standardized sentencing guidelines that better distinguish between drug consumers and traffickers.

Brazil maintains bilateral narcotics control agreements with the United States and every country in South America, in addition to formal partnerships with the UN Office on Drugs and Crime, the Organization of American States' Inter-American Drug Abuse Control Commission, and INTERPOL. Brazil also has extradition and mutual legal assistance treaties with the United States.

2. Supply Reduction

Brazil remains a major transit route for cocaine from the source countries of Bolivia, Colombia, and Peru. Cocaine products are smuggled across land borders via small aircraft and trucks, as well as by boats using the Amazon riverine system. Brazil's sea ports play a key role in narcotics transport, and Brazilian law enforcement and customs continue to improve port screening and interdiction. The majority of cocaine entering Brazil is destined for its domestic market and Europe, often through West Africa. In early October, Brazilian Customs Police seized 1.1 metric tons (MT) of cocaine hidden in boxes of canned pineapples, from the Port of Navegantes (Santa Catarina State), thanks to improved monitoring techniques. On October 14 in Belem (Para State), Federal Police found 300 barrels of liquid cocaine diluted in bitumen; the apprehended criminal gang had also sent cocaine base to Europe, Asia, Africa, and Oceania inside machinery, cylinders, and heavy metals.

Since 2011, Brazil's Strategic Border Plan has confronted drug trafficking and transnational crime, with two supporting complementary operations. Operation Sentinela, supervised by the Ministry of Justice, is an ongoing intelligence-building effort to coordinate state, local, and federal police forces on the border. In April, Operation Sentinela seized 30 kilograms of drugs on a river boat in the Amazon region. Operation Ágata, coordinated by the Ministry of Defense, conducts periodic tactical missions at strategic points on the border. In June, Operation Ágata 9 mobilized over 11,000 military and police officers in 11 states focusing on the Tri-Border Area adjoining Argentina and Paraguay.

In 2016, the DPF reported seizures of 40.4 MT of cocaine, nearly double the amount seized in 2015, and 230.2 MT of marijuana, slightly more than what was seized in 2015. Consolidated data from state police interdiction is not available.

Brazil conducts recurring marijuana eradication operations in the northeast. In June, the DPF completed Operation Canhamo II, destroying 241,000 seedlings and eradicating 188,000 marijuana plants with an estimated future yield of 62 MT.

Synthetic drugs are present in Brazil, though combating them is of lower government priority given the overwhelming cocaine problem. There were no major synthetic drug seizures in 2015 or 2016. Complex synthetic drugs such as ecstasy and LSD are usually smuggled in small amounts via couriers flying commercial airlines from Europe. In 2015, authorities seized laboratories that were initially thought to be producing MDMA (ecstasy) but were actually manufacturing amphetamine. A 2016 Campinas State University study found fentanyl and

butylone compounds in products sold as ecstasy. On July 4, Civil Police in Ceara seized 80 grams of “bath salts,” the first such seizure of this new psychoactive substance in Brazil. Through the first six months of 2016, the DPF reported seizures of 184 doses of LSD.

3. Public Information, Prevention, and Treatment

There were no new comprehensive drug use surveys in Brazil in 2016. In 2014, SENAD commissioned a national drug use survey, and officials are currently analyzing the results for publication. The government last conducted such a survey in 2005.

Brazilian federal and state authorities actively promoted drug threat awareness, demand reduction, and treatment programs in 2016. Brazil’s 2005 National Drug Policy continues to be implemented via the federal government’s regular budget process, with emphasis placed on distance-learning training for drug use disorder professionals and civil society organizations and building social service capacity at the municipal level. Following the 2015 end of SENAD’s five-year, \$1 billion signature program “Crack: It’s Possible to Beat It,” which constructed a national network of treatment and awareness programs, Brazil is now analyzing the program’s results and developing its next major drug demand reduction effort.

In Sao Paulo, Brazil’s largest city, mayor-elect Joao Doria is expected to replace a municipal-level drug harm reduction program that provides social services and healthcare for 400 crack cocaine users with a traditional policing and treatment approach.

Brazil takes a holistic approach to reintegrating people with substance use disorders into society, providing a range of services from medical care to job training. Brazil’s programs are not yet commensurate with the size of its addicted population.

4. Corruption

As a matter of government policy, Brazil does not encourage or facilitate illegal activity associated with drug trafficking, and there is no evidence to suggest that senior government officials are engaged in such activity.

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

The 2008 U.S.-Brazil Memorandum of Understanding on Narcotics Control and Law Enforcement supports capacity-building in Brazilian federal and state agencies to combat illicit narcotics trafficking and provide drug demand reduction services. In 2016, the United States provided significant training support to Brazilian law enforcement through 19 courses that reached over 1,000 officers, on topics ranging from money laundering to community policing. Cooperation between Brazilian and U.S. law enforcement has improved dramatically, particularly at the working level.

D. Conclusion

Brazil has institutionalized its commitment to combating narcotics trafficking and addressing a growing domestic consumption problem. Brazil would benefit from comprehensive population surveys to determine the scope of its domestic drug consumption, consolidated nationwide data on drug interdiction, increased monitoring of its sea ports, and greater cooperation with its neighboring countries.

Burma

A. Introduction

Burma continues to be a major source of opium and exporter of heroin. According to the 2016 United Nations Office on Drugs and Crime (UNODC) World Drug Report, twenty percent of the world's opium poppy cultivation occurs in Burma, second only to Afghanistan. Since the mid-1990s, Burma has also been a significant 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 in areas controlled by ethnic armed groups beyond the Government of Burma's immediate control. While there is no reliable methodology to estimate ATS production, information derived from local and regional seizures indicates that ATS production and trafficking is increasing. In one example from May 2016, over 21 million ATS tablets were seized in a single case in Shan State.

After the new National League for Democracy (NLD) government took office in late March 2016, the government launched a series of "100 Day" efforts to demonstrate early progress on the new government's top priorities. To address Burma's drug problem, the government increased drug enforcement efforts (arrests and seizures) through two major operations in Rangoon and Mandalay; increased its drug awareness raising programs conducted by the Ministries of Information, Education, and Health; and took a firm public stance against corruption. Nevertheless, the Government of Burma continues to struggle with an underdeveloped legal system and weak institutional capacity to handle drug-related crimes. Despite a 2015 ceasefire agreement between the government and eight ethnic armed organizations, fighting has continued and large swaths of territory, particularly in drug producing areas, remain under the control of non-state armed groups. Counternarcotics efforts are also hampered by extremely porous borders with India, China, Bangladesh, and Thailand, with precursor chemicals flowing into Burma and illegal narcotics flowing out.

Counternarcotics cooperation between the United States and Burma has steadily increased since it resumed in December 2011. In October 2016, officials from Burma's Drug Enforcement Division (DED) joined their Malaysian counterparts on a study tour to the United States organized by the U.S. Drug Enforcement Administration (DEA).

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Since the new NLD government took office in April 2016, the process to amend the 1993 Narcotic Drugs and Psychotropic Substances Law has restarted. The new draft law is expected to reinforce the government's changing counternarcotics approach from a law enforcement-dominated model to one that balances the role of law enforcement with a public health, victim-centered response, emphasizing the importance of treatment and rehabilitation.

Throughout the year, the Central Committee for Drug Abuse Control (CCDAC) – composed of multiple government entities involved in alternative development, drug treatment, law

enforcement, and education programs – continued to make efforts to eliminate the use and production of illicit drugs. At the CCDAC coordination meeting in August 2016, the Union Minister of Home Affairs (who also chairs the CCDAC) acknowledged that Burma's drug problem had worsened, despite significant counternarcotics efforts by successive governments.

In accordance with the UN General Assembly Special Session on the World Drug Problem (UNGASS), CCDAC initiated a process in July 2016 to develop a new Drug Control Policy. To this end, the Burmese government assembled 30 counternarcotics stakeholders into working groups focused on prevention, treatment, and rehabilitation, law enforcement, and human rights. These working groups are currently developing an action plan with detailed activities which are expected to be released in April 2017. The structure of the DED remains the same as in previous years, with 50 Anti-Narcotics Task Force (ANTF) units spread throughout the country, and three Sub-Divisions located in Rangoon, Mandalay, and Taung Gyi. There are currently 1,089 personnel employed under the four departments of the DED, representing a 27 percent shortfall in needed staffing. DED also faces significant budgetary and equipment shortages.

In an effort to increase awareness of the true scope of Burma's drug use problem, the CCDAC has partnered with UNODC to launch Burma's first National Drug Use Survey. Under this U.S.-funded initiative, UNODC will work with the CCDAC to promote evidence-based drug use prevention and drug dependence treatment, care, and rehabilitation models, which will directly inform the drug policy review.

The 1931 Extradition Treaty between the United States and the United Kingdom was made applicable to Burma in 1941. Although Burma has no bilateral mutual legal assistance treaty with the United States, it has acceded to relevant multilateral conventions that enable such cooperation.

2. Supply Reduction

Opium poppy cultivation within Burma increased from a low of 21,500 hectares (ha) in 2006 to 57,800 ha in 2013, before dropping slightly to 55,500 ha in 2015, according to UNODC data. There will not be a full opium yield survey by UNODC for 2016. Instead, the government will refer to China's National Narcotics Control Commission (NNCC) data on poppy cultivation and eradication. NNCC data has historically tended to estimate smaller opium poppy cultivation within Burma than UNODC surveys; in 2015, for example, the NNCC's estimated 44,329 ha under cultivation. A United States government survey of 2016 poppy cultivation in Burma will be completed in 2017.

Due to the lack of rule of law and to ongoing conflict, Burma's key poppy-growing regions have limited the effective implementation of comprehensive, government-run alternative development programs. The Government of Burma has cited the townships of Tachileik and Monghsat in eastern Shan State as positive models where Thai government funding has enabled successful projects on infrastructure development, human resource development, improved irrigation, and technical assistance to farmers. In August 2014, Burma signed a four-year Country Program with UNODC which seeks to improve infrastructure, health, education, and crop substitution to offer sustainable economic alternatives for opium poppy farmers. Some ethnic communities are

increasingly interested in alternative development options, but remain hesitant to work directly with the government while ceasefire efforts continue. Moreover, some ethnic militias, which control drug production in their local areas, often coerce farmers to grow opium, further hindering crop substitution efforts.

Though under-resourced and hampered by political, legal, and organizational constraints, the CCDAC and DED continued drug interdiction efforts during 2016. During the first nine months of 2016, Burmese authorities seized over 65.9 million ATS tablets, 621.8 kilograms (kg) of crystal methamphetamine, 831.3 kg of various grades of opium, 1.98 liters of opium liquid, and 173.8 kg of heroin. Over this same nine-month period, there were 10,285 drug-related arrests from 6,764 cases, compared to 2015's annual figures of 9,188 total arrests from 6,414 cases.

3. Public Information, Prevention, and Treatment

Drug abuse is on the rise in Burma, with increasing incidences of injecting drug and ATS use throughout the country. There has been a shift in Burma away from smoking opium toward injecting heroin, contributing to Burma having one of the highest global rates of HIV infection attributable to intravenous drug use. Ministry of Health figures place the rate of HIV infection among patients receiving methadone maintenance treatment (MMT) at 14 percent of the 4,387 patients tested in 2016, and the rate of hepatitis C infection at 33 percent of the 2,197 patients tested.

Ministry of Health data indicates there are 11,963 patients receiving MMT daily at 46 centers. In 2016, the Ministry of Health opened five new MMT centers in Kachin and Shan States and Sagaing Region. The Ministry of Health estimated there were 83,000 people who injected drugs in 2014 (the most recent data available) and 166,000 people who use drugs countrywide. However, UNODC and civil society estimates place the number of people who use drugs in Burma at between 300,000 and 400,000. A U.S.-funded drug user survey is currently being conducted by UNODC, with findings projected to be released in mid-2017.

Regarding the treatment sector, the government has granted permission to open 14 new rehabilitation centers in all states and regions, potentially leading to a total of 17 centers in major cities throughout the country. There are 73 drug treatment centers of varying capacity throughout the country. No new centers opened in 2016.

While Burma's drug law is currently being revised, the current law requires those with substance use disorders to register before receiving treatment. Under current law, persons suffering from addiction can be imprisoned for three to five years if they fail to register and accept treatment; consequently, non-governmental organizations (NGOs) report that many users are afraid to register or seek treatment.

In 2016 the Colombo Plan organized a series of U.S.-funded training opportunities to enhance the capacity of addiction treatment professionals from the Ministry of Health and local and international NGOs. Participants included doctors, case workers, and support staff at drop-in and rehabilitation centers across Burma who are responsible for much of the day-to-day care for persons suffering from substance use disorders. More than 90 percent of participants had not

previously received formal training in addiction treatment. The United States also continued to support an NGO-implemented, community-based drug prevention program in 31 villages in northern Shan State to increase community capacity to reduce drug use and provide life skills training to prevent first-time drug use among vulnerable youth.

After the new NLD government took office in late March, all ministries presented plans outlining their priorities over the first 100 days of government. As part of this effort, the CCDAC increased its awareness raising programs conducted by the Ministries of Information, Education, and Health.

The United States also launched a Young Southeast Asian Leadership Initiative forum on Youth United Against Drugs in Rangoon in August. The initiative focused on raising drug awareness among youth, with participation from DED officials, UNODC and NGO stakeholders.

4. Corruption

The new government took several important steps to fight corruption after assuming office in late March. Among these measures, Parliament amended the 2013 Anti-Corruption Law to make the Anti-Corruption Commission more efficient, and the President's Office issued guidelines on accepting gifts to curb petty corruption. On April 4, the President's Office issued guidelines outlining new rules for civil servants on the types and amounts of gifts they are permitted to accept. Under the new guidelines, civil servants cannot accept gifts worth more than approximately \$21, a much lower threshold than the approximate \$254 limit under the previous administration. The rules also require civil servants to report all offers of gifts to their supervisors, whether or not they are accepted. Separately, the government widely publicized the apparent attempt by a media company to bribe an assistant of a senior government official during a public festival in mid-April.

Many inside Burma assume some senior government officials benefit financially from narcotics trafficking, but these assumptions have never been confirmed through high-level arrests, convictions, or other public revelations. Credible reports from NGOs and media claim that mid-level military officers and government officials are engaged in drug-related corruption. The government 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

Former U.S. President Barack Obama signed a national interest waiver in 2016, allowing the United States to provide counternarcotics assistance and engage the Burmese police directly. The U.S. government is continuing engagement on counternarcotics activities to increase Burmese capacity to address and combat the cultivation, trafficking, and use of drugs throughout the country. The DEA country office at U.S. Embassy Rangoon continues to share drug-related intelligence with Burmese authorities and conducts joint drug-enforcement investigations with Burmese counterparts. In October, four Drug Enforcement Division officials traveled to the United States on a DEA-organized study tour with Malaysian counterparts to discuss counternarcotics cooperation.

In 2016, the United States provided in-country skill training to 50 DED and 20 other police officers. Five DED officers participated in three different trainings at the International Law Enforcement Academy (ILEA) in Bangkok. A total of 10 DED participated in two U.S.-provided trainings focused on Transnational Organized Crime (TOC) and the head of the DED and eight other high-level government officials also participated in a U.S. study tour focused on TOC. In addition, three DED female police officers participated in the U.S.-funded Women in Policing Conference in Tbilisi, Georgia.

D. Conclusion

Under the leadership of the CCDAC, Burma continued efforts to eliminate the use of illicit drugs, control production, and reform and enforce Burma's narcotics laws. Continued seizures and arrests and growing international cooperation are positive indicators signaling continued government engagement on this issue. However, the efficacy of the country's counternarcotics efforts remains hindered by the limited resources and reach of the government and local law enforcement, particularly in ethnic-controlled areas in which significant production sites are located. To date, law enforcement has not appeared to possess the resources or political will to arrest and prosecute any high-level drug traffickers. Some ethnic organizations are hesitant to engage in government-sponsored alternative development programs while ceasefire and peace process efforts continue, while some ethnic groups continue to engage in narcotics production and trafficking as a primary source of income.

Burma requires legal and organizational reforms to facilitate effective criminal investigations and transparent criminal prosecutions, and needs to dedicate additional resources towards building law enforcement capacity to investigate and effectively prosecute drug traffickers and interdict drugs. Increased cooperation and information sharing and a more victim-centered approach to demand reduction and treatments are also critical to effectively implement reforms that can reduce both drug trafficking and drug abuse. While economic development is necessary to provide an alternative to drug production, long-term efforts will also require an internal political agreement and coordination with ethnic groups. Only sustained economic development, in conjunction with legal and law enforcement reforms, international cooperation, and additional resources, will reverse decades of narcotics production and trafficking.

Cabo Verde

Cabo Verde is not a significant source country of illicit narcotics, but its strategic location in the Atlantic Ocean makes it an important transit hub for cocaine and other drugs moving from Latin America to Europe. Praia, Cabo Verde's largest city, maintains a well-served international airport with direct flights to the United States, Europe, and northern Brazil. Traffickers operating in neighboring Guinea Bissau are of particular concern. Coupled with an active seaport and vast maritime domain, the Cabo Verdean archipelago is an enticing transit point for drug traffickers to facilitate onward movement by land, sea, and air. The UN Office on Drugs and Crime (UNODC) reports that cannabis, cocaine, hashish, heroin and methamphetamines are the most commonly used drugs in Cabo Verde, mainly by youth in urban areas.

The Government of Cabo Verde has taken action to respond to drug trafficking, which is regarded by government officials and the general public alike as a serious problem. The government has enacted upgrades to the National Police Training Center, created higher education institutions in the justice sector, and increased competency on criminal investigation, drug interdiction, and intelligence. U.S. assistance has allowed the Cabo Verdean government to significantly increase its capability to combat money laundering. The anti-money laundering legal framework established in 2009 under the Anti-Trafficking Project improved port container monitoring, and increased information sharing between domestic and international airports. Demand reduction efforts include treatment and rehabilitation programs, and awareness campaigns targeting youth.

In April 2016, 280 kilograms of cocaine was seized and six suspects were arrested off the southwest coast of Cabo Verde. There have been some instances where traffickers have attempted to intimidate the Cabo Verdean government, including the attempted assassination of the then-Prime Minister's son in December 2014. Corruption is relatively low in Cabo Verde. Cabo Verde joined the Open Government Partnership, which seeks to promote transparency and fight corruption, in 2016.

The United States supports Cabo Verde in its fight against crime and drugs by providing training to Cabo Verdean armed forces and law enforcement, in addition to providing financial and technical assistance to the Ministry of Justice's Financial Investigative Unit, and by sharing of information. In 2010, U.S. Africa Command established the Center for Maritime Security Operations (COSMAR) in Praia, which has improved cooperation among Cabo Verdean law enforcement agencies. Other U.S. assistance programs have supported social reintegration and drug dependency reduction programs and assisted the Cabo Verdean Financial Information Unit in building its capacity to fight money laundering. With support from the United States and other international partners, Cabo Verde has strengthened law enforcement and judicial institutions to improve monitoring of its international waters and combat transnational crimes including drug-trafficking. In 2016, the United States provided training to the Cabo Verde Marines and the Cabo Verde Maritime Police on maritime vessel maintenance to support their drug interdiction efforts.

Cambodia

Cambodia faces a significant and growing problem with narcotics consumption and trafficking, and production. The manufacture, trafficking, and use of illegal drugs within Cambodia, particularly of methamphetamine and other amphetamine-type stimulants (ATS), escalated in 2016, cutting across all socio-economic lines.

Transnational criminal organizations from Asia and Africa target Cambodia as a transshipment point and final destination for illegal drugs. Large quantities of heroin and methamphetamine from Burma, Africa-sourced crystal methamphetamine, and South America-sourced cocaine are smuggled into the country for local consumption and for transshipment to Thailand, Australia, and China.

The National Authority for Combating Drugs (NACD) reported in 2016 that ATS was the most prevalent illicit drug within Cambodia. Methamphetamine pills, known locally as “yama,” are the most widely available form of ATS, though crystal methamphetamine is becoming more available, particularly in Phnom Penh. Cocaine trafficking into Cambodia for limited local consumption and further transshipment has also increased. Though there is some consumption of heroin, the majority entering Cambodia is destined for other regional markets. Cannabis is widely used, though eradication efforts in 2016 had some modest impact in reducing its availability. Cambodia is one of three countries in the region known to process safrole oil, a precursor chemical for MDMA (ecstasy). Production may be declining due to deforestation.

In 2015, the most recent year for which data is available, NACD reported seizing 96.5 kilograms (kg) of illicit drugs and opening 2,356 cases. Cambodian law enforcement arrested 5,032 individuals on drug charges, including 127 foreigners. NACD reported seizing 66.6 kg of crystal methamphetamine, 20.1 kg of methamphetamine tablets, 2.46 kg of heroin, trace amounts of cocaine and MDMA, 1.5 metric tons of marijuana, and numerous assets. Although NACD did not provide comparable figures for the first half of 2016, media reports indicate that Cambodian authorities seized approximately 10.4 kg of crystal methamphetamine, 110,750 methamphetamine tablets, 2.8kg of heroin, and 4 kg of cocaine during this period, and eradicated more than 44,692 marijuana plants in March, more than in 2013 and 2014 combined. It remains unclear whether these figures indicate an increase in drug activity or improved reporting of them.

Cambodia’s cooperation with the U.S. Drug Enforcement Administration (DEA) has steadily improved. The impact of U.S.-provided law enforcement training, coupled with a more efficient Cambodian Anti-Drugs Department (CADD), led to notable successes against drug trafficking organizations by Cambodian authorities in 2016. The NACD and CADD cooperated closely with DEA, regional counterparts such as Australia, and the UN Office on Drugs and Crime. In August 2016, acting on information provided by DEA, CADD seized approximately five kilograms of cocaine at the Phnom Penh International Airport and arrested one Nigerian and one Romanian national. Cambodia has no bilateral extradition treaty with the United States. Although Cambodia does not have a bilateral mutual legal assistance treaty with the United States, it has acceded to relevant multilateral conventions that enable such cooperation.

Canada

A. Introduction

In 2016, the Canadian government continued its efforts to combat the production, distribution, and consumption of illicit drugs. Canada is a supplier of both MDMA (ecstasy) and marijuana to the United States. Other drugs including the synthetic opioid fentanyl also transit Canada before entering the United States. As part of its National Anti-Drug Strategy, Canada has initiatives underway specifically targeting the trafficking of synthetic drugs, including fentanyl, which has been implicated in increasing numbers of overdose deaths. 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

Current funding under Canada's National Anti-drug Strategy (NADS) is approximately \$430 million over a five-year cycle spanning 2012-2017. Funding supports prevention, treatment and enforcement, in addition to drug control activities, which are funded outside the NADS. Provinces and territories have significant budgets related to drug prevention and treatment.

In January, the federal government granted a license to a supervised-injection site in Vancouver, the second such site in the city. In April, British Columbia (BC) declared an official health emergency after some 200 fentanyl-related deaths occurred in the first three months of 2016. The BC Coroner's office reported 302 fentanyl-related deaths between January and August, more than triple the number reported in the same period of 2015. In June, the Minister of Health announced an Opioid Action Plan that will focus on: informing Canadians about the risks of opioids; improving prescribing practices; reducing access to unnecessary opioids; improving treatment options for patients; and strengthened data collection.

In April, the Minister of Health announced the government would introduce legislation on the legalization of cannabis in spring 2017. In June, the government created a task force plan for the legalization, regulation and restriction of cannabis.

In June, the Minister of Health announced an Opioid Action Plan that will focus on: informing Canadians about the risks of opioids; improving prescribing practices; reducing access to unnecessary opioids; improving treatment options for patients; and strengthened data collection. The Canadian government introduced draft legislation on December 12 that would enact a number of changes intended to reduce opioid abuse and overdose deaths, including: allowing for the temporary scheduling of psychoactive substances; placing restrictions on the importation of pill presses; and broadening the authority of the Canada Border Services Agency to inspect incoming mail packages.

In August, Health Canada announced the new Access to Cannabis for Medical Purposes Regulations (ACMPR) to replace earlier regulations that had been struck down by the Federal

Court. Per the court ruling, the new regulations allowed Canadians seeking to use cannabis for medical purposes to grow a limited amount for their own use, or designate someone to produce it for them.

Canada is party to the Inter-American Convention on Mutual Legal Assistance in Criminal Matters and the Inter-American Convention against Corruption. The Royal Canadian Mounted Police (RCMP) is a member of the International Narcotics Control Board's (INCB) Task Forces, which includes Project ION (International Operation on New psychoactive substances).

2. Supply Reduction

Canada is a source country of both high-potency marijuana and MDMA to the United States, and Canadian synthetic drugs and amphetamine type stimulants are exported to the United States, Asia and Australia. Cannabis cultivation and the manufacture of synthetic drugs are concentrated in British Columbia, Quebec and Ontario. Methamphetamine continues to be produced in large quantities. South America and Mexico continue to be the primary sources for cocaine supplied to Canada, some of which is transited through the United States. Officials also report increasing imports of fentanyl from China, largely via mail courier. No overall drug seizure statistics were available at the time of this report from the Canadian government for 2016.

3. Public Information, Prevention, and Treatment

Health Canada provides \$20 million annually to support the NADS Prevention and Treatment Action Plans. In 2016, this funding supported 47 projects across Canada under the Substance Use and Addictions Program (SUAP). The SUAP supports evidence-based initiatives in health promotion, prevention, harm reduction and treatment.

Canada supports various initiatives to reduce the consequences of illicit drug use, including supervised consumption facilities, the use of naloxone to reverse overdoses, and the medical use of diacetylmorphine for the treatment of opioid dependence. Between 2012 and 2017, Justice Canada is providing approximately \$13.5 million per year for the development, delivery and evaluation of drug treatment courts in Canada. Canada is providing over \$11 million over five years from the NADS to enhance prevention and treatment within Aboriginal communities, including a response to address prescription drug misuse.

According to the most recent data, the prevalence of cannabis use among Canadians aged 15 years and older was 11 percent in 2013, up slightly from 2012, but lower than in 2004 (14.1 percent). Among students in grades 7-12, 17 percent reported using cannabis in 2014-15. Past-year use of other illicit drugs such as MDMA (0.4 percent), hallucinogens (0.6 percent), cocaine or crack (0.9 percent) and speed/methamphetamine (0.2 percent) remained largely unchanged since 2004. Past-year use of heroin was not reported.

According to the INCB, Canada is the second-largest per capita consumer of prescription opioids in the world. In 2013, fifteen percent of Canadians aged 15 years and older reported using an

opioid pain reliever in the past year. Among these users, two percent reported using them, a five percent decrease from 2012.

4. Corruption

Canada has strong anti-corruption laws and policies 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. No senior government officials are known to engage in, encourage, or facilitate illegal activity associated with drug trafficking. Corruption among law enforcement officials is rare.

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 on customs offenses through a customs mutual assistance agreement. Judicial assistance and extradition matters 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 and RCMP by which their representatives can work directly with each other on drug-related matters.

Various U.S. federal, state, local, and tribal entities collaborate with RCMP, Canada Border Services Agency (CBSA), provincial and local police, and other Canadian law enforcement authorities to combat illegal drugs. Bilateral cooperation is coordinated at the strategic level through the Cross-Border Crime Forum, and at the operational level through the Cross Border Law Enforcement Advisory Committee, Border Operations Leadership Team, and other fora. Integrated teams consisting of Canadian and U.S. law enforcement authorities operate in over 20 locations across a variety of structures, including Border Enforcement Security Taskforces (BEST) and the Integrated Cross-border Maritime Law Enforcement Operations (known as "Shiprider"), which has regularized operations in five locations along the maritime border, as well as surge operations in other locations.

Canada participates with the United States and Mexico in the North American Dialogue on Drug Policy, a forum to exchange information on drug trends, increase trilateral coordination on drug policy, and develop actions to protect citizens from harmful drugs and drug trafficking. Canada and the United States also continue to exercise a memorandum of understanding regarding the deployment of U.S. Coast Guard law enforcement detachments on Canadian Navy ships in the Caribbean Sea and Eastern Pacific Ocean, which during the first 11 months of 2016 resulted in the removal of over 2.9 metric tons (MT) of cocaine and 1.5 MT of marijuana.

D. Conclusion

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

The United States will continue to work with Canada to stem the flow of illegal drugs across our shared border, and enhance regulatory frameworks to prevent access to precursor chemicals and lab equipment for criminal use.

China

A. Introduction

China's geographical location, vast land area, massive population, and expanding economy have all contributed to it becoming a hub for illicit drug consumption, drug and precursor chemical production and trafficking, and money laundering activities. China shares borders with drug source countries in both Southeast and Southwest Asia and remains a major destination and transit country for heroin produced in these areas. Its numerous coastal cities with high-volume seaports and a vast network of major international airports make China an ideal destination and transit country for illicit drugs, as well as a major source of new psychoactive substances (NPS) and precursor chemicals intended for illicit drug production. Domestic Chinese criminal organizations distribute illicit drugs within China as well as to international markets, and Chinese authorities have noted the presence of international drug trafficking organizations originating from Africa and Mexico operating within the country. China's role as a major international financial center has also fueled an increase in illicit drug and precursor chemical-related money laundering activities.

China is a major producer and exporter of NPS, and domestic use of other synthetic drugs (primarily methamphetamine and ketamine) is becoming increasingly prevalent. China's large chemical and pharmaceutical industries provide an ideal environment for the illicit production and export of these drugs. According to U.S. and international law enforcement sources, a majority of the NPS seized in North America and Europe originate from businesses in China and can be purchased via the internet and shipped or mailed to overseas customers. Chemical alterations of non-scheduled drugs to circumvent existing anti-drug laws have challenged efforts to stem the flow of these drugs.

China is a major source of supply for illicit fentanyl and fentanyl analogs bound for the United States, Canada, and Mexico. In addition, China is the primary origin country for the precursor chemicals used to make fentanyl.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

China's drug control strategy focuses on prevention, education, illicit crop eradication, interdiction, rehabilitation, commercial regulation, and law enforcement. The Ministry of Public Security (MPS) Narcotics Control Bureau is the primary national drug 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 checkpoints. China maintains bilateral counternarcotics agreements with many countries and international organizations, including the UN Office on Drugs and Crime, and participates in a variety of international drug conferences and bilateral meetings.

2. Supply Reduction

According to the National Narcotics Control Commission (NNCC)'s 2016 Annual Drug Report, Chinese law enforcement conducted 165,000 drug trafficking investigations and made 194,000 drug related arrests in 2015. Authorities also seized a total of 102.5 metric tons (MT) of illicit drugs during this period, including 8.8 MT of heroin, 36.6 MT of methamphetamine, 19.6 MT of ketamine, and 8.7 MT of cannabis. Chinese authorities also targeted clandestine labs used to produce NPS and other synthetic drugs, destroying 259 clandestine laboratories, and arresting 1,570 suspects in 2015, as well as seizing 86.6 tons of precursor chemicals.

In October 2015, China enacted wide-reaching legislation granting MPS the authority to quickly schedule new and emerging drugs deemed to have no identified medical use, including substances not used within China. The legislation also established immediate controls over 116 NPS. China's enactment of this legislation provides a mechanism for enhanced cooperation with the United States and other international partners to control the spread of NPS. During the first six-months of the law's enactment, the U.S. Drug Enforcement Administration noted a marked reduction in seizures and availability of many of the NPS newly controlled by China within the United States. China and the United States continue to work together to reduce the supply of synthetic opioids such as fentanyl and fentanyl analogs from China to the United States.

3. Public Information, Prevention, and Treatment

According to NNCC, synthetic drugs – primarily methamphetamine and ketamine – are gradually overtaking heroin and other opioids as China's primary domestic drug threat. NNCC has an outreach program to raise awareness of the negative health effects of drug abuse and promote drug prevention. According to the NNCC's 2016 Annual Drug Report, the total number of registered illegal drug users in China remained steady at 2.345 million, but the actual number of drug abusers is estimated to be at least 14 million, according to media reports. Of the reported registered drug users, 1.34 million (57.1 percent) reportedly use synthetic drugs, while 980,000 (41.8 percent) reportedly use opiates and 25,000 (1.1 percent) reportedly use other drugs. According to NNCC, 60.6 percent of the registered users in China are between 18 and 35 years old. During this reporting period, 531,000 new drug users were identified, a 14.6 percent increase from 2014, and 80.5 percent of new drug users in 2015 were using synthetic drugs.

In 2016, NNCC formulated and distributed its "Work Plan on Community-based Drug Treatment and Rehabilitation, 2016-2020" to further the development of a community-based drug treatment and recovery system. The Plan supports NNCC efforts to combine methadone maintenance treatment and community-based drug treatment and recovery. In addition to 770 clinics offering methadone maintenance treatment, China has established 3,258 job placement sites and 27,000 township level offices responsible for community-based drug treatment and recovery work, which employ 27,000 full-time community workers and 51,000 part-time community workers.

4. Corruption

The Ministry of Public Security takes allegations of drug-related corruption seriously, and launches investigations when deemed appropriate. Despite efforts to stem drug-related

corruption, financial corruption among provincial, prefectural, county, and district government officials continues to be a concern. The Government of China does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Based on publicly available information, 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

Under the framework of the U.S.-China Joint Liaison Group on Law Enforcement Cooperation (JLG), the Bilateral Drug Intelligence Working Group (BDIWG) and the Counter Narcotics Working Group (CNWG) meet annually to exchange views and information on trends in drug abuse and trafficking; discuss pertinent laws, regulations, policies and procedures in the respective countries; seek progress and address challenges in precursor chemical control; and find mechanisms to cooperate on investigations and cases of mutual interest. Through the CNWG and JLG process, in 2016 the United States and China agreed to enhance cooperation and information sharing to support mutual consideration of controls on additional NPS, including fentanyl analogs. China and the United States signed a bilateral mutual legal assistance agreement in 2000, which entered into force in 2001.

D. Conclusion

Drug control cooperation between the United States and China is improving, particularly through the JLG process. While drug trafficking, manufacturing, diversion and other drug-related crimes remain significant problems in China, the central government continues to take steps to integrate China into regional and global drug control efforts, as well as to address the country's domestic drug problem through enforcement and rehabilitation. U.S. law enforcement has made inroads in building working relationships with provincial public security bureaus, with oversight by central authorities, as relations continue to strengthen.

Colombia

A. Introduction

Colombia is the world's top producer of cocaine, as well as a source country of heroin and marijuana. Although the Colombian government continues to counter the production and trafficking of illicit drugs through eradication operations, aggressive interdiction, and law enforcement activity, potential pure cocaine production in 2015 (the most recent year for which data is available) surged 60 percent to 495 metric tons (MT), 185 MT above 2014 production. The rise is attributed to the largest single-year increase of coca cultivation in Colombia ever recorded (immediately following the second largest single-year increase in more than a decade). The United States estimates the quantity of coca cultivation increased 42 percent in 2015 to 159,000 hectares (ha) from 112,000 ha in 2014, a nearly 100 percent increase since 2013.

The Colombian government reported seizing 421 MT of cocaine and cocaine base in 2016, a 124 MT increase over 2015. The Colombian government also eliminated tons of potential cocaine through manual eradication of 17,642 ha of coca during 2016. Colombia suspended aerial eradication in October 2015, making 2016 the first full year without aerial eradication.

According to the U.S. Drug Enforcement Administration (DEA), approximately 90 percent of the cocaine samples seized in the United States in 2015 and subject to laboratory analysis were of Colombian origin.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

During the course of its more than 50-year conflict with the Revolutionary Armed Forces of Colombia (FARC), the Colombian government has announced various major initiatives to expand the reach of civilian government institutions and services into Colombia's most neglected rural regions, in an effort to reduce civil unrest, armed conflict, drug production and trafficking, and other illegal activity emanating from these areas. In line with prior efforts, on September 22, 2015, the Government of Colombia announced a new drug control strategy that reduces focus on forced coca eradication, and enhances efforts on interdiction; rural policing; prosecuting criminal organizations; anti-money laundering; alternative development; infrastructure and development projects; social investment; and protection of national parks. The Colombian government recognizes the illicit drug trade and the organized criminal groups it empowers are the greatest threats to peace in Colombia, so the new counternarcotics strategy constitutes a major component of the Colombian government's plans for the implementation of its final peace accord with the FARC, which the parties signed November 24, 2016.

The Colombian government officially suspended aerial eradication of coca on October 1, 2015, but emphasized that it will maintain a forced manual eradication program that will be utilized in a targeted manner in national parks and when coca cultivators refuse to voluntarily eradicate. With the shift in focus under the new strategy, the government is working to maintain a strong interdiction and law enforcement focus by aggressively targeting organized criminal groups.

These efforts have included coordinated investigations and operations; enhanced initiatives to seize precursor chemicals used to produce cocaine; targeted anti-money laundering efforts; and legal reforms to facilitate the arrest, prosecution, and sentencing of members of organized criminal groups.

The extradition relationship between Colombia and the United States is robust and productive.

2. Supply Reduction

The United States estimates that the area devoted to coca cultivation in Colombia increased 42 percent in 2015 to 159,000 ha from 112,000 ha in 2014, returning to cultivation levels last seen in Colombia in 2007. Coca cultivation increased most notably in Cauca Department (to 27,000 ha, a 116 percent increase,), in Norte de Santander Department (to 30,500 ha, an 85 percent increase,), and in Putumayo Department (to 22,000 ha, a 76 percent increase,). Norte de Santander became the leading coca cultivation department in Colombia. Nariño and Antioquia increased by less than 25 percent each, but round out the top five coca cultivation regions in Colombia with 26,000 ha and 13,500 ha, respectively. Only Arauca experienced a significant decrease in coca cultivation, dropping 77 percent from 590 ha to 130 ha.

Several factors have contributed to the overall surge in coca cultivation in Colombia since 2014. First, widespread reporting indicates that FARC elements urged coca growers to plant more coca, purportedly motivated by the belief that the Colombian government's post-peace accord investment and subsidies will focus on regions with the greatest quantities of coca. Second, the Colombian government reduced eradication operations in areas controlled by the FARC to lower the risk of armed conflict as the parties negotiated a final peace accord. Third, counter-eradication tactics employed by coca growers have significantly reduced the effectiveness of coca eradication efforts. To combat manual eradication, coca growers: (1) employ blockade techniques to prevent eradicators from accessing fields; (2) place improvised explosive devices (IEDs) around eradication operations to kill, injure, and demoralize eradicators and slow eradication operations; and (3) plant fields in areas less accessible to eradication efforts, including national parks, indigenous areas, and remote areas. Finally, Colombia's manual eradication budget has declined by two-thirds since 2008, resulting in a 90 percent reduction in the number of manual eradicators in 2016 as compared to 2008.

Colombia reported that it manually eradicated 17,642 ha of coca in 2016, nearly reaching its goal of 20,000 ha for the year. Colombia probably remains the second largest supplier of heroin to the United States. The United States estimates that 1,100 ha of opium poppy were under cultivation in Colombia in 2015, sufficient to potentially produce up to three MT of pure heroin.

Colombia continued to make drug interdiction one of its drug control priorities, linking it to a stable post-peace accord environment, the extension of citizen security and rule of law throughout Colombia, and the countering of illegal armed groups that have plagued Colombia for decades. Colombian authorities reported seizing 421 MT of cocaine and cocaine base, 193 MT of marijuana, and 521 kilograms of heroin, and destroying 4,613 cocaine base laboratories and 229 cocaine hydrochloride (HCl) laboratories in 2016.

3. Public Information, Prevention, and Treatment

While Colombia's overall illegal drug consumption rate remains at an intermediate level based on international comparisons, the Colombian government has expressed concern about the growing use of marijuana, cocaine, and synthetic drugs, especially among school-aged youth. The Colombian government is also monitoring indicators of an increase in heroin use, having observed a recent spike in overdoses in six regions of the country.

In 2015, Colombia reevaluated its approach to drug demand reduction. It launched a new national demand reduction plan for 2014 – 2021, which addresses consumption as a preventable and treatable public health issue. In addition, the government has been reexamining its criminal response to consumption. Acknowledging that severe criminal sanctions disproportionately impact the most vulnerable in the drug-trafficking chain and contribute to prison overcrowding, the Colombian government is exploring alternatives to incarceration, especially within the juvenile justice system. This reevaluation is reflected in the public debate on consumption, with increasing support for alternative sentencing models. The Colombian government is proceeding with a rollout of a juvenile drug court pilot program in Medellin and hopes to replicate the use of restorative justice models in other parts of the country. On December 22, 2015 Colombian President Juan Manuel Santos signed a decree de-criminalizing and regulating the production, possession, and use of marijuana for medical purposes.

Colombia's new counter-drug strategy highlights increased focus on a public health model based on demand reduction and treatment programs. In the face of continued budget austerity, the Colombian government is pursuing a strategy focused on reducing domestic consumption through strengthening the institutional capacity of the government; promoting healthy lifestyles; preventing or delaying initial drug use; reducing the negative health and social effects for current users; and improving access to treatment for those suffering from substance use disorders.

4. Corruption

As a matter of policy, the Government of Colombia does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Despite the government's efforts to strengthen the capabilities of its institutions against corruption, statistics released in 2016 by the Secretary for Transparency illustrate the challenges facing the effective implementation of the Anti-Corruption statute (law 1474 of 2011), including the difficulty of securing strong penalties. Out of the 1,850 sanctions issued for crimes against Public Administration since 2011, one quarter involved imprisonment, one quarter involved house arrest, and half did not receive any detention.

Notwithstanding the challenges, the Colombian government has made some significant advances related to commitments undertaken in its 2013 Anti-Corruption strategy to improve transparency of, and public confidence in, government institutions. These commitments include reducing bureaucracy, making more efficient use of public management tools, and requiring government agencies to release comprehensive information regarding finances, procedures and statistics. The Secretary for Transparency has estimated that the government was close to meeting 80 percent of its commitments.

Additionally, the Colombian government has made efforts to build inter-agency partnerships that address corruption, such as the creation of the Anti-Corruption Coordination Committee, comprised of the Colombian National Police (CNP), the Financial Information and Analysis Unit (UIAF), the CNP Directorate of Criminal Investigation (DIJIN), and the Presidency of the Republic. The new Attorney General and new Inspector General of the Republic have both declared that anti-corruption efforts will be a priority for them.

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 Colombia's rural policing capabilities. Additionally, the United States supports Colombian efforts to move communities out of coca-based economies by expanding the presence of the state, strengthening licit market linkages, and promoting the rule of law. In conflict-affected areas where the Colombian government has only recently established minimum security, the United States works with Colombia to respond rapidly to community-identified needs, strengthen local institutions and security presence, develop social capital and encourage greater civil-society participation, promote land restitution and formalization, and support longer-term economic development opportunities. A multi-variable index analysis of these areas shows progress in terms of security, local governance, and economic development.

Through the U.S.-Colombia Action Plan on Regional Security Cooperation, Colombia's security forces provide expertise for countering transnational organized crime and drug trafficking to nations in Central America and the Caribbean. The Action Plan has expanded to include more than 271 activities in six countries during 2016.

Bilateral maritime counterdrug cooperation, exercised under the ship-boarding agreement signed in 1997, continues to be one of the most effective in the region, enabling the seizure of over 146 MT of cocaine in 2016.

D. Conclusion

Colombia continues to take steps to combat the drug trade. These efforts have kept hundreds of metric tons of drugs each year from reaching the United States and other markets and helped Colombia take important strides towards reaching a just and lasting peace. Building on these gains, Colombia is also exporting security expertise and training to international partners. Peace accord implementation will require the Colombian government to devote unprecedented resources to enhance government presence, improve security, increase public services, build infrastructure, and generate licit economic opportunities in regions historically influenced by organized criminal groups. While the Government of Colombia continues to pursue robust interdiction efforts against trafficking organizations and criminal networks, the preliminary estimated coca cultivation and cocaine production figures for 2016 indicate a dramatic increase in cultivation and cocaine production. The U.S. government continues to encourage the

Colombian government to implement whole-of-government counternarcotics and economic development activities, including eradication, in areas of significant coca cultivation.

While Colombia expects to pay for the great majority of its post-accord needs, it will look to the international community for critical catalytic assistance. On February 4, 2016, the Administration of President Obama announced a framework for bilateral relations looking toward a post-peace accord era known as “Peace Colombia,” and a budget request of \$450 million for fiscal year 2017 to support ongoing U.S. assistance to Colombia.

Costa Rica

A. Introduction

Costa Rica's strategic location, porous borders, limited security forces, and thinly-patrolled waters make it a major transit and storage country for illicit drugs. The United States estimates that approximately 90 percent of the cocaine trafficked to the United States in 2016 first transited through the Mexico/Central America corridor. In 2016, Costa Rican authorities seized a total of 24.5 metric tons (MT) of cocaine, a 44 percent increase over the same period in 2015. Bulk cash seizures from drug proceeds totaled over \$9.8 million in 2016.

Costa Rica has a relatively low homicide rate compared to other countries in the region. However, the murder rate in Costa Rica reached a record 579 homicides in 2016, equivalent to 11.8 murders per 100,000 people, in a three-year upward trend. Crime is concentrated disproportionately in certain areas, such as the province of Limon, where the murder rate is 22 per 100,000. Overall violent crime increased in 2016. Emboldened tactics by criminals, including turf-war related shootings in broad daylight, have focused the Costa Rican security forces and justice sector on the increased presence of illegal drugs and associated corrosive effects on society.

The government steadily increased its spending on law enforcement agencies from 2002 to 2015. However, serious fiscal problems led to a 22 percent cut in the Ministry of Public Security (MPS) 2016 operating budget. The National Police hired below attrition in 2015 due to a personnel freeze. The MPS is planning to hire 1,500 new police (over 10 percent of the current force) in 2017 due to a budget increase. Costa Rica continues to invest in the Coast Guard (SNG), which interdicts the majority of cocaine seized in the country. The SNG purchased a new 45-foot interceptor for its Caribbean operations in 2016, which was involved in a successful interdiction on its first day in operation.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Between 2010 and 2014, Costa Rica added 1,957 officers to its national police force. However, the number of police has fallen since then, and additional officers are needed in every police service, including the National Police, Coast Guard, Border Police, and Immigration Police. The country's ranks of prosecutors and Judicial Investigative Police (OIJ) also remain understaffed, particularly in specialized units. In 2016, salaries squeezed operational spending to 26 percent, down from 31 percent of the budget in 2015, affecting the MPS' ability to purchase equipment, provide maintenance, and invest in infrastructure.

Created in 2012, Costa Rica's Border Police continues to take on critical roles in border security and land interdiction of narcotics. Its first-ever director was appointed in March 2016, and has provided strategic direction, including for the effective operation of Costa Rica's most significant border checkpoint. The Border Police remains too understaffed to effectively secure

the northern and southern borders, which include some of Costa Rica's most inaccessible places. In 2016, the force increased modestly, and more robust growth is needed.

Despite continued resource constraints, the SNG remained an effective regional partner for maritime interdiction, actively patrolling Costa Rica's waters and working well with the U.S. Coast Guard (USCG) under the 1998 bilateral agreement to suppress illicit traffic, including through joint patrols. Both the SNG and Border Police improved cooperation with Panama in 2016, enabling greater communication and joint operations along the land and maritime borders. The Air Surveillance Service began taking an active role in maritime interdiction, conducting successful operations with the SNG in 2016.

The Costa Rican Constitutional Court ruled in 2016 that police may monitor wiretaps, with judicial oversight. Previously, judges were required to listen to all wiretaps personally, greatly limiting the number of intercepts and the information derived. Although the written decision of the court has not yet specifically identified the police agency or to what degree investigators will be permitted to monitor judicial wire taps, this is a significant change that will allow for greater use and eventual expansion of the Judicial Wire Intercept Program.

2. Supply Reduction

In 2016, Costa Rica seized 24.5 MT of cocaine, considerably exceeding the 17.04 MT that was seized in 2015. One of Costa Rica's greatest challenges is intercepting drug traffickers operating just outside the operational reach of the SNG. The SNG anticipates receiving two patrol boats as excess defense articles from the USCG in late 2017, which are expected to expand their operational reach.

Costa Rica is a regional leader in eradicating and seizing marijuana. In 2016, Costa Rican authorities destroyed 2.1 million plants, up from a total of 1.5 million plants in 2015 and a near-record total. Local marijuana is grown primarily for domestic use, with a small fraction exported. Seizures of marijuana from Jamaica and Colombia are also fairly common, mostly intended for the domestic market. A cocaine-for-marijuana/arms trade between Jamaica and Costa Rica appears to be growing, with Costa Rican authorities working to develop stronger operational ties with Jamaican counterparts.

Seizure totals of illegal drugs other than cocaine and marijuana, including synthetic drugs, remained small in 2016. The Judicial Investigative Police and Costa Rican Drug Institute monitor for signs of synthetic drugs in Costa Rica.

3. Public Information, Prevention, and Treatment

The production, trafficking, and sale of illicit drugs remain serious criminal offenses in Costa Rica, even if laws against personal consumption are rarely enforced. The Costa Rican Drug Institute is the government agency that oversees drug prevention programs, including publicity campaigns and materials for schools. The Institute on Alcohol and Drug Abuse also offers treatment and prevention programs, including training for companies that seek to create their own prevention plans, though considerable gaps remain. With the recent increase in violence,

the MPS is increasingly focused on prevention programs, especially targeting youth in vulnerable communities and outreach to municipalities.

The National Police implement the Drug Abuse Resistance and Education program and the Gang Resistance Education and Training (GREAT) program. GREAT began in August 2013, and has grown from 800 graduates in 2014 to over 8,100 in 2016.

4. Corruption

Costa Rica does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. The growing presence of transnational criminal organizations and their harm inflicted on Costa Rican society, including corruption, is a chief concern. The government generally implements a 2006 law that penalizes official corruption. However, there are frequent reports of low- and mid-level corruption. Shortly after taking office in May 2014, President Luis Guillermo Solís claimed the Costa Rican government had lost \$112 million (7 percent of GDP) to corruption since 1999. Levels of corruption appear uneven among different government agencies, with some more severely affected than others. Due to legal constraints, some officials report difficulty in disciplining or removing personnel from a post even when found guilty of corruption.

Costa Rica is focusing on open government initiatives to improve transparency, in response to increasing citizen skepticism on government accountability and effectiveness. Citizen awareness and engagement with these efforts remains low. The 2014 arrest and prosecution of a high-level judge on corruption charges and common pre-trial and early release of suspected drug traffickers and violent criminals continue to cast a shadow over the judiciary and Ministry of Justice, which is responsible for corrections. Costa Ricans have expressed cynicism regarding the government's capacity to enforce the rule of law and bring criminals to justice. OIJ and Poder Judicial, the country's judicial branch which includes judges, prosecutors, and public defenders, convened a commission in 2014 that determined corruption was a moderate, but increasing, threat to the institution. Poder Judicial has developed a project to strengthen the existing ethics framework and implement mechanisms to deter corruption. The United States stands ready to support this and related efforts to stem corruption and increase justice sector effectiveness.

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

Costa Rica shares the U.S. priorities of disrupting the flow of illicit drugs and dismantling organized crime. The United States supports Costa Rican efforts to investigate and prosecute crimes more effectively, to make its borders more secure, and to increase the safety of its citizens, consistent with the U.S. Strategy for Engagement in Central America and the Central America Regional Security Initiative (CARSI).

The United States supports police professionalization, including a range of training and a thorough reworking of the country's police academy curriculum. The National Police has made progress in implementing the COMPSTAT crime-tracking system, which has allowed it to identify problematic neighborhoods and distribute police resources more effectively. MPS began

work in 2016 to include outreach to municipalities and expand prevention programs within its community policing strategy.

In the justice sector, the United States supports training programs for investigators, prosecutors, and judges on a broad range of topics, including trafficking in persons, money laundering, undercover operations, and others. A course on competency-based instruction and course design has improved the quality and training of incoming prosecutors in 2016. The United States supports a highly successful restorative juvenile justice program that continued to grow in 2016, and a judicial wiretap intercept program whose success has led the Constitutional Court to pave the way for expansion.

Costa Rica supports Operation Martillo, the international maritime effort to target traffickers in the Central American corridor. Costa Rica does not have a standing military, and port calls by military ships are subject to legislative approval, which is typically politically sensitive. In 2015, the legislature unanimously agreed to provide blanket landing approval for unarmed foreign military aircraft, greatly facilitating joint maritime patrol and other operations.

The United States continues to support Costa Rican efforts to further strengthen the Coast Guard and Air Surveillance Service interdiction capabilities, providing boats with greater reach, a ground-based radar, equipment, training, and professional exchanges. These increasingly professional and strategic forces are willing partners with still greater potential.

In addition, a U.S.-supported Maritime Interdiction Vetted Unit comprised of representatives from a specialized law enforcement unit and the SNG was revamped in 2016 and had a string of highly successful operations, netting 25 percent of total cocaine interdictions. It has proven itself a critical asset in the fight against maritime drug trafficking and corruption.

D. Conclusion

Despite Costa Rica's ongoing efforts to strengthen its ability to combat drug trafficking, the country's fiscal challenges threaten to undermine progress achieved in the security and justice sectors. An increase in the flow of cocaine from South America and increased use of landing strips to transport drugs and cash between Mexico and Costa Rica add to the challenges. A complex bureaucracy and leadership changes in key posts slow the pace of capacity building, and corruption remains a nagging issue. The challenges are urgent; Costa Rica was one of the top three first-stop countries for cocaine transiting to the United States in 2016. Organized criminal elements wield growing influence, and the palpable effect on society has made counter-narcotics efforts a top political issue.

Costa Rica should protect its previous investments in security, despite fiscal constraints, and invest further in human capital. Top priorities for increasing effectiveness and efficiency should include 1) professionalizing police and judicial institutions, along with some restructuring and anti-corruption measures; 2) using advanced investigative techniques aimed at organized crime; and 3) passing laws that specifically target organized crime and its proceeds. The government should invest in border security as it continues to build up the Coast Guard and Air Surveillance Service. Both maritime and terrestrial capabilities must be strengthened in order to effectively

combat drug trafficking. Finally, Costa Rica should continue to strengthen its cooperation with regional partners. Its successful engagement with Panama and Colombia is yielding results and holds great potential.

Cuba

Despite its proximity to the largest exporters of illegal drugs in the hemisphere and the U.S. market, Cuba is not a major consumer, producer, or transit point of illicit narcotics. Cuba's domestic production and consumption remain low due to active policing, strict sentencing, and nationwide prevention and public information programs. Cuba's intensive security presence and interdiction efforts have kept supply down and prevented traffickers from establishing a foothold. Cuba concentrates supply reduction efforts by preventing smuggling through territorial waters, rapidly collecting wash-ups, and conducting thorough airport searches. Cuba dedicates significant resources to prevent illegal drugs and their use from spreading, and regional traffickers typically avoid Cuba.

The most recent maritime seizure statistics are from calendar year 2015, during which the Cuban government seized 906 kilograms (kg) of all illegal drugs, including 182 kg of cocaine, 700 kg of marijuana, and 24 kg of hashish oil. During this period, Cuban authorities detected the territorial incursion of 48 suspect "go-fast" boats along the country's southeastern coast. In 2015, Cuban customs reported disrupting 59 drug possession cases at airports, seizing a total of 82 kg of illegal drugs, including 50 kg of cocaine. Except for two cases involving travelers in transit, all suspects arrested at the country's airports apparently intended to introduce drugs locally. In July 2016, Cuban judicial authorities sentenced 11 Cuban nationals to 15-30 years imprisonment for smuggling marijuana from Jamaica through Cuba to the Bahamas; this included the extradition of the principal organizer from Jamaica.

With respect to international cooperation, the Cuban government reports 40 bilateral agreements for counterdrug cooperation, including the new U.S.-Cuba counternarcotics arrangement that was signed in July 2016. The U.S. Embassy maintains a U.S. Coast Guard (USCG) liaison to coordinate with Cuban law enforcement. USCG and Cuban authorities share tactical information related to vessels transiting Cuban territorial waters suspected of trafficking and coordinate responses. In addition, direct communications were formally established between the U.S. Drug Enforcement Administration (DEA) and their Cuban counterparts within the Ministry of the Interior's National Anti-Drug Directorate (DNA) in July. Cuba also shares real-time tactical information with the Bahamas, Mexico, and Jamaica.

Cuba has assisted in U.S. judicial proceedings by providing documentation, witnesses, and background for cases in U.S. state and federal courts. The United States and Cuba continue to hold semi-annual expanded bilateral discussions on law enforcement and counternarcotics cooperation. Enhanced communication and cooperation between the United States, international partners, and Cuba, particularly in terms of real-time information-sharing, may lead to increased interdictions and disruptions of illegal drug trafficking.

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

The United States' ability to evaluate the drug control situation within North Korea is extremely limited due to the regime's minimal international engagement and ongoing repression of all independent media and civil society. The best available information on the subject continues to come from DPRK refugees, defectors, and media reports from neighboring countries. According to these sources, methamphetamine production and consumption appears to be relatively widespread within North Korea, supplied primarily by independent criminal entrepreneurs.

According to unconfirmed reports, methamphetamine use is common in the northern areas of North Korea bordering China, and the drug is apparently widespread across multiple strata of society, reflecting its prevalence and relatively low-cost. Some North Koreans reportedly use the drug for purported medicinal purposes. No information exists to determine whether demand reduction or treatment services are provided by the state. Drug use remains technically illegal in North Korea, and according to unconfirmed media reports, convicted violators are subject to lengthy imprisonment or, in extreme cases, execution.

There is insufficient information to determine whether DPRK state entities are currently involved in the production or trafficking of methamphetamine or other illicit drugs. Starting in the 1970s and most recently in 2004, numerous law enforcement incidents implicated DPRK officials in illicit drug sales, including large-scale maritime transshipment. The absence of incidents over the past decade could indicate either involvement by DPRK officials in drug trafficking, or, alternatively, better concealment methods.

The best available information suggests that most methamphetamine production now takes place in small clandestine laboratories that appear to operate independently of the state, facilitated by bribes. China is the main destination for DPRK traffickers. Unconfirmed media reports have alleged that Chinese authorities have pressed North Korea to crack down on this trade, and Chinese enforcement against cross-border smuggling has intensified in recent years. Perhaps motivated by this pressure, North Korea appears to have increased its own border enforcement since 2015. No methamphetamine of North Korean origin has been detected in Japan for several years, though absence of law enforcement cooperation between North Korea and its neighbors prevents thorough attempts to trace trafficking routes in the region.

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 six percent of the cocaine transiting to those markets transships through the Dominican Republic. Maritime routes, involving the use of “go-fast” boats and commercial containers, continue to be the primary method of smuggling drugs into and out of the country. The country is experiencing an increase in drug-related violence, partially attributable to the practice of drug trafficking organizations paying local partners in narcotics, which leads to the development of local drug gangs that engage in violent turf battles to control domestic drug distribution.

In order to combat the influence of drug traffickers, the Dominican Republic continued its cooperation with the U.S. government in 2016 to interdict illicit drugs and extradite criminals, including those charged with narcotics-related crimes. The United States works actively with the Dominican Republic to plan and conduct international operations to seize illicit drugs and dismantle criminal organizations; 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 and U.S. governments to combat illicit drug trafficking and related transnational crime. The U.S. government’s primary partners are the National Directorate for the Control of Drugs (DNCD); the Dominican National Police (DNP); the National Council on Drugs (CND); the Office of the Attorney General; the National Intelligence Directorate (DNI); and the Dominican Armed Forces. The Dominican Specialized Corps for Port Security, working in conjunction with U.S. authorities and private port operators, continued efforts to improve security at key ports. The participation of the Dominican government in the Cooperative Situational Information Integration system, the Caribbean Basin Security Initiative (CBSI), and the Central America Integration System (SICA) enhanced relations with the United States and regional Caribbean partners. Dominican authorities continued joint efforts with the 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. A new extradition treaty entered into force in December 2016, which replaces the 1909 treaty, and provides for extradition on a much broader scope of crimes, including drug offenses. In 2012, the United States and the Dominican Republic entered into a Permanent Forfeited Asset-Sharing Agreement. To date, over \$3 million in assets have been shared under this 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 one of the most active extradition partners in the world for the United States. Although there is no formal bilateral mutual legal assistance treaty between the Dominican Republic and the United States, requests for legal assistance are made through informal channels and formal means pursuant to 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

Illicit drugs are seized throughout the country, but the majority of seizures are made through operations targeting vessels from South America. In 2016, 8.45 metric tons (MT) of cocaine were seized directly by Dominican forces within the territory of the Dominican Republic. The Dominican government also contributed to over two MT of seizures by U.S. authorities and other international partners of drugs headed to and from the Dominican Republic. There has only been one confirmed track of an illegal drug flight from South America to the Dominican Republic since 2010. 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 the southern coast, as well as to interdict drugs exiting the Dominican Republic.

One Dominican port, Caucedo, is certified under 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 certified. The DNCD is attempting to increase efforts to combat contraband at the ports.

3. Public Information, Prevention, and Treatment

Local drug use is concentrated in tourist and major metropolitan areas, although drug use and associated violence occurs throughout the country. The DNP continued demand reduction efforts in 2016 to warn Dominican youth of the negative effects of drug use under the Strategic National University Plan on the Prevention and Use of Drugs. The DNP continues to promote community-based policing as an effective way to deal with crime locally. With the publication of its Community Policing manual in the spring of 2015, the DNP began outreach at the command level to implement community policing concepts more fully in the capital and its environs as well as in other major population centers around the country.

4. Corruption

As a matter of policy, the Dominican government does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. However, corruption remains endemic. The Government of the Dominican Republic has taken

some steps to address corruption among military and law enforcement forces, but corruption remains a significant impediment to law enforcement efforts in the country and prosecution of corrupt high-level officials is not the norm. The judiciary is politicized and accused of corruption, and the legal system offers little recourse to those who lack money or influence.

In 2012, the Dominican government established the multi-donor Participatory Anticorruption Initiative, which resulted in a 30-point action plan to strengthen fiscal transparency and government accountability. Progress has been made in implementing key recommendations, including the establishment of a Single Treasury Account (STA) within the Finance Ministry and the elimination of more than 2,500 individual government expenditure accounts. U.S. assistance continues to focus on supporting multi-year, performance-based budgeting, STA implementation, and strengthening of the public procurement system.

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 CBSI. With CBSI funds, the United States 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 drug control efforts with the United States and neighboring countries' law enforcement agencies. The United States works 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 high number of extraditions and deportations of fugitives to the United States.

The United States provided equipment and training to increase the capabilities of Dominican law enforcement entities, including support for the DNCD drug-detection canine units, and other specialized DNCD investigative and reactive units. The United States enhanced DNCD's computer training, database expansion, and systems maintenance support. In October 2014, a new canine facility opened and Dominican authorities are working with neighboring countries to use it as a regional training center. The United States continues efforts to strengthen maritime capabilities through training in maritime law enforcement, search and rescue, port security, crisis management, and professional development for the Dominican Navy's officer and enlisted corps. The United States continues to provide 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. Colombian National Police officers conducted 36 training activities for DNP officers under the U.S.-funded Colombia Action Plan in 2016. Twenty-seven activities are planned for 2017 under this trilateral initiative and several additional activities are under review. The programs provide training for 600-700 DNP officers of all ranks. In addition, the Dominican legislature ratified a new Police Organic Law in July 2016 that will bring about significant institutional changes to the DNP. The Dominican Republic continues to work towards passing legislative proposals related to illicit enrichment and anti-corruption by public officials. Efforts to strengthen the infrastructure of the Financial Analysis Unit remain 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. These CBSI programs contribute to building the capacity of the national police and prosecutors to develop stronger cases and coordinate efforts leading to more successful prosecutions. As part of CBSI, U.S. assistance 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. CBSI funding also has been used for crime prevention programs that help at-risk youth pursue education, vocational training, and employment.

D. Conclusion

Combating pervasive corruption, restoring public confidence in law enforcement entities and the judiciary, addressing maritime illicit drug smuggling, and combating rising levels of drug-fueled violence remain among the challenges facing the Dominican Republic. The Dominican Republic's highly successful aerial and maritime interdiction efforts since 2010 demonstrate that Dominican institutions have the capacity and will to stem the flow of drugs into the country. The Dominican government must continue to improve its efforts to build a coherent, multifaceted counterdrug 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 consists of the six entities of the former Netherlands Antilles: Aruba, Curacao, Sint Maarten, Bonaire, St. Eustatius, and Saba. In 2010, the Netherlands Antilles dissolved as a political unit. Curaçao and Sint Maarten acquired the same “autonomous country” status within the Kingdom of the Netherlands as Aruba, which became an autonomous entity in 1986. The three smallest islands, Bonaire, St. Eustatius and Saba, became part of the country of the Netherlands.

Aruba and Curacao are located 30 to 40 miles north of Venezuela and continue to serve as northbound transshipment points for cocaine originating from Colombia and Venezuela. Cocaine is primarily transported via fishing boats and inter-coastal freighters for transshipment to the United States, other Caribbean islands, Africa, and Europe. Sint Maarten, the Dutch half of the island of the same name (the French side is called Saint Martin), is located in the Eastern Caribbean and is a transshipment hub for cocaine, heroin, and marijuana destined for Puerto Rico and the U.S. Virgin Islands as well as Europe.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Aruba, Curaçao, and Sint Maarten have a high degree of autonomy over their internal affairs, with the right to exercise independent decision-making across a range of issues relevant to drug control. The Kingdom of the Netherlands is responsible for the islands’ defense and foreign affairs, and assists the governments in their efforts to combat narcotics trafficking through its support for the RST (Dutch acronym for “Special Police Task Force”). In 2012, both Curacao and Sint Maarten adopted the BOP (Dutch acronym for “law on special investigative techniques”), which governs the use of techniques such as electronic surveillance and undercover police operations. The BOP was already in effect in Aruba. No new counternarcotics programs were initiated in 2016.

In June 2016, the United States, the Kingdom of the Netherlands, Aruba, Sint Maarten, and Curacao signed a memorandum of understanding (MOU) to promote enhanced law enforcement cooperation and to strengthen criminal justice capacities in the Caribbean parts of the Kingdom of the Netherlands. At the conclusion of 2016, a working group was in the process of identifying priorities to implement under the MOU.

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 and insufficient resources, the KPA continues to investigate trafficking organizations effectively. The Organized Crime Unit of the KPA

conducted several successful investigations in 2016, which led to the seizure of over 1,130 kilograms (kg) of cocaine and 63 kg of marijuana and the arrest of multiple subjects.

Curaçao

Curacao has improved its effectiveness and efficiency in addressing endemic drug-related crime, violence, and corruption. In 2015, the Korps Politie Curaçao (KPC) appointed a police chief who has enhanced the leadership and stability of the KPC, which in turn has led to successful counternarcotics operations, including a 300 kg seizure of cocaine at the island's international airport in October. During the first 10 months of 2016, authorities seized 963 kg cocaine and 613 kg of marijuana. Working closely with the U.S. Drug Enforcement Administration, local police arrested a Dutch national U.S. military contractor at the U.S. Forward Operating Location in Curacao for drug trafficking on November 16.

Sint Maarten

Sint 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 have expanded their base of operations into Sint Maarten believing that law enforcement is less prevalent. However, regional law enforcement agencies have increased cooperation. In 2016, authorities continue to successfully investigate several drug trafficking organizations that were transporting hundreds of kilograms of cocaine from Sint Maarten to the United States and Europe. These investigations included unprecedented cooperation between the Korps Politie Sint Maarten (KPSM), RST, and French, Dutch, British and U.S. authorities.

Bonaire, St. Eustatius, Saba

The National Office for the Caribbean in the Netherlands Ministry of Interior Affairs and Kingdom Relations 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, while the Dutch Ministry of Security and Justice handles mutual assistance and extradition matters.

2. Public Information, Prevention, and Treatment

U.S. military service volunteers continue to conduct outreach to youth through ad hoc sports programs. There is one drug treatment center in Aruba and another in Curacao which is run by a non-governmental organization, but lacks adequate funding. On Curacao, both a shelter for persons suffering from substance use disorders and the local DARE program were discontinued in 2016 due to insufficient funding.

3. Corruption

None of the Dutch Caribbean countries, as a matter of government policy, encourages or facilitates illegal activity associated with drug trafficking, nor have any senior government

officials engaged in such activity, although a former Curacaoan prime minister is on trial for money laundering and fraud.

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

The objectives of U.S. counternarcotics policy in the Dutch Caribbean are to promote cooperation between law enforcement and military partners, and to reduce illicit drug trafficking. The U.S. Drug Enforcement Administration works with its island counterparts to advance joint investigations, both within the Dutch Caribbean and the United States.

The Kingdom of the Netherlands supports drug control efforts by continuing to support U.S. Air Force Forward Operating Locations in Curaçao and Aruba. U.S. military aircraft conduct detection and monitoring flights over the southern Caribbean Sea. In addition, the Dutch Navy regularly conducts counternarcotics operations in the region and is a member of Joint Interagency Task Force South. The Royal Netherlands Navy intercepted 2.5 metric tons of cocaine and 747 kg of other drugs in 2016.

D. Conclusion

Six years after the dissolution of the Netherlands Antilles, Curaçao and Sint Maarten are still establishing counternarcotics organizational structures among their various agencies. It is imperative that both islands embrace regional cooperation and intelligence sharing efforts. Both Curaçao and Sint Maarten can look to Aruba as an example of how this is accomplished. The memorandum of understanding signed in 2016 to promote enhanced law enforcement cooperation is a positive step in the right direction.

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 in this report as the Eastern Caribbean (EC).

The region hosts abundant transshipment points for illicit narcotics, primarily from Venezuela destined for North American, European and domestic Caribbean markets. Local and international law enforcement believe traffickers are increasingly using yachts for drug transit, though “go-fast” boats, fishing trawlers, and cargo ships continue to play major transit roles. Homicide rates throughout the region remained at levels similar to those of 2015, although there was an increase in drug-related violent and non-violent crimes (including money laundering and bulk cash smuggling). Many of the homicides that do occur are a result of turf wars between organized groups fighting for control of drug distribution. Marijuana remains the most commonly used illicit drug within the region.

Eight consecutive years of declining macroeconomic growth leave EC law enforcement capacity increasingly beleaguered. EC governments made some improvements to still-antiquated criminal codes. However, in some countries, leaders failed to address public concerns about official corruption.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The EC countries are parties to the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials. All have an extradition treaty and a mutual legal assistance treaty in force with the United States. Several are signatories to Inter-American Conventions such as the Convention Against Corruption, the Convention on Extradition, the Convention on Mutual Assistance in Criminal Matters, and the Convention Against Terrorism.

The United States and Canada completed an \$11.25 million refurbishment of the Regional Security System’s (RSS) two Maritime Patrol Aircraft in August 2016. The RSS is a treaty-based collective defense organization of which the seven EC countries are members. These aircraft are used for counternarcotics purposes and continue to produce quantifiable results, including the interruption of many drug trafficking operations and the arrest of dozens of drug traffickers in 2016. Grenada, St. Vincent and the Grenadines, Antigua and Barbuda, and Dominica have laws that facilitate the prosecution of narcotics cases, including comprehensive civil asset forfeiture laws with a dedicated forfeiture fund to attack transnational organized crime by seizing illicit assets. The laws require that forfeited funds are channeled to support police, prosecutors, RSS contributions, victim restitution, and drug abuse prevention and treatment. All regional police forces have dedicated drug squads, and several receive support from the U.S. Drug Enforcement Administration (DEA). The Antiguan Government established a Drug

Information Network of Antigua and Barbuda in 2016 for the purposes of monitoring drug trends, developing policy, and implementing appropriate solutions.

2. Supply Reduction

Venezuela-based drug traffickers use the region's many uninhabited islands to move cocaine shipments up the island chain for onward transit to North America and Europe. Cannabis cultivation predominates in the mountainous regions of St. Vincent, St. Lucia, Grenada, and Dominica, and cultivation appeared to increase on Antigua and Barbuda in 2016. St. Vincent continues to be a primary source for cannabis in the Eastern Caribbean.

Barbados authorities reported a reduction in seizures on the sea during 2016, though it remains unclear if this suggests a reduced flow of drugs via Barbados or increased sophistication of traffickers in evading detection. The St. Vincent Drug Squad reported an increase in the transshipment of cocaine from Venezuela and Trinidad and Tobago. Typical conveyance of these shipments involve the use of "mother vessels" that remain off-shore (50 nautical miles or beyond), which offload smaller loads of cocaine typically ranging from between 20 and 200 kilograms (kg) to local boats. During the first nine months of 2016, drug seizures in the Eastern Caribbean totaled 1,103.8 kg of cocaine and 196.65 metric tons of marijuana, according to data shared by local governments with DEA. In the same time period, there were 159 arrests in connection with drug trafficking. No trafficking or consumption trends were reported involving synthetic drugs.

3. Public Information, Prevention, and Treatment

The region's drug of choice is marijuana, although abuse of over-the-counter pharmaceutical drugs is on the rise. Local use of cocaine and heroin is rare. The Government of Barbados operates an active Drug Treatment Court. St. Kitts and Nevis has several programs credited by its officials as successful. Grenada operates several drug treatment programs through its Drug Control Secretariat. Barbados, Grenada, and St. Lucia have drug rehabilitation clinics, and Barbados has one that specifically serves 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 for engaging in or facilitating the illicit production or distribution of controlled drugs or laundering of proceeds from illegal drug transactions. Nonetheless, many observers believe that drug trafficking organizations sometimes elude law enforcement through bribery, influence, or coercion.

The United States funded the establishment of an RSS Polygraph Corps in 2014, which certified 25 polygraphists in the Eastern Caribbean that year. Regional governments use the new corps of polygraphists to monitor sensitive police and other institutions. Eastern Caribbean governments

have established bilateral agreements allowing polygraph examiners from one EC country to conduct polygraph examinations in another EC country.

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 EC 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 justice. CBSI programming in the Eastern Caribbean strengthen the capacity of law enforcement institutions to detect, interdict, prosecute, convict and incarcerate criminals. These programs support information sharing networks, joint interagency operations, and regional training initiatives to promote interoperability.

CBSI regional projects are also underway in maritime and aerial domain awareness; criminal justice reform; preventing financial crimes; reducing demand for illegal drugs; and reducing illicit trafficking of firearms. The EC governments and RSS participate fully in CBSI.

Eastern Caribbean countries have bilateral maritime counternarcotics agreements with the United States that include provisions such as shipriders, pursuit, entry into territorial waters, and ship boarding authorization.

D. Conclusion

The United States encourages the countries of the Eastern Caribbean to continue to embrace CBSI partnership and to fulfill their budgetary commitments to the RSS. The United States also encourages the Eastern Caribbean countries to support programming to increase regional counternarcotics operations and build regional capacity, through joint training and cooperation. The United States further encourages the seven countries to continue to pass legislation to modernize their criminal codes, making use of regional best practices in fighting transnational organized crime.

Ecuador

A. Introduction

Situated between two of the world's largest cocaine producing countries, Ecuador is a major transit country for illegal narcotics. Cocaine and heroin from Colombia and Peru are trafficked through porous land borders and via maritime routes for distribution to the United States and Europe. While not a major drug producing country, Ecuador is a major transit country for chemical precursors to process illegal narcotics and is also vulnerable to transnational organized crime due to permeable borders and corruption. Ecuador's police, military, and 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, though the country's top leadership places the highest priority on demand reduction and addressing the public health aspect of the issue. Domestic drug consumption is rising and public treatment facilities are insufficient to treat the country's population suffering from substance use disorders. This growing drug consumption problem was compounded by a 2014 law that decriminalized personal use, possession, and consumption of most narcotics, hallucinogens, and stimulants.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Ecuadorian government is cognizant of the detrimental effects of narcotics trafficking and transnational organized crime throughout the country. During the first 10 months of 2016, 10,181 individuals were arrested for trafficking-related crimes, compared to a total of 8,386 in all of 2015, an increase of 21 percent. During 2016, the United States provided ongoing logistical and operational support for Ecuadorian counternarcotics operations, and the Government of Ecuador expressed interest in enhancing this cooperation, at least partially due to budgetary constraints exacerbated by an ongoing economic recession. The U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) and the U.S. Agency for International Development (USAID) ceased operations in 2014.

Ecuador's 2008 constitution categorizes drug abuse as a public health problem and mandates that the government develop prevention programs and provide treatment and rehabilitation options to addicts. A criminal code (COIP) that went into effect in 2014 increased penalties for most crimes, while decriminalizing personal use, possession, and consumption of relatively small amounts of narcotics.

The COIP created a tiered approach to drug trafficking and possession with larger amounts carrying longer prison sentences. To improve the efficacy of this tiered approach, in September 2015, the National Council for the Control of Narcotic Drugs and Psychotropic Substances drastically reduced the minimum amount of narcotics required to trigger each tier of punishment. Ecuador's Ministry of Interior has invested in developing technological capacities to target narcotics traffickers, including the improvement of a special crime laboratory in

Quito. The laboratory provides police with tools to catalog and search fingerprint records and conduct DNA tests and toxicology screening. An improved second laboratory was opened in Guayaquil in March 2016.

The Government of Ecuador has bilateral counternarcotics agreements with many countries in the region, including the United States. The United States and Ecuador have agreements on measures to prevent the diversion of precursor chemicals, the sharing of information for currency transactions over \$10,000, and a customs mutual assistance agreement. The U.S. Coast Guard and Ecuadorian maritime authorities also exercise Maritime Operational Procedures that coordinate the boarding of vessels claiming Ecuadorian nationality and stateless vessels in international waters.

The United States and Ecuador are parties to an extradition treaty that entered into force in 1873 and a supplementary treaty that entered into force in 1941. However, Ecuador's constitution prohibits the extradition of Ecuadorian citizens. Since March 2016, the United States and Ecuador have worked to improve administrative processes related to extradition requests. The United States and Ecuador do not have a mutual legal assistance treaty, but do have an asset-sharing agreement, and periodically cooperate under the Inter-American Convention on Mutual Assistance in Criminal Matters.

2. Supply Reduction

Ecuador remains a major transit country for cocaine shipments via air, land, and maritime routes, and heroin shipments via air and mail. Drug traffickers use various methods to move shipments, including containerized cargo ships, small fishing boats, self-propelled semi-submersible and fully-submersible submarines, "go-fast" boats, aircraft, human couriers, and mail. Transnational criminal organizations continue to operate in Ecuador.

Ecuador has made noteworthy improvements in surveillance capabilities along its northern border. Video monitoring is used in strategic smuggling chokepoints in Esmeraldas, Lago Agrio, Ibarra, and Tulcan.

Official police statistics indicate that cocaine seizures increased in 2016 from 2015. Cocaine seizures during the first 11 months of 2016 totaled 61 metric tons (MT), including base cocaine, an amount that exceeded the 59 MT of cocaine seized during all of 2015. Over this 11-month period, police seized 122 kilograms (kg) of heroin compared with 118 kg during all of 2015, and 10 MT of marijuana compared with 14 MT in 2015. Ecuador's seizure statistics include seizures in foreign locations from vessels that departed Ecuadorian ports.

Maritime seizures increased significantly in 2016, despite the Ecuadorian Navy's lack of resources. Ecuadorian maritime counternarcotics operations in 2016 included independent operations, including one in May 2016 in which Ecuadorian Navy and police joined with Colombia's National Police to interdict a semi-submersible vessel near the Galapagos Islands, resulting in the seizure of one metric ton of cocaine and the arrest of three suspects.

Drug traffickers use containerized cargo and shipping containers to smuggle drugs out of Ecuador, often concealing drugs in licit cargo. The Port of Guayaquil is a major South American transshipment hub for cocaine concealed in containerized cargo to Europe. The port authority, Contecon, employs security measures at its facility. However, only 10 percent of containerized exports are inspected. Traffickers also continue to smuggle liquid chemicals (including ether) from Ecuador to Colombia and Peru for cocaine processing.

In 2016, the United Nations Office on Drugs and Crime (UNODC) reported that there was no significant coca cultivation in Ecuador. Ecuadorian authorities have detected small scale coca and poppy cultivation along the northern border. The police or military immediately eradicate coca or poppy plants when discovered, although nearly all poppy plants are wild and not cultivated for heroin production. During the first eight months of 2016, the government eradicated 31,227 poppy plants, 20,896 coca plants, and 102 marijuana plants.

Synthetic drug production and consumption has not been a major issue of concern for Ecuadorian authorities, though the government has made arrests of organized groups involved in trafficking synthetic drugs. On April 5, the police arrested 10 Ecuadorian and Colombian members of a drug trafficking group that distributed synthetic drugs in Quito. The police also raided nine locations where this organization stored marijuana and MDMA (ecstasy). Ecuador has reported to UNODC the emergence of new psychoactive substances. The future of synthetic drugs in Ecuador is uncertain.

3. Public Information, Prevention, and Treatment

Domestic drug abuse continues to be a challenge in Ecuador. UNODC carries out demand reduction and drug prevention programs in Ecuador with funding from the European Union and other international donors. According to UNODC data, the average age of first-time drug users in Quito and Guayaquil rose from 13.7 in 2010 to 14.3 in 2014. 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. As of November 2016, there were 15 publicly-funded outpatient drug treatment facilities and no public inpatient drug treatment facilities in Ecuador. Other drug treatment options, such as the 198 private facilities that provide drug treatment alternatives, are often cost-prohibitive.

Coordination of abuse prevention programs is the responsibility of the Technical Secretariat for Drugs. This government agency, which began its operations in January, is responsible for coordinating the overall drug control policy in Ecuador and answers directly to the presidency.

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's 2014 penal code increased penalties for government officials who impede the prosecution of drug traffickers and strengthens the definition of conspiracy.

Narcotics-related corruption remains a problem within the public security forces. On February 16, seven police officers in Ibarra were arrested for their involvement in drug trafficking and were sent to prison. On October 27, 33 individuals involved in a drug trafficking organization that distributed drugs in Quito under the protection of a police officer were arrested.

Several government entities are responsible for receiving and investigating corruption complaints, but resource constraints and political pressure generally lead to a lack of prosecution.

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

Before 2014, the primary focus of U.S. government assistance and training was to enhance the capabilities and resources of Ecuador's police, military, and judicial agencies, enabling them to combat transnational criminal organizations involved in narcotics trafficking and money laundering. These coordinated operations resulted in sustained damages to drug trafficking rings, and helped strengthen Ecuador's sovereignty and national security.

The cessation of INL and USAID programs in 2014 reduced collaboration on programs aimed at improving economic conditions and reducing the trade in illicit drugs. Despite these setbacks, the United States continues to support Ecuador's security forces in limited ways. Ecuador participates in the annual U.S. Coast Guard-sponsored Multilateral Counterdrug Summit, which enhances bilateral cooperation in combating maritime drug trafficking and improving prosecution of maritime trafficking cases.

In 2016, the United States supported prevention programs in coordination with Ecuador's Ministry of Interior, Ministry of Education, the International Organization for Migration, and other governmental and multilateral entities that address drug abuse awareness.

Ecuador is making efforts to improve cross border counternarcotics cooperation with Colombia and Peru, and Ecuador and Colombia successfully coordinated a number of operations in 2016. On October 5, the press reported that 25 persons involved in a drug trafficking network were arrested as a result of a joint operation by the police of Ecuador, Colombia, and DEA. In August 2016, Ecuadorian authorities captured Peruvian drug trafficker Vicente Cosme Cordova Gavles, who was one of the most wanted men in Peru. He was extradited to Peru in September 2016. Furthermore, Ecuador increased maritime information sharing with both Colombia and Peru. The United States will continue to work with Ecuadorian police and security officials to increase their interdiction capacity at sea and in port facilities.

D. Conclusion

The United States supports Ecuador's counternarcotics efforts and strongly encourages Ecuador to place a high priority on the interdiction of illicit drugs and the control of chemical precursors, both on land and at sea. To address the growing challenges of narcotics trafficking, the Ecuadorian government will need to devote additional resources to augment the capacity of the police and military through the acquisition of interdiction equipment and provision of additional training for the police and the military.

While the implementation of Ecuador's 2014 penal code provided new tools to law enforcement personnel to conduct surveillance and operations, the lack of regimented investigative training continues to hinder Ecuador's ability to successfully prosecute transnational crime. The 2015 revisions to the penal code show Ecuador's commitment to combatting and reducing drug trafficking. By placing greater resources to implement the penal code changes into its legal system, Ecuador could increase interdiction, investigation, and prosecution of transnational crime.

Egypt

While Egypt is not a major source country of illicit narcotics or precursor chemicals, there is a significant market for hashish and tramadol (a prescription opioid) within the country. Egypt also serves as a transshipment point for narcotics trafficked from Africa to Europe and is developing into a significant smuggling route for fenethylline (an amphetamine-type stimulant) produced in Lebanon and Syria destined for Saudi Arabia and other Gulf countries. The Government of Egypt does not encourage or facilitate illicit production or distribution of narcotic drugs or other controlled substances, nor does it encourage the laundering of proceeds from illegal transactions. Egypt has strict laws and penalties for officials convicted of involvement in narcotics trafficking activities.

The Anti-Narcotics General Administration (ANGA), under the Ministry of Interior, oversees counterdrug operations and cooperates with the U.S. Drug Enforcement Administration (DEA) to identify, detect, disrupt, and dismantle national and international drug trafficking organizations. While ANGA works on a limited budget, updates to its operating equipment occur on a systematic basis. Cooperation between ANGA, the Egyptian Armed Forces' Special Forces, and Border Guard units remains good, including on large-scale anti-drug campaigns.

ANGA continued to seize large quantities of cannabis and psychotropic pills in 2016. During the course of the year, DEA and ANGA coordinated investigations resulted in the seizure of over six metric tons of hashish, 194,730,000 tramadol tablets, and over 19,000,000 fenethylline tablets. Most cannabis originated in Morocco and Lebanon. The volume of cocaine seized at Cairo International Airport remained relatively low at 13 kilograms, comparable to previous years, while seizures of MDMA (ecstasy) increased significantly, totaling 15,300 tablets in 2016.

Egypt oversees the import and export of all internationally-recognized chemicals through a committee composed of the Ministry of Interior (ANGA), Ministry of Finance (Customs), and Ministry of Health (Pharmaceutical). This committee approves or denies requests to import or export chemicals. Over the past few years, there was a spike in the importation of ephedrine, which is used in the legitimate production of cold and flu medicine but is also a precursor for methamphetamine. Based on the large amount being imported and comparing it to the population of Egypt, it is unlikely that all imported ephedrine is used for legitimate medicinal production. The Egyptian government, however, has stated that it has no reports indicating a large-scale diversion of ephedrine or other chemicals, and it has not made any significant seizures.

A U.S.-Egyptian mutual legal assistance treaty has been in force since 2001, and extradition between the two countries is governed in principle by an 1875 convention, though Egyptian cooperation under these instruments has been limited.

El Salvador

A. Introduction

El Salvador remains a major transit country for illegal drugs destined for the United States from source countries in South America. The United States government estimates that approximately 90 percent of the cocaine trafficked to the United States in the first half of 2016 first transited through the Mexico/Central America corridor. Traffickers in El Salvador use “go-fast” boats and commercial vessels to smuggle illegal drugs along the country’s coastline and to provide fuel to drug-laden vessels en route to northern destinations. The Pan-American Highway is the primary land route, with drug traffickers using buses and tractor-trailers to smuggle shipments.

The U.S. Strategy for Central America, the regional Alliance for Prosperity initiative launched by the governments of El Salvador, Guatemala, and Honduras, and the Government of El Salvador’s national-level Plan El Salvador Seguro (PESS) all include various programs to improve El Salvador’s security. These programs seek to strengthen the capacities of law enforcement, promote judicial reform, reduce prison overcrowding, advance cooperation on extradition, and discourage at-risk youth from engaging in criminal activity, among other goals.

In 2016, the Salvadoran government continued implementing PESS, a geographically-oriented, place-based approach to coordinate multiple lines of action aimed at reducing crime, including drug consumption and trafficking. The plan also includes drug prevention components. The Salvadoran government also passed a series of emergency measures aimed at securing the nation’s prisons and dismantling gang leadership structures, which play a role in local drug distribution. Despite a commitment to shared counternarcotics objectives, Salvadoran law enforcement agencies lack sufficient training and equipment to effectively manage the country’s borders and interdict drug shipments. There continues to be a lack of reliable information on the severity of drug trafficking and use in El Salvador.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) is the primary agency responsible for combating drug-related crimes throughout El Salvador. The vetted Grupo Especial Anti-Narcoticos unit (GEAN) within the DAN is responsible for conducting sensitive counternarcotics investigations. In 2016, the GEAN began the process of converting from a standard DEA vetted unit to an elite Sensitive Investigation Unit, fully integrated with equivalent units throughout the world, particularly in Colombia. As a result of this increased professionalism and formalized intelligence-sharing with the United States and Colombia, the GEAN significantly increased El Salvador’s ability to respond to drug trafficking alerts and develop investigations that target larger criminal organizations.

The Salvadoran government made some advances to the reform of its correctional institutions in 2016. On April 1, the Legislative Assembly approved “emergency measures” at seven priority prisons that have remained in place throughout 2016. These measures restrict known gang

members' access to the general prison population and place greater limits on family and attorney visitation. The government also worked with private sector telecommunications firms to block mobile service to areas immediately adjacent to the priority prisons, to further limit gang communication.

The United States has collaborated with El Salvador since 2010 to establish and maintain a National Electronic Monitoring Center, which began operations in June 2012. The center allows Salvadoran law enforcement authorities with judicial warrants to intercept electronic communications to support investigations of drug trafficking organizations and criminal gangs involved in street-level distribution of illegal drugs. On July 27-28, a Salvadoran government task force, Grupo 300, used evidence gathered through this center to launch "Operation Jaque," in which a diverse group of Salvadoran task forces and vetted units, including those supported by the United States, arrested 78 individuals involved in money laundering for the Mara Salvatrucha (MS-13) street gang. The operation seized over 250 vehicles and other assets such as hotels, bars, and auto repair shops, and was the first of its kind against MS-13 financial interests.

El Salvador is 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.

A Joint Interagency Task Force, "Grupo Conjunto Cuscatlán" (GCC), was established in 2012. In 2016, support from an embedded U.S. advisor, increased intelligence sharing with the United States and Colombia, as well as clearer division of responsibilities between PNC and military assets helped the GCC achieve a dramatic increase in drug seizures.

2. Supply Reduction

In 2016, Salvadoran authorities seized approximately 12.2 metric tons (MT) of cocaine. This amount was over four times the amount of cocaine in 2016 than in 2015, largely due to increased maritime seizures. During the first nine months of 2016, authorities also seized 538 kilograms (kg) of marijuana, 1.8 kg of crack cocaine, and 300 grams of MDMA (ecstasy), as well as bulk currency valued at \$537,696, and arrested 1,652 suspected drug traffickers. Overall, the Salvadoran government estimates that Salvadoran law enforcement denied \$203,461,954 in revenue to transnational criminal organizations in 2016.

3. Public Information, Prevention, and Treatment

Drug use among Salvadorans is a growing concern, particularly among youth. The government has not kept reliable statistics for illegal consumption since 2012. The PNC has been successfully implementing the Gang Resistance Education and Training (GREAT) program in public schools throughout Model Police Precinct (MPP) locations. In 2016, the United States trained and certified 83 additional Salvadoran PNC officers as full-time GREAT instructors. Since its inception, this El Salvador-based training program has certified over 1,171 regional officers and has trained more than 211,000 at-risk youth in Central America. In 2016, 15,349 youth completed the GREAT curriculum in El Salvador. In addition to the GREAT program, the

PNC has deployed the Police Athletic league in seven high-crime municipalities, benefitting over 3,500 at risk youth. In 2016, the United States' partnership with the PNC continues to support citizen security and prevention activities in 25 municipal districts through the Model Police Precinct (MPP) Program.

In 2016, the United States continued to support the Salvadoran Government in the implementation of PESS and its place-based approach. To support the MPPs, 823 PNC officers were trained and equipped to implement best practices in effective crime prevention, community policing, intelligence, and citizen engagement.

In 2016, the United States also helped strengthen the effectiveness of criminal justice procedures and practices by training 346 justice sector personnel in asset forfeiture and cybercrime; providing technical assistance to increase coordination between justice sector agents and institutions; improving criminal investigations ability to use scientific evidence; and building the capacity of the police and prosecutor's offices.

4. Corruption

As a matter of policy, the Government of El Salvador does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. However, corruption within the Salvadoran political system remains a serious problem. The United States continues to utilize U.S.-trained Colombian polygraphists via the trilateral International Cooperation Division (ICD) to assist El Salvador's security forces with anti-corruption efforts. In 2016, Colombian polygraphists completed 262 exams of PNC investigative units, DAN, GCC, Attorney General staff, and U.S.-supported task forces.

After assuming office in January, Attorney General Douglas Melendez reopened multiple corruption cases sidelined by previous leadership, leading to the prominent arrest of former Attorney General Luis Martínez on August 22, former President Antonio Saca on October 30, and the continued criminal investigation of former President Mauricio Funes, who sought and received political asylum in Nicaragua on September 6.

In January 2016, El Salvador signed an agreement with the United Nations Office on Drugs and Crime (UNODC) for technical assistance and capacity building in the field of anti-corruption, with support from the United States. Since the launch of the project, 1,991 Salvadoran stakeholders, including 54 judges, have participated in training and workshops.

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

The United States supports citizen security, law enforcement, and rule of law programs in El Salvador, mainly through the Central America Regional Security Initiative (CARSI) and the U.S. Strategy for Engagement in Central America. These programs aim to expand Salvadoran capabilities to interdict, investigate, and prosecute illegal drug trafficking and other transnational crimes, implement prevention programs, and strengthen El Salvador's justice sector. Through these initiatives, the United States trains and equips the PNC to perform anti-gang law enforcement. The United States also supports community policing in El Salvador with

equipment, vehicles, training, communications, and social and economic programs. The United States provided Salvadoran law enforcement the ability to use COMPSTAT, a statistical analysis tool that tracks the type and location of crime reports to more efficiently allocate law enforcement resources, and AFIS, an automated fingerprint database. This assistance builds upon prior U.S. assistance to Salvadoran authorities on the use of eTrace, an Internet-based system to trace firearms used in criminal activity.

The Government of El Salvador is a committed partner of the United States to combat organized criminal organizations and strengthen institutional capabilities to investigate narcotics related cases.

In 2016, U.S. assistance focused on enhancing the operational capacity of Salvadoran law enforcement agencies to interdict drug 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. supported efforts to combat criminal organizations, particularly the MS-13, 18th Street Sureños, and 18th Street Revolucionarios gangs, while developing and implementing integrated initiatives to disrupt criminal activity, including drug trafficking. U.S. assistance included specialized training for 658 Central American officers in intelligence-led policing, as well as basic and advanced community policing. The GCC utilizes four boats donated by the United States, and the United States will continue to assist the Salvadoran government to interdict illicit traffic utilizing maritime surface assets.

In November 2013, the Legislative Assembly approved an asset forfeiture law. The United States is working with El Salvador to implement the law through training for judges, prosecutors, national police, and the asset forfeiture program's governing organization (CONAB). In December 2015, El Salvador finalized its first civil asset forfeiture against a corrupt former legislator, who was subsequently criminally convicted of money laundering and sentenced to 15 years in prison in July 2016.

D. Conclusion

El Salvador strengthened its capacity to combat illegal drug trafficking in 2016. Authorities have demonstrated increased capacity to lead complex investigations, coordinate and share intelligence between agencies and with overseas counterparts, and dismantle organized crime structures. El Salvador still faces formidable challenges, and must take steps to promote sustainable and effective law enforcement institutions. Successful implementation of PESS, in tandem with the increased focus on organized crime, should improve the security situation in El Salvador.

The successes of 2016 can only be sustained if the Government of El Salvador demonstrates increased leadership on crime prevention, security, and rule of law. Future steps should include providing additional resources and equipment to the PNC and Attorney General's Office, as well as ensuring adequate pay and physical protection as key elements to minimize the risk of corruption. Security and justice sector officials must be held accountable for their performance and hiring and promotion must be based on merit. El Salvador's correctional institutions require

significant management reforms to expand their capacity. Sustainable reforms must be made to the prison system to build upon the temporary advances made under the emergency measures to ensure that criminal organizations are not operating within the prisons. Efforts must also be made to improve interdiction operations, especially land interdiction of drugs, cash, and other contraband such as firearms, ammunition, explosives, and munitions transported via the Pan American Highway.

The Salvadoran government understands that enhancing citizen security is essential for promoting the country's economic growth, and the continued focus on PESS and participation in the regional Alliance for Prosperity demonstrates such an understanding.

Georgia

While not a significant illicit drug-producing country, Georgia's strategic location in the Caucasus makes it an attractive transit hub for transnational criminal organizations trafficking significant quantities of cocaine, marijuana, heroin, and synthetic drugs from Asia to European destinations via the Black Sea. In 2016, Georgian authorities reported seizing significant volumes of illicit drugs including a large seizure of 177 kilograms of heroin and other opioids at the Black Sea Port of Batumi in June.

Government, non-governmental organizations, and law enforcement seizures report that cannabis and buprenorphine, a synthetic opioid, remain the most commonly used drugs in Georgia. Experts believe an estimated 50,000 Georgians regularly use illicit drugs. During 2016, the Interagency Coordinating Council for Combating Drug Abuse drafted the 2014-2015 National Anti-Drug Strategy Action Plan, which awaited final Council approval at the year's conclusion. In 2016, the International Organization for Migration, with U.S. support and in a close partnership with the National Center for Disease Control and Public Health and Ilia State University, launched a drug abuse information and prevention campaign targeting Georgian youth in Tbilisi, Shida Kartli, and Samegrelo-Zemo Svaneti. The program focuses on psychoactive substance abuse among Georgian youth in eight schools in the three regions.

To counter organized crime and support international narcotics related investigations, Georgia has police attachés deployed to Azerbaijan, Armenia, Turkey, Ukraine, Belarus, Poland, Germany, France, Austria, Greece, and Spain. In 2016, Georgia deployed police attachés to Italy and Sweden.

In 2016, the United States continued to strengthen Georgia's counternarcotics capacity through operational and training efforts for both law enforcement officers and prosecutors. Specific assistance included advanced narcotics investigation training; regional drug unit commanders' training; canine interdiction refresher training; complex and conspiracy investigations training; a regional targeting conference; airport drug interdiction training; and building Border Police capacity. Furthermore, the U.S. Drug Enforcement Administration opened an office in Embassy Tbilisi in 2016 and established a permanent country attaché. The Government of Georgia continues to show a strong interest in further collaboration with the United States.

Ghana

Ghana continues to be a transit point for illegal drugs, particularly South American cocaine and Southwest Asian heroin bound for European and North American markets. Marijuana is the main illicit drug used within Ghana and is trafficked within and from the country with increasing regularity, primarily to Spain. On August 22, more than two metric tons of cannabis were seized by the Customs Division of the Ghana Revenue Authority at Kpedze, near Ho in the Volta Region. Although there are no current statistics on cannabis cultivation within Ghana, some local law enforcement officials believe that cultivation increased in 2016.

Precursor chemicals obtained primarily from sources in Asia continue to be smuggled through Ghana's porous ports of entry for suspected use in clandestine labs to produce methamphetamine and psychotropic substances. According to Ghana's Narcotics Control Board (NACOB), the volume of drugs (cocaine, cannabis, heroin, and methamphetamine) seized within the first six months of 2016 declined markedly from the same period in 2015. NACOB reported that drug couriers are increasingly moving drugs from West Africa to the Gulf Region for further transshipment to Europe.

Ghana maintained a high degree of cooperation with the United States on counter-narcotics issues in 2016. The United States and Ghana continued successful law enforcement cooperation under the U.S. Drug Enforcement Administration's Sensitive Investigative Unit program, which uses special vetted personnel to pursue high-value cases. Supported by \$1 million in U.S. funding, the United Nations Office on Drugs and Crime also launched a new program in 2016 to provide basic equipment and training needed to establish police drug law enforcement units in four of Ghana's regions where these units do not currently exist. The United States increased funding during the year to further professionalize all substance use treatment staff in the country through the dissemination of U.S.-developed treatment curriculum and international credentialing, in partnership with the Colombo Plan. The United States also continued to support the Philip Foundation, a local non-governmental organization committed to reducing demand for illegal drugs. Through the West Africa Regional Training Center, the United States trained 780 mid-level Ghanaian criminal justice sector officials in 2016 on a range of skills from fundamental investigate criminal analysis to advanced narcotics investigations. In 2016, the United States provided training to the Ghanaian Navy on maritime vessel maintenance to support its drug interdiction efforts.

Ghana and the United States are both party to the 1931 extradition treaty with the United Kingdom, which has continued in force. There is no mutual legal assistance treaty between the two countries, although mutual legal assistance can be provided on a reciprocal basis through letters of request.

Guatemala

A. Introduction

Guatemala is a major transit country for illegal drugs. An estimated 1,000 metric tons (MT) of cocaine are smuggled through the country every year, the great majority of it destined for the U.S. market. Criminal organizations exploit Guatemala's porous borders and overburdened law enforcement agencies to traffic narcotics, cultivate marijuana and opium poppy, produce heroin and methamphetamine, and smuggle precursor chemicals. The virtual absence of a permanent law enforcement presence in many areas of the country enables other forms of transnational crime in addition to drug trafficking, including alien smuggling and trafficking in persons, weapons, counterfeit goods and other contraband.

The corruption scandals that led to the resignations, and subsequent incarcerations, of former President Otto Perez Molina and former Vice President Roxanna Baldetti in 2015 continue to reverberate. Related investigations led to leadership changes within most law enforcement agencies and government ministries in 2016. Key Guatemalan officials are now more established and have demonstrated political will to counter drug trafficking, corruption, and violence. Guatemala achieved some notable successes in 2016, including record drug seizures, the capture of high-profile criminals, improved interagency coordination, and enhanced regional cooperation. However, Guatemala's fight against criminal organizations continues to be hindered by endemic corruption, weak public institutions, and inadequate budget resources.

Guatemala is becoming increasingly aware of domestic drug consumption problems, especially among adolescents. Authorities are attempting to respond to this emerging trend through expanded drug prevention and treatment programs, but are impeded by a lack of budget support, personnel, and technical expertise.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

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2. Supply Reduction

As evidenced by record drug seizures in 2016, Guatemala remains a major transit corridor. In 2016, authorities seized more than 18.5 MT of cocaine, the highest annual amount on record. Guatemalan law enforcement agencies also reportedly confiscated 144 kilograms of heroin; seized more than \$10 million in bulk cash; and destroyed 2.8 million marijuana plants, 17 million poppy plants, and 106 MT of precursor chemicals. U.S. assistance boosted the capacity of law enforcement agencies, improved cooperation between the National Civil Police and the Guatemalan military, and increased cross-border cooperation with El Salvador and Honduras.

In 2016, the Guatemalan government employed a new methodology to estimate the number of hectares (ha) under poppy cultivation. While authorities previously focused on the San Marcos Triangle of Sibinal, Ixchiguan, and Tajumulco, they broadened their scope to include territory comprising roughly 275 percent more land compared to previous years. Out of the larger sample size of 32,133 ha in western Guatemala, host nation authorities estimate that 4,500 ha on average are under poppy cultivation, a dramatic increase over past estimates. There is no independent data to support or refute this estimate. In 2016, counternarcotics police launched just one poppy eradication mission due to intercommunal conflict over water in San Marcos, community resistance to prior missions, and the virtual absence of a state presence in the region.

Overall statistics for 2016, in particular the dramatic rise in cocaine seizures compared to 2015, appear to indicate that drug production and trafficking have increased in Guatemala. Drug traffickers continue to rely mostly on overland routes in the country's vast border regions. However, in September 2016 the National Civil Police seized the country's first semi-submersible smuggling vessel, an indication that drug trafficking organizations in Guatemala are becoming more sophisticated. A second semi-submersible vessel was seized just three weeks later.

3. Public Information, Prevention, and Treatment

According to a U.S.-funded national survey released by the Guatemalan government in 2014, young people aged 11 to 20 use marijuana and cocaine at higher rates than their counterparts in countries such as Mexico, Colombia, and Costa Rica. The study identified specific risk factors for Guatemalan adolescents, including easy access to illicit drugs, as well as low risk perception associated with the use of marijuana, cocaine, and MDMA (ecstasy). Since the government lacks sufficient resources to address these emerging trends, U.S. support in 2016 helped

Guatemala promote drug abuse awareness and prevention among municipal leaders, teachers, students, parents, and the private sector.

U.S. assistance in 2016 took a variety of forms and included support for mass student rallies to raise awareness about the health risks and negative social consequences of drugs; universal prevention workshops to educate students and adults about the neuroscience of drug addiction; the formation of multi-sectoral anti-drug coalitions; and implementation of evidence-based prevention strategies. In 2016, these programs reached more than 150,000 people in 14 of Guatemala's 22 regional departments.

Drug treatment centers in Guatemala are administered under the Ministry of Health. According to government sources, approximately 15,000 adults are currently in residential treatment, typically for marijuana and/or cocaine abuse. In 2016, a U.S.-funded study of 30 of the country's 100 treatment centers concluded that the majority of drug treatment providers, directors, and counselors lack technical expertise to meet the needs of patients. Further, most centers lack basic equipment and do not apply a formal therapeutic model to drug treatment. U.S.-supported programs are attempting to address these complex challenges. For example, CICAD and the United States supported a national six-month training program on best treatment practices for more than 100 treatment center directors and counselors in late 2016.

4. Corruption

The Government of Guatemala does not, as a matter of government policy, encourage or facilitate illegal drug production or distribution, nor is it involved in the laundering of the sale of illicit drugs proceeds. However, widespread corruption permeates public and private institutions and exacerbates the country's security, governmental, and economic challenges. With U.S. support, Guatemala's Attorney General and the UN International Commission against Impunity in Guatemala (CICIG) have investigated hundreds of government officials suspected of corruption since 2013. U.S. assistance also supports anti-corruption efforts by developing and training specialized vetted units, particularly those tasked with countering drug trafficking, money laundering, and criminal gangs.

Accomplishments in the broader fight against corruption in 2016 include the establishment of Offices of Professional Responsibility within Customs and Migration; the arrest of several officials on bribery charges involving the country's largest port terminal; the pursuit of several high-profile private sector cases worth approximately \$314 million in unpaid taxes and fines; and the establishment of Public Ministry investigative units in the Western Highlands.

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

Consistent with the U.S. Strategy for Engagement in Central America, as well as the Central American governments' Alliance for Prosperity initiative, the United States continues to be a key provider of assistance aimed at improving the professional capabilities, equipment, and integrity of Guatemala's police forces, judicial institutions, and the military, mainly through the Central America Regional Security Initiative (CARSI). The overall objective of U.S. assistance efforts is to create effective structures and organizations sustainable by the Guatemalan government.

In 2016, U.S. initiatives included ongoing efforts to establish 99 Model Police Precincts across Guatemala by the end of 2017. Each precinct will coordinate with municipal authorities and the National Civil Police on anti-gang operations, community policing, security observations, and joint patrols. In a separate U.S.-assisted campaign, the Guatemalan government will establish its first model prison based on a holistic approach to corrections. The model prison opened in December 2016. Other highlights related to U.S. programs include the launch of an anti-gang unit in the Jutiapa Department to investigate extortion and monitor gang activity on the borders with El Salvador and Honduras; the approval of the Field Officer Training concept at the National Civil Police Academy; and specialized train-the-trainer programs with the Colombian National Police and the Miami-Dade Police Department. U.S. efforts also include capacity building programs at the local level for mayors, police chiefs, and indigenous leaders.

Guatemala has made progress in drug control and border security operations at the regional level. In a U.S.-led effort, the National Civil Police's border security force coordinated with counterparts from El Salvador and Honduras during checkpoint operations in August 2016. Guatemala intends to expand regionalized border operations over the long-term. In the first reported use of a new tri-national security pact between the Northern Triangle governments, Guatemalan authorities arrested two notorious Salvadoran leaders of the MS-13 gang in October 2016.

D. Conclusion

The United States works closely with Guatemalan authorities to improve the government's capacity to provide security and justice to its citizens. In 2016, Guatemala made notable progress in the fight against criminal organizations to include enhanced institutional capacity, improved interagency and regional cooperation, and record interdiction and enforcement gains. However, significant challenges remain. Corruption is rampant, public confidence in government institutions remains low, violent crime persists, and limited budget resources hinder the government's ability to address the challenges associated with drug trafficking. Despite the country's many successes in 2016, the Guatemalan government will not succeed in building sustainable counternarcotics mechanisms until it fully implements its laws, reforms law enforcement and judicial institutions, accelerates judicial processes, improves interagency cooperation, and provides adequate financial support to relevant agencies and government ministries.

Guinea-Bissau

Guinea-Bissau is a transit hub for cocaine trafficking from South America to Europe. The country's lack of law enforcement capabilities, demonstrated susceptibility to corruption, porous borders, and convenient location provide an opportune environment for traffickers. Guinea-Bissau's political system remains susceptible to and under the influence of narcotics traffickers. The complicity of government officials at all levels in this criminal activity inhibits a complete assessment and resolution of the problem. Destabilizing changes of prime minister and ministers, first in August and September 2015, then in May and June 2016, have brought to a halt the reform process begun after free and fair elections in 2014.

The UN Office on Drugs and Crime (UNODC) and the UN Integrated Peace-Building Office in Guinea-Bissau (UNIOGBIS) have struggled to implement Security Sector Reform programming, with some limited funding from the United States. The European Union, Portugal, France, and Spain have also implemented bilateral forms of assistance and have attempted to cooperate with the Government of Guinea-Bissau on law enforcement matters. Brazil has maintained a police training program for many years.

Neither domestic nor international organizations have estimated the quantity of illegal drugs that transit Guinea-Bissau. The borders are porous and poorly controlled. The Port of Bissau has no meaningful security. Containers routinely enter and leave the country without inspection. Inadequate resources and lack of professionalism among law enforcement and judicial authorities have 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. Members of the customs service take money to allow passengers and articles to pass through border posts without inspection. Government salaries are often inadequate and frequently in arrears, further encouraging corruption at all levels.

Despite UNODC reports that drug abuse is a growing problem in Guinea-Bissau it remains a relatively small concern. No organization has conducted a systematic study of the problem to determine its scope; all assessments are based on anecdotal evidence. There are no government-funded treatment centers in Guinea-Bissau. The few operational centers are privately funded.

Guinea-Bissau does not have a mutual legal assistance Treaty with the United States, though it is party to multilateral conventions that enable such cooperation. There is no extradition treaty between Guinea-Bissau and the United States.

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, “go-fast” boats or various postal methods.

The influence of narcotics trafficking is evident in the country’s criminal justice systems and other sectors. 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 legislation in place that could enable a more-effective response to the threat of drug trafficking. The Anti-Money Laundering and Countering the Financing of Terrorism Act of 2009, Interception of Communications Act of 2008, Criminal Law Procedure Act (revised in 1998), and Narcotic Drug and Psychotropic Substances (Control) Act of 1988 were designed to enhance the investigative capabilities of law enforcement authorities and prosecutors in obtaining convictions of drug traffickers. In September 2016, using the 1988 Narcotic Act, the Guyanese government convicted one person for trafficking cocaine.

In 2016, the Government of Guyana launched a new National Drug Strategy Masterplan (2016-2020) and created a National Anti-Narcotics Agency (NANA). The government also amended its anti-money laundering law and drafted whistleblower and witness protection legislation.

The Financial Intelligence Unit (FIU) has the mandate to detect, prevent, and deter money laundering and financing of terrorist activities in Guyana. The FIU is charged with preparing suspicious transactions reports for the Special Organized Crime Unit (SOCU) to investigate, but is severely understaffed and ineffective. In June, the Government of Guyana appointed a new director of the FIU, and the functional capacity of the unit is progressing.

The Special Organized Crime Unit, which was established in June 2014 to investigate suspected cases of money laundering referred to it by the FIU, became operational in 2015. Despite its limited staffing capacity, in February 2016, the SOCU seized roughly \$80,000 in cash from suspected drug proceeds and arrested two persons suspected of money laundering. This was the first seizure under Guyana’s updated anti-money laundering legislation.

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 counternarcotics agreements with its

neighbors and the United Kingdom. Guyana is a member of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) and the Inter-American Convention against Corruption. 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 five major agencies involved in anti-drug efforts are the Guyana Police Force (GPF), Guyana Revenue Authority (GRA), the Customs Anti-Narcotics Unit (CANU), the Serious Organized Crimes Unit (SOCU), 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 U.S. partner in maritime interdiction, patrols Guyana's territorial waters and conducts humanitarian search and rescue missions. In 2012, with U.S. funding through the Caribbean Basin Security Initiative (CBSI), the UN Office on Drugs and Crime's (UNODC) Container Control Program (CCP) established a multi-agency CCP Port Control Unit at the John Fernandes Wharf, Guyana's most active port. In April 2016, the CCP Unit detected and seized 48 kilograms (kg) of cocaine and in June, 579 kg of marijuana. Through the first six months of 2016, the GPF reported seizing 16 kg of cocaine, a significant decrease from the 134.2 kg of cocaine that was seized over the same period in 2015. CANU reported seizing 60 kg of cocaine over this period (down from 568.3 kg in 2015), and the GRA did not report any seizures. Guyanese authorities convicted 46 persons on drug related charges during 2016.

3. Public Information, Prevention, and Treatment

Guyana lacks a comprehensive 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 Public Health, is the single government body responsible for addressing demand reduction. Non-governmental organizations 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 the "Skills and Knowledge for Youth Employment" (SKYE) project that provides vulnerable youth with training, mentorship, job placement and other support to increase their chances of success and to reduce youth involvement in crime and violence. The program also supports increased use of alternative sentences, so that youth who commit minor crimes are given an opportunity to rehabilitate outside penal facilities.

4. Corruption

As a matter of policy, the Government of Guyana does not encourage or facilitate the illicit production or distribution of narcotics 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 its provisions, such as the seizure of property obtained through corruption.

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 Guyanese citizens, primarily through CBSI. CBSI is a security partnership between the United States and Caribbean nations that seek to substantially reduce illicit trafficking, advance public safety and citizen security, and promote justice. Efforts to increase law enforcement capabilities, protect borders and ports, strengthen workforce development, and promote anti-money laundering effectiveness directly address priority concerns shared by Guyana and the United States.

The Government of Guyana cooperates closely with the United States but is limited by resource constraints and high levels of corruption in the country. The current administration (elected in May 2015) has expressed a strong willingness to cooperate with the United States on drug control, extradition, and mutual legal assistance, and other international crime issues.

CBSI-funded programs support Guyana's maritime operations by providing interdiction assets, and relevant command and control systems, as well as associated logistical support and training. In 2016, the United States provided port and maritime training to Guyana's Coast Guard. U.S. assistance programs also promote law enforcement professionalization and more effective narcotics investigations. By strengthening Guyana's counternarcotics capabilities, the United States seeks to enhance interagency coordination and help gather better information on drug trafficking routes.

D. Conclusion

The United States would welcome increased levels of cooperation with the Government of Guyana to advance mutual interests against the threat of international drug trafficking. Guyana has shown strong interest in furthering collaboration under CBSI. The United States looks forward to tangible progress on investigations, prosecutions, extraditions, security sector 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 originating in South America and marijuana originating in Jamaica, en route to the United States and other markets. This traffic takes advantage of Haiti's severely under-patrolled maritime borders, particularly on the northern and southern coasts. Haiti is not a significant producer of illicit drugs for export, although there is cultivation of cannabis for local consumption. Haiti's primarily subsistence-level economy does not provide an environment conducive to high levels of domestic drug use.

The Haitian government continued to strengthen the Haitian National Police (HNP) and its counternarcotics unit (Bureau for the Fight Against Narcotics Trafficking, or BLTS) with additional manpower, and officials at the highest levels of government have repeatedly committed to fight drug trafficking. While drug and cash seizures were higher in 2016 than in previous years, the government has been unable to adequately secure borders to cut the flow of illegal drugs. Principal land border crossings with the Dominican Republic are largely uncontrolled and the southern coastline remains virtually enforcement-free. The minimal interdiction capacity of the Haitian Coast Guard (HCG) creates a low-risk environment for drug traffickers to operate. While Haiti's domestic law enforcement interdiction capacity has improved marginally, a largely ineffective judicial system continues to impede successful prosecution of drug traffickers.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The HNP's 26th cadet class graduated in May 2016 with 1,508 officers, including a record 190 women. In August 2016, the 27th class entered the police school with 963 recruits, including 84 women. Its graduation in early 2017 will bring the total police force to 14,500. The HNP has already started preparing for the 28th class, scheduled to begin in mid- 2017 and expected to number 950 recruits. This will allow the HNP to meet its five-year development plan goal of 15,000 officers and to assume greater responsibility for security ahead of the drawdown and eventual withdrawal of the United Nations Stabilization Mission in Haiti (MINUSTAH) peacekeeping force.

The HNP's counternarcotics unit, BLTS, remains the institution dedicated to interdicting drug traffic. Attrition decreased its manpower to 170 officers in 2016, but an additional 59 officers from the 26th promotion brought manpower to 229 officers in December 2016. After completing a basic two-month counternarcotics course given by BLTS trainers with U.S. assistance, the new officers will be assigned to BLTS units and outposts, including border crossings to the Dominican Republic at Malpassee and Terrier Rouge.

BLTS enhanced its interdiction capacities in 2016 by assigning officers to new outposts in Ouanaminthe on the border with the Dominican Republic, and Cap Haitien on the north coast,

further expanding use of a 19-dog canine unit, and participating in U.S.-funded training in Colombia. BLTS assigned 15 officers to the HCG base in Les Cayes on the south coast, which now has a maritime interdiction capability that will increase operational capacity to deter drug trafficking along the southern coast. Delivery of two new vessels and related training took place in August, and the BLTS-HCG task force is now operational. A partially vetted unit was established and participated in sensitive operations led by the U.S. Drug Enforcement Administration (DEA). Airport canine prefabricated buildings were installed in Haiti's two international airports in Port-au-Prince and in Cap Haitien.

Reports of misconduct and participation in the drug trade by some HNP officers are investigated by the HNP's Inspector General's office. The HNP still faces challenges regulating its internal affairs, particularly in the south and in remote provinces. Between December 2015 and September 2016, a total of 20 officers were recommended for termination stemming from abandonment of post and corruption. The officers were removed from the HNP.

The HCG is the sole maritime enforcement agency in Haiti, responsible for securing maritime borders. Its effective strength of 160 officers will be complemented by an additional 60 officers from the HNP's 26th promotion to bring overall strength to 220 officers. The HCG has operating bases in Cap Haitien, Killick (Port-au-Prince), and Les Cayes. The force has a total of 18 maritime vessels, but only five are currently operational, with seven of the remaining 13 vessels non-repairable due to age or past viable hull life limit. Maritime domain awareness and enforcement are daunting tasks for the HCG, considering Haiti's 1,100 miles of coastline and seven international ports. Operational capacity remains low due to insufficient funding, management deficiencies, an inability to refuel, and unavailability of locally procured parts to maintain the vessels reliably. These issues have prevented the HCG from serving as an effective deterrent force to maritime drug trafficking.

Haiti maintains several core legal agreements in support of drug control goals and often cooperates effectively with the United States on illicit drug cases. A 1997 bilateral letter of agreement on Cooperation to Suppress Illicit Maritime Drug Traffic allows U.S. law enforcement agencies to enter Haitian territorial waters and airspace in pursuit of suspect vessels or aircraft, to board and search suspect vessels, to patrol Haitian airspace, and to carry members of the HCG 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. While a bilateral extradition treaty entered into force in 1905, it has not been used in recent history, in large part because the Haitian Constitution prohibits the extradition of Haitian nationals. However, the Government of Haiti has expelled other nationals to the United States who were wanted to stand trial in the United States.

2. Supply Reduction

BLTS executed several successful operations in 2016 that resulted in the seizure of 3.52 metric tons (MT) of marijuana and 35 kilograms (kg) of cocaine. Ninety-seven suspects were arrested for alleged drug crimes and two were expelled to the United States for prosecution. A total of 370 kg of cocaine and 4 kg of heroin coming out of Haiti were seized by other international law enforcement agencies in joint operations with DEA and the U.S. Coast Guard (USCG). In

addition, 1.1 MT of cocaine were seized by the USCG on a “go-fast” boat off of Haiti’s southern coast. DEA and the USCG routinely conduct joint operations with BLTS and provide assistance in operational planning and intelligence gathering. In 2016, the United States sponsored a number of BLTS officers to receive numerous trainings abroad and in Haiti. There is no significant availability or traffic of illegal synthetic drugs in Haiti.

3. Public Information, Prevention, and Treatment

Illicit drug abuse is uncommon in Haiti because of the population’s minimal discretionary income. The Government of Haiti runs small-scale public awareness and demand reduction programs funded through its National Commission for the Fight Against Drugs (CONALD), but there is no data on their impact or utility. The United States provides funding for the Community Anti-Drug Coalitions of America (CADCA), which carries out drug abuse prevention training with local non-governmental organizations, while a Haitian private sector anti-drug association called APAAC receives funds from CONALD to conduct prevention and awareness activities. The United States also assisted BLTS in developing a Drug Awareness Program for school aged children. At the request of local schools, BLTS officers administer this program to children and adolescents, informing them of the dangers of individual drug use and the negative impact it has on their community.

4. Corruption

As a matter of policy, the Haitian government does not encourage or facilitate illegal activity associated with drug trafficking, or the laundering of proceeds from illicit drug transactions. Government officials have expressed their desire to combat drug trafficking and its negative impacts.

Effective government action to fight corruption, particularly related to illicit drugs, is constrained by a historically obstructive legal framework. Haiti did not codify corruption as a crime until 2014, when a law formally criminalized public corruption and set penalties for bribery and illegal procurement. Implementation of this law remains a challenge, but training of judicial personnel is underway and the bill’s passage is a positive step. Haiti’s asset seizure laws have enabled its financial intelligence unit and the HNP’s financial crimes unit to seize the assets of drug traffickers convicted outside of Haiti. The Haitian Constitution’s grant of blanket immunity from prosecution to members of Parliament is a concern for anti-corruption and drug control efforts.

Another constraining factor is systematically poor judicial performance, due to antiquated penal and criminal procedure codes, opaque court proceedings, lack of judicial oversight, and widespread judicial corruption. To date, there have been no successful drug trafficking convictions in Haitian courts. The Haitian Unit for Combatting Corruption has referred 32 corruption-related cases to the judiciary since its inception in 2005, but only one corruption case has been successfully prosecuted, resulting in a five-year prison sentence.

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

U.S. drug control initiatives in Haiti focus on improving the capacity of the HNP, BLTS, and the HCG to detect, investigate, and deter the flow of illegal drugs through the country. A 2004 letter of agreement between the United States and Haiti and a 2013 agreement, which is amended annually, govern these activities.

Core goals in these agreements are to increase counter-drug capabilities, interdict drug shipments, and develop cases against traffickers and criminal organizations. The continued growth of BLTS' manpower, strong coordination in executing counterdrug operations in conjunction with U.S. agencies, and total drug seizures in 2016 were all positive steps. Still, the continued absence of local convictions in illicit drug cases underscored the ongoing under-performance of the judicial system.

U.S. assistance is directed to the general development of the HNP and the targeted support of the BLTS. Support to the HNP covers a broad range of activities, including infrastructure, equipment, and in-country and overseas training. Improved operational capacity and professionalism of the HNP are necessary for effective counternarcotics activity in Haiti. With U.S.-funding, the New York City Police Department deploys rotating teams of officers to Haiti to serve as technical advisors to the HNP, including on illicit drug activities. This program has been highly effective in helping improve the HNP's investigative and community policing capabilities.

Specific support to the BLTS includes procurement of communications equipment, vehicles, non-lethal operational gear, and canine unit training. U.S. support includes multiple training opportunities for BLTS officers, including in the United States and in third countries, such as at the International Law Enforcement Academy in El Salvador. The United States also funds joint enforcement operations between DEA, USCG and the HNP/BLTS.

The United States has provided crucial training and assistance for the establishment of the joint HCG-BLTS task force conducting maritime interdiction operations from its base in Les Cayes. The task force is now operational. If successful, this pilot program will be expanded to Cap Haitien. Ongoing U.S.-supported training for high-ranking HNP officials at the Inter-American Defense College, FBI Academy, and other partnerships with U.S. police agencies have the potential to develop leaders who will serve as positive change agents for the HNP.

Finally, the United States also provides maintenance support for five boats originally purchased for the HCG by the Government of Canada; refurbishment and maintenance of three small vessels at the Cap Haitien base; law enforcement training; mobile training teams and professional development; electronic equipment; and HCG facility modernization.

D. Conclusion

The continued institutional development of the HNP and the BLTS are positive trends that have helped to improve public security and have marginally increased Haiti's ability to interdict drug trafficking. Continued strong cooperation between Haitian and U.S. law enforcement yielded

major illicit drug seizures and enabled the apprehension of individuals indicted in U.S. jurisdictions and their return for trial in the United States. However, the dysfunctional Haitian judicial system drastically limits domestic prosecution of drug cases and thus reduces disincentives to drug-trafficking operations. Drug seizures still remain low, and Haiti's minimal capacity to police its sea and land borders is a particular point of concern.

Continued engagement from the United States, particularly in support of BLTS operations and general HNP development, will help Haitian law enforcement to capitalize on marginal gains in drug interdiction capacity. However, the benefits of such gains will be limited if the judicial system fails to convict drug traffickers. Only the concurrent strengthening of the judiciary, law enforcement, and border security will enable Haiti to make real progress in fighting drug trafficking.

Honduras

A. Introduction

Honduras is a major transit country for cocaine, as well as for some chemical precursors. The United States estimates that approximately 90 percent of the cocaine trafficked to the United States in 2016 first transited through the Mexico/Central America corridor. According to U.S. estimates, the volume of cocaine that transited Honduras to the United States over this period remained approximately the same as in 2015, equating to approximately three to four metric tons (MT) per month. The vast majority of cocaine that transits Honduras arrives via maritime conveyance. In 2016, the U.S. government estimated that the number of aircraft suspected of smuggling cocaine into Honduras decreased by approximately 30 percent from the previous year, to 35 in total. Nevertheless, approximately 80 percent of all suspected drug flights departing from South America first landed in Honduras.

The eastern Caribbean region of Honduras remained a primary landing zone for drug traffickers operating by land and sea. The region suits narcotics trafficking due to its remoteness, limited infrastructure, lack of government presence, and weak law enforcement institutions. Drug transshipment to points north from the Caribbean coast is facilitated by maritime and riverine traffic, subsequent flights north, and overland movement.

Honduras continued to suffer from a high homicide rate in 2016, though the rate has fallen from its peak of 86 per 100,000 people in 2011. The Violence Observatory at the National Autonomous University of Honduras estimated the 2016 murder rate at 59.1 per 100,000 people.

Criminal street gangs such as Mara Salvatrucha (MS-13) and 18th Street do not yet appear to be a formal part of the transnational drug logistics chain, except as facilitators of trafficking through Honduras. These gangs are typically involved in local drug distribution, extortion, kidnapping, and human trafficking. Nevertheless, their participation in transshipment leads to an increasing likelihood of entering the drug retail market, as they are often paid in product for their services.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In early 2016, President Hernandez, through executive order, created the civilian-led Police Purge Commission, with wide ranging powers to reform the police and remove corrupt police officers from its ranks of 14,000. The Honduran National Police (HNP) is also aggressively hiring new police officers with plans to build up a force of 27,000 by 2022. With U.S. support, the commission is assisting the Honduran Congress in the creation of a new organic police law, which, if implemented correctly, could further bolster the institution and reduce impunity in Honduras.

The Public Ministry (U.S. Justice Department equivalent) launched its Technical Criminal Investigative Agency (ATIC) with U.S. assistance in 2015. Since its inception, ATIC investigators have arrested approximately 50 government officials for corruption, including

mayors, police, and individuals within the Public Ministry itself. The Honduran government instituted a comprehensive vetting system for law enforcement officials. With U.S. assistance to the Honduran Tax Authority, the Public Ministry indicted 57 individuals for tax evasion in 2016.

In September 2015, the HNP Criminal Investigation Directorate (DPI) replaced its historically inept and corrupt predecessor. Since then, the DPI has opened 16 offices in 11 of the 18 Honduran departments, and plans to increase its agents from 1,300 to 1,800 by the end of 2017. The DPI acquired a total of 21 criminal mobile labs throughout the country, and is building two fixed criminal laboratories to complement the mobile labs. The HNP Criminal Investigation School has trained DPI agents in many specialized detective skills. The Public Ministry has enhanced its capacity to investigate and prosecute crime, including by doubling the personnel of the Directorate for Combatting Drug Trafficking to 83 since 2014. Furthermore, over the past two years, the Public Ministry has hired more than 100 prosecutors and dedicated 50 of them to its anti-corruption division, more than doubling the staff of that office.

Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain. A U.S.-Honduras maritime counternarcotics agreement and a bilateral extradition treaty remain in force. Honduras signed, but did not ratify, the Caribbean Regional Maritime Counter Drug Agreement. A Declaration of Principles between the United States and Honduras for the U.S. Container Security Initiative covers the inspection of maritime cargo destined for the United States.

2. Supply Reduction

The Government of Honduras continued to take steps to increase the capacity of the civilian government to counter and address narcotics trafficking in 2016. The Public Ministry created a counternarcotics group (DLCN), and within the HNP, the counterdrug SWAT team, known as the TIGRES, assigned 80 highly-trained police officers to a new intelligence unit. The Government of Honduras continued to extradite drug traffickers to the United States in 2016 and also arrested a number of other high-profile drug traffickers in collaboration with U.S. law enforcement.

The Honduran military, however, made few improvements in 2016 to increase overall capabilities to degrade and disrupt illicit trafficking. In the domain of maritime interdiction, no interdictions were recorded despite 100 actionable events supported by U.S. authorities. Many factors contribute to the low success rate in suppressing international narcotics trafficking off the Honduran coast. Besides extreme geography and long distances between command and control nodes, the Honduran military lacks efficient mechanisms for sharing operational intelligence with Honduran security forces in a timely and secure manner. Corruption further impedes progress, as trafficking organizations have infiltrated some military units in active drug corridors such as the Gracias a Dios Department and along the northern Caribbean coast.

As of late September 2016, Honduran intelligence officials revealed that new criminal structures were reforming to challenge the state after the disruption of trafficking organizations that had operated for decades. Moreover, in the aftermath of extraditions and asset seizures, new criminal

bosses have emerged to assume leadership of dismantled networks to continue cocaine smuggling and other forms of crime.

Honduran Defense Secretary Samuel Reyes commented that government intelligence entities identified criminal networks that continued to recruit. Experts questioned government claims of reduced narcotics trafficking due to the number of clandestine airstrips destroyed, noting narcotraffickers could have easily and quickly changed routes or repaired the destroyed landing strips.

3. Public Information, Prevention, and Treatment

The Ministry of Security and the Public Ministry advanced security policies and programs focused on crime prevention. The Ministry of Security opened 30 municipal violence observatories. The observatories feed crime data to the Ministry, which uses it to direct prevention and enforcement programs. The government focused on instituting security measures in high crime areas, such as: improving security in public buses by placing panic buttons, cameras, and real-time monitoring technology; installing tens of thousands of street lights in high crime municipalities; and installing security cameras throughout San Pedro Sula. Furthermore, the Honduran Government opened new state of the art 911 Command Centers in Tegucigalpa and San Pedro Sula to respond to crimes, public emergencies, and national disasters.

The Ministry of Security and the Office of the Presidency sponsored more than a dozen HNP-led community fairs in 2016 to foster closer relations between the police and citizens. These events were held primarily in the most violence-prone districts in San Pedro Sula and Tegucigalpa and drew crowds of up to 20,000 in a single day. Fairs included free medical care from non-governmental organizations and police medics. Indicators of increased public trust include the huge attendance at these events, positive polling results, and the increase in calls to 911 and local police “tip” lines. The Ministry’s Office of Prevention designed and implemented a Honduran model for community policing in 2016, whereby all police are trained in community policing principles.

In 2016, the United States continued the successful Place Based Strategy (PBS), a collaborative effort to concentrate prevention, social development, and law enforcement support programs in the most dangerous neighborhoods. Dramatic reduction in homicide rates have been reported in these PBS neighborhoods. The Gang Resistance Education and Training (GREAT) program continues to be very popular not only among educators and schools, but also increasingly with the police and parents. The HNP, with U.S. assistance, provided the Gang Resistance Education and Training (GREAT) program to nearly 80,000 students in 2016.

4. Corruption

As a matter of policy, the Government of Honduras does not encourage or facilitate illicit production or distribution of narcotics or the laundering of illicit proceeds. In 2016, the Government of Honduras created the Police Purge Commission to evaluate and dismiss corrupt police officers. The Commission removed approximately 1,946 police from the HNP as of December 2016. To meet its target of completing approximately 14,000 personnel reviews by

April 2017, the Commission received and introduced dozens of vetted active-duty police officers to assist in reviewing police archives. After the Commission completes this review of the HNP officer corps, it will review the personnel files of nearly 11,000 non-commissioned officers and rank-and-file members in its remaining tenure. The Commission will likely request an extension of its mandate to complete this volume of work.

In January 2016, the Honduran Congress ratified an agreement allowing the Organization of American States (OAS) to support Honduran government efforts to improve the justice system, investigate cases of corruption, and develop anticorruption mechanisms. The Mission Against Corruption and Impunity in Honduras received a four year mandate and expects to have a team of approximately 70 staff members; concrete investigatory activities were just getting underway in the last quarter of 2016.

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

In addition to increasing the size and quality of the police force, the Honduran government aims to pass new police legislation, continue reducing the homicide rate and targeting of criminal gangs, channel homicide success by focusing on domestic violence and extortion, expand its crime prevention programs nationwide, and increase the speed of prosecutions. The government began an aggressive policy of seizing drug-related properties and expects to expand this effort in 2017.

Consistent with the U.S. Strategy for Engagement in Central America, the Central American governments' Alliance for Prosperity initiative, and the Central America Regional Security Initiative (CARSI), the United States continues to be a key provider of assistance aimed at improving the professional capabilities of security and justice institutions in Honduras. The United States supports crime prevention projects, community police programs, and community activities for at-risk populations. For example, the United States supports over 40 outreach centers that provide safe places for youth to participate in recreational activities and serve as platforms for guiding at-risk youth into job training. The Honduran government and the private sector fund components of these programs. The United States also supports the development of anti-drug community coalitions as a drug use prevention measure.

The United States continued its support to train and equip vetted HNP units. The United States provides logistical support to the Violent Crimes Task Force (VCTF), a specialized vetted unit, which investigates the murders of vulnerable persons including journalists, lawyers, members of the LGBTI community, and foreign nationals. The VCTF expanded from 11 investigators in 2015 to 41 in 2016, and is projected to have permanent teams in San Pedro Sula and Tegucigalpa. The Criminal Structures Unit, which investigates kidnappings and related crimes committed by criminal rings, played a central role in a greater than 40 percent reduction in kidnappings. The United States trains and supports the counternarcotic SWAT team, the TIGRES, which has successfully arrested drug traffickers. The United States trains and supports an HNP border control task force, GOET, that routinely interdicts narcotics smuggling as it executes its primary mission to control migration.

D. Conclusion

The Government of Honduras moved forward in 2016 to address longstanding deficiencies in its civilian security and justice institutions. In response, the United States recalibrated its assistance to give added impetus to Honduran government efforts to reform its civilian police force and improve prosecutorial capacity. The Honduran government took steps to disrupt and dismantle drug trafficking organizations, including extraditing high-profile drug traffickers, seizing the assets of leaders of the drug trafficking organizations, and deploying security forces to under-governed parts of the country. The results are visible: rates of homicide, kidnapping, and extortion were down from 2015, and citizens' impressions of the HNP are improving.

India

A. Introduction

India's geographic location makes it an attractive transshipment area for narcotics bound for Europe, Africa, Southeast Asia, and North America. Cross-border drug trafficking from Pakistan and Burma to India continues to be a major problem due to India's porous borders and low enforcement capacity. There is also evidence that opium poppy is grown illicitly in India, especially in the northeastern region. Given India's size and large population, accurate estimates of the extent, pattern, and nature of illicit drug consumption in India are difficult to determine.

India remains committed to enhancing its law enforcement capacity through increased training for law enforcement officers, and is vigorously pursuing opportunities for international cooperation to improve the effectiveness of both demand and supply control efforts pertaining to illicit drugs.

India is authorized by the international community to produce licit opium for pharmaceutical uses, and is a major producer of precursor chemicals. India also manufactures organic and synthetic licit opiate/psychotropic pharmaceuticals (LOPPS). India's large pharmaceutical and chemical industries are faced with increasing diversion of products for illicit purposes, including of illicit pharmaceuticals to the United States and other countries. Seizures of the prescription opioid tramadol traced to India are on the rise throughout the Middle East and North Africa.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

India continues to tighten regulations and increase training of law enforcement officers. However, the capacity of India's drug law enforcement personnel to collect and analyze data and to initiate and conduct complex investigations against criminal drug manufacturing and trafficking remains limited by inadequate training, a lack of modern equipment, and poor interagency coordination.

The Narcotics Control Bureau (NCB) is India's primary national drug control agency, established to prevent and combat the abuse of narcotic drugs and psychotropic substances. Under India's stringent Narcotic Drugs and Psychotropic Substances (NDPS) Act of 1985, the Directorate of Revenue Intelligence (DRI) and the Indian Customs Service also have responsibility for narcotics investigations. In 2016, NCB successfully coordinated multiple narcotic investigations targeting international drug trafficking syndicates. NCB also continued its construction of several new offices and housing units for its officers in Kolkata, Chennai, Chandigarh, Assam, and Bangalore to improve its counternarcotic enforcement capabilities in those areas.

The Central Bureau of Narcotics (CBN) supervises licit cultivation of opium poppy in India. CBN is responsible for abuse prevention and law enforcement functions, investigations of

violations of the NDPS Act, the issuance of licenses for the manufacture of synthetic narcotic drugs, export authorizations, import/export certificates for narcotic drugs and psychotropic substances, issuing No Objection Certificates (NOC) for select precursor chemicals, and the import of poppy seeds used in licit poppy cultivation. CBN interacts with the International Narcotics Control Board (INCB) and the governments of other countries to supervise international transactions.

The Border Security Force (BSF) and Indian Customs Service (ICS) share primary responsibility for monitoring India's borders. The Indian Coast Guard assists ICS in anti-smuggling operations where there is a maritime nexus. ICS manages official border crossing checkpoints with Pakistan and is responsible for checking all cargo and persons entering India. Porous borders and capacity limitations limit the effectiveness of BSF and ICS, complicating efforts to combat illegal smuggling, cultivation, and production. BSF and ICS also lack the technology necessary to keep pace with traffickers using advanced communications systems.

India's various national and state-level law enforcement agencies face challenges in institutionalizing effective coordination. Poor intelligence exploitation during drug seizures results in few investigative leads. Lengthy delays between drug seizures and prosecutions have complicated efforts to develop an effective enforcement and prosecution strategy. The lack of modern drug legislation and effective drug courts severely hampers the ability of Indian law enforcement agencies to conduct complex drug conspiracy investigations.

The Government of India has entered into bilateral agreements for mutual cooperation for reducing demand and preventing illicit trafficking in narcotics, psychotropic substances, and precursor chemicals with 23 countries. India has a mutual legal assistance treaty and extradition treaty with the United States.

2. Supply Reduction

The diversion of precursor chemicals from licit producers to the illicit drug trade is a serious problem. India-based precursor trafficking organizations are involved in the illicit exportation and domestic sale of precursor chemicals such as ephedrine and pseudoephedrine, both of which are used in the manufacture of methamphetamine. In light of this challenge, India has undertaken significant efforts to control precursor chemicals produced in its large chemical industry and actively participates in international precursor control initiatives such as the INCB-led Project Cohesion and Project Prism.

India issues pre-export notifications for exports of precursors using an online system developed by the INCB, and administers a sophisticated licensing regime to control dual use pharmaceutical products. India regulates 17 of 23 precursor chemicals listed by the 1988 UN Convention. Of these 17 chemicals, India's NDPS Act designates five as "Schedule A" substances subject to the most stringent controls: acetic anhydride, ephedrine, pseudoephedrine, n-acetylanthranilic acid, and anthranilic acid.

In 2016, NCB continued to use satellite imagery and other intelligence methods to track and reduce illicit poppy cultivation. Because of the poor quality of satellite imagery NCB has had to

rely on visual verification of illicit poppy cultivation sites across India. In India's northeast states, where illicit poppy cultivation is widespread, insurgent groups reportedly protect the poppy sites in exchange for compensation from traffickers and cultivators, complicating NCB efforts to identify and eradicate the sites.

3. Public Information, Prevention, and Treatment

India's demand reduction strategy is under the purview of India's Ministry of Social Justice and Empowerment (MSJE), but NCB acts as a primary coordinator of the strategy. The MSJE operates a three-pronged strategy for demand reduction, including promoting drug abuse awareness and education, counseling and treatment programs, and training demand reduction volunteers. India observed the United Nations sponsored International Day against Drug Abuse and Illicit Trafficking on June 26, 2016, with programs focusing on raising awareness of the harmful effects of drug abuse. Drug treatment and rehabilitation services are mainly provided by non-governmental organizations. Accurate information on the national prevalence of drug abuse is not available because India has not conducted a national household survey on substance abuse since 2000-2001.

4. Corruption

The Government of India does not, as a matter of government policy, encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of illicit drug sales. In 1964, the Central Vigilance Commission (CVC) was established by law as an independent body to issue guidelines and conduct inquiries regarding government corruption. The CVC reports to the President of India through the Indian Parliament. However, corruption has historically undermined the effectiveness of government control regimes for illicit drugs. Indian media reports allege widespread official corruption, with bribes paid to rural police stations and local governance bodies to ignore illicit poppy and cannabis fields under their jurisdiction to facilitate the cultivation and harvest of these fields.

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

Law enforcement agencies in India continued extensive cooperation with the United States Drug Enforcement Administration (DEA). NCB and DEA have made joint arrests and seizures of significant amounts of narcotics. DEA in conjunction with Indian law enforcement authorities also continued to target international drug money laundering organizations based in the United States and other locations with extensive ties to India. Investigations have shown that India-based informal money transfer ("hawala") organizations have transferred proceeds from narcotics trafficking on behalf of multiple drug trafficking organizations.

D. Conclusion

Significant drug-related challenges facing the Indian government include the rise in methamphetamine manufacturing and trafficking, the diversion of controlled substances from licit to illicit channels, the smuggling of pharmaceuticals containing narcotic drugs and

psychotropic substances, and capability deficits and poor coordination among India's various drug enforcement agencies.

Global demand for methamphetamine precursors has given rise to precursor chemical entrepreneurs in India who are retooling commercial chemical factories to produce illicit quantities of ephedrine and methamphetamine. These organizations will continue to supply international traffickers who depend on India's precursor chemical supply and porous border crossings. Reforms to enhance the efficiency of the country's court system, legislation to equip law enforcement with greater operational authority, and additional efforts to improve interagency coordination and address capacity deficits would enhance Indian law enforcement efforts to combat drug trafficking organizations operating in the country.

Indonesia

A. Introduction

Indonesia is both a transshipment point and a destination for illegal drugs. Indonesia remains a significant consumer of methamphetamine, marijuana (cannabis) and heroin. Cannabis remains the country's most widely-used illegal drug, but Indonesian law enforcement agencies, including the National Narcotics Board (BNN), have identified crystal methamphetamine (known locally as "shabu") as the country's top drug threat. A significant amount of the methamphetamine available within Indonesia originates in China. The Indonesian Government, including BNN and the Indonesian National Police (INP), continued efforts to investigate, disrupt, interdict and prosecute crimes related to illegal drugs in 2016, but faced challenges due to porous borders, poorly administered prisons and endemic corruption. Indonesia's government is committed to addressing these challenges. With more than 12,000 Indonesians estimated to die annually from drug use, a "National Drug Emergency" declared by President Joko Widodo remained in 2015 remained in effect through 2016.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

With strong public support, the administration of President Widodo has backed a tough counter-drug campaign. Indonesia garnered attention in 2016 for executing four convicted drug criminals. Figures on numbers of drug arrests and seizures were not made public. However, in 2016, the U.S. Drug Enforcement Administration (DEA) cooperated with Indonesian counterparts in investigations that resulted in 157 arrests, as well as significant seizures of narcotics. Some \$2.3 million in assets related to the drug trade were seized. No mutual legal assistance treaty or extradition treaty exists between Indonesia and the United States.

2. Supply Reduction

BNN and INP continued to successfully interdict drug shipments in 2016, and U.S. assistance proved helpful in this regard. Credible surveys indicated strong public support for heavy penalties for drug criminals, including the death penalty. President Widodo in 2016 instructed Indonesian law enforcement agencies to pursue, arrest and "smash" drug dealers. As of November 2016, there were no indications that the Widodo administration had any intention of easing its tough stance on drug crime. Senior BNN officials made clear in meetings with senior U.S. officials that they believed that drug interdiction should be the focus of U.S.-Indonesian counternarcotics cooperation. In 2016, Indonesian authorities reportedly seized approximately 1.02 metric tons (MT) of crystal methamphetamine, as well as 2.68 MT of cannabis. Authorities also seized slightly over 754,000 tablets of MDMA (ecstasy) slightly over 581 grams of heroin, and eradicated approximately 20,000 cannabis plants covering 16 hectares.

3. Public Information, Prevention, and Treatment

Thirty-three Indonesians died of drug abuse every day in 2014 (the most recent year for which data is available), with overdoses and drug-mixing the principle causes of death, according to the Ministry of Social Affairs. Three-quarters of the 12,044 fatalities were male, many jobless or students. The total number of illicit drug users is estimated to top four million nationwide. Of these four million, only one out of 200 drug users can access rehabilitation services due to insufficient infrastructure. Another factor complicating the provision of drug treatment, according to BNN, is that many Indonesian families resist seeking outpatient services due to social stigma, preferring instead that their relatives be treated at inpatient facilities. Many care facilities in Indonesia still use a “one-size-fits-all” approach for all clients, regardless of their condition. BNN’s budget for the rehabilitation of drug users is expected to shrink in 2017.

4. Corruption

As a matter of public policy, Indonesia did not encourage or facilitate illegal activity related to drug trafficking, and no senior government officials were known to be engaged in such activity. However, corruption at all levels of government and society remains endemic, and this poses a significant threat to the country’s counternarcotics strategy. Indonesia had made some progress in combating official corruption, primarily through a growing body of laws and the efforts of its Corruption Eradication Commission. A major controversy erupted in July 2016, when a convicted drug trafficker (who was subsequently executed) accused the Indonesian police, military, BNN, Customs and other officials of having accepted bribes to allow his drug business to remain in operation.

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

In 2016, the United States and Indonesia enhanced their cooperation in the area of drug prevention, treatment and rehabilitation. From February 23 to 25 in Jakarta, U.S. and Indonesian officials from various ministries held a Drug Demand Reduction Workshop, also attended by representatives of non-governmental and international organizations. Three days of discussions produced an agreement committing the two governments to work together to reduce demand for illegal drugs in Indonesia, including by: expanding training to support professionalization of Indonesia’s substance use treatment workforce, using U.S.-developed curriculum; introducing U.S.-developed prevention curriculum; establishing drug outreach centers in three locations in Indonesia (in the provinces of South Sumatra, West Java and Southeast Sulawesi); creating Community Anti-Drug Coalitions in Jakarta and Surabaya; expanding treatment credentialing; and training and technical assistance for child-treatment providers. The United States also worked with an Indonesian non-governmental organization in 2016 to reduce demand for narcotics among youth.

D. Conclusion

Despite Indonesian government efforts, the demand for illegal drugs is believed to be increasing across Indonesia. The United States will continue to support Indonesia’s efforts to reduce drug consumption and enforce its drug laws, including through the provision of additional training, support for demand reduction and treatment programs, and coordinated law enforcement investigations.

Iran

Iran is a significant transit and destination country for opiates and hashish, as well as a source of methamphetamine for both international and domestic consumption. Most opiates and hashish are smuggled into Iran across its land borders with Afghanistan and Pakistan, though maritime smuggling has increased as traffickers seek to avoid Iranian border interdiction efforts. An estimated 154 metric tons (MT) of morphine or raw opium leave Afghanistan and enter Iran per year. The Iranian government claims to allocate more than \$700 million annually for border security. Although Iran's interdiction efforts along its eastern border with Afghanistan and Pakistan are extensive, joint investigations with international law enforcement partners remain rare.

According to the most recent available data from Iran's Drug Control Headquarters (DCHQ), Iranian counternarcotics forces conducted 2500 operations in 2015 and seized 620 MT of narcotics – claiming a 21 percent increase from 2014. During the first six months of 2016, Iranian authorities reportedly seized 10.52 MT of heroin and 5.14 MT of morphine throughout the country, up from what was seized during the same period in 2015 (8.66 MT of heroin and 3.15 MT of morphine). Slightly over 23 MT of opium were seized during this same period, approximate to the 23.4 MT seized in 2015. According to the UN Office on Drugs and Crime, Iran accounted for 75 percent of the world's opium seizures and 61 percent of global morphine seizures in 2014, as well as 17 percent of global heroin seizures. Approximately 35 percent of the heroin trafficked from Afghanistan transits Iran, both for domestic consumption and further export to international markets.

Opium is wildly available in Iran, largely as a result of Iran's status as a major opium transit country, and the country has one of the highest opioid addiction rates in the world. Non-governmental organizations and the private sector implement the vast majority of demand reduction and treatment programs in the country, including opioid substitution treatment, voluntary counseling centers, prison treatment, and school-based prevention campaigns. The Iranian government is devoting additional resources to confront addiction among women and adolescents, including the opening in August 2016 of the first addiction hospital for high-school-aged students. Iran's DCHQ claimed in 2016 that nine percent of women and girls in Iran were addicted to some type of illegal drug. Punishment for trafficking is severe and often involves long prison sentences or execution. In November 2014, the secretary-general of Iran's Human Rights Council publicly announced that 93 percent of Iran's executions involved drug trafficking.

The United States and Iran do not have bilateral extradition or mutual legal assistance treaties.

Italy

Italy remains an important transit country and market for illegal drugs. Synthetic drugs, hashish, and marijuana are the most commonly consumed illicit drugs. Southwest Asian heroin arrives via the Middle East and Balkans, while cocaine reaches Italy directly from South America or through Spain and other countries in route to western and central Europe. The majority of cocaine found in Italy originates with Colombian and other South American criminal groups and is primarily managed in Italy by criminal groups from Calabria and Campania. Italy's numerous seaports enable the importation of multi-hundred kilogram (kg) shipments concealed in commercial cargo or aboard private vessels. South American and Mexican cocaine traffickers use Italy to repatriate drug proceeds via bulk currency shipments to Colombia and Mexico and wire transfers throughout the world.

In 2015 (the most recent year for which information is available), Italian authorities seized over 84 metric tons (MT) of illegal drugs. This included 4.05 MT of cocaine, primarily from Colombia; 767.5 kg of heroin, mostly from Afghanistan, refined in Iran and Turkey and trafficked via Bulgaria, Greece and Albania; 67.8 MT of hashish, mostly smuggled from Morocco and Libya across the Mediterranean; 9.3 MT of marijuana from Albania; 18,177 doses of amphetamine-type substances; and 29.17 kg of amphetamine powder. In 2015, 19,091 people were arrested in Italy on drug-related charges.

From March 2014 to June 2016, the Italian Financial Police and the U.S. Drug Enforcement Administration collaborated on a transnational drug trafficking investigation targeting 'Ndrangheta crime clans responsible for organizing cocaine consignments from Brazil, Peru, Chile, Panama, Colombia, and Ecuador to Italian seaports. The investigation, spanning 11 countries, was carried out in partnership with the U.S. Customs Border Protection Agency. It resulted in the seizure of 11 MT of cocaine in Italian and Colombian seaports, the destruction of seven cocaine production facilities in Colombia, and 111 arrests throughout Italy and Colombia. Italy is a member country of the Maritime Analysis and Operations Center-Narcotics, which coordinates international efforts to intercept vessels trafficking bulk shipments of cocaine across the Atlantic Ocean.

The United States and Italy have excellent counternarcotics cooperation, information sharing, and daily coordination in criminal investigations. The U.S. government will continue to work closely with Italian authorities to initiate, support, and exploit multilateral investigations focused on the disruption and dismantling of the most significant transnational drug trafficking and money laundering organizations operating throughout Italy.

Jamaica

A. Introduction

Jamaica remains the largest Caribbean supplier of marijuana to the United States and local Caribbean islands. 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 2016, drug production and trafficking were enabled and accompanied by organized crime, domestic and international gang activity, and police and government corruption. Illicit drugs are also a means of exchange for illegally-trafficked firearms entering the country, exacerbating Jamaica's security situation.

Drugs flow from and through Jamaica by maritime conveyance, air freight, human couriers, and private aircraft. Marijuana and cocaine are trafficked from and through Jamaica into other Caribbean nations, the United States, Canada, and the United Kingdom. Jamaica is a transit point for cocaine moving from Central America to the United States, and some drug trafficking organizations exchange Jamaican marijuana for cocaine.

Factors that contribute to drug trafficking include the country's convenient geographic position as a waypoint for illicit drugs trafficked from Latin America; its lengthy, rugged, and difficult-to-patrol coastline; a high volume of tourist travel and airline traffic; its status as a major transshipment hub for maritime containerized cargo; inadequate educational and employment opportunities for at-risk youth who engage in crime; and a struggling economy that encourages marijuana cultivation in rural areas.

The government and law enforcement authorities are committed to combating narcotics and illicit trafficking. However, their efforts were only moderately effective in 2016 because of insufficient resources, corruption, an inefficient criminal justice system, and the inability of lawmakers to adopt meaningful legislation to combat corruption. In 2015, legislation to decriminalize the possession and use of small amounts of marijuana for personal use (including religious purposes) went into effect.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Cooperation between the Governments of the United States and Jamaica against illicit drugs and related transnational crime remained strong in 2016. The United States' primary Jamaican partners are the Jamaica Constabulary Force (JCF, police), the Jamaica Defence Force (JDF, military), Jamaica Customs, the Independent Commission of Investigations (which investigates police-involved deaths), and the Financial Investigation Division of the Ministry of Finance.

The United States and Jamaica are bilateral parties to both a mutual legal assistance treaty and an extradition treaty. The countries have a strong extradition and mutual assistance relationship, and the extradition treaty was actively and successfully used in 2016. Both governments have a

reciprocal agreement to share forfeited criminal assets and a bilateral law enforcement agreement that governs cooperation in the interdiction of the maritime flow of illegal drugs.

The Commissioner of Police, with support from the Minister of National Security, continued to take a strong public stance against police corruption and made progress toward reform of the institution. The Jamaican police have suffered from decades of endemic corruption and high annual numbers of civilian deaths caused by police actions. Police-involved deaths increased by 20 percent in 2016 from 2015, though remaining 50 percent below the number of deaths recorded in 2013.

Progress in combating drug trafficking and corruption was hobbled by an underfunded, overburdened and sluggish criminal justice system with limited effectiveness in obtaining criminal convictions. The conviction rate for murder was approximately 16 percent through the first 10 months of 2016, and the courts continued to be plagued with a culture of trial postponements and delay. This lack of efficacy within the criminal courts contributed to impunity for many of the worst criminal offenders and gangs, an abnormally high rate of violent crimes, and lack of cooperation by witnesses and potential jurors. The underperforming judiciary has also engendered frustration among police officers and the public, a significant social cost and drain on the economy, and a disincentive for tourism and international investment.

2. Supply Reduction

Jamaican authorities estimate approximately 15,000 hectares (ha) of marijuana are grown in Jamaica. The police, 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. During the first 10 months of 2016, Jamaican authorities reported eradicating 417 ha of cannabis.

Jamaica prohibits the manufacture, sale, transport, and possession of MDMA (ecstasy) and methamphetamine, and regulates the precursor chemicals used to produce them. Jamaica does not produce precursor chemicals 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. Precursor chemicals continued to move through Jamaica to Central America and were concealed in shipping containers that passed through the Port of Kingston. The chemicals included methylamine hydrochloride and mono-methylamine, both of which are utilized in the manufacture of methamphetamine.

Smugglers continued to use maritime shipping containers, ships, small boats, air freight and couriers to move drugs from and through Jamaica to the United States. One common practice of traffickers was to transport cocaine in large fishing vessels to a point several miles off the Jamaica coast, where small fishing canoes then carried the drugs to shore. Traffickers used the same system in reverse to ship marijuana south to the Caribbean and South America. The JDF Air Wing lacked a fixed wing aircraft capable of detecting and tracking such fishing vessels.

The Jamaican government has historically lacked swift and reliable vessels to intercept drug traffickers. To remedy this, between 2015 and 2016 the U.S. government donated four 37-foot boats to the JDF Coast Guard and ten 27-foot boats to the JCF Marine Division.

During the first 10 months of 2016, authorities seized 944 kilograms (kg) of cocaine, 14.33 metric tons (MT) of cannabis, 1.2 kg of hashish oil, 4.5 kg of hashish, and trace amounts of crack cocaine. Highly organized criminal gangs continued to successfully operate within Jamaica. Gangs are sometimes afforded community tolerance or protection and, in some cases, are supported through police corruption.

3. Drug Abuse Awareness, Demand Reduction, and Treatment

Marijuana was used by around 15 percent of the population in 2016, making it the most-widely consumed illicit drug among Jamaicans, while cocaine continued to be used by less than 0.1 percent.

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.

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 are working 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 or the laundering of proceeds from illicit drug transactions. Jamaican law penalizes official corruption; however, corruption remains entrenched, widespread, and compounded by a judicial system that has a poor record of successfully prosecuting corruption cases against high-level law enforcement and government officials.

In 2016, anti-corruption measures within the police continued to show encouraging signs. The police Anti-Corruption Branch (ACB) merged with the newly-created Major Organized Crime and Anti-Corruption Agency in 2014, and showed steady success in identifying and removing officers engaged in corrupt and unethical behavior. Since the ACB's reorganization with international support in 2008, 559 police personnel have resigned or been dismissed for

corruption or ethics violations. Another 24 officers faced criminal corruption charges during 2016.

Additionally, the U.S.-supported non-governmental organization National Integrity Action helped focus increased public and government attention on the need for anti-corruption reforms.

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 Jamaica, 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 justice.

CBSI funding to advance 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. As such, the U.S. government supports a number of initiatives which build safer communities through strengthening civil society organizations, supporting at-risk youth programs, and improving community policing practices. The U.S. government also provides technical assistance and training to the Ministry of Justice Drug Treatment Court Program.

CBSI support to Jamaica includes training, equipment and logistical assistance for: the prevention and interdiction of narcotics and firearms trafficking; combatting cyber-crime, money laundering, financial crime, lottery scams, and organized crime; improving Jamaica's efforts to seize and forfeit criminally-acquired assets; and enhancing Jamaica's maritime law enforcement capabilities and maintenance and logistics systems through support for the JCF Marine Division and the JDF Coast Guard.

The United States also funds projects to improve the effectiveness of prosecutors and the courts, the National Forensic Sciences Laboratory, and the Financial Investigation Division of the Ministry of Finance. Indirect support for law enforcement occurred through projects to build community-police relations, improve police training facilities and techniques, and strengthen efforts to reduce police corruption and excess use of force.

D. Conclusion

Success stories from 2016 – all with U.S. and international support – have included the JCF Anti-Corruption Branch, which made steady progress in removing corrupt and unethical police officers, as well as the Major Organized Crime and Anti-Corruption Agency which continued its success in reducing Jamaica lottery scam operations that targeted retirees and the elderly in the United States. The Financial Investigation Division of the Ministry of Finance further increased its ability to curb money laundering and seize criminally-acquired assets. The JCF enhanced its

ability to trace seized firearms, and criminal prosecutors received additional training throughout the island.

The momentum of progress gained within Jamaica's law enforcement agencies, however, is being limited by a chronic inability of prosecutors and the courts to keep pace and secure prompt convictions. Jamaica must therefore continue to implement efforts to reform and strengthen its criminal court system.

Kazakhstan

A. Introduction

Kazakhstan is located on the northern route used to smuggle Afghan heroin and other opiates through Central Asia into Russia and Europe. In addition to growing importation and consumption of synthetic drug from Russia, China and Europe, there is significant cultivation and trafficking of cannabis within the country. Wild cannabis grows on 138,000 hectares in the Chu valley of the Zhambyl region on the southern Kazakhstani border with Kyrgyzstan. The annual harvest of hemp from this region has a potential yield of 100,000 metric tons (MT) of marijuana or nearly 3,500 MT of hashish.

In keeping with a common trend seen across most of Central Asia, the volume of heroin seized within Kazakhstan and along its borders declined in 2016, for undetermined reasons. The reported street-price of heroin increased to \$18,000-\$20,000 per kilogram within the country in 2016, a six-fold increase from 2008. Kazakhstani law enforcement asserts that drug traffickers are increasingly turning to alternative routes to international markets, such as through Southern Asia and the Balkans. Kazakhstani authorities have also credited the country's efforts to strengthen interdiction efforts along its southern border.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2012, the Government of Kazakhstan adopted the Program on Combating Drug Addiction and Drug Business (2012-2016) with a budget of \$41 million. The program supplements traditional counternarcotics enforcement efforts with drug demand reduction and rehabilitation programs, and tougher border control measures.

Kazakhstan hosts the Central Asia Regional Information and Coordination Center (CARICC) in Almaty. Kazakhstan also cooperates with several countries on a bilateral basis and participates in counternarcotics activities as part of the Shanghai Cooperation Organization (SCO), the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS), and the Eurasian Group on Combating Money Laundering and Terrorism Financing (EAG).

A mutual legal assistance treaty was ratified by the U.S. Senate on September 15, 2016 and went into force following the exchange of instruments of ratification on December 6. Kyrgyzstan is a signatory to multilateral legal instruments that could be used for cooperation on mutual legal assistance.

Kazakhstan withdrew customs controls on the Kazakhstan-Kyrgyzstan border on August 12, 2015 due to the Kyrgyz Republic's accession to the Eurasian Customs Union. A new freight rail line that opened in 2016 from Gorgan, Iran through Turkmenistan to Beineu in western Kazakhstan may provide new opportunities for trafficking in the future. Although most drug-trafficking through Kazakhstan continues by overland routes, new methods are also being

utilized, including sales through bank payment systems, Internet sales, and mail services.

Kazakhstan faces an emerging threat from the production, trafficking and abuse of new psychoactive substances (NPS). Draft amendments to improve current legislation pertaining to NPS and their precursors were in development at the close of 2016. Kazakhstan introduced criminal liability for trafficking of narcotic analogues in the new Criminal Code which entered into force in January 2015. Kazakhstan also increasingly provides training assistance to Afghanistan and other states in the region. Several cadets from Afghanistan currently study at the Academies of the Ministry of Internal Affairs (MVD) and the Border Guard Service.

2. Supply Reduction

In 2016, Kazakhstani law enforcement agencies seized 36.7 MT of illegal drugs, slightly more than the 35.9 MT seized in 2015. These amounts included 196.6 kilograms (kg) of heroin (down from 464.3 kg in 2015); 431.7 kg of hashish (from 311.3 in 2015); 2.28 MT of opium (from 4.12 MT in 2015); and 35.5 MT of marijuana (from 35.1 MT in 2015).

In 2016, law enforcement and special services registered 3,657 drug-related crimes (3,513 in 2015) including 260 cases of drug smuggling (250 cases in 2015), 2,213 cases related to drug sales (2,160 in 2015), and 50 drug-related crimes committed by organized criminal groups (21 in 2015). The MVD claimed to have disrupted the activity of 11 drug trafficking organizations in 2016 (an increase from six in 2015), and initiated 51 criminal cases against members of those drug trafficking organizations. Twenty-six criminal cases were initiated related to the illicit drug production and sales, up from 14 in 2015.

The MVD conducted 30 controlled delivery operations in 2016 (up from 24 in 2015), including eight in cooperation with Kyrgyz authorities. The joint operations led to the seizure of 288.6 kg of narcotics, including 28 kg of heroin.

3. Public Information, Prevention, and Treatment

Kazakhstan has several ongoing interagency activities aimed at reducing demand for illegal drugs, including the Program for Development of Healthcare (2011-2015), “Healthy Lifestyles” (2008-2016), and the Program on Combating Drug Addiction and Drug Business (2012-2016).

The MVD Counternarcotics Department cooperates with 73 non-governmental organizations (NGOs) on demand reduction and the medical and social rehabilitation of persons suffering from substance use disorders. The Department on Combating Drug Trafficking (DCD) supports the Center of Social and Psychological Rehabilitation of Drug Addicts. The Ministry of Health runs a similar center. New narcology standards, treatment methods, prison addict rehabilitation, and harm reduction programs are in development.

DCD works with NGO and youth organizations to prevent drug addiction among children as part of the Program on Combating Drug Addiction and Drug Trafficking. The MVD conducted 10,391 drug demand reduction events in the first nine months of 2016, reaching over 510,000 people (up from 421,000 in 2015). The MVD publishes the magazines “Narcopost” and “Future

without Drugs.”

The Kazakhstani government reported 27,269 registered persons with substance use disorders in 2016, down from 31,049 in 2015. Of these, 1,997 were women and 163 were identified as minors. The number of heroin users appears to be decreasing in Kazakhstan, though the number addicted to new psychoactive substances is on the rise. Official numbers of registered drug users likely undercount the total number of such individuals in the country.

4. Corruption

Kazakhstan does not encourage or facilitate drug trafficking or related activities as a matter of policy but there are instances of corruption among law enforcement agencies. In 2016, 14 crimes related to drug trafficking were committed by law enforcement officers. The government rewards citizens for reporting police corruption.

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

Kazakhstan is committed to continuing drug demand and supply reduction efforts and strengthening its international cooperation. To reduce the illicit inflow of drugs, Kazakhstan plans to revise its border procedures for foreign nationals, especially from countries identified as narcotics trafficking threats. The government is also developing measures to identify and combat sea-based supply channels.

The United States continues to support counternarcotics capacity building within in Kazakhstan’s relevant authorities. The U.S. Drug Enforcement Administration (DEA) signed a memorandum of understanding with the MVD in November 2016. The United States supports efforts to strengthen Kazakhstan’s border security, including efforts to expand Kazakhstan’s Coast Guard capacity on the Caspian Sea. In 2016, the United States organized nine programs for Kazakh counternarcotics officers in conjunction with the Organization for Security Cooperation in Europe. All U.S. government programs aim to improve Kazakhstan’s capacity to combat drug-trafficking and drug demand, and enjoy full host government cooperation and shared funding. In addition, the United States has supported a canine interdiction program in Kazakhstan since 2008. Out of the 3,026 drug-related crimes charged by Kazakh authorities in 2016, 773 were detected with canine assistance.

D. Conclusion

Kazakhstan remains concerned about regional drug trafficking trends linked to illicit drug production in Afghanistan. To confront an increasing synthetic drug threat, Kazakhstan is taking steps to assess the situation, and conduct relevant demand reduction campaigns, including measures to more effectively identify drug users. The government is seeking to expand its drug control cooperation with international partners, and is also taking steps to combat existing and emerging public health and national security threats posed by drug trafficking and addiction.

Kyrgyz Republic

A. Introduction

The Kyrgyz Republic lies along a significant transit route for illegal drugs moving north from Afghanistan to Russia and beyond. Illicit drugs are often smuggled into the country from Tajikistan across un-demarcated borders. The Kyrgyz Republic's geographic location, limited resources, and weak criminal justice system make it a prime transshipment location. The State Service on Drug Control (SSDC) has been the entity responsible for overall drug control functions since 2011. On July 4, 2016, the government announced plans to merge the SSDC with the Ministry of Internal Affairs (MVD), ending its existence as an independent agency. According to the government, SSDC's merger with the MVD is part of a broader reform strategy to counter corruption and correct ineffective work practices within law enforcement entities.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2010, President Almazbek Atambayev created the SSDC, which initially had offices only in Bishkek and Osh. Since 2011, the agency's offices have expanded country-wide. On October 14, 2016, the government named Seitbek Ermatov as SSDC Chairman, replacing Rafik Mambetaliev. On November 30, the Kyrgyz Government issued Decree Number 637 which established a Committee to oversee the transfer of responsibilities from SSDC to MVD. This committee has two months to complete all the procedures regarding the official closure of SSDC (transfer of people, equipment, criminal cases and official documentation). SSDC officers will continue in their current roles until transfer procedures are complete.

The Kyrgyzstan Republic is a member of the Central Asia Regional Information and Coordination Center (CARICC) which is mandated to promote regional information sharing and cooperative operations to combat transnational drug trafficking. Since July 2015, a senior Kyrgyz security services officer has been the director of CARICC. The Kyrgyz Republic does not have an extradition agreement with the United States. Although the Kyrgyz Republic does not have a mutual legal assistance agreement with the United States, it is a signatory to multilateral legal instruments that could be used to facilitate such cooperation.

2. Supply Reduction

During the first nine months of 2016, there was an overall decrease in the detection of drug-related crimes and in drug seizures compared to the same period in 2015. The country's law enforcement agencies investigated 1,458 drug-related criminal cases (versus 1,423 cases in 2015) and of these, 1,263 criminal cases were sent to court. The total amount of illegal drug seizures for all law enforcement agencies was approximately 16.18 metric tons (MT), including psychotropic substances and precursor chemicals (compared to 28.18 MT in 2015). Both the MVD and SSDC have reportedly made seizures of new psychotropic substances, but there is no statistical information available to document these claims. No significant production of illicit drugs intended for international markets has been documented in the Kyrgyz Republic.

3. Public Information, Prevention, and Treatment

The Kyrgyz Republic pursues efforts to reduce demand for illegal drugs and improve treatment through cooperation with international partners, including the United Nations Office on Drugs and Crime (UNODC) and the U.S.-sponsored Community Anti-Drug Coalition. Programs focus on improving the capacity of treatment professionals, as well as educating youth and communities on the dangers of illegal drugs. The United States supports a treatment program administered by UNODC and the World Health Organization. The program seeks to integrate drug treatment into the country's public health systems, including training of treatment professionals. A 2014 government decree requires relevant agencies to conduct drug awareness-raising events to coincide with the annual July 26 International Anti-Drug Day. These events focus on raising youth awareness on the health risks associated with illegal drug use and include competitions at schools and other institutions. SSDC has also developed short video clips aimed at preventing drug use.

According to UNODC, HIV rates continue to rise among intravenous drug users. This trend is most evident in the south where drugs are heavily trafficked and where prostitution and poverty loom large. According to official Kyrgyz government statistics, there are 9,077 registered drug users in the Kyrgyz Republic. This probably underestimates the actual number of users, however, and the U.S. President's Emergency Plan for AIDS Relief has estimated that there are 25,500 intravenous drug users in the country.

The Kyrgyz Republic is the only country in the region to have moved beyond a small number of pilot Methadone Assisted Therapy (MAT) and "one stop" HIV/MAT services. These services play an important role in treating opioid addiction and facilitating access and retention in HIV care and treatment. In the Kyrgyz Republic, MAT has expanded to 29 sites country-wide, including eight prisons. Drug-free modalities are also available at detoxification clinics in two cities.

4. Corruption

The Kyrgyz Republic does not encourage or facilitate drug trafficking or related activities as a matter of policy, but there are instances of corruption among law enforcement agencies. While Kyrgyz law provides criminal penalties for public officials convicted of corruption, the government does not implement the law effectively. The payment of bribes to avoid investigation or prosecution is problematic at all levels. Likewise, law enforcement officers, particularly in the southern part of the country, employ arbitrary arrest, torture, and the threat of criminal prosecution to extort cash payments from citizens.

The only government body empowered to investigate corruption is the anticorruption branch of the State Committee for National Security (SCNS). It is not an independent government entity. The agency's cooperation with civil society is limited, and its investigations lead to very few prosecutions.

As of August 2016, SCNS had investigated 194 criminal corruption cases, of which 13 per cent were submitted to court. According to SCNS, material damage to the government's budget as a result of criminal corruption totaled approximately \$16 million. SCNS reported that 57.8 per cent of the damage was recovered and returned to the national budget.

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

United States policy objectives in the Kyrgyz Republic are to strengthen the existing capacity of law enforcement bodies, expand their ability to investigate and prosecute criminal cases, enhance anti-corruption efforts, and increase overall security in the country.

In 2016, SSDC, Customs and MVD drug control personnel attended training seminars administered by the U.S. Drug Enforcement Administration (DEA) within the country and abroad. The in-country DEA training focused on the identification of new psychoactive substances and advanced investigative skills. The most significant achievement during the period was SSDC's participation in a successful controlled delivery operation, with international partners, including U.S., Russian, Kyrgyz and Lithuanian law enforcement agencies that led to the arrest of a high-value Lithuanian trafficker and the seizure of more than 17 kg of heroin. On September 19 the United States submitted a draft memorandum of agreement seeking closer cooperation between the MVD and DEA on drug control enforcement.

On December 8 SSDC's new administrative building equipped with 10 new computers in Karakol, Issyk-Kul Region opened. The new facility was jointly financed through donations from the United States and the Russian Federation, and implemented by the United Nations Office on Drugs and Crime. UNODC is currently working with the Kyrgyz government to define follow-on program activities with MVD to follow the closure of the SSDC.

D. Conclusion

The Kyrgyz Republic's need for international drug control cooperation is likely to continue given the lack of resources within Kyrgyz law enforcement institutions. The United States and other international partners are waiting for additional information on the redefined roles and responsibilities of law enforcement organizations from the Kyrgyz government.

Laos

A. Introduction

The Lao People's Democratic Republic is a major transport hub for amphetamine-type stimulants (ATS), opium, and heroin, and is a major producer of opium. Geographically, Laos sits at the heart of the regional drug trade in mainland Southeast Asia and shares remote and poorly-controlled borders with Burma, Thailand, Cambodia, Vietnam, and China. Economic development and the improvement of road, bridge, and communications networks in Laos 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 well-articulated policies to address it. However, the Lao government relies heavily on donor aid for implementation. Lao law enforcement often lacks the resources and knowledge to independently combat internal drug crime. Additionally, Laos must police 3,000 miles of mountain and riverine borders, often very remote, exploitable by drug traffickers.

According to U.S. government estimates, opium poppy cultivation decreased 96 percent between 1998 and 2007 due to aggressive government action and international cooperation, particularly U.S. alternative development assistance. Cultivation, however, has rebounded recently, with an estimated 5,700 hectares (ha) reported in 2015, according to the United Nations Office on Drugs and Crime (UNODC). Although ATS production within Laos appears to be minor, drug seizures indicate that the volume of ATS smuggled through Laos is substantial.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Lao government's guiding drug control strategy document, the "National Drug Control Master Plan for 2016-2020," was completed in November 2015. The Master Plan provides a long-term vision and strategy to combat drug production, trafficking, and usage (as well as related criminal activities) by addressing the following nine elements:

- Expanding the evidence base for policy making;
- Promoting integrated alternative development;
- Responding to drug use and reducing harm associated with drug use;
- Preventing drug use before it begins (civic awareness campaign nationwide);
- Using law enforcement strategically;
- Effective decriminalization of drug use and smarter sanctions;
- Regulating precursors and expanding/strengthening forensic laboratory;
- Strengthening governmental concerned agencies, regional and international cooperation;
- Developing capacity for drug control.

The Master Plan implements the country's National Drug Law (promulgated in 2008), and called for a budget of \$60 million over five years, largely funded by international donors. Since 1989, the United States has provided Laos over \$45 million in counternarcotics assistance, which

helped to eliminate much of Laos' opium poppy cultivation. In 1989, the U.S. government estimated there were 42,130 ha of opium poppy cultivation. By 2007, that figure had dropped to an estimated 1,100 ha, though UNODC survey data indicates that the area under cultivation has since been slowly increasing.

The Lao National Commission for Drug Control and Supervision (LCDC), which moved in 2016 from a specialized office directly under the Prime Minister to the Ministry of Public Security, is the main coordinating agency for the implementation of the Master Plan, managing efforts to combat the trafficking and abuse of illegal drugs via demand reduction, crop control, alternative development, and law enforcement. The top policy-making body for counternarcotics is the National Steering Committee to Combat Drugs (NSCCD), chaired by the Prime Minister. Since the LCDC's movement to the Ministry of Public Security, the management structures have been in flux.

Lao drug police are organized into 18 provincial Counter Narcotics Units (CNUs), one for each province and one for the capital, Vientiane. Although Laos participates in regional conferences on counternarcotics cooperation, it rarely shares operational information.

Laos does not have a bilateral extradition treaty with the United States. Although Laos does not have a bilateral mutual legal assistance treaty with the United States, it has acceded to multilateral conventions that enable such cooperation, and Laos and the United States have cooperated on such matters on an informal basis.

As of 2016, Laos has signed agreements and memoranda of understanding with 11 countries and four international organizations. Since 2013, Laos has actively participated in "the Safe Mekong Operation Project" together with China, Myanmar, and Thailand. Together they have prosecuted a number of cases, arrested suspects, and seized drugs, vehicles, valuable items, ammunition, and other various contraband.

2. Supply Reduction

During the first six months of 2016, the LCDC reportedly seized approximately 125.7 kilograms (kg) of heroin; 16.4 kg opium; 214.3 kg of marijuana; 23 kg of crystal methamphetamine; and 144 kg of methamphetamine tablets (144 million tablets in total). ATS is the most commonly abused illegal drug in Laos. Supply of ATS is plentiful, and profit margins are higher than for other illegal drugs due to high volume and low production expenses. MDMA (ecstasy) and crystal methamphetamine are available in Vientiane, major tourist destinations, and in the southern provinces.

Laos continues to struggle against an upward trend in the supply of opium, the major narcotic produced in the country. Opium poppy cultivation occurs in provinces bordering China, Vietnam, and Burma, and most poppy is grown in areas that have received little or no development assistance. Marijuana is also produced in Laos; commercial quantities of cannabis for regional export are grown in large plantation-type plots, sometimes financed by foreign customers, primarily in Thailand. Heroin also transits Laos from Burma to regional markets, including in China, Vietnam, and Thailand.

The Lao government continues to support longstanding efforts to assist former poppy-growing farmers by fostering alternative development, mostly financed by donors. Since 2013, major alternative development projects have included:

- A three-year, \$2.9 million project in Houaphan province to promote the production of licit crops, funded by the European Union and completed in 2015;
- A two-year, \$1.2 million “alternative livelihood” project in Phongsaly province, funded by Luxembourg, completed in 2013; and
- A \$3.15 million project to promote licit crop production in Oudomxay province and in Burma, funded by Germany in partnership with the Royal Project Foundation of Thailand, completed in 2015.

In 2016, the U.S. government launched an additional three-year, \$1.5 million program in Houaphan province which will consolidate and build upon prior achievements in Houaphanh province through the development and implementation of additional sustainable alternative livelihood practices. These programs seek to primarily introduce viable alternatives to growing opium poppy in the region and also to increase food security and general income of these communities. As of August 2016, the project implementers had hired all core project managers and staff and conducted a baseline survey in the target area.

3. Public Information, Prevention, and Treatment

According to the National Drug Control Master Plan 2016-2020, the Lao government will emphasize rehabilitation, dissemination of legal information and information on adverse consequences of drug abuse, and integration of members of the public in the fight against drugs.

Currently, the LCDDC estimates that approximately 70,000 Lao suffer from drug substance use disorders, the majority being youth. Among those, about 80 percent are addicted to amphetamine, 15 percent to opium, and 5 percent to other types of drugs. In order to help persons with substance use disorders recover, Laos has made use of donor funding to supplement the government’s budget for refurbishment and construction of some treatment and basic vocational training centres for drug addicts. The Lao government claims to have successfully rehabilitated 3,000 to 4,000 drug users per year in recent years.

Government drug addiction treatment facilities lack the resources to provide evidence-based treatment and post-discharge follow-up. However, the Lao government has begun to introduce community-based treatment for users and actively coordinates with the donor community on improving conditions. To support demand reduction efforts, the United States supports adoption of community based treatment and the study of best practices from different treatment modules for Lao consideration. The United States provides funding to UNODC to develop treatment services for local communities, while concurrently working to integrate these services into Laos’ broader public health system. In conjunction with this effort, UNODC and the World Health Organization are also working to share evidence-based practices and the latest research on treatment of substance abuse with the government and treatment professionals. The United States is additionally funding a train-the-trainer program for drug control professionals on Laos’

Universal Prevention Curriculum, and supporting vocational training for persons in recovery to help them reintegrate post-treatment as productive members of society.

4. Corruption

As a matter of policy, the Lao government does not encourage or facilitate the illicit production or distribution of narcotics or other controlled substances, or the laundering of proceeds from illegal drug transactions. However, low salaries for police, military, and civil servants cause vulnerabilities to corruption, and corruption at many levels continues to undermine implementation of laws and regulations, weaken law enforcement, and hinder government efficacy.

Laos has institutions in place to combat corruption, however, and Prime Minister Thongloun Sisoulith, who assumed office in 2016, has made combatting corruption one of his most high-profile priorities. The State Inspection and Anti-Corruption Authority (SIAA) is the Lao government organization charged with fighting corruption, and as part of its mandate it conducts regular inspections of public agencies and officials and investigations of alleged cases. The Law on Anti-Corruption was enacted in 2005 and amended in 2012 to expand its reach from civil servants to include private enterprises.

Between October 2014 and November 2015, SIAA reports that it reviewed approximately 249 corruption cases, of which none were prosecuted, but resulted in the removal of one governor and the demotion of another governor and seven officials.

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

The United States signed initial agreements to provide international narcotics control assistance in Laos in 1989, and has since signed further letters of agreement and amendments to provide assistance for supply reduction, interdiction, and drug demand reduction cooperation annually.

Most U.S. counternarcotics assistance to Laos supports law-enforcement efforts to disrupt drug trafficking, improve drug treatment, and reduce poppy cultivation. Law enforcement assistance continues to support training and equipment for the Drug Control Department of MOPS, provincial Counter Narcotics Units, and the Lao Customs Department of the Ministry of Finance. U.S. funding also supports a UNODC project on community-based treatment for ATS users. In addition, U.S. programs are assisting to build the capacity of the justice sector and the implementation of the Legal Sector Master Development Plan.

In addition to assistance on counternarcotics, the United States continues to work with the Lao government on related crimes. The U.S. has been regularly engaged with the Lao government on anti-money laundering reforms, and in 2014, the Lao Law on Anti-Money Laundering was passed by the National Assembly. Also in 2015, 64 Lao officials participated in U.S.-funded regional training at the International Law Enforcement Academy in Bangkok. U.S. funding also supported meetings on law-enforcement coordination between Lao officials and foreign counterparts, seminars on customs modernization and interdiction, and workshops on combatting corruption.

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 demand. The amount of ATS trafficking and usage in Laos is also troubling. ATS addiction is exceedingly hard to treat and the effort is straining Laos' limited treatment resources. ATS smuggling also weakens controls along Laos' borders with China, Burma, Thailand, Cambodia, and Vietnam.

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 growing economic development and growing sophistication of criminal groups. Institution-building within the Lao government and basic law enforcement training are needed, emphasizing interdiction, investigation, prosecution, and corrections. 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

Lebanon serves as a transit point for hashish, cocaine, heroin, and fenethylline (an amphetamine-type stimulant). Fenethylline, cannabis and hashish are produced in Lebanon's Bekaa region. The primary illicit drugs consumed in Lebanon are hashish, cocaine, fenethylline, and MDMA (ecstasy).

The main drug control goal of the Lebanese government remains eradication of illegally-cultivated opium poppy and cannabis in the Bekaa region. Little significant eradication activity occurred in 2015, however, due in large part to instability along the border with Syria, combined with a lack of logistical support and equipment for the Internal Security Forces' (ISF) eradication efforts.

The volume of cocaine that entered Lebanon via commercial aircraft in 2016 may have increased from 2015, based on seizure data. Cocaine seizures amounted to 164 kilograms (kg) over the first nine months of 2016, compared to 168 kg seized during all of 2015. Individual smugglers typically depart from South America and transit through other countries en route to Lebanon, usually carrying between three and five kilograms (kg) of cocaine in their luggage.

Fenethylline continues to be smuggled through Lebanon to Gulf region states and is produced in Syria and the Bekaa Valley area of Lebanon. The ISF made significant strides in combating fenethylline trafficking in 2016 by seizing large quantities of tablets, as well as seizing production labs and arresting numerous smugglers. Seizures of fenethylline during the first eight months of 2016 totaled 10.8 million tablets, slightly below the pace of seizures in 2015 when 15.1 million tablets were seized during the entire year.

Official reports indicate that drug seizure events through the first nine months of 2016 totaled 2,369, significantly ahead of the pace of seizure events over the same period in 2015 (1,874). Over this period, seizures of heroin totaled approximately three kg (down from five kg in 2015). Approximately 6.3 metric tons (MT) of hashish were seized compared to 6.17 MT during all of 2015.

The United States does not have a mutual legal assistance treaty or extradition agreement with Lebanon, although Lebanon has acceded to multilateral conventions that enable law enforcement cooperation. In 2013, the United States discontinued all material assistance to Lebanon's Internal Security Force's counter-narcotics unit, following a finding of credible reports of human rights violations. However, U.S. law enforcement entities continue to exchange information with Lebanese counterparts on narcotics matters.

Liberia

A. Introduction

Liberia is not a significant source or transit country for illicit narcotics, but the country's nascent law enforcement capacity, porous border controls, and proximity to major drug transit routes contribute to trafficking to and through Liberia. Use of marijuana is very common, and other drug usage includes heroin and cocaine. Local authorities have reported increasing prevalence of amphetamine-type stimulants and intravenous drugs. Other than marijuana, locally consumed drugs enter Liberia via commercial aircraft, maritime vessels, and across land borders by foot and vehicle traffic. With U.S. training and support, the Government of Liberia passed its first drug law in 2014.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Established Nigerian criminal networks operate within Liberia, some of which are involved in illicit drug trafficking. Local authorities are aware of the threat and are working with the United States to prevent illicit criminal networks from gaining a stronger foothold. Local law enforcement agencies work in concert to fight narcotics trafficking in Liberia, including the Liberia National Police (LNP), Coast Guard, National Security Agency, and the Liberian Drug Enforcement Agency (LDEA).

In 2014, the LDEA Act and a Controlled Drugs and Substances Act came into effect. The legislation conforms to the UN drug conventions, and provides a strong foundation for more effective law enforcement activities. Under previous legislation, defendants could only be charged under the public health law. In 2014, before the drug law was passed, the Solicitor General successfully used the public health law to prosecute six defendants, and 28 more are pending trial. In 2015, 107 individuals were arrested under the new Anti-Drug Law and there are seven standing indictments, but none of these seven have been prosecuted. In 2016, there were 70 arrests, which lead to 24 indictments, 20 of which have been prosecuted. All 20 led to convictions. Many of the successful interdictions and seizures during 2016 resulted from LDEA's cooperation with international partners, which have led to greater intelligence capabilities and intelligence sharing, and resulted in several successful and significant operations.

LDEA continues to improve its operational capacity and professionalism, including through the use of confidential sources; working with private businesses; initiating controlled deliveries; investigating international smuggling groups; and effectively working across the Liberian interagency.

The U.S.-Liberia extradition treaty dates from 1939 and is in effect. There is no mutual legal assistance treaty in force between Liberia and the United States, although Liberia is a party to multilateral conventions that enable such cooperation.

2. Supply Reduction

Local marijuana production is not seen as a major concern by the public; however, LDEA and LNP conduct eradication operations. LDEA reports that in 2016, it eradicated 11 marijuana farms with over 20,000 marijuana plants totaling 249 hectares. There is little information either on the extent of local cannabis cultivation, or on the local trafficking networks, but marijuana is clearly the most widely available drug in the country.

In 2016, Liberian authorities seized approximately 8.9 metric tons (MT) of marijuana, 7.94 kilograms (kg) of cocaine, and 14.32 kg of heroin. In 2015, 1.8 kilograms of cocaine and 6.2 kilograms of heroin were seized. In 2016, the LDEA made significant progress in its fight to counter international drugs trafficking through air couriers and successfully interdicted eight foreign nationals and seized 18.5 kg of heroin and cocaine at Roberts International Airport.

There was an increase in heroin seizures originating from East Africa. According to the United Nations, heroin seizures have nearly tripled in West Africa over the past decade, and LDEA's 2016 heroin seizures more than doubled from 2015. LDEA's seizure of cocaine more than tripled from 2015. Whether these increased seizures reflect enhanced LDEA capacity and capability or an upsurge in drug trafficking through the country (or some combination thereof) remains unknown. There were three airport interdictions in 2016 of Nigerian males traveling from Brazil. Two of these were human couriers with up to 1.5 kg of cocaine in their stomachs. No synthetic drug laboratories have been discovered in Liberia, though two large undocumented shipments of ephedrine were seized in 2014.

3. Public Information, Prevention, and Treatment

The most recent survey of drug use in Liberia was a 2012 UNODC study that indicated rising drug use among youths, particularly ex-combatants from Liberia's 1989-2003 civil conflict, as well as in the emerging middle class and in the expat and Lebanese communities.

The government has conducted very little drug prevention, rehabilitation or treatment since the pre-war era. Persons suffering from substance use disorders are referred to the only psychiatric hospital in Liberia or to one of the few non-governmental organizations working in the field. Liberia's high unemployment rate (about 80 percent) and the small share of workforce in the formal sector (15 to 20 percent) also contribute to drug abuse. The United States funds very limited drug demand reduction projects in Liberia. These efforts are the first in post-war Liberia and while an excellent start, are inadequate to begin to meet the needs of the country.

LDEA currently has only three persons in its prevention section. LDEA has a vision of supporting and resourcing a nationwide prevention section to undertake education and public awareness campaigns, but lacks the necessary financial resources. The new LNP Inspector General has publicly addressed these issues and in particular the scarcity of resources for treatment or to encourage alternative choices among the at risk youth.

4. Corruption

The Government of Liberia does not encourage or facilitate the production or distribution of illicit drugs, nor the laundering of proceeds from illegal drug transactions as a matter of policy. Presidential decisions to remove two corrupt deputy directors in 2013 and 2014 enabled the LDEA Director to remove other known corrupt subordinates, which is slowly creating a paradigm shift towards greater accountability within the agency.

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

The United States is working with the Government of Liberia to fight international drug trafficking and reduce local demand.

U.S. assistance has positively impacted LDEA through helping to provide systems and processes instituted in recruiting, training, operations and the overall daily administrative functions carried out by the agency. After a complete reorganization of the agency, LDEA instituted merit-based, transparent recruitment and hiring processes. The impact of U.S. assistance has greatly improved operations within LDEA through a variety of training opportunities and provision of equipment.

In October 2015, the first-ever LDEA training class of 101 new LDEA recruits graduated from the Liberia National Police Training Academy (NPTA), marking the growing cooperation between LNP and LDEA. A second class of 100 completed the basic academy in September 2016 and spent five weeks in a basic narcotics course in November before deploying nationwide. This basic police, law, and narcotics training for LDEA did not exist before the United States supported LDEA's attendance at the NPTA. Instituting a basic narcotics course and in-service training at LDEA has further professionalized the agency.

As LDEA has restructured and rid itself of corrupt officers, it is now able to work on narcotics trafficking cases with international connections. While these efforts are still growing, U.S. assistance seeks to build the Government of Liberia's capacity to develop criminal cases against international trafficking organizations active in the country, and encouraging judicial application and attorney understanding of anti-drugs laws. Many of the seizures and successful cases recorded in 2016 are a direct result of international cooperation in countering international drugs trafficking.

D. Conclusion

The Government of Liberia is committed to preventing transnational criminal organizations from gaining a major foothold in its territory, but lacks the resources and capacity to respond adequately to this challenge. The Liberian government requires additional training and assistance to be able to successfully investigate and prosecute drug crimes, financial crimes, and corruption. The United States will continue to support and assist Liberia's efforts to strengthen its law enforcement capacities and fulfill its international drug control commitments.

Malaysia

Malaysia is not a significant source country or transit point for U.S.-bound illegal drugs. Nevertheless, trafficking through Malaysia to supply regional markets continues and transnational criminal organizations are attempting to expand crystal methamphetamine production within the country. Drugs smuggled into Malaysia from Thailand, Burma and Laos include marijuana, heroin, and amphetamine-type stimulants. Synthetic drugs originating from Iran, Nigeria and India are also trafficked through Laos including MDMA (ecstasy), nimetazepam (a diverted pharmaceutical drug), and crystal methamphetamine. Nigerian and Iranian traffickers use Kuala Lumpur as a hub, and have used commercial courier services to ship drugs into and from Malaysia. There is no notable cultivation of illicit drug crops in Malaysia and local demand and consumption for illicit drugs is limited.

Malaysian law stipulates a mandatory death penalty for drug trafficking. Harsh mandatory sentences are also enforced for drug possession and recreational use. Drug trafficking cases increased from 3,044 in 2014 to 3,235 cases in 2015. The number of other drug arrests increased from 4,888 to 5,324 over the same period. According to local media, 482 Iranians and 798 Nigerians were detained in 2015 for drug offenses in Malaysia; more than 400 of the detained Nigerians were in Malaysia on student visas. Between 2012 and 2015, approximately 185 Malaysian women were detained in Brazil and Venezuela for acting as drug couriers for transnational drug trafficking networks.

Major traffickers are sometimes arrested and held in preventive detention when there is insufficient evidence to prosecute. In some cases, subjects charged with trafficking may have charges reduced to a lesser offense, or have the sentence commuted upon appeal. The National Anti-Drugs Agency and the Narcotics Crimes Investigation Department, including 199 officers in the Special Tactical Intelligence Narcotics Group, comprise Malaysia's counternarcotics enforcement capacity.

With U.S. support, Malaysia is engaged in a long-term process to further professionalize substance use treatment staff in the country through the Colombo Plan's International Centre for Certification and Education of Addiction Professionals. The U.S. Coast Guard continued its maritime law enforcement training program with the Malaysian Maritime Enforcement Agency in 2016. Malaysia has bilateral extradition and mutual legal assistance treaties with the United States. In 2017, the United States will seek to promote further coordination between Malaysian and U.S. law enforcement authorities, including joint interdiction efforts, information sharing, and training to further improve Malaysia's investigative and prosecutorial capacity.

Mexico

A. Introduction

Mexico is a major source and transit country for heroin, marijuana, and synthetic drugs destined for the United States and a main transit country for cocaine from South America. Mexico is a source of illicit opium poppy and the primary supplier of heroin and opium derivatives to the U.S. domestic market. Seizures of clandestine laboratories have significantly increased, suggesting continued access to precursor chemicals. Narcotics trafficking and related violence in Mexico pose considerable problems to citizen security and economic development. According to Mexico's Interior Ministry, murders increased by 20 percent over the first nine months of 2016 compared to the same period in 2015. Mexico's National Institute for Statistics and Geography (INEGI) reported that 72 percent of Mexicans believe their city is insecure and nearly 94 percent of crimes go unreported or uninvestigated.

The Merida Initiative is a major component of U.S.-Mexico counternarcotics cooperation. Since 2008, the program has delivered over \$1.5 billion in equipment, training, and other support to build capacity and to assist Mexico with law enforcement professionalization, justice sector reform, crime and violence prevention, and anti-corruption efforts. Furthermore, since 2009 the United States has provided security assistance program funding specifically for counternarcotics equipment and training to military personnel and law enforcement, including aviator qualification, medical aid, leadership development, and equipment supporting improved regional interoperability, communications, and maintenance.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2016, the Mexican Office of the Attorney General (PGR) began working on a comprehensive counternarcotics strategy to develop a whole-of-government response to the drug crisis.

In June, Mexico officially transitioned to a new accusatorial criminal justice system. Implementation is uneven, but early results from states that have implemented the reforms are encouraging. Challenges to implementation include a lack of resources and some institutional barriers to adapting to the new system. The United States has contributed approximately \$300 million to this effort, including training for justice sector actors, equipment for new courtrooms, and assistance for law schools in teaching new curriculum.

Mexico's 2017 proposed budget contains significant cuts initiated in 2016 to satisfy President Peña Nieto's goal to curb government spending. In 2016, the Secretariat of Interior's budget dropped 15 percent. According to the 2017 draft budget presented to Congress in September, state security subsidies are reportedly scheduled for an additional 16 percent cut, the National System of Public Security budget will decrease 22 percent, and the National Crime Prevention Program reportedly will be cut entirely.

Multilaterally, Mexico participates in 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 and Program of Action of Ixtapa. Mexico is a regional observer in the Central American Integration System and collaborates with Central American countries to improve regional security. Mexico participates with Canada and the United States in the North American Maritime Security Initiative in which naval authorities meet regularly to share information, improve response to transnational threats, and develop protocols for maritime interdictions.

The current U.S.-Mexico extradition treaty has been in force since 1980, and Mexico remains one of the United States' strongest extradition partners. Moreover, a bilateral mutual legal assistance treaty in force since 1991 fosters a broad range of cooperation in criminal matters.

2. Supply Reduction

In June, the Government of Mexico released a poppy cultivation study with methodology approved by the United Nations Office on Drugs and Crime and validated by the Autonomous University of Mexico and the University of Natural Resources and Applied Life Sciences in Austria. The report estimated that approximately 24,800 hectares (ha) were under cultivation from July 2014 to June 2015, based on a minimum estimate of 21,500 ha and a maximum estimate of 28,100 ha. This aligns closely with the U.S. government's estimate of 28,000 ha for 2015. Most poppy cultivation occurred in the Sierra Madre Occidental region (Sinaloa, Chihuahua, and Durango) and the state of Guerrero. Mexico reported eradicating 14,071 ha of opium poppy during the first six months of 2016, with steady increases since 2013, including 25,960 ha eradicated in 2015; 21,895 ha in 2014; and 14,662 ha in 2013. From April 2014 to September 2015, Mexico reported eradicating approximately 7,392 ha of cannabis. The Mexican military conducts the majority of eradication efforts.

The Mexican Office of the Attorney General's National Center for Planning, Analysis, and Information to Combat Organized Crime (PGR/CENAPI) publishes drug seizure statistics. 2016 statistics were not available at the time of this report, and the most recent statistics compiled by PGR/CENAPI cover the period from April 2014 to September 2015. During this period, according to PGR/CENAPI, Mexico reportedly seized 1,346.4 metric tons (MT) of marijuana (a 45 percent increase from the same period in 2013 to 2014), two MT of opium gum (a 43 percent increase), 26.5 MT of methamphetamine (a 74 percent increase), 10.2 MT of cocaine (a 183 percent increase), and 272 clandestine laboratories (a 90 percent increase). Increased coca cultivation and cocaine production in Colombia is resulting in more cocaine being produced and thus trafficked via Mexico. Mexico reported seizing 653 kilograms (kg) of heroin from April 2014 to September 2015, an increase from 455 kg during the previous reporting period, between December 2012 and April 2014.

Based on previously observed trends of drug precursors, it is likely some ammonium chloride imported into Mexico is diverted for use in illicit drug production. According to analysis from the Department of Defense Joint Interagency Task Force West, from 2007 to 2014, China exported an annual average of 300 MT of ammonium chloride to Mexico, a precursor chemical used to produce heroin and methamphetamine. From 2014 to 2015, China exported 15,000 MT of ammonium chloride to Mexico, 50 times the average amount from the previous eight years.

In January, after collaboration with U.S. chemical diversion experts, Mexico's Chemical Regulating Agency classified four chemicals as controlled precursor chemicals (nitroethane, nitromethane, benzaldehyde, and benzyl chloride) used to manufacture methamphetamine and MDMA (ecstasy).

Increased seizures at the U.S.-Mexico border suggest a rise in fentanyl production and trafficking. Often added to heroin, fentanyl is up to 100 times more powerful than morphine and 30-50 times more powerful than heroin. Synthetic drugs are increasingly transported in poly-drug loads and are sometimes pressed into pills to be sold as legitimate prescription medications. In early 2016, U.S. authorities seized over 1,000 counterfeit oxycodone tablets containing fentanyl as they were being smuggled from Mexico into California.

The United States works closely with Mexico to counter the manufacture and distribution of synthetic drugs and precursor chemicals. The Merida Initiative-funded Clandestine Laboratory Initiative is strengthening the Government of Mexico's counter-methamphetamine capacity through advanced training and the provision of Personal Protective Equipment. The program also provides a chemical tracking software system to help Mexico improve its ability to prevent the diversion of legitimate precursor chemicals. Mexican officials participate in regular meetings with U.S. experts to target the latest trends in synthetic drug production.

3. Public Information, Prevention, and Treatment

Official statistics indicate illegal drug use in Mexico is lower than U.S. levels. Marijuana is the most commonly used illegal drug in Mexico. Heroin is not widely used, though there are indications that its use may be increasing along Mexico's border with the United States. There is no indication fentanyl is being used domestically in Mexico. Mexico is currently conducting a national survey on drug use (co-funded by the United States), which will be finalized in 2017.

The National Commission Against Addictions (CONADIC) coordinates and implements national drug policy with the Ministries of Health and Interior. The National Institute of Psychiatry leads addiction research. These offices liaise with the United States, the Organization of American States, and the United Nations Office on Drugs and Crime.

CONADIC initiated a drug counselor certification program in 2015 with U.S. support. Previously, drug counselors were not required to be certified, often resulting in inadequate treatment services for drug users. The United States also funds training and technical assistance to establish drug treatment courts (DTCs) in Mexico. Currently, there are 25 active DTCs, two of which are juvenile courts. Mexico also promotes the establishment of anti-drug coalitions based on the model developed by the Community Anti-Drug Coalitions of America. There are currently 21 coalitions in Mexico, implemented through a U.S.-funded grant.

4. Corruption

As a matter of government policy, the Government of Mexico does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Although federal anticorruption standards are improving, corruption continues to

impede Mexican drug control efforts. In October, President Peña Nieto nominated former Attorney General Arely Gomez to head Mexico's anti-corruption agency.

In 2015, Mexico created the National Anti-Corruption System (SNA) to provide a comprehensive framework for the prevention, investigation, and prosecution of corruption cases. However, 32 secondary laws require revision to fully implement the system; seven passed in July 2016. Under the SNA, the "3de3" law requires all public servants to publish their assets, conflict of interest statements, and tax returns, unless they receive a waiver to keep them private. The initiative provides prosecutors and journalists a tool to address corruption and is designed to promote accountability among politicians.

The 2015 General Law of Transparency established the National Transparency System to harmonize Mexico's federal and state transparency laws and to make more areas of federal and state governments subject to public disclosures of information.

Many Mexican law enforcement officials at the local level remain poorly compensated, under-resourced, inadequately trained, and vulnerable to corruption. Each state oversees centers responsible for vetting law enforcement officers. Progress is uneven, but the centers have identified corrupt individuals, prompting the removal of some officers and the rejection of police recruits. Some Mexican law enforcement entities have also established, restructured, or augmented their internal affairs offices with Merida Initiative training and additional support. While law enforcement undergoes reform, the Mexican military is charged with a significant supporting role in law enforcement.

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

On October 27, Mexico joined the United States and Canada in the first North American Dialogue on Drug Policy to exchange information on drug trends in the Northern Hemisphere, illicit opioid use, and shared approaches to addressing the heroin and fentanyl crisis. Mexico also participates in the U.S.-Mexico Security Cooperation Group, the primary forum for senior officials from both countries to address joint security threats.

Merida Initiative funding supports the training and professionalization of Mexico's police. As of September 2016, 238,000 federal, state, and municipal police officers received nationwide standardized training in their responsibilities as first responders in the new criminal justice system through Merida programming. In cooperation with Mexican authorities, the United States has also trained prosecutors, judges, investigators, and forensics specialists on the new criminal justice system and provided equipment for 15 percent of all courtrooms in Mexico. With U.S. support, six forensic laboratories achieved international accreditation standards, adding credibility to the role of forensics specialists as expert witnesses in the new justice system. Merida assistance supports American Correctional Association (ACA) accreditation of Mexican prisons. As of January 2017, 58 prisons in Mexico had achieved ACA accreditation, resulting in significant reductions in deaths, escapes, and prison riots. Programmatic efforts to strengthen border security include the provision of non-intrusive inspection equipment, canines, cross-border telecommunications, and mentorship to improve migration management based on internationally-accepted human rights principles.

As of 2016, Mexico has seized over 230 MT of illegal drugs and over \$50 million in illegal currency with Merida-funded equipment and training. Through grantees, Merida programs have also provided educational programming on culture of lawfulness in more than 10,000 schools around Mexico, reaching over five million students.

D. Conclusion

Narcotics trafficking and related violence remain a substantial challenge for citizen security. Nevertheless, Mexico continues its efforts to counter transnational criminal organizations, reform its judiciary and prisons, improve border security, and professionalize police. These efforts have strengthened Mexico's public institutions while helping to weaken organized crime. Illicit drug cultivation is a particular challenge, with data trends suggesting illicit opium poppy cultivation will continue to grow. The United States will continue bilateral cooperation to work towards achieving security goals shared by both nations.

Morocco

Morocco is the world's largest producer and exporter of cannabis. According to the United Nations Office on Drugs and Crime (UNODC), Morocco's total cannabis production for the 2015-2016 growing season was an estimated 700 metric tons, which, potentially equivalent to as much as 23 percent of Morocco's \$100 billion GDP once processed into hashish.

Government of Morocco representatives have stated that Morocco is becoming a transit route for cocaine originating from South America to Europe. Couriers of mostly West African origin are arrested on a weekly basis at the Casablanca International Airport with kilograms of cocaine concealed inside their luggage or ingested. In late 2016, Moroccan authorities achieved two record cocaine seizures, including a 250 kilogram (kg) seizure involving the arrest of two Peruvian "cooks" at a cocaine conversion laboratory in Oujda, and an approximately 1,230 kg seizure from a ship in Dakhla. These were the two largest cocaine seizures ever recorded in Morocco.

Hashish is the most widely used illicit drug within Morocco. Moroccan authorities cite "karkoubi," a generic name for several addictive benzodiazepines, as the second most commonly used drug. The Moroccan government has claimed that these psychotropic drugs enter the country from mainly from Algeria, and have been tied to a number of violent crimes committed by mostly young men under their hallucinogenic and aggressive effects. Approximately 25 percent of all Moroccan inmates (approximately 19,000) are incarcerated on drug charges. There is a domestic market both for cocaine and heroin, albeit a relatively small one due to the high price of these drugs.

Morocco is updating its criminal code of procedure to enable law enforcement agencies to conduct undercover operations and other techniques not currently allowed. The new law is expected to take effect in spring 2017. The Government of Morocco recognizes its current limitations and works within the existing framework with its U.S. and European partners. Due to rivalries between Moroccan law enforcement agencies with overlapping drug control mandates, some Moroccan civil society commentators have advocated for creating an agency dedicated to combating drug trafficking.

In February 2017, the U.S. Drug Enforcement Administration (DEA) opened its first regional office on the African continent in Rabat, Morocco. There is no extradition treaty in force between the United States and Morocco. Mutual legal assistance between the United States and Morocco is governed by a bilateral agreement that entered into force in 1993. Both countries are parties to multilateral conventions which provide for cooperation in criminal matters.

The Netherlands

The Netherlands is a significant transit country for illicit drugs, especially cocaine, entering through the port of Rotterdam. The Netherlands remains an important producer of synthetic drugs, primarily MDMA (ecstasy), of which the majority is believed to be exported. Most large-scale production is tied to outlaw motorcycle gangs. The volume of Internet-facilitated trafficking of synthetic drugs has increased significantly. Usage of new psychoactive substances is generally low, except for 4-fluoramphetamine and phenylethylamine.

The Dutch Opium Act prohibits the possession, commercial distribution, production, import, and export of all illicit drugs. The act distinguishes between “hard” drugs (e.g., heroin, cocaine, ecstasy), and “soft” drugs (cannabis products). Sales of less than five grams of cannabis products are “tolerated” (illegal but not prosecuted) in regulated establishments called “coffee shops.”

The Dutch government encourages local governments to implement a residency requirement that limits coffee shop purchases to residents of the Netherlands. Enforcement is a local matter, with most municipalities adhering to this requirement, except in a few cities, including Amsterdam.

In 2015, the Opium Act was amended to criminalize facilitation and preparation of cannabis cultivation, effectively banning stores that specialize in products used to cultivate cannabis, such as grow lights. The law is still under judicial review.

In June, Dutch authorities in the port of Rotterdam discovered four metric tons (MT) of cocaine in a shipment from Costa Rica, constituting the port’s second largest cocaine interception. Overall in 2016, authorities seized 43 MT of cocaine destined for the Netherlands, including 14 MT at the country’s ports. Cocaine traffickers consider the Netherlands a reliable transportation hub. Passengers on flights from the Dutch Caribbean, Suriname, and Venezuela are subject to “100 percent screening” for drugs.

Dutch and U.S. law enforcement agencies maintain close operational cooperation, with principal attention given to South American cocaine-trafficking organizations and drug-related money laundering activities. The United States and the Netherlands have fully operational extradition and mutual legal assistance agreements.

The Royal Netherlands Navy patrols the Dutch Caribbean for counternarcotics operations. The Netherlands has a memorandum of understanding with the United States, which enables the deployment of U.S. Coast Guard Law Enforcement and Airborne Use of Force Detachments on Royal Netherlands Navy vessels to suppress illicit trafficking in the waters of the Caribbean. The Netherlands is a party to the Caribbean Regional Maritime Agreement and a partner in the U.S. Joint Interagency Task Force South. The Netherlands is a member of the Maritime Analysis and Operation Centre-Narcotics.

Nicaragua

A. Introduction

Nicaragua remains a primary transit route for drug trafficking. Nicaragua's long Atlantic and Pacific coasts, large inland lakes, porous border crossings, and sparsely-populated and underdeveloped Caribbean coastal region provide a favorable environment for international criminal groups to exploit by smuggling contraband, including drugs, weapons, currency, and people. Domestic production of marijuana also occurs and Nicaragua faces a growing domestic market for illegal drugs.

The Government of Nicaragua's updated Citizen Security plan for 2016 includes several lines of effort to combat drug use and trafficking. Its "Retaining Wall" (Muro de Contención) strategy promotes a coordinated effort to stop narcotics traffickers from entering the country; however Nicaragua does not have sufficient resources to have complete control of air, land, and sea borders. Nicaragua's capacity to conduct successful interdiction operations is further challenged by limited mobility and communications to patrol the sparsely populated regions in the Caribbean region, lack of dedicated air assets, and limited coordination between the Police, Navy, and the Air Force.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2016, Nicaragua continued to take some steps toward regional integration and cooperation with international bodies to support the fight against drug trafficking. In June, the Nicaraguan Army Chief met with the Director of the U.S. Joint Interagency Taskforce South to reinforce a common strategy to counter the flow of illegal drugs. Also in June, the Presidents of Nicaragua and Honduras met to develop strategies to improve the security of both countries, and the military chiefs of both countries signed a working protocol to strengthen cooperation between their intelligence agencies. Similarly, the military chiefs of Nicaragua and El Salvador met and signed an agreement in October to strengthen counternarcotics cooperation and combat organized crime.

As part of a 2015 cooperation agreement with Russia, Nicaragua and other countries in the region continued to receive counternarcotics training by the Russian Federation. According to press reports, the Russian government is constructing an international police training facility in Nicaragua that will reportedly be used to provide training courses, to include counternarcotics training. Press reports also claimed that 460 members of the Russian armed forces traveled to Nicaragua to train Nicaraguan counterparts in 2016, including on drug control efforts. In April, under the framework of the Central American Integration System, the Nicaraguan National Police held the ninth edition of an anti-drug course for 32 police officers from Belize, Cuba, Dominican Republic, El Salvador, Honduras, Panama, and Nicaragua.

The Cooperative Situational and Information Integration System, which enables greater international law enforcement intelligence sharing, remains in effect, as does the maritime counterdrug bilateral agreement signed in November 2001.

The Inter-American Convention on Mutual Legal Assistance in Criminal Matters, to which Nicaragua and the United States are both parties, facilitates the sharing of legal information between countries and promotes cooperation with U.S. requests for evidence sharing. The Government of Nicaragua generally satisfies U.S. requests for legal assistance, but rarely within requested timeframes.

The United States and Nicaragua are parties to an extradition treaty signed in 1905 and ratified in 1907, but the Nicaraguan constitution bars the extradition of Nicaraguan citizens. An International Criminal Police Organization Red Notice is usually required for wanted individuals in order for the Government of Nicaragua to cooperate with the United States in expelling non-Nicaraguan citizen fugitives.

2. Supply Reduction

There was no discernible change in the volume of drugs transiting Nicaragua in 2016. However, there was evidence of increased domestic drug use, increased illegal drug production (mainly of marijuana), and the existence of clandestine airstrips in remote areas of the country. The transit of illicit drugs through the isolated Caribbean Coast remains significant, but many trafficking organizations are also shifting their operations to the Pacific Coast using larger, longer-range transportation. This allows them to move larger quantities of drugs and travel further out to sea, avoiding detection by law enforcement and the threat of pirates operating in the Caribbean regions. Drug traffickers are also adapting technology such as GPS to submerge and later locate drug loads. Illicit drugs are also trafficked via land and air.

The Government of Nicaragua reported that authorities seized 4.17 metric tons (MT) of cocaine in 2016, comparable in volume to the 4.25 MT seized in 2015. However, the Nicaraguan government reported a significant increase in seizures of marijuana and the destruction of local marijuana plants. Authorities reported seizing approximately 1.96 MT of marijuana in 2016, significantly higher than the 358 kilograms of marijuana seized in 2015. In addition, Nicaraguan authorities destroyed, both on their own and in joint operations with Honduras, 275,000 marijuana plants growing in the north central region of Jinotega Department and along the Caribbean Coast, significantly more than the total destroyed in 2015. Authorities also reported seizing \$7.17 million in cash, 445 vehicles, one airplane, and 33 “go-fast” boats, and the arrest of 4,368 people for drug crimes, of which 104 were arrested for international drug trafficking.

3. Public Information, Prevention, and Treatment

There are no reliable national statistics on drug consumption, but there are indications of increased use of marijuana, crack, and cocaine, especially in the Caribbean Coast regions

and among adolescents. The lack of statistics makes it difficult to measure the impact of prevention and treatment programs.

The Government of Nicaragua reports that the Nicaraguan National Police, in coordination with the Ministry of Education, provided drug prevention education for more than 68,000 adolescents in more than 216 schools in 2016. Due to resource constraints, however, these programs reach less than five percent of the school age population. The Nicaraguan government also reported offering drug prevention activities for students, juvenile offenders, and at-risk youth not attending school, to include educational movie screenings, prevention talks, neighborhood meetings, marches to raise awareness, and sports and cultural activities to raise awareness and to prevent violence and drug use.

The European Union, through the Spanish Agency for International Development Cooperation, supported the Nicaraguan National Police to open a youth center in Bluefields in 2016 in the South Caribbean Autonomous Region to work with at-risk youth.

The police have cooperation agreements with 13 of Nicaragua's 20 drug rehabilitation centers, all of which are privately run by non-governmental organizations (NGOs), to which they refer persons with substance use disorders. Private treatment centers in Nicaragua offer two models of patient service: out-patient and residential. Free treatment centers are scarce in Nicaragua, and some treatment centers charge a high monthly fee between \$2,000 and \$3,000 per patient.

The Organization of American States' Inter-American Drug Abuse Control Commission, with support from the United States and the UN Office on Drugs and Crime, supports prevention and rehabilitation efforts in Nicaragua, including training and support for treatment facilities.

NGOs continue efforts to prevent drug use and provide treatment to those suffering from substance use disorders. The United States provides support to fund programs focused on citizen security, drug prevention, and life skills for at-risk youth, including a grant for a multi-media drug and violence prevention campaign that has reached more than 700,000 people.

4. Corruption

As a matter of policy, the Government of Nicaragua does not encourage or facilitate illicit drug production or distribution, nor is it involved in laundering the proceeds of the sale of illicit drugs. Nicaragua's criminal law contains provisions against corruption such as bribery, abuse of authority, influence peddling, and embezzlement. There is also a law regarding the investigation and prosecution of organized crime (Law 735). A lack of checks and balances within the judicial system, however, hinders meaningful prosecution of serious crimes in the country.

The National Assembly amended Law 735 on April 20, reorganizing the National Council Against Organized Crime and giving the President more direct control over the Council

through direct appointment of its members. Opposition law makers and independent security analysts expressed concern that the change would lead to decreased transparency particularly with regard to the disposition of seized assets.

In 2016, the Nicaraguan National Police's Internal Inspection Office publicized several cases of corruption within the Police's Anti-Drug Unit in Managua that are under investigation. In the department of Rivas, three police officers were discharged and one prosecuted for drug-related charges. In both the Managua and Rivas cases, the incidents included collusion between officers and drug traffickers, tampering and concealment of evidence, and missing seized assets (money and equipment). Two former police officers publicly accused current members of the police of corruption in 2016, including stealing illegal drug loads and money from drug traffickers. In addition, two senior police officials in the north-central region were killed under unclear circumstances – one in what appeared to be a targeted killing. Independent security analysts have noted that prosecution of police corruption cases has been isolated to low-ranked officers, despite allegations of involvement by higher ranking officials.

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

The Nicaraguan government has demonstrated a willingness to investigate and take action against drug-related activities. In 2016, in line with U.S. policy to reduce the flow of illegal drugs to the United States and improve security in Central America, the United States assisted Nicaragua by supporting a wide range of drug control efforts including equipping and training Nicaraguan security forces, as well as funding prevention programs with NGOs.

The United States works in bilateral cooperation with the Nicaraguan Navy to enhance maritime interdiction capacity by providing intelligence information for interdiction operations, supporting training opportunities, and implementing capacity-building projects. In 2016, the United States supported the Nicaraguan Navy with interdiction boats and vehicles, and trained Nicaraguan Navy security forces in areas such as maritime engine overhaul, maintenance and operations of boats, combat lifesaving, and international patrolling. Coordination between the U.S. Drug Enforcement Administration and the Joint Interagency Task Force South with Nicaraguan authorities resulted in successful interdictions of drugs and cash in 2016. The United States also supported the participation of two police commissioners at the International Drug Enforcement Conference in 2016 to strengthen regional interoperability, and continues to support the integration of Nicaragua into the Cooperative Situational and Information Integration System.

The United States continues to provide resources to non-governmental drug demand reduction programs in the North and South Caribbean Autonomous Regions and the Managua area, where populations are more vulnerable to drugs and violence. These grant projects have served to increase citizen security through drug prevention awareness campaigns, community development, youth leadership training, and alternative education intervention programs for at-risk youth in Nicaragua.

D. Conclusion

Nicaragua, in cooperation with the United States and others, worked to combat drug trafficking in 2016. The Government of Nicaragua implements an integrated strategy to develop policies and programs to combat drug trafficking, reduce drug demand, and enhance institutional coordination. The Nicaraguan government should continue its efforts to combat organized crime by expanding of its capacity to monitor air, land, and maritime space within the vulnerable Caribbean coast and the Pacific border regions of the country, which remain the primary routes for international drug trafficking. Attention should also be increased to broadening coverage of drug prevention programs and drug rehabilitation facilities.

In addition, the Government of Nicaragua should make a stronger, more consistent effort to cooperate with law enforcement bodies in the region. Institutional corruption and lack of judicial independence must also be addressed to improve the country's drug control efforts.

Nigeria

Nigeria is a significant transit country for heroin and cocaine destined for Europe, and to a much lesser degree, the United States. Nigerian organized criminal networks remain major actors in trafficking cocaine and heroin worldwide, facilitated by the extended Nigerian diaspora, and have begun to produce and traffic methamphetamine primarily to and around Southeast Asia. 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 Nigeria Drug Law Enforcement Agency (NDLEA) enforces laws against drug trafficking and abuse and leads in demand reduction and drug control policy development. Weak inter-agency cooperation, insufficient criminal enterprise investigative capacity, and inadequate electronic evidence collection all contribute to the dearth of apprehensions of major traffickers. Although all Nigerian law enforcement agencies have representatives at Nigeria's ports of entry, joint operations between them are rare.

Marijuana (cannabis) is the most common illicit drug produced in Nigeria. Traffickers sell marijuana in Nigeria and export it through West Africa and into Europe. Nigerian methamphetamine is produced in large quantities in the South-East states outside of Lagos. During the first 10 months of 2016, NDLEA reported seizing 276.18 metric tons (MT) of cannabis; 290.64 kilograms (kg) of methamphetamine; 136.08 kg of cocaine; 19.74 kg of heroin; 6 kg of amphetamine; 1046.87 kg of ephedrine; 65.7 kg of khat; and 76.6 MT of other psychotropic substances, totaling 354.3 MT in total drug seizures.

In June 2015, the NDLEA Sensitive Investigative Unit (SIU), which works closely with the U.S. Drug Enforcement Agency (DEA), made the first arrest of a major Nigerian transnational drug trafficker. In 2016, the U.S. continued to assist in reforming the NDLEA from a reactive investigative agency to an intelligence-led proactive agency by providing training in intelligence analysis, evidence collection, criminal enterprise theory, drug trafficking and money laundering investigations, and prosecutions.

In 2016, the NDLEA's budget was approximately \$25.6 million, an approximate \$20 million decline from its 2015 budget of \$46.6 million due mostly to a 60 percent devaluation of Nigeria's currency. Of this amount, only approximately \$41,764 was allocated for NDLEA staff training.

The NDLEA's Demand Reduction Directorate has reinvigorated its programs targeting youth, sex workers, community leaders, and transport workers. In 2016, the NDLEA counseled and rehabilitated 2,500 persons suffering from substance use disorders, an increase of 18 percent over the previous year.

Extradition between Nigeria and the United States is governed by the 1931 U.S.-U.K. Extradition Treaty. There is a bilateral mutual legal assistance treaty in force between Nigeria and the United States. In addition, the United States and Nigeria are parties to various multilateral conventions that contain provisions for mutual legal assistance.

Pakistan

A. Introduction

Pakistan continues to be one of the world's top transit corridors for opiates and cannabis, which are trafficked through the porous border area with Afghanistan and Iran. Illicit narcotics are then distributed globally through Pakistan's seaports, airports, postal services, and unpatrolled coastal areas. The United Nations Office on Drugs and Crime (UNODC) estimates Pakistan is the destination and transit country for approximately 40 percent of the opiates produced in Afghanistan. While Pakistan is also a producer of illicit opium, as well, overall poppy grown in Pakistan has decreased by an estimated 80 percent from 2013 to 2015, according to U.S. estimates. Pakistan is also a major transit country for precursor chemicals used in the production of heroin and methamphetamines.

In 2016, Pakistan's law enforcement agencies made multiple noteworthy seizures and arrested more than 55 traffickers designated as U.S. Drug Enforcement Administration (DEA) priority targets. Pakistan's Anti-Narcotics Force (ANF), the country's lead counternarcotics agency, reported that during the first nine months of 2016, it seized approximately 15.23 metric tons (MT) of heroin, 33.18 MT of opium, 482 kilograms (kg) of cocaine, and 168.53 MT of hashish. Overall 2016 seizures represent a 52 percent increase over 2015, and the total volume of cocaine seized in 2016 increased nearly 17-fold. The Government of Pakistan's budget limitations continued to hinder drug control efforts.

Domestic drug consumption continues to be a problem. According to a 2013 UNODC nationwide survey, Pakistan is home to 6.7 million drug users, and approximately 20 MT of heroin is consumed within the country annually. Because Pakistan lacks the capacity to properly treat substance use disorder and educate its people about the dangers of illicit narcotics, the problem continues to grow.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2016, Pakistan participated in the Paris Pact and Triangular Initiative, two multilateral mechanisms promoting international counternarcotics coordination. ANF conducted joint counternarcotics operations with multiple foreign counterparts, including the United Kingdom, Canada, Sri Lanka, Malaysia, and the United Arab Emirates. Pakistan hosts at least 32 foreign Drug Liaison Officers as part of its Paris Pact obligations. In addition to working with international drug liaison officers based in Pakistan, ANF has stated it would like to place officers in Pakistani embassies in important drug destination countries; however, the U.S. government has not seen any indication that Pakistan has taken the requisite steps to accomplish this.

ANF made numerous large seizures in 2016, including four separate one-ton seizures of heroin; nine seizures of opium averaging 2.3 MT each; and a single seizure of 18.53 MT of hashish – the largest recorded seizure of hashish in Pakistan in recent years. However, obtaining drug samples

for testing in the United States has become more challenging. The Ministry of Foreign Affairs (MFA) directed ANF not to provide samples to DEA without going through proper MFA channels. This new process will take an average of six months to complete for each sample requested and has effectively halted the process.

Staffed at senior levels by Pakistan Army officers, ANF is a civilian law enforcement agency constitutionally mandated to serve as Pakistan's lead counternarcotics entity. ANF's 2016 federal budget of \$20.3 million is insufficient to support its daunting mission and limits its capacity to adequately perform key sustainability functions, such as operational maintenance on vehicles and equipment. Over 60 percent of ANF's budget is used to pay salaries of its 3,100 employees who are thinly deployed across 40 stations and field offices. These posts span every province and territory, except the Federally Administered Tribal Areas (FATA). Pakistan Customs is the only law enforcement agency conducting routine counternarcotics operations in every province and territory, including the FATA.

In 2013, the Ministry of Narcotics Control merged with the Ministry of Interior forming the Narcotics Control Division (NCD), placing ANF under the oversight of Pakistan's largest internal security bureau. In 2016, ANF chaired the quarterly meetings held by the Inter-Agency Task Force, which is composed of 27 agencies and intended to enhance coordination and communication on drug control issues. ANF also partnered with DEA and the United Kingdom's National Crime Agency to operate Special Investigation Cells (SICs). In 2016, the ANF Academy provided instruction to 1,149 trainees across Pakistan's law enforcement community. As part of UNODC's Container Control Program, ANF and Pakistan Customs operated nine Port Control Units.

Enforcement of the 1931 Extradition Treaty between the United States and the United Kingdom (adopted by Pakistan upon independence) has been problematic. No narcotics traffickers have been extradited to the United States for many years.

2. Supply Reduction

Pakistan's main opium poppy growing areas remain in FATA and Khyber Pakhtunkhwa (KP). Insecurity in these regions has prevented reliable ground surveying, hampering efforts to determine precise cultivation levels. In 2016, ANF reported that 1,600 hectares (ha) of poppy were cultivated during the 2015-2016 growing season, of which 1,470 ha were eradicated. U.S. government estimates for 2016 were not available at the time of this report. However, 2015 estimates indicated that approximately 930 ha were under cultivation in traditional poppy growing areas. Alternative livelihood and development programs for farmers, including distribution of seeds, agricultural training, and construction of small scale roads and irrigation projects, have discouraged poppy cultivation in some communities of KP and FATA. However, Pakistan depends heavily on foreign assistance to implement and monitor such programs.

According to a 2009 UNODC study, the most recent available, 160 to 200 MT of Afghan heroin and 350-400 MT of opium were trafficked from Afghanistan to Pakistan annually. Despite its best efforts, Pakistan is only able to interdict a fraction of that traffic. ANF and Customs represent only a small portion of Pakistan law enforcement, but the rest of the nearly 600,000

police and paramilitary forces in Pakistan do not have any counternarcotics training and do not understand it to be part of their core mission.

During the first nine months of 2016, ANF registered 900 arrest cases on drug charges. While 55 of those cases were traffickers designated as U.S. Drug Enforcement Administration (DEA) priority targets, the vast majority of cases were low-level possession or small quantity courier trafficking. Only 38 percent of these cases were closed, but of that small amount, 92 percent resulted in conviction. Approximately 10 percent of the convictions are overturned on appeal annually, with many more pending final court decisions. Suspects arrested by ANF are tried in special narcotics courts that hear only those cases put forth by ANF and are prosecuted by its own prosecutor corps. As these prosecutors lack independence, they are unlikely to push back against any ANF practices that result in weak cases.

3. Public Information, Prevention, and Treatment

UNODC's 2013 nationwide drug use survey indicated that 6.7 million Pakistanis aged 15 to 64 – about six percent of the population – had used drugs for non-medical purposes at least once in the previous 12 months. Cannabis and opioids were the most prevalent drugs consumed, with four million and 2.7 million users, respectively. The survey results also showed that for the 1.5 million female drug users, the majority reported misuse of opioid-based painkillers or synthetic tranquilizers and sedatives, rather than cannabis, heroin, and opium which male drug users preferred. In total, the survey classified 4.25 million drug users aged 15 to 64 as suffering from substance use disorders.

Pakistan's police officers and teachers have historically lacked knowledge about the harmful physiological properties of drugs or their destructive effects on society. In 2016, Pakistan continued efforts to raise public awareness about illicit drug use. ANF lectured frequently at universities, colleges, and schools about drug awareness. With the aid of international donors, including the United States, local non-governmental organizations (NGOs) conducted drug awareness activities, many of which were focused campaigns targeting teachers, parents, youth, and vulnerable populations in both urban and rural communities. Focusing on evidence-based prevention theories, donor-funded training is increasing the impact of these campaigns.

In 2016, Pakistan's drug treatment capacity, with fewer than 100 clinics operating nationwide, remained insufficient to meet the growing demand. Very few public hospitals offer drug addiction treatment services. Because of a lack of government funding, NGOs operate more than 90 percent of Pakistan's detoxification centers. As a result, cost remains the primary obstacle preventing widespread access to treatment, leaving 75 percent of those suffering from opioid addiction without an avenue to seek help. According to the most recent UNODC estimate, fewer than 30,000 drug users receive detoxification therapy annually. Because Pakistan lacks the institutional capacity to serve women, the majority of drug users receiving treatment are men. Donor-funded "train-the-trainer" programs have increased the number of addiction centers that provide evidence-based treatment. These efforts could reduce remission rates, which currently approach 80 percent.

4. Corruption

Corruption remains a major challenge to the justice system and the practice of law enforcement. Despite parliamentary oversight committees, an independent judicial system, and a critical free press that exposes corrupt practices, the consequences for perpetrators are rarely severe. Accordingly, corruption continues to facilitate the movement of contraband, including in the form of bribes to public servants and political interference with the arrest and prosecution of suspects. In 1999 Pakistan established the National Accountability Bureau (NAB) to combat public corruption and strengthen rule of law. The bureau has sweeping authority to investigate, arrest, and prosecute individuals involved in misconduct, bribery, misuse of authority, and other violations. The NAB completed approximately 450 investigations in 2015, based on the bureau's latest annual report.

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

The United States remains strongly committed to a comprehensive approach to counternarcotics assistance in Pakistan. U.S. supply reduction assistance builds Pakistani capacity to interdict drug shipments and dismantle criminal organizations. The United States helps Pakistani law enforcement entities develop their capacity to conduct semi-sophisticated operations, such as controlled deliveries, financial crime investigations, and effective container profiling. The United States aims to help Pakistan cultivate a model for collaborative, intelligence-driven, and corruption-free law enforcement by directing assistance through elite units such as SICs. The United States also provides alternative means for farmers to grow licit crops instead of poppy, including the distribution of seeds, the construction of small roads, and alternative livelihood irrigation projects.

Over the past five years, U.S. supply reduction assistance has mainly funded poppy reduction programs and ANF interdiction activities. In 2016, bilateral cooperation on interdiction programs continued to improve between the United States and Pakistan. To promote an effective and self-sustaining interdiction capability and engage with other Pakistani partners in counternarcotics, the United States continues to work on strengthening cooperation with Pakistani Customs.

ANF is responsible for conducting complex narcotics investigations with a small staff, while working within a judicial system where prosecutors and judges are overworked, underpaid, and ill-prepared to successfully prosecute cases that involve modern investigative techniques. Since the passing of the Fair Trial Act in 2013, ANF can submit evidence gathered from telephone intercepts so long as they first receive permission from a judge to conduct the wiretap. However, since the process for initiating a judicial wire intercept takes six months at a minimum, the target telephone number is nearly always dropped by the target before the wiretap can even be initiated. In order for ANF to meet its mandate, the Government of Pakistan should provide greater funding to ANF and elements of the judicial system that try narcotics cases.

To support demand reduction efforts, the United States funds various drug treatment and practitioner training programs. In 2016, the U.S. government continued its assistance to NGOs operating free-of-charge drug treatment centers and mass awareness activities, prioritizing the

funding of projects benefitting women and children, as well as providing training for drug treatment professionals to improve evidence-based protocols. Additionally, the U.S. government continued to promote drug awareness throughout Pakistan, working with partners such as UNODC.

D. Conclusion

Although Pakistan continues to face enormous economic and security challenges that often supersede narcotics trafficking in national security priorities, many of these challenges are interconnected. By utilizing the already established Inter-Agency Task Force and encouraging greater intelligence sharing among its law enforcement and military entities, Pakistan could more effectively reduce drug trafficking and encourage its law enforcement agencies to coordinate more closely, share information more readily, and expend limited resources more efficiently. This would also combat the nexus between drug trafficking and the funding of terrorist networks. Increased public awareness about the drug trade and its negative societal influences would further solidify concerted government action across law enforcement agencies.

Panama

A. Introduction

Panama remains a major transshipment crossroads for illicit drug trafficking due to its location and logistics infrastructure. Panama does not produce significant amounts of drugs destined for the United States market, though limited cannabis cultivation occurs in remote regions for local consumption. Transnational drug trafficking organizations, including Mexican and Colombian groups, move illegal contraband through Panama's remote Darién region and along its coastline and littoral zones. Drug traffickers also exploit Panama's transportation infrastructure, including the second largest free trade zone in the world, four major container seaports, airports, and the Pan-American Highway. The Panamanian government is concerned that drug consumption and gang activity may be growing within the country and is committed to working with international partners to confront drug use and trafficking both domestically and regionally. The United States enjoys strong partnerships with all Panamanian security services.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Developments

In 2016, Panama built on past efforts to improve its security institutions, enhance interdiction capacity, and ensure citizen security. The Ministry of Public Security's budget increased in 2016 for the eighth consecutive year. Panamanian institutions continue to face challenges, including management of interagency and inter-service cooperation to combat illicit trafficking. The government has increased counternarcotics cooperation, including through two named interagency operations and the creation of a permanent task force, the Special Anti-Narcotics Force.

The Panamanian National Police (PNP), with U.S. assistance, implemented modern policing strategies and integration of the COMPSTAT (comparative statistics) model in 100 percent of the country's police zones, allowing real-time mapping and analysis of criminal activity. Increasingly effective use of COMPSTAT led to more-effective police enforcement, with a continued decrease in major crimes in zones across the country (approximately 20 percent) where the PNP fully implemented the model, according to government statistics. The creation of real-time crime analysis centers, enabled by implementation of the COMPSTAT program, allowed real-time mapping and analysis of criminal activity and the ability to deploy police to crime "hot spots." The Police Academy continued its focus on distance learning, continuing education, and seminar programs to serve the entire force. The Academy also began working with the educational system of the National Air-Naval Service (SENAN) to integrate SENAN into the overall national security education program, with specialties for SENAN's requirements and an eventual program of accreditation.

The PNP's coastal Anti-Narcotics Operations Tactical Unit remained an effective interdiction unit. The PNP continued to endorse vetted units supported by the U.S. Drug Enforcement Administration and Homeland Security Investigations; the vetted units have proven their effectiveness with increasing amounts of seizures. The Government of Panama continued to

devote resources to improving security in Darién province. The National Border Service (SENAFRONT) remains the operational mainstay there, performing humanitarian assistance and community policing missions alongside its other duties. Although the Revolutionary Armed Forces of Colombia (FARC) no longer operates in the Darién, SENAFRONT confronts criminal gangs moving drug shipments through the region. A surge in irregular migration through the Darién has largely matched historic drug-trafficking routes. Through the Regional Border Protection Training Program, the United States provides training to SENAFRONT and other regional security services on border security operations at and between ports of entry. Thanks to “train-the-trainer” cooperation with the United States and Colombia, SENAFRONT now conducts advanced training on its own and to an increasing number of students from regional partners, including Costa Rica, Belize, Guatemala, and Honduras.

In 2016, Panama Customs created an interdiction unit supported by the United States and began sharing foreign-to-foreign cargo manifest data with U.S. Customs and Border Protection (CBP). This will allow the United States to make interdiction recommendations to Customs for all cargo entering, departing, or transiting Panama. With U.S. assistance, Customs continues to enhance its targeting abilities through the deployment of new software and associated training. Additionally, the United States assisted Customs by providing analysis and recommendations regarding its non-intrusive inspection (NII) program. This identified critical operational gaps and provided Customs a framework to address priority initiatives to improve its NII program.

SENAN routinely interdicted maritime narcotics shipments, with U.S. assistance. The United States works jointly with the Colombian Navy to help SENAN develop organic and sustainable maintenance and operational capacities. The United States provided training and equipment assistance for SENAN in 2016 to enable the organization to bring more narcotics cases to successful prosecution.

In September, Panamanian authorities concluded implementation of their phased transition from an inquisitorial justice system to a faster and more transparent accusatory justice system throughout the country. The United States continued to support the transition through training and equipment. Case processing times are decreasing, though the government must continue to contribute significant resources for smooth and efficient implementation and training for security sector actors. Despite this progress, justice sector institutions have difficulty pursuing money laundering, organized crime, complex financial crimes, and criminal forfeiture cases and remain susceptible to corruption. Frequent arrests still produce few successful prosecutions.

A mutual legal assistance treaty and an extradition treaty are in force between the United States and Panama, and while Panama’s Constitution does not allow for the extradition of Panamanian nationals, upon request, Panama will assume jurisdiction over cases where they cannot extradite. The 2002 Salas-Becker Agreement enables cooperation on bilateral maritime interdiction, including the use of shipriders, allowing Panamanian security officers to deploy aboard U.S. air and maritime patrol assets. The program enhanced the effectiveness of counter-trafficking operations in-and-around Panama by improving detection, monitoring, interdiction, and apprehension of traffickers.

2. Supply Reduction

According to media reports, the Government of Panama seized approximately 63 metric tons (MT) of illicit drugs in 2016, including approximately 56 MT of cocaine. This amount does not include cocaine seized by U.S. Coast Guard assets in or near Panamanian territorial waters or jettisoned by traffickers under pursuit and not recovered. The volume of seized cocaine exceeded the 52.3 MT of cocaine seized in 2015, reflecting the increasing ability of Panama's security services to act on operational intelligence, better analysis, and a more aggressive operational posture. When cued by Maritime Patrol Aircraft (MPA), Panama enjoyed a commendable pursuit-to-interdiction ratio of 100 percent over the first nine months of 2016, capturing 17 of the 17 maritime targets cued by MPA and an additional 50 targets cued by other information.

Several local drug trafficking organizations in Panama continued to provide logistical support to international trafficking organizations smuggling cocaine into Panama for further distribution northward in Central America. Based along both of Panama's coastlines, these organizations coordinated the receipt of "go-fast" vessels from organizations in Colombia. Once in Panama, these vessels typically refuel and offload and store their drug shipments for transport farther north. Panama's ports, on both the Caribbean and Pacific coasts, remain susceptible to drug trafficking because of the sheer number of containers moved through the region as well as internal corruption within the ports' operations. Panama increasingly serves as a transshipment hub for cocaine shipments destined for Europe.

The Government of Panama has not reported significant problems associated with synthetic drugs, though synthetics have reached the streets of Panama and government officials have expressed concern.

3. Public Information, Prevention, and Treatment

Although illicit drug abuse currently is not a major problem in the country, the government is concerned it could become so, in concert with the growth of gangs influenced by problems from northern Central America. Panama funds some drug demand reduction programs and benefits from other funding sources, including 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. Panama conducted its last drug-demand study in 2008, making it difficult to assess current trends. Panama has not updated its written strategy on drug demand reduction since 2007. The United States, in collaboration with the Organization of the American States' Inter-American Drug Abuse Control Commission, funds drug treatment and prevention training for treatment service professionals in Panama. The United States continues to partner with the PNP to implement programs such as Drug Awareness and Resistance Education and the Community Policing Strategy to help at-risk youth.

4. Corruption

The Government of Panama does not, as a matter of government policy, encourage or facilitate illegal drug production or distribution, nor is it involved in laundering the proceeds of the sale of

illicit drugs. However, corruption remains a concern throughout the security services, customs, and justice sector. Drug trafficking organizations have penetrated the security services, and Panamanian authorities detained several security-service members involved in trafficking in 2016. Panamanian authorities recognize the threat, and the PNP and SENAN respond favorably to U.S. requests to polygraph security service members. The government actively investigates officials for corruption, though successfully prosecutes few. In April, the government announced the formation of the Interagency Anti-Corruption Group (GIA), a welcomed development to help combat this insidious problem. Based on GIA investigations, Panamanian authorities arrested security sector officials in Colón and Panama City, including police and SENAN officials suspected of corruption.

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, mainly through the Central America Regional Security Initiative (CARSI). These programs aim to expand Panamanian capabilities to interdict, investigate, and prosecute illegal drug trafficking, money laundering, and other transnational crimes while strengthening Panama's justice sector. Through CARSI, the United States trains and equips Panamanian police to perform anti-gang law enforcement. The United States also supports community policing in Panama with equipment, training, and communications assets. Both the PNP and SENAFRONT are using their increasing capabilities and professionalism to assist regional partners with education and training and use of their facilities.

In 2016 the United States continued to provide assistance to modernize and maintain SENAN, SENAFRONT, and PNP vessels and facilities in support of interdiction efforts. U.S.-provided aviation assets have helped SENAN expand its ability to support joint drug enforcement operations. U.S. provided training improves the professionalism and effectiveness of Panama's security services by enhancing skills in areas such as small boat operations, small unit tactics, and logistics support. The United States continues to advance progress through a trilateral cooperation relationship with Panama and Colombia, where Colombian law enforcement, justice sector, and military experts train members of Panama's security services.

U.S. and Panamanian law enforcement units collaborate closely on drug control efforts, which in 2016 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. During 2016, investigations and operations by Panama's vetted units resulted in 266 arrests and seizure of over 15.3 MT of cocaine and approximately \$3,719,832 in illicit proceeds.

D. Conclusion

The Government of Panama continued its support for coordinated counternarcotics operations and investigations in 2016, while continuing to invest in building its own capacity. Panama remains one of the regional leaders in narcotics interdiction and seizures, and President Varela has stated a desire to further expand his country's regional leadership. Nevertheless, the overall

magnitude of the drug threat exceeds the capacity of Panama's security services to manage it alone. To maintain the momentum of recent improvements, the United States will continue to assist Panama in implementing reforms. Bureaucracy and incapacity hinder the judicial system's ability to dismantle transnational criminal organizations or successfully prosecute major criminals. The United States is committed to continuing to work positively with all the security services and encourages stronger and more organized support for the prosecutorial sector.

Paraguay

Paraguay faces various challenges in its efforts to reduce narcotics trafficking and production. Paraguay is the second largest marijuana producer in the Western Hemisphere, with the majority grown along the Paraguay-Brazil border and exported to Brazil and Argentina. It is also a transit country for Andean cocaine, primarily destined for Paraguay's neighbors or onward shipment to Europe and other overseas markets. Drug traffickers exploit the landlocked country's porous borders, clandestine airstrips, extensive internal waterways, and under-resourced, often corrupt law enforcement and judicial institutions. International criminal organizations operating along the Paraguay-Brazil border also continue to engage in arms trafficking, money laundering, counterfeiting, and other illegal activities linked to narcotics trafficking. In December 2016, Paraguayan authorities arrested six alleged-affiliates of the Mexico-based Sinaloa Cartel in Asuncion. According to media reports, the arrested individuals were allegedly seeking to establish a cocaine trafficking route from Colombia to Europe via Paraguay.

The volume of illegal drugs seized by the National Anti-Drug Secretariat (SENAD) and the Paraguayan National Police (PNP) declined in 2016 from the previous year. In 2016, SENAD seized and destroyed 276 metric tons (MT) of processed marijuana (compared to 362 MT in 2015) and 1.57 MT of cocaine (compared to 2.23 MT in 2015). The PNP seized and destroyed 137.6 MT of processed marijuana (compared to 148.3 MT in 2015), and seized 19 kilograms of cocaine (compared to 919 kg in 2015). Cannabis eradication also declined in 2016. SENAD eradicated 1,298 hectares (ha) of marijuana (compared to 1,995 in 2015), while the PNP eradicated 413 ha of marijuana (compared to 795 in 2015).

The United States and Paraguay are parties to an extradition treaty that entered into force in 2001. There is no mutual legal assistance treaty in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters.

The United States works closely with Paraguayan enforcement officials and provides technical support to Paraguay's efforts to disrupt drug trafficking organizations and strengthen legal and regulatory frameworks in a joint effort to combat drug trafficking and associated crimes, including money laundering, terrorist financing, and arms trafficking. The United States hosted multiple training events throughout 2016 and assisted with weapons tracing and exploiting seized cell phones. U.S. operational support facilitated drug seizures, arrests, and the presentation of cases for prosecution. Further efforts to enhance Paraguayan interagency coordination, improve the judicial system's ability to prosecute cases quickly and effectively, confront corruption, and strengthen law enforcement efforts would help to further deter narcotics production and trafficking.

Peru

A. Introduction

Peru was the second-largest producer of cocaine and cultivator of coca in 2015, the most recent year for which data is available, with an estimated 53,000 hectares (ha) under cultivation. Most Peruvian cocaine is transported to South American countries for domestic consumption or for onward shipment to Europe, East Asia, and Mexico. Peru is a major importer of precursor chemicals used for cocaine production.

Former President Ollanta Humala's administration dedicated substantial resources to implement Peru's 2012-2016 counternarcotics strategy. Presidential and congressional elections took place in 2016, and President Pedro Pablo Kuczynski's administration is developing a 2017-2021 counternarcotics strategy to be released in 2017. Peru's coca eradication force (CORAH) eradicated 30,150 ha in 2016. Peru's main coca-growing region continues to be the Valley of the Rivers Apurimac, Ene, and Mantaro (VRAEM). In October, President Pedro Pablo Kuczynski assigned primary authority in VRAEM to the Ministry of Defense, instructing the military to work with the Ministry of Interior, particularly the Peruvian National Police's (PNP) anti-drug unit, DIREJANDRO, on counternarcotics operations. Sendero Luminoso (Shining Path) terrorists in the VRAEM continue to rely on the cocaine trade for funding. The group killed 10 police and military personnel in 2016.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The Peruvian government's counternarcotics strategy includes ambitious goals for eradication, interdiction, and alternative development, and addresses associated issues such as the control of precursor chemicals, organized crime, money laundering, and the rule of law. The Humala administration increased its counternarcotics budget from \$145 million in 2012 to approximately \$211 million in 2016. As of October 2016, Peru contributed \$20.9 million toward eradication efforts and concomitant aviation support, \$15 million less than the 2015 contribution.

A law enacted in 2015 and currently in effect authorizes the use of escalating measures including force against aircraft suspected of being used to commit a drug trafficking crime.

Implementation of Peru's National Plan to Combat Money Laundering and Terrorist Financing is ongoing. In August, Peru transferred the functions of the National Commission for Seized Assets (CONABI) and the Anti-Money Laundering and Terrorist Finance Working Group to the Ministry of Justice and Human Rights (MOJ). MOJ has yet to clarify how CONABI's functions will be integrated into its organizational structure.

The Public Ministry, PNP, and the Judiciary provide limited training on the New Criminal Procedure Code (NCPC), which transitions the legal system from an inquisitorial to an accusatory system. Of a total of 33 districts, the number operating under the NCPC increased from 27 in 2015 to 28 in 2016. Twelve are operating exclusively under the new system. All

districts are required to adjudicate corruption and organized crime cases under the NCPC. The districts that encompass the capital city of Lima, which handle 40 percent of the national caseload, began implementing the NCPC in 2016 with the goal of full national implementation by July 2018.

Peru and the United States have an extradition treaty which entered into force in 2003 and cooperation between the two countries is strong.

2. Supply Reduction

The U.S. government estimates that 53,000 ha of coca were under cultivation in Peru in 2015, a 14 percent increase from the 2014 estimate of 46,500 ha. The U.S. government's 2015 estimate for potential pure cocaine production was 380 metric tons (MT).

In 2016, CORAH operated in Peru's Puno, Ucayali, Pasco, Huanuco, and Loreto regions. Peru eradicated 30,150 ha during the year, exceeding its 2016 eradication goal of 30,000 ha. Though the Government of Peru planned eradication operations in the VRAEM, a region accounting for an estimated 66 percent of Peru's total potential pure cocaine production, it revised its approach in favor of the Ministry of Agriculture and Irrigation's 2014 "productive reconversion" strategy to encourage farmers to voluntarily cease coca cultivation in favor of alternative licit crops and technical assistance. Peru hoped to reconvert 8,000 ha by 2015; however, fewer than 3,000 ha have been reconverted.

The PNP's anti-drug police unit, DIREJANDRO, received a \$12.3 million budget in 2016, down from \$17 million in 2015. This unit reported seizing an increased volume of drugs in 2016 compared to 2015, including 27.99 MT of cocaine (14 MT of cocaine base and 13.9 MT of cocaine hydrochloride). DIREJANDRO also seized 7.7 MT of marijuana, destroyed 629 cocaine laboratories, and seized 69.3 MT of coca leaf.

Though the movement of cocaine by small aircraft from Peru remains a threat, the number of illicit drug flights declined in 2016. Illicit flights are no longer centered in the tri-river area of the VRAEM, but have shifted east of the Andes and to the areas surrounding Ciudad Constitución. The majority of cocaine interdiction occurs on the coastal, northern border between Peru and Ecuador, as well as in source zone areas. Law enforcement operations resulted in the seizure of nine aircraft in 2016.

To counteract the increasing use of private aircraft transporting drugs, the police and military continued to target clandestine runways for destruction, and destroyed 74 runways throughout the country in 2016.

Peruvian, Colombian, Mexican, and Eastern European traffickers maintain sophisticated networks to ship cocaine to Europe, East Asia, Mexico, the Caribbean, the United States, and other Western Hemisphere countries. Peru and the United States undertake maritime operations that permit U.S. authorities to board Peruvian flagged vessels in international waters. In coordinated investigations with U.S. law enforcement, DIREJANDRO identified and disrupted

major international cocaine trafficking organizations using maritime and air conveyances to ship cocaine for export.

Officials at Lima's Jorge Chavez International Airport seized 868.7 kilograms (kg) of cocaine in 2016. Operations at the Port of Callao, including increased cooperation between PNP and Peruvian customs officials, led to the seizure of approximately 2.16 MT of cocaine. Cusco International Airport officials seized more than 243 kg of illegally mined gold, worth an estimated \$10 million, and approximately 20 kg in illegal drugs.

The PNP conducted successful investigations resulting in the seizure of financial assets. One case resulted in seizures of \$110.5 million in assets from known money laundering organizations. In a second case, the PNP seized \$18.5 million in assets from an Ayacucho financial cooperative with connections to drug trafficking and money laundering.

3. Public Information, Prevention, and Treatment

Peru's drug policy agency, DEVIDA, estimates that there are approximately 200,000 persons with substance use disorders nationwide. Between 32,000 and 60,000 individuals are believed to be addicted to cocaine, and an estimated 100,000 people use marijuana. Abuse of inexpensive, highly addictive coca paste is increasing. Drug abuse is increasing, particularly along drug trafficking routes in mid-size cities east of the Andes and in transit cities along the coast.

DEVIDA's 2016 budget for drug abuse prevention increased from \$14.2 million in 2015 to \$14.9 million in 2016. DEVIDA continues to provide a drug counseling services hotline and implement an awareness program for parents and children aged 10-14.

Public treatment facilities in Peru remain insufficient, providing only 160 beds for patients requiring services. In 2016, one of Peru's three public mental health hospitals commenced in-patient drug treatment services for women, including 15 beds; however, less than 10 percent of women addicted to substances seek and receive drug treatment. DEVIDA and the Ministry of Health operate 63 mental health and drug services facilities. Peru has approximately 400 privately-run therapeutic community centers, but the majority are unregulated and lack trained staff. Only 23 centers are registered and meet Peru's public health legal standards. In 2016, the Ministry of Health opened six community mental health centers. Of Peru's 66 prisons nationwide, few offer inmate treatment programs.

4. Corruption

As a matter of policy, the Government of Peru does not encourage or facilitate the illicit production or distribution of drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Corruption is widespread throughout Peruvian society, however, eroding faith in Peru's institutions and damaging Peru's generally positive investment climate. Corruption allegations and scandals have ensnared many of Peru's most important political figures, including former Presidents, members of Congress, regional governors, and ministry officials. Corruption was a prominent issue in the 2016 presidential campaign with President Kuczynski promising a "zero tolerance" policy for corrupt officials. In October 2016,

the Kuczynski administration promulgated a series of anti-corruption decrees that prohibit government employees found guilty of corruption from working for the state and ban companies implicated in corruption from future bidding on public contracts.

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

The United States funds projects to support Peru's counternarcotics strategy through training, technical assistance, capacity building, intelligence, and the targeted provision of equipment through international organizations, non-governmental implementers, and the Government of Peru.

The United States and Peru jointly finance manual coca eradication efforts. The United States also provides aviation support to eradication and interdiction activities. Eradication plays an important role in encouraging coca growers to consider licit crops as an alternative to replanting coca. The major impediment in joint eradication efforts has been Peru's inability to commence operations in the VRAEM.

To reduce dependence on illicit coca cultivation, the United States partners with Peru to implement alternative development projects. Key value chains, particularly cacao and coffee, provide a market for former coca growers. With technical and institutional assistance from the U.S. Agency for International Development (USAID), DEVIDA invested approximately \$32 million in 2016 toward alternative development. U.S.-supported efforts created over 20,700 new jobs, assisted over 37,500 families, and planted 9,179 new ha of cacao and coffee.

U.S. support to the PNP in 2016 helped to enhance law enforcement capabilities and interdiction efforts and support citizen security. Interdiction programs increased seizures of illicit drugs and precursor chemicals, disrupting the flow of illegal substances leaving Peru via commercial and non-commercial routes. A U.S.-supported Model Police Station program in Callao's Juan Ingunza, focusing on community policing, led to an 80 percent reduction in crime rates in 2016, according to PNP statistics.

The United States aided Peruvian customs officials to effectively examine cargo and passengers and bolster customs inspection and enforcement operations at airports and seaports. The United States also funded a program to train Peru's Superintendence of Customs and Taxes on precursor chemicals and substance control.

In 2016, the United States continued to support Peru's transition to the accusatory system and its implementation of the NCPC through a grant implemented by the American Bar Association's Rule of Law Initiative. Support was also provided for judges to receive training on the accusatory system at the Department of Justice's Judicial Studies Institute.

The United States sponsored a drug-treatment training program focused on treatment for female substance abusers in 2016, entitled "Guiding the Recovery of Women." Forty-two Peruvian mental healthcare providers completed the training modules. Participants began replicating the training curricula at 72 public health centers, training approximately 500 more healthcare professionals.

U.S. assistance also strengthened the capacity of CONABI to administer asset seizure protocols through the provision of an expert advisor who assisted in the construction of CONABI's asset management processes. However, with CONABI's functions absorbed by the MOJ, it is unclear how Peru's asset forfeiture regime will continue.

D. Conclusion

Both the Humala and Kuczynski administrations have demonstrated the political will to address drug production and trafficking, including aggressive eradication and interdiction programs. Peru is increasing resources to treat those addicted to illegal substances. The continuing U.S. partnership with Peru and U.S. support in implementing the Peru's counternarcotics strategy remain critical in combating the production and trafficking of illicit drugs.

Philippines

A. Introduction

The Philippines is facing a growing illicit drug problem. Reported usage of “shabu,” the street name of methamphetamine, continues to grow as the nation’s most widely trafficked illegal drug, and shabu addiction remains the most significant drug problem in the Philippines. Marijuana is the second most abused drug and there is limited cultivation of cannabis within the Philippines, mostly for local consumption. Cocaine is rare in the Philippines, due to high prices and limited demand, but club drugs, such as MDMA (ecstasy) and controlled pharmaceuticals have become more prevalent. Widespread poverty, corruption, and extremely porous borders create a lucrative environment for drug trafficking, with a relatively low risk of successful interdiction or prosecution.

The Government of the Philippines launched a controversial campaign against drug abuse and drug trafficking in 2016. Since Philippine President Rodrigo Duterte assumed office in June, the fight against illegal drugs and their impact on law and order has become the primary concern of the government, and police actions and vigilantism have resulted in more than 6,000 alleged extrajudicial killings. Law enforcement agencies, including the Philippine Drug Enforcement Agency (PDEA), the Philippine National Police (PNP) Anti-Illegal Drugs Group (AIDG), and local police forces, have initiated an unprecedented number of anti-drug operations. Furthermore, the government has promoted a zero-tolerance stance towards drugs, seeking to demonstrate ties between drug trafficking and corruption among government officials, law enforcement officers, and politicians.

International organized crime groups have established operational elements throughout the urban areas of the Philippines. Philippine law enforcement and justice sector agencies lack sufficient resources, staff, and effective investigative tools to identify, investigate, and prosecute transnational drug trafficking organizations. Restrictions imposed by the Anti-Wiretapping Act of 1965 continue to bar the use of judicially authorized interception of criminal communications, and procedures such as plea bargaining and drug-related asset forfeitures are rarely used. Many drug-related cases are dismissed for failure to follow the strict evidentiary procedures in the Comprehensive Dangerous Drugs Act of 2002. Judiciary reforms are currently under consideration by the Philippine Congress, including the use of wiretaps for drug cases, plea bargaining for cooperating defendants, and quicker destruction of seized drugs.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

PDEA’s personnel reportedly expanded in 2016, with the number of drug enforcement officers assigned to cases nationwide increasing from 804 to 944. PDEA employs 1,178 employees overall, and has 16 regional laboratory offices that employ 85 forensic chemists.

PDEA promotes effective interagency coordination to supplement its limited staff during major operations combating the smuggling of illegal drugs. In addition to PDEA, the PNP Anti-Illegal

Drugs Group (PNP-AIDG) conducts operations against drug trafficking organizations. Since Philippine President Rodrigo Duterte took office and initiated a “whole-of-government” anti-drug campaign, the total number of PNP-AIDG personnel has expanded from 100 to 321 (as of September). Formed in 2013, the Ninoy Aquino International Airport Inter-Agency Drug Interdiction Task Group (NAIA IADITG) acts as an increasingly effective fusion center, bringing together officials from the PDEA, PNP, the National Bureau of Investigation (NBI), the Bureau of Customs, and the Bureau of Immigration.

The Philippines provides mutual legal assistance and extradition in criminal matters, including drug cases, to the United States pursuant to bilateral treaties.

2. Supply Reduction

During the first nine months of 2016, PDEA conducted 18,788 anti-drug operations that included dismantling seven clandestine methamphetamine laboratories, two drug storage warehouses, and several marijuana growing facilities. During these operations, PDEA filed 15,589 cases and arrested 15,715 individuals.

The Philippines produces and consumes marijuana, with cultivation occurring primarily in the remote, mountainous regions of Luzon and Mindanao. During the first seven months of 2016, PDEA completed 57 successful marijuana eradication operations, which resulted in the destruction of 316 growing sites and seizures valued at approximately \$109 million. Also during this period, PDEA reported the seizure of 1.19 metric tons (MT) of cannabis products; 1.45 MT of methamphetamine; 2.4 kilograms (kg) of cocaine; 21,631 MDMA (ecstasy) tablets; and 5.8 kg of ephedrine.

Seizures from over the past several years indicate that higher purity methamphetamine from Mexico is potentially supplanting less pure Chinese-sourced methamphetamine. Despite this new trend, the most substantial source of methamphetamine remains bulk shipments via cargo ships and fishing vessels originating in China, largely controlled by Chinese organized crime syndicates. Additionally, drug couriers use flights to and from the Philippines to smuggle drugs into the country and for transshipment to other countries.

Philippine law enforcement agencies note an increasing number of West African drug syndicates using human couriers to smuggle methamphetamine into the Philippines for transshipment and distribution throughout Southeast Asia. The Philippines also remains a destination for diverted chemicals used to produce methamphetamine due to weak chemical controls and inadequate port security.

3. Public Information, Prevention, and Treatment

According to a 2016 survey commissioned by the Dangerous Drug Board (DDB), there are 1.8 million current drug users in the Philippines, accounting for 1.8 percent of the total population. DDB plans to establish large-scale treatment and rehabilitation institutions for drug users throughout the Philippines through its partnership with the Department of Health, the Department of the Interior and Local Government, and the PNP. Along with its partner agencies,

DDB continues to formulate policies on drug prevention and control, develop and implement preventive education, treatment and rehabilitation programs, and conduct research on the drug abuse problem.

Though primarily an enforcement agency, PDEA also works with non-governmental organizations to develop seminars for teachers on mentoring students to pursue drug-free lifestyles. Most Philippines schools have integrated drug education programs into the general education curriculum.

4. Corruption

As part of the administration's campaign against illegal drugs, the Office of the President has publicly identified more than 170 individuals, including politicians, judges, mayors, congressmen, and police officers as complicit in the drug trade. Over the first 10 months of 2016, PDEA reported the arrest of 156 public officials for alleged ties to the drug trade.

Insufficient resources and judicial tools often lead to the dismissal of drug cases due to technicalities associated with the custody and disposition of evidence. Despite the dismissals, a large number of low-level drug cases remain, clogging court dockets and delaying justice. Public suspicion of corruption among court officials and the judiciary remains widespread, although no impeachment or other punitive measures were undertaken by the judiciary for drug-related corruption in 2016. The House of Representatives held several hearings in 2016 into the alleged involvement of a senator and former Secretary of Justice in drug trafficking activities directed from inside a federal prison.

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

As part of Philippine President Rodrigo Duterte's nationwide anti-drug campaign, the administration has advocated a no-holds barred approach including violence against both drug dealers and users. This has included making public statements encouraging the killing of drug traffickers, whether they resist arrest or not, and promises of immunity from legal prosecution for police involved in anti-drug operations. As of December 26, 2016, the media and PNP have reported that over 6,000 individuals have been killed, 2,155 in law enforcement operations and 4,049 by suspected vigilantes or unknown assailants. The international community, including the United States, the United Nations, Australia, the United Kingdom, and the European Union, have expressed serious concern about some of the Duterte administration's methods against drug criminals.

Historically, Philippine authorities have eagerly sought to cooperate with international partners on drug control and law enforcement issues, particularly with the United States, the People's Republic of China, South Korea, and Australia. In 2016, U.S. assistance continued to bolster the NAIA IADITG by providing both equipment and training. This cooperation resulted in several high-value drug interdictions in October, 2016. U.S. agencies also continued to collaborate through the bilateral comprehensive training program targeting selected PDEA regional units in an effort to enhance law enforcement investigative abilities. However, under the new administration, President Duterte's rhetoric has led to changes in law enforcement and drug

control collaboration with the United States. In addition, broader uncertainty exists over whether other traditional levels of cooperation with the United States will continue.

D. Conclusion

Despite increased cooperation among PDEA, PNP-AIDG, and the AFP which has enhanced the effectiveness of anti-drug operations, the U.S. government remains concerned about several aspects of the Philippine government's anti-drug campaign. While law enforcement agencies have responded to the pressure for more effective drug investigations by implementing a large number of new operations nationwide, successful prosecution of significant drug traffickers remains hampered due to the inability to use judicially authorized intercepts of criminal communications, limited use of plea bargaining, and an inefficient drug asset forfeiture system. Development of enhanced judicial investigative capabilities and imposition of money-laundering controls on casinos would allow the government to better combat sophisticated drug trafficking organizations. The United States recognizes the PHP's commitment to fighting drugs, but is concerned that the Philippine government's approach raises significant concerns relating to human rights and due process. It also does not address the public health aspect of substance use disorder, which requires additional attention from the Government of the Philippines.

Philippine law enforcement authorities will continue to face multiple challenges, including expansion of Mexican cartels into the methamphetamine trade and drug money laundering operations; continued construction of domestic large-scale clandestine methamphetamine production laboratories; and drug trafficking groups based in rural areas where little permanent law enforcement presence exists.

Portugal

Portugal is a transshipment point for drugs originating from South America and West Africa destined for other European countries, but is neither a center of drug production nor a significant source of drugs destined for the United States. Revenues garnered from the narcotics trade in Portugal are repatriated to traffickers in South America. In addition to direct shipments from South America, traffickers consistently use former Portuguese colonies Guinea-Bissau and Cabo Verde as transshipment, refueling, and storage points for cocaine-laden vessels from South America en route to Europe. In 2016, Portuguese authorities continued to combat the transshipment of cocaine through their borders, and MDMA (ecstasy), hashish, and heroin remained readily accessible within the country.

Portugal's law enforcement cooperation with the United States and other international partners to combat drug trafficking continues to be outstanding. The U.S. Drug Enforcement Administration and the Portuguese Judicial Police (PJ) conducted multiple, successful coordinated investigations throughout 2016.

The Government of Portugal vigorously investigates and prosecutes drug traffickers traversing Portuguese territory. It also continues to enforce and update 2013 legislation criminalizing the possession and sale of certain analogue chemicals used to produce new psychoactive substances, including synthetic cathinones commonly referred to as "bath salts." A customs mutual assistance agreement is in force between Portugal and the United States, as are protocols to the 2003 U.S.-EU extradition and mutual legal assistance agreements. Lisbon is also home to the European Monitoring Center for Drugs and Drug Addiction (EMCDDA). Portugal is also a member country of the Maritime Analysis and Operations Center-Narcotics (MAOC-N), headquartered in Lisbon. The United States is a permanent observer to MAOC-N.

Portugal focuses much of its drug control effort on treatment and prevention. Since 2001, personal use quantities of drugs have been decriminalized. Drug possession is still prohibited, however, and those individuals found by law enforcement to have "personal use" amounts are referred to the Drug Addiction Dissuasion Commission, consisting of multi-disciplinary teams charged with assessing users and deciding the appropriate sanction and referral to educational or treatment programs. The Portuguese Ministry of Health's Institute on Drugs and Drug Addiction operates numerous drug treatment centers. Universal drug use prevention is part of the Portuguese school curriculum. Law enforcement entities patrol the areas surrounding schools to prevent and protect students from drug trafficking, as part of the "Safe Schools" initiative. Law enforcement also participates in community awareness and training activities.

Russia

Russia remains a major destination for Afghan opiates that enter the country via Central Asian states, consuming approximately 70-75 metric tons (MT) of heroin annually, according to a UN estimate from 2011. Other illegal narcotics, such as cocaine, are typically smuggled in via St. Petersburg and Black Sea ports by drug couriers originating largely in the Caribbean and South America. In the first half of 2015 (the most recent year for which data is available), Russian law enforcement seized approximately 14 MT of illegal drugs, of which 1.34 MT were opiates. Three federal agencies conduct drug-related investigations in Russia: Ministry of Internal Affairs (MVD); Federal Security Service (FSB); and Federal Customs Service (FTS).

In April 2016, the government disbanded the Federal Narcotics Control Service (FSKN) and assigned its functions to other agencies. By January 2017, the MVD plans to fulfill most FSKN responsibilities and absorb 70 percent of its workforce. It is expected that the Ministries of Health and Labor will assume responsibility for drug user rehabilitation. At the conclusion of 2016, it was not yet known which agency will take responsibility for domestic demand reduction. FSKN remained the source of most statistical information in 2016 but released very little new data.

According to multiple sources, drug users in Russia number between 7.3 and 8.5 million. In 2014, drug-related mortalities among those aged 15 to 34 totaled 92,000, a 30 percent decrease from 130,000 deaths in 2000. Nevertheless, the FSKN reported a 35 percent increase in drug use by minors in Moscow the same year, while the Ministry of Health claimed a 6.5 percent increase by youth nationwide. Analysts ascribed spotty progress and metrics to poor interagency and inter-sectoral cooperation, and to the lack of a cohesive national rehabilitation program.

In 2013, Russia terminated its letter of agreement with the United States that funded counternarcotic capacity-building programs. In June 2016, FSKN director Viktor Ivanov was dismissed from all of his posts (Ivanov has been included on the list of Russian officials sanctioned by the United States as a result of Russia's illegal annexation of Crimea since 2014.) The MVD Main Directorate for Drug Control is headed by General Andrei Khrapov. The U.S. Drug Enforcement Administration has a working relationship with the FSB, and to a lesser degree with the MVD and FTS. The United States and Russia formally cooperate on law enforcement matters under a mutual legal assistance treaty.

In February 2015, the government authorized FSKN to unilaterally impose temporary bans on new psychoactive substances, which it claimed appeared at a rate of one new chemically unique drug every two days. This authority was legally transferred to the MVD upon FSKN's dissolution. The initiative was prompted by a series of synthetic drug poisonings and deaths in 2014. Adding new substances to Russia's prohibited substance list otherwise takes approximately 12 months.

Senegal

Senegal's location and transportation infrastructure make it an appealing transit point for drug traffickers moving illegal drugs into Europe and across West Africa. Cocaine is trafficked into Senegal by land and sea from neighboring countries including Guinea-Bissau and Mali, then on to Europe by sea and air. Cannabis is cultivated in the southern Casamance region for local use and to supply markets across West Africa, and methamphetamine is transported into Senegal from Nigeria.

In 2016, there were continued seizures by Senegalese law enforcement authorities of the *Catha Edulis* (khat) plant as well as multi-ton quantities of marijuana. The seizures of khat decreased during the latter part of 2016, and there has been some resistance to pursuing criminal cases by Senegalese authorities. Khat contains cathinone, a Schedule I substance under the U.S. Controlled Substances Act.

Senegal's 1997 Drug Law was amended in 2006 with tougher penalties for drug trafficking. Senegal's national counternarcotics plan, drafted in 1998, aims to control the cultivation, production, and trafficking of drugs, as well as to inform the population of the dangers of drug use, and the need to rehabilitate persons with substance use disorders. Senegal lacks the resources to reliably identify and seize narcotics, to investigate and dismantle larger networks outside its borders, or to identify the funding and money laundering schemes used by drug trafficking organizations.

Senegal collaborates with partners from the Economic Community of West African States (ECOWAS) to combat narcotics trafficking. In addition, Senegal participates in regional conferences that address prosecuting drug trafficking cases. For example in November 2016, Senegal participated in the 6th Plenary Meeting of the West African Network of Central Authorities and Prosecutors against Organized Crime, which was hosted by the United Nations Office on Drugs and Crime. Senegal has 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 2011, the United States and Senegal signed a bilateral agreement to strengthen Senegal's capacity to counter maritime drug trafficking through joint U.S.-Senegalese operations. In 2016, the United States provided training to the Senegalese Navy on maritime vessel maintenance to support its drug interdiction efforts.

The United States supports the activities of the Community Anti-Drug Coalitions of America in Senegal, which conducted training in collaboration with local non-governmental organizations to develop strategies to prevent drug use and reduce crime and violence.

While the Government of Senegal has the political will to fight drug trafficking, limited infrastructure and funding impede its efforts. Traffickers continue to have superior resources, limiting the government's ability to track and prevent the movement of illegal drugs.

Serbia

Serbia is not a major producer or consumer of illegal drugs but remains a transit area for drugs smuggled through its territory into other European markets. According to the United Nations Office on Drugs and Crime, between 50 and 60 metric tons of heroin originating from Afghanistan are estimated to transit Serbia every year along traditional Balkan smuggling routes controlled by multinational criminal organizations.

Synthetic drugs such as amphetamine-type stimulants and MDMA (ecstasy) are produced in relatively small quantities in clandestine labs in Serbia and exported mainly to European Union countries. In 2016, three clandestine methamphetamine labs in Serbia were destroyed by authorities. Cocaine is not widely consumed in Serbia due to its prohibitive cost. However, there have been significant seizures of large cocaine shipments including a 2016 joint Serbian operation with Germany and Spain that interdicted 300 kilograms of cocaine. Serbian authorities believe that marijuana and heroin are the most widely-used illicit drugs in the country, followed by growing use of hashish.

Serbia established the Service for Abuse of Drugs and Drug Trafficking in 2014, which increased the staff available for narcotics investigations and addiction prevention programs. Treatment and prevention of drug addiction is mainly the responsibility of the Ministry of Health, but non-governmental organizations working with local communities also provide some services. Bigger cities such as Belgrade, Nis, and Novi Sad have police units dedicated to curbing the use of illegal drugs and investigating drug-related crimes. Serbian law enforcement has been shifting to a more centralized approach by creating a database of criminals and investigations that can be accessed by all 27 departments throughout the country.

The Serbian Ministry of the Interior continues to make effective use of U.S. training assistance to develop criminal justice capacities, and the Serbian National Police has requested U.S. support and guidance in creating a dedicated counternarcotics service within the agency. The Government of Serbia also seeks to amplify its cooperation with regional partners to address trafficking throughout the Western Balkans by initiating reforms modeled on European Union standards.

South Africa

Trafficking and use of illegal drugs appeared to increase in South Africa in 2016. South Africa is the largest market for illicit drugs within Sub-Saharan Africa and a transshipment point for cocaine and heroin, primarily to Europe.

Cocaine primarily arrives from South America via air transport to Johannesburg. South African authorities believe that only a fraction of the human couriers entering the country are apprehended. A portion is distributed for local consumption and the remainder is trafficked by land across international borders destined primarily for Europe.

Heroin, primarily of Afghan origin, typically arrives in ports in Tanzania, Kenya, and Mozambique from South West Asia and is subsequently transported by land to South Africa, often transiting Zambia and Botswana. Heroin not consumed within South Africa is then trafficked via air to Europe, along with a small percentage shipped to the United States. Methamphetamine (known locally as “tik”), methcathinone (“cat”), and methaqualone are synthesized in South Africa from precursors imported primarily from India and China. Clandestine laboratories are largely concentrated in the province of Gauteng. Cannabis is grown and used in South Africa and imported from Swaziland. A combination of heroin, marijuana, and often dangerous adulterants known as “nyaope” is commonly used in poorer communities.

In 2016, South Africa re-organized the South Africa Police Service (SAPS) structure and established a unit devoted to narcotics enforcement and investigation. The South Africa Narcotics Enforcement Bureau was incorporated within the SAPS Directorate of Priority Crime Investigation. A narcotics unit was also organized within the Tshwane Metropolitan Police Department. South Africa accepted an expansion in U.S.-sponsored law enforcement training in 2016 to help increase the investigative capacity of its relevant agencies. These changes may be partially attributed to the installation of an effective Acting Commissioner at SAPS in October 2015, and are indicative of a better understanding of the negative impact illegal drugs have on the nation as a whole.

The reorganization of SAPS and an increased focus on narcotics may help address ongoing challenges by facilitating increased networking and interagency cooperation between law enforcement agencies. South Africa cooperates with the United States on extradition matters and mutual legal assistance including requests related to narcotics.

Spain

Spain remains an important transit point in Europe for cocaine originating in Latin America and for hashish from Morocco, especially across the strait of Gibraltar. Cocaine arrives in Spain in large containerized shipments from Latin America and in lower-volume shipments via recreational boats, sailboats, and within parasitic devices attached to cargo ships. Although small aircraft are still used to smuggle hashish, interdiction actions have stemmed the frequency of this conveyance. Spanish law enforcement efforts continued to be effective, combining strong border control and coastal monitoring, sophisticated geospatial technology, domestic police action, and international cooperation.

The UN's "2016 World Report on Drugs" reported that among Spanish citizens, drug usage and treatment rates for cannabis and cocaine remain one of the highest in Europe. Spain accounted for 26 percent of the world volume of hashish seizures, and is one of the main points of entry to Europe for cocaine. Spain's national drug strategy focuses on prevention, risk reduction, treatment, and supply reduction.

Domestic drug production is minor, save for localized cannabis cultivation. There are a small number of labs involved in cutting, mixing, and reconstituting cocaine and heroin, and Spanish officials discovered and dismantled a sophisticated extraction lab in 2014. Transnational criminal organizations are more frequently shipping cocaine in raw form mixed within cargo to avoid detection. In 2015, the most recent year for which data is available, law enforcement seizures of cocaine remained constant with 21.58 metric tons (MT) seized. There was a slight increase in heroin seizures from 244 kilograms (kg) in 2014 to 256 kg in 2015. Hashish seizures remained constant in 2015 with a total of 380.36 MT seized. Seizures of MDMA (ecstasy) fell significantly, from 554,867 dosage units in 2014 to 120,579 in 2015.

Spain enjoyed excellent bilateral and multilateral law enforcement cooperation with international partners in 2016. Cooperation on EU operations in the Mediterranean continued. Additionally, Spain improved law enforcement cooperation with Latin American governments. Spain is a member of the Maritime Analysis and Operation Centre-Narcotics, and has a liaison officer at the U.S. Joint Interagency Task Force South. U.S. law enforcement agencies maintained strong working relationships with Spanish police, leading to significant cocaine and hashish seizures in 2016. For example, between April and September, in a joint operation with the U.S. Drug Enforcement Administration and U.S. Immigration and Customs Enforcement, Spanish authorities seized 950 kg of cocaine and over 10 million euros in bulk cash destined for a cocaine supplier in South America.

Suriname

Suriname is a transit zone for South American cocaine en route to Europe, Africa, and, to a lesser extent, the United States. The 2016 introduction of direct flights between the United States and Suriname could create additional opportunities for drug trafficking. Suriname's sparsely populated coastal region and isolated jungle interior, together with weak border controls and infrastructure, make narcotics detection and interdiction efforts difficult. There is little evidence of drug production in Suriname.

The Government of Suriname is officially opposed to narcotics trafficking, but little political will has been demonstrated to pursue vigorous enforcement. Corruption pervades many government offices in Suriname and may also play a role. Local criminal investigations of allegedly corrupt acts are rare and local prosecutions even rarer. President Desire Bouterse and Member of Parliament Ronnie Brunswijk have been convicted of drug trafficking in absentia in separate court cases in the Netherlands and France. Dino Bouterse, son of President Desire Bouterse, was sentenced in March 2015 to 16 years in prison for drug smuggling and other crimes.

Suriname installed an automated biometrics border control system for travelers at points of entry in 2013 and amended the criminal code to allow DNA as evidence in 2014. The National Assembly approved the "Acquisition and Sentence Transfer Enforcement" law in October 2016. This legislation is meant to establish the conditions under which a sentence issued by a foreign court would be applied within Suriname, as well as the conditions involved in applying the verdicts of Surinamese courts abroad.

Cargo containers carry most of the narcotics smuggled through Suriname, but smaller fishing vessels also carry drugs out to sea for transfer to larger freighters. A U.S.-funded, UN-sponsored Container Control Unit operates at the Terminal of Nieuwe Haven (Port of Paramaribo) and assisted in two drug investigations in 2016. Their operating protocol requires permission and oversight of Surinamese Customs authorities.

During the first 11 months of 2016, Surinamese authorities arrested 156 suspected drug traffickers and seized 851 kilograms (kg) of cocaine; 8,827 liters of liquid cocaine; 46.3 kg of marijuana; 19,466 MDMA (ecstasy) tablets; and trace amounts of hashish and MDMA in powder form. A 32-person Combating International Drug Trafficking (BID) team screens airport passengers on flights bound for the Netherlands.

There is one free, government-run detoxification center; other treatment centers are run by non-governmental organizations. In 2014, law-makers adopted new legislation allowing treatment for drug addiction as an alternative to criminal sentencing. As of October 2016, implementing protocols for this legislation were still being drafted.

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. Suriname has a bilateral maritime counternarcotics enforcement agreement with the United States, as well as agreements with the Netherlands, Brazil, Venezuela, and Colombia.

In 2016, the United States provided training, technical assistance, and material support to several elements of the Surinamese Police. The United States encourages the Government of Suriname to increase narcotics interdiction, as well as subsequent investigations and prosecutions.

Tajikistan

A. Introduction

Tajikistan is located on one of the highest volume illicit drug trafficking routes in the world, between Afghanistan's opiate production to its south and the illicit drug markets of the Russian Federation and Eastern Europe to the north. The UN Office on Drugs and Crime (UNODC) estimated in 2010 that 75-80 metric tons (MT) of Afghan heroin and 35-40 MT of opium transit Tajikistan to international markets. Assuming these estimates are accurate, Tajikistan interdicts only a very small fraction of the drugs transiting the country. Although laws are in place to prosecute traffickers, few major traffickers were prosecuted in 2016.

In April 2016, Tajikistan announced a five-year initiative (2016-2020) to focus on drug prevention and promoting healthy lifestyles. Targeting young people, the initiative aims to develop new educational programs for drug abuse prevention and calls for the introduction of international standards deterring use. Tajikistan's Ministry of Health reported that during the first six months of 2016, there were 7,185 registered persons with substance use disorders, of which 184 were women. While that number has remained relatively stable over the past several years, it is likely an undercount; a clearer indication of the scale of the problem can be obtained from a 2014 study conducted by the United Nations Development Program and the National AIDS Commission which estimated 23,100 intravenous drug users in Tajikistan.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The operating budget for the Drug Control Agency under the President of the Republic of Tajikistan (DCA), the lead counternarcotics agency in the country, fell from \$1,000,000 in 2015 (after pensions were deducted) to \$945,500 this year, a five percent decline. It is unclear why the agency's budget declined when overall government spending increased; however, even a five percent reduction impacts the agency's ability to perform.

Another challenge continues to be Tajikistan's porous southern border with Afghanistan. With donor assistance, Tajikistan is placing more resources on the border, but those resources will still not be sufficient to monitor its full 810 mile length. A porous border is an invitation to traffickers and an obstacle to preventing the cross-border flow of illegal goods.

In preparation for the April 2016 United Nations General Assembly on the World Drug Problems (UNGASS), the President of Tajikistan promulgated a five-year initiative promoting drug abuse prevention and healthy lifestyles. The initiative calls for prevention services to be improved, focusing on education, and the establishment of international standards.

Tajikistan does not have an extradition treaty or mutual legal assistance treaty with the United States, though Tajikistan is party to multilateral conventions that enable law enforcement cooperation.

2. Supply Reduction

According to statistics compiled by the DCA, the country seized a total of 3.43 metric tons (MT) of all illicit drug types during 2016, a 27 percent decline from 2015 (which in turn was a 25 percent decline from seizure totals in 2014). Almost all agencies involved in drug enforcement experienced a decline in seizures. While the decreases were notable in the opiate and cannabis categories, there was an increase in the quantity of synthetic drugs seized.

Heroin seizures declined by 82 percent while opium seizures dropped by 43 percent. In volume, 89 kilograms (kg) of heroin were seized in 2016 compared to 499 kg in 2015. Cannabis and hashish seizures dropped 4 percent and 32 percent, respectively. However, there was a 66 percent increase in the number of marijuana plants seized in 2016 from the previous year.

Synthetic drug seizures saw a 19 percent increase from 2015. Over 13,100 tablets of MDMA (ecstasy) were seized by all agencies in 2016, up from 11,233 in 2015.

By volume, the Ministry of Internal Affairs seized the most drugs in 2016, but compared to the same period in 2015, that agency's seizures declined by 11 percent. Arrests for illicit drug offences in 2016 rose from 1,063 in 2015 to 1,119.

3. Public Information, Prevention, and Treatment

Illicit drug use awareness is funded by Tajikistan and international donors. The media, printed materials, and sporting events raise understanding of the dangers and promote healthy lifestyles. The Ministry of Health provides treatment services in Dushanbe and in four other regional centers where residential in-house treatment and methadone maintenance services are provided. A pilot methadone treatment program was started September 2016 in Tajikistan's prison system. Of the individuals registered with substance use disorders in Tajikistan, 81 percent were addicted to heroin and another 10 percent to opium in 2016.

4. Corruption

As a matter of policy, the Government of Tajikistan does not encourage or facilitate illegal activity associated with drug trafficking. In 2016, there were no reports of senior government officials being involved in drug trafficking. However, extremely low salaries for state officials, the scale of profits to be had from illegal drugs, and the dearth of other profitable activities make accepting drug money attractive. As a possible sign of endemic corruption, few senior DCA officials have successfully passed the polygraph exam required to join the DCA vetted unit.

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

Total U.S. assistance to Tajikistan for counternarcotics in 2016 was approximately \$12 million. The funding provided training, buildings, and equipment to strengthen the capacity of Tajikistan's law enforcement agencies. U.S. assistance focuses on the DCA and developing its capabilities to investigate, detect, and interdict illicit drug trafficking, while also increasing the Border Guards' abilities to similarly detect and interdict illegal drugs.

U.S. assistance has helped to develop a competent counternarcotics organization in the DCA; however, seizures of all types of drugs have been declining for the past five years, in particular opiates, in keeping with a common trend across most of Central Asia. No adequate explanation is available for the decline, although one factor is the way in which seizure data is recorded. Historically, prior to 2016, the DCA included in its totals any seizure occurring in another country which resulted from information it had shared with that country. Tajik authorities have also suggested that the decrease can be partially attributed to its efforts to strengthen its southern border.

D. Conclusion

Determining the cause of the decline in seizures of opiates and cannabis products in Tajikistan and the region will require further evaluation. Effective border management may play a part, as could the unstable security situation in Northern Afghanistan or alternate trafficking routes. The increase in seizures of MDMA and other synthetic drugs warrants additional efforts, particularly to reduce demand for these drugs and prevent the development of a domestic market. President Emomali Rahmon commendably focused on the importance of demand reduction in his public statements and as part of his 2016-2020 policy initiative, but sufficient resources must be allocated to implement these goals.

Tanzania

Tanzania is a significant transit country for illicit drugs, most notably heroin originating in Southwest Asia and cocaine from South America, with a growing domestic user population. Tanzania-based drug trafficking organizations and courier networks operate globally with cells throughout Africa, Asia, Australia, Europe, North America, and South America. These drug trafficking organizations play a prominent role in the Southwest Asian heroin trade. Tanzania also produces cannabis both for domestic consumption and international distribution.

Tanzania's geographical location, coupled with high levels of corruption and porous borders, present considerable challenges to supply reduction strategies. Traffickers exploit Tanzania's 854 mile coastline along the Indian Ocean. There is inadequate security at Tanzanian seaports, specifically those in Dar es Salaam's Kinondoni District and the Tanga Region in the north. Southwest Asian heroin is transported in multi-hundred kilogram quantities by small oceangoing vessels across the Indian Ocean to the Tanzanian coastline. After heroin arrives in Tanzania, it is distributed to retail markets and user populations throughout Africa, Asia, Europe, and North America. South American cocaine is trafficked into Tanzania by commercial air couriers arriving on international flights to Dar es Salaam for further international distribution. Precursor chemicals obtained primarily from Asia are brought through Tanzanian ports, and used to produce methamphetamine and psychotropic substances in clandestine labs within the country to supply domestic and international markets.

The Tanzanian Drug Control Commission, the Tanzania Intelligence and Security Service, and the Tanzanian Police Service's Anti-Narcotics Unit each contribute to their government's fight against illicit drug trafficking. These agencies also work jointly with U.S. and other international law enforcement partners. Extradition between Tanzania and the United States is governed by the 1931 U.S.-U.K. Extradition Treaty. There is no bilateral mutual legal assistance treaty in force between Tanzania and the United States. However, the United States and Tanzania are parties to various multilateral conventions that contain provisions for mutual legal assistance, and mutual legal assistance can be provided on a reciprocal basis through letters of request.

In 2016, local media reported a number of significant drug-related arrests but did not release the names of implicated individuals. In April, an arrest occurred in Bariadi, Simiyu in connection with 2.5 metric tons (MT) of cannabis and five hectares (ha) of cannabis cultivation. In September, local media reported arrests in Tarime, Mara in connection with 30 ha of cultivated cannabis. Local media also reported a March arrest in Arusha involving 3 kg of cocaine and heroin and a May arrest in Shinyanga involving 1.82 MT of cannabis.

The Government of Tanzania does not encourage or facilitate the illicit production or trafficking of illicit narcotics or other controlled substances as a matter of policy. However, corruption remains an enormous barrier to effective narcotics enforcement. Drug traffickers use their considerable financial resources to influence politicians, law enforcement officers, and others in positions of power.

The United States seeks to promote improved interdiction operations and limit the corrosive effects of drug-related corruption in Tanzanian institutions through law enforcement cooperation and by encouraging a strong Tanzanian government commitment to narcotics interdiction and criminal justice capacity building.

Thailand

A. Introduction

Thailand is a net importer of illicit narcotics, and trafficking and use of illicit drugs remains a significant problem. There were no significant quantities of opiates, methamphetamine, or other drugs cultivated or produced in Thailand in 2016. Various transnational criminal organizations continue to use Thailand as a final destination and transit country for illicit drugs destined for regional and international markets. The primary drugs of concern continue to be amphetamine-type stimulants (ATS), specifically methamphetamine, the use of which continues to increase. The widespread availability of methamphetamine is due to cross-border smuggling of the drug from neighboring Burma.

According to the United Nations Office on Drugs and Crime, the Thai government has not reported eradicating opium poppy since 2013. However, in 2016 the Thai Office of Narcotics Control Board (ONCB) reported that 469.9 kilograms (kg) of opium plants were seized. Following a significant drop in the volume of seized heroin and cocaine in 2015, heroin seizures rebounded during the first six months of 2016 and were on pace to surpass the previous year's total. Since 2014, Thailand has seen a slight decline in methamphetamine tablet (yaba) seizures, but has experienced a slight growth in crystal methamphetamine seizures.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

The growth of drug trafficking by outlaw motorcycle gangs in northern Thailand is an emerging threat. In November 2015, an Australian national and outlaw motorcycle gang member wanted by the Australian Federal Police for methamphetamine production was murdered in Pattaya, Thailand. Press reporting suggests a possible new trend of using pre-teens and teenagers as drug couriers to smuggle illicit drugs into Thailand.

Thailand has bilateral extradition and mutual legal assistance treaties with the United States. Thailand is an effective and cooperative partner of the United States, with U.S. assistance facilitating and enhancing that cooperation.

2. Supply Reduction

Thai law enforcement agencies seized significant amounts of illegal drugs in 2015 and this trend continued in 2016. The U.S. Drug Enforcement Administration (DEA) worked closely with Thai law enforcement authorities on coordinated investigations.

Trafficking in heroin through Thailand appeared to decrease in 2015, but remains a challenge for Thai law enforcement agencies as seizures increased over the first six months of 2016. According to ONCB, Thai authorities seized 147.8 kg of heroin

between January and June 2016, compared to seizures totaling 207.1 kg of heroin during all of 2015.

Methamphetamine trafficking and abuse continued to be the primary drug concern in Thailand. The production of methamphetamine by the United Wa State Army in Burma and other regional producers remains an issue of great concern for Thailand. The ONCB estimated that 80 percent of the drugs smuggled into Thailand entered through its northern border. In 2015, ONCB seized approximately 1.14 metric tons (MT) of crystal methamphetamine and 9.75 MT of methamphetamine tablets. During the first half of 2016, comparatively, ONCB reported seizing approximately 831 kg of crystal methamphetamine and 3.5 MT of tablets.

There was an increase of inbound couriers carrying crystal methamphetamine to Thailand from China in 2016. Thai authorities believe that the couriers were directed by Africa-based drug syndicates operating in Guangzhou, China.

There continued to be a downward trend in the use of MDMA (ecstasy, known locally as “ya-E”) within Thailand in 2016, confined mainly to Bangkok and tourist attraction areas. MDMA is typically smuggled into Thailand by couriers on commercial aircraft from Europe. Malaysia is also a primary route for MDMA crossing into southern Thailand, with reports indicating cross-border trafficking by Singapore and Malaysian traffickers at ports-of-entry along the Thai-Malaysian border. According to ONCB, Thai authorities seized 11.2 kg of MDMA during the first half of 2016, compared to approximately 18.5 grams seized in 2015.

Thai authorities have reported an increase in the availability of cocaine within Thailand over recent years, though the market remains limited to foreigners and affluent Thais. The drug is most often found in private residences and entertainment places in Bangkok, as well as popular tourist destinations in the various provinces. The cocaine market is still largely controlled by Africa-based trafficking networks. However, South American and Chinese trafficking groups are also involved in bulk cocaine smuggling through Thailand, typically for further export to China and Australia. During the first half of 2016, ONCB reports approximately 17 kg seized, compared to 48.8 kg in 2015.

Marijuana continued to be readily available throughout Thailand and the region. Though limited quantities of cannabis are cultivated domestically, most of the marijuana seized in Thailand originates from the Laos. Krathom (*mitragyna speciosa*), which is different from cannabis, is an indigenous plant to Thailand with psychoactive properties, and is consumed primarily in Thailand’s southern provinces. During the first six months of 2016, ONCB reported seizing approximately 16.15 MT of dried marijuana, compared to 23.63 MT seized during all of 2015.

There is limited ketamine abuse in Thailand, mainly among younger users who prefer it as a cheaper (and perceived safer) alternative to MDMA. South Asian and Taiwanese drug trafficking organizations are prominently involved in ketamine trafficking.

According to ONCB, Thai authorities seized 13.79 kg of ketamine over the first six months of 2016, compared to 26.1 kg during all of 2015.

Thailand's penalties for drug-related offenses are severe and can include the death penalty for those convicted of possession of more than 20 grams of Schedule I substances with "intent to sell," a punishment reportedly last used in 2009.

3. Public Information, Prevention, and Treatment

According to press reporting, Thailand is estimated to have as many as 2.7 million drug users in the country. Thailand carries out comprehensive demand reduction programs, combining drug use prevention programs with treatment for those suffering from substance use disorders. According to ONCB, drug treatment programs have reached over 700,000 persons with substance use disorders since 2011. The Thai government also invests in building awareness of the perils of drug addiction, but the effectiveness of these awareness programs is difficult to gauge.

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, and some officials are susceptible to bribery. In 2016 several Royal Thai Police officers were accused of corruption and removed from office.

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

Thai and the U.S. law enforcement agencies enjoy a strong cooperative relationship and support from the highest levels of the 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 specific to drug trafficking. Through the U.S.-funded International Law Enforcement Academy and other programs, the United States and Thailand are working to enhance regional cooperation to combat transnational crime. The United States also provides training and other assistance to the Royal Thai Maritime Police to help Thailand control its maritime borders.

Thailand is also using U.S.-developed curriculum to support training and professionalization of its substance use treatment workforce. With U.S. support, the program is establishing a cadre of national trainers who will disseminate the training throughout the country.

D. Conclusion

The U.S. government enjoys a particularly close and collaborative relationship with Thai law enforcement. The United States has encouraged the Thai government to adopt laws and regulations more closely aligned with international standards. The United States will continue to assist the Thai government in its efforts to promote greater cooperation between its police and prosecutors, prevent corruption, and further advance regional cooperation.

Timor-Leste

A. Introduction

Timor-Leste remains a minor market for illegal drugs, but international drug trafficking networks may be exploiting the country as a transshipment zone. Timorese authorities and international observers believe that drug couriers are taking advantage of Timor-Leste's porous borders and insufficient law enforcement capacities to transport illegal narcotics through Timor-Leste to Indonesia, Australia, New Zealand, and elsewhere in the region. According to Timorese officials, methamphetamine is the primary drug transiting the country. The Timorese government is aware of the problem and is trying to enhance its drug control capabilities in the face of significant challenges. Existing data collection efforts are insufficient to accurately measure the scope of drug trafficking throughout the country.

According to available information, there is little production of organic drugs in Timor-Leste. Methamphetamine precursor chemicals including pseudoephedrine and ephedrine are readily available in numerous Dili pharmacies and there is no purchase limit, nor any requirement for customer information at the time of purchase.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Law enforcement officials from both Timor-Leste and Indonesia have publicly noted improved levels of bilateral cooperation against drug trafficking. The full extent of drug traffic in Timor-Leste remains unknown. Many Timorese and international observers fear the existing cases barely scratch the surface of a much deeper problem.

Numerous Timorese officials, from the Prime Minister to senior police officers, have commented publicly about the serious need for increased drug control efforts. One of the biggest obstacles to combatting illegal drugs in Timor-Leste is the lack of trained, experienced prosecutors and law enforcement officers. There is a pervasive need, throughout the Timorese law enforcement and judicial community, for basic instruction in narcotics recognition and smuggling techniques. Timorese authorities currently lack the ability to analyze the organizational structure and business operations of drug syndicates. The Timorese government understands its undeveloped analytical capabilities and is eager to accept relevant training.

The Timorese Customs Directorate also lacks basic capabilities to combat narcotics trafficking. Very few customs officers have been trained to detect narcotics. The Customs Directorate lacks capacity in other areas that hinder effective counternarcotics efforts, including an inability to operate a fleet of intercept boats and the inoperability of some x-ray machines. Customs officials have plans to reorganize their operations, pending broader government approval and funding. The jurisdiction of a law enforcement unit under the Ministry of Justice, the Scientific Criminal Investigation Police (PCIC), includes all drug crimes in Timor-Leste.

The Border Police Unit of the National Police (PNTL) generally acknowledges its weaknesses in controlling the border, blaming deficiencies on the personnel assigned to border duty. Border police live in poor conditions and lack basic tools and equipment for law enforcement duties. With respect to drug trafficking, many border officers lack training to perform proper searches for narcotics and recognize contraband and were only recently supplied with drug identification field test kits. Laboratory testing occurs in Indonesia under an agreement with the Indonesian government.

In October 2016, a new counternarcotics law passed Timor-Leste's Parliament and went to the President for signature and promulgation that would require the government to implement regulations for drug treatment and create a national coordination body to combat drugs within one year. The draft law would also mandate an annual report to Parliament on drug addiction and trafficking in Timor-Leste. A draft anticorruption law remained pending before parliament at the conclusion of 2016. Passage of these laws will strengthen the country's statutory framework and support the ability of the justice sector to combat illegal narcotics.

2. Supply Reduction

Timorese law enforcement made very few drug arrests in 2016. Prosecutors reported 14 cases in process between January and September; of these, eight were under trial as of September, with three archived for lack of evidence, and three still under investigation. The cases currently in process are being investigated and tried under the 1997 Indonesian counternarcotics law.

3. Public Information, Prevention, and Treatment

Although no official surveys of drug use have been conducted, Timorese officials and other contacts widely maintain that illegal narcotics consumption in Timor-Leste is very low. Experts believe that most of the narcotics in Timor-Leste are destined for consumption in Indonesia via the land border, having entered from unknown destinations through insufficient screening procedures at ports of entry. There are no known drug treatment or rehabilitation programs in Timor-Leste. Justice sector officials have participated in study tours to such facilities in neighboring countries and have reportedly tried to implement the principles on an ad hoc basis. The counternarcotics law envisions establishment of dedicated demand reduction and treatment programs.

4. Corruption

As a matter of policy, the Government of Timor-Leste does not encourage or facilitate illicit drug production or distribution, nor is there any evidence that it is involved in laundering the proceeds of the sale of illicit drugs. In 2009, the Timorese National Parliament approved the creation of an Anti-Corruption Commission. The government has also taken steps to develop the legislative framework necessary to combat corruption, and an anticorruption law is currently pending before the National Parliament. However, the application and enforcement of legislation is hampered by limited institutional capacity, and the country's National Risk Assessment of Money Laundering and Terrorist Financing called low-level government corruption "endemic." Weak institutions, high levels of poverty, large public spending, and the dominance of a cash economy

have contributed to a growing concern about corruption. Allegations of potential involvement of security personnel in illegal activities raise the risk that elements of the security services could be co-opted by narcotics traffickers.

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

The Government of Timor-Leste recognizes that it has the potential for a growing narcotics problem and is taking some steps to counter it. In 2013, the PNTL signed a memorandum of understanding with Indonesia on drug control cooperation. Timor-Leste does not have extradition or mutual legal assistance treaties with the United States.

Foreign development partners are interested in engaging Timor-Leste on issues such as counternarcotics and customs enforcement, but many initiatives have shown slow progress. A U.S.-funded advisor assisted in drafting the counternarcotics law. Cooperation with Australia on airport security continues to grow, although significant improvements to Dili's airport security will probably take years to materialize. In October, the European Union announced a new five-year support program to PCIC, including for counternarcotics capacity.

In 2013, the United States provided \$1.1 million for a two-year program through UNODC to fortify border police units with training, equipment, and resources. The training covered basic border patrol techniques and tactics to combat drug trafficking, human trafficking, cash couriers, and other transnational crime. Basic interdiction techniques were discussed and procedures from surveillance to capture to prosecution were explained. The scope and length of the training did not reach more advanced topics and long-term mentoring is likely necessary for sustainable development in this area. In August 2016, the United States provided a three-day training session on anti-corruption and organized crime to approximately 40 prosecutors, judges, and Anti-Corruption Commission investigators.

D. Conclusion

Timor-Leste is only beginning to focus on and fully understand the scope of narcotics issues. There is political will to combat drugs, but the legal and investigative framework needed to mount an effective home grown counternarcotics strategy remain in the very early stages.

Trinidad and Tobago

A. Introduction

Trinidad and Tobago's close proximity to Venezuela, open coastline, and direct transportation routes to Europe, Canada, and the United States make it an ideal location for cocaine and marijuana transshipment. In 2016, illegal narcotics shipments mainly moved up from Trinidad's southern borders. Marijuana is locally produced and is the most widely used drug domestically, but other drugs, including cocaine, heroin, and MDMA (ecstasy) are also available.

The Government of Trinidad and Tobago continues to make progress in its ability to investigate complex counternarcotics cases targeting criminal networks, but is challenged by insufficient resources and capacity. Robust interdiction efforts continued in 2016, though overall drug seizures decreased from 2015. The strong commitment to drug demand reduction persists, but treatment capacity remains under-resourced to meet the need. Corruption and gaps in legislative and organizational implementation continue to challenge 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 demonstrates continued commitment to drug control through bilateral cooperation as well as intelligence sharing with countries of origin, transit, and destination. The Government of Trinidad and Tobago regularly communicates with local, regional, and international organizations, collaborating on international and national priorities. However, Trinidad and Tobago's drug control institutions are continually challenged by deficiencies in staffing and funding. Additionally, distrust within and between certain units of law enforcement, the military, and the intelligence community impedes effective interagency information sharing and collaboration.

Counternarcotic units receive support from international donors in specialized training and equipment. Improvements in investigating counternarcotics cases illustrate the effectiveness of international support, which have enhanced the ability of Trinidad and Tobago's law enforcement and investigative units to track sophisticated criminal networks.

Trinidad and Tobago has mutual legal assistance treaties with the United States, Canada, and the United Kingdom. Trinidad and Tobago maintains a narcotics control and law enforcement letter of agreement with the United States and a maritime law enforcement agreement that enables the United States to patrol Trinidad and Tobago's waters, overfly territorial sea and detain vessels suspected of trafficking drugs.

The United States also maintains an extradition treaty with Trinidad and Tobago. There were few extraditions prior to 2015 from Trinidad and Tobago, but the past two years have seen a sustained utilization of the extradition treaty.

2. Supply Reduction

Marijuana is the only known locally-produced illicit drug. Production is concentrated in small farms in heavily forested, mountainous regions. Local producers compete with imports from St. Vincent and the Grenadines, Jamaica, Guyana, and Venezuela.

Other illicit drugs – primarily cocaine, but also small amounts of heroin and ecstasy – are trafficked through the country by transnational organized crime groups operating in Trinidad and Tobago, exploiting its close proximity to Venezuela and vulnerabilities at ports of entry. The main destination for these substances continues to be the European market.

In collaboration with several international partners, Trinidad and Tobago law enforcement entities seized approximately 1.2 metric tons (MT) of marijuana and 292 kilograms (kg) of cocaine in 2016, compared to approximately 1.35 MT and 249 kg respectively in 2015. The Trinidad and Tobago Transnational Crime Unit, collaborating with law enforcement, international partners, and the Coast Guard, plays a significant role in the detection and interception of illegal narcotics.

3. Public Information, Prevention, and Treatment

Information on drug-use trends in Trinidad and Tobago is anecdotal, and the government is seeking to conduct a survey over the next year to acquire empirical data on drug usage. It is widely accepted, however, that drug use occurs across all socio-economic classes in the country. The primary drug used is marijuana, with cocaine, including crack cocaine, the second-most frequently used drug. Drug treatment professionals assess that drug usage continues to increase among youth.

There are 29 drug treatment programs in Trinidad and Tobago supported by the government, non-governmental organizations, religious groups, and hospitals. Challenges remain in integrating existing criminal justice, healthcare, welfare and education systems to effectively treat drug use disorders, and there is a need to train more prevention specialists and treatment service providers to accredited standards.

Trinidad and Tobago's National Supply Reduction Strategy 2014 – 2024 is designed to reduce both the supply of and demand for illegal drugs. Drug prevention efforts include school-based education programs; training for educators; anti-drug media campaigns; and special outreach events. Trinidad and Tobago continues to successfully provide, and is expanding, an alternative drug treatment sentencing program for adults. In September 2015, Trinidad and Tobago, collaborating with the Organization of American States' Inter-American Drug Abuse Control Commission and the United States, launched its Adolescent Drug Treatment Program to train professionals who interact with adolescents to identify alcohol, tobacco, and other drug use. Two new modules were completed in 2016. The project will soon be finalized for introduction into Trinidad and Tobago's Juvenile Justice System.

4. Corruption

The Government of Trinidad and Tobago neither directly encourages nor facilitates the 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 2016. Media and anecdotal reports of drug-related corruption in the ranks of the Police Service, Prisons, Defense Force, Customs and Excise Division, and port employees are common.

The Police Complaints Authority, an independent law enforcement oversight body, recorded 352 complaints, including perverting the course of justice, fraud, corruption and extortion in 2016.

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 citizens in Trinidad and Tobago, primarily through the Caribbean Basin Security Initiative (CBSI). CBSI is a security partnership between the United States and the Caribbean that strives to substantially reduce illicit trafficking, advance public safety and citizen security, and promote justice. CBSI programming in Trinidad and Tobago focuses on law enforcement and military capacity building, juvenile justice, and demand reduction.

CBSI regional projects are underway in maritime and aerial domain awareness; law enforcement capacity-building; criminal justice reform; preventing financial crimes; demand reduction; and reducing illicit trafficking of firearms. The Government of Trinidad and Tobago is an active partner in CBSI programs.

D. Conclusion

The entities and individuals working to combat narcotics trafficking in Trinidad and Tobago continue to face considerable institutional challenges. In order to deter traffickers, the Government of Trinidad and Tobago should implement reforms and programs to expedite prosecutions, and persist with a more evidence-based criminal justice system to enable convictions.

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 Southeast Asia. Large amounts of opiates and hashish 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) Narcotics Department is the country's most proactive counterdrug force and has jurisdiction for drug-related crimes in urban areas. The U.S. Drug Enforcement Administration (DEA) often partners with the TNP Narcotics Department. The Jandarma, a component of the Ministry of Interior (MOI) responsible for rural areas outside the jurisdiction of the TNP, also plays a significant role, especially in the country's hashish eradication programs. TNP intelligence frequently leads to rural areas, in which case the two agencies conduct investigations and seizures together. Turkey's Coast Guard, also under MOI, has some drug control responsibilities, and the Ministry of Customs and Trade, Directorate General of Customs Guards, is also a counterpart to the DEA. The Ministry of Health is responsible for regulating pharmaceutical products and 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 Organized 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 DEA, 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 traffickers control much of the distribution. Turkey also is a transit route for opiates smuggled overland from Afghanistan mostly via Iran. 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.

Turkey also serves as a transit route for methamphetamine smuggled by air 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 use is a growing problem in Turkey. TNP discovered a methamphetamine lab in Istanbul in October 2015 – the first manufacturing lab discovered since 2008.

Cocaine arrives from South America, often via transshipment locations in West Africa. The TNP estimates that most cocaine transported to Turkey is brought via couriers utilizing commercial aircraft. Seizures indicate cocaine is predominately hidden inside passenger luggage or hidden on persons. Cannabis products, primarily hashish, enter Turkey from Afghanistan, Lebanon, and Albania, and are 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, evidence suggests 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 U.S. 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. Cannabis, primarily hashish, is typically cultivated and produced in Turkey for domestic consumption.

The TNP uses TADOC to train officers on drug trafficking interdiction and investigation techniques. Border control initiatives and upgrades include the deployment of x-ray machines and ion scanners to Turkey's eastern borders. In 2012, the U.S. Department of the Treasury sanctioned supporters of the Kurdistan Workers' Party (PKK) who ran significant drug trafficking networks based in Moldova and Romania.

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 informal hawala banking system are investigated only if the business is directly tied to an existing drug or other criminal investigation.

During the first 10 months of 2016, Turkish authorities seized approximately 4.3 metric tons (MT) of heroin, below the pace of seizures in 2015 (5.9 MT). The volume of hashish seized during this same period (35.5 MT) increased from 2015 (24 MT). Seizures of ATS (fenethylamine and MDMA), however, decreased to 1.475 million tablets, down from 3.34 million tablets in 2015. There was also a significant decrease in the volume of acetic anhydride seized during this time period, with none of the chemical used in refining heroin captured in 2016, compared to 1,919 liters in 2015. The amount of cocaine seized between January and October 2016 totaled

approximately 583 kilograms (kg), a sharp increase compared to the 265.4 kg in 2015. Seizures of synthetic cannabinoids totaled 249 kg during this same time period, comparable to the 288.69 kg seized over the same timeframe in 2015.

3. Public Information, Prevention, and Treatment

The Deputy Prime Minister chairs the High Council for Fighting Drugs, whose members include six ministries and civil society, and coordinates drug prevention and treatment programs. Drug-related treatment is provided by public agencies, private entities and nongovernmental organizations (NGOs), and is mainly funded through the state and health insurance.

Most Turkish treatment services for those with substance use disorders 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 illegal drug use remains modest in scale in Turkey compared to other regional countries, the number of people seeking treatment for substance use disorders is increasing. The Ministry of Education provides funding to an NGO for the development and implementation of a healthy living and anti-drug curriculum for schools. Last year, 28,000 teachers received training on teaching the program. The Ministry of Health has responsibility for promoting drug awareness and providing treatment, but it remains underfunded and does not conduct regular, periodic drug use 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. No senior-level government official is alleged to have participated in such activities in 2016.

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 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, and reduce the flow of Afghan heroin to international markets. 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 narcotics traffickers attempting to smuggle Afghan opiates to Turkish, Russian and European markets, either directly from Afghanistan 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 500-mile border with Afghanistan and its 713-mile frontier with Iran.

Major developments during 2016 included President Gurbanguly Berdimuhamedov's issuance of a decree making the State Service to Protect the Security of a Healthy Society (SSPSHS – former Counternarcotics Service) a department of the Ministry of Internal Affairs (MVD). Berdimuhamedov repeatedly instructed the MVD and other relevant ministries and agencies to redouble their efforts to eradicate drug addiction, illicit drug trafficking and trade.

Turkmenistan has intensive cooperation with international organizations and diplomatic missions, but its law enforcement agencies continue to need increased 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 personnel toward stopping the flow of drugs either directly from Afghanistan or via Iran. Common methods of illegal drug transshipment include concealment in cargo and passenger vehicles, deliveries by pedestrian couriers, and in some cases, by concealment in the stomach or body cavities of humans and animals. Commercial truck traffic from Iran remains a vulnerability, and Caspian Sea ferry traffic from Turkmenistan to Azerbaijan and Russia continues to be an opportune smuggling route.

President Berdimuhamedov continued to stress at government meetings that the war against drugs should be a consistent and uncompromising priority for his administration. According to local authorities, the street-level prices of heroin, opium and marijuana remain among the highest in the region, though this cannot be independently verified. The government held two "drug burn" ceremonies in January and June that destroyed undisclosed amounts of illegal drugs. The event in June coincided with the UN International Day against Drug Abuse and Illicit Trafficking.

Turkmenistan does not have an extradition treaty or mutual legal assistance agreement with the United States, but is a signatory to the 1988 UN Drug Convention, which provides a mechanism to provide legal assistance in accordance with its provisions.

2. Supply Reduction

According to information provided by the SSPSHS, Turkmen authorities seized 174.2 kilograms (kg) of illicit drugs during the first six months of 2016, down from 195.8 kg seized during the same period in 2015. Opium accounted for the vast majority of seizures (171.4 kg) in 2016.

There is no evidence of synthetic drug production in Turkmenistan. Official news sources and the official daily newspaper “Neytral’nyy Turkmenistan” continue to report law enforcement activities combating drug-related crimes. State television covered the 2016 arrest of three groups of drug smugglers who attempted to smuggle approximately 31 kg of opium and more than 40,000 tablets of tramadol into Turkmenistan.

3. Public Information, Prevention, and Treatment

The Ministry of Health operates six drug treatment clinics, and one out-patient facility for persons suffering from substance use disorders in Ashgabat, as well as a Psychological and Narcological Hospital in the Ilyaly district of Dashoguz province, and one in each of the other four provincial administrative centers. Patients can receive free detoxification treatment at these clinics without revealing their identity, as clinic visits are kept confidential. Additionally, each of the hospitals has fee-based treatment facilities that cost approximately \$10 per day.

The Government of Turkmenistan has not published any drug-abuse related statistics since 2006. Local law enforcement entities possess broad authority to initiate drug-related cases and send individuals to rehabilitation. The government maintains a rehabilitation center for the treatment of drug, tobacco and alcohol abusers in the Altyn Asyr district of Ahal province that can accommodate approximately 120 patients.

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 contribute to an environment conducive to corruption. A general distrust of the police by the public, fueled by evidence of police officers soliciting bribes, indicates a high level of corruption in law enforcement. Bribes to junior officials at border crossing points to facilitate passage of smuggled goods occur frequently. In 2016, however, there were no official reports of prosecution of law enforcement or other government officials for narcotics-related corruption.

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

In February 2016, two managers from the Criminal Investigations Laboratory of the MVD and one from the Medical Examination Bureau of the Ministry of Health participated in the 68th Annual Meeting of the American Academy of Forensic Sciences in Las Vegas, Nevada. These managers attended a wide-range of conferences and workshops conducted by some of the world's top forensic scientists, as well as an exhibition featuring modern forensic equipment.

In March and May of 2016, the United States conducted a five-day workshop on “Emerging Trends in Illicit Synthetic Drugs and Production Techniques” and a five-day “Drug Units Commanders Course” in Ashgabat for officials from several Turkmen law enforcement agencies. However, the government cancelled DEA training events planned for July and September in 2016 and has refused to participate in U.S. border security training. In September, the United States contributed an additional \$300,000 to the existing bilateral Letter of Agreement on Narcotics Control and Law Enforcement Assistance to support additional drug control activities.

D. Conclusion

President Berdimuhamedov’s regular public statements calling for greater international cooperation and increased efforts against illegal narcotics make clear the importance the Government of Turkmenistan places on its counternarcotics efforts. Law enforcement efforts targeting drug cultivation and drug trafficking receives high profile coverage in state-controlled media. Government of Turkmenistan statements at all levels indicate a desire for enhanced cooperation with international partners.

U.S. engagement with Turkmenistan's drug enforcement agencies remains important to promoting further reform efforts. U.S. assistance will continue to focus on supply reduction through various types of drug interdiction training, law enforcement institutional building, the promotion of regional cooperation, and the exchange of drug-related intelligence. The United States will also encourage the Government of Turkmenistan to intensify long-term demand reduction efforts and to continue its partnership with international organizations such as UN Office on Drugs and Crime and regional bodies such as the Central Asia Regional Information and Coordination Center (CARICC).

Ukraine

Although Ukraine is not a major drug producing country, its location astride several important drug trafficking routes into Western Europe leaves it vulnerable as an important transit country. Ukraine's numerous ports on the Black and Azov seas and its extensive river routes – combined with Russia's aggression in eastern Ukraine and its occupation of Crimea, which prevent Ukraine from exerting full control of its borders – make Ukraine vulnerable for drug trafficking into the European Union's (EU) illegal drug market.

Heroin from Afghanistan is trafficked through Russia, the Caucasus, and Turkey, before passing through Ukraine. South American cocaine is moved through Ukrainian seaports and airports for both domestic use and further transit to EU countries. Ukrainian law enforcement occasionally interdicts large quantities of drugs in commercial shipments transiting southern ports. More commonly, however, drugs are seized in small quantities, ranging from several grams to several hundred grams.

More than 90 percent of the total domestic drug market within Ukraine involves cannabis and opium poppy grown either within the country or supplied from Russian and Moldova. The use of synthetic drugs and psychotropic substances, especially amphetamine-type stimulants (ATS), has also increased rapidly in Ukraine over the past decade, following international trends. Synthetic drugs are trafficked to Ukraine primarily from Poland, Lithuania, and the Netherlands, but they are also produced locally in small clandestine labs.

The number of registered Ukrainians with substance use disorders was 60,200 as of January 2016. Informed experts, however, have estimated the actual number of persons suffering from substance use disorders within Ukraine as ranging between 300,000 and 500,000.

During 2016, the National Police of Ukraine (NPU), Security Service of Ukraine (SBU) and other law enforcement agencies collectively eliminated 109 clandestine labs and dismantled 84 international drug supply channels. Approximately 11.7 metric tons of illegal drugs and other controlled substances were seized, including 14.4 kilograms (kg) of cocaine, 18.1 kg of ATS, and 10.9 kg of MDMA (ecstasy).

In early September, following a joint investigation by the NPU and the Prosecutor General's Office, the U.S.-trained, vetted, and equipped NPU SWAT unit successfully executed the high-risk arrest of a wanted leader of a criminal drug trafficking group. The U.S. assistance to help Ukraine bring its law enforcement and justice sector institutions up to European standards is designed to facilitate Ukraine's integration into Euro-Atlantic institutions. This will in turn assist Ukrainian authorities in building law enforcement capacity and developing effective counternarcotics programs in interdiction, investigation, and demand reduction, as well as to assist Ukraine in countering money laundering.

The U.S. Drug Enforcement Administration (DEA) has established a good working relationship with both the NPU and SBU, and ongoing training programs have deepened these relationships. The United States also assists the NPU in building capacity while simultaneously strengthening the Border Guards capability to execute control over the majority of Ukraine's 3,490 mile-long

border. The United States Coast Guard is establishing a strong partnership with the Ukrainian Border Guards responsible for maritime security, and various training programs are planned for 2017.

United Arab Emirates

The United Arab Emirates' (UAE) proximity to Afghanistan, Pakistan, and Iran, and its role as a sea and air transportation hub, has made the country a transshipment point for heroin and other illegal drugs. International drug trafficking organizations have sought to exploit Dubai's role as a global crossroads by using it as a command and control center for facilitating the movement of narcotics through the region and beyond. Drug seizures in the last several years indicate traffickers increasingly use the UAE as a staging point to warehouse, stockpile, and distribute narcotics. Dubai International Airport has become a staging area for cocaine couriers from Brazil bound to various countries in Africa and Asia. There is no evidence of major drug cultivation or production in the UAE.

UAE authorities continue to target drug trafficking networks operating through the country, including through cooperation between the Dubai Police Department of Anti-Narcotics and law enforcement from other countries, as well as awareness campaigns that have resulted in strong collaboration with residents. The UAE has a zero tolerance policy towards illegal drug use, and drug trafficking is treated as a severe crime. The UAE is a transit point and market for fenethylamine, an amphetamine-type stimulant that may be the most widely available drug in the Gulf region. The rate of illegal drug use in the UAE remains low by international standards, though use of new psychoactive substances (such as the synthetic cannabinoid known as "spice"), pharmaceutical drugs, and hashish continues to increase. Hashish and controlled pharmaceutical drugs remain the most commonly used drugs within the country, though heroin is also available to a much lesser extent.

The UAE government has made significant commitments of personnel and funding towards building new drug control institutions and conducting counternarcotics law enforcement operations. The UAE funds a UN Office on Drug and Crime (UNODC) semi-regional office. The U.S. Drug Enforcement Administration (DEA) coordinates with UAE authorities in combating UAE- and regionally-based drug trafficking organizations. During the first 10 months of 2016, UAE authorities passed 216 drug leads to DEA on drug couriers, the majority of whom were arrested when they landed at their final destination because of law enforcement coordination between the involved countries. DEA works with Dubai Police on awareness efforts in schools, and U.S. Department of Homeland Security offices in Abu Dhabi and Dubai coordinate with UAE law enforcement officials to investigate smuggling crimes in the UAE and the region. The U.S. Coast Guard is working with the UAE's Critical Infrastructure and Coastal Protection Authority to support its efforts to strengthen the UAE's maritime border security.

The UAE does not have a mutual legal assistance treaty with the United States, though it is party to multilateral conventions that enable such cooperation. There is no extradition treaty between the UAE and the United States.

United Kingdom

The United Kingdom of Great Britain and Northern Ireland (UK) is a significant consumer country of illicit drugs, and, to a lesser extent, a transshipment route for drugs destined for other international markets. International criminal organizations that traffic drugs into the UK also engage in a wide assortment of additional criminal activity, such as financial crimes and money laundering.

The most commonly used drug by UK adults is marijuana followed by cocaine. However, among 16 to 24 year olds, cocaine use falls to third place, following marijuana and MDMA (ecstasy). In August, officers from the National Crime Agency (NCA) and the Border Force made one of the most significant drug seizures in UK history, seizing more than a metric ton of cocaine with a street value of approximately \$100 million from a fishing trawler off the English coast.

The Psychoactive Substances Act came into effect in May 2016 and established a blanket ban across the UK on synthetic substances that stimulate the effects of traditional illicit narcotics. The law also creates new powers for police to shut down illegal “headshops” and UK-based online dealers. Dealers in the now-illegal psychoactive substances face up to seven years in prison. Alongside the legislation, the UK rolled out new education programs targeting at-risk youth and provided capacity-building training to local areas to help them prevent and respond to the use of these substances.

The United States and the United Kingdom enjoy an excellent bilateral relationship and cooperate closely on multilateral narcotics enforcement efforts. The United States and UK have a memorandum of understanding allowing U.S. Coast Guard Law Enforcement teams and Airborne Use of Force Detachments to operate from the platforms of UK naval vessels in the Caribbean. The United States continues to conduct coordinated drug trafficking and money laundering investigations with the UK National Crime Agency and Metropolitan Police Service, as well as Police Scotland, the Police Services of Northern Ireland, and other UK law enforcement agencies. The United States has provided lead information on drug shipments bound for the UK, including couriers, parcels, and containerized cargo.

Uruguay

Uruguay is not a major narcotics producing country and has low levels of drug-related corruption. Foreign drug traffickers take advantage of Uruguay's strategic location, porous borders, numerous international ports, and limited interdiction capabilities. Most cocaine shipped through Uruguay originates in Peru and Bolivia and is smuggled into Uruguay for onward movement to world markets.

In 2016, the government seized 144 kilograms (kg) of cocaine, 138 kg of the highly-addictive cocaine base product known as "pasta base," and 4.31 metric tons of marijuana. In August, the Senate approved a bill for a Plan in the Fight Against Drug Trafficking and Organized Crime, which remained pending with the House of Representatives at the end of 2016. If approved, the Plan would establish sentences of between two and 10 years for those who produce or traffic illicit substances; improve scientific analyses of illicit substances seized; and create an interagency committee to improve coordination to drug trafficking.

The Uruguayan government passed legislation in 2013 to regulate the legal sale and distribution of marijuana. The current system grants licenses to private producers for large-scale farming and regulates distribution at a controlled price through registered pharmacies. In early 2016, the government opened the registry for pharmacies wishing to sell marijuana legally. By October, out of 1,200 pharmacies in Uruguay, the government reported that 50 had registered. The Uruguayan Pharmacy Center cited an even lower figure, claiming that fewer than 10 pharmacies had registered. Pharmacies must install fingerprint recognition software to identify consumers. As of September 2016, consumers must register with the government and can purchase up to 10 grams per week. Private individuals are allowed up to six marijuana plants at home and can harvest up to 480 grams per year. Up to 45 individuals can jointly produce marijuana in greater quantities, as long as it is not for sale.

Uruguay's demand-reduction strategy focuses on prevention, rehabilitation, and treatment. The National Anti-Drug Secretariat coordinates demand-reduction policies, researches and investigates drug use, provides treatment and rehabilitation for drug users, and encourages debate on narcotics issues.

U.S. assistance provided administrative support and training to Uruguayan law enforcement agencies in 2016, including airport interdiction training and dog-handler training. The United States and Uruguay are parties to a bilateral extradition treaty (1984), a mutual legal assistance treaty (1994), and a letter of agreement for the United States to support counternarcotics and law enforcement programs.

Uzbekistan

A. Introduction

Uzbekistan remains a significant transit country for Afghan opiates. Uzbekistan shares an 85-mile border with Afghanistan and has extensive borders with all Central Asian countries. Afghanistan and Tajikistan are the two bordering countries most utilized by drug traffickers to smuggle narcotics into Uzbekistan. Traffickers utilizing the route from Afghanistan to Russia and Europe through Uzbekistan capitalize on Uzbekistan's infrastructure, corruption, and rugged border terrain.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

Uzbekistan's drug control strategy is detailed in the "Program of Complex Measures on Counteracting Drug Abuse and Illicit Trafficking for 2016-2020" (Program), adopted in 2016. The Program outlines government agency responsibilities to restrict illicit drug trafficking, reduce demand, improve relevant legislation and cooperate with international partners. Like its previous iteration covering 2011-2015, the new Program lacks specificity, providing only general guidance on broad drug control goals.

Law enforcement agencies responsible for combatting narcotics trafficking include the Ministry of Internal Affairs (MVD), the National Security Service (NSS), the State Border Protection Committee and the State Customs Committee. The National Center for Drug Control (NCDC), a centralized policy body, coordinates these agencies' efforts and supports capacity development through training but does not have an operational role. Inter-agency regional commissions reporting to the NCDC support local level coordination. Despite NCDC's role, compartmentalized information sharing and institutionalized bureaucratic silos limit effective interagency coordination.

Uzbekistan has developed counternarcotic and border security policies largely in isolation from its neighbors, reducing their overall effectiveness. Uzbekistan's seizure statistics are lower than its neighbors' along the northern trafficking route (Tajikistan, Kyrgyzstan, and Kazakhstan). Uzbek authorities attribute the low seizure rates to their success in border control but there is no independent method of corroborating those claims.

Uzbekistan is a full member of the Central Asia Regional Information and Coordination Center (CARICC) and participates in regional UN Office on Drugs and Crime (UNODC) and European Union projects. It has also signed cooperation agreements with other Central Asian countries, Russia, Latvia, the Czech Republic, Japan, and China. Cooperation is generally focused on programs rather than operational activities or intelligence exchanges.

The U.S. Drug Enforcement Administration (DEA) has established Memoranda of Understanding (MOUs) with the MVD, the Office of the Prosecutor General's (PGO) Financial Intelligence Unit (FIU), and the NCDC. While these MOUs provide a legal foundation for joint

investigative activities and intelligence exchanges, they have not translated into operational cooperation with Uzbek law enforcement. As a result, the DEA will close its Tashkent office in 2017. DEA will continue to engage Uzbek law enforcement authorities through a training program administered from DEA offices in Almaty, Kazakhstan. The United States will also continue to support Uzbek law enforcement and border control agencies through equipment and training. Uzbekistan does not have an extradition treaty or mutual legal assistance agreement with the United States, though Uzbekistan is party to multilateral conventions that enable law enforcement cooperation.

2. Supply Reduction

Uzbek officials insist that the rugged, poorly protected border with Tajikistan presents the biggest challenge to interdicting smuggled narcotics. While traffickers do exploit this mountainous terrain to smuggle drugs on foot or on pack animals, most drugs probably enter the country through trucks or rail utilizing guarded Uzbek border crossings. According to Uzbek law enforcement, there were no significant seizures of narcotics in airports in 2016.

Uzbekistan is not a significant producer of narcotics. On an annual basis, Uzbekistan conducts a “Black Poppy” eradication campaign to destroy illicitly cultivated opium and cannabis. As part of this campaign in 2015, the last year for which information is available, authorities uncovered 1,049 cases of illegal drug cultivation and eradicated an aggregate cultivated area of approximately half a hectare. In the first six months of 2016, the government reported seizing 196.1 kilograms (kg) of marijuana; 957.7 kg of opium; 282.5 kg of hashish; and 88.9 kg of heroin. Uzbek officials attributed the increase in opium seizures over the first six months of 2015 (565 kg seized) to finds of large underground stashes on the borders with Kyrgyzstan and Tajikistan.

Uzbek authorities have voiced increasing concern over the trafficking of synthetic drugs, particularly synthetic cannabinoids or “spice.” While reported seizures of synthetic cannabinoids amounted to only 100 grams in first six months of 2016, the NCDC has actively engaged the international donor community to hold training and seminars focused on synthetics. In November 2015, Uzbekistan added 80 synthetic substances to its controlled substances list.

3. Public Information, Prevention, and Treatment

Uzbekistan only tracks drug users who are registered with government dispensaries, resulting in unreliable data on consumption patterns. The number of registered drug users has declined steadily since 2008, amounting to 13,128 individuals in 2015, the last year for which data is available. Of these, 49.6 percent were heroin users, a significant drop since 2014 when the share of heroin users was 60 percent. According to the Chief Narcologist of Uzbekistan, high mortality among heroin users and substitution of other drugs, including opioid pharmaceuticals, are the main drivers of the decline. The last independent study of overall drug use prevalence in Uzbekistan was conducted in 2006 by UNODC and estimated that 0.8 percent of the population aged 15-64 were opioid users.

Uzbekistan's drug control program provides for demand reduction programs and treatment options. The government regularly organizes seminars, lectures, and television and radio public service announcements against drug use, including a 2016 documentary specifically focused on synthetic drugs. These efforts likely reach only a small proportion of persons suffering from substance use disorders. Furthermore, as Uzbekistan prohibits opioid substitution therapy, treatment options are limited.

With U.S. and UNODC support, Uzbekistan is implementing a long-term continuing education project initiated in 2014 to professionalize substance abuse treatment staff and as well as a drug prevention education program in schools.

4. Corruption

There is evidence of corruption, at multiple levels of government, which confounds national efforts to prevent the distribution and production of illegal narcotics. There are occasional reports of convictions of government officials on corruption charges, but such cases largely appear to target low or mid-level officers.

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

Uzbekistan restricts operational cooperation with foreign partners and does not share detailed information related to the counternarcotics situation in-country or its counternarcotics efforts. In official meetings, government officials stress the competency of local law enforcement agencies at controlling drug flows.

U.S. government programs in Uzbekistan focus on modernizing border crossing checkpoints, improving forensic capabilities, developing judicial systems and enhancing the effectiveness and capabilities of law enforcement agencies. U.S. assistance facilitates training and helps to address the equipment needs of Uzbekistan's counternarcotic enforcement agencies.

D. Conclusion

The Government of Uzbekistan has adopted a go-it-alone approach to counternarcotics, eschewing substantive cooperation with foreign partners. Given the lack of independent data on narcotics trafficking in-country, it is difficult to estimate the true extent of the problem and whether Uzbekistan's low seizure statistics accurately reflect law enforcement efficacy. Nonetheless, modern training techniques and equipment and increased exposure to international best practices might promote sustainable improvements in overall law enforcement ability if Uzbekistan actively addresses endemic corruption issues.

Venezuela

A. Introduction

Venezuela remained a major drug-transit country in 2016. Venezuela is one of the preferred trafficking routes for illegal drugs, predominately cocaine, from South America to the Caribbean region, Central America, the United States, Western Africa, and Europe, due to its porous western border with Colombia, weak judicial system, sporadic international counternarcotics cooperation, and permissive and corrupt environment.

In 2016, traffickers continued to smuggle marijuana cultivated in Colombia through Venezuela, primarily to the Caribbean. There is insufficient data to determine current drug consumption trends within Venezuela, but marijuana is believed to be the most commonly consumed illicit drug, followed by crack cocaine and “basuco” (cocaine paste).

Limited coca cultivation occurs along Venezuela’s border with Colombia. Some precursor chemicals used to produce cocaine are trafficked through Venezuela, but the quantity is unknown. In 2016, Venezuelan authorities did not release statistics on seizures of drug labs or precursor chemicals. The Venezuelan government has not reported the production or trafficking of new psychoactive substances in Venezuela.

In 2016, the President of the United States determined that Venezuela had failed demonstrably to adhere to its obligations under international counternarcotics agreements, though a waiver allowing for continued U.S. assistance was granted in the interest of U.S. national security.

In 2016, the Venezuelan government engaged in minimal bilateral law enforcement cooperation with the United States. Venezuelan authorities do not effectively prosecute drug traffickers, in part due to political corruption. Additionally, Venezuelan law enforcement officers lack the equipment, training, and resources required to significantly impede the operations of major drug trafficking organizations.

B. Drug Control Accomplishments, Policies, and Trends

1. Institutional Development

In 2013, the Venezuelan National Anti-Narcotics Office (ONA) developed a National Anti-Drug Plan for 2015-2019 that sought to reduce drug consumption and increase prevention activities. ONA reported that it has worked closely with civil society to provide anti-drug education training and athletic programming in different areas around the country to increase awareness and prevent consumption. ONA has the legal authority to seize the assets of individuals connected with drug trafficking.

Despite a nearly 100 percent increase in coca cultivation in neighboring Colombia from 2013 to 2015, ONA reported seizing 32 metric tons (MT) of drugs during the first six months of 2016, compared to 66 MT of illegal drugs seized during the first eight months of 2015. Of those drug seizures, 60 percent occurred in Zulia state, located in northwest Venezuela along the Colombian

border. In 2015, the most recent year for which data is available, the Public Ministry reported the investigations of 21,127 individuals for suspected drug crimes, leading to formal charges against 11,795.

In 2004, the United States and Venezuela entered into a treaty pledging both countries to cooperate in investigating, prosecuting, preventing, and suppressing crime, including drug trafficking. While Venezuela and the United States have had a Bilateral Counternarcotics Memorandum of Understanding (MOU) since 1978, counternarcotics cooperation between Venezuela and the United States has been very limited and inconsistent since 2005, when Venezuela refused to sign a negotiated addendum to the MOU to improve anti-drug cooperation.

In 1997, the U.S. and Venezuelan governments updated a customs mutual assistance agreement and a 1991 bilateral maritime counterdrug agreement that authorizes U.S. officials to board Venezuelan flagged vessels suspected of trafficking drugs in international waters, as long as the Venezuelan government permits the search. In 2004, the United States and Venezuela entered into a mutual legal assistance treaty.

Venezuela is 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. Although the 1999 Venezuelan constitution bars the extradition of Venezuelan nationals, Venezuela periodically extradites or deports non-Venezuelan nationals to the United States for prosecution.

2. Supply Reduction

Venezuela remains a major transit country for cocaine shipments via aerial, terrestrial, and maritime routes. Most flights suspected of trafficking narcotics depart from Venezuelan states bordering Colombia. Trafficking by maritime conveyance includes the use of large cargo containers, fishing vessels, and “go-fast” boats.

Illicit narcotics that transited Venezuela in 2016 were destined for the Caribbean, Central America, the United States, West Africa, and Europe. Colombian drug-trafficking organizations – including multiple criminal bands, the Revolutionary Armed Forces of Colombia (FARC), and the National Liberation Army (ELN) – facilitate the transshipment of narcotics through Venezuela. According to media reports, Mexican drug-trafficking organizations also maintain a presence in Venezuela.

The Venezuelan government occasionally reports drug seizures, arrests, and destruction of drugs and airstrips to the public. Venezuela is not a member of the Cooperative Situational Information Integration System, through which countries predetermine some information to share with the United States. Venezuelan authorities similarly did not share evidence about the destruction of illicit drugs with U.S. officials.

In October 2016, a joint Venezuelan-French maritime anti-narcotics interdiction in the central Caribbean led to the arrest of eight Venezuelans and the seizure of 120 kilograms (kg) of marijuana and cocaine.

In November 2014, Venezuelan Vice President Jorge Arreaza announced operation “Sovereign Skies,” aimed at halting flights by private jets leaving from seven airports in order to crack down on drug trafficking, and in two instances in 2015, shot down private aircraft. Both U.S and international law prohibit using lethal force against civil aircraft, regardless of whether the aircraft is being used for drug trafficking.

3. Public Information, Prevention, and Treatment

The consumption of illegal drugs in Venezuela remained opaque in 2016, since recent statistical data is unavailable. The most recent data on domestic drug consumption in Venezuela was provided by the UN Office on Drugs and Crime in 2011, which noted that cocaine and cannabis use among adults was 0.64 percent and 1.56 percent, respectively. Use of synthetic drugs and opioids is less frequent.

ONA implemented a National Treatment System in 2013 as a nationwide program to treat substance use disorder. The system uses professional care for detoxification and social reinsertion of those suffering from substance use disorders through a three-level program that includes the Center of Family Guidance, the Specialized Center for Prevention and Comprehensive Assistance, and the Socialist Therapeutic Community. In 2013, the most recent year for which data is available, ONA reported that 37,549 individuals were treated in this system, 19,835 of whom also received training to become prevention educators. There were 6,641 individuals in treatment facilities along with 3,032 family members, according to the 2013 ONA Annual Report.

4. Corruption

The Venezuelan government, as a matter of policy, does not encourage or facilitate illicit drug production or distribution, nor does it condone laundering the proceeds of the sale of illicit drugs. However, public corruption is a major problem in Venezuela that makes it easier for drug-trafficking organizations to move and smuggle illegal drugs. President Maduro declared a National Economic Emergency and granted himself decree powers in January 2016, which included goals of combatting corruption and defending Venezuela from a variety of threats. Since the government does not release updated statistics, it is unclear whether measures authorized under the decree powers will be effective tools to combat corruption.

On August 1, 2016, the United States unsealed indictments against General Nester Luis Reverol Torres, the former director of ONA and former commander of the National Guard, and Edylberto Jose Molina Molina, former sub-director of ONA, for participating in an international cocaine trafficking conspiracy. On August 3, President Nicolas Maduro appointed Reverol as Minister of Interior, Justice, and Peace, in which he is responsible for overseeing both ONA and the National Guard.

Two nephews of Venezuelan first lady Cilia Flores, Efrain Campo Flores and Francisco Flores de Freitas, were arrested in Port-au-Prince, Haiti, in November 2015 and expelled to the United States. In November 2016, a federal court in New York convicted both nephews of conspiracy to traffic 800 kg of cocaine to the United States.

In September 2015, the United States unsealed indictments against former Bolivarian Intelligence Service (SEBIN) chief of finance Pedro Luis Martin Olivares and former anti-drug official in the Scientific, Penal, and Criminal Investigative Corps (CICPC) Jesus Alfredo Itriago for alleged involvement in drug trafficking activities affecting the United States. In 2008, the U.S. Department of the Treasury designated former Minister of Defense and current Trujillo state Governor, Henry Rangel Silva and Guárico state Governor Ramón Emilio Rodríguez Chacín as “Specially Designated Nationals and Blocked Persons (SDN)” under the Foreign Narcotics Kingpin Designation Act (Kingpin Act) for assisting the FARC in trafficking narcotics. The Venezuelan government has yet to take action against these or other government and military officials with known links to the FARC.

In 2013, the U.S. Department of the Treasury added Vassily Kotosky Villarroel-Ramirez, a former captain in the Venezuelan National Guard, to the SDN list. The Venezuelan National Guard reported the arrest of Villarroel-Ramirez in July of 2015.

The 2010 Organic Law on Drugs imposes penalties ranging from eight to 18 years in prison for military and security officials convicted of participating in or facilitating narcotics trafficking. On June 16, 2016, 646 kg of cocaine were seized on a flight that originated in Caracas after it landed at the Mexico City International Airport, which led to the late June 2016 arrest of eight Venezuelan Nationals, including four members of the National Guard, in Caracas.

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

Drug control cooperation between Venezuela and the United States is limited and inconsistent since 2005, when Venezuela refused to sign a negotiated addendum to the MOU to improve cooperation. In 2016, Venezuela participated in the International Drug Enforcement Conference for the third consecutive year following a five year hiatus. The United States and Venezuela continue to exercise a 1991 maritime bilateral agreement allowing for each country to board vessels of the opposite flag suspected of illicit drug trafficking in international waters. In 2016, the Venezuelan government cooperated with the United States Coast Guard in six documented maritime drug-interdiction cases, compared to 10 cases in 2015, two cases in 2014, 10 cases in 2013, and five cases in 2012.

D. Conclusion

Though the level of drug control cooperation between Venezuela and the United States was limited during 2016, the United States remains committed to cooperating with Venezuela to counter the flow of cocaine and other illegal drugs transiting Venezuelan territory.

To advance cooperation, the Venezuelan government can sign an addendum to the 1978 Bilateral Counternarcotics MOU. Enhanced cooperation 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 Venezuela.

Vietnam

Vietnam is an illicit drug transshipment point for local and international criminal organizations. The Government of Vietnam reports that heroin remains the most commonly trafficked and abused illegal drug in the country. However, trafficking and abuse of amphetamine-type stimulants (ATS) continues to rise, and has been reported as the second most abused drug in Vietnam since 2010. ATS is commonly available in both pill form and as crystal methamphetamine. In 2016, the cost of crystal methamphetamine in Vietnam dropped dramatically, signifying a significant increase in availability. The use and transshipment of cocaine through Vietnam is increasing, with a growing number of cocaine couriers being arrested at Vietnam's airports. Cultivation and production of illegal narcotics in Vietnam is rare.

Vietnam continues to implement its 2011 comprehensive anti-drug strategy. In 2012, the Prime Minister allocated \$121 million through 2015 to support drug control and drug prevention. In December 2013, Vietnam's government approved the Decision on Drug Rehabilitation Renovation Plan for 2013 – 2020, aimed at diversifying drug dependence treatment models, scaling-up community based and voluntary treatment centers, and reducing the number of people in compulsory rehabilitation centers.

According to the most recent data available from the Government of Vietnam, in 2015, Vietnamese law enforcement agencies investigated 18,517 drug related cases and arrested 29,963 people involved in drug related crimes. During the first six months of 2016, Vietnamese law enforcement agencies investigated 10,022 drug related cases and arrested 15,829 people involved in drug related crimes. During this six-month period, Vietnamese law enforcement agencies reported seizing 219.9 kilograms (kg) of heroin; 47.95 kg of opium; 445.7 kg of cannabis; 413.8 kg of synthetic drugs; 148,483 ATS tablets; and 11.7 kg of cocaine. Vietnam did not report seizing any new psychoactive substances or synthetic opioids (fentanyl, carfentanil, etc.) in 2015 or 2016. Vietnam works with neighboring countries to carry out interdiction operations, with border liaison offices on both sides of the Sino-Vietnamese border. The United States promotes counternarcotics information sharing, coordination of operations, and capacity building with Vietnam's Ministry of Public Security.

Vietnam has no bilateral extradition treaty with the United States. Although Vietnam does not have a bilateral mutual legal assistance treaty with the United States, it has acceded to relevant multilateral conventions that enable such cooperation. The United States budgeted \$1.6 million in 2016 in support of medication assisted therapy for more than 15,000 patients, both to prevent HIV transmission and to improve treatment outcomes among intravenous drug abusers.



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

International Narcotics Control Strategy Report

Volume II

Money Laundering and Financial Crimes

March 2017



United States Department of State

**Bureau for International Narcotics and Law
Enforcement Affairs**

**International
Narcotics Control
Strategy Report**

Volume II

Money Laundering and Financial Crimes

March 2017

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Money Laundering and Financial Crimes

Introduction

The *2017 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 (AML) regimes. The legislatively mandated annual report provides a snapshot of the AML legal infrastructure of each country or jurisdiction and its capacity to share information and cooperate in international investigations. The narrative for each jurisdiction 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, which will allow those interested readers to find additional detailed information on the country’s AML capacity and the effectiveness of its programs.

In addition, the report details United States government efforts to provide technical assistance and training. In 2016, U.S. government personnel drew upon their expertise to build capacity with counterpart countries across the globe, sharing their experience and knowledge to enhance global rule of law and U.S. security interests. Working independently and with other donor countries and organizations, U.S. experts and partners provided training programs, mentoring, and support for supervisory, law enforcement, prosecutorial, customs, and financial intelligence unit personnel as well as private sector entities. These efforts are building capacity in jurisdictions that are lacking, strengthening compliance with international standards, and contributing to an increase in investigations, prosecutions, and convictions.

As in past years, money laundering continues to be a serious global threat. As transnational criminal organizations, terrorist groups, and other bad actors increasingly draw upon new technologies and criminal techniques to fund their illegal activities and generate and launder their considerable proceeds, the challenges faced by the financial, law enforcement, supervisory, legal, and intelligence communities are exacerbated. Jurisdictions flooded with illicit funds remain vulnerable to the breakdown of the rule of law, the corruption of public officials, and destabilization of their economies.

As political stability, democracy, and free markets depend on solvent, stable, and honest financial, commercial, and trade systems, the continued development of effective AML regimes consistent with international standards is vital. The Department of State’s Bureau of International Narcotics and Law Enforcement Affairs looks forward to continuing to work with our U.S. and international partners in furthering this important agenda, promoting compliance with international norms and strengthening capacities globally to combat money laundering.

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Legislative Basis and Methodology for the INCSR

The Money Laundering and Financial Crimes volume 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).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 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 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 country efforts related to 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)). Given that money laundering activity has moved beyond traditional financial institutions to other non-financial businesses and professions and alternative money value transfer systems, the report includes 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 drug-related proceeds. In making that determination, the Department has used the best information it has available, including by relying upon a country/jurisdiction's inclusion in INCSR Vol. 1. The following countries/jurisdictions have been identified this year:

¹ The 2017 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 2017 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 Office of Terrorist Financing and Financial Crimes, which 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 and Customs and Border Protection; Department of Justice's Money Laundering and Asset Recovery Section, Criminal Division, National Security Division, Office of International Affairs, Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development, Assistance, and Training; and, Treasury's Financial Crimes Enforcement Network, Internal Revenue Service, Office of the Comptroller of the Currency, and Office of Technical Assistance. Also providing information on training and technical assistance is the independent Board of Governors of the Federal Reserve System.

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Major Money Laundering Countries in 2016:

Afghanistan, Albania, Algeria, Antigua and Barbuda, Argentina, Aruba, Azerbaijan, Bahamas, Barbados, Belize, Benin, Bolivia, Bosnia and Herzegovina, Brazil, British Virgin Islands, Burma, Cabo Verde, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Georgia, Ghana, Grenada, Guatemala, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Italy, Jamaica, Kazakhstan, Kenya, Kyrgyz Republic, Laos, Lebanon, Liberia, Malaysia, Mexico, Morocco, Netherlands, Nicaragua, Nigeria, North Korea, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Russia, Senegal, Serbia, Sint Maarten, South Africa, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Tajikistan, Tanzania, Thailand, Timor-Leste, Trinidad and Tobago, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Uzbekistan, Venezuela, and Vietnam.

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Bilateral Training Activities

Board of Governors of the Federal Reserve System (FRB)

Internationally, during 2016, the FRB conducted training and provided technical assistance to banking supervisors on AML topics during two seminars: one in Mexico City, Mexico and one in Atlanta, Georgia. Countries participating in these FRB initiatives were Aruba, Bahamas, Bolivia, Chile, Costa Rica, Czech Republic, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Hong Kong, India, Jamaica, Kosovo, Mexico, Mongolia, Nicaragua, Panama, South Africa, Suriname, Trinidad and Tobago, Turkey, Turks & Caicos Islands, and Venezuela.

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Department of Homeland Security

Immigration and Customs Enforcement (ICE)

In 2016, ICE provided financial investigations training to over 300 foreign law enforcement officers; regulatory, intelligence, and administrative personnel; and judicial authorities from more than eight nations. Employing broad experience and expertise in conducting international financial investigations, ICE designed the training to provide the attendees with the critical skills necessary to successfully identify and investigate financial crimes.

Cross-Border Financial Investigations Training Program (CBFIT)

ICE's CBFIT program provides specialized training, technical assistance, and best practices related to cross-border financial investigations to foreign law enforcement personnel, judicial authorities, and intelligence and administrative agencies.

The U.S. DOS provided ICE with funds to manage and implement the CBFIT program and to enhance the ability of foreign law enforcement personnel to deter terrorists and terrorist groups. CBFIT further provides foreign partners with the capability to implement international standards. During Fiscal Year (FY) 2016, the ICE Special Operations Unit conducted CBFIT training events for Egypt, India, Jordan, Morocco, Oman, Panama, Paraguay, and the Philippines.

Cross-Border Financial Investigations Advisor (CBFIA)

ICE Special Agents are deployed for extended periods of time to foreign posts to serve as resident CBFIAAs. The advisors work in support of the ICE Attaché with appropriate host nation agencies (customs/border authorities, investigators, prosecutors, financial investigations units, etc.) to organize and conduct financial investigations training seminars at locations within each host nation. During FY 2016, ICE deployed three subject matter experts to serve as advisors under the CBFIA program in Panama, Paraguay, and the Philippines.

Trade Transparency Units (TTU)

The TTU, housed within the ICE National Targeting Center, continues to provide critical exchange of trade data with numerous countries. The TTU established information sharing agreements with 14 countries to facilitate the identification of transnational criminal organizations utilizing TBML schemes to repatriate proceeds generated from multiple illegal activities, including drug and human smuggling, customs fraud, and intellectual property rights violations, among others. The TTU methodology, which provides U.S. law enforcement and international partners with subject matter expertise, training, and investigative tools to combat TBML and third-party money launderers, has been internationally recognized as a best practice to address TBML.

ICE continues to expand the network of operational TTUs, which now includes Argentina, Australia, Chile, Colombia, Dominican Republic, Ecuador, France (cost and market impact review sharing), Guatemala, Mexico, Panama, Paraguay, Peru, Philippines, and Uruguay.

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Department of Justice

Drug Enforcement Administration (DEA)

The DEA's Office of Global Enforcement/Financial Operations (FO) provides 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 between countries, resulting in the identification and prosecution of drug money laundering organizations as well as the seizure of assets and the denial of revenue. FO regularly briefs and educates United States diplomats, foreign government 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.

FO conducts international training for foreign counterparts to share strategic ideas and promote effective techniques in financial investigations. During 2016, FO conducted Money Laundering Seminars for Argentinian and Chilean prosecutors and investigators in Buenos Aires, Argentina and Santiago, Chile respectively. In addition, FO, in conjunction with the Department of State, participated in a money laundering technical exchange working group with Cuban officials in Havana, Cuba; traveled to Beijing, China to meet with federal law enforcement counterparts to discuss financial investigations and OFAC sanctions; participated in a proceeds of crime working group with law enforcement officials in Wellington, New Zealand and Canberra, Australia; met with government officials in Singapore and Hong Kong, China regarding money laundering issues involving the banking industry; participated in a Regional Target Workshop in Mexico City, Mexico; as well as met with Chinese Ministry of Public Security officials in Beijing, China and the Public Security Bureau in Guangzhou and Shenzhen, China in support of ongoing bilateral investigations with the Narcotics Control Bureau.

Federal Bureau of Investigation (FBI)

The FBI, through a number of agreements with the DOS and other agencies, provided training and/or technical assistance to law enforcement personnel in Africa, Eurasia, Philippines, Greece, and Turkey during Fiscal Year 2016.

All training and technical assistance programs were designed to enhance host country law enforcement capacity to investigate and prosecute money laundering and terrorism financing crimes.

In September 2016, the Hellenic National Police (HNP) received the Advanced Organized Crime/Anti-Narcotics training program in Athens, Greece. There were 29 HNP attendees. FBI

specifically designed this curriculum to increase the HNP's ability to employ best practices in complex long-term investigations using novel techniques and various equipment and technical tools. The objectives of the program were to develop the skills and knowledge of the HNP in the following areas: investigating organized crime enterprises; understanding regional and international law enforcement cooperation; money laundering; asset tracking; countering terrorist financial networks; countering proliferation of weapons of mass destruction (WMD); emerging transatlantic security challenges; intelligence response to terrorist networks, extremism, and radicalism; implementation techniques; and electronic and physical surveillance in complex organized crime and anti-narcotics investigations.

In coordination with DOS Bureau for Counterterrorism, the FBI created and provided 28 Turkish National Police (TNP) with a Financial Crimes Investigation Course to establish a baseline standard for financial crime investigations. The objectives of the course were to provide the TNP with awareness of open source information, international standards for financial investigations and prosecution, and better understanding of the legal process for obtaining financial information in the United States. The course focused on financial intelligence, working with prosecutors, money laundering, digital currency, countering proliferation of WMD, and other applicable areas. Case studies were used to demonstrate the process of successful financial investigations. The goal was to enhance Turkey's capacity to counter financial crimes associated with illicit trafficking, terrorism, transnational criminal organizations, and WMD proliferation.

In 2016, the Department of Defense also facilitated the training of law enforcement personnel through a number of training initiatives. In September 2016, at the request of United States Africa Command, the FBI provided a four-day course in Terrorism Financing and Asset Forfeiture to 30 Togo law enforcement officers in Lome, Togo. FBI provided lectures in terrorism financing, money laundering statutes and policy and AML preventative measures, asset forfeiture, financial intelligence, and other applicable focus areas. The course was designed to provide the participants with a foundational understanding of money laundering and the use of asset forfeiture in investigations. The major objectives of the training included identifying terrorism financing methods, how to disrupt and dismantle criminal enterprises supporting terrorist organizations, how to deter/stop terrorist threats, and developing intelligence through the financial/forfeiture organization.

Office of Overseas Prosecutorial Development, Assistance and Training; the Money Laundering and Asset Recovery Section; and the National Security Division (OPDAT, MLARS, and NSD)

In 2016, OPDAT provided training and technical assistance to AML counterparts overseas by drawing upon the expertise within the DOJ, including MLARS, NSD, and U.S. Attorney's Offices. MLARS provided additional financial investigations training using DOS funds.

Africa

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In East Africa, OPDAT organized a regional program for prosecutors and FIU analysts from Djibouti, Ethiopia, Kenya, Tanzania, and Uganda to address shortcomings to successful prosecutions of money laundering. In the Horn of Africa, OPDAT brought together law enforcement officials from Ethiopia, Kenya, Tanzania, and Uganda to improve working relationships and cooperation to investigate and prosecute money laundering cases. OPDAT conducted a West Africa regional AML workshop for 40 prosecutors, investigative judges, and investigators from Cote d'Ivoire, Senegal, Nigeria, Ghana, Benin, and Burkina Faso. MLARS also provided financial investigations training to FIU personnel, investigators, and prosecutors in Morocco, in cooperation with the OPDAT resident legal advisor, and in Oman.

Asia and the Pacific

OPDAT Philippines conducted six AML programs for approximately 230 Philippines officials. OPDAT Indonesia conducted three AML programs for approximately 160 Indonesian officials. OPDAT Bangladesh conducted four financial investigation programs for approximately 67 Bangladesh officials. OPDAT Pakistan conducted two workshops for Pakistani counterparts on financial investigations and AML.

Near East

OPDAT Algiers, DOJ's NSD, and the U.S. Treasury's Office of Terrorist Financing and Financial Crimes provided technical assistance to Algeria. Based on assistance from OPDAT, the Kuwait Financial Intelligence Unit successfully referred seven cases to the Public Prosecutor's Office, two of which resulted in successful prosecutions. OPDAT's program in the United Arab Emirates (UAE) provided guidance to 40 judges, prosecutors, and police on exercising the forfeiture provisions of UAE's AML laws.

Western Hemisphere

OPDAT helped Honduras develop an AML regime compliant with international standards. OPDAT Mexico provided specialized training for members of federal and state AML units. Since its inception in May 2016, OPDAT Guatemala has worked with the host nation on building capacity in extraditions, mutual legal assistance, asset forfeiture, and money laundering matters. These trainings have been offered by OPDAT, MLARS, and Department of State/Office of the Legal Adviser. In El Salvador, OPDAT provided technical assistance to money laundering and asset forfeiture units. OPDAT Panama supported AML reforms and provided mentoring and capacity building to judges, prosecutors, and investigators.

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Department of State

The DOS Bureau of 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. Through its international programs, as well as in coordination with other INL offices, other DOS bureaus, U.S. government agencies, and multilateral organizations, the INL Office of Anti-Crime Programs addresses a broad cross-section of law enforcement and criminal justice areas.

Supported by and in coordination with our DOS and other U.S. agency partners, INL and the Bureau for Counterterrorism work collectively to provide a variety of programs worldwide. This integrated approach includes assistance with drafting legislation and regulations, developing FIUs, and training law enforcement, the judiciary, and financial sector regulators. INL also provided federal agencies funding to conduct multi-agency financial crime training assessments, develop specialized AML training in specific jurisdictions, and conduct regional training and technical assistance programs, including assistance to the International Law Enforcement Academies. INL continues to support programs incorporating intermittent or full-time mentors at selected overseas locations.

In 2016, INL provided support to the UN Global Programme against Money Laundering (GPML). In addition to sponsoring AML technical assistance workshops and conducting short-term training courses, GPML's mentoring program provides advisors on a long-term basis to specific countries or regions, including Central and South Africa, Central Asia and the Mekong Delta. GPML mentors have focused on establishing and providing support and assistance to regional asset recovery networks in South and West Africa, the Asia Pacific region, and South America.

INL continues to provide significant financial and substantive support for various AML bodies around the globe. In addition to sharing mandatory membership dues to the FATF and the APG with the U.S. Department of the Treasury (Treasury) and DOJ, INL is a financial and/or participative supporter of the FATF-style regional bodies' secretariats and training programs.

INL also supports the capacity building efforts by the Organization of American States Secretariat on Multidimensional Security (OAS SMS) Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering through program design, sustained engagement, and funding. In conjunction with the OAS SMS and DOJ, the INL AML/CFT Unit worked with Caribbean jurisdictions throughout 2016 to establish an asset recovery inter-agency network (ARIN) to enhance regional and international cooperation in forfeiting illicit assets. In November 2016, ARIN-CARIB was established, bringing the Caribbean region into the global ARIN movement.

INL supports additional bilateral and multilateral efforts, including those focusing on DNFBPs and remittances. In July 2016, the INL AML/CFT Unit, in conjunction with the DOS Economics Bureau and the FBI, held a TBML workshop focusing on diamonds and elements of the diamond trade that can aid law enforcement. The DOS, in conjunction with DHS and Treasury, has supported the establishment and development of eight TTUs in the Americas.

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Department of the Treasury

Internal Revenue Service, Criminal Investigations (IRS-CI)

For calendar year 2016, the Internal Revenue Service, Criminal Investigation (IRS-CI) continued to provide training and technical assistance to international law enforcement officers in detecting tax, money laundering, and terrorist financing crimes, and preventing public corruption. With funding provided by the U.S. DOS and other sources, IRS-CI delivered training through agency and multi-agency technical assistance programs.

International Law Enforcement Academy (ILEA) Training

IRS-CI participated in training at the ILEAs located in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador. Programs included Financial Investigative Techniques (FIT) training, Financial Investigation for Fraud and Public Corruption, and support for the Law Enforcement Leadership Development courses.

During 2016, IRS-CI participated in training programs at the ILEAs for participants from Albania, Argentina, Bahamas, Barbados, Belize, Bosnia and Herzegovina, Bolivia, Botswana, Bulgaria, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, El Salvador, Ecuador, Grenada, Guatemala, Guyana, Haiti, Honduras, Hungary, Jamaica, Kazakhstan, Kenya, Kosovo, Kyrgyzstan, Lesotho, Macedonia, Mexico, Moldova, Montenegro, Namibia, Paraguay, Peru, Romania, Rwanda, Serbia, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Tobago, Turkey, Trinidad, Ukraine, and Uruguay.

Financial Investigative Techniques Training (FIT)

In 2016, IRS-CI conducted FIT courses funded by the DOS and DOJ at the ILEAs and bilaterally. Fifteen courses were conducted for nearly 500 participants in Botswana, Brazil, El Salvador, Honduras, Hungary, Mexico, Palau, Philippines, and Thailand.

IRS-CI conducted one-week FIT courses, funded by INL, as follows: in Sao Paulo, Brazil for thirty participants from Brazil; in Curitiba, Brazil for 29 Brazilian participants; and two courses, attended by 50 participants, in Bogota, Colombia.

An additional 33 participants from Palau attended FIT training in Koror, Palau, funded by the Joint Interagency Task Force West, Department of Defense.

With funding provided by DOJ-OPDAT, IRS-CI conducted FIT training in Los Cobanos, El Salvador for 32 participants from El Salvador and Guatemala, and in Mexico City, Mexico for 22 Mexican attendees.

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IRS-CI conducted two, one-week FIT courses in Tegucigalpa, Honduras. Sixty-four participants from Honduras attended the training, funded by the DOS and DOJ-OPDAT.

IRS-CI also conducted FIT training in Manila, Philippines. Thirty-four participants attended the course that was funded by the DOS, Bureau of Counterterrorism (DOS-CT).

Other Training Initiatives

In February 2016, IRS-CI conducted a two-day Financial Crimes (Short Course) in Gaborone, Botswana. Forty participants from Botswana attended the course that was funded by the DOS and the Botswana Unified Revenue Service.

Funded by DOS-CT, IRS-CI conducted Fraud and Public Corruption training in Manila, Philippines for thirty participants.

Another Fraud and Public Corruption course, funded by INL, was conducted for 44 participants in Bangkok, Thailand.

Finally, the Korean National Tax Service funded a one-week Fraud and Public Corruption course in Seoul, Korea for thirty-nine participants.

Office of the Comptroller of the Currency (OCC)

The U.S. Department of Treasury's 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 AML laws and implementing regulations. In 2016, the OCC sponsored several initiatives to provide AML 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 terrorism financing typologies and improve their ability to examine and enforce compliance with national laws. The 2016 AML/CFT School was attended by foreign supervisors from Canada, China, Dubai, Hong Kong, India, Jordan, Latvia, Malawi, Netherlands, Pakistan, Philippines, South Africa, South Korea, and Turkey. In addition, in November 2016, the OCC taught the AML/CFT school for the Association of Supervisors of Banks of the Americas in Panama City, Panama. The AML School in Panama was attended by foreign supervisors from El Salvador, Haiti, Honduras, Nicaragua, Panama, Paraguay, and Uruguay. In addition to organizing and conducting schools, OCC officials also met individually, both in the United States and overseas, with representatives from foreign law enforcement authorities, financial intelligence units, and AML supervisory agencies to discuss the U.S. AML regime, the agencies' risk-based approach to AML supervision, examination techniques and procedures, and enforcement actions.

The OCC continued its industry outreach efforts to the international banking community during 2016 by participating with other federal banking agencies in regulator panels at the Florida International Bankers Association and the Association of Certified Anti-Money Laundering

Specialists' 15th Annual International Anti-Money Laundering and Financial Crimes Conference. The focus of the regulator panels was keeping pace with global regulatory changes.

In 2016, the OCC also participated in the Correspondent Banking Coordination Group Oversight Committee, a new committee established by the Financial Stability Board. OCC continued its participation in a series of FATF working group and plenary meetings as well as the Basel Committee on Banking Supervision Anti-Money Laundering Expert Group. In addition, OCC participated in a significant number of international working groups/public-private dialogues in 2016 with participants from Central America, the Caribbean, Mexico, China, the UK, and the Persian Gulf region. On an ad hoc basis, OCC meets with delegations from various countries to discuss the U.S. AML regime and its approach to conducting supervisory examinations.

Office of Technical Assistance (OTA)

Each of OTA's teams – Revenue Policy and Administration, Budget and Financial Accountability, Government Debt and Infrastructure Finance, Banking and Financial Services, and Economic Crimes (ECT) – focuses on particular areas to establish strong financial sectors and sound public financial management in developing and transition countries. OTA follows a number of guiding principles to complement its holistic approach to technical assistance and supports self-reliance by equipping countries with the knowledge and skills required to reduce dependence on international aid and achieve sustainability. OTA is selective and only works with those governments that are committed to reform – reform that counterparts design and own – and to applying U.S. assistance effectively. OTA works side-by-side with counterparts through ongoing mentoring and on-the-job training, which is accomplished through co-location at a relevant government agency. OTA's activities are funded by a direct appropriation from the U.S. Congress as well as transfers from other U.S. agencies, notably the U.S. State Department and the U.S. Agency for International Development.

The mission of the ECT, in particular, is to provide technical assistance to help foreign governments develop and implement internationally compliant AML/CFT regimes. In this context, the ECT also addresses other financial and predicate crimes, including corruption and organized crime. To ensure successful outcomes, ECT engagements are predicated on express requests from foreign government counterparts. The ECT responds to such a request with an on-site assessment, which considers the jurisdiction's non-compliance with international standards and the corresponding needs for technical assistance, as well as the willingness by the counterparts to engage in an active 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 and/or utilization of intermittent advisors under the coordination of a team lead. The scope of ECT technical assistance is broad and can include awareness-raising aimed at a range of AML/CFT stakeholders; improvements to a legal framework, to include legislation, regulations, and formal guidance; and improvement of the technical competence of stakeholders. The range of on-the-job and classroom training provided by the ECT is equally broad and includes, among other topics, supervisory techniques for relevant regulatory areas; analytic and financial investigative techniques; cross-border currency

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movement and TBML; asset seizure, forfeiture, and management; and the use of interagency financial crimes working groups.

In 2016, following these principles and methods, the ECT delivered technical assistance in Argentina, Belize, Burma, Cabo Verde, Costa Rica, Dominica, El Salvador, Grenada, Guatemala, Iraq, Jamaica, Liberia, Paraguay, Peru, and Trinidad and Tobago.

Comparative Table Key

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2016, that jurisdictions have, or have not, taken to combat drug 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 number 3, all items should be answered "Y" (yes) or "N" (no). **For those questions relating to legislative or regulatory issues, "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 answers indicating deficiencies within the country's/jurisdiction's AML regime should be explained in the report narrative, as should any responses that differ from last year's answers.

Glossary of Terms

- 1. "Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to the drug trade.
- 2. "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.
- 3. "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; "V" signifies reporting is not required but rather is voluntary or optional; "N" signifies no reporting regime. (STRs)
- 4. "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.
- 5. "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.
- 6. "Financial Intelligence Unit": The jurisdiction has established an operative central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information in order to counter drug money laundering. An asterisk (*) reflects those jurisdictions whose FIUs are not members of the Egmont Group of FIUs.
- 7. "International Law Enforcement Cooperation": No known legal impediments to international cooperation exist in current law. Jurisdiction cooperates with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data, upon request.
- 8. "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 drug money laundering activities.

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- 9. “Arrangements for Asset Sharing”: By law, regulation, or bilateral agreement, the jurisdiction permits sharing of seized assets with foreign jurisdictions that assisted in the conduct of the underlying investigation. No known legal impediments to sharing assets with other jurisdictions exist in current law.
- 10. “Information Exchange Agreements with Non-U.S. Governments”: The country/jurisdiction has in place treaties, memoranda of understanding, or other agreements with other governments to share information related to drug-related money laundering.
- 11. “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.
- 12. “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.
- 13. “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.
- 14. “Financial Institutions Transact in Proceeds From International Drug Trafficking That Significantly Affects the U.S.”: The jurisdiction’s financial institutions engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.

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	Know-Your-Customer Provisions	Report Suspicious Transactions (YVN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
Govt/Jurisdiction														
Afghanistan	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Albania	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Algeria	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Antigua and Barbuda	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Aruba²	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Azerbaijan	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bahamas	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
Barbados	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Belize	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Benin	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Bolivia	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N

² The Netherlands extended its application of the 1988 UN Drug Convention to Aruba, Curacao, and Sint Maarten and the UN Convention against Transnational Organized Crime to Aruba.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
Govt/Jurisdiction														
Bosnia & Herzegovina	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
British Virgin Islands³	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Burma	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Cabo Verde	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Cambodia	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cayman Islands³	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
China	Y	Y	Y	Y	Y	Y*	N	Y	N	Y	Y	Y	Y	N
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costa Rica	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Cuba	Y	Y	Y	Y	Y	Y*	Y	Y	N	N/A	Y	Y	Y	N
Curacao²	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Dominica	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Dominican Republic	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y
Ecuador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Egypt	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

³ The UK extended its application of the 1988 UN Drug Convention to British Virgin Islands and Cayman Islands. The UNCAC has been extended to British Virgin Islands. The UNTOC has been extended to British Virgin Islands and Cayman Islands.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Int'l Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
Govt/Jurisdiction														
El Salvador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Georgia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Ghana	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Grenada	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Guatemala	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Guinea-Bissau	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	N
Guyana	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y
Haiti	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	N
Honduras	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Hong Kong⁴	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
India	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Indonesia	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Iran	Y	Y	Y	Y	Y	Y*	N	N	N	N/A	Y	N	Y	N/A
Iraq	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Italy	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	N
Kazakhstan	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Kenya	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y
Korea, Dem. People's Rep.	Y	N/A	N/A	N/A	N/A	N/A	N	N/A	N/A	N	Y	N	N	N

⁴ The People's Republic of China extended the 1988 UN Drug Convention, the UNTOC, and the UNCAC to the special administrative region of Hong Kong.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Int'l Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
Govt/Jurisdiction														
Kyrgyz Republic	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N
Laos	Y	Y	Y	N	Y	Y*	Y	N	N	Y	Y	Y	Y	N
Lebanon	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Liberia	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Malaysia	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Mexico	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Morocco	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Netherlands	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Nicaragua	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Nigeria	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Pakistan	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	Y	Y	Y	Y
Panama	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Paraguay	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Peru	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Philippines	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Portugal	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
St. Kitts and Nevis	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	N
St. Vincent and the Grenadines	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Senegal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Int'l Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
Govt/Jurisdiction														
Serbia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Sint Maarten²	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
South Africa	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Spain	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	N	N
Tajikistan	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Tanzania	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	N
Thailand	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Timor-Leste	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Trinidad and Tobago	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Turkey	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Turkmenistan	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Ukraine	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
United Arab Emirates	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
United Kingdom	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Uruguay	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uzbekistan	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Venezuela	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Vietnam	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y

* FIU is not a member of the Egmont Group of FIUs

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Countries/Jurisdictions of Primary Concern

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Afghanistan

OVERVIEW

Terrorist and insurgent financing, money laundering, bulk cash smuggling, abuse of informal value transfer systems, and other illicit activities financing criminal activity continue to threaten Afghanistan's security and development. Afghanistan remains the world's largest opium producer and exporter. Corruption remains a major obstacle to the nation's progress. The National Unity Government (GNU) has enacted laws and regulations to combat financial crimes, but faces a significant challenge in implementing and enforcing the law.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The narcotics industry, corruption, and fraud are major sources of illicit revenue. Afghanistan has a small banking sector but large enforcement and regulatory challenges, even though most of its banks strive to adhere to international standards. Traditional payment systems, particularly hawala networks, provide a significant range of financial and non-financial business services in local, regional, and international markets. Some Afghan business consortiums that control both hawaladars and banks allow criminal elements to manipulate domestic and international financial networks to administer and launder illicit funds.

KEY AML LAWS AND REGULATIONS

In 2014, Afghanistan enacted a comprehensive AML law, which was amended in March 2015 via presidential decree. Significant provisions include an adequate legal basis to criminalize money laundering; KYC and STR provisions; establishment of an operationally independent FIU; and the authority to confiscate funds or property derived from criminal activity, to dispose of such property, and to hold the proceeds of criminal profits in an asset recovery/sharing fund. In June 2015, Afghanistan issued Fit and Proper Regulations to ensure financial institutions are well managed and persons who own or control them are competent and meet certain criteria. In May 2015, Afghanistan issued Cash Courier Regulations establishing a cross-border currency reporting requirement. Amendments to that regulation that came into force in March 2016 ensure that seizure or restraint of funds is authorized where there is a suspicion of money laundering.

Although Afghanistan's Law on Extradition of the Accused, Convicted Individuals, and Legal Cooperation allows for extradition based upon multilateral arrangements such as the 1988 UN Drug Convention, Article 28 of the Afghan Constitution requires reciprocal agreements between Afghanistan and the requesting country. The United States does not have an extradition treaty with Afghanistan and cannot reciprocate under the multilateral treaties.

Afghanistan is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=69810087-f8c2-47b2-b027-63ad5f6470c1>

AML DEFICIENCIES

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Afghanistan should ensure market manipulation and counterfeiting are predicates for money laundering. It should increase supervision of financial institutions and DNFBPs to ensure their compliance with AML regulations. Afghanistan should also increase the number of MSB/hawala inspections, enact a comprehensive registration regime, and expand implementation of the MSB/hawala licensing program. Afghanistan should create an outreach program to notify and educate hawaladars about licensing, transaction reporting requirements, and STRs. Regulators and enforcement officers need adequate resources to supervise the financial sector and investigate financial crimes.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Afghanistan's law enforcement and institution regulation are hampered by corruption. Limited resources, lack of technical expertise, and poor infrastructure also deter effective regulatory oversight. No clear division exists between the hawala system and the formal financial sector. Hawaladars use bank accounts and wire transfer services to settle with other hawaladars abroad and within Afghanistan. Hawaladars generally fail to file STRs as legally required. Insurance companies and securities dealers are also required to file STRs, but the government does not enforce this requirement. Precious metals and stones dealers, lawyers, accountants, and real estate agents are not supervised as financial businesses in Afghanistan.

Afghanistan's FIU, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), has limited capacity to identify bad actors and build cases against them. FinTRACA often faces administrative hurdles within the Attorney General's Office (AGO) regarding prosecution. The AGO is authorized to prosecute money laundering and seize illicit assets, but its new management team, seated in the second half of 2016, has yet to effectively grapple with weak prosecutorial capacity to pursue money laundering cases and asset seizures. Furthermore, the Afghan government has yet to establish a recovery mechanism for the value of assets seized, and therefore no entity, including the police and courts, has responsibility for post-conviction asset recovery. Early positive indications show that FinTRACA's new leadership is dynamic and anxious to pursue the organization's objectives.

Kabul International Airport lacks effective currency controls for all passengers. Beyond the formal border crossings, the Afghanistan-Pakistan frontier is notoriously porous, enabling smugglers to cross with relative ease.

Law enforcement officers, prosecutors, and judges need training on effective, lawful asset seizure, and the GNU should implement procedures for money laundering seizures. It should continue to increase seizure and confiscation procedures in cases involving narcotics and drug trafficking. Afghanistan also should strengthen inspection controls and enforcement of the currency declaration regime at airports.

Albania

OVERVIEW

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Albania is not a regional financial or offshore center. The country remains at significant risk for money laundering due to rampant corruption and weak legal and government institutions. Albania has a large cash economy and informal sector, with significant money inflows from abroad in the form of remittances. Major proceeds-generating crimes in Albania include drug trafficking, tax evasion, smuggling, and human trafficking. Albania has a substantial black market for smuggled goods, and smuggling is facilitated by weak border controls and customs enforcement. Albania produces and exports significant amounts of marijuana, primarily for European use, and is a transit country for Afghan heroin and cocaine, serving as a key gateway for heroin distribution throughout Europe. Albania serves as a base of operations for regional organized crime organizations. Illicit proceeds are easily laundered.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Real estate (particularly in the coastal areas), business development projects, and gaming are among the most popular methods of hiding illicit proceeds. Law enforcement recognizes the need to combat money laundering but remains largely ineffective in doing so. The Albanian State Police has a dedicated Economic Crime Unit tasked with AML efforts, while police and prosecutors continue to receive training on this subject. Better collaboration between police and prosecutors is needed.

KEY AML LAWS AND REGULATIONS

In 2016, the Albanian parliament passed several significant constitutional and legal reforms aimed at tackling corruption and organized crime. The reforms, if implemented properly, will result in better enforcement of money laundering and other financial crime laws.

In recent years, Albania has made technical improvements to its AML regime. These include increasing predicate crimes covered by the AML law, establishing CDD measures for financial institutions, and improving the powers and processes used by authorities in responding to foreign requests for assistance.

Albania and the United States do not have a MLAT, but cooperation is possible through multilateral conventions.

Albania is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Albania_en.asp

AML DEFICIENCIES

Albania has a substantial black market for smuggled goods, primarily tobacco, jewelry, stolen cars, and mobile phones. Smuggling is facilitated by weak border controls and customs enforcement.

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The Albanian court system applies a high burden of proof in money laundering cases. Some, but not all, courts require a simultaneous conviction for a predicate offense before issuing a conviction for money laundering, even though the law specifically states that no predicate offense is necessary. The Supreme Court has not issued a controlling decision, so the law in this area remains in flux. The AML regime also is plagued by numerous technical deficiencies.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

While the Government of Albania passed criminal code reforms and legislative amendments in 2012, implementation efforts have been weak. Despite a sizeable number of money laundering investigations, the number of money laundering prosecutions remains low. Through mid-year 2016, four money laundering cases were referred to the court for prosecution while seven defendants were convicted of the offense. In 2016 the Prosecutor General's Office hired a third forensic accountant to assist in the investigation of cases.

The government has taken steps to combat official corruption, but it needs to continue to address judicial and prosecutorial corruption. Since the lifting of immunity for judges and high officials in 2012, prosecutors have investigated at least 23 high-level officials, including 14 locally-elected officials, four judges, one court clerk, three prosecutors, and one police officer. Jurisdiction over judicial corruption and high-level corruption was transferred to the Serious Crimes Court in March 2014. Prosecutions led by the related Serious Crimes Prosecution Office have resulted in the convictions of two judges, one prosecutor, and one locally elected mayor on corruption charges. Two other judges and one prosecutor charged with corruption await trial.

On July 22, 2016, Albania passed substantial amendments to its Constitution to reform the justice system, including vetting judges and prosecutors for corruption and links to organized crime, and creating an independent, vetted, and monitored court and prosecutorial office for cases of high-level corruption and organized crime, which would include organized narcotics traffickers. Several laws necessary for the implementation of the constitutional changes were passed in October 2016. Albania must implement the laws effectively and continue to develop the effectiveness of its police and prosecutors that focus on corruption, money laundering, and economic crimes.

Algeria

OVERVIEW

Money laundering through Algeria's formal financial system is minimal due to stringent exchange control regulations and a banking sector dominated by state-owned banks. Additionally, the continued prevalence of archaic paper-based systems and banking officials not trained to function in the current sophisticated international financial system has deterred money launderers who are more likely to use sophisticated transactions. A large informal, cash-based economy, estimated to be 30-50 percent of GDP, is vulnerable to abuse by criminals. Notable criminal activity includes trafficking, particularly of drugs, cigarettes, arms,

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and stolen vehicles; theft; extortion; and embezzlement. Public corruption and terrorism remain serious concerns.

Algeria is making significant progress in bringing its AML regime into line with international standards.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The restricted convertibility of the Algerian dinar enables the central bank to monitor all international financial operations carried out by banking institutions. Most money laundering occurs primarily outside the formal financial system, through tax evasion, abuse of real estate transactions, and commercial invoice fraud. Algerian authorities are increasingly concerned by cases of customs fraud and TBML. Financial crime risks are increasing due to the widespread use of cash in Algeria's economy.

KEY AML LAWS AND REGULATIONS

The following laws are applicable to money laundering in Algeria: Executive Decree no. 06-05 fixing the shape, design, content, and the acknowledgment of receipt of the declaration of suspicion; Regulation no. 12-03 on the prevention and fight against money laundering and terrorist financing; Executive Decree no. 13-157 amending and supplementing Executive Decree 02-127 on the creation, organization, and functioning of the Financial Intelligence Processing Unit (CTRF), Algeria's FIU; Law no. 15-06 amending and supplementing Law No. 05-01 on the prevention and fight against money laundering and terrorist financing; Executive decree no. 15-153 fixing the threshold for payments that must be made through the banking and financial circuits; Law no. 16-02 establishing rules for the application of the penal code, Law no. 66-156, as pertains to AML/CFT.

AML provisions in Algeria impose data collection and due diligence requirements on financial institutions processing wire transfers, with stricter requirements for cooperation with law enforcement authorities, upon request, for transfers exceeding \$1,000. In addition, all payments for certain purchases in excess of the following amounts must be completed via the banking system: DZD 5 million (approximately \$45,500) for real estate; or DZD 1 million (approximately \$9,100) for goods and services. Non-compliance with these provisions could result in sanctions against the individual and/or financial institution.

Algeria is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:
http://www.menafatf.org/images/UploadFiles/Mutual_Evaluation_Report_of_the_Republic_of_Algeria.pdf

AML DEFICIENCIES

Alternative remittance and currency exchange systems are not regulated.

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Challenges in implementation of the AML law remain. The CTRF's self-analysis identifies the need to educate bankers to increase the accuracy of reporting. While the CTRF has provided some information on the number of cases it is processing, additional information would be needed to further evaluate implementation. Furthermore, CTRF should work to increase its strategic analysis capabilities.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The CTRF is active in its processing and analysis of STRs, increasing its activity based on additional filings by banks. It is compiling and disseminating AML-related information to banks and engaging in some level of quantitative and qualitative self-analysis. A CTRF report in summer 2016 explains that after receiving STRs, the CTRF analyzes the data submitted and shares with other government entities. The report indicates the CTRF forwarded approximately 125 cases to judicial authorities but did not track results. This increased activity by the CTRF indicates Algeria is making an effort to improve its AML regime. Algeria should continue to work to fully implement its laws and regulations.

Antigua and Barbuda

OVERVIEW

Antigua and Barbuda is an offshore center which continues to be vulnerable to money laundering and other financial crimes. Its relatively large financial sector and internet gaming industry add to its susceptibility. Antigua and Barbuda also operates a Citizenship by Investment Program (CIP) that increases its susceptibility to money laundering and other financial crimes. Antigua and Barbuda is a transit point for illegal drugs going to the United States and Europe. According to the Antiguan Office of National Drug Control and Money Laundering Policy (ONDCP), the collaborative efforts between Antigua and Barbuda and U.S. law enforcement agencies have brought about a decrease in drug trafficking activity.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering, narcotics trafficking, gaming, and firearms trafficking are major sources of illicit funds in the country. Funds are laundered through the purchase of real estate, vehicles, vessels, and jewelry as well as through a variety of businesses.

The CIP remains among the most lax in the world. An individual is eligible for economic citizenship with a \$400,000 minimum investment in real estate, a contribution to the National Development Fund of \$200,000, or a \$1.5 million approved business investment. Applicants must make a source of funds declaration and provide evidence supporting the declaration. The government established a Citizenship by Investment Unit (CIU) to manage the screening and application process. The CIU does not maintain adequate autonomy from politicians to prevent political interference in its decisions.

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Shell companies are not permitted in Antigua and Barbuda. International companies are authorized to possess bearer shares; 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 compelled by law to know the names of beneficial owners. Offshore financial institutions are exempt from corporate income tax.

ONDCP has a four-pronged approach to combatting narcotics trafficking and money laundering via the reporting of financial intelligence and investigation, AML/CFT compliance, anti-drug strategy, and counternarcotics operations. The Royal Police Force of Antigua and Barbuda is also responsible for investigating drug trafficking, money laundering, terrorist financing, and other financial crimes.

KEY AML LAWS AND REGULATIONS

Casinos and internet gaming maintain a strong presence in Antigua and Barbuda. The Financial Services Regulatory Commission (FSRC) regulates internet gaming companies, and the ONDCP maintains records of payouts over \$25,000 (also reported to the FSRC). Regulations require internet gaming companies to incorporate as IBCs and the majority of individuals in key management positions to maintain a physical presence on the island. Additionally, domestic casinos must incorporate as domestic corporations.

The following entities must comply with CDD rules: banks, international offshore banking businesses, venture risk capital providers, and money transmission services; entities offering financial services, foreign exchange, financial and commodities-based derivative instruments, or transferable or negotiable instruments; money brokers and exchanges, money lenders, and pawn shops; real property businesses; credit unions, building societies, and trust businesses; dealers in precious metals, art, jewelry, and high-value goods; casinos and providers of internet gaming and sports betting; car dealerships; travel agents; company service providers, attorneys, notaries, and accountants.

Antigua and Barbuda is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gaifc.org/index.php?option=com_docman&task=cat_view&gid=355&Itemid=418&lang=en

AML DEFICIENCIES

Antigua and Barbuda has largely achieved technical compliance with international AML standards. The government has prosecuted few cases of money laundering and official corruption, and reports of corruption are endemic.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Antigua and Barbuda continues to work to improve its AML regime. The Proceeds of Crime Amendment Act of 2014 introduces civil forfeiture provisions in Antigua and includes amendments to improve the consistency of the provisions relating to criminal confiscation.

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Antigua and Barbuda recorded its first successful confiscation case under the Proceeds of Crime Act in October 2015. The ONDCP first arrested two persons with over 160 kilograms of cocaine aboard a sailing vessel. The Court ordered the defendant to pay the amount of \$30,000 to the government after learning he had forfeitable assets.

ONDCP froze the operations of the European Federal Credit Bank of Antigua (Eurofed), a bank connected to the former Prime Minister of Ukraine, Pavlo Lazarenko, on the grounds that it had been obtained through acts of corruption committed during his time in power in Ukraine. In 2016, \$66.7 million in frozen assets were transferred to the government's Forfeiture Fund, which the government appropriated, not all of which was included on the official budget.

In 2016, U.S. prosecutors alleged that government officials from Antigua and Barbuda participated in a corruption scandal involving the payout of close to \$8 million in bribes by Brazilian construction contractor Odebrecht. The corruption allegations involve two high-level officials and two offshore banks in Antigua and Barbuda. Antigua and Barbuda continues to investigate allegations of money laundering.

Argentina

OVERVIEW

Tax evasion, institutionalized corruption, drug trafficking, and high levels of informal transactions and contraband trade remain significant challenges for Argentina's AML regime. Smuggling across the porous northern border with Bolivia and Paraguay, in the maritime ports, and especially in the tri-border area (Argentina, Paraguay, and Brazil), is another major source of illegal proceeds. Since President Macri took office in December 2015, he has taken steps toward widespread economic reform and to strengthen Argentina's AML regime.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Argentina has a long history of capital flight and tax evasion, a main predicate crime for money laundering. Argentines hold billions of U.S. dollars outside the formal financial system, both domestically and offshore. In 2016, the Macri government established a tax amnesty program to allow taxpayers to declare previously unreported assets held both offshore and domestically. It reached tax information exchange agreements with several countries that will enter into force in 2017 to facilitate increased visibility on Argentina's offshore assets. The United States also began ongoing negotiations with Argentina on a bilateral tax treaty and concluded negotiations for a Tax Information Exchange Agreement.

The Financial Information Unit (UIF) and the Central Bank supervise money remittance flows, which are carried out by approximately 20 financial entities. Independent remittance companies also act through agents such as banks, post offices, and their own office franchises.

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TBML remains a significant concern. Economic reforms aimed at increasing trade and encouraging growth may be exploited by transnational criminal organizations through a wide range of TBML schemes. Intellectual property rights violations, particularly the sale of counterfeit goods, also generate significant proceeds that contribute to illicit financial activity. Argentine Customs is working to staff and train new personnel for its Trade Transparency Unit, which has suffered from significant personnel turnover in recent years.

KEY AML LAWS AND REGULATIONS

Under law 27.260 of June 2016, the Argentine government moved the UIF from the Ministry of Justice and Human Rights to the Ministry of Economy and Finance (MOEF). This promises to strengthen the UIF's autonomy. The law also reinforces the obligation of the UIF to maintain the secrecy of the identity of its sources of information when disseminating information to prosecutors and judges and authorizes the UIF, at its own discretion, to communicate information to other public agencies having intelligence or investigative powers.

On October 14, 2016, the MOEF published Resolution 135/2016, issuing new regulations governing the UIF's information exchanges with both its international and inter-ministerial counterparts. The Argentine government is in the process of creating a criminal intelligence fusion center of which the UIF will be a member.

Argentina is a member of the FATF and the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles//Biblioteca/Evaluaciones/Argentina_3ra_Ronda_2010.pdf

AML DEFICIENCIES

Despite noted improvements, implementation of the AML regime remains a challenge. The UIF has no access to intelligence or judicial databases to cross-check information or conduct link analysis, and also lacks human and technical resources to analyze STRs. Federal judges and prosecutors need additional training on the adequate use and protection of intelligence reports received from the UIF, especially when information is derived from the UIF's foreign counterparts.

Many DNFBPs, including high-value goods dealers, NPOs, real estate agents, and notaries, have no sectoral regulator. Several legally obligated entities have not registered, and there is no mechanism for enforcement.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Enforcement remains a primary challenge. Critical components of this effort will be the establishment of trust among the UIF, other AML stakeholders, and the private sector; fostering a universal culture of AML compliance; improving the ability to coordinate, investigate, and prosecute complex financial crimes efficiently; providing training and increasing awareness of financial crimes among judges, prosecutors, and investigators; and increasing convictions.

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Since the Macri government made the UIF central to its strategy to combat drug trafficking and pursue public corruption cases, the UIF underwent an almost complete overhaul. In September 2016, FinCEN reestablished information sharing with the UIF after a year-long suspension for unauthorized disclosure of financial intelligence. The UIF has received general training for all staff and is receiving donor assistance in establishing a risk-based approach.

Program effectiveness, as measured by convictions and asset forfeiture, has been negligible. From 1999-2015, Argentina successfully prosecuted only one contraband smuggling and seven money laundering cases. In 2016, the Argentine government successfully prosecuted two cases of money laundering linked to drug smuggling involving 16 defendants.

Systematic deficiencies in Argentina's criminal justice system persist, including widespread delays in the judicial process, a lack of judicial independence, and legal loopholes. Investigative judges and prosecutors lack experience in financial crimes. As of May 2016, 70 cases of UIF sanctions were under appeal in the court system. Eight had been decided, all against the UIF, and there were no cases where UIF application of penalties against a financial institution had been upheld. Additionally, the UIF is currently obligated to collaborate on all cases referred to it by a judge, giving it no independent ability to turn down a case or be strategic about which cases to pursue.

Aruba

OVERVIEW

Aruba is an autonomous country within the Kingdom of the Netherlands. The kingdom retains responsibility for foreign policy and defense, including signing international conventions. The kingdom may extend international conventions to the autonomous countries. With the kingdom's agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization's agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the kingdom as a whole. The Kingdom extended the application to Aruba of the UN Drug Convention in 1999 and the UNTOC in 2007. A governor appointed by the King represents the kingdom on the island, and a Minister Plenipotentiary represents Aruba in the Kingdom Council of Ministers.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States to stimulate joint activities and enhance sharing of information in the areas of criminal investigation and upholding public order and security and to strengthen mutual cooperation in the areas of forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve all of the criminal justice system, one priority area is cracking down on money laundering operations.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Aruba is not considered a regional financial center. Because of its location, Aruba is a transshipment point for drugs from South America bound for the United States and Europe, and for currency flowing in the opposite direction. Bulk cash smuggling represents a risk due to the location of Aruba between North and South America. Money laundering is primarily related to proceeds from illegal narcotics trafficked by criminal organizations and occurs through real estate purchases and international tax shelters. There is no significant black market for smuggled goods on Aruba.

The Free Zone Aruba NV (FZA) is a government-owned limited liability company which manages and develops the free zones. (Service companies also can set up business outside of the designated customs-controlled free zones.) All companies with free zone status are reviewed and controlled by the FZA, which also has an integrity system in place to deter illegal activities, including smuggling and money laundering. Financial services, banks, and insurance companies are not permitted to operate in the free zones. There are 13 casinos, and online gaming is allowed under a licensing and reporting system.

KEY AML LAWS AND REGULATIONS

KYC laws cover banks, life insurance companies and insurance brokers, money transfer companies, investment companies and brokers, factoring and leasing companies, trust and company service providers, car dealers, casinos, lawyers, civil notaries, accountants, tax advisors, realtors, and dealers in precious metals, stones, and other high-value objects.

The MLAT between the Kingdom of the Netherlands and the United States applies to Aruba and is regularly used by U.S. and Dutch law enforcement agencies for international drug trafficking and money laundering investigations.

The 1981 MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Aruba and is regularly used by U.S. and Aruban law enforcement agencies for international drug trafficking and money laundering investigations.

Aruba is a member of the CFATF, a FATF-style regional body, and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at:

<https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/aruba-2>

AML DEFICIENCIES

Aruba's money laundering laws do not cover proceeds generated from counterfeiting and piracy of products, insider trading, market manipulation, many types of environmental crimes, or fraud.

The Kingdom has not yet extended the application of the UNCAC to Aruba.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Aruba does not have a suspicious transaction reporting system but rather a broader unusual transaction reporting (UTR) system. Service providers are required to report large cash transactions of \$14,000 or more, wire transactions of \$279,000 or more, other unusual transactions, and transactions suspected to be related to money laundering.

Aruba enacted a State Ordinance for the Prevention of and Combating Money Laundering and Terrorist Financing (AML/CFT State Ordinance) with new rules for the identification and verification of clients and the reporting of unusual transactions to prevent and combat money laundering and terrorist financing when providing certain services. Non-regulated financial service providers (including investment brokers and factoring and leasing companies) and DNFBPs (including lawyers, civil notaries, tax advisors, accountants, jewelers, high-value goods dealers, and casinos) must also comply with the requirements of the AML/CFT State Ordinance and must register with the Central Bank of Aruba (CBA). The CBA continues to implement the recommendations of the AML/CFT National Risk Assessment conducted in 2012. In 2015, Aruban authorities supported the seizure of \$4.4 million and several arrests in an international money laundering case.

Azerbaijan

OVERVIEW

Azerbaijan is both a transit point between the East and West, given its geographic location, and a conduit for illicit funding, given its economic difficulties. The majority of foreign investment and international trade in Azerbaijan continues to be in the energy sector. While all other economic activities lag behind the energy sector, Azerbaijan has developed a new strategy for economic diversification to diminish its overdependence on income from energy resources; the results of this strategy are pending its implementation. The economic realities of the manat's continued devaluation and a financial sector suffering from exponentially growing rates of non-performing loan, coupled with Azerbaijan's physical location between Iran and Russia, create an environment conducive to the transit of illicit funds.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The major source of criminal proceeds in Azerbaijan continues to be public corruption across all sectors and agencies within the government. In addition, the Afghan drug trade generates significant illicit funds, some of which transit Azerbaijan. Although the passage of the Joint Comprehensive Plan of Action has opened Iran for transit of funds, it is unlikely that Azerbaijan will experience a demonstrable decrease in funds from Iran. Robbery, tax evasion, smuggling, trafficking, and organized crime continue to generate illicit funds in Azerbaijan as well. Additional money laundering likely occurs in the financial sector, including in non-bank financial entities and alternative remittance systems. Azerbaijan also possesses a significant black market for smuggled goods for sale in-country and is a transit point for smuggled cargo.

KEY AML LAWS AND REGULATIONS

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The Azerbaijani government has taken several steps to thwart the transit of illicit funds. Azerbaijan is actively working to create an unfavorable environment for illicit funds activity through a package of legislation entitled “The National Action Plan,” which includes four codes, seven laws, one ordinance of the Cabinet of Ministers, and one Presidential Decree. The plan is expected to be submitted to Parliament in February 2017. This legislative package specifically empowers multiple ministries and agencies (Justice, Finance, Taxes, Internal Affairs, State Security Service, State Border Service, and State Customs Committee) as well as the Cabinet of Ministers, Central Bank, Chamber of Auditors, Supreme Court, and Prosecutor General’s Office to execute this comprehensive legislation. As part of its active and ongoing measures, Azerbaijan established the Financial Markets Supervision Authority (FMSA) by Presidential Decree in February 2016. This body was explicitly given the authority to oversee the development and implementation of reforms and oversee their successful implementation.

Azerbaijan is currently developing MOUs on AML cooperation between the FMSA and the FIUs of the United Arab Emirates, Ukraine, San Marino, Estonia, Moldova, Turkey, Slovenia, and Georgia.

Azerbaijan is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Azerbaijan_en.asp

AML DEFICIENCIES

While the FMSA is taking significant legislative action to address the recognized deficiencies, until such legislation is approved: criminal liability for money laundering has not been extended to legal persons in Azerbaijan; criminalization of the acquisition, possession, and use of property obtained with illicit funds is limited to “significant amounts” only; banks are not legislatively required to share customers’ CDD information with correspondent banks; sanctions are not effective, proportionate, or dissuasive to financial institutions; and loopholes exist inhibiting proper identification of PEPs.

The AML law excludes dealers of arts, antiques, and other high-value consumer goods; entities dealing with jewelry and precious metals; travel agencies; and auto dealers from the list of covered entities. These entities are not required to maintain customer information or report suspicious activity.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

With the new legislative package, the FMSA has placed an affirmative obligation on financial institutions to report AML activities, including designation and placement of the offending party on the FMSA website as a “designated person.” As a result of this designation, the FMSA, through the relevant government ministries, will be able to freeze the assets of the named individual/entity. Until the legislative package becomes law, the noted deficiencies remain. Its comprehensive scope makes it difficult to forecast its effectiveness and what unintended consequences may arise.

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Bahamas

OVERVIEW

The Commonwealth of the Bahamas is a regional and offshore financial center. The country's economy is heavily reliant upon tourism, tourism-driven construction, and the offshore financial sector. The Bahamas remains a transit point for illegal drugs bound for the United States and other international markets.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The major sources of laundered proceeds are drug trafficking, firearms trafficking, gaming, and human smuggling. There is a 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 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 money, despite CDD and transaction reporting requirements.

According to a 2013 report by the IMF, the Bahamas is a “major offshore financial center.” The offshore sector consists mostly of branches or subsidiaries of global financial institutions. The IMF report notes that, while oversight of the financial system has improved, the Bahamas is still recognized as a significant tax haven. For example, the Bahamas does not disclose in a public registry information about trusts and foundations, maintain official records of company beneficial ownership, require that company accounts be placed on public record, or require resident paying agents to tell the domestic tax authorities about payments to non-residents.

Casino gaming is legal for tourists and the Bahamas has four large casinos, including a casino in Bimini that draws in customers from the United States via a ferry service to and from Miami. The \$3.5 billion Chinese Export-Import Bank-funded Baha Mar Casino and Resort on New Providence Island did not open as scheduled in 2015 or in 2016. When completed, it will be the largest casino in the Caribbean.

The country has one large FTZ, Freeport Harbor, managed by a private entity, the Freeport Harbor Company, a joint venture between Hutchison Port Holdings (a subsidiary of a Hong Kong company) and The Port Group (The Grand Bahama Port Authority, the Bahamian parastatal regulatory agency). The Freeport Harbor Company includes the Freeport Container Port and Grand Bahama International Airport as well as private boat, ferry, and cruise ship facilities and roll-on/roll-off facilities for containerized cargo and car transshipments.

KEY AML LAWS AND REGULATIONS

Current law prohibits Bahamian citizens, permanent residents, and temporary workers from gambling in casinos. However, gaming operations based on U.S.-based lottery results and hosted on the internet, locally known as “web shops,” flourish in the Bahamas.

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In September 2014, the government passed a comprehensive gaming bill designed to regulate the web shops and bring internet-based gaming into compliance with industry standards. The law requires web shop operators to be licensed, pay taxes on revenue and property, and comply with internal control standards. In 2015, the Bahamas issued conditional licenses to those “web-shops” that fulfilled the new regulatory requirement.

The Bahamas is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/the-bahamas-1>

AML DEFICIENCIES

Information on money laundering criminal prosecutions and convictions is not publicly available.

The Government of the Commonwealth of The Bahamas has the requisite institutional and legal framework to combat money laundering, however greater emphasis should be placed on enforcement and effective implementation of the AML regime. In order to better gauge the effectiveness of the government’s AML programs, authorities should release information on the number of prosecutions and convictions and other enforcement actions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Government of the Commonwealth of the Bahamas should continue to provide resources and training to its law enforcement, judicial, and prosecutorial bodies in order to investigate and prosecute money laundering; enforce existing legislation; and safeguard the financial system from possible abuses. With the expansion of gaming oversight, the government should ensure full implementation of appropriate safeguards and provide additional STR training.

The Bahamas should further enhance its AML regime by criminalizing bulk cash smuggling; continuing implementation of the National Strategy on the Prevention of Money Laundering; 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 beneficial ownership information of all entities licensed in its offshore financial center is available upon the request of law enforcement authorities and kept up to date.

The government’s National Anti-Money Laundering Task Force meets twice monthly and is led by the Attorney General. The Task Force discusses issues and makes recommendations to policy makers. The Task Force is comprised of senior representatives of various financial regulators and law enforcement agencies (FIU, Central Bank, Securities Commission, Compliance Commission, Insurance Commission, Bahamas Customs Department, and the Royal Bahamas Police Force). The Task Force should seek to engender an AML compliance culture in the Bahamas.

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Barbados

OVERVIEW

Barbados is a regional financial center with a sizeable IBC presence. The country's susceptibility to money laundering is primarily associated with the domestic sale of illegal narcotics and the laundering of foreign criminal proceeds. There are some reports of proceeds from illicit activities abroad being laundered through domestic financial institutions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Narcotics trafficking, money laundering, and firearms trafficking are major sources of illicit funds in the country. In addition to the use of financial institutions, money is laundered through the purchase of real estate, vehicles, vessels, and jewelry as well as through a variety of businesses.

Bearer shares are not permitted. There are no FTZs and no domestic or offshore casinos.

KEY AML LAWS AND REGULATIONS

The Central Bank of Barbados (CBB) is responsible for regulating and supervising commercial and offshore banks, trust companies, merchant banks, and finance companies. The CBB estimates the offshore sector is a \$32 billion industry. As of 2015, there were nine commercial banks and holding companies and 13 trusts and merchant banks licensed by the CBB. As of August 2016, there were 27 international banks licensed by the CBB. There are no clear statistics available on the IBC sector, although promotional material suggests there are over 4,000 IBCs. IBCs are subject to heightened due diligence requirements for license applications and renewals, and are audited if total assets exceed \$500,000.

There is a Double Taxation Treaty with the United States and a specific agreement between Barbados and the United States for the exchange of information with reference to taxes.

Entities that must comply with CDD rules are banks, securities and insurance brokers and companies, money exchanges or remitters, financial management firms, lawyers, real estate brokers, high-value goods dealers, accountants, investment services or any other financial services, credit unions, building societies, restricted liability societies, friendly societies, offshore banks, IBCs and foreign sales corporations, mutual funds and fund administrators and managers, and international trusts.

Barbados is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=353&Itemid=418&lang=en

AML DEFICIENCIES

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Barbados' criminal law limits the government's ability to seize assets acquired through criminal activity without conviction. The Government of Barbados should continue developing new non-conviction-based asset forfeiture laws to increase the efficacy of asset recovery procedures.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Government of Barbados should allot more resources to ensure the FIU, law enforcement, supervisory agencies, and prosecutorial authorities are fully staffed and have the capacity to perform their duties. The FIU is administrative in nature, which means it does not have the capacity to do investigative work or resolve legal issues.

The government should consider taking a more aggressive approach to conducting examinations of the financial sector and asserting more control over vetting and licensing of offshore entities. Supervision of NPOs, charities, DNFBPs, and money transfer services could be strengthened through increased reporting requirements and oversight. Information sharing among regulatory and enforcement agencies also needs improvement.

Barbados should become a party to the UN Convention against Corruption.

Belize

OVERVIEW

Belize is not a key regional financial center, though it has an offshore financial sector. Belize is a transshipment point for marijuana and cocaine. FTZs are routinely used to move money across borders. Belize is vulnerable to money laundering due to the lack of enforcement of its laws and regulations, strong bank secrecy protections, geographic location, and weak investigatory and prosecutorial capacity. The sources of money laundering in Belize are drug trafficking, tax evasion, securities fraud, and conventional structuring schemes.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The Government of Belize continues to permit financial activities that are vulnerable to money laundering, including offshore banks, insurance companies, trust service providers, mutual fund companies, and IBCs. The Belizean dollar is pegged to the U.S. dollar.

Belize has two FTZs. The Corozal Free Zone, the larger of the two with 282 operating businesses, is located in the north on the border with Mexico, and the Benque Viejo Free Zone is located on the western border with Guatemala. Belizean law enforcement agencies strongly suspect there is money laundering and illicit importation of duty free products in the FTZs. There are also large sums of cash suspected to be moving through the FTZs. With the arrival of a new Director General in July 2016, the Belize International Financial Services Commission implemented enforcement of previously-approved fee increases and more stringent due diligence requirements on the offshore financial sector.

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The FIU, Customs & Excise Department, and Belize Police Department, who are all actors in the fight against money laundering, face challenges such as political interference, corruption, and human resource and capacity limitations.

KEY AML LAWS AND REGULATIONS

Belize has made efforts to strengthen its AML regulatory regime. In 2016, Belize enacted amendments to its Money Laundering and Terrorism Act to address terrorist financing matters. In addition, Belize has regulations in place for PEPs in line with international standards.

Belize has comprehensive CDD and STR regulations. CDD-covered entities include domestic and offshore banks; venture risk capital; money brokers, exchanges, and transmission services; moneylenders and pawnshops; insurance entities; real estate intermediaries; credit unions and building societies; trust and safekeeping services; casinos; motor vehicle dealers; jewelers; international financial service providers; public notaries, attorneys, accountants, and auditors; FTZ businesses; and NGOs.

There are mechanisms in place for information exchanges between the United States and Belize, as well as between Belize and numerous other countries. However, Belize is slow to respond to requests from foreign FIUs. INTERPOL requests are routinely ignored.

Belize is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/a-d/belize>

AML DEFICIENCIES

The FIU's mandate to conduct its AML enforcement responsibilities far exceeds its capacity. This is in large part due to limited human resources and high turnover rates of contractual staff members. Leadership continuity is an issue as there have been three FIU Directors in as many years. In an effort to compensate for staffing deficiencies, the FIU has called upon senior attorneys in private practice to lead the prosecution of serious or complex cases due to the lack of experience of the two prosecutors on staff at the FIU.

Belize is making efforts to address its AML deficiencies. The FIU trained both offshore and onshore entities, including international financial service providers, credit unions, and money transfer service providers. Additionally, the FIU conducted outreach and sensitization visits in the Benque Viejo FTZ. The FIU also reportedly conducted 21 on-site compliance examinations of businesses in the Corozal FTZ.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2016, the FIU signed MOUs with the Belize Police Department, Customs and Excise Department, and the Tax Department. Increased information and resource sharing could enhance Belize's capacity to address money laundering. Belize has also initiated a national risk assessment with technical assistance from international experts. This will identify money laundering risks and provide a strategic map for further actions.

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To address issues of corruption within Belize, the country became a party to the UNCAC on December 12, 2016.

Belize prosecuted and convicted five people in 2016 for either failure to declare more than \$5,000 (the threshold increased to \$10,000 in April 2016) in cash when entering or leaving Belize. However, there were no major money laundering prosecutions. Belize has struggled to investigate money laundering and other financial crimes, resulting in a low number of money laundering prosecutions and convictions. The judiciary branch expressed concern about the sustainability of Belizean AML laws since they have not been implemented effectively. Belize investigators and prosecutors need instruction on implementation of these laws.

While the Government of Belize has made advances in its recent legislative and regulatory work, it should also provide more professional development training for current staff and provide additional human resources to effectively enforce its AML regime. The loosely monitored offshore financial sector and FTZs continue to be concerns. Furthermore, the historically low prosecution and conviction figures reflect the lack of robust enforcement efforts. The government should prioritize providing its investigative, prosecutorial, and judicial personnel with the resources and training to successfully fulfill their responsibilities.

Benin

OVERVIEW

The port of Cotonou is a transportation hub for the sub-region which serves Nigeria and land-locked countries in the Sahel. Criminal networks exploit the volume of goods and people moving through Benin.

Due to its proximity to unstable neighboring countries and extremely porous borders, Benin continues to face regional threats of organized crime, narcotics trafficking, and piracy. Benin is a transit point for a significant volume of drugs and precursors moving from Latin America, Pakistan, and Nigeria into Europe, Southeast Asia, and South Africa. It is difficult to estimate the extent of drug-related money laundering in Benin, believed to be done through purchase of real estate and building construction for rent or re-sale, bulk cash smuggling, and payments to officials. Money laundering also occurs in the country's banking system and money service businesses.

Benin is continuing efforts to strengthen its specialized financial crime judicial police and the National Financial Intelligence Processing Unit (CENTIF), Benin's FIU, and ensure laws are fully implemented across all relevant sectors.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Open borders, the prevalence of cash transactions, and the informal economy facilitate money laundering in Benin.

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Benin is vulnerable to drug-related money laundering. Cases linked to Benin include the proceeds of narcotics trafficking being comingled with revenue from the sale of imported used cars for customers in neighboring countries. Human trafficking and corruption also are of serious concern. In recent years, Benin was implicated in large international schemes in which Lebanese financial institutions were used to launder and move criminal proceeds through West Africa and back into Lebanon. As part of the schemes, funds were wired from Lebanon to the United States to buy used cars that were then shipped to Benin and sold throughout West Africa. Profits from the sale of these cars were combined with drug proceeds from Europe and subsequently sent to Lebanon via bulk cash smuggling and deposited into the Lebanese financial system.

KEY AML LAWS AND REGULATIONS

Benin's domestic AML regime has advanced over the past two decades with the introduction of legislation criminalizing drug-related money laundering (Act 1997-024) and money laundering related to illicit activity beyond drug trafficking (Act 2006-14).

There is no MLAT between Benin and the United States; alternative means can facilitate records exchange in connection with drug investigations.

Benin is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: www.giaba.org/reports/mutual-evaluation/Benin.html

AML DEFICIENCIES

A bill currently pending would enlarge the scope of the existing law by requiring attorneys, notaries, and financial brokerage firms to report large cash transactions involving their clients and customers. Passage of the law would also require certain non-governmental and religious organizations to report large cash donations.

Existing legislation makes it unclear who is responsible for asset forfeiture in money laundering cases. Creation of a committee to address the issue is anticipated.

Benin is not a member of the Egmont Group. Benin's FIU initiated an application for membership two years ago and subsequently halted the application due to lack of funds for a fitness assessment and concern over outstanding weaknesses in Benin's regulatory framework. CENTIF is in the process of translating relevant laws into English but also foresees challenges in travel to Egmont meetings and participation in English language proceedings.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Beninese officials have limited capacity to effectively track financial flows, inhibiting their ability to investigate and prosecute individuals or groups under the country's legal regime.

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Benin has laws in place requiring banks to report large cash transactions and prohibiting citizens from carrying large quantities of cash, but penalties are not enforced. Benin customs authorities do not evaluate cross-border currency declarations for money laundering purposes despite a requirement to declare cross-border money transfers of 2,000,000 francs CFA or more (approximately \$3,380).

CENTIF is under-resourced, and agents within its office and other law enforcement offices are reassigned to new jurisdictions and new disciplines after training investments. Insufficient funding for day-to-day operations hinders travel to conduct investigations. On the judicial side, investigating judges lack specialized training in complex financial crimes and cases sit unattended. Out of 800 statements of suspicion recorded between 2010 - 2016, forty were sent to court, three presented, two closed for lack of evidence, and one is still pending. Benin has had no successful money laundering prosecutions to date.

Benin has taken steps to improve data sharing and cooperation among departments involved in financial crimes enforcement. CENTIF convenes quarterly meetings to improve coordination among law enforcement offices and help follow cases after referral to see how they are progressing through the justice system. In late 2015, nine Beninese investigators and prosecutors completed a month-long financial investigations training program on national legislation, regional cooperation, financial profiling, and asset forfeiture.

Bolivia

OVERVIEW

Bolivia is not a regional financial center, but remains vulnerable to money laundering. Criminal proceeds laundered in Bolivia are derived primarily from smuggling contraband and from the foreign and domestic drug trade.

In recent years Bolivia has enacted several laws and regulations that, taken together, should help the country to more actively fight money laundering. Bolivia should continue its implementation of its laws and regulations with the goal of identifying criminal activity that results in investigations, criminal prosecutions, and convictions.

In May 2014, Bolivia transferred control of its Financial Investigative Unit (UIF) from Bolivia's financial regulatory body to the Ministry of Economy and Public Finance in order to give the UIF greater independence. Since the move, statistics previously accessible online are no longer available, but Bolivia is working to rectify this issue.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Major sources of illicit funds in Bolivia include cocaine trafficking, smuggled goods, and informal currency exchanges. Chile is the primary entry point for illicit products, which are then sold domestically or informally exported. According to a local think-tank, the informal sector offers opportunities for money laundering and structuring (splitting large amounts of money into

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smaller quantities to avoid scrutiny by the financial regulatory agencies). This money then enters the formal market through the financial system.

Although informal currency exchange businesses and non-registered currency exchanges are illegal, many still operate. Corruption is common in informal commercial markets and money laundering activity is likely.

The Bolivian justice system has been hindered by corruption and political interference, either of which could impede the fight against narcotics-related money laundering. Lack of well-trained prosecutors and police officers has also been a problem, leading to ineffective criminal investigations.

Bolivia has 13 FTZs for commercial and industrial use located in El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, Desaguadero, and Cobija. Lack of regulatory oversight of these FTZs increases money laundering vulnerabilities.

Casinos are illegal in Bolivia. Soft gaming (e.g., card games, roulette, bingo) is regulated; however, many operations have questionable licenses.

KEY AML LAWS AND REGULATIONS

Bolivia has passed several laws that control the entry and exit of foreign exchange and which criminalize illicit gains. In 2012, Bolivia created the National Council to Combat Illicit Laundering of Profits, with participation by several government ministries, with the goal of issuing guidelines and policies to combat money laundering. In 2013, Bolivia also created new regulatory procedures that allow for freezing and confiscation of funds and other assets related to money laundering.

All financial institutions in Bolivia are required by the UIF and the banking regulations to report all transactions above \$3,000 (or transactions above \$10,000 for banks).

Bolivia has KYC regulations. All transactions conducted through the financial system require a valid photo identification in addition to other required information. Financial intermediaries must register this information into their systems, regardless of the transaction amount or whether the transaction is a deposit or a withdrawal.

Bolivia is a member of GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles/documentos/en/evaluaciones_mutuas/Bolivia_3era_Ronda_2011.pdf

AML DEFICIENCIES

Lack of personnel in the UIF, combined with inadequate resources and weaknesses in Bolivia's legal and regulatory framework, limit the UIF's reach and effectiveness. Compliance with UIF's reporting requirements is extremely low. Information exchange between the UIF and police

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investigative entities is also limited, although the UIF maintains a database of suspect persons that financial entities must check before conducting business with clients.

Bolivia does not have a mutual legal assistance treaty with the United States; however, various multilateral conventions to which both countries are signatories are used for requesting mutual legal assistance.

In 2013, after several legislative changes and improvements to its AML system, the UIF's membership in the Egmont Group of FIUs was reinstated.

Bolivia is currently working to address noted deficiencies, including the need to better regulate notaries, vehicle dealers, real estate businesses, and jewelry stores, as well as bitcoins, mobile device payments, and financial outflows.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Bolivia implemented the 1988 UN Drug Convention and has laws that penalize the production, extraction, preparation, sale and transportation of any narcotic drug or psychotropic substance. The criminal courts have jurisdiction over crimes related to narcotics, terrorism, and money laundering. With a legal order, courts can request information from banks for investigative purposes.

Bolivia has an extradition treaty with the United States. There are some instances where the Bolivian government has been cooperative with U.S. law enforcement, e.g., on boarding requests for Bolivian-flagged vessels. However, overall there is little law enforcement cooperation between Bolivia and the United States. Cooperation with other countries is also reported to be limited.

According to available data, there were approximately 35 money laundering-related prosecutions in 2016. Conviction data is not available.

Banks are very active enforcing all regulations to control money laundering or any other suspicious transaction.

Bosnia and Herzegovina

OVERVIEW

Bosnia and Herzegovina (BiH) has a primarily cash-based economy and is not an international or regional financial center. BiH is situated centrally within the Balkans and has open borders with Croatia, Serbia, and Macedonia. The Visa Liberalization Agreement with the EU enables easy transit from eastern countries and the Balkan region to countries of Western Europe. BiH is a market and transit country for smuggled commodities, including cigarettes, firearms, counterfeit goods, lumber, and fuel oil.

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International experts have noted deficiencies in Bosnia and Herzegovina's confiscation measures; CDD; suspicious transaction reporting; internal controls, compliance, and audit; sanctions; special attention for higher risk countries; regulation of bank branches and subsidiaries and DNFBPs; guidelines and feedback; statistical data; public reporting from the Financial Investigation Unit, BiH's FIU, on trends and typologies; lack of adequate supervisory powers in the insurance market; resources, integrity, and training at financial institutions; national-level cooperation; definition of legal persons and beneficial owners; and regulations on NPOs. Although progress has been made, BiH has not fully harmonized the criminalization of money laundering at the district and federal levels. BiH has established a working group to resolve these issues.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Most money laundering activities in BiH Bosnia and Herzegovina focus on evading taxes, and the majority of reports on suspicious transactions are connected to tax evasion. A smaller amount involves concealing the proceeds of illegal activities, including trafficking in persons, illicit drugs, organized crime, and corruption. The FIU notes a high number of cases in which individuals withdraw funds under the guise of legitimate business, but where the transactions are later found to be fabricated. Reports on suspicious transactions submitted by banks show that, by number of transactions, fraud and identity theft are increasing, as are identity card counterfeiting and credit card fraud.

There are concerns about the effectiveness of controls of cross-border transportation of currency and bearer negotiable instruments at the maritime border and land crossings. There is no indication BiH law enforcement has taken action to combat the TBML likely to be occurring in the country. Corruption is endemic, affecting all levels of the economy and society. Integration of laundered proceeds in real estate is a problem.

There are four active FTZs in BiH. Companies working in these zones are primarily producing automobile parts, forestry and wood products, and textiles. There have been no reports that these areas are used for money laundering. The Ministry of Foreign Trade and Economic Relations is responsible for monitoring FTZs.

KEY AML LAWS AND REGULATIONS

The main legislation defining BiH's AML regime includes the Law on AML/CFT, Criminal Codes of BiH, Criminal Procedures Code, and the Laws on Banks.

The country has comprehensive KYC and STR regulations and applies due diligence measures.

The country has mechanisms in place for records exchange.

BiH is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/BH_en.asp

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AML DEFICIENCIES

BiH amended its law on money laundering in 2015. BiH continues to slowly implement its action plan to address deficiencies. Items to be addressed include, among other items, implementation of an adequate financial supervisory framework; implementation of adequate AML measures for the non-profit sector; the establishment and implementation of adequate cross-border currency controls; the harmonization of the criminalization of money laundering in all criminal codes, e.g., in both entities and at the State level; and adequate procedures for the confiscation of assets.

To date, BiH's State level government has addressed cross-border currency control and imposed due diligence procedures for PEPs.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

BiH's political structure and ethnic politics hinder the effectiveness of its AML regime. Coordination of law enforcement efforts among the multiple jurisdictional levels in BiH - the State, the two entities (the Federation of Bosnia and Herzegovina and the Republika Srpska), and Brcko District - is improving, but additional efforts are necessary.

Criminal codes and criminal procedure codes from the State, the two entities, and Brcko District contain similar money laundering offenses. Self-laundering is not criminalized consistently and penalties for money laundering are not yet equivalent. The criminal codes of the entities and Brcko District each lack specific provisions on some aspect of confiscation and forfeiture income or other benefits, commingled property, or instrumentalities. Since the State does not have the resources to investigate all money laundering violations, the respective criminal codes complement one another. The jurisdictions, however, maintain separate bank supervision and enforcement/regulatory bodies.

BiH has implemented the 1988 UN Drug Convention and other applicable agreements. BiH has not refused to cooperate with foreign governments.

In the period January - August 2016, the BiH Court (State-level) convicted four persons on charges related to money laundering (which had been prosecuted prior to 2016) and initiated no new prosecutions.

Brazil**OVERVIEW**

In 2016, Brazil was the second-largest economy in the Americas and among the ten largest economies in the world, by nominal GDP. São Paulo, Brazil's largest city, is a regional financial center for Latin America. Brazil is a major drug-transit country, as well as one of the world's largest drug consumer countries. Transnational criminal organizations operate throughout Brazil and launder proceeds from trafficking of narcotics, weapons, and counterfeit goods. A multi-

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billion dollar contraband trade occurs in the Tri-Border Area (TBA) shared with Paraguay and Argentina. Public corruption is the primary money laundering priority for Brazilian law enforcement, followed by narcotics trafficking.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Trafficking of drugs, weapons, and counterfeit goods, and public corruption, are the primary sources of illicit funds in Brazil. Money laundering methods include the use of banks, real estate investment, financial asset markets, remittance networks, shell companies and phantom accounts, illegal gaming (*jogo de bicho*), informal financial networks such as hawalas, and through the sale of cars, cattle, racehorses, artwork, and other luxury goods. Drug trafficking organizations have been linked to black market money exchange operators. Money is often laundered through bulk cash smuggling; Brazilian law enforcement has successfully seized millions in cash in highway seizures and served arrest warrants throughout Brazil, especially on the border with Paraguay (State of Parana). Money laundering techniques vary widely in Brazil. In Sao Paulo, Rio de Janeiro, and Belo Horizonte, techniques are sophisticated and often involve foreign bank accounts, shell companies, and financial assets. In rural Brazil, promissory notes and factoring operations are more commonly used.

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, Brazil maintains some control of capital flows and requires disclosure of the ownership of corporations.

In March 2014, money laundering at a gas station tipped off Brazilian law enforcement to a connection with the parastatal oil company, Petrobras. Since then, “Operation Carwash” has uncovered a complicated web of corruption, money laundering, and tax evasion, leading to the arrests of former and current federal ministers, members of Congress, political party operatives, money launderers, politically appointed directors, and civil service employees at Petrobras and other parastatals, and executives at major private construction firms. Corruption-related money laundering is associated with fraudulent contracts (particularly those involving parastatal companies and private contractors), bribery and influence-peddling, antitrust violations, public pension fund investments in financial asset markets, and undeclared or illegal campaign donations.

There are four FTZs in Brazil. The government provides tax benefits in certain FTZs, which are located to attract investment to the country’s relatively underdeveloped North and Northeast regions.

KEY AML LAWS AND REGULATIONS

Brazil’s money laundering legal framework has been updated three times since its establishment in 1998, most recently by Law #12.683 in 2012, and facilitates the finding, freezing, and forfeiture of illicit assets. Brazil has comprehensive KYC and STR regulations. Brazilian

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regulations mandate enhanced due diligence for PEPs. Brazil is not subject to any U.S. or international sanctions.

Brazil and the United States have a MLAT. Brazil also regularly exchanges records with the United States and other jurisdictions through its membership in several exchange mechanisms (Interpol/Stolen Asset Recovery Initiative Focal Points, GAFILAT's Asset Recovery Network System-RRAG).

Brazil is a member of the FATF and the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationreportofbrazil.html>

AML DEFICIENCIES

Legal persons cannot be criminally charged under Brazil's money laundering statute, but are subject to reporting requirements if they are covered entities under the AML law. Legal persons in violation of the reporting requirements can face fines and suspension of operation.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2015, Brazil's federal prosecutors initiated 190 money laundering investigations, resulting in 120 indictments. Brazil does not compile comprehensive statistics on convictions, nor does data include state and local actions.

Through its 2003 National Strategy Against Corruption and Money Laundering and associated whole-of-government working groups, Brazil has made significant strides in strengthening its legal framework, building capacity to investigate and prosecute financial crimes through specialized police units and courts, and fostering interagency cooperation and civil society input on prospective reforms. Challenges remain, including a slow-moving criminal justice system up against strict statutes of limitations and the use of foreign tax havens by Brazilians. Brazil will benefit from expanded use of the task-force model and cooperative agreements that have facilitated recent major anti-corruption breakthroughs, as well as increased information exchange on best practices for financial market fraud, government contract oversight, and collaboration and leniency agreements.

British Virgin Islands

OVERVIEW

The British Virgin Islands (BVI) is a UK overseas territory. Its economy is dependent on tourism and the offshore financial sector. BVI is a well-established, sophisticated financial center offering accounting, banking and legal services, captive insurance, company incorporations, mutual funds administration and trust formation, and shipping registration. At the close of September 2016, the commercial banking sector had assets valued at approximately

\$2.2 billion. Potential misuse of BVI corporate vehicles remains a concern. Criminal proceeds laundered in the BVI derive primarily from domestic criminal activity and narcotics trafficking.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The BVI has zero-rated corporation tax and no wealth, capital gains, or estate tax for offshore entities. Exploitation of offshore financial services, the unique share structure that does not require a statement of authorized capital, and lack of mandatory ownership information filing pose significant money laundering risks. The BVI is a favored destination for incorporating new companies and registering shell companies, which can be established for little money in a short amount of time. There are reports a substantial percentage of BVI's offshore business comes from China and Russia.

Financial services contribute over half of government revenues. The Financial Services Commission's (FSC) most recent statistical bulletin, published in June 2016, notes there are 430,310 active companies. Of these, 1,078 are private trust companies. There are six commercially licensed banks and 1,935 registered mutual funds.

The BVI's proximity to the U.S. Virgin Islands and its use of the U.S. dollar pose additional risk factors for money laundering. The BVI, similar to other jurisdictions in the Eastern Caribbean, is a major target for drug traffickers, who use the area as a gateway to the United States. BVI authorities work with regional and U.S. law enforcement agencies to help mitigate these threats.

KEY AML LAWS AND REGULATIONS

Money laundering is criminalized, as are all predicate offenses in line with the international standards. Criminal penalties for money laundering and money laundering-related offenses have been increased to up to \$500,000 and 14 years in prison depending on the offense.

Administrative penalties have been increased from a maximum of \$4,000 to a maximum of \$100,000. Penalties under the Anti-money Laundering Regulations have also been increased to \$150,000.

The FSC is the sole supervisory authority responsible for the licensing and supervision of financial institutions. KYC and STR requirements cover banks, money service businesses, insurance agencies, investment businesses, insolvency practitioners, trust and company service providers, attorneys-at-law, notary publics, accountants, auditors, insolvency practitioners (only those who carry out a relevant business as defined), yacht and auto dealers, real estate agents, dealers in precious stones and metals, dealers in other high-value goods, and non-profit organizations.

The BVI is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/s-v/virgin-islands>

AML DEFICIENCIES

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The BVI applies enhanced due diligence procedures to PEPs. Part III of the Anti-Money Laundering and Terrorist Financing Code of Practice, 2008 outlines the CDD procedures that licensees should follow to ensure proper verification of clients. The government reports that its CDD procedures are consistent with international standards.

International experts have criticized the BVI's supervision, particularly of the company formation sector, and also its sanctions regime. From January through June 2016, the BVI Enforcement Committee reviewed 77 enforcement cases, resulting in 10 administrative penalties, one cease and desist order, one advisory, one license revocation, and two warning letters.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The BVI is a UK Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the BVI's international affairs and may arrange for the ratification of any convention to be extended to the BVI. The 1988 UN Drug Convention was extended to the BVI in 1995. The UN Convention against Corruption was extended to the BVI in 2006, and the UN Convention against Transnational Organized Crime was extended to the BVI in 2012.

Between January 1 and October 31, 2016, there were two money laundering-related prosecutions and no money laundering-related convictions. There have been 15 money laundering convictions since 2008. This extremely low volume of prosecutions and convictions is not commensurate with the size and complexity of the BVI's financial sector.

The BVI has implemented a register which will allow BVI competent authorities direct and immediate beneficial ownership information; however, this registry is not publicly available.

The government is currently engaged in amending legislation to enable the Financial Investigation Agency (FIA) to take enforcement actions against DNFBPs that are non-compliant with their AML legal responsibilities. Such amendments will allow the FIA to enforce administrative penalties against non-compliant DNFBPs.

Burma

OVERVIEW

Burma's economy is underdeveloped, as is its financial sector, and most currency is still held outside the formal banking system, although bank deposits have increased over the past several years. The lack of financial transparency, the low risk of enforcement and prosecution, and the large illicit economy makes it potentially appealing to the criminal underground. Burma's long, porous borders are poorly patrolled.

The Burmese government has made significant progress in addressing international AML concerns, although the efficacy of its new legislation has yet to be tested. The expressed interest

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of key officials in the Minister of the State Counselor's Office and Ministry of Foreign Affairs to take a joint leadership role to marshal AML cooperation is a positive development.

While Burma's designation as a jurisdiction of "primary money laundering concern" under Section 311 of the USA PATRIOT Act remains in effect, the U.S. Department of the Treasury's administrative exception issued in 2012 was reaffirmed in October 2016.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Burma continues to be a major exporter of heroin, second only to Afghanistan, and a regional source for amphetamines. The government faces the additional challenge of having vast swaths of its territory, particularly in drug-producing areas along Burma's eastern borders, controlled by non-state armed groups.

Endemic corruption remains an issue despite recent economic reforms that have significantly increased competition and transparency and some of the National League for Democracy's stances on zero tolerance.

The illegal trade in wildlife, precious minerals, and timber is also a source of illicit proceeds. The NGO Global Witness estimates the volume of unofficial jade exports in the tens of billions of dollars annually. In January 2016, Burma filed its first report with the Extractive Industries Transparency Initiative, which included 53 percent of official sales of jade; the government plans to deepen and broaden reporting on natural resource revenues.

Many Burmese rely on informal money transfer mechanisms, such as the *hundi*, which remain unregulated and unsupervised and, therefore, vulnerable to exploitation by criminal networks. Many business deals and real estate transactions are done in cash. Fewer than 25 percent of adults have a bank account; Burma's cash-based economy makes it difficult for authorities to detect illicit financial flows.

There have been at least five operating casinos, including one in the Kokang special region near China (an area the Burmese government does not control), that primarily have targeted foreign customers. Little information is available about the regulation or scale of these enterprises. They continue to operate despite the fact casino gambling is officially illegal in Burma.

KEY AML LAWS AND REGULATIONS

Burma has made steady progress in improving the technical compliance of its legal and regulatory framework in line with international standards. Burma made meaningful progress to address its strategic deficiencies by adequately criminalizing money laundering, establishing an FIU to oversee suspicious transaction reporting, enhancing financial transparency, and strengthening CDD measures.

Burma is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at:

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<http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=e0e77e5e-c50f-4cac-a24f-7fe1ce72ec62>

AML DEFICIENCIES

Burma's AML deficiencies mainly pertain to logistical challenges, such as insufficient computer systems and limited government capacity and coordination. Financial institutions remain reliant on paper-based record keeping and on manual data entry to automated systems. The government, however, in cooperation with international donors, is taking measures to increase the automation and processing of electronic reporting.

The FIU relies on the cooperation of 25 entities, including customs, the Central Bank, and law enforcement, but the understanding of these groups about AML issues and procedures is limited. Planning for oversight of non-conventional financial services, such as money transfer services, microfinance institutions, and securities firms, is in the initial phases, and the Central Bank provides limited AML oversight of state-owned banks.

In November 2003, the United States identified Burma as a jurisdiction of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, generally prohibiting U.S. financial institutions from establishing or maintaining correspondent accounts with Burma. While the Section 311 finding remains in place, in 2012, Treasury issued an administrative exception which permits U.S. financial institutions to maintain correspondent banking relationships under certain conditions; these permissions were reconfirmed on October 7, 2016, in conjunction with the termination of the economic and financial sanctions on Burma.

The FATF first placed Burma on its Public Statement in 2011. On February 19, 2016, the FATF noted Burma's progress in implementing its action plan and adopting legislation and removed Burma from its Public Statement.

Burma is in the process of joining the Egmont Group. Burma does not have a records-exchange mechanism with the United States but high-level law-enforcement officials have stated they are willing to engage in an MOU.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Burma is working on relevant implementation of the 1988 UN Drug Convention.

Burma's court systems have prosecuted only about 10 money laundering cases but the government, particularly the FIU, continues to build capacity. The FIU and international donors hold regular seminars to better inform the private sector and law enforcement of Burma's AML law, their responsibilities under the law, and the FIU's organization and structure.

Cabo Verde

OVERVIEW

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As a small archipelago nation off the west coast of Africa, Cabo Verde has a small financial system, primarily composed of the banking sector. Located between Africa, the Caribbean, South America, and Europe, Cabo Verde has been experiencing an increase in narcotics trafficking in the past decade.

Despite the existence of gaps, the Government of Cabo Verde has revised laws, policies, and regulations to curb illicit financial activities. The AML legal framework established in 2009 has improved port container monitoring and increased information sharing between domestic and international airports. Cabo Verde continues to receive donor support in its fight against crime and drugs through law enforcement training for Cabo Verdean armed forces, financial and technical assistance for the Cabo Verdean Financial Information Unit (UIF), the country's FIU, and through information sharing.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Given its large informal economy, Cabo Verde is vulnerable to money laundering operations. At present, the vast majority of laundered proceeds come from narcotics trafficking. Due to its location in the Atlantic Ocean, along major trade routes, Cabo Verde is an important transit point for narcotics headed for Europe from South America. Narcotics transit Cabo Verde by commercial aircraft and maritime vessels, including yachts. Additionally, consumption of illegal drugs is increasing in Cabo Verde.

Because of drug trafficking, the formal financial sector may be used to launder money by drug traffickers. Public corruption is limited and does not appear to contribute to money laundering in Cabo Verde.

KEY AML LAWS AND REGULATIONS

The Cabo Verdean central bank publishes procedures with which financial institutions must comply regarding customer identification and due diligence, analysis of customer transactions, suspicious transaction reporting, and record-keeping.

Cabo Verde is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Cabo%20Verde.html>

AML DEFICIENCIES

Although not required by law, financial institutions exercise enhanced due diligence procedures for both domestic and foreign PEPs.

The efficiency and effectiveness of the Ministry of Justice's Financial Investigative Unit needs to be increased so that it can operate in full compliance with international standards and best practices and serve optimally as the core agency of the Cabo Verdean AML regime. With donor assistance, the UIF is working to develop a strategy for AML supervision of DNFBPs, develop

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basic financial analytical techniques, assess the bulk cash declaration regime, work with customs on full implementation of cross-border currency declaration requirements, and develop protocols with customs authorities with regard to financial intelligence exchange.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

With donor support, Cabo Verde has made an effort to increase its capability to combat money laundering. The government does not have the human, technical, and logistical resources to enable it to respond in an effective and timely manner to AML challenges. Limited resources hamper Cabo Verde's ability to enforce AML regulations, and public institutions are often unaware of their reporting responsibilities.

Public officials and international experts consider the Cabo Verdean FIU to have a deficient regulatory framework, although the government has made improvements. In 2012, the government passed Decree-Law No. 9/2012, which extended the powers of the FIU and transferred its physical structure from the Central Bank to the Ministry of Justice. However, the FIU still lacks adequate human and financial resources to perform all its duties in an effective manner, particularly the proper identification and analysis of suspicious transactions.

Cambodia

OVERVIEW

Cambodia is neither a regional nor an offshore financial center. Cambodia's money laundering vulnerabilities include a weak and ineffective AML regime; a cash-based, dollarized economy; porous borders; loose oversight of casinos; and the National Bank of Cambodia's limited capacity to oversee the fast-growing financial and banking industries. A weak judicial system and endemic corruption also constrain effective enforcement.

Cambodia has a significant black market for smuggled goods, including drugs and imported substances for local production of methamphetamine. Both legal and illicit transactions, regardless of size, are frequently conducted 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 Thailand and Vietnam borders are other potential avenues to launder money.

Cambodia's AML law allows authorities to freeze assets relating to money laundering until courts issue final decisions. The AML regime lacks a clear system for sharing assets with foreign governments. In December 2014, Cambodia revised Strategy 5 in the National Strategies on AML/CFT 2013-2017 (National Strategies) by adding seven more actions to build capacity of the Cambodia Financial Intelligence Unit (CAFIU) and law enforcement officials and to strengthen cooperation among relevant domestic agencies in AML activities.

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The government should continue its work to increase the volume and quality of STRs and CTRs from reporting entities of all types and increase the operational independence of the nascent and understaffed CAFIU.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The sources of illicit funds are not identifiable. The national risk assessment (NRA) is being drafted to help identify the types of offense where illicit funds may be generated. According to the draft NRA, requests from relevant domestic and foreign authorities on money laundering-related fraud and scam cases have all been sent to competent authorities for investigation.

Cambodia's non-financial sectors, including -- most significantly -- the gaming and real property industries, are unregulated or under-regulated. Although gaming is illegal for Cambodian citizens, Cambodians often participate in illegal gaming. Gaming is legal for foreigners in Cambodia, and there are 57 legal casinos. The Cambodian town of Poipet, located along the Cambodia/Thailand border, has 10 casinos in operation. According to a UNODC report, more than 90 percent of the patrons in these casinos are Thai. Visas are not required for Thai citizens, and Thai baht is accepted. As a result, large amounts of money flow through Poipet's casinos; in 2015, it was estimated approximately \$12 million of cash destined for border casinos crossed the Poipet border every day. No casino located in Cambodia has ever submitted a cash or suspicious transaction report to CAFIU.

KEY AML LAWS AND REGULATIONS

The National Coordination Committee on Anti-Money Laundering and Combating the Financing of Terrorism (NCC), a permanent and senior-level coordination mechanism, is responsible for ensuring the effective implementation of the AML law, including the development of national policy and a monitoring system to measure AML efforts. Both technical compliance with international standards and effectiveness are being discussed by a domestic working group, created by the NCC to answer questions and implement recommendations from the country's mutual evaluation. The working group is comprised of officials from relevant ministries and private sector representatives. Action plans to strengthen the AML regime will be issued after completion of the NRA.

The KYC policy was issued in 2003 to help identify potential money launderers. KYC-covered entities include 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 gaming institutions; NGOs, and foundations.

The CAFIU uses automated tools and filters to determine the flow of financial transactions and determine suspicious transactions filed with law enforcement agencies.

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Cambodia is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/mutual-evaluations/documents/default.aspx?pcPage=7>

AML DEFICIENCIES

Pervasive corruption among law enforcement entities and a weak judiciary are major deficiencies in the government's ability to fight money laundering.

The AML law excludes pawn shops from its explicit list of covered entities but allows the CAFIU to designate any other profession or institution to be included within the scope of the law.

Cambodia is not subject to any U.S. or international sanctions/penalties.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The NCC has been active in proposing legal and policy reforms to tackle AML deficiencies.

The Government of Cambodia established a review panel as part of the supplementary measures laid out in the National Strategies. The panel, comprised of the CAFIU and relevant law enforcement agencies, serves as a mechanism to strengthen cooperation among AML regulatory and law enforcement bodies.

There have been no money laundering convictions in Cambodia.

Canada

OVERVIEW

Money laundering activities in Canada primarily involve the proceeds of illegal drug trafficking, fraud, corruption, counterfeiting and piracy, tobacco smuggling and trafficking, and tax evasion. Cannabis production in the province of British Columbia is estimated to be worth CAD4-6 billion (approximately \$3-4.4 billion) annually. Significant amounts of foreign-generated proceeds of crime are laundered in Canada, and professional, third-party money laundering has increased. Local organized crime groups launder the proceeds of drug trafficking within Canada. Canada does not have a significant black market.

Legislation does not allow law enforcement to have direct access to Canada's FIU databases, but legislation will go into effect in June 2017 that strengthens information sharing.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Money is laundered in Canada via smuggling, MSBs/currency exchanges, casinos, real estate, wire transfers, offshore corporations, credit cards, foreign accounts, and the use of digital currency.

Canada does not have a significant black market for illicit goods. The most commonly smuggled goods are cigarettes, counterfeit items, and software. Underground financial systems exist within some immigrant communities. Human trafficking organizations also engage in money laundering activities.

KEY AML LAWS AND REGULATIONS

Amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) which strengthen Canada's AML regime and improve international compliance come into force June 17, 2017. These amendments will strengthen and expand the Financial Transactions and Reports Analysis Centre's (FINTRAC) ability to disclose information to police, the Canada Border Services Agency, and provincial securities regulators. They also mandate AML measures for provincially-operated online casinos.

Entities subject to KYC and STR requirements include banks and credit unions; life insurance companies, brokers, and agents; securities dealers; casinos; real estate brokers and agents; agents of the Crown (certain government agencies); MSBs; accountants and firms; lawyers; precious metals and stones dealers; and notaries in Quebec and British Columbia. A second package of amendments is under development that would close other gaps in Canada's AML regime, such as the lack of AML compliance measures for foreign MSBs and virtual currency dealers.

Canada has records exchange mechanisms with the United States and other governments.

Canada is a member of the FATF and of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf>

AML DEFICIENCIES

AML regulation of attorneys was overturned by the Canadian Supreme Court as an unconstitutional breach of attorney-client privilege. Trust and company service providers, with the exception of trust companies, are also not subject to preventative measures.

Canada's legislative framework does not allow law enforcement agencies access to FINTRAC's databases. However, FINTRAC may disclose intelligence to assist with money laundering investigations or national security threats and is required to share information when information is deemed relevant to an investigation or prosecution. Information may be sent to multiple authorities if links to parallel investigations are suspected.

As of July 2016, the PEP provisions of the PCMLTFA were amended to include domestic persons and heads of international organizations (HIO). The PCMLTFA now requires reporting

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entities to determine whether a client is a foreign PEP, a domestic PEP, an HIO, or an associate or family member of any such person.

Canada published its national AML inherent risk assessment in July 2015. Canada is not subject to U.S. or international sanctions or penalties.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Canada has a rigorous detection and monitoring process in place but should further enhance its enforcement and conviction capability. Canada adopted the Security of Canada Information Sharing Act in 2015 to facilitate information sharing among government agencies regarding activity that undermines national security, including terrorism.

Investigators regularly make large cash seizures of Canadian and U.S. currency and seize assets purchased with cash. Bulk cash smuggling is widespread. In addition to the offense of laundering the proceeds of crime, the possession of proceeds of crime (PPOC) is a criminal offense. The same penalties apply to both laundering and PPOC convictions involving more than \$5,000. Of PPOC charges brought in 2014 (most recent data available), 17,191 resulted in a conviction of at least one charge and 4,812 resulted in a PPOC conviction. Money laundering convictions under the criminal code hover around 100 per year.

Canada implemented legislation regulating virtual currencies in 2014, subjecting exchangers to the same reporting requirements as MSBs. Digital currency exchanges must register with FINTRAC. The legislation also covers foreign companies with a place of business in Canada and those directing services at Canadians. Financial institutions are prohibited from establishing and maintaining accounts for virtual currency businesses not registered with FINTRAC.

Cayman Islands

OVERVIEW

The Cayman Islands, a UK overseas territory, is an offshore financial center that provides a wide range of services including banking, structured finance, investment funds, trusts, and company formation and management. As of June 2016, the banking sector had \$1.131 trillion in international assets. As of September 2016, there are 175 banks, 152 trust company licenses, 134 licenses for company management and corporate service providers, 864 insurance-related licenses, five MSBs, and almost 100,000 companies licensed or registered in the Cayman Islands. According to the Cayman Islands Monetary Authority, as of September 2016 there are approximately 10,830 mutual funds.

Most money laundering in the Cayman Islands is related to foreign criminal activity and involves fraud, tax evasion, and drug trafficking. The government should take steps to adopt and implement a risk-based approach in money laundering regulations and complete a platform for sharing beneficial ownership information.

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VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in the Cayman Islands is primarily related to foreign criminal activity and involves fraud, tax evasion, and drug trafficking, largely cocaine. The offshore sector is used to layer or place funds into the Cayman Islands financial system. Due to its status as a zero-direct tax regime, the Cayman Islands is considered attractive to those seeking to evade taxes in their home jurisdictions.

Gaming is illegal. The Cayman Islands does not permit registration of offshore gaming entities. Authorities do not see risks from bulk cash smuggling related to cruise ships given strong due diligence procedures in place. Cayman Enterprise City, a Special Economic Zone, was established in November 2011 for knowledge-based industries, primarily internet and technology, media and marketing, commodities and derivatives, and biotechnology.

KEY AML LAWS AND REGULATIONS

Shell banks and anonymous accounts are prohibited. The Cayman Islands amended its Companies Law to prohibit the use of any bearer shares as of May 13, 2016.

CDD and STR requirements cover banks, trust companies, investment funds, fund administrators, securities and investment businesses, insurance companies and managers, money service businesses, lawyers, accountants, corporate and trust service providers, money transmitters, dealers of precious metals and stones, the real estate industry, and other relevant financial business as defined in the Proceeds of Crime Law.

In 2016 the Cayman Islands Legislative Assembly passed the following AML-related legislation: the Monetary Authority (Amendment) Law authorizes the Cayman Islands Monetary Authority to impose administrative penalties for AML and regulatory breaches; Special Economic Zone (Amendment) Law allows for stronger due diligence and authorizes the Special Economic Zone Authority to collect beneficial ownership information; the Confidential Information Disclosure Law repeals and replaces the Confidential Relationships (Preservation) Law, updates circumstances in which a person may be required or authorized to disclose confidential information, and removes the criminal sanction for breach of confidential information; Accountants Law modernizes the system for regulation of accountants; the Non-Profit Organizations Law provides for monitoring and supervision of publicly funded NPOs; Police (Amendment) Law provides for regulations which strengthen the international cooperation framework among law enforcement agencies; and the Proliferation Financing (Prohibition) (Amendment) Law requires freezing of assets related to nuclear proliferation without delay.

The Cayman Islands applies enhanced due diligence procedures to PEPs.

The Cayman Islands is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/topics/mutualevaluations/documents/mutualevaluationofthecaymanislands.html>

AML DEFICIENCIES

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Commodities and derivatives are potential areas of vulnerability. To combat this, the Cayman Islands enhanced its AML supervision for DNFBPs that trade or store precious metals and stones and financial derivatives within the Special Economic Zone.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The UK is responsible for the Cayman Islands' international affairs and arranges for the ratification of conventions to be extended to the Cayman Islands. The 1988 UN Drug Convention was extended to the Cayman Islands in 1995. The UN Convention Against Transnational Organized Crime was extended to the Cayman Islands in 2012. The UN Convention against Corruption has not yet been extended; however, the implementation platform for the anti-corruption convention exists under current Cayman law. Between January 1 and October 31, 2016, there were two money laundering-related prosecutions and two money laundering-related convictions. The United States convicted two Cayman Islands companies in March 2016 for conspiring to hide more than \$130 million in Cayman Islands bank accounts.

The Cayman Islands continues to develop its network of tax information exchange mechanisms and has a network of 36 signed information exchange agreements, with 31 in force. It also implemented automatic exchange of information for tax purposes under the Common Reporting Standard in 2016, and exchanges will begin in 2017.

The government of the Cayman Islands reportedly plans to incorporate a risk-based approach and administrative penalties for financial and DNFBP supervisors. The Cayman Islands is developing a centralized platform to enhance the timeliness of sharing of beneficial ownership information, with a target implementation date of June 2017. Currently, all financial service providers are required to maintain beneficial ownership information on their clients.

China, People's Republic of

OVERVIEW

The development of China's financial sector has required increased enforcement efforts to keep pace with the sophistication and reach of criminal networks. Chinese authorities continue to investigate cases involving traditional money laundering schemes and identify new money laundering methods, including illegal fundraising activity, cross-border telecommunications fraud, and corruption in the banking, securities, and transportation sectors.

While China continues to make improvements to its AML legal and regulatory framework, gradually making progress toward meeting international standards, implementation and transparency remain lacking in the context of international cooperation. China should cooperate with international law enforcement to investigate how indigenous Chinese underground financial systems, virtual currencies, and trade-based value transfer are used for illicit outbound transfers, and to receive inbound remittances and criminal proceeds.

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VULNERABILITIES AND EXPECTED TYPOLOGIES

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; TBML; manipulating invoices for services and the shipment of goods; purchasing valuable assets, such as real estate and gold; investing illicit funds in lawful sectors; gambling; and exploiting formal and underground financial systems, in addition to third-party payment systems. Chinese officials have noted that corruption in China often involves state-owned enterprises, including those in the financial sector.

China is not considered a major offshore financial center; however, China has 19 Special Economic Zones (SEZs) and other designated development zones at the national, provincial, and local levels. As part of China's economic reform initiative, China has opened FTZs in Shanghai, Tianjin, Guangdong, and Fujian.

KEY AML LAWS AND REGULATIONS

China passed a new law in September 2016 to require all charities to register with the government and to identify sources of funding in order to improve transparency in the non-profit sector.

In an August 2016 report, the People's Bank of China (PBOC) AML Bureau Director General reviewed China's work to date, noting China had published five major guidelines clarifying implementation of its 2006 AML Law and built up an alert system, including KYC, STR, and customer information and transaction recording requirements.

On July 1, 2016, a PBOC guideline requiring real-name identity verification for online payment platforms operated by non-bank financial institutions took effect. The PBOC guideline requires that account users be verified by their real-name identity to make online payments, receive or transfer funds, and use online wealth management services. Tencent and Alipay have reportedly implemented the requirements.

In February 2016, the PBOC issued a guideline requiring the Shanghai FTZ to construct an AML system and to conduct capital monitoring and analysis in the zone. The guideline calls for prioritizing CDD investigations and focusing on actual account holders and transaction beneficiaries.

China is a member of the FATF as well as the APG and the EAG, both of which are FATF-style regional bodies. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/a-c/china/documents/mutualevaluationofchina.html>

See comments on the Agreement on Mutual Legal Assistance in Criminal Matters between the United States and China described below.

AML DEFICIENCIES

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Improvements should be made addressing the rights of bona fide third parties in seizure/confiscation actions.

China is not subject to any U.S. or international AML sanctions or penalties.

China's FIU is not a member of the Egmont Group.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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 AML tools can be used, in a transparent fashion, to support the investigation and prosecution of a wide range of criminal activity. China should also continue to adapt its AML regime and financial regulations to address new and developing threats like virtual currencies, such as bitcoin, that are being used to circumvent capital controls.

The government should ensure all courts are aware of and uniformly implement mandatory confiscation laws. In domestic cases, once an investigation is opened, all law enforcement entities and public prosecutors are authorized to take provisional measures to seize or freeze property in question to preserve the availability of the same for later confiscation upon conviction. Although China's courts are required by law to systematically confiscate criminal proceeds, enforcement is inconsistent and no legislation authorizes seizure/confiscation of substitute assets of equivalent value.

The United States and China are parties to the Agreement on Mutual Legal Assistance in Criminal Matters. U.S. agencies consistently seek to expand cooperation with Chinese counterparts on AML matters. U.S. law enforcement agencies note China has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information. In addition, China'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.

In 2015, there were 1,540 money laundering prosecutions; conviction data is not available.

Colombia

OVERVIEW

Despite the Government of Colombia's fairly strict AML regime, the laundering of money, primarily from Colombia's illicit drug production and illegal mining but also from domestic terrorist groups, continues to penetrate its economy and affect its financial institutions. Colombia is taking appropriate steps by addressing some of the inefficiencies in its asset

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forfeiture regime and should continue to look for additional ways to increase efficiency and streamline an overly cumbersome judicial system. The Colombian government should find legal and administrative mechanisms to address the lack of interagency cooperation, which continues to hamper the government's progress in implementing an effective and efficient AML regime.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The postal money order and securities markets; the smuggling of bulk cash, gasoline, liquor, and household appliances; wire transfers; remittances; TBML; casinos, games of chance, and lotteries; electronic currency; prepaid debit cards; and prepaid cellular minutes are various techniques used to launder illicit funds. Trading of counterfeit items is another method used to launder illicit proceeds. The 104 FTZs in Colombia are vulnerable due to inadequate regulation, supervision, and transparency.

Criminal organizations smuggle merchandise to launder money through the formal financial system using trade, the non-bank financial system, and the black market peso exchange mechanism. Purchased goods are either smuggled into Colombia via neighboring countries or brought directly into Colombia's customs warehouses, avoiding taxes, tariffs, and customs duties. Counterfeit and smuggled goods are readily available in well-established black markets. Invoice-related TBML schemes are also used to transfer value. Evasion of the normal customs charges is frequently facilitated by the complicity of corrupt customs authorities.

Money laundering also occurs through regionally-run lotteries, called "Chance," which are easily exploitable due to weaknesses in the reporting system of these games to central government regulators.

KEY AML LAWS AND REGULATIONS

The AML legal regime and regulatory structure in Colombia generally meets international standards, and Colombia has enacted comprehensive CDD and STR regulations. Enhanced due diligence for PEPs is required.

Colombia cooperates with the United States in money laundering investigations, and exchange of information occurs regularly. In November 2016, Colombia and the United States signed a new asset sharing agreement. Recently, the Colombian legislature began considering changes to its 2014 Asset Forfeiture Reform Law, which would address some of the deficiencies in the current law and streamline the administrative and judicial processes of the asset forfeiture regime.

Colombia is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles/documentos/en/evaluaciones_mutuas/Colombia_3era_Ronda_2008.pdf

AML DEFICIENCIES

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Key impediments to developing an effective AML regime are underdeveloped institutional capacity, limited interagency cooperation, and an inadequate level of expertise in investigating and prosecuting complex financial crimes. The lack of interagency cooperation, a reluctance to share information, and bureaucratic stove-piping are factors that continue to limit the effectiveness of Colombia's AML regime. Despite improvements, regulatory institutions have limited analytical capacity and tools and lack the technology to effectively utilize the vast amount of available data.

COLJUEGOS, the gaming supervisor, continues to make limited gains by adding analytic capacity. However, the agency still suffers from a lack of resources, unfamiliarity with how to process and share information with prosecutors and judicial police, and a lack of information-sharing agreements with other regulatory and intelligence agencies.

Colombian law restricts the disclosure of financial intelligence from Colombia's FIU, the Unit for Information and Financial Analysis (UIAF), to the Attorney General's Office (AGO) only. The legal requirement that prosecutors conduct investigations means many cases already investigated by UIAF must be re-examined by the AGO, increasing case processing time and adding unnecessary work for prosecutors.

Lack of familiarity with the 2014 asset forfeiture law, especially outside of Bogota, continues to challenge the judicial sector. Moreover, a Supreme Court decision introduces an additional step to the proceedings, requiring prosecutors to first appear before an arraignment judge before the case can continue to the higher courts. The government reorganized the body in charge of managing seized assets to increase the speed by which these assets could be discharged; however, the AGO still retains the right to seize certain assets using a separate legal procedure. A lack of sound practices, standards, and coordination between the two entities continues to be an impediment.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Despite Colombia's robust legal and institutional AML infrastructure, key impediments are the lack of interagency cooperation, limited information sharing among the relevant agencies, an ineffective and inefficient judicial system, and a lack of expertise and experience in investigating and prosecuting complex financial crimes, especially outside of Bogota. Some Colombian policymakers recognize these challenges and have been working to address them, yet institutional deficiencies remain. After the unexpected departure of the UIAF director in April 2016, Colombia's FIU has been without a permanent director for most of 2016, creating uncertainties regarding the policies and direction of a key AML institution.

The Colombian Attorney General's Office reported that 60 money laundering cases resulted in a final judicial decision in 2016. Of these 60 cases, 51 concluded with a conviction.

Costa Rica

OVERVIEW

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Transnational criminal organizations continue to favor Costa Rica as a base to commit financial crimes due to its location and limited enforcement capability. Costa Rica's government has attempted to strengthen the legal framework for supervision and enforcement; however, challenges remain in mitigating money laundering risks. Costa Rica is a transit point that is also increasingly used as an operations base for narcotics trafficking; and significant laundering of proceeds from illicit activities continues. Costa Rica should continue to close financial crimes legislative gaps and allocate resources for investigation and prosecution.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Narcotics trafficking proceeds represent the largest source of laundered assets. Human trafficking, financial fraud, corruption, and contraband smuggling also generate illicit revenue. The construction industry; MVTs, including money remitters; the casino industry; and real estate have been identified as vulnerable to exploitation, as well as state and private financial institutions. Online gaming is legal in Costa Rica, and there are allegations of the laundering of millions of dollars. Authorities have occasionally detected TBML schemes and continue to identify bulk cash smuggling by foreign nationals.

KEY AML LAWS AND REGULATIONS

Costa Rican law does not attribute criminal responsibility to legal entities, although it may ascribe civil liability.

Costa Rica has KYC and STR requirements. Regulatory entities mandate CDD procedures for the following entities: banks, savings and loan cooperatives, and pension funds; insurance companies and intermediaries, money exchangers, and money remitters; securities broker/dealers, credit issuers, and sellers or redeemers of traveler's checks and postal money orders; trust administrators, financial intermediaries, and 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.

Costa Rica and the United States do not have a MLAT agreement, nor is one under negotiation at this time. However, Costa Rica cooperates effectively with U.S. law enforcement through international cooperation offices at key institutions and is party to several inter-American cooperation agreements on criminal matters and UN conventions.

Costa Rica is a member of the GAFILAT. Its most recent mutual evaluation can be found at: [http://www.gafilat.org/UserFiles/Biblioteca/Evaluaciones/IEM%204ta%20Ronda/MER_Costa_Rica_Final_Eng%20\(1\).pdf](http://www.gafilat.org/UserFiles/Biblioteca/Evaluaciones/IEM%204ta%20Ronda/MER_Costa_Rica_Final_Eng%20(1).pdf)

AML DEFICIENCIES

Costa Rica's 2015 National Strategy to Counter Money Laundering and Terrorism Financing seeks to address deficiencies, including lack of regulatory oversight of DNFBPs, lack of

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transparency regarding beneficial ownership of legal entities, an inadequate sanction regime for noncompliance, and insufficient resources allocated to AML.

Costa Rica enhanced its legal and regulatory frameworks in 2016, and the National Assembly passed Law 9387, allowing the government to freeze assets with suspected organized crime links. In December 2016, the National Assembly passed Legislative bill 19.245, which seeks to combat fiscal fraud by creating a registry of beneficial owners of legal entities. In May 2016, Bill 19.951 was introduced to extend regulatory supervision to credit card operators, money transfer business, casinos, and real estate developers and agents.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Costa Rica still faces challenges in mitigating identified risks, including developing an adequate legal framework for non-conviction-based asset forfeiture. To remedy this deficiency, Bill 19.571 was introduced in October 2015 and remains on the agenda for debate in the National Assembly. Prosecutors face challenges in prosecuting stand-alone money laundering cases because they are obligated to obtain convictions for predicate offenses first. Additionally, personnel shortages frequently hinder investigations.

There are ongoing U.S. financial crime investigations with Costa Rican ties, and Costa Rica cooperates well with U.S. law enforcement. In 2016, U.S. investigators dismantled a billion-dollar online gaming ring with Costa Rica-based employees. In May 2016, the U.S. Department of Justice cited cooperation from Costa Rica's Judicial Investigation Organization in the conviction of the Liberty Reserve founder for money laundering.

In 2016, Costa Rican investigators advanced complex cases and seized larger businesses, including two car washes and a hotel. During the period January 1 - October 1, 2016, the special bureau for money laundering in San Jose brought four cases to trial and achieved convictions or guilty pleas in three cases. In addition, regional prosecutors brought 23 cases during the period January 1-November 1, 2016, of which 13 resulted in convictions or guilty pleas.

Costa Rica continues to work to improve its enforcement and regulatory framework, focusing on those deficiencies highlighted by international experts.

Cuba

OVERVIEW

Cuba is not a regional financial center. Cuban financial practices and U.S. sanctions continue to prevent Cuba's banking system from fully integrating into the international financial system. The government-controlled banking sector, low internet and cell phone usage rates, and lack of government and legal transparency render Cuba an unattractive location for money laundering through financial institutions. The centrally-planned economy includes limited private activity. A significant cash-based black market operates parallel to the heavily subsidized and rationed formal market dominated by the state.

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The Government of Cuba does not identify money laundering as a major problem. Cuba should increase the transparency of its financial sector and expand its capacity to fight illegal activities. Cuba also should increase the transparency of criminal investigations and prosecutions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Cuba's geographic location puts it between drug-supplying and drug-consuming countries. Cuba has little foreign investment, a small international business presence, and no offshore casinos or internet gaming sites. Cuba's first special economic development zone at the port of Mariel in northwestern Cuba was established in November 2013 and is still under development; it is not currently an area of concern. There are no known issues with or abuse of NPOs, alternative remittance systems, offshore sectors, FTZs, bearer shares, or other specific sectors or situations.

KEY AML LAWS AND REGULATIONS

Legislation released in 2013 outlines regulations regarding enhanced customer due diligence of foreign PEPs, although it continues to exempt domestic PEPs from the reach of the legislation.

Cuba has bilateral agreements with a number of countries, including the United States, related to combating drug trafficking. It is unknown if any of these agreements include mechanisms to share information related to financial crimes or money laundering.

The United States and Cuba do not have a formal records-exchange mechanism in place but, under the Law Enforcement Dialogue process, have developed a mutual legal assistance relationship as part of the legal cooperation technical exchange and have established direct communication between DEA and its Cuban counterpart to focus on counternarcotics cooperation.

Cuba is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-cuba-2015.html>

AML DEFICIENCIES

Although the risk of money laundering is low, Cuba has a number of strategic deficiencies in its AML regime. These include a lack of SAR reporting to its FIU from financial institutions and DNFBPs and weak supervision and enforcement in the DNFBP and NPO sectors.

These deficiencies stem from Cuba's opaque national banking and financial sector, which hampers efforts to monitor the effectiveness and progress of Cuba's AML efforts. Cuba should increase the transparency of its financial sector. Cuba should ensure its CDD measures and SAR requirements include domestic PEPs, all DNFBPs, and the NPO sector, and create appropriate laws and procedures to enhance international cooperation and mutual legal assistance. Cuba also should increase the transparency of criminal investigations and prosecutions.

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The U.S. government issued the Cuban Assets Control Regulations in 1963, under the Trading with the Enemy Act. Between January 2015 and October 2016, the Departments of Commerce and the Treasury significantly modified sanctions regulations, with the easing of restrictions on authorized travel, commerce, and financial transactions. The embargo remains in place, however, and the sanctions regulations still restrict travel for “tourist activities,” as well as most investment and the import of most products of Cuban origin. With some notable exceptions, including agricultural products, medicines and medical devices, and certain non-sensitive telecommunications equipment and consumer communications devices, most exports from the United States to Cuba require a license. Additionally, U.S.-based assets in which Cuba or the Cuban government have an interest are blocked by operation of law, in the absence of a license.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Cuban government has run high-profile campaigns against corruption in recent years, investigating and prosecuting Cuban officials and foreign businesspeople. Cuba also is continuing its efforts to investigate and prosecute cases of money laundering. There are press reports of Cuba prosecuting and convicting individuals for money laundering and related offenses as recently as December 2016, but Cuba released no official reports of prosecutions or convictions for money laundering in 2016.

Cuba has agreed to continued cooperation and to the establishment of mechanisms to promote cyber-security and to combat terrorism, drug-trafficking, trafficking and trade in persons, money laundering, smuggling, and other transnational crimes. The United States and Cuba have a Law Enforcement Dialogue with technical exchanges on counternarcotics, cybercrime and cybersecurity, money laundering and associated crimes, counterterrorism, and legal cooperation.

Curacao

OVERVIEW

Curacao is an autonomous country within the Kingdom of the Netherlands. The Kingdom retains responsibility for foreign policy and defense, including entering into international conventions. The Kingdom may extend international conventions to the autonomous countries. With the Kingdom’s agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization’s agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the Kingdom as a whole. The Kingdom extended the UN Drug Convention to Curacao in 1999, and in 2010, the UNTOC was extended to Curacao.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States for joint activities and sharing of information in the areas of criminal investigation and upholding public order and to strengthen mutual cooperation in the areas of forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve

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all of the criminal justice system, one priority area is cracking down on money laundering operations.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Curacao is a regional financial center and, due to its location, a transshipment point for drugs from South America. The financial sector consists of company (trust) service providers, administrators, and self-administered investment institutions providing trust services and administrative services. These entities have international companies, mutual funds, and investment funds as their clients.

Money laundering is primarily related to proceeds from illegal narcotics. Money laundering organizations take advantage of the availability of U.S. dollars, offshore banking and incorporation systems, two FTZs, an expansive shipping container terminal with the largest oil transshipment center in the Caribbean, and resort/casino complexes to place, layer, and launder illegal proceeds. Money laundering occurs through real estate purchases, international tax shelters, wire transfers, and cash transport among Curacao, the Netherlands, and other Dutch Caribbean islands. Also, bulk cash smuggling is a continuing problem due to Curacao's close proximity to South America.

KEY AML LAWS AND REGULATIONS

Curacao enters into tax information exchange agreements (TIEAs) and double taxation agreements with other jurisdictions to prevent tax fraud and money laundering.

The following types of service providers are obligated by AML legislation to report unusual transaction reports (UTRs) to the FIU, and are covered by the KYC laws: accountants and accounting firms, auditors and auditing firms, auto/car dealers, credit unions, credit card companies, building societies, insurance companies, financial leasing companies, money remitters, real estate agents, securities broker/dealers, banks, casinos, credit associations, dealers in luxury goods, financial advisors, lotteries, money exchangers (only domestic banks are permitted to provide the service of exchanging foreign currencies), notaries, pawn shops, dealers in precious stones and metals, lawyers, superannuation/pension funds, online betting lotteries, construction material dealers, and trust companies.

The MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Curacao and is regularly used by U.S. and Curacao law enforcement agencies for international drug trafficking and money laundering investigations. Additionally, Curacao has a TIEA agreement signed with the United States.

Curacao is a member of the CFATF, a FATF-style regional body and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/curacao>

AML DEFICIENCIES

Curacao is currently drafting a supervisory law for internet gaming. Presently, internet casinos are subject to the AML obligations in the National Ordinance on Identification of Clients when Rendering Services and the amended National Ordinance on the Reporting of Unusual Transactions.

Curacao should conduct an AML national risk assessment. It also should strengthen its regulation and supervision of the offshore sector and FTZs, investigate underground banking networks, increase the number of money laundering investigations and prosecutions, and evaluate the risks posed by TBML, tax evasion, and the placement of illicit proceeds by corrupt foreign officials into its financial system.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Instead of a STR system, Curacao utilizes a broader UTR reporting system. Pursuant to local legislation, the reporting entities file UTRs with the FIU. The FIU analyzes the UTR and determines if it should be classified as a STR. The latest statistics, as of November 1, 2015, were 17,169 UTRs filed and 667 disseminated referrals to law enforcement agencies.

Curacao is carrying out three money laundering prosecutions: one against a lottery operator, and two against former government officials. All three are on appeal.

Dominica

OVERVIEW

Dominica is an offshore center with a considerable IBC presence and internet gaming. Money laundering cases involve external proceeds from fraudulent investment schemes, advance fee fraud schemes, and the placement of euros related to questionable activities conducted in other surrounding jurisdictions. Domestic money laundering is chiefly linked to narcotics activities.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Dominica is uniquely located between the French territories of Guadeloupe and Martinique and, due to its geographical location, the country is used as a transshipment point for narcotics and other criminal activities. For the past few years, money laundering cases involved fraudulent investment schemes, advance fee fraud schemes, credit card fraud schemes and the placement of euros from criminal activities into the financial system from the neighboring French territories of Marie Galante, Les Saintes, Guadeloupe, and Martinique.

Dominica hosts one internet gaming company, twelve offshore banks, and close to 19,000 IBCs. Bearer shares are permitted, but beneficiaries of the bearer shares must be disclosed to financial institutions as part of their KYC programs. The Eastern Caribbean Central Bank licenses and supervises domestic commercial banks. The Financial Services Unit (FSU) within Dominica's

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Ministry of Finance supervises and licenses offshore banks, credit unions, insurance companies, internet gaming companies, and the country's economic citizenship program.

Under Dominica's citizenship by investment program (CIP), individuals can obtain citizenship for approximately \$100,000 for an individual and \$200,000 for a family of up to four persons, or through an investment in real estate valued at a minimum of \$200,000. There is no residency requirement and passport holders may travel to most Commonwealth and EU countries without a visa. An application for economic citizenship must be made through a government-approved local agent and requires a fee for due diligence or background check purposes. There is no mandatory interview process; however, the government may require interviews in particular cases. Dominica's CIP has vulnerabilities that present AML and regional security risks and that may make it susceptible to abuse by criminal actors.

Furthermore, the porous borders pose a great challenge to law enforcement officials in effectively policing the various coastlines for drugs and smuggling of goods such as firearms and cash. Law enforcement officials continue to harness all available resources to curtail this illegal trade.

KEY AML LAWS AND REGULATIONS

In Dominica, there are comprehensive AML laws and regulations. These include: the Money Laundering (Prevention) Act No. 8 of 2011, as amended; the Financial Services Unit Act, No. 18 of 2008; the Financial Intelligence Unit Act, No. 7 of 2011; the Proceeds of Crime Act, No. 4 of 1993, as amended; the Anti-Money Laundering and Counter-Financing of Terrorism Code of Practice, No. 10 of 2014; the Exchange of Information Act, No. 25 of 2001; the Mutual Assistance in Criminal Matters Act, Chap. 12:19; the Transnational Organized Crime (Prevention and Control) Act, No. 13 of 2013; and the Criminal Law and Procedure (Amendment) Act, No. 3 of 2014.

The government enacted legislation to combat money laundering. The Proceeds of Crime Act of 2014, which is cited as the Anti-Money Laundering and the Suppression of Terrorist Financing Code of Practice, highlights duties of the FIU and the FSU in ensuring that financial institutions and persons carrying on a relevant business put appropriate AML systems and controls in place. The legislation clearly sets out provisions with which relevant entities are bound to comply. There are offenses and penalties created for non-compliance.

Entities that must comply with KYC rules are banks, venture risk capital, money transmission services, money and securities brokers, traders in foreign exchange, money lending and pawning, money exchanges, mutual funds, credit unions, building societies, trust businesses, insurance businesses, securities exchange, real estate businesses, car dealers, casinos, courier services, jewelry businesses, internet gaming and wagering entities, management companies, asset management and advice services, custodial and nominee service providers, registered agents, telecommunications companies, and utility companies.

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Dominica is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/mutual-evaluation-reports/dominica-1>

AML DEFICIENCIES

Dominica has achieved technical compliance with international AML standards. The AML/CFT Code of Practice covers legal persons and also provides for enhanced due diligence for PEPs. It is not clear whether Dominica has the ability to maintain statistics on matters relevant to the effectiveness and efficiency of its AML regime. In addition, it has not commenced the process of monitoring agents licensed to incorporate IBCs.

Currently Dominica is not subject to any U.S. or international sanctions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Proceeds of Crime Statutory Rules and Orders of 2014 ensures every entity puts proper controls in place to detect and prevent money laundering. Secondly, it provides guidance to every financial services entity and professional to appropriately apply the requirements of the Money Laundering Prevention Act of 2011. This update also promotes the use of an appropriate and proportionate risk-based approach to the detection and prevention of money laundering.

The 1988 UN Drug Convention was ratified on June 16, 1993. All pertinent Articles of the convention were incorporated into Dominica's legislation.

Dominican Republic

OVERVIEW

The Dominican Republic (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. The DR is not a major regional financial center, despite having one of the largest economies in the Caribbean.

Corruption within the government and the private sector, the presence of international illicit trafficking cartels, a large informal economy, and weak financial controls make the DR vulnerable to money laundering threats. Financial institutions in the DR 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. Casinos are legal, and unsupervised gaming activity represents a significant money laundering risk. While the country has passed a law creating an international FTZ, implementing regulations will not be issued until the law is reformed to avoid perceptions the zone will be left out of the DR's AML regulatory regime.

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The DR is not currently a member of the Egmont Group of FIUs, although it officially requested to begin the process to rejoin Egmont in January 2015, after making the necessary legislative changes to comply with Egmont requirements in 2014.

The government should take steps to rectify continuing weaknesses regarding PEPs, pass legislation to provide safe harbor protection for STR filers, and criminalize tipping off. The government should better regulate casinos and DNFBPs, specifically real estate companies, and strengthen regulations for financial cooperatives and insurance companies.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The major sources of laundered proceeds stem from illicit trafficking activities, tax evasion, and financial fraud, particularly transactions with forged credit cards. U.S. law enforcement has identified networks smuggling weapons into the DR from the United States. Car dealerships, precious metals dealers, casinos, tourism agencies, and real estate and construction companies are also used to launder money in the DR. The smuggling of bulk cash by couriers and the use of wire transfers are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the DR, currency exchange houses, money transfer companies, real estate and construction companies, and casinos facilitate the laundering of these illicit funds.

KEY AML LAWS AND REGULATIONS

The DR does have a mechanism (Law 72-02) for the sharing and requesting of information from international law enforcement authorities related to money laundering. The DR also has comprehensive CDD and STR regulations.

The United States and the DR do not have a bilateral MLAT but do in fact use the MLAT process via multilateral law enforcement conventions to exchange data for judicial proceedings. The process is only used on a case by case basis.

The Dominican Republic is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation is not currently available.

AML DEFICIENCIES

The DR's weak asset forfeiture regime is improving but does not cover confiscation of instrumentalities intended for use in the commission of money laundering offenses, property of corresponding value, and income, profits, or other benefits from the proceeds of crime. The DR Congress is currently reviewing legislation that would institute non-conviction-based asset forfeiture and align the asset forfeiture regime with international standards.

Following its expulsion from the Egmont Group of FIUs in 2006, the FIU improved its functionality, but it was only in 2014 that the necessary legislative changes were made to eliminate a second FIU-like organization to bring the legislative framework into compliance with Egmont Group rules. The DR officially requested readmission to the Egmont Group in 2015 and its application is being processed.

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The DR also has weaknesses regarding PEPs, has no legislation providing safe harbor protection for STR filers, and does not criminalize tipping off. The government also needs to strengthen regulation of casinos and non-bank financial institutions and is exploring methodologies to do so.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The DR continues to work on noted deficiencies where it is non-compliant with international AML standards, and in early 2016 the national money laundering working group reaffirmed the government's commitment to full compliance with international standards.

The Attorney General's Office reports there have been eight convictions in calendar year 2016 for money laundering offenses as well as nine active investigations. The Financial Analysis Unit reports that it passed 20 cases for prosecution to the Public Ministry from 2012-2015. The Attorney General's Office has developed a criminal investigations unit which will work on sensitive cases involving, among other issues, money laundering and corruption.

Ecuador

OVERVIEW

Ecuador is a major drug transit country. With a dollarized economy and geographic location between two major drug producing countries, Ecuador is highly vulnerable to money laundering. Corruption is a significant problem in Ecuador, and there is evidence money laundering occurs through trade and commercial activity, as well as through cash couriers. Large amounts of undeclared currency entering and leaving Ecuador indicate transit of illicit cash is a significant activity.

Structuring is a problem in Ecuador, especially along the northern border with Colombia where low-level criminals cross the border into Ecuador to make deposits under the reporting threshold into financial institutions.

Ecuador's Attorney General is investigating allegations of widespread fraud and money laundering at state oil company PetroEcuador. An August report by the National Assembly Justice Commission estimated former PetroEcuador officials had stolen at least \$12 million from the company, hiding the cash in Panamanian offshore accounts. On October 21, the Attorney General brought charges of embezzlement and bribery related to PetroEcuador against 17 individuals, including several former high-level government officials and family members. Several of the former public officials linked to the case have fled Ecuador to avoid prosecution.

Ecuador should criminalize bulk cash smuggling, give prosecutors additional time to investigate cases, allow for investigation without notifying a suspect s/he is under investigation, and require the FIU to make public STR/CTR statistics. The government needs to make a dedicated effort to better train judges, prosecutors, and investigators on the country's applicable AML legislation and regulations. The government also should assign additional prosecutors and investigators to

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pursue financial investigations outside Quito and provide training to increase institutional capacity and leadership within the Ecuadorian National Police (ENP) Money Laundering Unit.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Government authorities report trade mechanisms are increasingly used for money laundering purposes. In June, authorities uncovered a money laundering ring in which Ecuadorian companies smuggled gold into Ecuador from Peru, and then exported the gold to the United States and other countries. Authorities arrested seven executives from two Ecuadorian companies and subsequently charged them with money laundering. Government authorities and private sector observers note persistent problems with money laundering related to corruption in government institutions, tax fraud, and bulk cash smuggling through airports and across land borders.

KEY AML LAWS AND REGULATIONS

The 2016 Organic Law of Prevention, Detection, and Eradication of Money Laundering and Financial Crimes (2016 AML Law) places the Financial and Economic Analysis Unit (UAFE), the FIU, under the authority of the Coordinating Ministry for Political Economy. The move gives the ministry direct control over UAFE, which had previously reported only to the National Council Against Money Laundering. The 2016 AML Law also strengthens the UAFE's oversight powers and grants it the authority to levy fines against institutions for non-compliance with reporting requirements. The law also significantly increases financial reporting requirements for financial institutions and public and private companies by requiring the reporting of all transactions over \$10,000 and expanding the list of covered entities.

Ecuador has comprehensive KYC and STR regulations.

UAFE became a member of the Egmont Group in 2016 and is exchanging information with its counterparts, including FinCEN. Ecuador is able to use various conventions to ensure the availability to the United States and other governments of adequate records in connection with drug investigations and proceedings.

Ecuador is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Ecuador_3era_Ronda_2011.pdf

AML DEFICIENCIES

The 2014 Integral Organic Penal Code (COIP) does not criminalize bulk cash smuggling. The 2016 AML Law stipulates that failure to declare cash/currency at a port of entry is punishable by only a 30 percent administrative fine – the law does not address the smuggling of other financial instruments.

Ecuador has enhanced due diligence for PEPs.

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Ecuador is not subject to U.S. or international sanctions or penalties.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The ENP Money Laundering Unit is effective in investigating money laundering crimes. Widespread corruption and a lack of adequate training within the judiciary are the primary deficiencies in Ecuador's AML regime. Observers note judges are often susceptible to bribery from prosecutors and defendants and frequently hinder the fight against narcotics-related money laundering after law enforcement officials have investigated a crime and made an arrest. Judges also lack proper training on AML regulations and frequently misinterpret the law.

Authorities can pursue money laundering charges against bulk cash smugglers, but convictions are difficult to obtain as authorities are given only 30 days to investigate (in other money laundering cases, once an arrest is made, they are given 90 days). The COIP requires state prosecutors to inform a suspect s/he is under investigation, which, according to government authorities, often results in key evidence disappearing.

There are no reported incidents of the government failing to comply with its responsibilities under the conventions or refusing to cooperate with foreign governments.

The government does not make information publicly available on the number of money laundering-related prosecutions and convictions.

Egypt

OVERVIEW

Egypt is not considered a regional financial center or a major hub for money laundering. The Government of Egypt has shown increased willingness to tackle money laundering, but Egypt remains vulnerable by virtue of its large informal, cash-based economy. There are estimates as much as 90 percent of the population does not have bank accounts and the informal economy accounts for approximately 40 percent of the GDP. Consequently, extensive use of cash is common. The Central Bank and the Federation of Egyptian Banks aim to promote financial inclusion by incentivizing individuals and small businesses to enter the formal financial sector.

Countering corruption remains a long-term focus, and there have been cases involving public figures and entities, including allegations leading to the resignation of the Minister of Supply. The EU, Switzerland, UK, and Canada have all instituted targeted sanctions to freeze assets of former president Hosni Mubarak and several members of his regime based on their apparent misappropriation from the Egyptian state.

The government should continue to build its capacity to successfully investigate and prosecute money laundering offenses. In particular, the judicial system should continue to increase the number of judges trained in financial analysis related to money laundering activity. Egypt also

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should work to more effectively manage all aspects of its asset forfeiture regime, including identification, seizure, and forfeiture.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Sources of illegal proceeds reportedly include smuggling of antiquities and trafficking in narcotics and/or arms. However, some organizations also have turned to funding sources based on new technologies and social media. Intellectual property rights (IPR) violations are often overlooked in Egypt and are a major source of illicit proceeds. The government likely will not begin to target IPR as its resources are entirely directed to anti-corruption, security, and counter-terrorism. Authorities also note increased interception of illicit cross-border fund transfers by customs agents in recent years.

KEY AML LAWS AND REGULATIONS

In January 2016, the Central Bank of Egypt (CBE) increased the amount of U.S. dollars that could be deposited in banks by exporting companies from \$50,000 per month to \$250,000 per month, without a daily maximum. The amount was increased to \$1 million in February 2016. In March 2016, the CBE eliminated limits on individual deposits and withdrawals. These controls were designed to influence Egypt's parallel, less transparent currency market. In November 2016, Egypt floated its currency. The government is also increasing efforts to improve monitoring of remittances from abroad to ensure the remittance system is not used for money laundering purposes. Remittances from Egyptian citizens abroad amount to some \$20 billion per year, and authorities are working to more fully integrate these remittances into the formal banking system. The floating of the currency should move more of the remittance transactions back into formal market channels.

Egypt has KYC and STR regulations in place.

Egypt is a member of the MENAFATF, a FATF-Style Regional Body. Its most recent mutual evaluation report can be found at:

http://www.menafatf.org/images/UploadFiles/MER_Egypt_ForPublication.pdf.

AML DEFICIENCIES

Egypt should improve its capacity to successfully investigate and prosecute money laundering offenses. In particular, the judicial system should continue to increase the number of judges trained in financial analysis related to money laundering activity. Egypt needs to create the institutional and legal framework for conducting AML prosecutions independent of action on the predicate offense. In the past, the penal code had obliged prosecutors to press charges on the most serious, readily provable offense and, because other offenses carried higher penalties than money laundering, prosecutors did not pursue money laundering. Now, judges are required to issue two penalties, one for money laundering and another for the predicate offense. However, different circuits of Egypt's Court of Cassation, the country's highest criminal court, have reportedly taken differing positions on whether a conviction for the predicate offense is required

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for a money laundering conviction. Finally, Egypt's asset forfeiture regime could more effectively identify, seize, and induce forfeiture of assets.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

There are institutional obstacles and disincentives to actually conducting money laundering investigations. For example, the functions of investigation and prosecution of the predicate crimes for money laundering are institutionally separated from prosecution of the money laundering activity itself. The underlying criminal activity is investigated and prosecuted by general and drug crime sections of the Public Prosecution Office (PPO), while money laundering prosecutions are handled primarily by the High State Security Prosecutions section (the same section that prosecutes national security cases). The government is working to incorporate technical and analytical training on the investigation and prosecution of money laundering and related crimes into its judicial curriculum.

Moreover, although not required by Egypt's money laundering statute, it has been the PPO's policy that prosecution for money laundering requires a prior conviction for the underlying criminal activity, which excludes the potential for the independent prosecution of money laundering. Consequently, there have been relatively few money laundering prosecutions in Egypt; the prospective defendants have already been convicted and sentenced for the underlying criminal activity, and the money launderers themselves fall outside the PPO's prosecution policy.

El Salvador

OVERVIEW

El Salvador is a major transit route for South American cocaine destined for the United States, as well as cash proceeds returning to South America.

The lack of supervision of DNFBPs and an independent FIU are key challenges to mitigating El Salvador's money laundering vulnerabilities. The current FIU within the Attorney General's Office (AGO) cannot capitalize on regional information sharing or fully investigate/prosecute complex money laundering cases. While the FIU is not currently subject to political manipulation, the unit has been compromised by previous attorneys general and remains structurally vulnerable to manipulation in the future.

Current capacity building efforts are improving El Salvador's ability to investigate and prosecute more complex money laundering cases. El Salvador cannot fully take advantage of this foreign assistance until the FIU is built up into a fully independent unit.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The U.S. dollar is the official currency in El Salvador, and the country's dollarized economy and geographic location make it an ideal haven for transnational organized crime groups, including

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human smuggling and drug trafficking organizations. Money laundering is primarily related to proceeds from illegal narcotics and organized crime.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of their citizens across the respective borders. This agreement is a vulnerability to each country and the region for the cross-border movement of contraband and illicit proceeds of crime if citizens can bypass formal immigration and customs inspection.

According to authorities, organized crime groups launder money through the use of banks, front companies, parking lots, travel agencies, remittances, the import and export of goods, and cargo transportation. Illicit activity includes the use of smurfing operations, whereby small amounts of money are deposited or transferred in a specific pattern to avoid detection by government authorities. In addition, increased oversight of regional financial institutions have caused money laundering activities to increase in countries with less robust and developed regulatory oversight, including El Salvador. The large informal sector also creates vulnerabilities for El Salvador because it creates challenges for AML supervision.

As of December 2016, there are 17 FTZs operating in El Salvador. The FTZs are comprised of more than 200 companies operating in areas such as textiles, clothing, distribution centers, call centers, business process outsourcing, agribusiness, agriculture, electronics, and metallurgy. FTZs are particularly vulnerable to illicit activity such as TBML and bulk cash smuggling.

KEY AML LAWS AND REGULATIONS

The regulatory institutions charged with AML supervision are weak and lack both human resources and sufficient regulatory powers. Following a 2015 reform, the Superintendent of the Financial System now supervises all MSBs, including those not related to a bank or a bank holding company. The Central Bank prepared implementing regulations, which went into effect January 4, 2016.

The government of El Salvador's General Assembly passed an Asset Forfeiture (AF) Law in November 2013. Implementation of the law began in September 2014 when a specialized judge assumed control of the autonomous AF judicial court established by the legislation. According to the AGO, the specialized court finalized the forfeiture of \$609,000 in 2016, in addition to six vehicles and 15 real estate properties. The financial investigation unit brought money laundering charges against a group of dual U.S. and Salvadoran nationals for laundering approximately \$15,000,000 and has frozen \$2,000,000 in assets in an El Salvadoran bank.

The AF legislation allows the government to sell property seized in conjunction with criminal investigations and redirect up to 35 percent of the revenue to the AGO for counter drug trafficking, AML, and anti-organized crime efforts. In 2016, 28 cases were presented to the autonomous AF judicial court, and 16 cases were finalized, compared to 27 cases and 10 finalized in 2015.

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El Salvador is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/mutual-evaluation-reports/el-salvador-1/71-el-salvador-3rd-round-mer>

AML DEFICIENCIES

The Superintendent of the Financial System supervises only those accountants and auditors with a relationship with a bank or bank holding company. Independent entities are not subject to any supervision, nor are other DNFBPs.

Information sharing between El Salvador and FinCEN, the U.S. FIU, was frozen in 2013, following an unauthorized disclosure of information from El Salvador's FIU. Politicization of the FIU was addressed following a change in administration at the AGO, but the FIU remains under-resourced and lacks structural independence. El Salvador maintains limited membership in the Egmont Group of FIUs, due to the suspension of U.S. information sharing. Egmont continues to work with Salvadoran authorities to improve compliance.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Authorities are currently working on amendments and legislation to improve regulation of DNFBPs to better comply with international standards.

El Salvador's major money laundering convictions to date relate to bulk cash smuggling and isolated transactions. However, the AGO does have at least four large scale money laundering investigations/prosecutions currently underway, including the first money laundering case against a transnational gang.

Georgia

OVERVIEW

Much of the illegal income in Georgia derives from fraud in the banking sector, falsification of documents, and misappropriation of funds. There is little to no connection detected between illegal narcotics and money laundering. The Russian-occupied territories of South Ossetia and Abkhazia fall outside the control of Government of Georgia authorities and are not subject to monitoring.

Georgian prosecutors and law enforcement authorities should put more emphasis on pursuing the link between organized crime and money laundering. Georgia also should develop a task force approach, which will facilitate greater exchange of information and cooperation among the relevant bodies.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Illicit income is mainly generated from fraud related crimes (scams, stolen banking cards, etc.) and cybercrime, either in Georgia or abroad. Cybercrime cases have involved hacking into domestic or foreign computer systems and taking over communication channels of the victims to make them transfer funds to the fraudsters' accounts abroad.

According to the Investigation Service of the Ministry of Finance, there is a small black market for smuggled goods in Georgia. There is little evidence to suggest it is funded significantly from narcotics proceeds, or that the funds generated by smuggling are laundered through the formal financial system. Smuggled goods are sold in black or gray markets to avoid tax and customs duties. The extent of black market trading in the occupied territories of Abkhazia and South Ossetia is unknown. The rapid growth of the gaming industry in Georgia and the corresponding lack of AML regulatory supervision are concerning.

KEY AML LAWS AND REGULATIONS

Georgia's AML Law was amended in July 2015 to grant the Financial Monitoring Service (FMS), Georgia's FIU, the power to suspend suspicious transactions temporarily. Another amendment was made to extend the reporting requirements to the cross-border transportation of cash, negotiable instruments, and securities through cargo containers and mail. The tax code was amended to increase sanctions for the violation of the cross-border transportation of cash and securities rules. Moreover, the Minister of Finance issued an order that requires customs authorities to obtain information about the sender and recipient, as well as the origin and intended use of cash and securities transported across the Georgian border when the amount is above GEL 30,000 (approximately \$11,700). The Law of Georgia on Commercial Games was amended to strengthen the fit and proper criteria for owners and managers of gaming institutions. The Law on Payment Systems and Payment Services also was amended in 2015 to clarify that money remittance services can only be provided to physical persons.

The Anti-Corruption Council of Georgia is currently reviewing draft amendments to the Georgian AML Law, which will broaden the scope of the application of monitoring requirements to domestic PEPs.

Georgia implemented comprehensive KYC rules and STR regulations in compliance with international standards. The FMS shares operational information with its colleagues on a regular basis. Georgia does not require a formal agreement or MOU to share information with Egmont Group member FIUs.

Georgia is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/GEO4_MER_MONEYVAL\(2012\)18_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/GEO4_MER_MONEYVAL(2012)18_en.pdf)

AML DEFICIENCIES

Enhanced due diligence measures are applicable only to foreign PEPs.

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ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Governmental Commission on Implementation of United Nations Security Council Resolutions is currently developing an AML/CFT national risk assessment.

The draft strategy document of the prosecution service calls for an increase in the effectiveness of money laundering investigations and prosecutions, while focusing on the capacity development and skill-based training for prosecutors.

Investigations into narcotics, extortion, weapons of mass destruction, human trafficking, prostitution, and smuggling rarely include financial components. Despite a domestic market for illegal drugs and international drug trafficking through Georgia, narcotics trafficking is rarely investigated as a predicate offense for money laundering. The Government of Georgia has not adopted a formal task force approach to money laundering; however, coordination and information sharing among various law enforcement and criminal justice agencies has improved.

Between January 1 and October 1, 2016, there were 18 money laundering prosecutions and seven convictions.

Ghana**OVERVIEW**

Ghana is gradually realizing both the risk money laundering injects into the country's economic growth and its increasing role in the global fight against ML. With donor assistance, Ghana recently produced a money laundering national risk assessment to better understand and mitigate the country's risks in this area. The report found that Ghana's AML laws are largely compliant with international standards, although these laws are not often applied.

The perception of money laundered in Ghana is that it is linked to proceeds of narcotics trafficking, fraud, and public corruption. The most prevalent forms of financial crime in Ghana are still romance scams, advance-fee-fraud, or other similar schemes. Major vulnerabilities in Ghana's AML regime are a lack of enforcement actions and of effective customer due diligence or KYC identification adherence by most DNFBPs. To address these and other money laundering issues, the government of Ghana should allocate adequate funding to support the fight against money laundering, effectively implement relevant asset forfeiture laws and regulations, and sanction banks and other institutions that do not file STRs and currency transactions reports as required by Ghanaian law.

VULNERABILITIES AND EXPECTED TYPOLOGIES

DNFBPs are most vulnerable to money laundering. These sectors include real estate agencies, casinos, dealers in precious metals, accountants, lawyers, notaries, car dealers, NPOs, trust and company service providers, and remittance companies. These sectors account for about 30 percent of the country's gross domestic product and employ about 25 percent of the population,

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yet none of these institutions or their representatives have ever filed a STR. Ghana is a cash-dominant economy. As such, bulk cash smuggling is the most likely money laundering scheme attractive to launderers. No banks in Ghana provide offshore banking services. Ghana has designated four FTZ areas, but only one, the Tema Export Processing Zone, is active.

The Ghanaian criminal justice system specifically outlawed financial crime with the 2008 Anti-Money Laundering Act. Most investigators and prosecutors lack specific training in this area, and those who do undertake money laundering investigations are typically only trained in general crime investigation. Financial crime cases are prosecuted by state attorneys from the Attorney General's Office and by police prosecutors, who are not attorneys. While several state attorneys have received general training in financial crime prosecution, only a few have specialized AML training. There are no certified financial crime investigators trained in asset forfeiture in Ghana.

KEY AML LAWS AND REGULATIONS

Ghana's principal AML legislation is the Anti-Money Laundering Act, 2008 (Act 749), as amended by the Anti-Money Laundering (Amendment) Act, 2014 (Act 874). It defines the act of money laundering to include the conversion, concealment, disguise, or transfer of property which is or forms part of the proceeds of crime; the concealment and disguise of the unlawful origin of the property; and the acquisition, use, or possession of the property. After parliament passed this act, another 12 acts and two executive instruments were passed or amended to strengthen Ghana's AML regime. No additional legal changes are pending.

Ghana has comprehensive KYC and STR regulations. In 2016, parliament amended Ghana's Companies Act, 1963 (Act 179) to establish a beneficial ownership register in the country.

Ghana and the United States do not have a MLAT, but records can be exchanged through other mechanisms such as the Egmont Group or as parties to the UNCAC and UNTOC. Moreover, mutual legal assistance can be provided on a reciprocal basis through letters of request.

Ghana is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Ghana.html>.

AML DEFICIENCIES

There are requirements on banks and insurance companies to identify high-risk clients such as PEPs, but there is a lack of effective identification and monitoring of PEPs and their associates. For example, recent onsite inspections of capital market operators showed that many of these organizations were unable to produce their PEP lists. Other deficiencies are mentioned in the previous sections of this report. Ghana's AML regime covers legal persons. Ghana is not subject to any U.S. or international sanctions/penalties.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Ghana did not report any specific steps to implement the UN Drug Convention; however, Ghana is implementing the FATF Recommendations via its membership in GIABA. Post was not aware of any refusals to cooperate with U.S. or other governments on ML issues. Other enforcement issues are addressed previously in this report. Ghana recorded two money laundering convictions in 2016; five in 2015; and two in 2014.

Grenada

OVERVIEW

Grenada's geographic location in the Caribbean places it in close proximity to drug shipment routes from Venezuela to the United States and Europe. As a narcotics transfer point, money laundering in Grenada is principally connected to smuggling and narcotics trafficking by local organized crime rings. Illegal proceeds are laundered through a variety of businesses, as well as through the purchase of real estate, boats, jewelry, and cars.

Grenada is not a regional financial center. The Eastern Caribbean Central Bank is the supervisory authority for Grenadian commercial banks, and the Grenada Authority for the Regulation of Financial Institutions is responsible for supervising DNFBPs. Even though IBCs and offshore banking and trust companies are allowed to conduct business in Grenada, none are currently operating. Grenada has no casinos or internet gaming sites. The International Companies Act regulates the establishment and management of IBCs in Grenada and requires registered agents to maintain records of the names and addresses of company directors and beneficial owners of all shares. Bearer shares are not permitted. There are no FTZs in Grenada.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The identifiable avenues for money laundering in Grenada are drug trafficking, fraud, and under-invoicing.

There are no free trade zones in Grenada.

KEY AML LAWS AND REGULATIONS

Grenada's comprehensive Proceeds of Crime Act, Regulation and Guidelines is enforced and covers CDD and STR requirements. The Proceeds of Crime Act, Regulation and Guidelines was updated in 2013, 2014, and 2015.

Grenada has a records-exchange mechanism in place with the United States and has established laws and regulations ensuring the availability to U.S. and other foreign government personnel of adequate records in connection with drug investigations and proceedings.

Grenada is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=345&Itemid=418&lang=en

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AML DEFICIENCIES

The Proceeds of Crime Act, Regulations and Guidelines covers legal persons. It also speaks to enhanced due diligence for PEPs.

The fight against narcotics-related money laundering is hindered by the tipping off of suspected perpetrators; inadequate cooperation among law enforcement agencies; lack of proper monitoring by financial institutions; failure of financial institutions to file STRs; insufficient training of law enforcement and financial institutions; and failure of magistrates and judges to properly understand the statutes in general and/or the law or regulations as far as the ability to prosecute or impose sentencing.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Grenada is a signatory to and implements the 1988 UN Drug Convention and other applicable agreements. Grenada has made significant progress in improving its AML efforts and has established the legal and regulatory framework to address previously identified strategic deficiencies.

In 2016, Grenada prosecuted and successfully obtained convictions in six money laundering cases.

Grenada continues to seek training for all of its law enforcement departments, notably the Customs and Excise Department, which is proactive in the fight against money laundering. Additionally, Grenada took a more robust approach on forfeitures and confiscation matters, making use of the results-driven Proceeds of Crime legislation.

Guatemala**OVERVIEW**

Guatemala 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.

Guatemala continues incremental progress in its ability to investigate and prosecute money laundering and other financial crimes, with a key agency beginning to provide technical assistance to other nations. However, there remain vulnerabilities due to a lack of complete coordination by the Public Ministry (PM) prosecutors, and the tendency of the jurisdiction to treat money laundering as a stand-alone crime, rather than coordinating money laundering cases with those involving extortion, corruption, or trafficking.

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Open issues for Guatemala include: improved communications between the Special Verification Agency (IVE), Guatemala's FIU, and the PM; development of more internal capacity for financial crime investigations at the PM, including combined efforts by different Ministry offices; greater coordination among different financial supervision entities, including the IVE and other parts of the Superintendent of Banking; institutionalization of coordination between the PM and the National Secretariat for Administration of Forfeited Property (SENABED), the entity in charge of seized asset administration; and greater autonomy for SENABED. Additionally, relevant agencies remain chronically understaffed.

In order to improve efficiencies and maximize the effectiveness of a solid legal framework to address AML issues, Guatemala should continue to use vetting and corruption investigations to weed out those elements that hinder trust within and among relevant agencies.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Illicit funds come from various sources, with drug trafficking only one among them. Others include institutional corruption, extortion, human trafficking, commerce of other illicit goods, and tax evasion. Money is most notably laundered through real estate transactions, ranching, the concert business, and the gaming industry. It is also laundered through serial small transactions below the \$10,000 reporting requirement, either in small banks along the Guatemala-Mexico border, or by travelers carrying cash to other countries. Guatemala does not currently prohibit structuring of deposits to avoid reporting requirements.

Authorities are increasingly effective in conducting sound investigations of financial crimes, with the limitations noted above. Guatemalan investigations still face political headwinds with rampant corruption at all levels of government, both elected and within the existing bureaucracies, the latter often tied to low pay and traditional practices to supplement income. In both cases, improved transparency, increased professionalism, and ongoing efforts to investigate and eliminate corruption are making a difference.

There is a category of "offshore" banks in Guatemala in which the customers' money is legally considered to be deposited in the foreign country where the bank is headquartered. These "offshore" banks are subject to the same AML regulations as local banks.

Guatemala has 14 active FTZs. 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 FTZs are hubs of money laundering or drug trafficking activity.

The Central America Four Border Control Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders. As a result of this agreement, Guatemalan customs officials are not requiring travelers crossing their land border to report cash in amounts greater than \$10,000, as required by law.

KEY AML LAWS AND REGULATIONS

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Guatemala has a solid AML legal framework. The KYC and STR regulations, however, are not as effective as they might be, given the lack of coordination and cooperation by relevant government agencies, and lack of manpower.

Guatemala is a member of both the CFATF and GAFILAT, both FATF-style regional bodies. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/guatemala-1/79-guatemala-3rd-round-mer/file>.

Guatemala and the United States do not have a MLAT. Other mechanisms are used to exchange relevant information.

AML DEFICIENCIES

While Guatemala does exercise enhanced due diligence for PEPs, there are other deficiencies. Detected weaknesses include DNFBPs such as notaries, attorneys, and casinos or video lotteries, as being at high risk for serving as money laundering vehicles. The casinos in particular are an area where further legislation is necessary. Casinos are currently unregulated and a number of casinos and games of chance operate, both onshore and offshore. Otherwise, the required legislative frameworks are in place to address primary concerns regarding money laundering.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although a recent report highlighted the strengths of the IVE and its ability to investigate money laundering and the legal frameworks are useful, there remain procedural challenges that limit the efficiency of the IVE and the PM, a shortage of staff to adequately address the demand for investigation and analysis, and the ongoing problem of a lack of collaboration and cooperation among offices in the PM, at times even within offices, based on lack of trust because of rampant societal corruption.

In the 12 month period ending July 31, 2016, the PM office in charge of money laundering prosecutions received 411 accusations, filed charges in 100 cases, and obtained 42 convictions.

Guinea-Bissau

OVERVIEW

With five separate Bissau-Guinean governments in 15 months, the country made little headway to mitigate the conditions that led to the labeling of Guinea-Bissau as a “narco-state”. Moreover, the suspension of directed budget support by multilateral institutions has reduced government revenues by almost half, leading to further cutbacks in already deprived and inadequate law enforcement and judicial systems.

The 88 islands that make up the Bijagos Archipelago, combined with a military still able to sidestep the authority of the civilian government with impunity, continue to make the country a

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favorite transshipment center for drugs. Drug barons from Latin America and their collaborators from the region and elsewhere have taken advantage of Guinea-Bissau's extreme poverty, unemployment, history of political instability, lack of effective customs and law enforcement, and general insecurity to transship drugs destined for consumer markets, mainly in Europe. Using threats and bribes, drug traffickers have been able to infiltrate state structures and operate with impunity.

On April 8, 2010, the United States Department of the Treasury (Treasury) designated two Guinea-Bissau-based individuals, former Bissau-Guinean Navy Chief of Staff Admiral Jose Americo Bubo Na Tchuto and Air Force Chief of Staff Ibraima Papa Camara, as drug kingpins, thereby prohibiting U.S. persons from conducting financial or commercial transactions with those individuals and freezing any assets they may have under U.S. jurisdiction. The U.S. Drug Enforcement Administration arrested Na Tchuto in 2013. In October 2016, a New York court sentenced Na Tchuto to four years for drug trafficking, which includes the more than three years already served in detention. He was released in November 2016, and returned to Guinea-Bissau, where then Prime Minister Baciro Dja welcomed him as a "hero of the revolution." The 2013 arrest of Na Tchuto and the outstanding arrest warrant against then Armed Forces Chief General Antonio Indjai, for drug trafficking and terrorism offenses, as well as the fact that Air Force Chief of Staff Ibraima Papa Camara remains in his position despite Treasury's "kingpin" designation indicate that senior government officials continue to be involved in the drug trade and underscore the extent of complicity with drug trafficking at the highest levels.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The cohesion and effectiveness of the state itself remain very poor, despite modest efforts to initiate reforms. Corruption is a major concern and the judiciary has reportedly demonstrated a lack of integrity on a number of occasions. Many government offices, including the justice ministry, lack the basic resources, such as electricity, they require to function.

The major sources of illicit funds are drug trafficking, illegal logging, and corruption. Real estate and investment in legitimate businesses serve as the most common forms of laundering. There is no record of investigations, prosecutions, or convictions for the offense of money laundering, and corruption within the government points to internal obstacles to the fight against drug trafficking and money laundering.

KEY AML LAWS AND REGULATIONS

The Anti-Money Laundering Uniform Law, a legislative requirement for members of the West African Economic and Monetary Union (WAEMU), has been adopted by Guinea-Bissau, but its publication has been pending for several years; thus, the law is not yet in force. Guinea-Bissau has yet to criminalize most of the designated predicate offenses and lacks adequate legal provisions for the conduct of CDD procedures. 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 STRs for fear of

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alerting the subject because of allegedly indiscrete authorities. No STR regulations are under negotiation.

Guinea-Bissau is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Guinea-Bissau.html>

AML DEFICIENCIES

Guinea-Bissau is not in full compliance with international standards and accords against money laundering because of inadequate resources, weak border controls, under-resourced and understaffed police, competing national priorities, and historically low political will. The jurisdiction is currently considering ways to address deficiencies, but the instability of the government has hindered any progress.

The formal financial sector in Guinea-Bissau is undeveloped and poorly supervised; and the FIU is only partially functional, owing in part to the lack of resources, analytical staff, and technical equipment, among many other issues.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The woefully inadequate police and judicial systems make serious enforcement difficult. No money laundering-related prosecutions and convictions have occurred in recent years.

Guyana

OVERVIEW

Guyana's geographic location makes it attractive for transnational organized crime groups, including human and drug trafficking organizations. It continues to be a transit country for South American cocaine destined for Europe, the United States, Canada, West Africa, and the Caribbean.

There is a culture of using informal networks to move money between Guyana and the diaspora, and Guyana has a large cash-based economy. Many criminals use cash couriers or familial networks to move large sums of money between Guyana and the United States. Unregulated currency exchange houses also pose a risk, as they are used both for the exchange of currency and to transfer funds to and from the diaspora. Additionally, casinos are legal in Guyana and pose a risk for money laundering. Guyana has one casino.

In 2013, the CFATF issued a public statement noting significant strategic deficiencies in Guyana's AML regime and declaring Guyana a money laundering risk to the international financial system. Subsequently, the government created an action plan to address noted deficiencies and, in mid-2015, passed amendments to update its AML legislation to include a definition of beneficial ownership and broaden the definition of property subject to confiscation, among other improvements. In 2016, the CFATF removed Guyana from its public statement.

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VULNERABILITIES AND EXPECTED TYPOLOGIES

The primary sources of laundered funds are believed to be narcotics trafficking and corruption. However, the laundering of proceeds from other illicit activities, such as human trafficking, contraband, illegal natural resource extraction, and tax evasion, is substantial. Common money laundering typologies include the use of fictitious agreements of sale for non-existing precious minerals to support large cash deposits at financial institutions; cross-border transport of small volumes of precious metals, declared as scrap or broken jewelry to avoid scrutiny by the relevant officials and the payment of relevant taxes and duties; TBML using gold; and the use of middle- and senior-aged cash couriers for the cross-border transport of large sums of U.S. dollars.

KEY AML LAWS AND REGULATIONS

The Government of Guyana has legislation in place that could enable a more effective response to the threat of money laundering. In June 2015, Guyana passed and began to enforce the Anti-Money Laundering and Countering the Financing of Terrorism (AMLCFT) Amendment Act, seeking to address remaining deficiencies in its AML regime, such as the availability of proportionate and dissuasive sanctions.

Guyana has comprehensive CDD and STR regulations. There is also a records exchange mechanism in place with the United States.

Guyana is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation report can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/d-m/guyana>

AML DEFICIENCIES

International experts recommended Guyana make the following major improvements to its AML regime: adequately criminalize money laundering; to establish a fully operational and effectively functioning FIU; institute effective measures for customer due diligence and enhanced financial transparency; and establish adequate STR requirements. To correct noted deficiencies, Guyana passed the Anti-Money Laundering and Countering the Financing of Terrorism Regulations 2015; issued the Guidelines on Targeted Financial Sanctions 2015; and completed amendments to the AMLCFT Act in 2015 and 2016. Guyana's AML regime also extends to legal persons and provides for enhanced due diligence for PEPs.

Though created in 2003, the FIU was severely understaffed and ineffective. In June 2016, a new director of the FIU was appointed, and the functional capacity of the unit has been enhanced.

Guyana submitted a letter of interest to join the Egmont Group of FIUs in 2011, which is still being considered.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Guyana has ratified the 1988 UN Drug Convention.

The major agencies involved in anti-drug and AML efforts are the Office of the Attorney General, FIU, Ministry of Finance, Bank of Guyana, Guyana Police Force, Guyana Revenue Authority, the Customs Anti-Narcotics Unit, and the Serious Organized Crimes Unit (SOCU). Although the AML legislation gives the FIU authority to investigate alleged money laundering, the FIU does not have the capacity to conduct such investigations. The SOCU investigates those cases referred to it by the FIU. The effectiveness of these agencies at investigating money laundering is limited, as they lack adequate human resources, training to ensure successful prosecutions, and a strong interagency network. Additionally, lack of cooperation by the business community also hinders Guyana's AML efforts.

Despite its limited staffing capacity, in February, the SOCU seized roughly \$80,000 worth of local and foreign currency and arrested two persons suspected of money laundering. This was the first seizure under Guyana's updated AML legislation.

Guyana should raise awareness and understanding of AML laws and implementation procedures, through training and the publication of guidelines, within the judicial system and in agencies with the authority to investigate financial crimes. STR requirements, wire transfers, and customer due diligence regulations should be strengthened and additional resources extended to the FIU and SOCU.

Haiti

OVERVIEW

Haitian criminal gangs are engaged in international drug trafficking and other criminal and fraudulent activity. While Haiti itself is not a major financial center, regional narcotics and money laundering enterprises utilize Haitian couriers, primarily via maritime routes. Much of the drug trafficking in Haiti, as well as the related money laundering, is connected to the United States. Important legislation was adopted over the past several years, in particular anti-corruption and AML laws, but the weakness of the Haitian judicial system leaves the country vulnerable to corruption and money laundering.

On June 8, 2016, the CFATF issued a public statement asking its members to consider the risks arising from the deficiencies in Haiti's AML/CFT regime. The statement follows CFATF's acknowledgement that, although Haiti had made improvements in non-legislative areas, it had not made sufficient progress in fulfilling its action plan to address its serious AML deficiencies including legislative reforms. On November 9, 2016, the CFATF reaffirmed its stance, although noting Haiti's recent progress and efforts to introduce new legislation, including a new law designed to grant administrative autonomy to the Central Financial Intelligence Information Unit (UCREF), Haiti's FIU.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Most of the identified money laundering schemes involve significant amounts of U.S. currency held in financial institutions outside of Haiti or non-financial entities in Haiti, such as restaurants and other small businesses. Foreign currencies represent 63 percent of Haiti's bank deposits as of October 2016. A great majority of property confiscations to date have involved significant drug traffickers convicted in the United States. Illicit proceeds are also generated from corruption, embezzlement of government funds, smuggling, counterfeiting, kidnappings for ransom, illegal emigration and associated activities, and tax fraud.

Haiti has seven operational FTZs. There are also 157 licensed casinos and many other unlicensed casinos. Online gaming is illegal.

KEY AML LAWS AND REGULATIONS

The AML legislation passed in 2013 was further strengthened by amendments in 2016. In 2014, the Executive signed a long-delayed anti-corruption bill. Banks and financial companies, wire transfer agencies, credit unions, insurance companies, cooperatives, casinos, lawyers, accountants, notaries, and real estate agents must comply with KYC rules and report suspicious transactions to the UCREF.

Haiti is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/d-m/haiti>

AML DEFICIENCIES

The weakness of the Haitian judicial system and prosecutorial mechanisms as well as judges' and prosecutors' lack of knowledge of the recently adopted legislative amendments continue to leave the country vulnerable to corruption and money laundering. Haiti is not a member of the Egmont Group, but is currently applying for membership.

The government remains hampered by ineffective and outdated criminal codes and criminal procedural codes, and by the inability or unwillingness of judges and courts to address cases referred for prosecution. Draft criminal codes and criminal procedural codes that would address these deficiencies are expected to be considered by parliament over the next few months.

The government should continue to devote resources to building an effective AML regime, to include continued support to units charged with investigating financial crimes and the development of an information technology system. The 2013 AML/CFT law and its 2016 amendments, despite strengthening the regulatory framework to combat financial crimes, undermine the independence and effectiveness of Haiti's FIU.

Haiti also should take steps to establish a program to identify and report the cross-border movement of currency and financial instruments. Casinos and other forms of gaming should be better regulated and monitored. The Government of Haiti should take steps to combat pervasive corruption at all levels of Haitian government and commerce.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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The Government of Haiti continues to take steps, such as training staff and coordinating with the nation's banks, to implement a better AML regime. In September 2016, the National Assembly added missing elements to the 2013 AML/CFT law to bring it up to international standards, although deficiencies still remain. In order for Haiti to fully comply, however, the criminal code will have to be updated.

After years of delay, passage of the 2014 anti-corruption law constituted a positive step to try to address public corruption, but implementation issues remain. Frequent changes in leadership, fear of reprisal at the working level, rumored intervention from the Executive, and a lack of judicial follow-through (prosecutions) make implementation particularly difficult. Frequent changes in the judiciary also make it difficult for cases to be followed by prosecutors.

The UCREF has continued to build its internal capabilities and to do effective casework. The UCREF forwarded six cases to the judiciary in 2016. Continued issues in the judicial sector mean the UCREF's progress is not yet reflected in conviction rates. Once a case is received, an investigating judge has two months from the arrest date to compile evidence, but there is no limit to the timeframe to schedule court dates, communicate with investigating agencies and prosecutors, and track financial data. There were no convictions or prosecutions for money laundering in 2016.

Honduras

OVERVIEW

Honduras is not an important regional or offshore financial center. Money laundering in Honduras continues to stem primarily from significant narcotics trafficking throughout the region. Human smuggling of illegal migrants into the United States, extortion, kidnapping, and public corruption also generate significant amounts of laundered proceeds.

During 2016, the National Banking and Insurance Commission (CNBS) issued some of the regulations needed to implement the 2015 revisions to the AML law, but additional regulations are needed. Honduras also has developed and is implementing a national AML strategy.

The FIU staff needs additional training, and the FIU should improve its capacity to develop and disseminate money laundering typologies. Key players within the AML regime should seek to improve interagency coordination.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Honduras derives from both domestic and foreign criminal activity. Honduras' geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The majority of proceeds are suspected to be controlled by local drug trafficking organizations and transnational organized crime syndicates. A significant amount of laundered proceeds passes directly through the formal

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banking system. Money laundering also occurs to an increasing extent in the non-financial sector. Law enforcement has detected large-scale money laundering activities in the automobile and real estate sectors and, to a lesser extent, in remittance companies, currency exchange houses, the construction sector, and many other kinds of businesses. Another area of vulnerability is the legality of bearer shares, which present a significant money laundering challenge. Additionally, TBML is a growing problem.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of citizens of these countries across their respective borders without visas; however, citizens can be subject to immigration or customs inspections. The agreement represents a vulnerability of each country for the cross-border movement of contraband and proceeds of crime.

The country's lack of resources and capacity to effectively and efficiently investigate and analyze complex financial transactions, when combined with wide-scale corruption within the law enforcement and judicial sectors, contribute to a favorable climate for significant money laundering. There is smuggling of bulk cash, liquor, firearms, gasoline, clothes, illegally caught lobster, and cigarettes.

KEY AML LAWS AND REGULATIONS

CNBS developed a strategic and operational plan to improve its supervisory capacity, including by establishing a new AML/CFT risk management unit. In 2015, Honduras issued regulations relating to DNFPBs and is developing a DNFBP registry. Effective May 28, 2016, the CNBS issued some of the implementing regulations for the 2015 reforms to the money laundering law. Honduras has comprehensive CDD and STR regulations.

Honduras can exchange information in connection with narcotics investigations and proceedings with the United States under appropriate treaties and conventions.

Honduras is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.gafilat.org/blog/noticias/141016091643/Mutual-Evaluation-Report-of-Honduras.htm&lang=en>

AML DEFICIENCIES

Although Honduras has developed a national AML strategy, Honduras needs to implement a risk-based approach and must focus on effectively and efficiently implementing its AML regime.

Honduras is taking steps to implement a new risk-based approach. It has conducted a national risk assessment with the assistance of an international donor. The government should make the national risk assessment public. The government has begun to work on creating a degree program, in coordination with a Honduran university, on money laundering and counter-terrorist financing.

Honduras is not subject to any U.S. or international sanctions or penalties.

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ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Honduras cooperates with foreign governments. On August 23, 2016, following up on the suggestion of President Juan Orlando Hernandez, the presidents of the Northern Triangle countries of Honduras, Guatemala, and El Salvador signed an agreement in which they agreed to fight together the threats and risks to the region caused by organized crime. Under the agreement, the countries will form a tri-national force to fight gang crime. The countries will also create inter-institutional groups that will work on the borders of the Northern Triangle. A goal of the agreement is to give the Northern Triangle countries the ability to act more quickly and to work together as a team in a much more organized manner so that they can better fight organized crime.

During 2016, Honduran prosecutors conducted 24 ML-related prosecutions and obtained seven convictions. Honduran investigators and prosecutors continue to be challenged by complex money laundering cases.

The FIU should provide additional training for its staff members on a number of topics including, but not limited to, the financial products available at financial institutions, international standards, analysis of financial data, report writing, relevant Honduran laws, and the analysis of suspicious and cash transactions reports. The FIU should improve its capacity to detect and describe money laundering typologies. It should disseminate information on typologies to regulated entities and provide feedback to those entities on reports they submit so that filed reports contain complete and accurate responses to requests for information. Key players within relevant law enforcement agencies and key agencies should seek to improve coordination with respect to implementation of the AML regime.

Hong Kong**OVERVIEW**

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 31, 2016, Hong Kong's stock market was the world's seventh largest, with \$3.2 trillion in market capitalization. Already the world's eighth largest banking center in terms of external transactions and the fifth largest foreign exchange trading center, Hong Kong has continued its expansion as the primary offshore renminbi (RMB) financing center, accumulating the equivalent of over \$90.6 billion in RMB-denominated deposits at authorized institutions as of November 2016. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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

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exchange controls present vulnerabilities for money laundering, including TBML and underground finance.

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 gaming outlets. Government of Hong Kong officials indicate the primary sources of laundered funds, derived from local and overseas criminal activity, are fraud and financial crimes, illegal gaming, loan sharking, smuggling, and vice.

KEY AML LAWS AND REGULATIONS

Hong Kong has AML legislation allowing the tracing and confiscating of proceeds derived from drug-trafficking (Drug Trafficking (Recovery of Proceeds) Ordinance) and organized crime (Organized and Serious Crimes Ordinance). These two ordinances have made it more difficult for drug traffickers and other criminals to launder or retain their illicit profits. Hong Kong also has enacted the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO) for supervising authorized institutions' compliance with the legal and supervisory requirements.

Under the AMLO, where payment-related information is exchanged or intended to be exchanged authorized institutions need to carry out CDD procedures. Furthermore, the AMLO Guideline and the Hong Kong Monetary Authority's (HKMA) Transactions Guidance Paper provide substantial practical guidance on filing STRs. The guideline indicates that, where knowledge or suspicion arises, an STR should be filed in a timely manner with the Joint Financial Intelligence Unit, which is jointly run by staff of the Hong Kong Police Force and the Hong Kong Customs & Excise Department.

In February 2016, the Hong Kong Association of Banks, in collaboration with the HKMA, published the Guidance Paper on Combating Trade-based Money Laundering in order to implement effective measures to further mitigate authorized institutions' money laundering risks.

Hong Kong is a member of the FATF and the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationofhongkongchina.html>

AML DEFICIENCIES

Hong Kong has yet to establish a system that detects the physical cross-border transportation of currency and bearer negotiable instruments. Hong Kong needs to accord priority to establishing such a declaration/disclosure system.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Over the last two years, financial regulators, most notably the HKMA, conducted extensive outreach, including at the highest corporate levels, to stress the importance of robust AML controls and highlight potential criminal sanctions implications for failure to fulfill legal obligations under the Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT, Financial Institutions) Ordinance.

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 UNCAC and the UNTOC were extended to Hong Kong in 2006.

Hong Kong should establish threshold reporting requirements for currency transactions and put in place structuring provisions to counter efforts to evade reporting. The government should establish a cross-border currency reporting requirement. In July 2015, the Hong Kong government launched a three-month public consultation on such a reporting system. The Hong Kong government is consolidating the views collected. Hong Kong should also implement a mechanism whereby the government can return funds to identified victims once it confiscates criminally-derived proceeds.

From January 1 - November 30, 2016, there were 90 money laundering convictions. During the same timeframe, assets restrained under the money laundering and asset confiscation laws totaled \$34.3 million.

India

OVERVIEW

India's main money laundering vulnerability comes from a widespread lack of access to formal financial institutions, particularly in the rural sector, that has resulted in the growth of informal financing networks. The government has launched large-scale financial inclusion programs to increase the number of banked individuals. According to Global Financial Integrity, over the last decade, India is one of the top four sources of illicit financial outflows, primarily based on TBML and abusive trade mis-invoicing.

India should consider the regulation of traditional MVTS and further facilitate the development and expansion of new payment products and services, including mobile banking. The government should ensure all relevant DNFBPs comply with AML regulations.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The most common money laundering methods include opening multiple bank accounts to hide funds, intermingling criminal proceeds with licit assets, purchasing bank checks with cash, and

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routing funds through complex legal structures. Transnational criminal organizations use offshore corporations and TBML to disguise the criminal origins of funds, and companies use TBML to evade capital controls. Illicit funds are sometimes laundered through real estate, educational programs, charities, and election campaigns. Laundered funds are derived from narcotics trafficking, trafficking in persons, and illegal trade, as well as tax avoidance and economic crimes. Counterfeit Indian currency has also been a problem. Notably, however, in November 2016, the Reserve Bank of India demonetized the 500 and 1000 rupee notes and introduced new banknotes to try to crack down on “black money” stemming from corruption, tax evasion, and other illicit financial activity. While this action addresses the problem of counterfeit currency, it does little to mitigate long term money laundering risks.

India has licensed seven offshore banking units (OBUs) to operate in Special Economic Zones (SEZs), which were established to promote export-oriented commercial businesses. As of March 2015, there were 202 SEZs in operation, and 413 SEZs that have received formal approval but have yet to start operations. Customs officers control access to the SEZs. OBUs have defined physical boundaries and functional limits, are prohibited from engaging in cash transactions, can only lend to the SEZ wholesale commercial sector, and are subject to the same AML regulations as the domestic sector.

KEY AML LAWS AND REGULATIONS

In October 2015, India began implementing legislation passed in response to government electoral promises to repatriate previously undisclosed and non-taxed financial assets. Some tax analysts and business community members criticized the severity of the legal penalties in the new law, such as 10-year jail terms, hefty financial penalties, and lack of immunity from prosecution. India’s tax department has attempted to allay taxpayer fears of harassment and corruption by assigning enforcement responsibilities to senior officers and publicly clarifying legislation guidelines.

India has comprehensive KYC and STR requirements.

India is a member of the FATF, as well as two FATF-style regional bodies, the APG and the EAG. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/d-i/india/>

AML DEFICIENCIES

India’s current safe harbor provision is too limited and only protects principal officers and compliance officers of institutions that file STRs in good faith.

Legal persons in India are covered by criminal and civil laws against money laundering. India uses enhanced due diligence for PEPs. India is not subject to U.S. sanctions or penalties.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Although India has taken steps to implement an effective AML regime, deficiencies remain. While 2012 amendments to the Prevention of Money Laundering Act (PMLA) widen the definition of money laundering, the government has not changed its enforcement model. Observers and law enforcement professionals express concern about effective implementation and enforcement of the current laws, especially with regard to criminal prosecutions.

U.S. investigators have had limited success in coordinating the seizure of illicit proceeds with Indian 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 investigative leads has prevented a more comprehensive offensive against violators and related groups. India is demonstrating an increasing ability to act on mutual legal assistance requests but continues to struggle with institutional challenges, which limit its ability to provide assistance.

India should recognize the vulnerability of and consider the regulation of traditional MVTs and further facilitate the development and expansion of new payment products and services, including mobile banking. Such an increase in lawful, accessible services would allow broader financial inclusion of legitimate individuals and entities and shrink the informal network, particularly in the rural sector.

India should address noted shortcomings in the criminalization of money laundering, as well as its domestic framework for confiscation and provisional measures. The government should ensure all relevant DNFBPs comply with AML regulations. India should extend its safe harbor provision to also cover all employees. The government of India should seek to use data and analytics to systematically detect trade anomalies that could be indicative of customs fraud, TBML, and counter-valuation in hawala networks.

Indonesia

OVERVIEW

While not a major regional financial center, Indonesia remains vulnerable to money laundering due to gaps in financial system legislation and regulation, a cash-based economy, weak rule of law, and ineffective law enforcement institutions. Most money laundering in Indonesia is connected to drug trafficking and other criminal activity such as corruption, tax crimes, illegal logging, wildlife trafficking, theft, bank fraud, credit card fraud, maritime piracy, sale of counterfeit goods, illegal gambling, and prostitution.

Overall, Indonesia is making progress in identifying and taking steps to address its money laundering vulnerabilities. The primary areas for improvement would be greater analytical training for law enforcement personnel, judicial authorities' awareness of the money laundering offense, increased capacity and focus by investigators and prosecutors on conducting financial investigations as a routine component of criminal cases, and more widespread education for workers in the financial services sector.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Indonesia has a long history of smuggling of illicit goods and bulk cash, made easier by thousands of miles of unpatrolled coastlines, sporadic and lax law enforcement, and poor customs infrastructure. Proceeds from illicit activities are easily moved offshore and repatriated as needed for commercial and personal use. Endemic corruption remains a significant concern and poses a challenge for AML regime implementation.

FTZs are not a particular concern for money laundering in Indonesia. This vast archipelago nation offers many opportunities for narcotics smuggling and cross-border transfer of illegally earned cash without needing to rely on FTZs. The primary factors hindering the fight against narcotics-related money laundering are the lack of analytical training for law enforcement personnel, and insufficient training on money laundering detection and reporting for lower-level workers in the financial services sector. Indonesia's tax amnesty law also poses a money laundering risk, as assets submitted under the program do not appear to be subject to AML measures.

KEY AML LAWS AND REGULATIONS

Indonesia has had KYC requirements as a crucial part of its AML regime since 2001. PEPs are subject to enhanced due diligence; in practice, even lower-level civil servants may be included in this category.

On January 11, 2012, the Indonesian government issued Presidential Decree No. 6, 2012, which establishes the National Coordinating Committee on the Prevention and Combating of Money Laundering (AML Committee). This committee is responsible for coordinating Indonesia's AML efforts. The interagency AML Committee is chaired by the Coordinating Minister for Political, Legal, and Security, with the Deputy Coordinating Minister for Economic Affairs and the Head of Indonesia's FIU, the Indonesian Financial Transaction Reports and Analysis Center (PPATK), as secretaries of the Committee.

The PPATK coordinates Indonesia's AML efforts and programs. PPATK is directly responsible to the President and submits implementation reports every six months to the President and legislature. Much of PPATK's AML activities are tied into its efforts to identify and combat terrorist financing.

In late 2015, Indonesia conducted a national risk assessment, which Indonesia then followed by taking a leadership role, along with Australia, in the regional risk assessment on terrorist financing produced in August 2016.

Indonesia is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/documents/search-results.aspx?keywords=Indonesia>

AML DEFICIENCIES

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The main deficiencies in Indonesia's AML regime are lack of expertise within the law enforcement community and insufficient knowledge of reporting requirements by lower-level bank officials. Indonesia is not subject to any U.S. or international sanctions for money laundering.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Indonesia is taking steps to implement the 1988 UN Drug Convention and other applicable agreements and conventions. Combating narcotics abuse is a top priority for the current administration, and Indonesia recognizes the need for international cooperation to stem this transnational threat.

PPATK publishes a monthly report summarizing reporting activity. In addition to CTRs and STRs, PPATK also publishes a Cash Carry Report in collaboration with the Directorate General of Customs and Excise to track physical cross-border transfers of cash. PPATK also invites the public to report any suspicious transactions. For the period January - August 2016, PPATK referred 253 Results of Analysis STRs, reports that follow-up on the initial notifications provided by financial institutions, to investigators, a 16.2 percent increase over the same January - August timeframe in 2015. Most were alleged corruption cases. For the period January - August 2016, PPATK produced 75 Examination Reports (ERs), the final assessment after full analysis and evaluation of an STR. There is a significant increase in the number of ERs referred this year; the 2016 total through August is greater than the cumulative total of the last five years. The Indonesian government lacks sufficient practices or procedures to collect high-quality prosecution and conviction statistics.

In 2016, there were seven money laundering convictions.

Iran

OVERVIEW

Iran has a large underground economy, spurred by uneven taxation, widespread smuggling, sanctions evasion, and currency exchange controls. There is also pervasive corruption within Iran's ruling and religious elite, government ministries, and government-controlled business enterprises. Although Iran is not currently a financial hub, with the lifting of nuclear-related sanctions against Iran under the Joint Comprehensive Plan of Action (JCPOA), Iran could expand its regional financial significance, as investors and companies explore opportunities for new investment in and trade with Iran. To increase its financial standing, however, Iran must implement significant reforms in its financial sector, which is opaque and poorly regulated.

Iran remains 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 transport to consumers in Russia and Europe. Most opiates and hashish are smuggled into Iran across its land borders with Afghanistan and Pakistan, although maritime smuggling has increased as traffickers seek to avoid Iranian border

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interdiction efforts. In 2015, Iran's Minister of Interior estimated the combined value of narcotics trafficking and sales in Iran is \$6 billion annually.

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. The FATF has repeatedly warned of Iran's failure to address the risks of terrorist financing, urging jurisdictions around the world to impose countermeasures to protect their financial sectors from illicit finance emanating from Iran. In June 2016, Iran made a high-level political commitment to the FATF to implement an action plan to address its strategic AML/CFT deficiencies. In response, although Iran remains on FATF's Public Statement, FATF suspended its call for countermeasures for 12 months while Iran implements its action plan.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Iran's merchant community makes active use of MVTs, including hawala (*sarrafi* in Persian) and moneylenders. Leveraging the worldwide hawala network, Iranians are able to easily, securely, and inexpensively make both legitimate and illegitimate money transfers to Europe, North America, and beyond. Counter-valuation in hawala transactions is often accomplished via trade; thus TBML is a prevalent form of money laundering. Many hawala owners and the traditional Iranian merchant class have ties to the regional hawala hub of Dubai. An estimated 400,000 Iranians reside in the United Arab Emirates (UAE), with up to 50,000 Iranian-owned companies based there. According to media reporting, Iranians have invested billions of dollars in capital in the UAE, particularly in Dubai real estate. Money launderers also use Iran's real estate market to hide illicit funds.

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.

KEY AML LAWS AND REGULATIONS

Iran has criminalized money laundering and has adopted KYC and STR requirements. Additionally, Iran has put in place a regulation to institute cross-border currency declarations for amounts over the equivalent of \$10,000 in any currency.

Iran is not a member of either a FATF-style regional body or of the Egmont Group.

AML DEFICIENCIES

In October 2007, the FATF issued its first public statement expressing concern over Iran's lack of a comprehensive AML/CFT framework. Beginning in 2009, the FATF urged all jurisdictions to apply effective countermeasures to protect their financial sectors from the money laundering/terrorist financing risks emanating from Iran, and it also stated that jurisdictions should protect against correspondent relationships being used to bypass or evade countermeasures or risk mitigation practices. As a result of Iran's high-level commitment to the FATF to implement an action plan to address its strategic AML/CFT deficiencies, on June 24,

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2016, the FATF continued to include Iran on its Public Statement but suspended its call for countermeasures for 12 months while Iran implements its action plan.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

For nearly two decades, the United States has undertaken targeted financial actions against key Iranian financial institutions, entities, and individuals that include legislation and more than a dozen Executive Orders (E.O.s). One noteworthy action taken against Iran includes designating one state-owned Iranian bank (Bank Saderat and its foreign operations), designated for funneling money to terrorist organizations (E.O. 13224).

Although U.S. nuclear-related secondary sanctions against Iran were lifted on JCPOA Implementation Day in January 2016, the United States continues to enforce sanctions targeting Iran's support for terrorism, destabilizing regional activities, ballistic missile activities, and human rights abuses. Thus, post-JCPOA Implementation Day, there are more than 200 Iran-related persons and entities remaining on the Department of the Treasury's List of Designated Nationals.

Iraq

OVERVIEW

Iraq's economy is primarily cash-based and its financial sector is severely underdeveloped. Iraq has about 2,000 financial institutions, most of which are money exchange houses. Although Iraqi law prohibits these entities from transferring funds outside of Iraq, some probably conduct cross-border transfers. U.S. dollars are widely accepted. Iraqi law enforcement and bank supervisors have made progress in their capabilities to detect and halt illicit financial transactions mostly due to a 2015 AML law. However, the illicit use of some currency exchange networks and the weak compliance capabilities of the banking sector leave the Iraqi financial sector susceptible to abuse.

Smuggling is endemic, often involving consumer goods. Bulk cash smuggling is likely common, in part because Iraqi law only allows for the seizure of funds at points of entry, such as border crossings and airports. Narcotics trafficking occurs on a small scale. Corruption is pervasive at all government levels and is widely regarded as a cost of doing business in Iraq.

Iraqi authorities have been making strides in combatting money laundering, but almost all of the progress is connected to terrorist financing. Investigations into financial gains from political corruption or other actors remain virtually nonexistent.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Since June 2014, when Iraq's ongoing conflict with ISIL escalated, it has been more difficult for the government to monitor AML efforts in areas outside of central government control. The Central Bank of Iraq (CBI) has taken a number of steps to deter money laundering, including by

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issuing a national directive to prohibit financial transactions with banks and financial companies located in ISIL-controlled areas, publishing a list of companies prohibited from accessing the U.S. currency auction, and increasing its investigative activities and cooperation with the Ministry of Interior (MOI). However, the CBI lacks adequate personnel and technical capacity to fully monitor financial entities and routinely encounters difficulty engaging various parts of the government during its investigations.

According to the manager of Iraq's Free Trade Zone Authority, Iraq has three FTZs, but only Khour Az-Zubayr, Basrah, is currently operational. 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. TBML is a significant problem in Iraq and is linked to hawalas and informal financial systems.

KEY AML LAWS AND REGULATIONS

In October 2015 Iraq passed a new AML law; implementing regulations are still being drafted. The CBI is working with international donors to draft the regulations. The implementation of the 2015 AML law should help to increase the regulation and supervision of the financial sector, but to date the capacity of the regulatory authorities remains limited, and enforcement is subject to political constraints.

Since June 2016, Iraq has made improvements to its AML regime, namely through addressing issues related to the criminalization of money laundering and strengthening its FIU.

Iraq is a member of MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: http://www.menafatf.org/MER/MER_Iraq_English.pdf

AML DEFICIENCIES

A lack of technological and human capital is a major hindrance to Iraq's efforts to effectively combat money laundering. The lack of cooperation between the intelligence agencies, the FIU, the CBI, and the judiciary, while improving, is a major obstacle to effective enforcement actions. Additionally, the Money Laundering Reporting Office (MLRO) needs to be empowered to enforce its authority to receive reports from all reporting entities.

In practice, despite CDD requirements, most banks open accounts based on referrals by existing customers and/or verification of a person's employment. Actual application of CDD and other preventive measures varies widely across Iraq's state-owned and private banks. Banks generally comply with the requirement to file CTRs with the MLRO, but very few STRs are filed. Due to a weak institutional culture of compliance and the lack of robust penalties for noncompliance, banks often are unmotivated to file STRs and sometimes conduct internal investigations in lieu of reporting. Iraqi authorities should encourage increased reporting by financial institutions through more in-depth onsite supervision and an increase in the penalties levied for noncompliance.

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ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The CBI revoked the licenses of dozens of exchange houses and money transfer companies linked to illicit financial activity in 2016, and the MOI closed the offices of over 40 unlicensed exchange houses.

The number of criminal convictions rose dramatically in 2016, and coordination with U.S. authorities has increased. However, the result in many cases is a fine against an institution or closure of the financial office.

Greater coordination between the Iraqi government and the Kurdistan Regional Government (KRG) is needed to regulate financial transactions, crack down on smuggling networks, and cooperate on AML efforts. The KRG abides by Iraq's AML law, and there are renewed efforts to coordinate with the central government; however, the extent of the cooperation remains extremely limited. Moreover, Kurdish customs requirements are less stringent than Iraq's, which risks enabling the smuggling of illicit and counterfeit goods into southern Iraq.

Italy**OVERVIEW**

Italy's economy is the eighth-largest in the world and the third-largest in the Eurozone. Italy has a sophisticated AML regime and legal framework, but continued risk of money laundering stems from activities associated with organized crime. Numerous reports by Italian NGOs identify domestic organized crime as Italy's largest enterprise. Tax crimes also represent a significant risk and have been identified by Italy's national risk assessment (NRA) as accounting for 75 percent of all proceeds-generating crime in Italy. While on the rise, CDD and reporting remain weak among non-financial sectors, and regulations are inconsistent. The Government of Italy continues to combat sources of money laundering. The current government has undertaken reforms to curb tax evasion and strengthen anti-corruption measures, and the government's fight against organized crime is ongoing.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Drug trafficking is a primary source of income for Italy's organized crime groups, which exploit Italy's strategic geographic location to do business with foreign criminal organizations in Eastern Europe, China, South America, and Africa. Other major sources of laundered money are proceeds from tax evasion and value-added tax fraud, smuggling and sale of counterfeit goods, extortion, corruption, illegal gaming, and loan sharking. Italian authorities have strong policy cooperation and coordination, and Italy is now developing a national AML strategy informed by the NRA. Law enforcement agencies have been successful in undertaking complex financial investigations and prosecutions and have confiscated large amounts of criminal proceeds.

KEY AML LAWS AND REGULATIONS

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The Ministry of Economy and Finance is host to the Financial Security Directorate, which establishes policy regarding financial transactions and AML efforts. The directorate published Italy's most recent NRA in July 2014. The Bank of Italy (BOI) is home to the Financial Information Unit (UIF), Italy's FIU, which is the government's main mechanism for collecting data on financial flows and receiving STRs. The BOI continues to issue guidance on CDD measures, in order to support banks and financial intermediaries in the definition of their CDD policies.

Law no. 186, criminalizing self-laundering, was added to the Italian Penal Code and became effective on January 1, 2015, giving Italy increased authority to prosecute individuals for money laundering as a standalone crime. This new law defines self-laundering as an operation aimed to conceal the illegal origin of the money, carried out by the same person who committed or participated in the predicate offense.

The UIF reported an increase in STR filings of 33 percent in the first half of 2016 over the first half of 2015. Of these STRs, approximately 25 percent were voluntary disclosures. The UIF attributes this dramatic increase in STRs to more active participation among non-financial professionals, particularly lawyers and accountants. The UIF has worked to increase the number of STRs filed by DNFBPs, especially within the public administration sector. In the first half of 2016, the percentage of STRs reported by DNFBPs rose slightly, and the share received from professionals doubled. The government plans to continue to implement measures that will significantly increase the number of STRs from DNFBPs.

Italy has a MLAT with the United States and is party to the U.S.-EU MLAT.

Italy is a member of the FATF. Its most recent mutual evaluation report can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Italy-2016.pdf>.

AML DEFICIENCIES

As of January 2014, regulations require the application of enhanced CDD measures for the financial sector in transactions with both domestic and foreign PEPs. However, DNFBPs are not required to apply enhanced CDD when dealing with domestic PEPs. DNFBPs are also not legally required to file a STR when the beneficial owner is not identified in a business transaction. Money remitters operating under EU passporting arrangements are not adequately regulated or supervised, although the situation should improve with the implementation of the EU's 4th AML Directive.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The criminalization of self-money laundering allows for expanded legal authority to prosecute individuals for money laundering and may help decrease the need for these lesser convictions. However, penalties applied to persons convicted of money laundering may not be sufficiently dissuasive as there are numerous repeat offenders. Italy continues to implement the 1988 UN Drug Convention and seeks to implement revisions to its AML policies in accordance with the

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EU's 2015 Fourth Anti-Money Laundering Directive, which mandates compliance by June 26, 2017.

Jamaica

OVERVIEW

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics and fraud schemes and is largely controlled by organized criminal groups. Jamaica continues to experience a large number of financial crimes related to advance fee fraud (lottery scams), corruption, and cybercrime.

Since the Proceeds of Crime Act was instituted in 2007, Jamaica's Financial Investigations Division, which includes the FIU, has used the act to seize approximately \$20 million in properties and other assets believed to be derived from criminal activities. The Proceeds of Crime Act has been increasingly successful but is still not being implemented to its fullest potential due to difficulties prosecuting financial crime and achieving convictions in these cases.

The Government of Jamaica should make a concerted effort to identify money laundering-related activities and deter political and public corruption, while working to ensure that financial institutions are as inclusive as possible. Jamaica also should take steps to provide sufficient resources to the prosecutors and courts and should review and amend, if necessary, its case-processing procedures to enhance its ability to prosecute financial crimes fairly and efficiently. Jamaica should also further develop the capacities of its law enforcement and prosecutorial authorities in order to successfully prosecute financial crime cases.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics, financial scams, and extortion and is largely controlled by organized criminal groups. There are dozens of violent Jamaican gangs on the island. Jamaica continues to experience a large number of financial crimes related to cybercrime and advance fee fraud (lottery scams), which primarily target U.S. citizens.

KEY AML LAWS AND REGULATIONS

The Proceeds of Crime Act has been increasingly successful but is still not being used to its fullest potential. The act incorporates the existing provisions of its predecessor legislation and permits the civil forfeiture of assets related to criminal activity. The act has expanded the confiscation powers of the Government of Jamaica and permits, in addition to pre-conviction forfeiture of assets, a post-conviction forfeiture of benefits assessed to have been received by the convicted party within the six years preceding the conviction. The act criminalizes money laundering related to narcotics offenses, fraud, firearms trafficking, human trafficking, terrorist financing, and corruption and applies to all property or assets associated with an individual convicted or suspected of involvement

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with a crime. This includes legitimate businesses used to launder drug money. The Financial Investigation Division continues to work with partners in the Jamaica Constabulary Force and others to refer cases which could result in seizure of assets.

In 2014, Jamaica passed the Banking Services Act, which allows for greater information sharing among the Bank of Jamaica, the Financial Services Commission, and foreign counterparts.

Jamaica's financial institutions (including money remitters and cambios) file an inordinately high volume of suspicious transaction reports annually, the vast majority of which are deemed defensive filings.

In 2016, the Financial Investigations Division began using AML software to allow for the online filing of CTRs and STRs by over 300 financial institutions, real estate agents, and other regulated entities. It also allows for the automated analysis of these disclosures and the generation of both tactical and strategic reports to improve the overall effectiveness of combating money laundering and identifying drug trafficking and other criminal activities.

Jamaica is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/jamaica-1>

AML DEFICIENCIES

Lengthy delays in processing judicial orders hinder the effectiveness of the Jamaican court system. The Jamaican courts and prosecutors have been unable to keep pace with an increase of all charged crimes, including financial crimes. Inefficient methods of practice amongst the investigators, prosecutors, defense bar, and judiciary, combined with corruption and a culture of unaccountability, further exasperates an already overburdened system. Jamaica has chosen to pursue predicate offenses to money laundering, rather than pursuing money laundering as a stand-alone offense, due to the challenge of investigating and prosecuting money laundering cases. This has resulted in the non-prioritization of money laundering investigations and fewer money laundering prosecutions and convictions.

Political and public corruption both generate and facilitate illicit funds and activity.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although lawyers are included in 2014 amendments to the AML regulations, the Jamaican Bar Association filed an injunction to exclude them from AML requirements. That action is still pending.

In 2015, there were twenty-two prosecutions and four convictions related to money laundering, bringing the tally to ninety-seven such prosecutions and ten convictions in the last six years.

Kazakhstan

OVERVIEW

While not a regional financial center, the Republic of Kazakhstan has the most developed economy and financial system in Central Asia and has an ambitious plan for creating a regional financial offshore zone in its capital, Astana.

Kazakhstan is a transit country for Afghan heroin and opiates to Europe via Russia and thus is vulnerable to drug-related money laundering crimes. Tracking narcotics revenue remains difficult, as payments make use of informal alternative remittance systems, such as hawala, or through the QIWI Wallet electronic payment system.

The absence of parallel financial investigations and the resistance of local key stakeholders to a “stand-alone” money laundering concept create additional challenges. There is currently no criminal or administrative liability for money laundering offenses for legal persons. Enhanced due diligence is required only for foreign PEPs, whereas domestic PEPs are not covered.

Low numbers for money laundering investigations and convictions indicate the need to strengthen the efficiency of the current AML regime. The Prosecutor General’s Office (PGO) expressed its strong commitment to resolving open issues related to financial investigations and asset recovery through the development of an interagency working group.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Governmental corruption, an organized crime presence, and a large shadow economy make the country vulnerable to money laundering. A significant part of Kazakhstan’s wealth derived from minerals and hydrocarbons is held in offshore accounts with little public scrutiny or accounting oversight. The major sources of laundered proceeds are graft by public officials, tax evasion, and fraudulent financial activity, particularly transactions using shell companies to launder funds returned in the form of foreign investments. In addition, the smuggling of contraband and fraudulent invoicing of imports and exports remain common practices.

Casinos and slot machine parlors are located only in selected territories. The Ministry of Culture and Sport is responsible for the regulation of the gaming sector and also issues licenses to gaming businesses. Kazakhstani law prohibits online casinos and gaming. Law enforcement agencies find it challenging to combat online gaming. The vulnerabilities of these businesses to money laundering and the scope of government oversight are not known.

KEY AML LAWS AND REGULATIONS

The AML/CFT Law adopted in 2009, as amended in 2012, 2014, 2015, and 2016, creates the legal framework for all preventive measures to be observed by the private sector.

Kazakhstan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

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AML DEFICIENCIES

Current AML law does not cover financial management firms; travel agencies; or dealers of art, antiques, and other high-value consumer goods. These entities are not required to maintain customer information or report suspicious activity.

Kazakhstan lacks a mechanism to share with other countries assets seized through joint or trans-border operations. Non-conviction-based asset forfeiture provisions will come into effect in 2018.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

During the first 10 months of 2016, prosecutors brought 54 money laundering-related cases to court. Only one money laundering-related conviction occurred during this period.

The government requires additional resources to ensure the proper enforcement of its financial crimes regulations. The government should train and educate local institutions and personnel on further implementation of the AML law in accordance with the soon-to-be conducted national risk assessment. The government should ensure due diligence and reporting requirements are applied to all appropriate entities.

On January 1, 2018 a new provision will enter into force allowing confiscation of property illegally obtained or purchased with illicit funds, replacing a provision that permits mandatory seizure, in part or in whole, of the property of any person convicted for miscellaneous predicate offenses. Currently, law enforcement agencies do not attempt with any frequency or consistency to determine the origin of assets during the initial stage of an investigation. Since the burden of proof lies with law enforcement, under the new provision it will be difficult to determine the origin of assets that belong to a suspected person.

All reporting entities subject to the AML law are inspected by their respective regulatory agencies. Most of those agencies, however, lack the resources and expertise to inspect reporting entities for AML compliance. In addition, all reporting entities, except banks, have difficulties implementing a risk-based approach to AML compliance, so they mostly apply CDD procedures in a blanket fashion. Regulatory agencies, in coordination with the FIU, should ensure the ability of non-bank reporting entities to implement a risk-based AML approach that will lead to improved STR reporting.

There is a two-tier AML/CFT Certification Program for private sector representatives that includes both national and international components. Ninety percent of Kazakhstani banks have at least one compliance specialist certified in money laundering investigation.

Kenya**OVERVIEW**

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Kenya remains vulnerable to money laundering and financial fraud. It is the financial hub of East Africa, with its banking and financial sectors growing in sophistication. Kenya is also at the forefront of mobile banking. Money laundering occurs in the formal and informal sectors and derives from both domestic and foreign criminal operations. Criminal activities include transnational organized crime, cybercrime, corruption, smuggling, trade invoice manipulation, illicit trade in drugs and counterfeit goods, trade in illegal timber and charcoal, and wildlife trafficking.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Although banks, wire services, and mobile payment and banking systems are increasingly available, there are also thriving unregulated networks of hawaladars and other unlicensed remittance systems that lack transparency and facilitate cash-based, unreported transfers that the government cannot track. Foreign nationals, including refugee populations, and ethnic Somali residents primarily use the hawala system to send and receive remittances internationally. Diaspora remittances to Kenya totaled \$1.55 billion in 2015 and \$862 million between January and September 2016. There are about 159,000 mobile-money agents in Kenya, most working through Safaricom's M-PESA system. There are also over 10 million accounts on M-Shwari, Safaricom's online banking service. These services remain vulnerable to money laundering activities.

Kenya is a transit point for international drug traffickers, and TBML continues to be a problem. Kenya's proximity to Somalia makes it an attractive location for the laundering of certain piracy-related proceeds. There is a black market for smuggled and grey market goods in Kenya, which serves as a transit country for the region. Goods reportedly transiting Kenya are not subject to customs duties, but authorities acknowledge many such goods are actually sold in Kenya. Trade in goods is often used to provide counter-valuation in regional hawala networks.

KEY AML LAWS AND REGULATIONS

Financial institutions engage in currency transactions related to international narcotics trafficking, involving significant amounts of U.S. currency, which is derived from illegal sales in the United States as well as in Kenya. Under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) and other banking regulations, Kenyan financial institutions and entities reporting to the Financial Reporting Center (FRC), Kenya's FIU, are subject to KYC and STR rules and have enhanced due diligence procedures in place for PEPs.

Kenya and the United States cooperate on money laundering investigations on a case-by-case basis.

Kenya is a member of the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: http://www.esaamlg.org/reports/view_me.php?id=228

AML DEFICIENCIES

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An automated system would improve the FRC's efficiency and ability to analyze suspicious transactions. Although the FRC receives STRs from some MVTs providers, this sector is more challenging to supervise for AML compliance.

The tracking and investigation of suspicious transactions within the mobile payment and banking systems remain difficult. For example, criminals could potentially use illicit funds to purchase mobile credits at amounts below reporting thresholds. The lack of rigorous enforcement in this sector, coupled with inadequate reporting from certain reporting entities, increases the risk of abuse.

In order to demand bank records or seize an account, the police must obtain a court order by presenting evidence linking the deposits to a criminal violation. The confidentiality of this process is not well maintained, which allows account holders to be tipped off, providing an opportunity to move their assets or contest the orders.

The government, especially the police, does not allocate adequate resources to build sufficient institutional capacity and investigative skill to conduct complex financial investigations independently. Bureaucratic and other impediments also may impede investigation and prosecution of these crimes. Kenya should fully satisfy its commitments on good governance, anti-corruption efforts, and improvements to its AML regime.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The POCAMLA legislation provides a comprehensive framework to address AML issues and authorizes appropriate sanctions for money laundering crimes. The Office of the Director of Public Prosecutions, which includes a division that specifically addresses money laundering and terrorist financing offenses, has used ancillary provisions in the POCAMLA to apply for orders to restrain, preserve, and seize proceeds of crime in Nairobi.

Kenya's constitution requires public officials to seek approval from the Ethics and Anti-Corruption Commission (EACC) prior to opening a bank account. The EACC denied permission to 146 government employees to open foreign bank accounts.

In March 2015, the Capital Markets Authority listed new guidelines requiring brokers to adhere to enhanced internal controls. The brokers are required to assess the risk levels of clients, by checking their backgrounds and assigning them risk ratings, and to report suspicious trades and transactions above \$10,000 to the FRC.

In July 2015, the government made commitments to strengthen its AML regime by working toward gaining membership to the Egmont Group, working with international donors to conduct a risk assessment for money laundering, and working with development partners to facilitate the full implementation of its AML rules and regulations. Kenya agreed to accelerate its work to strengthen the capacity of the FRC and the central bank to track illicit financial flows and to increase bilateral information sharing and enforcement efforts. Despite some progress, Kenya has not yet fulfilled all of its commitments.

Korea, Democratic People's Republic of

OVERVIEW

The Democratic People's Republic of Korea (DPRK or North Korea) has a history of involvement in currency counterfeiting, drug trafficking, terrorist financing, and the laundering of related proceeds, as well as the use of deceptive financial practices in the international financial system. The DPRK regime continues to present a range of challenges for the international community through its pursuit of nuclear weapons, weapons trafficking and proliferation, and human rights abuses.

On June 1, 2016, the U.S. Department of the Treasury identified the DPRK as a jurisdiction of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, and issued a proposed rulemaking generally prohibiting U.S. financial institutions from establishing or maintaining correspondent accounts with DPRK financial institutions and prohibiting the use of U.S. correspondent accounts to process transactions for North Korean financial institutions. This proposed rule was finalized on November 4, 2016.

Furthermore, in October 2016, the FATF again expressed its serious concerns with the threats posed by DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing, and urged the DPRK to immediately and meaningfully address its AML/CFT deficiencies. The FATF strengthened the public statement by aligning it with the key financial operative paragraphs of UNSCR 2270 in urging all jurisdictions to terminate correspondent accounts and close existing branches and subsidiaries of DPRK banks. The FATF reaffirmed its earlier calls on its members to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions, and those acting on their behalf. In addition to enhanced scrutiny, the FATF further called on its members and urged all jurisdictions to apply effective countermeasures and targeted financial sanctions in accordance with applicable UNSCRs in order to protect their financial sectors from money laundering and proliferation financing risks emanating from the DPRK.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Access to current information on the financial and other dealings of the DPRK is hampered by the extremely closed nature of its society, but it has reported on its AML framework through engagement with the international AML community.

KEY AML LAWS AND REGULATIONS

In April 2016, DPRK adopted an AML law through Decree No. 1113 of the Presidium of the Supreme People's Assembly, replacing the previous AML law of October 2006. The new AML law covers the main elements of the money laundering offense (conversion, transfer, concealing, disguising, acquisition, possession and use of property, knowing that such property is the proceeds of an offense) and the coverage of the offense extends to any type of property,

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regardless of its value, that directly or indirectly represents the proceeds of crime. However, the law remains significantly deficient, and there is no evidence of an AML infrastructure in the DPRK capable of implementing the law.

The DPRK is not a member of a FATF-style regional body but is an observer of the APG. It has been subject to the FATF call for countermeasures since 2011.

AML DEFICIENCIES

There is little available information on the DPRK's financial system, and it is not clear what kinds of financial institutions currently operate in the DPRK or the type of financial activities conducted. The DPRK has not been subject to a review of its AML regime based on international standards.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The AML law nominally sets out a supervisory framework by the Financial Supervisory Bureau, which has broad responsibilities for implementation and enforcement of the AML law. However, there is no evidence the DPRK can effectively supervise its financial institutions and enforce AML practices. Moreover, although the AML law mentions effective monitoring and supervisory mechanisms, including powers to sanction financial institutions and other businesses and professions that do not comply with AML requirements, there is neither explanation for how this is achieved nor evidence of any established framework to implement sanctions.

The DPRK is party to a number of international conventions, including the 1988 UN Drug Convention. There is no evidence, however, that the DPRK has taken sufficient steps to properly implement provisions contained in the conventions.

Kyrgyz Republic

OVERVIEW

The Kyrgyz Republic is not a regional financial center, although a large shadow economy, corruption, organized crime, and narcotics trafficking make the country vulnerable to financial crimes. Despite these issues, the banking system in the Kyrgyz Republic is relatively stable and is viewed as a reliable partner for foreign banks and other financial institutions.

The government substantially addressed its action plan to remedy major AML deficiencies, by adequately criminalizing money laundering and terrorism financing; establishing an adequate legal framework for identifying, tracing, and freezing terrorist assets; establishing adequate measures for the confiscation of funds related to money laundering; and strengthening customer due diligence requirements. Despite these efforts, weaknesses remain in implementation and enforcement.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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In 2016, known remittances from migrant workers comprise nearly 32 percent of GDP. A significant portion of remittances enters informal channels or is hand-carried to Kyrgyzstan from abroad.

Absent exact figures, it appears narcotics trafficking is the main source of criminal proceeds. The country sits along the transit route from Afghanistan to Russia and beyond. The smuggling of consumer goods, tax and tariff evasion, and official corruption continue to serve as additional major sources of criminal proceeds. Money laundering also occurs through trade-based fraud, bulk-cash couriers, and informal and unregulated value transfer systems. Weak political will, resource constraints, inefficient financial systems, and corruption serve to stifle efforts to effectively combat money laundering.

KEY AML LAWS AND REGULATIONS

The following entities are subject to STR requirements: banks; financial organizations; credit unions; insurance organizations; professional participants in the equity markets; mortgage companies; private pension funds and managers of retirement assets; leasing companies; persons providing funds or value transfer, including a specialized system of money transfers without opening an account; foreign exchange dealers; pawnshops/buyer companies; commodity exchanges; persons organizing and conducting lotteries; real estate brokerages and intermediaries; dealers of precious metals, precious stones, and jewels (and waste of these products); other persons conducting financial transactions; persons providing trustee services, including trust companies; and post/telegraph organizations providing money transfers.

Banks, credit institutions, stock brokerages, foreign exchange offices, insurance companies, notaries, attorneys, regulators, tax consultants and auditors, realtors, the state's property agency, trustees, jewelry stores and dealers, and customs officers are subject to KYC requirements.

In 2016, the FIU signed more than eight international cooperation agreements on exchanging information on money laundering and terrorism financing.

The Kyrgyz Republic is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation is available at: <http://www.eurasiangroup.org/mers.php>

AML DEFICIENCIES

The AML law was amended twice in 2015. Amendments in April specifically exclude the gaming industry, with the exception of lotteries, from coverage under the law. Additional amendments in July expand the list of entities required to report STRs but remove notaries. There is no criminal liability for legal persons engaged in money laundering activity.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Despite noted progress, significant gaps still exist in enforcement and implementation. The procedures for investigation and enforcement are still underdeveloped, and there are virtually no

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investigations and prosecutions of money laundering. Both government and private institutions lack personnel, training, and capacity to enforce the law and its attendant regulations. A previous attempt at reform of the Financial Police proved ineffective. The Financial Intelligence Service of the Kyrgyz Republic (FIS), the country's FIU, is not recognized by other government entities as a legitimate investigative agency, resulting in a lack of cooperation and information sharing across agency lines. The FIS says it sends prosecutable cases, which the prosecution service refuses to pursue; the prosecutors say they receive scant information from the FIS and requests to prosecute without sufficient evidence. In March 2015, the government amended the FIS law and ordered the FIU to create a Public Advisory Council in order to monitor its activities.

According to FIS 2016 data, the FIS conducted 34 financial investigations on money laundering, but data on prosecutions and convictions are not available.

In June 2016 a draft AML law was prepared that will, if passed, replace an existing AML law. This draft law would introduce new items which are required under international standards but are missing in the current law. For example, the new draft law has an article on international cooperation and an expanded list of money laundering crimes.

Laos

OVERVIEW

The fast-growing economy, weak governance, and Laos' geographic position at the heart of mainland Southeast Asia combine to make it vulnerable to money laundering. Cash-based transactions, even for large purchases such as vehicles and real estate, remain commonplace, and government efforts to move toward electronic records and transactions continue to proceed slowly. The financial sector in Laos has expanded rapidly over the last decade, and while the government has enacted several new regulations aimed at preventing money laundering, officials' knowledge remains relatively limited and implementation is untested, leaving Laos an attractive target for money launderers.

Corruption is widespread, though the government of Prime Minister Thongloun has focused greater government attention on the issue. Drug trafficking, wildlife trafficking, and human trafficking are major concerns. Traffickers are likely taking advantage of poor recordkeeping, weak enforcement of new regulations, and prevalence of cash transactions to launder the proceeds of their crimes. Smuggling is made easier by porous borders. Bulk cash smuggling to and from Thailand, China, and Vietnam is likely occurring. Laos has a large informal economy and uses informal value transfer systems.

Laos still needs to show improvement in several areas, including demonstrating fit and proper controls of banks and amending the penal code to include legal persons.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Major sources of illicit funds in the jurisdiction are thought to include narcotics trafficking, wildlife trafficking, and proceeds of corruption. Money can easily be laundered in Laos' cash-based economy, remote casinos remain a vulnerability, and large real estate developments are thought to be another vehicle for large-scale laundering. Authorities are poorly equipped to investigate. Central government control and ability to investigate outside of the capital can be inconsistent.

KEY AML LAWS AND REGULATIONS

Law No. 49/NA on Anti-Money Laundering and Combatting the Financing of Terrorism (AML Law), took effect on February 24, 2015. Under the law, covered entities are required to verify the identity of customers as well as the intention and objectives behind the transactions. Laos has comprehensive KYC and STR regulations. Reporting units must report large transactions that exceed certain monetary thresholds and those under suspicion of being connected to money laundering.

The new "Regulation on the Establishment of Commercial Banks and Commercial Banks' Branches" was issued in January 2016. This regulation includes controls over bank license holders and checks on sources of capital.

Laos is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at <http://www.apgml.org/mutual-evaluations/documents/default.aspx?s=date&c=8b7763bf-7f8b-45c2-b5c7-d783638f3354>

There is no current records exchange mechanism in place with the United States; Laos' AML systems are nascent, though the government is exploring international cooperation mechanisms.

AML DEFICIENCIES

Laos' major deficiencies include legal persons not being covered under existing legislation, though this should change with the new penal code, expected in mid-2017; lack of oversight for MVTs providers; and weak implementation capacity. Additionally, there is no protection against liability for individuals reporting suspicious activity, although safe harbor regulations have been discussed over the last year.

Laos' system to identify, freeze, and seize assets is new and untested.

Laos is not an Egmont member but is exploring membership.

Laos continued its AML reform efforts during 2016.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Enforcement capacity is weak, and political will can be inconsistent. However, Laos has increasingly engaged the international community on AML issues and has requested assistance where it is needed. Laos is working to implement the entirety of its action plan.

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There were no AML-related prosecutions reported during the period.

The Bank of Lao People's Democratic Republic and its Anti-Money Laundering Investigations Office are actively seeking assistance from donors and have worked closely with international experts during 2016 to build capacity and address deficiencies.

Laos is not subject to any U.S. or international sanctions or penalties.

Lebanon

OVERVIEW

Lebanon is a hub for banking activities in the Middle East and Eastern Mediterranean and has one of the more sophisticated banking sectors in the region. Over the past two years, Lebanon's government passed key legislation that strengthened its AML regime. Lebanon's Central Bank, the Banque du Liban, together with the Bank's Special Investigation Committee (SIC), the FIU, regularly issues and updates compliance regulations in accordance with international banking standards.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Lebanon has a black market for cigarettes, cars, counterfeit consumer goods, pirated software, CDs, and DVDs. Neither the sale of these goods nor the domestic illicit narcotics trade generate significant proceeds that are laundered through the formal banking system. Lebanon's extensive global diaspora remits approximately \$7.5 billion annually.

Lebanese authorities have revoked licenses and increased regulatory requirements for exchange houses that facilitate money laundering, including by Hizballah - a U.S.-designated terrorist organization. A number of Lebanese expatriates in Africa, the Gulf, and South America have established financial systems outside the formal financial sector, some of which reportedly engage in TBML schemes. International trade also provides counter-valuation between Lebanese hawaladars. Hawala operations are restricted to licensed and supervised money dealers.

Lebanon's Customs Authority operates two FTZs in Beirut and Tripoli. Offshore banking, trust, and insurance companies are not permitted in Lebanon.

KEY AML LAWS AND REGULATIONS

In October 2016, Lebanon's parliament passed a new exchange of tax information law (Law 43/2015), which authorizes the Ministry of Finance to join international agreements related to tax evasion and tax fraud. Parliament also passed legislation governing trusts, the abolishment of bearer shares, and tax information exchange. This legislation strengthens Lebanon's AML regime.

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AML legislation from 2015 amends existing Law 318/2001 and widens categories of reporting entities to include public notaries, attorneys, and accountants. It also expands the list of predicate offenses that fall under money laundering charges. Legislation now allows asset confiscation and the sharing of confiscated assets with concerned countries. Law 42/2015 (Declaring the Cross-Border Transportation of Money) imposes requirements to declare inbound and outbound cash transportation of amounts exceeding \$15,000 or its equivalent in any currency.

Lebanon is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf>

AML DEFICIENCIES

On June 30, 2015, the Central Bank issued Intermediate Circular No. 393, which strengthens AML controls on money remitters and increases oversight of exchange houses. In 2016, it issued regulations to regulate prepaid cards and bearer shares and to require banks to create AML/CFT board committees. The SIC issued additional circulars and AML controls for DNFBPs.

Local banks and financial institutions have implemented regulatory measures, including enhanced due diligence regarding high risk customers and/or closure of accounts that represent unacceptable risks. As a result, there is no significant volume of currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency, currency derived from illegal drug sales in the U.S., or illegal drug sales that otherwise significantly affect the U.S. The SIC froze a number of accounts on suspicion of money laundering; however, the SIC does not publicly disclose figures of total amounts frozen. The number of filed STRs and subsequent money laundering investigations coordinated by the SIC has increased; however, convictions remain modest.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Lebanon strengthened its overall efforts to disrupt and dismantle money laundering. The government continues to better coordinate the investigation of complex financial crimes among its law enforcement and investigative agencies.

The SIC referred 29 alleged money laundering cases to the Prosecutor General during the first nine months of 2016. The government prosecuted twelve cases, which have not yet resulted in any convictions. The Internal Security Forces (ISF) received 48 money laundering allegations from Interpol, arrested three persons, and referred five suspected cases for investigation. The ISF Cybercrime and Intellectual Property Unit tracked 76 cases of local hackers who embezzled funds from local depositors and transferred the funds to bank accounts located outside Lebanon.

The government has begun training a joint task force, which includes representatives from Customs, the ISF, the SIC, and the judiciary. Cooperation between the SIC and local

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enforcement authorities has improved following training initiatives undertaken in 2015. Lebanon would benefit from increased cooperation among local and international law enforcement organizations on AML issues.

Customs must inform the SIC of suspected TBML; however, local press reports allege corruption at Customs. Lebanon is a participant country of the Kimberley Process, and trade in rough diamonds is governed by Law Number 645. However, there have been persistent reports of smuggling and the incorrect invoicing and misclassification of diamonds.

Liberia

OVERVIEW

Liberia is not a significant regional financial center. Its financial system has limited capacity to detect money laundering, and financial controls remain weak. The Liberian economy is cash-based and, given weak border controls, remains vulnerable to drug-related money laundering and other illicit financial activities.

The Government of Liberia has begun revising laws, policies, and regulations to curb illicit financial activities, but many gaps remain. Although the government established an FIU last year, it remains under-resourced and lacks capacity to adequately track and analyze suspicious transactions.

Liberia should improve monitoring of foreign exchange and remittances and monitor corporate debt and securities activity. It should also strengthen border controls, enhance the supervisory authority of the Central Bank of Liberia (CBL), and strengthen the FIU. Liberia should work with neighboring countries to harmonize laws, policies, and protocols.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Smuggled goods enter Liberia through its porous and poorly-controlled borders. Illicit transactions are facilitated by Liberia's cash-based economy, with both Liberian and U.S. dollars being legal tenders.

Money exchange operations are poorly controlled, and a license to establish a foreign exchange bureau in Liberia can be obtained from the CBL without a background check. There are also numerous non-licensed foreign exchange sites and a large number of unregulated money changers in the country whose activities have raised concerns.

Unmonitored diamond and gold mining activities coupled with opaque trading networks encourage money laundering.

The Liberia National Police (LNP), Liberian Drug Enforcement Agency, and National Security Agency investigate financial crimes but have not been effective in pursuing investigations and

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prosecutions due to logistical and human capacity limitations. Liberia does not currently have a FTZ. There are two unregulated casinos in the country.

Money laundering investigations are hampered by a cash-based economy, weak financial transparency, lack of proper recordkeeping, political interference, corruption, and limited law enforcement and prosecutor capacity.

KEY AML LAWS AND REGULATIONS

The CBL updates KYC and CDD guidelines in accordance with international best practices. However, the CBL is constrained by limited capacity to monitor and enforce compliance. Commercial banks sometimes ignore KYC/CDD guidelines. The FIU receives and analyzes STRs and CTRs and drafts STR and CTR regulations and guidance. It also drafted regulations and guidance on cross border cash transfers.

Liberia does not have a records-exchange mechanism with the United States.

Liberia is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Liberia.html?lng=fr>

AML DEFICIENCIES

The Central Bank of Liberia Act and Financial Institutions Act mandate banks and non-bank financial institutions to exercise KYC rules and conduct enhanced due diligence for domestic and foreign PEPs. However, Liberia's financial sector faces major deficiencies, including reporting entities' inadequate technical capacity to implement the regulations properly. Government oversight of these outlets and the financial sector is hampered by the lack of adequately trained personnel and insufficient resources.

Liberia is not currently subject to any U.S. or international sanctions/penalties nor is it a member of the Egmont Group.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

There are laws against money laundering and economic sabotage that include the Anti-Money Laundering and Terrorist Financing Act of 2012 and the Penal Law. In 2016, the FIU adopted three new AML regulations. The regulation addressing the cross-border transportation of currency and bearer negotiable instruments requires the declaration of all cash or instruments over \$10,000; currency transaction reporting for financial institutions requires the filing of a CTR for all transactions by individuals over \$5,000 and by businesses over \$10,000; and suspicious transaction reporting by financial institutions requires the filing of a STR for any unusual or suspicious transaction. Enforcement is often impeded by limited human and logistical capacity of law enforcement agencies and by judicial corruption.

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Liberia is member of Economic Community of West African States (ECOWAS). Liberia's laws are consistent with UN conventions and ECOWAS protocols on narcotics and psychotropic substances to which Liberia is a signatory. Liberia cooperates with foreign governments and international organizations to address obstacles to its AML programs.

There have been no prosecutions or convictions for money laundering in Liberia.

The FIU shares its regulations and guidance on STRs, CTRs, and cross-border transfer of cash with other border control agencies, including the Liberia Revenue Authority (LRA) and LNP.

The FIU requires financial reporting entities to keep adequate records and maintain applicable procedures regarding KYC/CDD incidences. It works with these entities to implement and enforce money laundering regulations. The FIU, LRA, and CBL have conducted site-visits, consultations, workshops, and training programs with reporting entities and agencies to build capacity, educate, and raise awareness about illicit financing.

Malaysia

OVERVIEW

Malaysia is a highly open, upper-middle income economy with exposure to a range of money laundering threats. The country's porous land and sea borders, strategic geographic position, and well-developed financial system increase its vulnerability to domestic and transnational criminal activity, including fraud, corruption, drug trafficking, wildlife trafficking, smuggling, tax crimes and terrorism finance. Malaysia has largely up-to-date AML statutory instruments, well-developed policies, institutional arrangements, and implementation mechanisms. But while the country's AML framework is generally sound, it has produced minimal outcomes in terms of investigations and prosecutions, especially of foreign-sourced crimes. Based on Malaysia's high degree of technical compliance and its continuing progress in efforts to improve AML enforcement, Malaysia was granted full membership in the FATF in February 2016.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Malaysia is primarily used as a transit country to transfer drugs originating from the southeastern Asian Golden Triangle to Europe. Drug trafficking by ethnic Chinese, Iranian, and Nigerian drug trafficking organizations is an important source of illegal proceeds. Malaysia is also a source, destination, and transit country for wildlife trafficking with some contraband (i.e., ivory) used as currency by the trafficking networks. Corruption has also emerged as a significant money laundering risk: state-owned development fund 1Malaysia Development Berhad (1MDB) faces credible allegations that billions of dollars were misappropriated from its accounts for political purposes or personal gain. It is the subject of several international probes, including investigations in Singapore, Switzerland, and the United States. Other predicate offenses generating illicit proceeds in Malaysia include fraud, criminal breach of trust, illegal gaming, credit card fraud, counterfeiting, robbery, forgery, human trafficking, and extortion. Financial fraud, including fake investment schemes and internet-based scams, pose a high money

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laundering risk. Smuggling of goods subject to high tariffs is another major source of illicit funds.

Malaysia has a large-scale cash and informal economy and a relatively small offshore sector on the island of Labuan, which is subject to the same AML laws as those governing onshore financial service providers. The financial institutions operating in Labuan include both domestic and foreign banks and insurers. Offshore companies must be established through a trust company, which is required by law to establish true beneficial owners and submit STRs.

There are issues in tax and customs duties evasion and outflow of funds through illegal remittances by money changers. Unauthorized illicit money service businesses continue to pose a significant vulnerability.

Free trade zones in Malaysia are divided into Free Industrial Zones (FIZ), where manufacturing and assembly takes place, and Free Commercial Zones (FCZ), generally for warehousing commercial stock. Currently there are 17 FIZs and 17 FCZs in Malaysia. Companies wishing to operate in a FIZ or FCZ must be licensed.

Casinos are licensed and regulated by the Ministry of Finance. Malaysia has one licensed casino, in operation for over 40 years, which the central bank, Bank Negara Malaysia, periodically assesses for compliance with the AML/CFT regulations.

Malaysia is a global leader in Islamic finance. The country's Islamic financial sector also is subject to the same AML legal and regulatory regime as conventional finance institutions. Malaysian regulators are of the view that, based on their supervisory experience, there are no material differences in risks when compared to conventional financial institutions. Malaysia's national risk assessment did not separately assess AML risks and vulnerabilities in the Islamic finance sector.

KEY AML LAWS AND REGULATIONS

Malaysia's Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA) covers the money laundering offense, financial intelligence, reporting obligations, investigative powers, the confiscation regime, and the cross border declaration regime. Other laws supplement AMLA, such as the Dangerous Drugs (Forfeiture of Property) Act 1988 (DDFOPA), Malaysian Anti-Corruption Commission Act 2009 (MACCA) and the Criminal Procedure Code. Malaysia's AML regime includes comprehensive KYC and STR regulations.

Malaysia is a member of the APG and was granted full membership in the FATF in February 2016. Its most recent mutual evaluation can be found at: <http://www.apgml.org/includes/handlers/get-document.ashx?d=ae0b2ca0-65d3-4f5c-9112-b0fcf9e12849>

AML DEFICIENCIES

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Malaysia has a high degree of technical compliance with international standards on combating money laundering, but there are several remaining deficiencies. Most notably, Malaysia has not effectively targeted high-risk offenses (other than fraud) or foreign-sourced threats in its prosecution of money laundering. Malaysia has preferred to pursue other criminal justice measures, particularly confiscation, rather than money laundering prosecutions. Additionally, the sanctions imposed for money laundering have been low and have not been demonstrated to be effective.

ENFORCEMENT/IMPLEMENTATION ISSUES

Malaysia has committed to an action plan for improving its effectiveness in several areas, including enhancing focus on investigation and prosecution of high-risk money laundering crimes and expanding the usage of formal international cooperation to mitigate risks. The FATF granted Malaysia full membership based on the commitment demonstrated by Malaysia on the action plan and its continuing progress in efforts to improve its AML regime.

Mexico

OVERVIEW

Mexico continues to be a major source, distribution, and transit country for illegal narcotics destined for the United States. Billions of dollars of trafficking proceeds are moved from the United States and laundered through the Mexican financial system annually. Corruption, bulk cash smuggling, kidnapping, extortion, oil and fuel theft, intellectual property rights violations, fraud, and trafficking in persons and firearms are sources of additional funds laundered through Mexico. Mexican authorities have had some success investigating and blocking accounts of suspected money launderers and other illicit actors. However, money laundering offenses continue to be committed with relative impunity as the government struggles to prosecute and convict those accused of illicit financial activities as well as seize property and assets owned or controlled by drug traffickers and money launderers. Prosecutions of money laundering cases, of which there are very few considering the volume of illicit finance in Mexico, have declined in recent years.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Illicit drug proceeds leaving the United States are the principal sources of funds laundered through the Mexican financial system. Mexican transnational criminal organizations (TCOs) launder funds using a variety of methods. TBML involves the use of dollar-denominated illicit proceeds to purchase retail items in the United States for export and re-sale in Mexico, with revenue from the sale of these goods ultimately going to TCOs. Two additional popular methods include structuring deposits, whereby criminals smuggle bulk amounts of U.S. dollars into Mexico, where they are deposited into bank accounts in small, structured increments, and funnel accounts, through which deposits in the United States are withdrawn in Mexico with little time elapsing between the deposits and withdrawals. Funnel accounts are an attractive method of moving funds since there is generally no requirement for an individual to present identification

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when making a deposit into an account, and amounts deposited are usually below reporting requirements. Unlicensed exchange houses are also used to launder narcotics-related proceeds.

KEY AML LAWS AND REGULATIONS

Mexican AML law criminalizes money laundering using an “all serious crimes” approach and covers all legal persons criminally and civilly. Local CDD rules cover banks, mutual savings companies, insurance companies, securities brokers, retirement and investment funds, financial leasing and factoring entities, licensed and unlicensed foreign exchange centers, savings and loan institutions, money remitters, SOFOMES (multiple purpose corporate entities), SOFOLES (limited purpose corporate entities), general deposit warehouses, casinos, notaries, lawyers, accountants, jewelers, realtors, NPOs, armored car transport companies, armoring services, construction companies, art dealers and appraisers, credit card system operators, pre-paid card services, and traveler’s check services. CDD rules include both foreign and domestic PEPs.

Mexico is a member of both the FATF and the GAFILAT, a FATF-style regional body. Mexico’s most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/j-m/mexico/>

AML DEFICIENCIES

Mexico’s revised federal criminal code came into effect on June 18, 2016, and includes procedures to hold legal persons liable for money laundering offenses - a previously-noted deficiency.

Mexico’s FIU has successfully blocked the bank accounts of numerous drug traffickers and money launderers. However, Mexican law enforcement and judicial authorities struggle to investigate and prosecute money laundering offenses and other financial crimes.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Illicit actors in Mexico invest in financial and real assets, such as property, businesses, and luxury items. Although authorities recognize the abuse of certain sectors by money launderers, the response of law enforcement entities is limited by lack of judicial capacity, corruption, and cumbersome current asset forfeiture laws. Prosecution of money laundering cases has been problematic, with fewer than 20 percent of all 2016 money laundering investigations leading to charges being filed. The relative lack of convictions on money laundering cases is consistent with Mexico’s overall problem of impunity. Mexico switched from an inquisitive to accusatorial judicial system in mid-2016, which should help improve prosecution rates in the medium- to long-term. The adoption of new civil asset forfeiture legislation, if approved by Mexico’s Congress as drafted, would enable Mexican law enforcement agencies to more easily seize illicit proceeds, thereby making it more difficult for illicit finance actors to deposit and invest these funds in Mexico’s financial system. Corruption in the judicial system, however, still impedes the Mexican government’s ability to convict organizations and individuals involved in money laundering.

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The collaboration between the public and private sectors is key. Without sharing emerging trends, typologies, and behavioral transaction anomalies, enforcement entities may miss key components of the money laundering methodologies employed by illegitimate enterprises.

Morocco

OVERVIEW

Morocco continues to strengthen its AML regime, making strides in risk management, information-sharing, and streamlining implementation. The principal money laundering vulnerabilities in Morocco stem from a large informal sector, the prevalence of cash-based transactions, a high volume of remittances, and international trafficking networks. It is still possible to deposit large amounts of currency in banks without declaring its origin despite requirements for banks to obtain this information.

The Unité de Traitement du Renseignement Financier (UTRF), Morocco's FIU, is undertaking an in-depth national risk assessment in 2016, which will deepen understanding of these vulnerabilities and be a springboard for effective AML interventions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The sizable informal sector, estimated at 12.6 percent of GDP, and Moroccans' tendency to transact in cash continue to present regulatory challenges. According to a 2014 government survey, over half of Morocco's estimated 1.68 million informal businesses make less than \$10,000 per year. However, the sheer volume of business conducted informally, totaling \$42 billion per year, makes the informal sector a source of vulnerability. To extend its regulatory reach, in 2015 the government of Morocco passed law 114-13, which offers benefits for informal sector workers to register as "self-employed," regulating these small businesses and making them pay taxes, thereby encouraging the transition to the formal sector. Over 20,000 entrepreneurs registered their businesses in the first year. The Central Bank expects that the introduction of Islamic banking services in 2017 will increase use of formal banking services by appealing to individuals who were previously hesitant to use banking services for religious reasons. The banking participation rate had already climbed to 68 percent of the population in 2015.

Money transfer services present a money laundering vulnerability due to their volume and also the minimal amount of identifying information accompanying transfers to Morocco. Remittance transfers rose by 2.9 percent from 2014 to 2015 to \$61.7 million or 6.3 percent of GDP. The UTRF is engaging this sector to identify and address shortcomings in AML controls.

Morocco's geographical location as a gateway to Europe makes it an attractive conduit for smuggling, human trafficking, and illegal migration. The legislature passed an anti-trafficking in persons law in 2016, which introduces a legal framework consistent with international standards. Heavy sentences for offenders and a broad definition of trafficking to include anyone who gives

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or receives payments or benefits related to trafficking will be a boon to stemming trafficking in persons and related money laundering vulnerabilities.

Illicit trade in Moroccan-grown cannabis and the transiting of cocaine destined for markets in Europe also constitute vulnerabilities for money laundering.

Morocco has seven FTZs. Currently, offshore banks are located only in the Tanger Free Zone. An interagency commission chaired by the Ministry of Finance regulates the FTZs. The FTZs allow customs exemptions for goods manufactured in the zone for export abroad. The UTRF has reported suspicions of money laundering schemes using the Tanger Free Zone.

KEY AML LAWS AND REGULATIONS

The UTRF continues to update its policies, improve capacity, and promote coordination. Morocco has all key AML laws and regulations in place, including comprehensive KYC programs and STR procedures. PEPs and other high-risk customers or transactions must be scrutinized under Morocco's AML law and the Periodical of the Governor of the Central Bank, No.2/G/2012.

Morocco is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.menafatf.org/images/UploadFiles/MENAFATF.5.07.E.P6.R1_02-01-08_.pdf

AML DEFICIENCIES

The real estate market, art and antiquities dealers, and vendors of precious gems and stones have not been subject to risk assessment. Drug proceeds are easily laundered through investments in luxury products (e.g., jewelry or vehicles), but mostly in real estate. Other non-financial sectors, including notaries, casinos, and accountants, do not appear to pose significant risks, according to the UTRF.

Morocco's AML regulations, in general, do not stipulate what measures must be taken to ensure due diligence in the investigative process. In practice, there is a strong informal understanding between the UTRF, the Central Bank, and all relevant financial institutions on what constitutes adequate due diligence and thresholds for reporting. However, institutionalizing uniform robust due diligence standards would further strengthen Morocco's AML regime.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Morocco works closely with international partners to strengthen its AML regime. Morocco has implemented the UN Drug Convention and other applicable agreements and has also voluntarily initiated exchanges with private sector partners to address key vulnerabilities. While the Central Bank formally holds supervisory authority to ensure compliance with banking regulations, the UTRF plays a vital role as the recipient of STRs. In addition to receiving STRs, UTRF assesses systemic risk, disseminates information to financial entities, and regularly hosts dialogues with

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banks, other financial entities, and government authorities to facilitate information-sharing, capacity building, and coordination.

Netherlands

OVERVIEW

The Netherlands is a major financial center and, consequently, an attractive venue for laundering funds generated from illicit activities, including those related to the sale of cocaine, cannabis, or synthetic and designer drugs, such as ecstasy. The Netherlands has a prosperous and open economy, which depends heavily on foreign trade.

Six islands in the Caribbean fall under the jurisdiction of the Kingdom of the Netherlands: Bonaire, St. Eustatius, and Saba are special municipalities of the Netherlands; Aruba, Curacao, and St. Maarten are countries within the Kingdom. The Netherlands provides supervision for the courts and for combating crime and drug trafficking within the Kingdom.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Financial fraud, especially tax evasion, is believed to generate a considerable portion of domestic money laundering activity. There are a few indications of syndicate-type structures in organized crime and money laundering, but there is virtually no black market for smuggled goods in the Netherlands. Few border controls exist within the Schengen Area of the EU and, although Dutch authorities run special operations in the border areas with Germany and Belgium and in the Port of Rotterdam to minimize smuggling, Netherlands-based drug trafficking organizations continue to exploit Schengen to facilitate cross-border crime. These networks often utilize Belgium and Germany to ship narcotics to the United States and other destinations in an attempt to conceal their activities. Underground remittance systems, such as hawala, operate in the Netherlands. Cybercurrencies are increasingly being used by criminal networks to facilitate illegal activity.

KEY AML LAWS AND REGULATIONS

The Government of the Netherlands continues to correct noted deficiencies and to make progress in improving its AML regime. On January 1, 2015, rules entered into force that raise the maximum prison sentence for money laundering and broaden the definition of corruption to include bribery of financial service providers. Laws now require compliance with KYC and STR regulations by pawnshops and brokers in high-value goods. The new legislation introduces more stringent rules on audit and compliance for trusts and asset administration companies. On March 1, 2015, the National Prosecutor's Office issued new guidelines for prosecuting money laundering cases. The Netherlands will implement the EU's Fourth Anti-Money Laundering Directive (AMLD) in 2017.

The Netherlands has comprehensive KYC and STR regulations. There is a MLAT between the Netherlands and the United States.

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The Netherlands is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationreportofthenetherlands.html>

AML DEFICIENCIES

The Dutch FIU enjoys an international reputation for professionalism. The FIU is an independent, autonomous entity under the National Police Unit. It is expected that the ongoing National Police's reorganization, scheduled for completion in 2018, will enhance the flexibility and effectiveness of law enforcement in responding to money laundering cases. The police closely cooperate with the Dutch Tax Authority's investigative service. The Anti-Money Laundering Center, established in 2013, combines expertise from government agencies, such as the FIU, the National Police, and the Tax Authority; knowledge institutions; private sector partners; and international organizations. Seizing financial assets of criminals continues to be a priority for law enforcement.

The Netherlands should make available the number of its prosecutions and convictions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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 a transaction is connected with money laundering. The FIU analyzes UTRs and forwards them to law enforcement for criminal investigation. Once the FIU forwards the report, the report is then classified as a STR. The Netherlands does not require all covered entities to report all transactions in currency above a fixed threshold. Instead, different thresholds apply to various specific transactions, products, and sectors. The Dutch Prosecutor's Office secured 1,168 criminal convictions for money laundering in 2015.

In 2015, Dutch law enforcement authorities arrested a number of individuals offering a guaranteed anonymous exchange of large amounts of bitcoins in exchange for currency (euros). Because of the suspect nature of the origin of the bitcoins, the exchange service charged a higher commission rate. This investigation is ongoing.

Nicaragua

OVERVIEW

The Republic of Nicaragua is not considered a regional financial center. Its financial system and economy are vulnerable to money laundering as the country continues to be a transshipment route for illegal drugs destined for the United States and cash returning to South America. Nicaragua has made important strides in its legislative framework in recent years, creating a FIU, the Financial Analysis Unit (UAF), and satisfactorily addressing numerous areas of deficiency. In 2016, the UAF updated and expanded the list of KYC- and STR-covered entities, to include

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non-bank financial institutions, bringing Nicaragua's regulations closer in line with international standards. However, weak governmental institutions, significant reports of corruption at all levels, and the lack of rule of law overshadow any legal or regulatory changes.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering proceeds result from the sale of illegal narcotics, mainly cocaine, and are mostly controlled by international organized crime. Corruption and impunity cases include local officials and community leaders accused of collaborating with narcotics traffickers and organized crime entities. The courts remain particularly susceptible to bribes, manipulation, and other forms of corruption. The existence of multiple, nontransparent quasi-public businesses with ties to the ruling party that manage large cash transactions as well as the proliferation of subsidiary companies with unclear ownership increases the country's vulnerability to money laundering.

Some evidence exists of informal "cash and carry" networks for delivering remittances from abroad that may also be indicative of money laundering. Nicaragua's geography and limited border control in remote regions leaves it vulnerable to cross-border movement of contraband and criminal proceeds. Subject matter experts believe the black market for smuggled goods in Nicaragua is larger than officially recognized, indicating possible TBML. Many market vendors deal in cash and many of the goods are stolen. Money laundering also occurs via traditional mechanisms, such as purchases of land, vehicles, and livestock. The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of citizens across respective borders. Consequently, the agreement represents a vulnerability to each country for the cross-border movement of contraband and proceeds of crime.

The National Free Trade Zone Commission, a government agency, regulates FTZ activities. As of November 2016, a total of 220 companies operate with FTZ status. The Nicaraguan Customs Agency monitors all FTZ imports and exports.

In April 2016, the National Assembly amended Law 735 related to the prevention and prosecution of organized crime and the administration of confiscated and abandoned goods resulting from organized crime to give the president direct control over the primary responsible party, the National Council Against Organized Crime. Subject matter experts believe the amendment will decrease transparency, especially regarding the administration of seized assets.

KEY AML LAWS AND REGULATIONS

Nicaragua has records exchange mechanisms in place with other nations, including the United States.

In 2016, the UAF updated its STR and KYC regulations, standardizing them, expanding the list of covered entities to include non-bank financial institutions, and establishing registration and reporting procedures for such entities. In line with previously existing regulations, all newly covered entities have to carry out comprehensive prevention programs with adequate systems to

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identify and keep records regarding the origin of funds and ultimate beneficiaries, implement early detection systems, analyze suspicious activities, and report these activities to the UAF. Financial institutions implement comprehensive CDD and STR regulations and have in place enhanced due diligence procedures for domestic and foreign PEPs.

Nicaragua is a member of the GAFILAT. Its most recent mutual evaluation can be found at: <http://www.uaf.gob.ni/index.php/difusion/evaluaciones-a-nicaragua>

AML DEFICIENCIES

Weak governmental institutions, deficiencies in the rule of law, and concerns about corruption should be addressed. The Nicaraguan legal framework should also continue to be strengthened by considering identity falsification, counterfeiting, and piracy as predicate offenses for money laundering. Without this classification, apprehended criminals using these means explicitly to launder money can be tried for lesser crimes, and are not strongly deterred from continuing laundering activities.

Nicaragua applied for membership in the Egmont Group in 2014; the application remains pending.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2016, according to data from the UAF, the Government of Nicaragua conducted 20 investigations, prosecuted 19 money laundering-related cases, obtained 14 convictions (plus 23 convictions from cases opened in the previous year), and seized over \$2.8 million.

Nigeria

OVERVIEW

Nigeria is a major drug transshipment point and a significant center for financial crime. Corrupt officials and businessmen, criminal and terrorist organizations, and internet fraudsters take advantage of the country's location, porous borders, weak laws, endemic corruption, inadequate enforcement, and poor socioeconomic conditions to launder the proceeds of crime. Criminal proceeds laundered in Nigeria derive partly from foreign drug trafficking and criminal activity including illegal oil bunkering, bribery and embezzlement, contraband smuggling, theft, and financial crimes. Public corruption is also a significant source of laundered criminal proceeds. International advance fee fraud, also known as "419 fraud" in reference to the fraud section in Nigeria's criminal code, remains a lucrative financial crime.

Nigeria should pass and implement legislation that ensures the operational autonomy of the Nigeria Financial Intelligence Unit (NFIU), promotes the efficient recovery of criminal proceeds, and provides for mutual legal assistance in accordance with international standards. Nigeria should improve cooperation among various law enforcement agencies that investigate financial crimes. Nigeria also should review its safe harbor provisions to ensure they are in line with

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international standards and consider developing a cadre of trained judges with dedicated portfolios to process financial crimes cases effectively. Nigeria should strengthen its Federal Ministry of Justice Central Authority Unit, which handles international cooperation in the areas of extradition and mutual legal assistance.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Nigerian financial institutions appear conscientious in submitting CTRs to the relevant authorities. The high volume of those reports and the cash-based nature of the Nigerian economy make it difficult for the government to detect suspicious activity. Nigeria's oil industry, which generates up to 70 percent of government revenues, has long been mired in corruption and mismanagement under successive governments. In 2016, President Buhari implemented several transparency measures, such as requiring all government entities, including the Nigerian National Petroleum Corporation, to remit nearly all revenues to a Treasury Single Account (TSA). The recent implementation and enforcement of the TSA as well as the Government Integrated Financial Management Information System are intended to make government revenue collection and expenditures more streamlined and transparent.

The Economic and Financial Crimes Commission (EFCC) is the leading money laundering investigative entity in Nigeria. EFCC investigators usually conduct investigations with little prosecutor involvement and over-rely on investigation by confession. The challenge of collecting admissible evidence in money laundering cases often requires a combination of cooperation between U.S. and Nigerian law enforcement agencies and the use of formal mechanisms for mutual legal assistance. The United States and Nigeria are parties to various multilateral conventions that contain mutual legal assistance provisions, as well as a bilateral MLAT.

KEY AML LAWS AND REGULATIONS

In 2016, Nigeria made limited progress towards the passage of several pieces of legislation intended to address strategic deficiencies in the country's AML regime. The Nigerian Financial Intelligence Centre (NFIC) Bill, which would make the NFIU a stand-alone agency, and the Proceeds of Crime (POC) Bill passed the National Assembly in 2014 and 2015, respectively, but have not yet been signed into law. There has also been little movement on a draft mutual legal assistance bill, pending in the National Assembly since 2015.

Nigeria has comprehensive KYC rules and STR regulations. In Nigeria, legal persons are covered criminally and civilly. Nigerian law also provides for enhanced due diligence for both foreign and domestic PEPs.

Nigeria is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Nigeria.html>

AML DEFICIENCIES

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Nigerian financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency.

Nigeria is not currently subject to any U.S. or other international sanctions/penalties. Nigeria has yet to meet the requirements for the autonomy of the NFIU, and there are compliance issues among both financial and non-financial entities.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2016, the EFCC aggressively investigated high-profile money laundering cases. However, the EFCC's conviction rates continue to be low due in part to gaps in the judicial system that cause cases to languish in the system for long periods of time without resolution. There are concerns about the Department of State Services' capacity to investigate money laundering and that it does not share case information with other agencies that also conduct financial investigations.

Pakistan

OVERVIEW

Pakistan is strategically located at the nexus of 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 to overseas markets. The country suffers from financial crimes associated with tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, human smuggling/trafficking, terrorism and terrorist financing. There is a substantial demand for money laundering and illicit financial services due to the country's black market economy and challenging security environment.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Pakistan affects both the formal and informal financial systems. Pakistan does not have firm control of its borders, which facilitates the flow of illicit goods and monies into and out of Pakistan. From January - December 2016, the Pakistani diaspora remitted \$19.7 billion back to Pakistan via the formal banking sector, up 2.3 percent from 2015. Though it is illegal to operate a hawala without a license in Pakistan, the practice remains prevalent because of poor ongoing supervision efforts and a lack of penalties levied against illegally operating businesses. Unlicensed hawala/hundi operators are also common throughout the broader region and are widely used to transfer and launder illicit money through neighboring countries.

Common methods for transferring illicit funds include fraudulent trade invoicing; MSBs, to include unlicensed hundis and hawalas; and bulk cash smuggling. Criminals exploit import/export firms, front businesses, and the charitable sector to carry out their activities. Pakistan's real estate sector is another common money laundering vehicle, since real estate transactions tend to be poorly documented and cash-based.

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Additionally, the Altaf Khanani money laundering organization (Khanani MLO) is based in Pakistan. The group, which was designated a transnational organized crime group by the United States in November 2015, facilitates illicit money movement between, among others, Pakistan, the United Arab Emirates (UAE), United States, UK, Canada, and Australia, and is responsible for laundering billions of dollars in organized crime proceeds annually. The Khanani MLO offers money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican organized crime groups and individuals associated with designated terrorist organizations.

KEY AML LAWS AND REGULATIONS

In January 2015, Pakistan issued its National Action Plan (NAP), addressing primarily counter-terrorist financing. The government's implementation of the NAP has yielded mixed results, which is in part due to the lack of institutional capacity as well as political will.

Pakistan is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=8fc0275d-5715-4c56-b06a-db4af266c11a>

AML DEFICIENCIES

Unlicensed hawaladars continue to operate illegally throughout Pakistan, particularly in Peshawar and Karachi, though under the NAP Pakistan has reportedly been pursuing illegal hawala/hundi dealers and exchange houses. Pakistan's FIU forwards a limited number of STRs to Pakistan's Federal Investigation Agency (FIA), the agency responsible for investigating money laundering cases. The FIA lacks the capacity to pursue complicated financial investigations.

The United States and Pakistan do not have a MLAT, and Pakistan's FIU is not a member of the Egmont Group of FIUs.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In recent years, the Government of Pakistan has taken steps to address technical compliance with international AML standards, however, deficiencies remain in their implementation. Pakistani authorities should investigate and prosecute money laundering in addition to the predicate offense creating the laundered proceeds. The Government of Pakistan should demonstrate effective regulation over exchange companies; implement effective controls for cross-border cash transactions; and develop an effective asset forfeiture regime. Pakistan should also design and publicly release metrics that track progress in combating money laundering such as the number of financial intelligence reports received by its FIU and the annual number of money laundering prosecutions and convictions. Pakistani law enforcement and customs authorities also should address TBML and value transfer, particularly as it forms the basis for account-settling between hawaladars.

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Panama

OVERVIEW

Panama's strategic geographic location; dollarized economy; status as a regional financial, trade, and logistics hub; and favorable corporate and tax laws make it an attractive location for money launderers. Panama passed comprehensive AML legal reforms in 2015, but it must demonstrate its ability to effectively implement these reforms, including by investigating and successfully prosecuting complex money laundering schemes.

In April 2016, the "Panama Papers" exposed significant vulnerabilities related to lack of financial transparency and the use of shell companies to launder money, commit tax fraud, and evade U.S. sanctions. The Papers also highlighted inadequate supervision of both the financial and non-financial sectors (particularly lawyers and corporate service providers). These vulnerabilities were further highlighted by the U.S. Treasury Department's designation, in May 2016, of the Waked Money Laundering Organization (Waked MLO) for providing material support, via money laundering and other services, to designated narcotics traffickers. The action highlighted the Waked MLO's use of the formal banking sector, bulk cash smuggling, real estate, and TBML to launder funds.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundered in Panama primarily comes from drug trafficking proceeds due to its location along major trafficking routes. Numerous factors hinder the fight against money laundering, including the need for increased collaboration among government agencies, inexperience with money laundering investigations and prosecutions, tipping off of criminals, inconsistent enforcement of laws and regulations, corruption, and an under-resourced judicial system.

Criminals launder money via bulk cash smuggling and trade at airports, seaports, and the FTZs, and through shell companies, which exploit regulatory gaps. Criminals also use the formal banking system to hide and move the proceeds of illicit activity. Panama has 18 FTZs, including the Colon Free Zone (CFZ), the second-largest FTZ in the world. Bulk cash is easily introduced into the country by declaring it is for use in the CFZ, but no official verification process exists to confirm its end use in lawful business in the zone.

KEY AML LAWS AND REGULATIONS

Panama has comprehensive CDD and STR requirements. Only banks have enhanced due diligence procedures for foreign and domestic PEPs.

In 2015, Panama strengthened its legal framework, amended its criminal code, and passed a new AML/CFT law and other legislation enhancing the framework for international cooperation. The government passed Law 23 to criminalize money laundering and to expand the AML compliance requirements for entities in 31 sectors. As part of the law, Panama created a new regulator, the *Intendencia*, to oversee compliance by 12,080 DNFBPs across 16 broad sectorial categories and the CFZ. The number of DNFBPs has dropped significantly in recent years as the government

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has retired business registrations, for example, those previously registered, but never closed, businesses not paying licensing dues. Panama also passed Law 18 to severely restrict the use of bearer shares; companies still using these types of shares must appoint a custodian and maintain strict controls over their use.

In March 2016, the FIU launched a website for companies to submit STRs/CTRs – previously, reports were submitted on paper. The FIU has since registered thousands of entities and begun receiving reports online.

Panama is a member of the GAFILAT, a FATF-style regional body. Its most recent evaluation can be found at: <http://www.imf.org/external/pubs/ft/scr/2014/cr1454.pdf>

AML DEFICIENCIES

Entities often submit inconsistent, incomplete, or unnecessary STRs/CTRs. Bank AML compliance officers often provide minimal analysis in STRs, fearing liability; some notify clients or bank executives about investigations. Panama has no tipping off law to criminalize such acts.

Supervisory authorities lack sufficient resources, including trained staff with industry experience, to effectively monitor whether entities (particularly DNFBPs) are complying with reporting requirements. Regulatory bodies cannot access STRs/CTRs due to confidentiality laws, making it difficult for examiners to assess reporting problems. The FIU should improve its quality of STR analysis and shorten its response times to requests for information from foreign FIUs. The FIU should improve the quality of its requests for information to its foreign counterparts, so that information exchanges and collaboration on significant cases can be expedited. The protection of client secrecy is often stronger than authorities' ability to pierce the corporate veil to pursue an investigation.

The CFZ remains vulnerable to illicit financial activities, due primarily to weak customs enforcement and limited oversight of transactions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The judicial system lacks sufficient resources to effectively prosecute and convict money launderers and remains at risk for corruption. Panama completed the transition to a U.S.-style accusatory penal system in September 2016. Prosecutors, however, still have minimal experience under the new system.

Panama does not accurately track criminal prosecutions and convictions related to money laundering. This year, Panama's methodology for collecting the number of prosecutions is different from last year's due to personnel changes and differing interpretations of a "money laundering" case. There were 34 prosecutions from January to August 2016. The government did not provide conviction data.

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In 2013, the Government of Panama and the United States signed an agreement creating a bilateral committee to allocate \$36 million in forfeited assets for AML projects. In December 2016, the committee approved several project proposals.

Paraguay

OVERVIEW

Paraguay is a drug transit country and money laundering center. The Tri-Border Area, comprising Paraguay, Argentina, and Brazil, is home to a multi-billion dollar contraband trade that facilitates much of the money laundering in Paraguay. Transnational criminal organizations operating in these three countries are believed to launder the proceeds from narcotics trafficking and other illicit activities through banks and non-bank financial sector entities. Paraguay's progress in combating money laundering is impeded by widespread corruption, burdensome bureaucracy, and the fear of reprisal against regulatory and supervisory authorities. The Government of Paraguay is taking steps to enhance interagency coordination, address pervasive corruption, prioritize effective legislative and judicial reform, provide training and resources, and demonstrate political will to investigate and prosecute the laundering of illicit funds.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering occurs in both financial institutions and the non-bank financial sector, particularly in exchange houses. Large sums of dollars generated from both legitimate and suspected illicit commercial activity are transported physically from Paraguay to neighboring countries, with onward transfers to other destinations, including U.S. banking centers. Money launderers and transnational criminal syndicates are able to take advantage of Paraguay's financial system due to weak controls in the financial sector, porous borders, the continued use of bearer bonds, unregulated exchange houses, lax or no enforcement of cross-border transportation of currency, and ineffective and/or corrupt officials. In addition, while there are laws criminalizing public-sector corruption, private-sector corruption has not been criminalized.

Ciudad del Este (CDE) and nearby areas on Paraguay's border with Brazil and Argentina represent the heart of Paraguay's informal economy, and TBML occurs in the region. 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 as sources of laundered funds. Cigarettes produced in Paraguay are smuggled across borders, largely to Brazil, Argentina, and Uruguay. Cigarette smuggling is used for money laundering purposes and the cigarette supply chain enriches criminal organizations and corrupt officials.

Paraguay does not have an offshore sector. Paraguay's port authority manages free trade ports and warehouses in Argentina, Brazil, Chile, and Uruguay.

KEY AML LAWS AND REGULATIONS

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Paraguay has KYC and STR regulations that apply to a wide range of entities. Though the regulations are comprehensive, there are gaps in implementation. For example, many STRs are poorly written and do not contain actionable information. The Anti-Money Laundering Secretariat, Paraguay's FIU, conducts outreach to reporting entities to explain, clarify, and improve STR reporting requirements.

There is no MLAT in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters. Paraguay has record exchange agreements with the United States and other jurisdictions.

Paraguay is a member of the GAFILAT. Its most recent mutual evaluation can be found at: http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Paraguay_3era_Ronda_2008.pdf.

AML DEFICIENCIES

Paraguayan legislation covers legal persons and provides for enhanced due diligence for PEPs. Paraguay is not subject to any international sanctions. It is difficult to track the government's effectiveness in implementing its AML regime due to the lack of centralized data.

The Government of Paraguay, through long-term engagement of international donors, is working to improve its AML regime and implement its strategic plan. Although the Attorney General's money laundering prosecution unit has had some success, the lack of a coordinated multiagency enforcement effort impedes broader achievements. To address this, the government has formed an interagency financial crimes working group with the goal of enhancing coordination on AML issues, including but not limited to, investigations and prosecutions, financial sector preventive measures, and asset forfeiture.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although Paraguay's approach to improving AML implementation is uneven, the country continues to take steps to implement the 1988 UN Drug Convention and international standards. While Paraguay had fewer money laundering prosecutions in 2016 (three, compared to seven in 2015), it is important to note the number of convictions increased (five, compared to three in 2015).

Paraguayan authorities executed search warrants in November for one of the largest money laundering cases in Paraguayan history, reportedly totaling \$1.2 billion dollars and involving businesses in CDE. Less than a week later at the request of the defense, the Attorney General recused the entire 13-member prosecutorial team from the case. Though they were later reinstated, the defense is likely to appeal. The defendants reportedly used linked companies in the Middle East and China to falsely invoice large shipments for dispatch to CDE's airport – shipments that were never actually sent. The company then used the falsified customs documents to justify large deposits into the local banking system and initiate foreign transfers to "pay" for the fictitious shipments. This case follows the \$600 million ForEx money laundering

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case centered on currency exchange houses in CDE. Although authorities have charged 18 banking officials in the ForEx case, only four have been convicted, all low-level employees.

Peru

OVERVIEW

Peru made progress implementing its “National Plan to Combat Money Laundering and Terrorist Financing” in 2016, including significant regulatory and legislative advances to strengthen the AML regime. The administration passed legislation that improves access to bank and tax information for the FIU, establishes greater control over reporting entities, and enables money-laundering cases to be tried absent proof of a predicate crime.

The new government also made administrative changes that may reduce Peru’s capacity to address money laundering crimes. The independent asset forfeiture agency was absorbed into the Ministry of Justice (MOJ), potentially limiting operational autonomy and effectiveness. The AML/CFT Working Group (CONTRALAFI) also was moved to the MOJ. Organizational structures and key officials of both entities have yet to be determined.

Peru must build prosecutorial and judicial capacity to improve its woeful track record on prosecutions and convictions. Capacity development should include the conduct of investigations, investigative and intelligence reporting for prosecutors, case development by prosecutors, case presentation at trial, and judicial money laundering awareness. These efforts should be complemented by improved information sharing and case development across agencies and branches of government.

Peru’s AML agencies also must increase their focus on non-traditional avenues through which narcotics and transnational crime revenues are laundered, including illegally mined gold, timber, and counterfeit goods.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Illegal gold mining, illegal logging, and counterfeiting are closely tied to the narcotics industry, and revenue from these sources is subject to the same or similar laundering techniques as narcotics revenue. Of increasing concern is the use of illegally mined gold as a medium for money laundering, given the risk it poses to the integrity of the U.S. regime. Gold purchased using narcotics revenue is imported into the United States with little oversight as gold is not a negotiable financial instrument. The FIU identified at least \$4.4 billion in suspicious revenue associated with illegal mining over the last decade. The illegal gold trade in Peru is worth \$2.6 billion per year.

Money is laundered via formal financial institutions, money-transfers, notaries, casinos, currency exchanges, and trade in goods, including counterfeit goods. Endemic corruption hampers investigations and prosecutions of narcotics-related money laundering crimes. Judicial corruption can halt progress of cases. Political figures and legislators have been implicated in

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money laundering, creating an impediment to progress on reform. Corruption within the police force constrains investigations.

Casinos remain an area of money laundering concern as the FIU cannot directly monitor or investigate casinos independent of the supervising authority, the Ministry of Trade & Tourism (MINCETUR). MINCETUR provides information to the FIU and requires casinos to report suspicious transactions.

Informal remittance businesses, including travel agencies and small wire transfer businesses, remain unsupervised and vulnerable to money laundering. Peru would benefit from expanded supervision and regulation of financial institutions and DNFBPs; however, the FIU needs additional resources to deal with its monitoring responsibilities.

KEY AML LAWS AND REGULATIONS

Peru has a robust legislative and regulatory framework for AML and the opportunity for the executive to legislate to resolve current deficiencies.

Peru is a member of GAFILAT. Its most recent mutual evaluation can be found at: <http://www.gafilat.org/content/biblioteca/>

AML DEFICIENCIES

Peru's national plan aims to strengthen its AML regime in line with GAFILAT recommendations. Peru receives technical assistance from various donors. Peru still must address several deficiencies, with specific focus on the high level of informal business activity.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Advances in Peru's AML regime and investigative capacity have not resulted in increased prosecutions or convictions. Peru has convicted only 21 people of money laundering, with no verified convictions in 2016. There are insufficient prosecutors and even the money laundering Prosecutor's Office lacks capacity to develop and plead cases, especially as Peru moves to a new accusatory legal system.

The present restrictive requirement for the FIU to report suspicious activity solely to prosecutors hampers the ability of police to investigate. All investigations require a financial audit by the police or prosecutors, yet neither entity has enough capable accountants. A lack of prosecutors is compounded by the legal requirement for a prosecutor to accompany police to review potential asset seizures. Staff shortages at the registry agency mean many properties remain unregistered, limiting asset seizures.

Philippines

OVERVIEW

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The Republic of the Philippines is well integrated into the international financial system. Money laundering is a serious concern due to the Philippines' international narcotics trade, high degree of corruption among government officials, trafficking in persons, and the high volume of remittances from Filipinos living abroad. Sophisticated transnational organized crime and drug trafficking organizations use the Philippines as a drug transit country. Criminal groups use the Philippine banking system, commercial enterprises, and particularly casinos, to transfer drug and other illicit proceeds from the Philippines to offshore accounts. Finally, insurgent and transnational terrorist groups in the southern Philippines engage in money laundering through ties to organized crime.

The Philippines recently published a national risk assessment (NRA). There are significant gaps in its AML regime including the failure to appropriately regulate DNFPBs, such as casinos, which are at high risk for money laundering. The non-inclusion of casinos as covered institutions remains an especially critical concern. In early 2016, a cyber heist resulted in \$81 million of Bangladesh central bank funds laundered through Philippine casinos with the participation of a remittance agent. The government-owned Philippine Amusement and Gaming Corporation (PAGCOR) plays a dual role as both operator of its own gaming establishments and licensor/regulator of the rapidly expanding gaming industry, creating serious conflict of interest issues. Additionally, the NPO sector is not regulated on a risk-based approach.

Implementation weaknesses include insufficient cooperation among law enforcement agencies and the Anti-Money Laundering Council (AMLC), the Philippine FIU; deficiencies in the capacity of financial investigators, prosecutors, supervising officials, and covered entities; and the lack of clear legal jurisdiction of the Bangko Sentral ng Pilipinas (BSP), the central bank, over MSBs.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The high-threat predicate crimes identified in the NRA are drug trafficking, graft and corruption, fraud, smuggling, human trafficking, intellectual property violations, environmental crimes, and firearms crimes.

The Philippines' bank secrecy provisions are among the world's strictest, requiring investigators to obtain a court order to access bank records in most cases. This makes it difficult for the AMLC to perform its basic financial analytical functions and inhibits the ability of law enforcement to proactively pursue money laundering cases in the absence of a link to a specific predicate crime.

Although BSP regulations include KYC, record keeping, and CDD requirements on MSBs, enforcement is weak because the BSP has no clear legal jurisdiction over MSBs that are not affiliates or subsidiaries of banks. Dealers of precious metals and stones are covered entities under the AML law but are not effectively regulated because there is no single regulatory authority and the industry associations are not well organized.

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Corruption through the use of NPOs, dummy corporations, and foreign exchange dealers has been a source of illicit funds, which underscores the need for the Philippine government to close the gaps in its AML regime relating to NPOs. Currently, there is no single supervisory authority and monitoring is weak due to insufficient coordination and limited resources of regulatory bodies.

The Philippine Economic Zone Authority (PEZA) regulates about 300 economic zones throughout the country. A few other zones/freeports are regulated by local government units or by government-owned development agencies. Overall, PEZA zones are properly regulated, but smuggling can be a problem in locally regulated zones.

KEY AML LAWS AND REGULATIONS

Provisions in the AML law and its implementing rules and regulations for KYC and STR requirements substantially meet international standards. The BSP has revised its AML examination manual to reflect a risk-based approach.

The Philippines is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/documents/search-results.aspx?keywords=philippines>

AML DEFICIENCIES

CDD requirements include enhanced due diligence for PEPs, their families, and associates assessed as high-risk for money laundering.

The most pressing AML deficiency is the continuing non-inclusion of casino operators and other DNFPBs as covered entities. Legislation to correct this deficiency has been languishing for many years. The current AML regime does not yet list tax evasion as a predicate crime, and covered entities do not include real estate agents and brokers and auto and art dealers. The cyber heist also exposed the vulnerability posed by weakly supervised remittance agents and MSBs.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

To address weaknesses noted in its NRA, legislation to strengthen the AML law by including casinos, real estate dealers/brokers, and car and art dealers as covered entities as well as expanding the list of predicate crimes to include cybercrime and tax evasion is pending before the Philippine congress. Legislation is also pending to amend the BSP charter to give the agency clear legal authority over all MSBs.

While the Philippines has made progress in enacting legislation and issuing regulations, limited human and financial resources constrain tighter monitoring and enforcement. The continuing lack of prosecutions and convictions is not surprising since only 49 cases have been filed since the AMLC began operating in October 2001.

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Portugal

OVERVIEW

Portugal is a transit point for narcotics entering Europe, and Portuguese officials indicate the majority of money laundered in the country is narcotics-related. Portugal has no major deficiencies in its AML enforcement apparatus.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Portugal's long coastline, vast territorial waters, and privileged relationships with countries in South America and Lusophone Africa make it a gateway country for South American cocaine and a transshipment point for drugs coming to Europe from West Africa.

Authorities have noted significant criminal proceeds from corruption, traffic in works of art and cultural artifacts, extortion, embezzlement, tax offenses, smuggling, prostitution, organized crime, gambling, and aiding or facilitating illegal immigration. Portuguese authorities also have detected criminal funds being placed into the financial system from smuggled commodities, particularly tobacco products. Suspect funds from Angola are used to purchase Portuguese businesses and real estate.

There are 11 casinos in Portugal managed by eight public cooperatives licensed by the Ministry of Economy. Business interests from China (Macau) have significant involvement in some of the cooperatives. The State Secretary for Tourism supervises and monitors casinos. Portuguese authorities legalized online casinos in 2015.

KEY AML LAWS AND REGULATIONS

Portugal has a comprehensive AML enforcement mechanism that conforms to EU, 1988 UN Drug Convention and UNTOC standards. Money laundering is a criminal offense. Banks and other financial institutions are held to reporting standards by the Bank of Portugal and the Securities Market Commission. Covered entities also adhere to KYC and STR regulations.

The United States and Portugal do not have a MLAT but are able to share information on money laundering investigations through other mechanisms.

Portugal is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/n-r/portugal/documents/mutualevaluationofportugal.html>

AML DEFICIENCIES

Portugal has no major deficiencies in its AML enforcement apparatus.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Although the general legal principle in Portugal is that only individuals are subject to criminal liability, there are exceptions. Paragraph 2 of Article 11 of the Criminal Code provides for criminal corporate liability for white-collar crimes, money laundering, crimes against public health, cybercrime, and certain other crimes.

The Government of Portugal should continue to be concerned about many suspicious and large scale Angolan investments in Portuguese luxury real estate, businesses, and financial institutions. There are allegations Portugal serves as a hub for laundering illicit funds for Angola's ruling class. Increased Chinese efforts to establish political and economic influence also warrant monitoring.

Russian Federation

OVERVIEW

In 2016, Russia strove to improve its AML legal and enforcement framework, updating and amending various laws to improve their efficacy. While money laundering remains a major problem in Russia, official data shows some progress. The Central Bank of Russia (CBR) estimates losses to Russia through "fictitious transactions" amounted to \$1.49 billion in 2015, and \$0.3 billion in the first half of 2016. "Fictitious transactions" include "remittances of funds abroad by means of fictitious transactions with securities, granted loans, and on foreign accounts."

VULNERABILITIES AND EXPECTED TYPOLOGIES

Official corruption remains a problem at all levels of government and is a major source of laundered funds. Cybercrime remains a significant problem. Russian hackers and traditional organized crime structures continue to work together, raising threats to the financial sector. Russia is a transit and destination country for international narcotics traffickers. Criminal elements use Russia's financial system and foreign legal entities to launder money. Criminals invest in and launder their proceeds through securities instruments, e-currencies, precious metals, domestic and foreign real estate, and luxury consumer goods.

There is a large migrant worker population in Russia. While the majority of workers likely use formal banking mechanisms, many transfers may occur through informal value transfer systems that may pose vulnerabilities for money laundering.

Russia froze draft regulations against bitcoin, based on blockchain technology, to encourage the domestic development of new blockchain-based technologies and innovation. This creates the potential for abuse of the crypto-currency for money laundering.

Gaming is only allowed in specified regions, with regulatory authority shared across multiple agencies. Rosfinmonitoring, Russia's FIU, has been designated as the competent AML authority for casinos. Only licensed casinos in special gambling zones can register with Rosfinmonitoring. Online gaming is prohibited.

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KEY AML LAWS AND REGULATIONS

Government control of the financial sector, covering KYC and STR requirements, is enshrined in legislation. Rosfinmonitoring requires individuals trading in commodity or financial markets to provide information upon request, and mandates notification of the opening, closing, or changing of details of any accounts or letters of credit by companies of “strategic importance to the Russian Federation.”

The government has amended its 2002 AML law at least once annually, including nine times in 2016. Some amendments close loopholes and clarify the law. One defined trusts, partnerships, and funds as “foreign entities without legal personalities” and required identification of beneficiaries. Another creates mandatory reporting requirements when banks deny customers service, regardless of the grounds.

Other amendments loosen overly stringent requirements, for example, by abolishing mandatory identification of low-cost jewelry purchases. Banks may delegate client identification to other banks for small transactions, easing reporting requirements for credit and debit card transactions. Client identification requirements for foreign currency transactions below \$1,540 are simplified, and the threshold for reporting foreign currency exchange by PEPs is now \$616, up from \$231.

In other cases, reporting requirements expand. Stock registrars must now report trades over \$770,000. Legal entities face monetary fines for failing to report on individuals with an ownership stake of 25 percent or greater. Finally, one amendment allows for opening remote bank accounts and strengthens the use of e-signatures for identification.

Russia is a member of FATF and two FATF-style regional bodies, MONEYVAL and EAG. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationoftherussianfederation.html>

AML DEFICIENCIES

Although the United States and Russia are parties to a MLAT, cooperation under the MLAT is often ineffective.

Notwithstanding obligations under both the UNCAC and the UNTOC to establish the liability of legal persons for participating in corruption, money laundering, and other serious crimes, there is no criminal liability for legal persons in Russia. In March 2015, a bill providing for criminal liability for legal persons was submitted to the Duma. In June 2015, the government issued a negative review of the bill, which remains with a Duma committee.

Russian individuals and businesses with connections to the illegal annexation of Crimea are subject to U.S. sanctions. As a result, regularly updated information previously available in English on Russian government websites is no longer available. This includes Rosfinmonitoring, which now publishes a fraction of the information it previously made available.

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Changes to Russian law may also have created vulnerabilities rather than closing them. PEPs are now subject to less stringent reporting requirements for foreign currency transactions. Russia loosened restrictions on the use of crypto-currencies in July 2016. In addition, despite concerns, it is now possible to open a bank account in Russia without being physically present.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2015, Rosfinmonitoring investigated 40,000 cases and confiscated \$128 million in property. Rosfinmonitoring reported 657 individuals committed 863 money laundering crimes in 2015, and 627 criminal cases were prosecuted. The CBR revoked 105 bank licenses in 2015 and 85 as of October 2016, primarily for suspicious transactions.

U.S. authorities were unable to enforce criminal forfeiture claims under Russian law when a drug dealer, convicted in the United States, admitted he used the proceeds to purchase warehouses in Russia.

Senegal

OVERVIEW

Senegal serves as a regional business center for Francophone West Africa. No major changes were noted in money laundering trends in 2016. Most money laundering activities involved bank transfers to offshore accounts in tax havens, or the purchase of high-end real estate by foreign officials. Senegal is vulnerable to the activities of organized crime, drug trafficking, internet fraud, bank and deposit fraud, document forgery, and Ponzi schemes. Corruption remains pervasive at many levels of government and commerce.

The Government of Senegal has made incremental progress in strengthening its capacity for prevention and investigation of financial crimes. Open issues to address include training law enforcement, prosecutors, and judges to investigate and prosecute money laundering. Recommendations for improvement include drafting and enacting a civil forfeiture law allowing assets to be seized in the absence of criminal charges. Senegal needs legislation on the management of seized property to hold an auction to sell the property or have a storage area to safeguard the property until a decision can be reached as to its status.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Major sources of laundered proceeds are corrupt politicians and drug transactions. Foreign government officials, as well as private persons, launder money through the purchase of high-end property or transferring illicit funds through Senegalese bank accounts to offshore tax havens.

Only seven percent of Senegalese have bank accounts, resulting in real estate transactions being conducted in cash. As a result, the construction industry is reputed to be a popular sector for laundering illicit funds. The continued building boom and high property prices also suggest that

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this sector remains vulnerable to money laundering. Ownership and transfer of property is not transparent. Improving government registration of property is recommended.

Touba, located in the central region of Senegal, is a largely autonomous region with a special legal status under the jurisdiction of the Mouride religious brotherhood. Touba reportedly receives between \$550 and \$800 million per year in funds repatriated by networks of Senegalese traders abroad and is vulnerable to TBML because the government has limited authority in this region. Other areas of concern include the transportation of cash, gold, and other items of value through Senegal's airport and across its porous borders. The widespread use of cash; money transfer services, including informal channels (hawaladars); and new payment methods also contributes to money laundering vulnerabilities. Mobile payment systems such as Wari, Joni-Joni, and Western Union cater to the needs of the unbanked Senegalese but are not always subject to enforcement of AML controls due primarily to resource constraints. The same applies to money transfer organizations.

KEY AML LAWS AND REGULATIONS

Senegal did not enact any new AML laws or regulations in 2016. A new law has been proposed for the proper management, disposal, and storage of seized property. This law has yet to be passed.

The Central Bank of West Africa regulates KYC for the banks within the eight-country West Africa Economic and Monetary Union. The regulation was broadened to cover money transfer operations in 2016.

Senegal is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Senegal.html>

AML DEFICIENCIES

Senegalese authorities were drafting legislation extending enhanced due diligence to domestic PEPs in 2015, but no such law has been enacted yet. Senegal is not subject to U.S. or international sanctions. The main strategy in addressing money laundering enforcement deficiencies is through training provided by donors.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Senegal is a party to the 1988 UN Drug Convention. Since 2014, Senegal has partnered with seven other countries on the Partnership on Illicit Finance (PIF). The goal of the PIF is to have each country develop an action plan to fight illicit finance. Senegal is cooperative on AML efforts involving foreign governments.

According to U.S. law enforcement, Senegalese law enforcement authorities have a good understanding of the broad range of activities that constitute money laundering, as well as how the money launderers disguise the money trail. They also found that Senegalese authorities were doing a better job at identifying financial crimes and money laundering than most other countries

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in West Africa. A vetted unit of law enforcement professionals who have undergone advanced training on money laundering is being developed.

Serbia

OVERVIEW

Serbia is situated on a major trade corridor, known as the Balkan route, which is used by criminal groups for various criminal activities, including narcotics trafficking and smuggling of persons, weapons, pirated goods, and stolen vehicles. While the bulk of narcotics seizures continue to be of heroin, seizures of South American cocaine transiting Serbia to Western Europe also occur. Traffickers are often Serbian organized criminal groups or transnational organized criminal groups that include Serbian citizens.

Money laundering vulnerabilities include fictitious legal transactions and trade with off-shore persons, misuse of consultancy and other services, construction and sale of real estate, inheritance or family financial support-related transactions, trade in gold and abuse of e-banking and virtual currencies, and risks arising from Serbia's geographic position. According to Serbia's 2015 Money Laundering Typologies/Money Laundering Case Studies, funds are laundered through the abuse of legal entities, front companies and offshore jurisdictions, and the abuse of payment cards and remittance services.

Authorities in 2015 paid special attention to monitoring migrants' transactions to identify potential links to terrorism, financing terrorism, and human trafficking.

Of 109 activities envisaged by the Action Plan accompanying the National Strategy Against Money Laundering and Terrorist Financing (2015-2019), 22 were implemented, 39 were partially implemented, and 48 were not implemented.

VULNERABILITIES AND EXPECTED TYPOLOGIES

According to the 2012 National Risk Assessment, illicit proceeds are mainly generated through unlawful production and circulation of narcotics, corruption, and tax evasion.

The most common money laundering typologies recognized by the Administration for the Prevention of Money Laundering (APML) include: depositing funds of suspicious origin into non-resident accounts in Serbia; agreement on the gift and purchase of real estate with dirty money; drawing funds from an account of a legal person on the basis of a loan interest; privatization with funds of unknown origin; abuse of money transfer agents for the purpose of human trafficking; money laundering through associated legal persons; and introducing funds of unknown origin into legal flows.

Obstacles to fighting narcotics-related money laundering are Serbia's position as a transit country in international drug routes, poverty and unemployment, a prolonged privatization process, inconsistent or selective implementation of regulations by an inefficient court system,

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migration, persistent corruption, and the misuse of modern technology and electronic money transfers.

From the APML's perspective, FTZs are not a concern.

KEY AML LAWS AND REGULATIONS

According to international experts, important AML issues include deficiencies regarding international standards related to NPOs, financial sanctions, supervision of certain DNFBPs, PEPs, wire transfers, and high-risk jurisdictions.

Both Serbia's AML law and the Law on the Freezing of Assets are in the process of being updated. The draft AML law aligns with international standards and was supposed to be adopted by the end of 2016; its current status is unknown. With the adoption of the Law on the Prevention of Money Laundering and Terrorism Financing, public notaries will become covered entities and domestic PEPs will be subject to enhanced due diligence measures.

Serbian AML/CFT law introduced comprehensive CDD requirements in 2009.

In May 2009 Serbia signed an MOU with FinCEN. The Law on Mutual Legal Assistance in Criminal Matters, the AML/CFT law, the Law on Banks, and the Law on Payment Transactions ensure the availability of records.

Serbia is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round5/MONEYVAL%282016%292_MER_Serbia_en.pdf

AML DEFICIENCIES

Legal persons are covered. Foreign PEPs are subject to enhanced due diligence according to the current law, and domestic PEPs will be covered under a new proposed law.

Serbia is not subject to any U.S. or international sanctions or penalties.

Serbia has a National Strategy against Money Laundering and Terrorist Financing (2015-2019). The implementation of the Action Plan is on-going. Serbia should improve interagency cooperation, pursue money laundering independently of other crimes, and build the capacities of the APML and AML supervisors.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Serbia has not refused to cooperate with foreign governments.

In 2015 one final conviction against two individuals was delivered and three new prosecutions were initiated.

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Serbian authorities exchange information and conduct investigations on an ad hoc basis. Efforts are underway to establish formal task forces and liaison officers to combat money laundering. Efforts are also underway to institute provisions on seizure and confiscation of criminal proceeds, to seek training on investigating financial crimes, and to conduct further AML training.

Sint Maarten

OVERVIEW

Sint Maarten is an autonomous entity within the Kingdom of the Netherlands. The Kingdom retains responsibility for foreign policy and defense, including entering into international conventions. The Kingdom may extend international conventions to the autonomous countries. With the Kingdom's agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization's agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the Kingdom as a whole. In 1999, the Kingdom extended the UN Drug Convention to Sint Maarten, and in 2010, the UNTOC was extended to Sint Maarten.

A governor appointed by the King represents the Kingdom on the island and a Minister Plenipotentiary represents Sint Maarten in the Kingdom Council of Ministers in the Netherlands.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States to stimulate joint activities and enhance sharing of information in the areas of criminal investigation and upholding public order and security and to strengthen mutual cooperation in forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve all of the criminal justice system, one priority area is cracking down on money laundering operations.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Sint Maarten has an offshore banking industry consisting of one bank.

Many hotels legally operate casinos on the island, and online gaming is also legal but is not subject to supervision.

Sint Maarten's favorable investment climate and rapid economic growth over the last few decades have drawn wealthy investors to the island to invest their money in large scale real estate developments, including hotels and casinos. In Sint Maarten, money laundering of criminal profits occurs through business investments and international tax shelters. Its weak government sector continues to be vulnerable to integrity-related crimes.

KEY AML LAWS AND REGULATIONS

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KYC laws cover banks, lawyers, insurance companies, 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.

The MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Sint Maarten and is regularly used by U.S. and Sint Maarten law enforcement agencies for international drug trafficking and money laundering investigations.

Sint Maarten is a member of the CFATF, a FATF-style regional body, and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/sint-maarten-1>

AML DEFICIENCIES

In July 2015, Sint Maarten's FIU reported that hundreds of unusual financial transaction investigations were backlogged at the Sint Maarten Public Prosecutor's Office. Approximately 1,138 reports totaling \$243 million have not been investigated.

The UNCAC has not yet been extended to Sint Maarten.

Sint Maarten has yet to pass and implement legislation to regulate and supervise its casino, lottery, and online gaming sectors in compliance with international standards. In addition, the threshold for conducting customer due diligence in the casino sector does not comply with international standards.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The National Ordinance Reporting Unusual Transactions establishes 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 a transaction is connected with money laundering. If, after analysis of an unusual transaction, a strong suspicion of money laundering arises, those suspicious transactions are reported to the public prosecutor's office.

The harbor of Sint Maarten is well known for its cruise terminal, one of the largest in the Caribbean islands. The local container facility plays an important role in the region. Larger container ships dock their containers in Sint Maarten where they are picked up by regional feeders to supply the smaller islands surrounding Sint Maarten. Customs and law enforcement authorities should be alert for regional smuggling, TBML, and value transfer schemes.

South Africa

OVERVIEW

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South Africa's position as the financial center of the continent, its sophisticated banking and financial sector with a high volume of transactions, and its large, cash-based market make it a target for transnational and domestic crime syndicates.

South Africa is committed to continuous improvement of its legislative and enforcement environment and to building regional capacity. The Financial Intelligence Centre (FIC), South Africa's FIU, works closely with other governmental organizations. In 2016, the Illicit Financial Flows Task Team (FTT) was chartered. The FTT is composed of six agencies, including a U.S. law enforcement representative, with a national coordinated approach to investigate and prosecute money laundering activities.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Corruption, fraud, and organized crime are believed to constitute the largest sources of laundered funds. The narcotics trade also contributes substantial proceeds. South Africa is the largest market for illicit drugs within sub-Saharan Africa and a transshipment point for cocaine and heroin. Other sources include theft, racketeering, currency speculation, credit card skimming, wildlife poaching, theft of precious metals and minerals, human trafficking, stolen cars, and smuggling. The proliferation of informal and formal remittance schemes for foreign workers to send cash home to neighboring countries presents a challenge for authorities.

Many criminal organizations are involved in legitimate business operations, complicating efforts to detect money laundering. In addition to domestic criminal activity, observers note criminal activity by Chinese triads; Taiwanese groups; Nigerian, Pakistani, Andean, and Indian drug traffickers; Bulgarian credit card skimmers; Lebanese trading syndicates; and the Russian mafia. Some foreign nationals are using South African nationals to help them send illicit funds out of the country. Investment clubs (*stokvels*) and funeral savings societies have been used as cover for pyramid schemes. Additionally, criminals have used nominee structures to launder illicit funds by mixing illicit funds with legitimate assets held on someone else's behalf.

In 2016, investigations into high-level corruption gained widespread coverage in the media, and the Public Protector mandated a judicial inquiry into undue political influence by private individuals close to President Zuma. The issue of PEPs gained attention when private banks refused to provide financial services to a PEP family.

Legislation in 2014 allows the establishment of four types of Special Economic Zones (SEZ): Industrial Development Zones (IDZs); free ports; FTZs; and Sector Development Zones. Currently, South Africa operates IDZs. Imports related to manufacturing or processing in the zones are duty free, provided the finished product is exported. The South African Revenue Service implements customs controls for these zones. Additional SEZs are under development.

KEY AML LAWS

The FIC Act compels financial institutions and other designated businesses to monitor financial flows and report suspicious transactions. The government has implemented comprehensive

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KYC and STR regulations. The South African Reserve Bank (SARB) and the Financial Services Board carry out AML supervision for banking and non-banking entities, respectively.

South Africa is a member of the FATF and the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20South%20Africa%20full.pdf>

AML DEFICIENCIES

The FIC Amendment Act (FICAA), ratified by both chambers of Parliament in May 2016, was ultimately sent back to Parliament in December due to the President's concerns with its constitutionality. The amendments allow institutions to use a risk-based approach toward AML deterrence. The FICAA also would require financial institutions to identify PEPs, including those in the private sector involved in high-value government procurements, and add high-value goods dealers, auctioneers, and virtual currency exchanges to the categories of entities falling under FIC authority.

The criminal justice system has become more effective in securing money laundering convictions, but lack of capacity in law enforcement and other institutions to handle complex cases remains a challenge. The difficulty in obtaining information on beneficial ownership impacts financial institutions' ability to detect and report suspicious transactions.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The FTT was established in October 2016, specifically to target criminal syndicates and seize illicit money tied to narcotics, wildlife poaching, and weapons trafficking. The FTT has investigative powers and is comprised of dedicated investigators and intelligence analysts who will target suspicious money flows leaving the country. U.S. law enforcement participates with representatives from the SARB, FIC, South African Police Service, and National Prosecuting Authority.

Press coverage of scandals involving FIC reports of suspicious transactions by prominent individuals demonstrate the reach and intensity of FIC scrutiny. Authorities assert that despite, or perhaps because of increased press scrutiny, the cooperation among FIC, law enforcement, and prosecutorial authorities is largely effective.

In August 2016, the SARB imposed fines totaling R34.5 million (approximately \$2.5 million) on five banks relating to weaknesses in AML controls. Widespread media coverage of the fines led to increased attention to compliance by other financial institutions. The FIC also sanctioned car dealers for failure to register with FIC.

During the fiscal year that ended March 31, 2016, the FIC referred 511 cases for further investigation and blocked R185 million (approximately \$13.2 million) as suspected proceeds of crime. Prosecutors typically include money laundering as a secondary charge in conjunction with other offenses. Accordingly, the government does not generally keep separate statistics for money laundering-related prosecutions, convictions, or forfeitures.

Spain

OVERVIEW

Spain is proactive in identifying, assessing, and understanding its money laundering risks and works to mitigate these risks. Spain remains a logistical hotspot for organized crime groups based in Africa, Latin America, and the former Soviet Union and is a trans-shipment point for illicit drugs entering Europe from North Africa and South America. Spain is largely compliant with the FATF Recommendations and has up-to-date laws and regulations and sound AML institutions. In 2016, Spain significantly increased the budget of its FIU, the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Infractions (SEPBLAC), and fully implemented its “Financial Ownership File,” a database under the control of SEPBLAC that was set out in Article 43 of Spain’s AML Law and is available to law enforcement. In general, Spain continues to build on its already strong measures to combat money laundering.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Spain is a trans-shipment point for cross-border illicit flows of drugs. 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. In addition, bulk cash is sent from Latin America to Spain by the same means that drugs enter Spain from Latin America. Informal money transfer services also facilitate cash transfers between Spain and Latin America, particularly Colombia. Law enforcement authorities continue to cite an emerging trend in drugs and drug proceeds entering Spain from newer EU member states with less robust law enforcement capabilities.

The most prominent means of laundering money are through the purchase and sale of real estate, the use of complex networks of companies and legal arrangements, the exploitation of MVTs, and the use of cash couriers. The major sources of criminal proceeds are drug trafficking, organized crime, customs fraud, human trafficking, and counterfeit goods. Illicit 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.

Authorities report significant illicit capital flows destined for China over the past five years. In February 2016, Spanish authorities raided the Madrid headquarters of Chinese bank ICBC and arrested six employees. In June, a court document summarizing the investigation to date noted the bank received cash from Chinese criminal groups in Spain and wired the money to accounts in China. The court document estimates approximately \$98 million was laundered in this way from 2011 to 2014. The investigation is ongoing and Spain’s High Court has not yet decided whether to close the case or hold a trial.

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KEY AML LAWS AND REGULATIONS

Spain enacted its current law on Preventing Money Laundering and the Financing of Terrorism in 2010; the law entered into force immediately. All associated implementing regulations were approved and entered into force in May 2014. Spain has comprehensive KYC and STR regulations.

Spain is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/s-t/spain/documents/mer-spain-2014.html>

AML DEFICIENCIES

Spain is largely compliant with FATF recommendations. Spain has addressed two noted deficiencies: in 2016, SEPBLAC received a nearly 29 percent budget increase in order to increase personnel from 54 to 79 employees; and in June 2017, the new EU Funds Transfer Regulation will become effective in Spain.

As of October 2016, Spain has not started the process to update its current national law on Preventing Money Laundering and the Financing of Terrorism to transpose and implement EU Directive 2015/849. Additionally, effective controls are not in place to ensure lawyers comply with their AML obligations. Spain has not updated its penal code to extend the maximum period of disbarment for professionals.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

A number of money laundering cases have been prosecuted, including those involving third-party money laundering, self-laundering, and laundering the proceeds of both domestic and foreign predicate offenses. Spain has had success in disabling criminal enterprises and organized criminal groups by identifying and shutting down their complex money laundering networks of national and international companies. However, the relatively low level of sanctions (terms of imprisonment and periods of disbarment) imposed for money laundering offenses is a weakness, as is the limited judicial system's capacity to handle complex money laundering cases in a timely fashion.

Spanish officials report the following statistics regarding money laundering-related prosecutions and convictions (2015 data is tentative): cases concluded: 64 (2014), 76 (2015); people being prosecuted: 275 (2014), 277 (2015); cases resulting in convictions: 45 (2014), 53 (2015); persons convicted: 186 (2014), 180 (2015); convicted person holding a position in the judicial system: 1 (2015).

St. Kitts and Nevis**OVERVIEW**

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St. Kitts and Nevis (SKN) is a federation composed of two islands in the Eastern Caribbean. Its economy is heavily reliant on tourism, construction, and the offshore financial sector. SKN remains a transit point for drug traffickers going to the United States and Europe.

VULNERABILITIES AND EXPECTED TYPOLOGIES

SKN remains susceptible to corruption and money laundering because of the high volume of narcotics trafficking around the islands. The growth of its offshore sector coupled with unusually strong bank secrecy laws also remains problematic.

SKN derives a significant portion of its revenue from its program offering citizenship through investment (CIP); however, this program's prior lax vetting created AML and security vulnerabilities domestically and internationally. Despite recent efforts to improve the application process and vetting procedures, the CIP continues to be afflicted by significant deficiencies in vetting candidates and conducting due diligence on passport and citizenship recipients after they receive citizenship. An individual is eligible for economic citizenship with a \$400,000 minimum investment in real estate. Also, an applicant is eligible by making a contribution ranging from \$250,000 to \$356,000 (based on an application for two adults and two dependents) to the Sugar Industry Diversification Foundation, a special project approved for the purpose of citizenship by investment. Applicants must make a source of funds declaration and provide evidence supporting the declaration. The Ministry of Finance has established a Citizenship Processing Unit to manage the screening and application process.

KEY AML LAWS AND REGULATIONS

The AML legislation is at the federation level and covers both St. Kitts and Nevis. Each island has the authority to organize its own financial structure and procedures. St. Kitts has acts governing companies, limited partnerships, foundations, and trusts that are registered in St. Kitts, while Nevis has Ordinances that govern corporations, limited liability companies, trusts, and multiform foundations. Most of the offshore financial activity is concentrated in Nevis.

The Eastern Caribbean Central Bank (ECCB) has responsibility for regulating and supervising the domestic sector of SKN. Offshore banks, which are supervised by the Financial Services Regulatory Commission, are required to have a physical presence in the federation; shell banks are not permitted.

St. Kitts and Nevis is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=335&Itemid=418&lang=en

AML DEFICIENCIES

There is a limited amount of information on the exact number of financial entities in the federation. In 2010, St. Kitts had licensed approximately 36 corporate service providers, three trust providers, 116 captive insurance companies, and over 2,100 companies and foundations. Nevis had over 11,000 IBCs, 4,200 limited liability companies, over 1,000 trusts, and over 110

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insurance companies. Nevis can form an IBC in less than 24 hours, and bearer shares are allowed though “discouraged.” Internet gaming entities must apply for a license as an IBC.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

SKN did not report passage of new enforcement legislation or prosecutions in 2016, and there have been no money laundering prosecutions or convictions since 2013. There are no guidelines to provide law enforcement the authority to conduct an investigation based on a foreign request for assistance. SKN’s legislation incorporates provisions for civil penalties; however, they continue to be applied in an unreliable manner and do not apply to all pertinent financial sectors. Bearer shares are authorized if the bearer share certificates are retained in the protected custody of persons or financial institutions authorized by the Minister of Finance. Specific identifying information must be maintained on bearer certificates, including the name and address of the bearer as well as the certificate’s beneficial owner.

In May 2014, the U.S. Department of Treasury’s Financial Crimes Enforcement Network (FinCEN) issued an advisory to alert U.S. financial institutions that certain foreign individuals abuse the SKN CIP to obtain SKN passports for the purpose of engaging in illicit financial activity or evading sanctions. The use of the SKN CIP is promoted in foreign locales, such as Dubai, possibly as a way of facilitating the evasion of sanctions. FinCEN is engaging SKN to evaluate if recent CIP improvements sustainably address U.S. AML/CFT concerns.

Financial oversight in Nevis remains problematic due to SKN allowing the creation of anonymous accounts, strong bank secrecy laws, and overall lack of transparency of beneficial ownership of legal entities. The ambiguous regulatory framework regarding customer due diligence makes Nevis a desirable location for criminals to conceal proceeds.

The Government should focus on addressing these issues. SKN must work toward transparency and accountability in financial regulation. Specifically, it must precisely determine the exact number of internet gaming companies present on the islands and conduct the necessary oversight of these entities. The government should ensure all relevant entities covered under the AML laws and regulations are subject to sanctions that are proportionate and dissuasive. SKN should promote close supervision of the CIP and be transparent in reporting monitoring results.

St. Lucia

OVERVIEW

St. Lucia’s main sources of revenue are tourism and the offshore banking sector. It has a diverse manufacturing sector and the government is trying to revitalize the banana industry. St. Lucia is a transit point for illegal drugs going toward the United States and Europe.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Money laundering in St. Lucia primarily relates to drug trafficking. Illicit drug trafficking by organized crime rings and the laundering of drug proceeds by domestic and foreign criminal elements remain serious problems for St. Lucia. It is believed financial institutions unwittingly engage in currency transactions involving international narcotics trafficking proceeds.

St. Lucia has an offshore banking sector, which is supervised by the Financial Sector Supervision Unit of the Ministry of Finance. Onshore domestic banks are supervised by the Eastern Caribbean Central Bank. St. Lucia also has a FTZ where investors can establish businesses and conduct trade and commerce outside of the National Customs territory. Activities may be conducted entirely within the zone or between the St. Lucia free zone and foreign countries.

KEY AML LAWS AND REGULATIONS

St. Lucia launched a new economic citizenship program in October 2015, but changed its fees and regulations in January 2016. An individual can obtain citizenship for a minimum investment of \$100,000 per applicant, \$160,000 for an applicant and spouse, or \$190,000 for a family of up to four persons. There is no residency requirement and passport holders may travel to most Commonwealth and EU countries without a visa. Application for economic citizenship must be made through a government-approved local agent and requires payment of a background check/due diligence fee. An in-person interview is not required.

Banks, building societies, and credit unions; insurance companies; international financial services companies; finance and lending companies; factors, guarantors, and registered agents; exchange bureaus; investment advisers; cash remittance services; postal and other courier services; real estate businesses; car dealerships; casinos, gaming houses, and internet gaming services; jewelers and bullion dealers; custodial, advice, and nominee services; check cashing services; financial leasing; venture risk capital firms; administrators and issuers of financial instruments, credit cards, traveler's checks, and bankers' drafts; money brokers; financial intermediaries; securities brokers and underwriters; investment and merchant banks; trusts, asset management, and fiduciary services; company formation and management services; collective investment schemes and mutual funds; lawyers; and accountants must comply with KYC rules.

There is a Tax Information Exchange Agreement between the Governments of St. Lucia and the United States.

St. Lucia became a party to the UNCAC on November 18, 2011.

St. Lucia is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=334&Itemid=418&lang=en

AML DEFICIENCIES

There remains a substantial black market for smuggled goods in St. Lucia, mostly gold, silver, and other jewelry, predominantly smuggled from Guyana. There is a black market in high-quality jewelry purchased from duty free establishments in St. Lucia by both local and foreign

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consumers. Monies suspected to be derived from drug trafficking and other illicit enterprises are filtered into and washed through trading firms. TBML is evident in St. Lucia.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The Customs and Excise Department is routinely confronted by false declarations, false invoicing, and fraudulent evasion of duties and taxes on goods, and there is a robust approach to cash seizures and forfeitures.

Law enforcement and customs authorities should be given training on how to recognize and combat trade-based value transfer, which could be indicative of both customs fraud and money laundering. The Government of St. Lucia should improve investigative capacity within the police and courts to prosecute cash seizure and forfeiture cases expeditiously and successfully.

The government should ensure its economic citizenship program is adequately supervised and monitored to prevent its abuse by criminals.

St. Vincent and the Grenadines

OVERVIEW

St. Vincent and the Grenadines' (SVG) economy is dependent on the tourism and offshore banking industries. Agriculture is also an important sector of St. Vincent and the Grenadines' economy. There is a high unemployment rate on the islands. SVG is the leading marijuana producer in the region and a transit point for other types of illicit drugs.

VULNERABILITIES AND EXPECTED TYPOLOGIES

SVG remains vulnerable to money laundering and other financial crimes as a result of drug trafficking and its offshore financial sector. The set of islands remains a small but active offshore financial center with a relatively large number of IBCs. United States currency is often smuggled into the country via couriers, go-fast vessels, and yachts.

Money laundering is principally affiliated with the production and trafficking of marijuana in SVG, as well as the trafficking of other narcotics from within the Caribbean region. Money laundering occurs in various financial institutions, such as domestic and offshore banks, and through money remitters.

As of 2016, the offshore financial sector includes five offshore banks, four offshore insurance companies, 16 registered agents, 39 mutual fund managers and administrators handling 92 mutual funds, and two casinos. As of 2015, there were 6,331 IBCs, 440 continued IBCs, and 100 international trusts. There are no internet gaming licenses. No physical presence is required for offshore sector entities and businesses, with the exception of offshore banks. The regulatory body with the mandate to supervise the offshore financial sector and DNFBPs is the Financial

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Services Authority. Resident nominee directors are not mandatory except when an IBC is formed to carry on banking business.

Bearer shares are permitted for IBCs, but not for banks. The St. Vincent and the Grenadines government requires registration and custody of bearer share certificates by a registered agent who must also keep a record of each bearer certificate issued or deposited in its custody. There are no FTZs in SVG.

KEY AML LAWS AND REGULATIONS

The primary laws and regulations that constitute the AML regime in SVG are the Proceeds of Crime Act, No. 38 of 2015; the Financial intelligence Unit Act, Cap 174 of the Revised Laws of 2009, as amended by Act No. 7 of 2013; the Drug Trafficking Offenses Act, Cap 173 of the Revised laws of 2009; the Exchange of Information Act, cap 146 of the Revised Laws of 2009; the Mutual Assistance in Criminal Matters Act, cap 177 of the Revised Laws of 2009; the Anti-Money laundering and Terrorist Financing Regulations, No. 20 of 2014; and the Confiscation in the Magistrates' Court Regulations, No. 22 of 2015.

The Mutual Assistance in Criminal Matters Act signed between the St. Vincent and the Grenadines government and the United States government on January 8, 1998 is the operative instrument through which records and information can be exchanged with the United States. The Treaty covers mutual legal assistance in criminal matters, the scope extending to civil and administrative matters as well.

SVG is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=333&Itemid=418&lang=en

AML DEFICIENCIES

The major outstanding AML deficiencies relate to the supervision and regulation of DNFBPs. The FIU has been designated as the supervisory body for these entities. The FIU is in the process of formulating regulations for the sector and is currently providing AML training to the sector.

The Anti-Money laundering and Terrorist Financing Regulations include provisions to cover PEPs and ensure enhanced due diligence is done before such persons are accepted as customers of any service provider or DNFBP. The draft Anti-Money Laundering and Terrorist Financing Code 2014 was revised and is again before the Attorney General for review. As it relates to legal persons, the proposed Code would include extensive provisions for CDD and ongoing monitoring of such arrangements.

SVG has not conducted a national risk assessment yet. St. Vincent and the Grenadines' goal is to complete this early in 2017.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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In 2016, SVG initiated one charge for money laundering, which is currently being prosecuted in the courts. There were no convictions for money laundering during the year.

The government should become a party to the UNCAC. It also should adopt a provision to provide financial institutions and their employees who file STRs in good faith with protection against civil or criminal liability.

Suriname

OVERVIEW

Money laundering in Suriname is closely linked to transnational criminal activity related to the transshipment of cocaine, primarily to Europe and Africa. According to local media reports, both domestic and international drug trafficking organizations are believed to control most of the laundered proceeds, which are primarily invested locally in casinos, real estate, foreign exchange companies, car dealerships, and the construction sector. Public corruption also may contribute to money laundering, though the full extent of its influence is unknown. Profits from small-scale gold mining and related industries fuel a thriving informal sector. Much of the money within this sector does not pass through the formal banking system. In Suriname's undeveloped interior, bartering with gold is the norm for financial transactions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Goods such as agricultural products, fuel, cigarettes, alcohol, and medicine are smuggled into the country via Guyana and French Guiana and are sold below market prices. Other goods are smuggled into the country with the primary aim of avoiding payment of import duties and other taxes. There is little evidence to suggest this smuggling is funded by narcotics trafficking or other illicit activity. Contraband smuggling likely does not generate funds later laundered through the financial system. There are indicators that TBML occurs, generally through the activities of local car dealerships, gold dealers, and currency exchanges (*cambios*). Money laundering may occur in the formal financial sector through banks and *cambios*.

There is no evidence the formal banking sector facilitates movement of currency derived from illegal drug sales in the United States. Local drug sales of cocaine in transit through Suriname are usually conducted in U.S. dollars, which may be deposited domestically.

KEY AML LAWS AND REGULATIONS

Suriname has taken a number of steps recently to improve compliance with international AML standards. For example, the International Sanctions Act (O.G. 2016 no. 31) was enacted on February 29, 2016 and came into force on March 3, 2016 to amend the International Sanctions Act (O.G. 2014 no. 54). This law establishes as a legal entity a Council on International Sanctions, with the responsibility of supervising all service providers for compliance with the International Sanctions Act.

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On February 29, 2016, the Law on detailed amendment to the Law on Personal Identification Service Act (O.G. 2016 no. 32) was enacted. It was brought into force on March 3, 2016 to amend the Personal Identification Services (WID) Act. This law is directly related to the CDD obligations applicable in higher risk situations and is intended to make enhanced CDD mandatory for Suriname's NPOs.

The Law on detailed amendment to the Law on Disclosure of Unusual Transactions Act (O.G. 2016 no 33) was enacted on February 29, 2016 and came into force on March 3, 2016 to amend the Disclosure of Unusual Transactions Act (O.G. 2002 no. 65, as amended in O.G. 2012 no. 133). The overarching intent of this amendment is to further improve the AML mechanisms linked, in part, to the Act on Capital Market (O.G. 2014 no. 53).

On February 29, 2016, State Decree (O.G. 2016 no 34) was enacted with the overarching intent to implement article 2, section 1 of the Act International Sanctions (O.G. 2014 no. 54).

CDD rules and STR requirements cover banks and credit unions, asset managers, securities brokers and dealers, insurance agents and companies, currency brokers, remitters, exchanges, auditors, accountants, notaries, lawyers, real estate agents, dealers in gold or other precious metals and stones, gaming entities and lotteries, and motor vehicle dealers.

The exchange of records between Suriname and other countries is possible via individual MOUs and mutual legal assistance requests.

Suriname is a member of the CFATF, a FATF-style regional body. Suriname's most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/suriname-1>

AML DEFICIENCIES

On November 25, 2015, the CFATF issued a public statement asking its members to consider the risks posed to their financial systems by the strategic deficiencies in Suriname's AML regime. On November 10, 2016, the CFATF recognized Suriname's improvements in the legislative and regulatory areas and called on Suriname to continue making further improvements to achieve full compliance with international AML standards.

Suriname has requirements for enhanced due diligence procedures for foreign, but not domestic, PEPs.

During the period January to September 2016, 115 of the 306,619 STRs received by the FIU led to investigations.

Suriname is not a member of the Egmont group. Additionally, the Government of Suriname is not party to the UNCAC.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

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Suriname ratified the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1992. A bill on international sanctions was passed in the first half of 2016.

A gaming board was established by Law in 2009. In March 2016, the Minister of Justice and Police met with the three-member leadership team of the Gaming Board. The Board presented a plan to start operational activities in the near future. Other than the three members, the Board has no personnel.

From January to September 2016, there were four money laundering prosecutions and no convictions.

Tajikistan

OVERVIEW

Criminal proceeds laundered in Tajikistan derive from both foreign and domestic criminal activities and are assumed to be primarily related to the large amounts of opium and heroin trafficked through the country from Afghanistan to Russia. Government officials indicate there has been an increase in money laundering prosecutions in 2016, but they have not provided official numbers. The absence of current money laundering investigation or prosecution statistics makes it difficult to accurately gauge the degree to which the formal banking sector is being used to launder such assets.

The Tajik government was unable to provide a large portion of the requested information this year, although it has done so in the past. Anecdotal evidence indicates that money laundering funds are used for imported cars, luxury goods, and real estate. There is little evidence money laundering occurs through the abuse of alternative remittance systems, FTZs, or bearer shares.

Tajikistan should focus on the development of criminal and prosecutorial investigative capacity. The government has expressed a desire to cooperate with international partners on investigating and prosecuting money laundering crimes.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Information is limited as to the major sources of illicit funds and how money is laundered. Government officials express a concern about their capacity to investigate and prosecute complicated money laundering crimes. Use of alternative remittance systems, FTZs, and bearer shares create the potential for abuse, but evidence of their abuse as money laundering vehicles is limited.

KEY AML LAWS AND REGULATIONS

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Tajikistan has the legal framework and institutional structures to tackle money laundering; it remains to be seen if there is the will to fully and consistently implement its statutes. Resource constraints, corruption, lack of training for law enforcement and border security officials, and general capacity issues continue to restrict AML enforcement. With donor assistance, the Republic of Tajikistan was conducting a national risk assessment, projected to be completed in 2016. The status of this effort is unknown.

On August 8, 2015, the law “Making Amendments and Additions to the Law of the Republic of Tajikistan” on “Public Associations” was passed. On November 2, 2015, statute No. 646 of the Government of the Republic of Tajikistan, addressing, in part, asset freezing, was approved. It remains unclear how systematic the government’s approach is to asset identification, seizure, and forfeiture. There is no publicly available information with regard to the length of time necessary to freeze assets or any estimates of the amount of assets frozen or seized.

Tajikistan has comprehensive KYC and STR regulations.

The U.S. DEA maintains an MOU with the Tajik government Drug Control Agency regarding sharing of information in connection with narcotics investigations.

Tajikistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

AML DEFICIENCIES

Enhanced due diligence procedures are required for foreign PEPs.

Tajikistan is not subject to any U.S. or international AML sanctions or penalties.

At the working level, the Tajik government has expressed interest in training to improve its capacity to better investigate and prosecute money laundering cases.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Tajikistan has expressed a willingness to cooperate with foreign governments, focusing on the development of the criminal and prosecutorial investigative capacity required to identify and prosecute money laundering cases. As with many other justice reform issues in Tajikistan, most deficiencies are derived from a lack of training, resources, and experience rather than a lack of political will.

The jurisdiction for investigating money laundering and related financial crimes in Tajikistan is divided among the Ministry of Internal Affairs, State Committee of National Security, Prosecutor General’s Office, and the Anti-Corruption Agency. The level and quality of cooperation and coordination among these agencies could be significantly improved through training, information sharing, and the establishment of multi-agency task forces.

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Tanzania

OVERVIEW

While Tanzania is not a regional financial center, it is vulnerable to money laundering schemes and cross-border currency movements, which exploit the country's unregulated financial sector, as well as to deficiencies in currency transaction reporting. As a response, the Government of Tanzania created a special court to address economic crimes and report on plans to implement regulations that address cross-border currency movement and other issues. As Tanzania works to update its national AML/CFT plan, the government should continue to train, increase awareness of, and allocate resources to key financial sector, law enforcement, and judicial stakeholders.

In 2014, the U.S. Department of the Treasury issued a proposed rule naming Tanzania's FBME Bank Ltd. as a financial institution of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act and imposing a prohibition on U.S. financial institutions from opening or maintaining a correspondent account for, or on behalf of, FBME. Following the later takeover of FBME by the Tanzanian Central Bank and subsequent litigation, the rule was finalized on March 31, 2016. After additional litigation and per a court's request, on December 1, 2016, the rule was supplemented with language to further justify the original rule.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Tanzania involves the proceeds from drug trafficking, wildlife trafficking, corruption, and smuggling of precious metals and stones. A large portion of the population is still engaged in the unregulated financial sector, which is where money laundering is more likely to occur. Mobile banking services continue to expand rapidly, which opens up formerly underserved rural areas to formal banking but also creates new vulnerabilities. Criminals use front companies, hawaladars, and currency exchanges to launder funds, particularly on the island of Zanzibar. Officials indicate additional money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry. Real estate and used car businesses also appear to be involved in money laundering.

KEY AML LAWS AND REGULATIONS

Tanzania's main AML legislation includes The Anti-Money Laundering Act, Cap. 423 of 2006; Anti-Money Laundering (Amendment) Act, 2012; Anti-Money Laundering and Proceeds of Crime Act, No. 10 of 2009; and Written Laws (Miscellaneous Amendment) Act No. 12 of 2011. Main regulations in this area include Anti-Money Laundering Regulations, 2012; and Anti-Money Laundering and Proceeds of Crime Regulations 2015. Tanzania has KYC and STR regulations.

Tanzania is a member of the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: http://www.esaamlg.org/reports/view_me.php?id=197

AML DEFICIENCIES

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In recent years, the government has taken steps to strengthen its response to money laundering. For example, the Authorities amended Section 60 of the Economic and Organized Crime Control Act (Cap. 200) to provide for the confiscation of property. Weaknesses remain, however, in supervision of the financial sector. In addition, the country has yet to establish a database of mutual legal assistance (MLA) statistics and to put in place procedures to ensure MLA requests are properly executed. Similarly, lack of legislation to allow for the confiscation, freezing, or seizure of certain assets in response to a MLA request is still unresolved.

Tanzania has a limited capacity to implement the existing money laundering laws and to supervise the banking sector. Furthermore, authorities still have failed to address noted problems related to civil forfeiture. Other ongoing issues include a focus mainly on the formal banking sector rather than full coverage of DNFBPs and ineffective provisions pertaining to recordkeeping.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although Tanzania enacted its Money Laundering Act in 2006, Tanzanian prosecutors did not begin to try money laundering cases until 2009. Since that time, few money laundering cases have been brought to court, and the majority of those cases are still pending. The recently enacted “The Written Laws (Miscellaneous Amendments) Act 2016” calls for the establishment of the Corruptions and Economic Crimes Division of the High Court, and could potentially lead to faster case adjudication. Moreover, Tanzania’s FIU notes a regulation titled “The Money Laundering (Cross Border Declaration of Currency) Regulation 2016” will soon be issued, which will address concerns over cross-border currency declaration.

Tanzania should increase the awareness of money laundering issues in the financial, law enforcement, and judicial sectors and allocate the necessary human, technical, and financial resources to implement its AML regime, especially in Zanzibar. It should focus on implementing its AML law and building its capacity to identify, freeze, and seize assets. It also should train police and customs officials to recognize and investigate financial crimes, and train its prosecutors and judicial officials to try, hear, and ultimately convict criminals and criminal organizations engaging in money laundering activities. Customs and the FIU should be given the resources to implement cross-border currency declaration requirements. Moreover, the FIU should improve the training for new staff, inform institutions of their reporting and recordkeeping responsibilities, and train the financial sector to identify suspicious transactions. The FIU additionally should focus on non-traditional banking mechanisms, such as the use of front companies, hawaladars, Chinese “flying money” remittance systems, currency exchanges, and mobile banking to launder funds.

Thailand

OVERVIEW

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Thailand is a centrally located Southeast Asian country with porous borders. Thailand is vulnerable to money laundering within its own economy as well as to many categories of cross-border crime, including illicit narcotics, wildlife trafficking, 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, official corruption, underground lotteries, and prostitution are laundered through the country's informal financial channels. The Thai black market includes a wide range of pirated and smuggled goods, from counterfeit medicines to luxury automobiles.

Thailand continues to make progress in its AML regulatory framework, since its passage of the Anti-Money Laundering Act (No. 4) (AMLA No. 4) in 2013. Thailand is expected to soon add tax offenses as a predicate offense under the AMLA.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Funds from various illegal industries (drugs, contraband goods, and illegal remittances) are transported across Thailand's four land borders and through airports and seaports. There is no requirement to declare Thai currency brought into the country. Money launderers and traffickers use banks, non-bank financial institutions, and businesses to move the proceeds of narcotics trafficking and other criminal enterprises. Unlicensed or unregulated hawaladars serve Middle Eastern travelers in Thailand. Unregulated Thai and Chinese remittance systems are also prevalent. Smuggled items include cash, financial instruments, gold, jewelry, gems, protected wildlife species, drugs, and petroleum. The Anti-Money Laundering Office (AMLO), Thailand's FIU, is effective in fighting money laundering and can operate in conjunction with, or independently from, other law enforcement bodies. AMLO's focus is on civil asset seizure and forfeiture.

KEY AML LAWS AND REGULATIONS

The primary regulation in Thailand is AMLA, Section 22, which includes KYC and STR regulations. The Act requires financial institutions to keep customer identification and financial transaction data for five years from termination of relationship. Financial institutions must keep due diligence records for ten years. The Act also requires reporting of suspicious transactions. Thailand's draft Counter Proliferation Financing Act is expected to be enacted by late 2016. Tax offenses are also expected to be added as a predicate offense under the AMLA.

Thailand is a member of the Egmont Group of FIUs, and this is its primary mechanism for sharing information with the United States and other countries. A bilateral records-exchange mechanism is not in place with the U.S. and is not under negotiation.

Thailand is a member of the APG. Its most recent mutual evaluation report can be found at: <http://www.apgml.org/documents/default.aspx?s=date&c=7&pcPage=7>

AML DEFICIENCIES

Thailand continues to make progress in its AML legal/regulatory framework. AMLA No. 4 transferred all supervision of reporting entities to the AMLO. Since the revision to AMLA in 2015, AMLA No. 5, the law no longer requires AMLO to prove intent before an asset can be seized; simply being connected to narcotic activity allows a seizure.

Thailand is not subject to any U.S. or international sanctions. Operationally, Thailand's AML regime appears to be continuing its longstanding focus on civil asset seizure and forfeiture as well as criminal enforcement. Thailand has continued to use AMLO's authorities to seize assets in a number of suspected human trafficking cases. AMLA No. 5 eliminates the barriers to asset sharing and recovery in cases in which repatriating or sharing forfeited proceeds with a foreign jurisdiction is appropriate. Counter proliferation has been proposed as a predicate offense; that bill is awaiting final approval before becoming law.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Thailand's legal framework allows for international cooperation on criminal matters and extraditions. Thailand's AMLO is able to share information with or without MOUs with domestic or international partners and does so actively. AMLO can work independently as well as in parallel to, or as part of, law enforcement task forces. Thailand's primary difficulty in information sharing is with jurisdictions that require separate MOUs outside of the Egmont process. From January 1 through October 20, 2016, AMLO prosecuted 41 cases, and gained 19 convictions.

Timor-Leste

OVERVIEW

Timor-Leste is a small economy, with limited data available regarding illicit funds and limited awareness, even by stakeholders, of money laundering issues. The most prevalent source of illicit proceeds is corruption, which a recent assessment described as "endemic" in the public sector. Capacity is low in government entities that supervise, enforce, and investigate suspicious financial transactions. The government has committed to increasing that capacity, as well as increasing awareness among the public and private sectors.

In 2016, Timor-Leste published its first National Risk Assessment of Money Laundering and Terrorist Financing (NRA) and adopted a National Action Plan (NAP) to address the areas of concern identified in the NRA.

VULNERABILITIES AND EXPECTED TYPOLOGIES

There are no reliable estimates for the amount of illicit funds in Timor-Leste or the ways in which money is laundered. Most experts agree that corruption is the largest source of criminal proceeds in the country, and the NRA identifies tax evasion, drug trafficking, fraud, and trafficking in persons as other potential areas of concern. Timor-Leste is not a regional or

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offshore financial center and has no FTZs. The economy is primarily cash-based, with only approximately 45 percent of the adult population having access to financial services. There are only four commercial banks in country, three of which are branches of foreign banks chartered in Australia, Portugal, and Indonesia and subject to the reporting requirements of those jurisdictions.

Capacity to investigate money laundering in Timor-Leste is low, and most investigations focus on the predicate offenses. Authorities are aware that building capacity in this area is crucial and have prioritized capacity-building for law enforcement, judiciary, the Central Bank, and the FIU in order to combat money laundering.

The NRA identifies the primarily cash economy, the use of the U.S. dollar, and the unregulated flow of cash across the borders as the primary vulnerabilities that might make Timor-Leste an attractive location for money laundering and financial crimes.

KEY AML LAWS AND REGULATIONS

The Government of Timor-Leste adopted an AML law in 2011 (Law no. 17/2011), which Parliament amended in 2013 (Law no. 5/2013/III) to remedy identified deficiencies. A Decree Law (no. 16/2014) regulating the governance and powers of the FIU came into force in 2014, and the FIU was established in the same year. The Government of Timor-Leste has comprehensive KYC and STR regulations for entities under the purview of the Central Bank. These include banks, insurance companies, microfinance institutions, money transfer operators, and the currency exchange bureau.

The law mandates cooperation between relevant Timorese authorities and competent foreign authorities. However, the details of that cooperation are not specified.

Timor-Leste is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/includes/handlers/get-document.ashx?d=9be81db1-1f46-42d0-939c-4ffca465cc64>

AML DEFICIENCIES

Securities brokers, casinos, accountants, auditors, and financial consultants do not fall under the supervision of the Central Bank, so are not subject to KYC or STR regulations.

Timor-Leste's FIU is not a member of the Egmont Group of FIUs, but, as part of the NAP, is actively pursuing membership with a goal of becoming a member by 2018.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Enforcement and investigation capacity related to money laundering and financial crimes is low. The country is taking steps to implement the 1988 UN Drug Convention and has been responsive to recommendations from international experts. In 2015, there was only one money laundering prosecution.

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The publication of its NRA in 2016 and the associated NAP indicate the commitment of the government in this area. The NAP has ten strategic objectives for implementation through 2020: a robust framework for AML policy development and implementation; increased understanding of the risks in country; bringing the legal framework into compliance with international standards; increased investigative and prosecutorial capacity related to money laundering and predicate offenses; increased supervisory body capacity; enhanced implementation of preventative measures; the development of FIU capacity to collect, analyze, and disseminate reports; enhanced transparency of the beneficial ownership of legal entities; the development and enhancement of cooperation, both domestically and internationally, among responsible authorities; and enhanced public awareness.

Trinidad and Tobago

OVERVIEW

Trinidad and Tobago's close proximity to drug producing countries, relatively stable economy, and developed financial systems make it a target for criminals looking to launder money. Proceeds from drug trafficking, illegal arms sales, fraud, tax evasion, and public corruption are the most common sources of laundered funds and are derived from both domestic and international criminal activity. Narcotics trafficking organizations and organized crime entities, operating locally and internationally, control the majority of illicit proceeds moving through the country.

There have not been any money laundering convictions to date, although the Police Service Financial Investigations Branch continues to bring cash seizure and forfeiture cases to the courts. Trinidad and Tobago institutions encompassed in the AML regime continue to be challenged due to capacity and resource constraints. Sustained capacity building, ensuring adequate legislation, regulating the gaming industry, and increasing cooperation among law enforcement entities, the FIU, and the judiciary would greatly improve AML investigations and the rate of convictions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Trinidad and Tobago's AML regime is unable to quantify the extent to which fraud and public corruption contribute to money laundering. Fraud and waste in government procurement have been identified as problems, but rarely result in convictions. The failure to prosecute financial crimes successfully has a corrosive impact on the integrity of public finances and may encourage others to engage in financial crimes.

Money laundering also occurs outside the traditional financial system. While public casinos and online gaming are illegal in Trinidad and Tobago, gamblers take advantage of "private members' clubs," which operate as casinos and are able to move large amounts of cash due to Trinidad and Tobago's lack of adequate AML supervision of this sector. Reports also suggest that certain local religious organizations are involved in money laundering. STRs reviewed by the FIU and Customs and Excise Division officials indicate that TBML occurs.

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There are 17 FTZs in Trinidad and Tobago, where manufactured products are exported. Companies must present proof of legitimacy and are subject to background checks prior to being allowed to operate in the FTZs, and while operating are required to submit tax returns quarterly and audited financial statements yearly. There is no evidence the FTZs are involved in money laundering schemes.

Trinidad and Tobago does not have a significant offshore banking sector. The volume of money laundering in the offshore banking sector is unknown. Currency transactions below the STR threshold are common.

KEY AML LAWS AND REGULATIONS

Trinidad and Tobago has fairly comprehensive KYC and STR regulations.

Trinidad and Tobago is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/cfatf-4mer-trinidad-tobago.pdf>

AML DEFICIENCIES

The Attorney General's office is committed to addressing legislative deficiencies and has prioritized AML investigations and prosecutions. Trinidad and Tobago needs to consistently comply with international standards regarding its legal and regulatory frameworks and to demonstrate commitment to enforce AML laws. Trinidad and Tobago should improve its capacity to investigate and prosecute money laundering cases successfully in order to increase its conviction rate.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Trinidad and Tobago currently has 13 financial prosecutions and no convictions to date. AML stakeholders continue to face many challenges, and Trinidad and Tobago has taken steps to address deficiencies. In 2016, Trinidad and Tobago appointed a Seized Assets Committee, to establish regulations and management of monies seized under the Proceeds of Crime Act.

Trinidad and Tobago continues to address additional AML legislative deficiencies. The country is in its third and final phase of its national risk assessment (NRA). The NRA will identify risks and vulnerabilities to the AML regime and guide Trinidad and Tobago in applying mitigating measures.

Turkey

OVERVIEW

Turkey is an important regional financial center, particularly for Central Asia and the Caucasus, the Middle East, and Eastern Europe. Turkey's rapid economic growth over the past 15 years, combined with its commercial relationships and geographical proximity to unstable, conflict ridden areas, such as Iraq, Syria, and Crimea, makes Turkey vulnerable to money laundering risks. It continues to be a major transit route for Southwest Asian opiates moving to Europe. In addition to narcotics trafficking, other significant sources of laundered funds include smuggling, invoice fraud, tax evasion, and to a lesser extent, counterfeit goods, forgery, highway robbery, and kidnapping. Recent conflicts at the southern border of Turkey have, to a small extent, increased the risks for additional sources of money laundering.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering takes place in banks, non-bank financial institutions, and the informal economy. Illicit finance methodologies in Turkey include the large scale cross-border smuggling of currency; cross-border transfers involving both registered and unregistered exchange houses and money transfer companies; 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 to pay narcotics suppliers in Pakistan or Afghanistan. The transfer of money typically occurs through the non-bank financial system and bank transfers. Funds are often transferred to accounts in Pakistan, the United Arab Emirates, and other Middle Eastern countries.

KEY AML LAWS AND REGULATIONS

The Financial Crimes Investigation Board (MASAK) is Turkey's FIU, and its mission is the prevention and detection of money laundering and terrorist financing offenses. KYC and STR regulations cover a variety of entities, including banks; bank or credit card issuers; authorized exchange houses; money lenders; financial services firms; precious metals exchange intermediaries; and dealers and auction houses dealing with historical artifacts, antiques, and art. Turkey's AML efforts, especially following the July 15 coup attempt, focus primarily on combatting the finances of the Gulen movement.

Turkey is a member of FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Turkey%20full.pdf>

AML DEFICIENCIES

Weaknesses in Turkey's regulatory framework and supervisory regime raise concerns that exchange houses, both registered and unregistered, and trading companies operating as unregistered money transmitters are vulnerable to misuse and could be exploited by illicit actors. Turkey's regulated exchange house sector is unwieldy, and Turkish authorities face challenges providing effective oversight of the nearly 900 exchange houses under their watch. Additionally, there are indications that a large number of unregulated exchange houses and trading companies provide money transfer and foreign exchange services illegally.

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Turkey's nonprofit sector is not audited on a regular basis for money laundering activity and does not receive adequate AML outreach or guidance from the government. The General Director of Foundations issues licenses for overseas charitable foundations. However, there are an insufficient number of auditors to cover the more than 100,000 institutions.

A cash repatriation law enacted on August 3, 2016 as part of a general economic stimulus package allows Turkish citizens and corporations to freely transfer and use currency, gold, and other capital market instruments, without needing to declare the source of funds, and prevents investigation and prosecution related to these funds. This law, aimed at encouraging Turks to repatriate funds, also creates the potential for AML vulnerabilities.

Other improvements Turkey needs to make include subjecting PEPs to enhanced due diligence; continuing to enhance MASAK'S role in interagency cooperation and information sharing; improving interagency cooperation to assure a comprehensive implementation of existing laws and regulations; and identifying and taking action against unregistered MSBs, including trading companies that operate as unregistered money transmitters. To improve the deficiencies in its AML framework and implementation, Turkey will need to invest additional resources.

As a general rule, Turkey will consider implementing U.S. requests to freeze assets only if such requests are made under UNSCR 1373.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although Turkey's legislative and regulatory framework for addressing money laundering has improved, Turkey's investigative powers, law enforcement capability, oversight, and outreach are weak, and many of the necessary tools and expertise to effectively counter this threat through a comprehensive approach are lacking. Further, interagency coordination on AML is poor, and Turkey's financial and law enforcement agencies are often reluctant to share actionable information with one another. Turkey also lacks the civil, regulatory, and supervisory tools needed to supplement public prosecutions, further limiting the Turkish government's ability to counter money laundering.

Turkey has not kept adequate statistics on money laundering prosecutions and convictions since 2009. Therefore, Turkey's record of official investigations, prosecutions, and convictions is unclear. No data was available for 2015 or 2016. Turkey has no civil asset forfeiture procedures.

Turkmenistan

OVERVIEW

Turkmenistan is not a regional financial center. There are five international banks and a small, underdeveloped domestic financial sector. The largest state banks include the State Bank for Foreign Economic Relations, Dayhanbank, Turkmenbashi Bank, Turkmenistan Bank, Halk Bank, and President Bank. These state banks have narrow specializations. There are two

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smaller state banks, Senagat Bank and Garagum Bank, which provide general banking services only. There are also five foreign commercial banks: the joint Turkmen-Turkish bank; a branch of the National Bank of Pakistan; the German Deutsche and Commerz banks; and a branch of Saderat Bank of Iran. The two German banks have limited local operations, providing follow-up services on transactions conducted between local Turkmen banks and the European banks' corporate headquarters; they do not provide general banking services. Transactions involving the country's significant natural resources, notably natural gas, involve offshore accounts with little public scrutiny or accounting.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Given Turkmenistan's shared borders with Afghanistan and Iran, money laundering in the country can involve proceeds from the trafficking and trade of illicit narcotics as well as those derived from domestic criminal activities. Although there is no information on cash smuggling, gasoline and other commodities are routinely smuggled across the national borders.

There are no offshore centers in the country. In 2007, Turkmenistan created the Awaza Tourist Zone (ATZ) to promote development of its Caspian Sea coast. Amendments to the tax code exempt construction and installation of tourist facilities in the ATZ from value added tax (VAT). Various services offered at tourist facilities, including catering and accommodations, are also VAT-exempt. Two casinos, managed by Turkish companies, operate in Turkmenistan.

KEY AML LAWS AND REGULATIONS

The Government of Turkmenistan is taking steps to combat money laundering. Although Turkmenistan's law mandates the use of International Financial Reporting Standards by banks, few follow them. Furthermore, all other entities are only required to implement National Financial Reporting Standards. Turkmenistan maintains KYC and STR regulations.

In 2009, Turkmenistan adopted its law "On Combating the Legalization of Criminal Income and Terrorist Financing." In 2010, Turkmenistan adopted new amendments to its criminal code to bring it into compliance with the 1988 UN Drug Convention and the UNTOC. The Financial Monitoring Department of the Ministry of Finance of Turkmenistan, an administrative-type FIU, was created in 2010.

Turkmenistan does not have a records-exchange mechanism in place with the United States, and such a mechanism is not under negotiation. Turkmenistan does not have laws or regulations that ensure the availability to U.S. personnel of records in connection with drug investigations and proceedings.

Turkmenistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

AML DEFICIENCIES

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Turkmenistan is not subject to any U.S. or international sanctions or penalties. Turkmenistan is not a member of the Egmont Group of Financial Intelligence Units. In 2012, President Gurbanguly Berdimuhamedov announced that Turkmenistan would join the Egmont Group, but Turkmenistan has not yet joined. Through June 2015, the FIU had signed MOUs or information sharing agreements with 14 countries.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Turkmenistan is a signatory to the 1988 UN Drug Convention and its Inter-Agency Coordination Working Committee for combating money laundering operates under the Ministry of Finance. Turkmenistan continues to equip FIU officials with computer software designed to perform link analysis. There were no reports of prosecutions or convictions for money laundering.

Turkmenistan's legal system provides protection and exemption from liability for reports related to suspicious activity and sets limitations on disclosure of information financial institutions obtain in the process of performance of their AML obligations.

Turkmenistan increased its activity in international financial affairs and strengthened its cooperation with leading financial and economic institutions such as the International Monetary Fund, World Bank, World Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the Asian Development Bank, and the Islamic Development Bank.

The government should continue to work to put in place an AML regime that comports with international standards. Turkmenistan should enact a safe harbor provision to protect filers of STRs from being subject to civil or criminal liability. Turkmenistan's law enforcement, customs, and border authorities need assistance to recognize and combat money laundering and terrorism financing.

Ukraine

OVERVIEW

Every year, money laundering schemes in Ukraine become more elaborate and complex. Launderers distance themselves from illegal profits by registering under aliases and integrating laundered money into legal businesses. Money laundering trends remain unchanged, but the use of financial technologies significantly affects the circulation of money and the diversity of payment methods between parties. The most relevant and threatening laundering schemes are connected to corruption and embezzlement/misappropriation of state assets. There is an ongoing investigation of money laundering, corruption, embezzlement, and misappropriation of state funds and property by the former president and government. Ukraine should use the results from its national risk assessment to decrease its vulnerability.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Illicit proceeds in Ukraine are primarily generated through corruption; fraud; trafficking in drugs, arms, and persons; organized crime; prostitution; cybercrime; and tax evasion. Money launderers use various means to launder money, including real estate, insurance, bulk cash smuggling, financial institutions, and shell companies. The State Financial Monitoring Service of Ukraine (SFMS), Ukraine's FIU, is the central authorized agency for AML monitoring. The British Virgin Islands, Panama, Cyprus, and other offshore tax havens are often used to obscure ownership, evade taxes, or mask illicit profits. Ukraine's large shadow economy represents a significant money laundering vulnerability. Schemes using financial instruments such as liquid and illiquid securities, lending and deposit transactions, debentures, and fictitious contracts are widely used.

Corruption exacerbates the money laundering problem in Ukraine. Furthermore, transnational organized crime syndicates utilize Ukraine as a transit country to launder illicit profits. The Prosecutor General's Office (PGO) has not yet taken action on any cases regarding Ukraine's former presidential administration. From January - August 2016, SFMS submitted 65 case referrals totaling UAH 115.24 million (approximately \$4.5 million).

KEY AML LAWS AND REGULATIONS

The AML/CFT Law #889-VIII came into force on February 6, 2015, with the latest updates on December 10, 2015. The law addresses the obligations of reporting entities, regulation and supervision, law enforcement agencies (LEA), risk-oriented approaches, PEPs, and the determination of beneficial owners.

On November 26, 2015, the Law of Ukraine "On the National Agency of Ukraine for detection, investigation and management of assets derived from corruption and other crimes" (ARO-AMO) came into force. ARO-AMO includes asset search and identification provisions. Currently, the process of selection of the new agency's chairman is ongoing.

Ukraine conducted a national risk assessment; the resulting report was approved on October 7 by the AM/CFT Council (formed by the government on September 8). The report focuses on detecting national money laundering threats and provides a basis for recommendations. In order to reduce the identified risks, the government initiated two draft laws to improve AML legislation. As of September 2016, one draft is under Parliament's consideration; the other is being prepared.

Information on financial investigations is exchanged using a secure information exchange channel through SFMS. Ukraine and the United States have a MLAT, coordinated through the PGO (on legal proceedings) or Ministry of Justice (on confiscation matters).

Ukraine is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Ukraine_en.asp

AML DEFICIENCIES

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Ukraine must address the rise of cybercrime and related transnational organized crime activities by better examining the significant amounts of money flowing into its banking system. Ukraine needs to increase prosecution of large-scale financial crimes, corruption, and money laundering. It also should improve the implementation of its provisions for asset freezing, confiscation, and forfeiture. Ukraine should regulate its gaming industry and examine how gaming is used to launder money. The government should investigate how informal MVTs are used not only for remittances, but for the transfer of illicit proceeds. Ukraine should enact its draft bill on international LEA cooperation in order to fully implement its treaty obligations.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In the AML sphere, a pre-trial investigation is conducted by the identifying authority. From January - August 2016, there were 109 AML offenses registered by the PGO. Nine cases were submitted to court. The established amount of funds and property was UAH 5.02 million (approximately \$200,000). Courts of first instance received 38 AML cases from LEA to date. There were 11 convictions and six people were sentenced. In two cases, the courts seized UAH 33.9 million (approximately \$1.3 million) in property and funds.

The SFMS received 2,752,400 STRs totaling UAH 4.508 billion (approximately \$175 million) and 378,500 CTRs totaling UAH 113.5 billion (approximately \$4.42 billion) during the first half of 2016.

From January - August 2016, UAH 429.08 million (approximately \$16.7 million) in laundering activities were blocked. The SFMS on a regular basis monitors so-called officials of the “DNR” and “LNR” (occupied Donetsk and Lugansk regions of Ukraine). From January - August 2016, SFMS submitted 419 money laundering-related case referrals totaling UAH 33.76 billion (approximately \$1.3 billion) to the Ukrainian law enforcement agencies.

United Arab Emirates

OVERVIEW

The United Arab Emirates (UAE) is a stable regional hub for transportation, trade, and financial activity that has aggressively expanded its financial services business and FTZs, which now number 37. Despite increased efforts to address money laundering threats, illicit actors continue to take advantage of the relatively open business environment, multitude of global banks, exchange houses, and global transportation links to engage in illicit financial activity.

The UAE government has enhanced its AML program and demonstrated its willingness and capability to take action against illicit financial actors, even beyond immediate national security threats. However, the UAE needs to continue to increase the capacity and resources it devotes to investigating money laundering in order to comprehensively address persistent money laundering threats.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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The presence of large numbers of exchange houses, hawalas, and general trading companies in the UAE creates an environment susceptible to bulk cash smuggling, TBML, and the raising and transferring of funds for illicit activity. There are occurrences of TBML, including through commodities used as counter-valuation in hawala transactions or through trading companies illegally operating as exchange houses. Such activity might support sanctions-evasion networks and foreign terrorist groups.

A portion of the money laundering activity in the UAE is likely related to proceeds from illegal narcotics produced in Southwest Asia. Other money laundering vulnerabilities in the UAE include the real estate sector, the misuse of the international gold and diamond trade, and the use of cash couriers to transfer illicit funds. Domestic public corruption contributes little, if anything, to money laundering.

The UAE has an extensive offshore financial center, with 37 FTZs and two financial free zones. There are over 5,000 multinational companies located in the FTZs and thousands more individual trading companies. Companies located in the FTZs are considered offshore or foreign entities for legal purposes. UAE law prohibits the establishment of shell companies and trusts, however, the operation of financial entities in FTZs not identified, regulated, or supervised for financial activity presents a gap in regulatory oversight. Therefore, there is significant opportunity for illicit actors to engage in regulatory arbitrage and avoid the controls and supervision put in place by the Central Bank of the UAE (CBUAE) and FTZ regulators of the two financial free zones.

The UAE is progressing in its ability to investigate suspected money laundering activity and should further increase its capacity and resources devoted to investigating money laundering activities both federally by the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU), the FIU, and by law enforcement at the federal level in each emirate. The UAE also worked on enhancing the independence of the AMLSCU, publishing annual reports, and providing comprehensive statistics on the activities carried out by the unit. Over 98 percent of STRs are now received online.

KEY AML LAWS AND REGULATIONS

The AML law permits the CBUAE to freeze the assets of any suspicious institution or individual, and has comprehensive KYC and STR regulations. The UAE has a records exchange mechanism in place with other governments, but does not have a MLAT with the United States. A lack of information sharing among respective UAE entities engaged in AML prevents optimum implementation of AML laws and regulations.

The UAE is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.menafatf.org/images/UploadFiles/UAEoptimized.pdf>

AML DEFICIENCIES

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There are no sanctions or penalties against the UAE for major AML deficiencies. Additionally, the UAE has enhanced due diligence procedures for both foreign and domestic PEPs. The UAE continues to pursue additional measures to regulate its exchange houses, but still faces challenges given the size and diversity of the sector. The UAE should release annual numbers of AML prosecutions and convictions to better gauge the effectiveness of its regime.

ENFORCEMENT/IMPLEMENTATION AND COMMENTS

The government continues to enhance its regulatory measures. The UAE cooperated with the U.S. government in support of the October 2016 designations of individuals and entities associated with previously-U.S.-designated UAE-based Al Zarooni Money Exchange. The UAE has expanded the scope of money laundering predicate offenses, verified client identities, designated the FIU as the sole national center for STRs, and enhanced the level of cooperation with equivalent regulatory authorities.

Several areas of AML implementation and enforcement require ongoing action by the UAE. The government should proactively develop money laundering cases and establish appropriate policies and procedures regarding all aspects of asset forfeiture. Additionally, the UAE should strengthen enforcement mechanisms for cash declaration regulations. It should conduct more thorough inquiries into large amounts of declared and undeclared cash being imported into the country as well as enforce outbound declarations of cash and gold utilizing existing smuggling and AML laws. TBML facilitated by exchange houses or general trading companies should be given greater scrutiny, 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.

United Kingdom

OVERVIEW

The UK plays a leading role in European and world finance. Money laundering presents a significant risk to the UK because of the size, sophistication, and reputation of its financial markets. UK law enforcement invested resources over a number of years in tackling cash-based money laundering and the drug trade, which largely generates proceeds in the form of cash. The UK should follow through on plans to fill intelligence gaps, strengthen the law enforcement response, remove inconsistencies in the supervisory regime, and increase its international reach to tackle money laundering. The UK should consider changing its rules to ensure domestic PEPs are identified and, in high-risk cases, subject to enhanced due diligence requirements in accordance with international standards.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Most money laundering is cash-based, particularly cash collections networks, international controllers, and MSBs. Informal alternative remittance systems, such as hawala, are also common. Professional enablers in the legal and accountancy sector are used to move and

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launder criminal proceeds. There are significant intelligence gaps, in particular in relation to ‘high-end’ money laundering, where the proceeds are held in bank accounts, real estate, or other investments rather than cash. This type of laundering is particularly relevant to major frauds and serious foreign corruption, where the proceeds are often held in bank accounts, real estate, or other investments rather than in cash.

KEY AML LAWS AND REGULATIONS

Money laundering is criminalized, and the UK uses an “all serious crimes” approach to predicate crimes. The UK has a comprehensive AML regime and is an active participant in multilateral efforts to counter transnational financial crimes. The UK will transpose the EU’s Fourth Anti-Money Laundering Directive into UK law by June 2017.

The UK supervises both financial institutions and DNFBPs for AML compliance. There are 27 AML supervisors in the UK, ranging from public sector statutory organizations to professional bodies. The UK has a voluntary reporting process for supervisors. The Annual Report on AML/CFT supervision is intended to improve the transparency and accountability of supervision and enforcement in the UK and encourage good practice. HM Treasury is conducting a review into the effectiveness of the supervisory regime to address inconsistencies in the regime and to focus on ensuring a risk-based approach is fully embedded.

The Financial Conduct Authority (FCA) is in charge of consumer protection and the integrity of the UK’s financial system. The FCA follows a risk-based approach to AML supervision, working closely with regulatory and industry stakeholders to identify and mitigate current and emerging financial crime risks.

KYC and STR requirements cover banks, credit unions, building societies, money service businesses, 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.

The UK is a member of the FATF. Its most recent mutual evaluation can be found at:

<http://www.fatf-gafi.org/countries/u-z/unitedkingdom/documents/mutualevaluationofunitedkingdomofgreatbritainandnorthernireland.html>.

AML DEFICIENCIES

The UK automatically applies enhanced due diligence procedures to foreign, but not domestic, PEPs, though in practice firms normally apply enhanced measures to high-risk domestic PEPs in accordance with the risk-based approach. The 2015 AML/CFT national risk assessment confirmed the UK’s law enforcement agencies’ primary expertise is cash-based money laundering. The 2016 AML/CFT Action Plan sets out how the government will increase collaboration among law enforcement agencies, supervisors, and the private sector; fill intelligence gaps and strengthen the law enforcement response; remove inconsistencies in the supervisory regime; and increase the international reach to tackle money laundering.

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ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

In 2015, there were 2,307 money laundering-related prosecutions and 1,336 convictions.

In June 2014, the Crown Prosecution Service Proceeds of Crime team was established to streamline confiscation work, although asset recovery powers are available to a range of UK agencies. UK legislation provides for non-conviction-based confiscation as another means of recovering criminal assets, alongside conviction-based confiscation. Non-conviction-based asset recovery is most commonly used when it is not possible to obtain a conviction, for example if a defendant has died or fled.

In June 2016, the UK established a freely accessible public register of company beneficial ownership information. Companies that do not provide information are subject to penalties. The register also may be used by covered entities to supplement, but not replace, CDD checks.

The former Prime Minister announced in May 2016 the UK will establish a public register of company beneficial ownership for foreign companies that already own or buy property in the UK or bid on UK central government contracts. The UK is also establishing a central register of beneficial ownership information for trusts that generate tax consequences.

In 2016, the UK permanently instituted a Joint Money Laundering Intelligence Task Force, which brings together banks and key UK law enforcement agencies to collaborate on the detection and disruption of money launderers.

Uruguay**OVERVIEW**

Uruguay has a highly dollarized economy, with the U.S. dollar often used as a business currency; as of 2015, about 80 percent of deposits and 55 percent of credits are denominated in U.S. dollars. Laundered criminal proceeds are derived primarily from foreign activities related to drug trafficking organizations. Drug dealers also participate in other illicit activities like car theft and human trafficking; violent crime is increasing significantly. Officials from the police and judiciary assess that Colombian, Mexican, Paraguayan, and Russian criminal organizations operate in Uruguay. There is continued concern about transnational organized crime originating in Brazil.

Over the past decade Uruguay has made sustained and substantial progress combatting money laundering by passing and enforcing new legislation and strengthening the relevant supervisory institutions. As part of its broad policy to endorse international cooperation and improve fiscal transparency, the Government of Uruguay is becoming increasingly involved with regional institutions.

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Uruguay still needs to continue working with non-financial entities, improve its AML statistical system, provide for criminal liability for legal persons, and improve the management of seized asset funds.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Given the longstanding free mobility of capital and the high degree of dollarization of the economy, money is likely laundered via the formal financial sector (onshore and offshore). Offshore trusts are not allowed. As of the end of 2015, there were 20 representatives of offshore financial entities. There are two offshore banks in operation; a third bank is in the process of liquidation. Uruguay's offshore financial services cater primarily to Latin American clients, especially Argentinians. In recent years there have been several high-profile money laundering cases, including one related to FIFA and several linked to alleged laundering of funds from Argentina, Mexico, Peru and Spain. Publicized money laundering cases relate to narcotics and/or involve real estate. Local corruption does not seem to be a factor behind money laundering.

There are 12 FTZs located throughout the country. Three FTZs 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 (generally manufactured in China) or raw materials bound for Brazil and Paraguay.

Bulk cash smuggling and TBML are likely to occur considering Uruguay's porous borders with Argentina and Brazil.

KEY AML LAWS AND REGULATIONS

At the end of 2016 the government submitted two draft bills to the parliament: an integrated strategy against money laundering and a comprehensive counter-terrorism bill. The integrated AML strategy bill, which has strong opposition from the local lawyers' association, consolidates all AML-related legislation into a single code and addresses several noted deficiencies. The bill requires new entities, particularly casinos, real estate agencies, and notaries, to report suspicious transactions; defines new money laundering predicate crimes, including tax evasion, in a major change to local legislation; improves the procedures to seize and administer seized assets; develops new investigative procedures; and introduces more flexibility in the exchange of information with financial units abroad, among others.

The fiscal transparency bill currently before Parliament aims to upgrade Uruguay's legislation to meet international standards by implementing an automatic exchange of tax information with countries with which Uruguay has existing tax agreements (another major shift in local policies, which in turn entails a significant relaxation of Uruguay's longstanding bank secrecy policy); identifying the beneficial owners of corporations; and discouraging the use of tax havens by companies that operate locally, among others.

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Other recent significant AML developments include tasking and staffing the Anti-Money Laundering Secretariat (AMLS) to supervise DNFBPs, work by the AMLS and the Central Bank's Financial Unit towards developing a risk matrix, and the creation of a strategic analysis division within the Financial Unit.

Uruguay is a member of the [GAFILAT](http://www.gafilat.org), a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Uruguay_3era_Ronda_2009.pdf

AML DEFICIENCIES

Uruguay has comprehensive CDD and STR regulations in place, as well as enhanced due diligence procedures for PEPs. The vast majority of the STRs are filed by financial institutions, especially banks, and only a handful are submitted by non-financial covered entities.

Uruguay should continue working with DNFBPs, amend its legislation to provide for criminal liability for legal persons, continue improving its statistics related to money laundering, and improve the management of seized assets and funds.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

As of November 2016, Uruguay's Information and Financial Analysis Unit (UIAF) has frozen funds and assets on five occasions, for about \$3.5 million, and imposed fines on one securities intermediary. In the past, the UIAF closed some entities for lack of compliance. In 2015, 52 individuals were prosecuted for money laundering and seven were convicted.

Uzbekistan

OVERVIEW

Uzbekistan has made consistent efforts to meet international standards through legislative amendments. However, corruption and law enforcement susceptibility to political influence limit the effectiveness of this legislative base. Connected individuals can circumvent established AML rules through the creation of private financial institutions, shell/mailbox companies, and bribery. Given the lack of governmental transparency and reticence to engage with foreign partners, the effectiveness of law enforcement in countering money laundering is difficult to verify. Moreover, Uzbekistan prosecutes very few cases on finance-related charges on a yearly basis. Uzbekistan should take specific steps to combat corruption that facilitates money laundering and other financial crimes and allow unfettered cooperation with foreign partners to boost enforcement efficacy.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Uzbekistan is a transit country for Afghan opiates. Narcotics and other smuggled goods enter Uzbekistan mainly over the borders with Afghanistan and Tajikistan, likely with the complicity of corrupt officials. Corruption, narcotics trafficking, and smuggling generate the majority of illicit proceeds. Well-connected individuals capitalize on corruption to establish private banks and circumvent official regulations, thus laundering money in-country or moving it abroad. Past investigations into large-scale bribery schemes involving Uzbek officials identified the creation of offshore shell companies to conceal financial interests and proceeds as a favored laundering method.

Due to high customs-clearance costs, Uzbekistan is home to a large black market for smuggled goods, many of them originating in China. This black market does not appear to be significantly funded by narcotics proceeds but could be used to launder drug-related money.

KEY AML LAWS AND REGULATIONS

The “Law on Combating Legalization of Proceeds Obtained through Crime and Financing of Terrorism” is Uzbekistan’s core AML legislation that establishes comprehensive KYC and STR regulations, including for legal persons. This law specifies that the Financial Investigative Unit (FIU) under the Office of the Prosecutor General is the key governmental body responsible for AML enforcement. A 2016 amendment to this legislation allows for the freezing of assets and suspension of transactions if transaction parties are named on a list of individuals/legal entities involved or suspected of involvement in or proliferation of weapons of mass destruction. It also names the FIU as the body responsible for maintaining this list. However, Uzbekistan has not publicly released a clear procedure for freezing/suspension of transactions, as the law specifies that such action must be coordinated with the Cabinet of Ministers. Furthermore, Uzbekistan does not have established procedures for de-listing individuals or legal persons from the list.

Uzbekistan’s FIU has signed a MOU with the Drug Enforcement Administration (DEA), which provides for information sharing with the Financial Crimes Enforcement Network and the Office of Foreign Asset Control of the Department of the Treasury.

Uzbekistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: <http://www.eurasiangroup.org/mers.php>

AML DEFICIENCIES

Legal persons are not criminally or civilly liable for money laundering activity.

Uzbekistan’s AML legislation does not mandate enhanced due diligence for foreign or domestic PEPs. Uzbekistan has introduced a draft law, “On combating corruption,” which would mandate PEP due diligence. This law has been approved by the Parliament and is expected to come into force in 2017, pending presidential approval.

Furthermore, current KYC rules do not clearly state a requirement for insurance companies, insurance brokers, securities market players, stock exchange members, financial leasing companies, and postal service operators to terminate a business relationship with a customer in

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case of a negative due diligence result. The AML legislation also does not include measures to prevent criminals from assuming a controlling financial interest in such financial entities.

The FIU generally only conducts financial investigations after a predicate offense has been committed, limiting the agency's effectiveness as an analytical tool. Furthermore, the FIU does not have clear legal authority to request information from banks in cases when a suspicious transaction has not been reported, and may face political pressure to cease investigative activity in case such transactions are linked to politically powerful interests.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Uzbekistan has worked to implement recommendations noted by international experts and has made general progress in closing legislative gaps. Uzbekistan is also a signatory of the 1988 UN Drug Convention.

Uzbekistan has, however, eschewed substantive cooperation with foreign governments in enforcement and information exchange. Uzbekistan's FIU and counternarcotics agencies, for instance, failed to substantively engage with the DEA, despite the established MOU between the agencies.

In 2015, there were eight money laundering-related prosecutions, of which six resulted in convictions.

Venezuela

OVERVIEW

Conditions in Venezuela allow ample opportunities for financial abuses. Venezuela's proximity to drug source points and its status as a drug transit country, combined with weak AML supervision and enforcement, lack of political will, limited bilateral cooperation, an unstable economy, and endemic corruption make Venezuela vulnerable to money laundering and financial crimes. Venezuela's distorted and controlled multi-tiered foreign exchange system and strict price controls provide numerous opportunities for currency manipulation and goods arbitrage. They also cause many legitimate merchants to engage illicit actors to obtain access to U.S. dollars, facilitating money laundering. A robust black market continues to function in the porous border regions of Venezuela and Colombia despite border closings, reportedly to quell such activities. A significant amount of laundered funds come from drug trafficking, but informal traders offering products ranging from shampoo to gasoline also profit from currency manipulation. A series of recent U.S. legal actions against Venezuelan citizens, including government officials and their relatives, have exposed questionable financial activities related to money laundering.

VULNERABILITIES AND EXPECTED TYPOLOGIES

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Money laundering is widespread in Venezuela, and is evident in a number of areas, including government currency exchanges, commercial banks, gaming, real estate, agriculture, livestock, securities, metals, the petroleum industry, and minerals. TBML remains common and profitable. One such trade-based scheme, a variation of the black market peso exchange, involves drug traffickers providing narcotics-generated dollars from the United States to commercial smugglers, travel agents, investors, and others in Colombia in exchange for Colombian pesos. In turn, those Colombian pesos are exchanged for Venezuelan bolivars at the parallel exchange rate and used to repurchase dollars through Venezuela's currency control regime at much stronger official exchange rates. In Brazil, several seizures of large amounts of bolivars may be linked to drug trafficking, currency exchange scams, and U.S. dollar and euro counterfeiting schemes.

KEY AML LAWS AND REGULATIONS

Revisions made in 2014 to the 2012 Organic Law Against Organized Crime and Financing of Terrorism were a step in the right direction but the law lacks important mechanisms to combat domestic criminal organizations, such as the exclusion of the state and its companies from the scope of investigations. Roughly 900 types of offenses can be prosecuted as "organized crime" under the law. One legal expert noted that such a broad mandate gives the government too much power, which has been used as a tool to suppress political opposition and intimidate its broadly-defined "enemies."

In November 2014, the Venezuelan government revised the Anti-Corruption Law and created a law enforcement organization, the National Anti-Corruption Body, to combat corruption. The reform also created a criminal penalty for bribes between two private companies. However, the law differentiates between private and public companies and includes exemptions for public companies and government employees.

Venezuela is a member of the CFATF, a FATF-style regional body. Its most recent evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/s-v/venezuela>

AML DEFICIENCIES

Venezuelan government entities responsible for combating money laundering and corruption are ineffective and lack political will. The National Office against Organized Crime and Terrorist Finance has limited operational capabilities. Venezuela's FIU, the National Financial Intelligence Unit (UNIF), is supervised by the Superintendent of Banking Sector Institutions, which prevents UNIF from operating independently. A politicized judicial system further compromises the legal system's effectiveness and impartiality. Although the Venezuelan government has organizations to combat financial crimes, their technical capacity and willingness to address this type of crime remains inadequate. FinCEN, the United States' FIU, suspended information sharing with the UNIF in 2006 due to an unauthorized disclosure of shared information. The suspension remains in effect until FinCEN has assurances that its information will be protected. The UNIF should operate autonomously, independent of undue influence. Venezuela should increase AML institutional infrastructure and technical capacity.

There are enhanced due diligence procedures for foreign and domestic PEPs.

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ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Since 2003 the Venezuelan government has maintained a strict regime of currency controls. Private sector firms and individuals must request authorization from a government-operated currency commission to purchase hard currency to pay for imports and for other approved uses (e.g., foreign travel). Virtually all dollars laundered through Venezuela's formal financial system pass through the government's currency commission, the central bank, or another government agency.

Venezuela's official, "protected" exchange rate of 10 bolivars per U.S. dollar as of October 2016 is used for vital imports. A second, complementary floating official exchange rate, introduced in March 2016, is ostensibly a floating exchange rate but has stayed relatively constant, while the volatile parallel exchange rate has increased to over 1,600 bolivars per U.S. dollar as of November 2, 2016. The huge margin achievable by defrauding the currency commission has resulted in sophisticated trade-based schemes, which may include the laundering of drug money. Trade-based schemes make it extremely difficult for financial institutions and law enforcement to differentiate between licit and illicit proceeds. Numerous allegations suggest that some government officials are complicit and even directly involved in such schemes. Venezuela's CTR regulations have not kept pace with Venezuela's high inflation, with the 10,000 bolivar threshold in effect since 2010. A 10,000 bolivar (\$1,000 at the official exchange rate) withdrawal is now an ordinary transaction.

Vietnam

OVERVIEW

Vietnam is not a major regional financial center. Large parts of Vietnam's economy are cash-based. Aided by a stable currency (the Vietnamese *dong*) and low inflation, the government is reducing the use of both gold and U.S. dollars and is seeing success in de-dollarizing the economy. While Vietnam is technically compliant with international standards, it has not demonstrated effectiveness in AML across many sectors, including law enforcement, the judiciary, and banking supervision. Continuing economic growth and diversification, increased international trade, and a relatively young, tech-savvy population all suggest that Vietnam's potential exposure to illicit finance will increase in the coming years.

To date, Vietnam has not prosecuted any money laundering cases. In order to improve, Vietnam needs to build up AML capabilities within the Ministry of Public Security (MPS), the Supreme People's Procuracy (SPP), and the State Bank of Vietnam (SBV). Increasing enforcement of existing AML laws will take political will and a coordinated effort across government.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Sources of illicit funds in Vietnam include public corruption, fraud, gambling, prostitution, counterfeiting of goods, and trafficking in persons, wildlife, and drugs. Remittances from

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Vietnamese organized crime groups in Europe, Australia, Canada, and the United States continue to be a significant source of illicit funds entering Vietnam, particularly proceeds from narcotics and wildlife traffickers using Vietnam as a transit country.

Vietnam remains a cash-based economy; high-value items, including real estate and luxury vehicles, are routinely purchased with cash with few questions asked. Almost all trade and investment receipts and expenditures are processed by the banking system, but many transactions are not monitored effectively. As a result, the banking system is still at risk for money laundering through false declarations, including fictitious investment transactions. Customs fraud and the over- and under-invoicing of exports and imports are common and could be indicators of TBML. Illicit funds are also used to purchase real estate for subsequent resale.

KEY AML LAWS AND REGULATIONS

No new AML-related legislation was adopted in 2016. Vietnam has in place KYC and STR requirements that cover banks, other financial institutions, and DNFBPs. The Penal Code includes provisions for strengthening Vietnam's AML laws. Vietnam also appears to have a system for restraint and forfeiture of criminal-linked assets; however, it does not comply with international standards.

Vietnam does not have a records-exchange mechanism in place with the United States, but the government does provide records and responses to the United States and other governments upon request.

Vietnam is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://apgml.org/mutual-evaluations/documents/default.aspx?s=date&c=8b7763bf-7f8b-45c2-b5c7-d783638f3354&pcPage=2>

AML DEFICIENCIES

While Vietnam is technically compliant with current international standards, banking supervision for AML is inadequate and CDD and KYC policies within domestic banks are lacking.

Cross-border controls remain weak and demonstrate little serious effort to tackle the instances of bulk cash smuggling and wildlife trafficking. The lack of rigorous and impartial financial oversight of key state-owned enterprises (e.g., in the petroleum sector), and the resulting opportunities for embezzlement, represent an addition AML vulnerability.

Vietnam is not a member of the Egmont Group of FIUs. Vietnam has applied for membership but has not yet been approved.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Vietnam has a National AML/CFT Coordinating Committee chaired by a deputy prime minister and the Governor of the State Bank of Vietnam. While Vietnam's laws are adequate, AML

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enforcement is virtually nonexistent. No money laundering cases have been prosecuted to date. In addition, when predicate crimes are being investigated, a parallel AML investigation is not routinely conducted. There is no domestic cooperation between agencies such as the Anti-Money Laundering Department (AMLD) of the SBV, Vietnam's FIU; Customs; MPS; and the General Department of Taxation. International cooperation on AML and asset forfeiture is also extremely poor, and there appears to be little appetite among key agencies (MPS, SPP and SBV) to change operating practices.

Vietnam will soon conduct an AML/CFT national risk assessment (NRA) to identify high-risk areas vulnerable to money laundering. The responsibility for this process has been allocated to MPS and the SBV, with international donor oversight. However, making sure the NRA accurately reflects the country's risks and vulnerabilities will take a coordinated effort and political will. Vietnam's adoption of any recommendations for reform will depend upon interagency and high-level support and action.

Although the number of STRs being submitted to the AMLD increases each year, most originate from foreign financial institutions operating in Vietnam. When a domestic bank does report a suspicious transaction, the quality of the information received is generally poor.

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Appendices

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Common Abbreviations

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ARS	Alternative Remittance System
BCS	Bulk Cash Smuggling
CBP	Customs and Border Protection
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CTR	Currency Transaction Report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DHS/HSI	Department of Homeland Security/Homeland Security Investigations
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
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
GAFILAT	Financial Action Task Force of Latin America
GIABA	Inter Governmental Action Group against Money Laundering

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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
ISIL	Islamic State of Iraq and the Levant
KYC	Know-Your-Customer
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
MSB	Money Service Business
MVTS	Money or 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

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UN Drug Convention	1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
UNTOC	United Nations Convention against Transnational Organized Crime
USAID	United States Agency for International Development

Definitions

419 Fraud Scheme: An advanced fee fraud scheme, known as “419 fraud” in reference to the fraud section in Nigeria’s criminal code. This specific type of scam is generally referred to as the Nigerian scam because of its prevalence in the region, particularly during the 1990s. Such schemes typically involve promising the victim a significant share of a large sum of money, in return for a small up-front payment, which the fraudster claims to require in order to cover the cost of documentation, transfers, etc. Frequently, the sum is said to be lottery proceeds or personal/family funds being moved out of a country by a victim of an oppressive government, although many types of scenarios have been used. This scheme is perpetrated globally through email, fax, or mail.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT): Collective term used to describe the overall legal, procedural, and enforcement regime countries must implement to fight the threats of money laundering and terrorism financing.

Bearer Share: A bearer share is an equity security that is solely owned by whoever holds the physical stock certificate. The company that issues the bearer shares does not register the owner of the stock nor does it track transfers of ownership. The company issues dividends to bearer shareholders when a physical coupon is presented.

Black Market Peso Exchange (BMPE): One of the most pernicious money laundering schemes in the Western Hemisphere. It is also one of the largest, processing billions of dollars’ worth of drug proceeds a year from Colombia alone via TBML, “smurfing,” cash smuggling, and other schemes. BMPE-like methodologies are also found outside the Western Hemisphere. There are variations on the schemes involved, but generally drug traffickers repatriate and exchange illicit profits obtained in the United States without moving funds across borders. In a simple BMPE scheme, a money launderer collaborates with a merchant operating in Colombia or Venezuela to provide him, at a discounted rate, U.S. dollars in the United States. These funds, usually drug proceeds, are used to purchase merchandise in the United States for export to the merchant. In return, the merchant who import the goods provides the money launderer with local-denominated funds (pesos) in Colombia or Venezuela. The broker takes a cut and passes along the remainder to the responsible drug cartel.

Bulk Cash Smuggling: Bulk cash refers to the large amounts of currency notes criminals accumulate as a result of various types of criminal activity. Smuggling, in the context of bulk cash, refers to criminals’ subsequent attempts to physically transport the money from one country to another.

Cross-border currency reporting: Per FATF recommendation, countries should establish a currency declaration system that applies to all incoming and outgoing physical transportation of cash and other negotiable monetary instruments.

Counter-valuation: Often employed in settling debts between hawaladars or traders. One of the parties over-or-undervalues a commodity or trade item such as gold, thereby transferring value to another party and/or offsetting debt owed.

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Currency Transaction Report (CTR): Financial institutions in some jurisdictions are required to file a CTR whenever they process a currency transaction exceeding a certain amount. In the United States, for example, the reporting threshold is \$10,000. The amount varies per jurisdiction. These reports include important identifying information about accountholders and the transactions. The reports are generally transmitted to the country's financial intelligence unit (FIU).

Customer Due Diligence/Know Your Customer (CDD/KYC): The first step financial institutions must take to detect, deter, and prevent money laundering and terrorism financing, namely, maintaining adequate knowledge and data about customers and their financial activities.

Digital Currency: Digital currency is an internet-based form of currency or medium of exchange, distinct from physical currencies or forms of value such as banknotes, coins, and gold. It is electronically created and stored. Some forms are encrypted. They allow for instantaneous transactions and borderless transfer of ownership. Digital currencies generally can be purchased, traded, and exchanged among user groups and can be used to buy physical goods and services, but can also be limited or restricted to certain online communities such as a given social network or internet game. Digital currencies are purchased directly or indirectly with genuine money at a given exchange rate and can generally be remotely redeemed for genuine monetary credit or cash. According to the U.S. Department of Treasury, digital currency operates like traditional currency, but does not have all the same attributes; i.e., it does not have legal tender status.

Egmont Group of FIUs: The international standard-setter for financial intelligence units (FIUs). The organization was created with the goal of serving as a center to overcome the obstacles preventing cross-border information sharing between FIUs.

FATF-Style Regional Body (FSRB): These bodies – which are modeled on FATF and are granted certain rights by that organization – serve as regional centers for matters related to AML/CFT. Their primary purpose is to promote a member jurisdiction's implementation of comprehensive AML/CFT regimes and implement the FATF recommendations.

Financial Action Task Force (FATF): FATF was created by the G7 leaders in 1989 in order to address increased alarm about money laundering's threat to the international financial system. This intergovernmental policy making body was given the mandate of examining money laundering techniques and trends and setting international standards for combating money laundering and terrorist financing.

Financial Intelligence Unit (FIU): In many countries, a central national agency responsible for receiving, requesting, analyzing, and/or disseminating disclosures of financial information to the competent authorities, primarily concerning suspected proceeds of crime and potential financing of terrorism. An FIU's mandate is backed up by national legislation or regulation. The Financial Crimes Enforcement Network (FinCEN) is the U.S. financial intelligence unit

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Free Trade Zone (FTZ): A special commercial and/or industrial area where foreign and domestic merchandise may be brought in without being subject to the payment of usual customs duties, taxes, and/or fees. Merchandise, including raw materials, components, and finished goods, may be stored, sold, exhibited, repacked, assembled, sorted, or otherwise manipulated prior to re-export or entry into the area of the country covered by customs. Duties are imposed on the merchandise (or items manufactured from the merchandise) only when the goods pass from the zone into an area of the country subject to customs. FTZs may also be called special economic zones, free ports, duty-free zones, or bonded warehouses.

Funnel Account: An individual or business account in one geographic area that receives multiple cash deposits, often in amounts below the cash reporting threshold, and from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals.

Hawala: A centuries-old broker system based on trust, found throughout South Asia, the Arab world, and parts of Africa, Europe, and the Americas. It allows customers and brokers (called “hawaladars”) to transfer money or value without physically moving it, often in areas of the world where banks and other formal institutions have little or no presence. It is used by many different cultures, but under different names; “hawala” is used often as a catchall term for such systems in discussions of terrorism financing and related issues.

Hawaladar: A broker in a hawala or hawala-type network.

International Business Company (IBC): Firms registered in an offshore jurisdiction by a non-resident that are precluded from doing business with residents in the jurisdiction. Offshore entities may facilitate hiding behind proxies and complicated business structures. IBCs are frequently used in the “layering” stage of money laundering.

Integration: The last stage of the money laundering process. The laundered money is introduced into the economy through methods that make it appear to be normal business activity, to include real estate purchases, investing in the stock market, and buying automobiles, gold, and other high-value items.

Kimberly Process (KP): The Kimberly Process was initiated by the UN to keep “conflict” or “blood” diamonds out of international commerce, thereby drying up the funds that sometimes fuel armed conflicts in Africa’s diamond producing regions.

Layering: This is the second stage of the money laundering process. The purpose of this stage is to make it more difficult for law enforcement to detect or follow the trail of illegal proceeds. Methods include converting cash into monetary instruments, wire transferring money between bank accounts, etc.

Legal Person: An individual, company, or other entity that has legal rights and is subject to obligations. In the FATF Recommendations, a legal person refers to a partnership, corporation, or other established entity that can conduct business or own property, as opposed to a human being.

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Mutual Evaluation (ME): All FATF and FSRB members have committed to undergoing periodic multilateral monitoring and peer review to assess their compliance with FATF's recommendations. Mutual evaluations are one of the FATF's/FSRB's primary instruments for determining the effectiveness of a country's AML/CFT regime.

Mutual Evaluation Report (MER): At the end of the FATF/FSRB mutual evaluation process, the assessment team issues a report that describes the country's AML/CFT regime and rates its effectiveness and compliance with the FATF Recommendations.

Mobile Payments or M-Payments: An umbrella term that generally refers to the growing use of cell phones to credit, send, receive, and transfer money and digital value.

Natural Person: In jurisprudence, a natural person is a real human being, as opposed to a legal person, which may be a private or public organization. In many cases, fundamental human rights are implicitly granted only to natural persons.

Offshore financial center: Usually a low-tax jurisdiction that provides financial and investment services to non-resident companies and individuals. Generally, companies doing business in offshore centers are prohibited from having clients or customers who are resident in the jurisdiction. Such centers may have strong secrecy provisions or minimal identification requirements.

Over-invoicing: When money launderers and those involved with value transfer, trade-fraud, and illicit finance misrepresent goods or services on an invoice by indicating they cost more than they are actually worth. This allows one party in the transaction to transfer money to the other under the guise of legitimate trade.

Politically Exposed Person (PEP): A term describing someone who has been entrusted with a prominent public function, or an individual who is closely related to such a person.

Placement: This is the first stage of the money laundering process. Illicit money is disguised or misrepresented, then placed into circulation through financial institutions, casinos, shops, and other businesses, both local and abroad. A variety of methods can be used for this purpose, including currency smuggling, bank transactions, currency exchanges, securities purchases, structuring transactions, and blending illicit with licit funds.

Shell Company: An incorporated company with no significant operations, established for the sole purpose of holding or transferring funds, often for money laundering purposes. As the name implies, shell companies have only a name, address, and bank accounts; clever money launderers often attempt to make them look more like real businesses by maintaining fake financial records and other elements. Shell companies are often incorporated as IBCs.

Smurfing/Structuring: A money laundering technique that involves splitting a large bank deposit into smaller deposits to evade financial transparency reporting requirements.

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Suspicious Transaction Report/Suspicious Activity Report (STR/SAR): If a financial institution suspects or has reasonable grounds to suspect that the funds involved in a given transaction derive from criminal or terrorist activity, it is obligated to file a report with its national FIU containing key information about the transaction. In the United States, SAR is the most common term for such a report, though STR is used in most other jurisdictions.

Tipping Off: The disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party. The FATF Recommendations call for such an action to be criminalized.

Trade-Based Money Laundering (TBML): The process of disguising the proceeds of crime and moving value via trade transactions in an attempt to legitimize their illicit origin.

Trade Transparency Unit (TTU): TTUs examine trade between countries by comparing, for example, the export records from Country A and the corresponding import records from Country B. Allowing for some recognized variables, the data should match. Any wide discrepancies could be indicative of trade fraud (including TBML), corruption, or the back door to underground remittance systems and informal value transfer systems, such as hawala.

Under-invoicing: When money launderers and those involved with value transfer, trade fraud, and illicit finance misrepresent goods or services on an invoice by indicating they cost less than they are actually worth. This allows the traders to settle debts between each other in the form of goods or services.

UNSCR 1267: UN Security Council Resolution 1267 and subsequent resolutions require all member states to take specific measures against individuals and entities associated with the Taliban and al-Qaida. The “1267 Committee” maintains a public list of these individuals and entities, and countries are encouraged to submit potential names to the committee for designation.

UNSCR 1373: UN Security Council Resolution 1373 requires states to freeze without delay the assets of individuals and entities associated with any global terrorist organization. This is significant because it goes beyond the scope of Resolution 1267 and requires member states to impose sanctions against all terrorist entities.

Zakat: One of the five pillars of Islam, translated as “alms giving.” It involves giving a percentage of one’s possessions to charity. Often compared to tithing, *zakat* is intended to help poor and deprived Muslims. The Muslim community is obligated to both collect *zakat* and distribute it fairly.

