

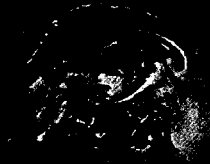


International Crime Threat Assessment

APPROVED FOR RELEASE
DATE: JAN 2001

December 2000

International Crime Threat Assessment



December 2000

This global assessment was prepared by a US Government interagency working group in support of and pursuant to the President's International Crime Control Strategy. Representatives from the Central Intelligence Agency; Federal Bureau of Investigation; Drug Enforcement Administration; US Customs Service; US Secret Service; Financial Crimes Enforcement Network; National Drug Intelligence Center; the Departments of State, the Treasury, Justice, and Transportation; the Office of National Drug Control Policy; and the National Security Council participated in the drafting of this assessment.

**APPROVED FOR RELEASE
DATE: JAN 2001**

Contents

	<i>Page</i>
Introduction	1
Global Context of International Crime	3
Implications of a Changing World	3
Growing Global Reach of Organized Crime Groups	4
Greater Sophistication of Criminal Organizations	9
Insurgency and Extremist Group Involvement in Organized Crime Activities	10
Corruption and the Political-Criminal Nexus	11
Institutional Shortcomings	13
International Crimes Affecting US Interests	15
Terrorism	15
Drug Trafficking	18
Alien Smuggling	22
Trafficking in Women and Children	25
Environmental Crimes	28
Sanctions Violations	31
Illicit Technology Transfers and Smuggling of Materials for Weapons of Mass Destruction	31
Arms Trafficking	32
Trafficking in Precious Gems	33
Piracy	35
Nondrug Contraband Smuggling	36
Intellectual Property Rights (IPR) Violations	40
Foreign Economic Espionage	44
Foreign Corrupt Business Practices	44
Counterfeiting	45
Financial Fraud	47
High-Tech Crime	49
Money Laundering	52
Worldwide Areas of International Criminal Activity	57
Western Europe	57
Italian Organized Crime	61
Eastern and Central Europe	64
Russia, the Baltics, and the Newly Independent States	66
Russia	67
The Baltic States	71
Ukraine and Moldova	71

The Caucasus and Central Asia	72
Russian Organized Crime	72
The Balkans	77
Ethnic Albanian Criminal Groups	78
South Asia, Turkey, the Middle East, and Eastern Mediterranean	80
Southeast Asia	85
China	87
Taiwan	94
Ethnic Chinese Criminal Networks	95
Japan	98
Japanese Yakuza	99
Africa	100
Nigerian Criminal Enterprises	104
South America	105
The Caribbean	109
Central America	111
Central American Alien Smuggling Networks	114
Mexico	115
United States	118
Consequences for US Strategic Interests	123
The Problem of Criminal Safehavens, Kleptocracies, and Failed States	124
The Future of International Crime	127

International Crime Threat Assessment

Introduction

The rapid spread of international crime since the end of the Cold War is unprecedented in scale, facilitated by globalization and technological advances, and poses a significant challenge to the United States and democratic governments and free market economies around the world. The President has identified international crime as a direct and immediate threat to the national security of the United States. To meet this challenge, the Departments of Justice, State, and Treasury—working closely with numerous federal agencies—jointly developed a comprehensive national strategy to fight international crime and reduce its impact on Americans. The International Crime Control Strategy, which was released in May 1998, provides a dynamic action plan that serves as a roadmap for a coordinated, effective, long-term attack on international crime. The Strategy's eight overarching goals, supported by implementing objectives, are as follows:

- Extend the first line of defense beyond US borders.
- Protect US borders by attacking smuggling and smuggling-related crimes.
- Deny safehaven to international criminals.
- Counter international financial crime.
- Prevent criminal exploitation of international trade.
- Respond to emerging international crime threats.
- Foster international cooperation and the rule of law.
- Optimize the full range of US efforts.

At the direction of the President and as part of the International Crime Control Strategy, a US Government interagency working group has prepared the following comprehensive assessment of the threat posed by international crime to Americans and their

communities, US businesses and financial institutions, and global security and stability. The assessment is divided into five parts:

- Chapter I addresses the **Global Context of International Crime**, identifying those factors—including the implications of a changing world, the greater sophistication of criminal organizations, and institutional shortcomings elsewhere in the world—that have contributed to the growing problem of international crime.
- Chapter II provides a comprehensive overview of specific **International Crimes Affecting US Interests**—including their effect on American lives and livelihood, costs to US business interests at home and abroad, and impact on US national security interests around the world.
- Chapter III addresses **Worldwide Areas of International Criminal Activity**, particularly as source areas for specific crimes and bases of operations for international criminal organizations. This section includes an analysis of the driving factors in different countries and regions that allow criminal organizations and international criminal activity to flourish, as well as an assessment of the impact of international criminal activity on stability in these countries and regions, including threats to the growth and nurturing of democratic and free market systems. Finally, this section discusses the characteristics, criminal operations, and international presence of organized crime groups originating in these countries or regions.
- Chapter IV addresses the **Consequences of International Crime for US Strategic Interests**, including the ability to work cooperatively with foreign governments and the problem of criminal safehavens, kleptocracies, and failed states.
- Chapter V offers a perspective on the **Future of International Crime** as it develops in the next 10 years.

APPROVED FOR RELEASE
DATE: JAN 2001

Chapter I

Global Context of International Crime

Implications of a Changing World

Law enforcement officials around the world have reported a significant increase in the range and scope of international criminal activity since the early 1990s. The level and severity of this activity and the accompanying growth in the power and influence of international criminal organizations have raised concerns among governments all over the world—particularly in Western democracies—about the threat criminals pose to governability and stability in many countries and to the global economy. International criminal networks have been quick to take advantage of the opportunities resulting from the revolutionary changes in world politics, business, technology, and communications that have strengthened democracy and free markets, brought the world's nations closer together, and given the United States unprecedented security and prosperity:

- ***Post-Cold War landscape.*** The end of the Cold War resulted in the breakdown of political and economic barriers not only in Europe but also around the world. This change opened the way for substantially increased trade, movement of people, and capital flows between democracies and free market countries and the formerly closed societies and markets that had been controlled by Soviet power. The end of the Cold War also brought with it an end to super-power rivalry in other regions of the world, encouraging movement toward peace and more open borders. These developments have allowed international criminals to expand their networks and increase their cooperation in illicit activities and financial transactions.
- ***Economic and trade liberalization.*** Increasing economic interdependence has both promoted and benefited from reforms in many countries opening or liberalizing state-controlled economies with the intention of boosting trade and becoming more competitive in the global marketplace. Criminals have taken advantage of transitioning and more open economies to establish front companies and quasi-legitimate businesses that facilitate smuggling, money laundering, financial frauds, intellectual property piracy, and other illicit ventures.

Multilateral economic agreements reducing trade barriers in North America, Europe, Asia, and other regions of the world have substantially increased the volume of international trade. In the United States, the volume of trade has doubled since 1994, according to the US Customs Service, and will double again by 2005. Criminal groups have taken advantage of the high volume of legitimate trade to smuggle drugs, arms, and other contraband across national boundaries.

The advent of intermodal commercial shipping—including standardized cargo containers, computerized cargo tracking, and automated cargo-transfer equipment—enables shippers to securely and efficiently transfer containers delivered by sea to other ships for onward shipment or to commercial railroads and trucks for overland transportation. Criminals are able to exploit the complexity of the intermodal system to hide drugs or other contraband or to conceal the true origin and ownership of cargo within which contraband is hidden.

- ***Technological advances.*** The last decade has presented revolutionary advances in information and communications technologies that have brought the world closer together. Modern telecommunications and information systems that underpin legitimate commercial activity in today's fast-paced global market are as easily used by criminal networks. Commercially available state-of-the-art communications equipment greatly facilitates international criminal transactions—including making deals and coordinating the large volume of illicit trade. In addition to the reliability and swiftness of the communications, this also affords criminals considerable security from law enforcement operations. According to US law enforcement agencies, many international crime groups and drug traffickers use a combination of pirated and encrypted cellular phones and bootleg or stolen phone cards that they replace after short periods of use.

Through the use of computers, international criminals have an unprecedented capability to obtain, process, and protect information and sidestep law enforcement investigations. They can use the interactive capabilities of advanced computers and telecommunications systems to plot marketing strategies for drugs and other illicit commodities, to find the most efficient routes and methods for smuggling and moving money in the financial system, and to create false trails for law enforcement or banking security. International criminals also take advantage of the speed and magnitude of financial transactions and the fact that there are few safeguards to prevent abuse of the system to move large amounts of money without scrutiny. More threateningly, some criminal organizations appear to be adept at using technology for counterintelligence purposes and for tracking law enforcement activities.

- **Globalization of business.** The revolution in modern telecommunications and information systems and lowering of political and economic barriers that have so greatly quickened the pace, volume, and scope of international commerce are daily being exploited by criminal networks worldwide. International criminals are attracted to major global commercial and banking centers where they take advantage of gateway seaports and airports, the high volume of international trade, the concentration of modern telecommunications and information systems, and the presence of major financial institutions. They count on avoiding close scrutiny of their activities because of the importance to businesses and governments of facilitating commercial and financial transactions and rapid transshipment of products.
- **Explosion in international travel.** With the breaking down of international political and economic barriers and the globalization of business, there is more freedom of movement, and international transportation of goods and services is easier. The proliferation of air transportation connections and easing of immigration and visa restrictions in many countries to promote international commerce, especially within regional trade blocs, have also facilitated criminal activity. In the past, more limited travel options between countries and more stringent border checks made crossing national boundaries

difficult for international criminals. Now, criminals have a great many choices of travel routes and can arrange itineraries to minimize risk. Border controls within many regional economic blocs—such as the European Union—are often nonexistent.

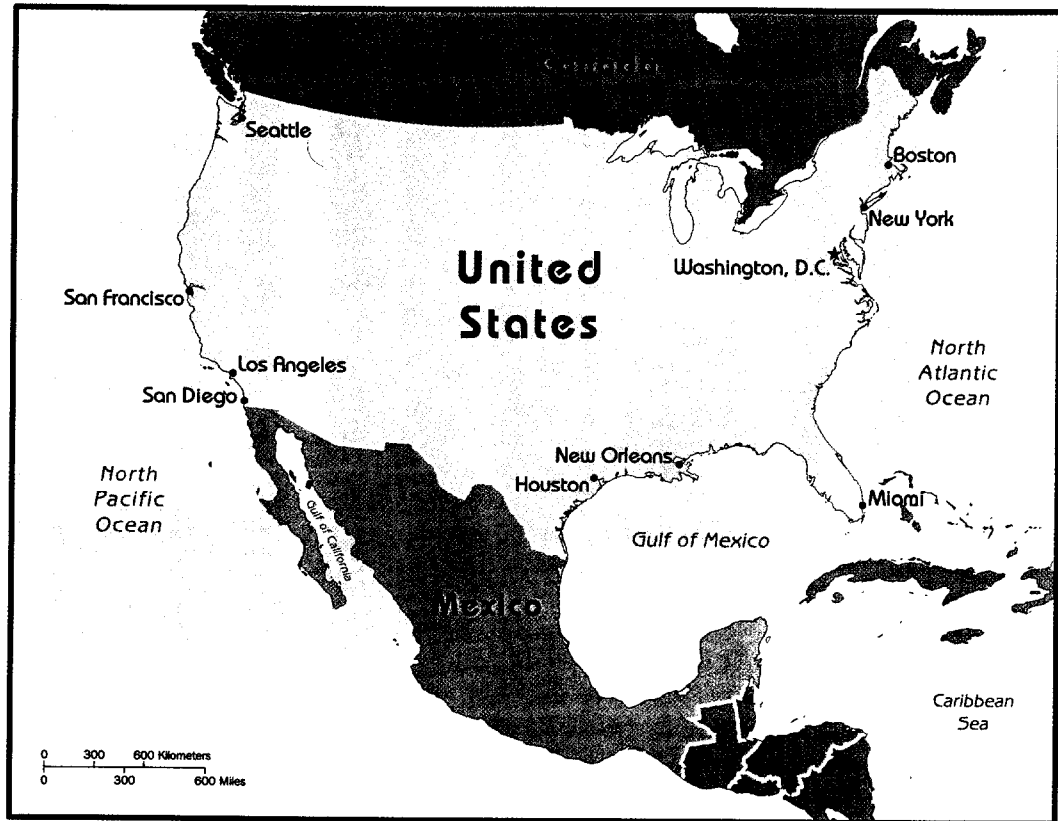
In 1999, some 395 million people entered the United States overland from Mexico and Canada, 76 million people arrived on more than 928,000 commercial airline and private flights, and 9 million arrived by sea, according to the US Customs Service. In addition, 135 million vehicles—including automobiles and commercial trucks—crossed US borders with Mexico and Canada, and more than 200,000 merchant and passenger ships and other maritime vessels docked at US seaports or US coastal harbors. US seaports handled more than 4.4 million shipping containers and 400 million tons of cargo in 1999. US Customs is able to inspect only about 3 percent of the goods entering the United States, a figure that will drop to about 1 percent in the next five years as the volume of trade continues to grow. This tremendous volume of traffic and trade into the United States provides international criminals tremendous opportunity to smuggle contraband—including drugs and counterfeit products—into the country, as well as to illegally export firearms, stolen vehicles, and other contraband overseas.

Growing Global Reach of Organized Crime Groups

The phenomenon of international organized crime is not new. Italian, Chinese, and Nigerian criminal groups, for example, have long had members or cells in foreign countries and international connections to obtain, distribute, or market contraband. In general, however, their international criminal activities were more limited in scope, and their foreign cells operated mostly autonomously or performed a few specific functions for the larger group. Border controls, the slower pace of transportation and communication, and the requirement to move illicit money in bulk cash

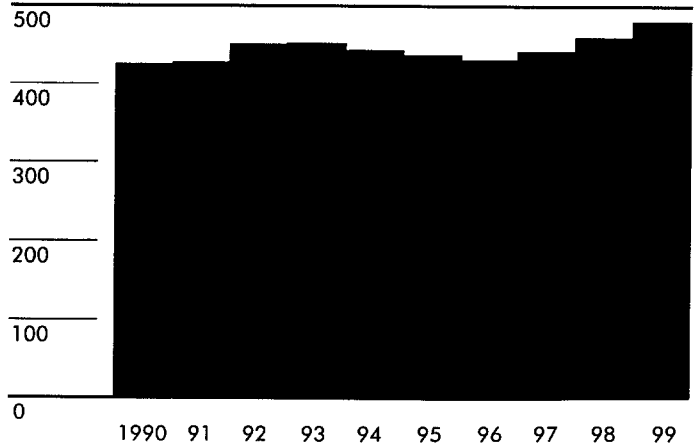


Total Persons Entering the United States, 1990-99



Data for fiscal years
provided by US
Customs Service.

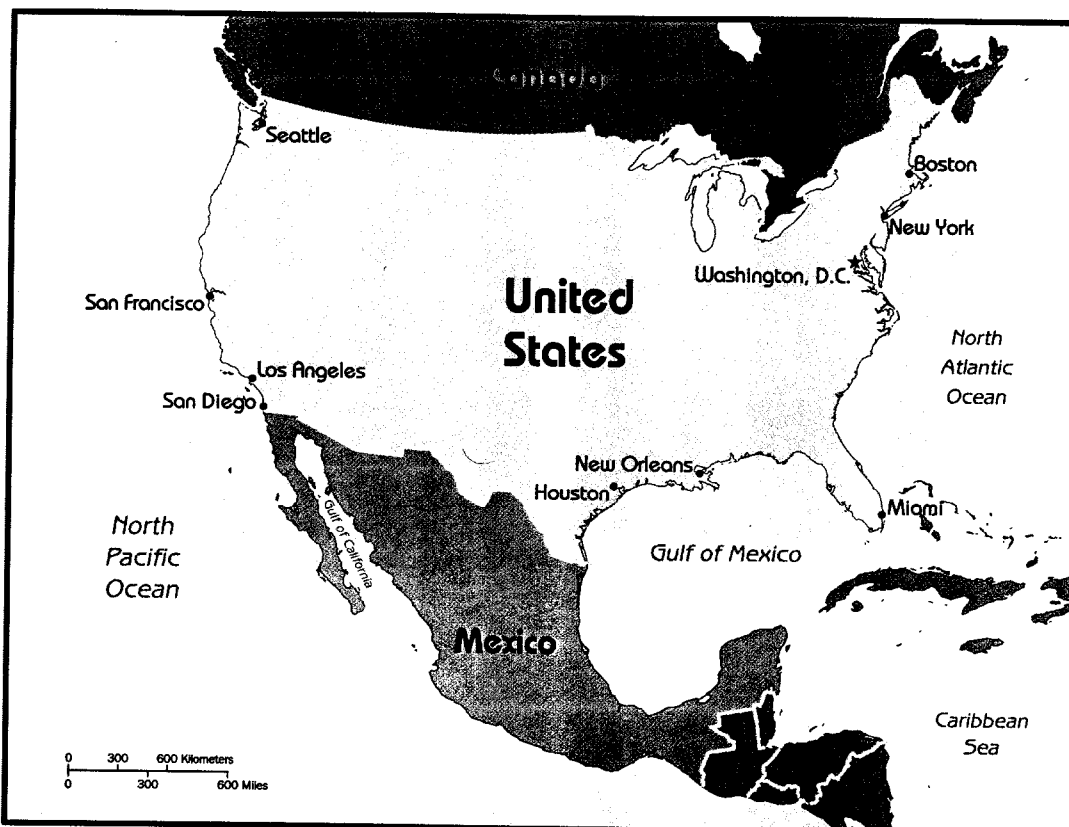
Million people



APPROVED FOR RELEASE
DATE: JAN 2001

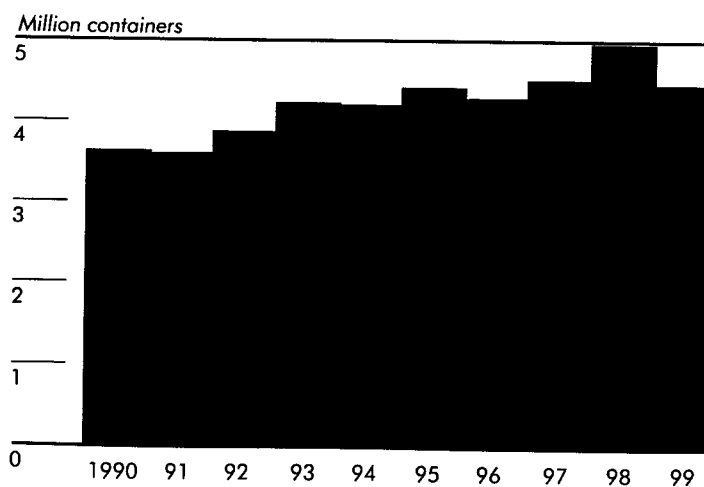


Maritime Containers Entering US Commercial Seaports, 1990-99



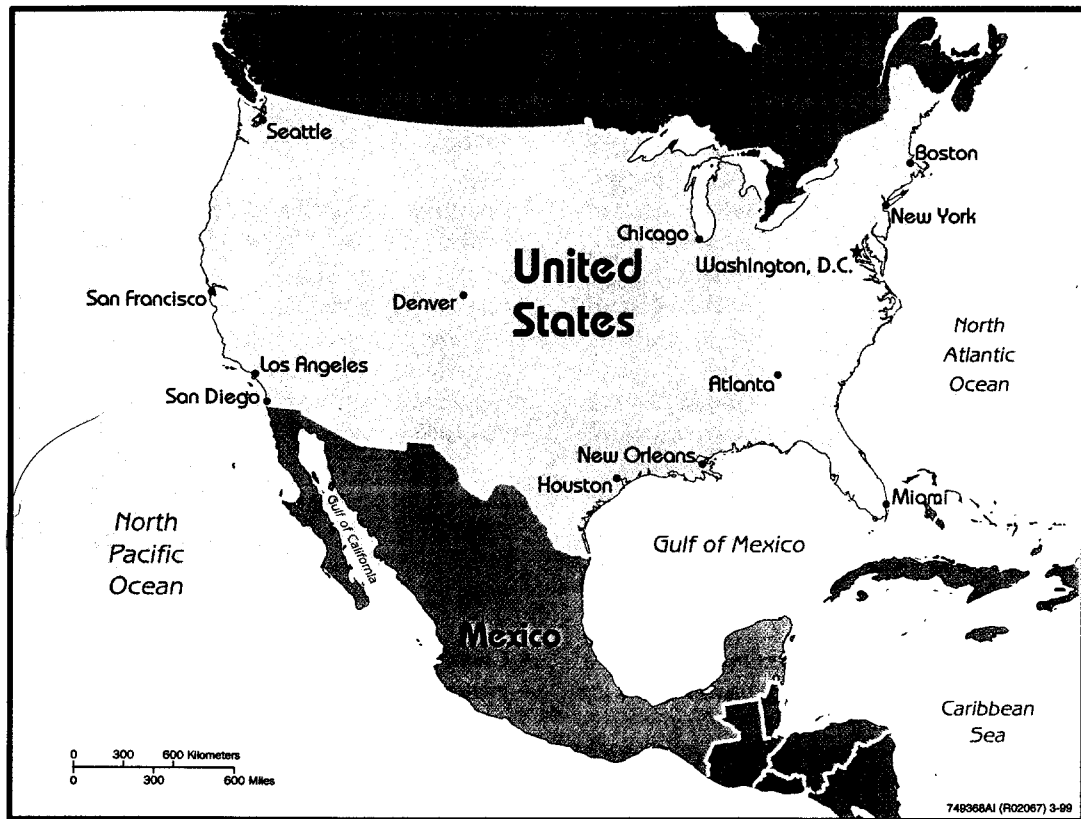
There has been a 23-percent increase in the number of commercial maritime containers entering US seaports since 1990.

Data for fiscal years, provided by US Customs Service.



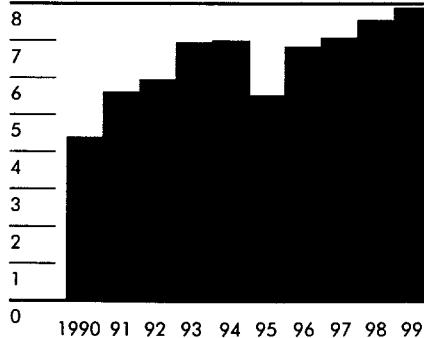
APPROVED FOR RELEASE
DATE: JAN 2001

International Commercial Flights and Persons Entering the United States by Air Transport, 1990-99



International Commercial Flights Entering the United States, 1990-99

Hundred thousand flights

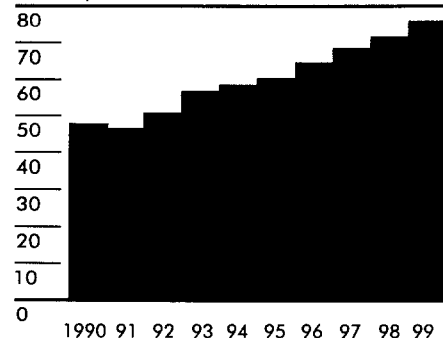


Data for fiscal years, provided by US Customs Service.

There has been an 80-percent increase in the number of commercial flights entering the United States since 1990.

Persons Entering the United States by Air Transport, 1990-99

Million persons



The number of persons entering the United States by air has increased by 59 percent since 1990 and by 34 percent since 1993.

APPROVED FOR RELEASE
DATE: JAN 2001

General Characteristics Common to Organized Crime Groups

Organized crime is defined by US law enforcement as a "continuing and self-perpetuating criminal conspiracy, having an organized structure, fed by fear and corruption, and motivated by greed." Organized crime groups often have a family or ethnic base, but members usually identify more closely with the organization than they do with blood relatives. They typically maintain their position through the threat or use of violence, corruption of public officials, graft, or extortion. The widespread political, economic, social, and technological changes occurring within the world have allowed organized crime groups to become increasingly active worldwide. The ability of organized crime groups to adapt to these changes and their use of improved transportation and communication technology have hindered law enforcement efforts against them.

Most organized crime groups have the following characteristics in common:

- **Seeking financial gain.** *A business must profit to survive, and organized crime functions in much the same way. Greed and the quest for profits probably dictate more organized crime decisions than any other single motive. It is this consuming desire for money, and the power that typically goes with it, which drives and sustains organized crime.*
- **Requiring member loyalty through ethnicity and family considerations.** *Although not an absolute mandate for every organized crime group, most groups require their members to be of the same ethnic background. The purpose of this preference is*
- **Pursuing corruption of government officials.** *Most organized crime groups have been enormously successful in their illegal ventures because they have successfully corrupted those persons charged with investigating and prosecuting them. In fact, some of these groups have so thoroughly and utterly corrupted those officials that it is no longer possible to distinguish between the two.*
- **Hierarchical structure.** *Generally, organized crime groups maintain a structure with defined leadership-subordinate roles, through which the group's objectives are achieved.*
- **Criminal diversity.** *Typically, organized crime groups engage in more than one type of crime.*
- **Organizational maturity.** *In most cases organized crime groups have some permanence and do not depend on the continuing participation of one or a few individuals for their existence.*
- **Multijurisdictional activities.** *Usually, organized crime groups operate or have influence over large areas of a region, country, or countries.*

were significant impediments to international criminal activity. For many organized crime groups, their international criminal activities were more regional than global. For those with a more worldwide presence, their operations were mostly confined to countries with a large ethnic expatriate population.

twofold. First, criminals generally believe they can better trust those people they know, or know of, thereby reducing the likelihood of law enforcement infiltrating the group. Second, some of these groups originated from the pursuit of a common goal or scheme, whether economic, societal, or political.

The dynamics of globalization, however, particularly the reduction of barriers to movement of people, goods, and financial transactions across borders, have enabled international organized crime groups to

expand both their global reach and criminal business interests. International organized crime groups are able to operate increasingly outside traditional parameters, take quick advantage of new opportunities, and move more readily into new geographic areas. The major international organized crime groups have become more global in their operations, while many smaller and more local crime groups have expanded beyond their country's borders to become regional crime threats.

Since the end of the Cold War, organized crime groups from Russia, China, Italy, Nigeria, and Japan have increased their international presence and worldwide networks or have become involved in more transnational criminal activities. Most of the world's major international organized crime groups are present in the United States.

Greater Sophistication of Criminal Organizations

International criminal networks—including traditional organized crime groups and drug-trafficking organizations—have taken advantage of the dramatic changes in technology, world politics, and the global economy to become more sophisticated and flexible in their operations. They have extensive worldwide networks and infrastructure to support their criminal operations; they are inherently flexible in their operations, adapting quickly to challenges from rivals and from law enforcement; they have tremendous financial resources to draw upon; and they are completely ruthless. International criminals spare no expense to corrupt government and law enforcement officials in foreign countries that serve as their bases of operation or as critical avenues for transshipment of drugs, arms, other contraband, illegal aliens, or trafficked women and children. Organized crime groups routinely resort to violence to advance and protect their interests.

- Organized crime groups remain ruthless in protecting their interests from rivals and law enforcement alike. Criminal violence—contract killings, vendetta murders, kidnappings, bondage, even occasional small-scale massacres—has increased with competition for illicit markets and resources, and it often has spilled over into society at large.

Globalization has bred a more professional criminal element. International criminals make use of the latest commercial and technological developments to expand and improve the efficiency of their operations, and they have the financial resources to obtain whatever access, know-how, and technology they may need or desire. Many criminal groups employ individuals with specific expertise to facilitate their operations. As a result, they are able to quickly identify and adapt to market changes.

- Major drug smuggling and other international criminal groups use transportation specialists and legal experts to research commercial flows and to learn about tariff laws and administrative procedures in the world's major commercial ports. With such information, they are able to exploit international air, sea, and land shipping to move drugs, arms, other contraband, illegal aliens, and even money past customs and law enforcement.
- International criminal organizations use financial experts (some trained in the world's best business schools) to identify new money-laundering mechanisms, to manage investments, and to establish fronts that can be used as covers for smuggling and fraud schemes. This has allowed criminal groups to increasingly diversify their financial operations on a global scale.
- Legal expertise is effectively used by international criminals to protect themselves from investigations and prosecutions. Lawyers in their pay have used detailed knowledge of the law to manipulate the judicial system and to influence law enforcement legislation to protect criminal interests in countries around the world.

Globalization has enabled organized crime groups to diversify their criminal activities. Colombian drug-trafficking organizations, for example, are also involved in counterfeiting; Nigerian and Asian crime groups engage in alien smuggling; Russian and Asian crime groups traffic women for worldwide sex industries; and Russian, Asian, Nigerian, and Italian criminal syndicates engage in sophisticated, high-tech

financial crimes. Many of the larger criminal organizations have established business-like structures to facilitate and provide cover for their operations, including front companies, quasi-legitimate businesses, and investments in fully legitimate firms.

Much more than in the past, criminal organizations are networking and cooperating with one another, enabling them to merge expertise and to broaden the scope of their activities. Rather than treat each other as rivals, many criminal organizations are sharing information, services, resources, and market access according to the principle of comparative advantage. By doing so, they can reduce their risks and costs and are better able to exploit illicit criminal opportunities. Although most cooperation between criminal organizations so far has been largely tactical—such as collaborating in smuggling ventures, arranging illicit financial transactions, or laundering money—the potential for broader alliances to undertake more complex criminal schemes in an increasingly global economy is significant. The willingness and capability of large, well-established international organized crime groups to move into new areas and develop mutually beneficial relationships with local criminal groups is unprecedented.

Insurgency and Extremist Group Involvement in Organized Crime Activities

One of the more significant developments since the end of the Cold War has been the growing involvement of insurgent, paramilitary, and extremist groups—whose crimes are primarily against the state—in criminal activities more associated with traditional organized crime groups and drug-trafficking syndicates. Although various insurgent and extremist groups had been involved in traditional criminal activities before, particularly the drug trade, their role typically was more a subsidiary one of extorting or offering protection to drug trafficking and crime groups operating in areas they controlled. Partnerships that some of these insurgent or extremist groups had with drug traffickers and other criminal organizations were often fleeting, but sometimes longer-standing symbiotic arrangements based on a coincidence of interests. In either case, the relationship was often strained and marked by mutual suspicion and wariness. For example:

- In Peru from the late 1980s until the early 1990s, the extremist Sendero Luminoso insurgents profited from protecting coca fields and extorting drug traffickers operating in the Andean region they controlled.
- In Western Europe, members of the terrorist Kurdistan Workers' Party (PKK) in Turkey have engaged in drug trafficking and other crimes to help finance local operations.

Among the changes brought by the end of the Cold War, however, was the loss of Soviet, Cuban, and other Communist benefactors for many regional insurgencies and extremist groups. Unable to rely on aid from state sponsors, many insurgent and extremist groups were forced to find alternative sources of funds to remain militarily relevant, and involvement in drug trafficking and other criminal activity became a priority as an independent source of revenue.

- In Colombia, since the late 1980s, Marxist insurgents have not been able to rely on financial support from Cuba and Russia. Some insurgent fronts of the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) generate substantial revenue by taxing and protecting coca cultivation, cocaine processing, and drug shipments in the areas they control. The US Government estimates that the FARC may earn as much as half of its revenue from involvement in the Colombian drug trade.
- In Africa, both the National Union for the Total Independence of Angola (UNITA) in Angola and the Revolutionary United Front (RUF) in Sierra Leone raise most of the revenue to pay the costs of their insurgencies from mining and illegally exporting diamonds in the areas their forces control. For UNITA, exploiting the diamond industry became critical to its survival once Cuban and more limited Soviet aid dried up by the early 1990s. The RUF's principal external supporter, neighboring Liberia, receives payment in diamonds as the price for its troop, logistics, and material support.

**APPROVED FOR RELEASE
DATE: JAN 2001**

Besides engaging in drug trafficking and other criminal activity to raise needed revenue, insurgent and extremist groups have other motivations for involvement. Among the most important is to advance their political objectives by isolating the regions they control from the national economy. By so doing, they deprive the government of the region's economic productivity—as is most notably the case with the diamond mines held by the insurgents in Angola and Sierra Leone—and increase the dependence of the local population on their control and authority. In some cases—such as in the drug-producing regions of Colombia, largely controlled by the FARC and right-wing paramilitary forces—insurgent and extremist groups support a widespread illegal economy or illicit activity that is the primary source of income for the local population.

With the substantial decline in state-sponsored support, many insurgencies and extremist groups reach out to criminal networks to acquire arms and supplies that cannot be obtained through more traditional or legitimate channels. Unlike insurgent groups, criminal groups are well-connected to outside gray arms merchants, transportation coordinators, money launderers, and other specialists who can provide the weapons and other logistics support once given by state sponsors. Organized crime groups are also more likely than armed illegal political, ideological, or religious movements to have stables of corrupt contacts in customs, immigration, and other law enforcement authorities to facilitate the smuggling of weapons and other contraband to extremist and insurgent groups. Armed groups are also turning to criminals to acquire high-technology items, like encryption software or global positioning equipment, that are otherwise unobtainable.

For some insurgent groups involved in criminal activity, the activity itself may eventually become their primary motivation. In Burma, for example, ethnic-based insurgent armies that were originally formed as national liberation movements supported by Communist China have become drug-trafficking armies. Particularly since Burma's military regime negotiated cease-fire agreements that leave them alone, insurgent armies like the United Wa State Army—the largest producer of heroin and methamphetamine in Southeast Asia—are now engaged almost exclusively in the

lucrative business of drug trafficking. They turned increasingly to drug trafficking when China began substantially reducing its support in the 1970s.

Corruption and the Political-Criminal Nexus

While organized crime groups and other criminal networks have become more sophisticated in their operations and capabilities, corruption remains an indispensable tool of the criminal trade. Corruption is inherent to criminal activity; criminal groups corrupt society, business, law enforcement, and government. Beyond corrupting mid- and low-level law enforcement personnel and government bureaucrats to turn a blind eye or proactively facilitate their on-site criminal activities, crime groups seek to corrupt high-level politicians and government officials for a variety of reasons, including to:

- **Gain high-level protection for themselves and their activities.** Implicit alliances with senior officials in a position to head off or limit policy or law enforcement initiatives that could interfere with their criminal activities allow crime groups to operate in a relatively benign environment. In some circumstances, the relative power of their high-level political protectors may be the most important factor in how well or poorly a criminal group prospers.
- **Gain insider information on national-level law enforcement investigations.** Access to senior officials in a position to authorize or influence investigations and prosecutions provides major crime figures with warning of governments' attempts to target them, the potential to learn about the sources and direction of investigations, and the possibility to terminate or sidetrack investigations or to target a rival criminal group instead.
- **Gain insider information on national economic planning.** Unsavory businessmen and many organized crime groups seek to invest in productive

business enterprises and to profit from economic and infrastructure development projects, both to use as fronts for their criminal operations and to legitimize their income and their role in society. Having advanced knowledge of government plans for privatization offerings or competitive bidding for development projects, for example, gives them a potential advantage over individuals and businesses without criminal ties. In many cases, criminal groups try to use their high-level official connections to ensure they win competitive bids.

- **Influence legislation or statutory regulations that could affect their interests.** High-level politicians in league with crime figures could sidetrack or weaken provisions in key legislation that would threaten their safety, such as extradition, or push for laws that would promote their interests—such as their ability to launder money, make illicit financial transactions, engage in illegal trade practices, or move contraband products.

Criminal groups are most successful in corrupting high-level politicians and government officials in countries that are their home base of operations. Countries with policies that favor government subsidies and foreign trade restrictions to protect domestic industries, foreign exchange controls, and state control of utilities and natural resources are particularly vulnerable to high-level corruption. Senior officials who have authority to grant import or export permits, fix import and export duties, determine preferential exchange rates, decide on government-let contracts or privatization offerings, or waive internal taxes are routinely targeted by criminal groups or may themselves seek out a relationship with criminal interests. High-level politicians and government officials enter into corrupt alliances with criminal groups to:

- **Avoid pressure and reprisals from criminal groups demanding favors.** Politicians and officials who doubt the willingness or capability of their government to protect them from criminal threats are most vulnerable to the combination of lucrative bribe offers and intimidation.
- **Use their public position or potential leverage for financial payoffs from criminal groups.** Officials in a position to decide or influence law enforcement operations or investigations may demand bribes

either to preclude government interference in the activities of criminal groups or to help facilitate their operations.

- **Exploit their public authority for personal profit from illicit activities.** High-level politicians and officials profit by using their ability to influence government economic decisions on behalf of criminal interests. For example, they may accept financial kickbacks for awarding contracts to business enterprises controlled or influenced by crime figures.
- **Gain personal or political favors from criminal associations.** In some cases, senior politicians and officials seek criminal associations to obtain funds or assets that they can personally use for legitimate investments or for their own involvement in quasi-legitimate or illicit profitable business activities. Criminal associations can also help them to launder and hide illicit proceeds garnered through abuse of their positions of authority. In other cases, they rely on criminal groups for information that can discredit political or bureaucratic rivals or to provide under-the-table campaign financing.

Corruption on a grand scale weakens social, political, and legal institutions and acts as a catalyst for further criminal activity—including drug and contraband smuggling, illegal migration, and the penetration of criminal groups into the legitimate economy. This is particularly true in countries that are making the difficult transition to market economies, where widespread corruption degrades their ability to enforce the rule of law.

In addition to undermining the political legitimacy of the government, the consequences of corruption can be severe for a country's economic performance. Corruption reduces incentives for investment because businessmen perceive whatever portion of an investment is claimed by corrupt officials as a tax. Corruption disrupts the productive allocation of talent and labor in society and distorts the composition of fiscal expenditure, since corrupt officials make key economic decisions that are often based on their own personal best interests, rather than those of the country. High levels of corruption are also associated with lower-quality public infrastructure projects and services, because productive expenditures are cut to

APPROVED FOR RELEASE
DATE: JAN 2001

***A Global Forum on Fighting Corruption:
Safeguarding Integrity among Justice
and Security Officials***

In February 1999, the United States hosted the first global forum to fight corruption among government officials responsible for upholding the rule of law. Officials from 90 countries participated and agreed on a declaration that calls on governments to adopt effective practices to promote integrity and fight corruption among justice, security, and other public officials and to assist each other in this regard through mutual evaluation. As a result of this initiative, several nations—such as Romania and South Africa—convened their own regional conferences in the past year to continue the work on a more local level. The Netherlands, with help from the United States, will host a follow-up global forum at the Hague in May 2001. The Dutch anticipate officials from 135-to-140 countries will attend.

offset costly kickbacks or the firms involved are inefficient or incompetent. Finally, in countries that are recipients of foreign assistance, the diversion of foreign aid flows from their intended projects by corrupt officials reduces the effectiveness of international donor efforts.

- As a result of foreign aid diversion, many donor countries have focused increasingly on issues of good governance. In some cases where corruption has significantly eroded the ability of the recipient country to use the aid as intended, international donors have scaled back their assistance.

Institutional Shortcomings

The growth and spread of international crime have also fed off the many institutional shortcomings of countries around the world. Police and judicial systems in many countries are ill-prepared to combat sophisticated criminal organizations because they lack adequate resources, have limited investigative authorities, or are plagued by corruption. Many countries have outdated or nonexistent laws to address corruption, money laundering, financial and high-tech

crimes, intellectual property piracy, corrupt business practices, or immigration. Moreover, many governments have been slow to recognize the threat posed by criminal activities and increasingly powerful organized crime groups. Criminals use these shortcomings—and their tremendous resources to corrupt and intimidate public officials and business leaders—to find safehavens for themselves, their illicit operations, and their tainted money.

- Countries that do not allow or limit extradition or mutual legal assistance, do not recognize the relevance of some US laws, or that have no legal statutes to deal with some criminal activities are often ideal sanctuaries for criminals seeking to evade justice in the United States.

The resourcefulness of organized crime groups worldwide in acquiring sophisticated technology is posing unprecedented challenges for law enforcement and security forces. Many law enforcement agencies in world regions hard hit by criminal activity are poorly funded and equipped and are increasingly outmaneuvered by crime syndicates using state-of-the-art technology. Technological sophistication gives crime groups more options to target or retaliate against the police, judicial, or government officials if law enforcement pressure becomes too threatening to their operations.

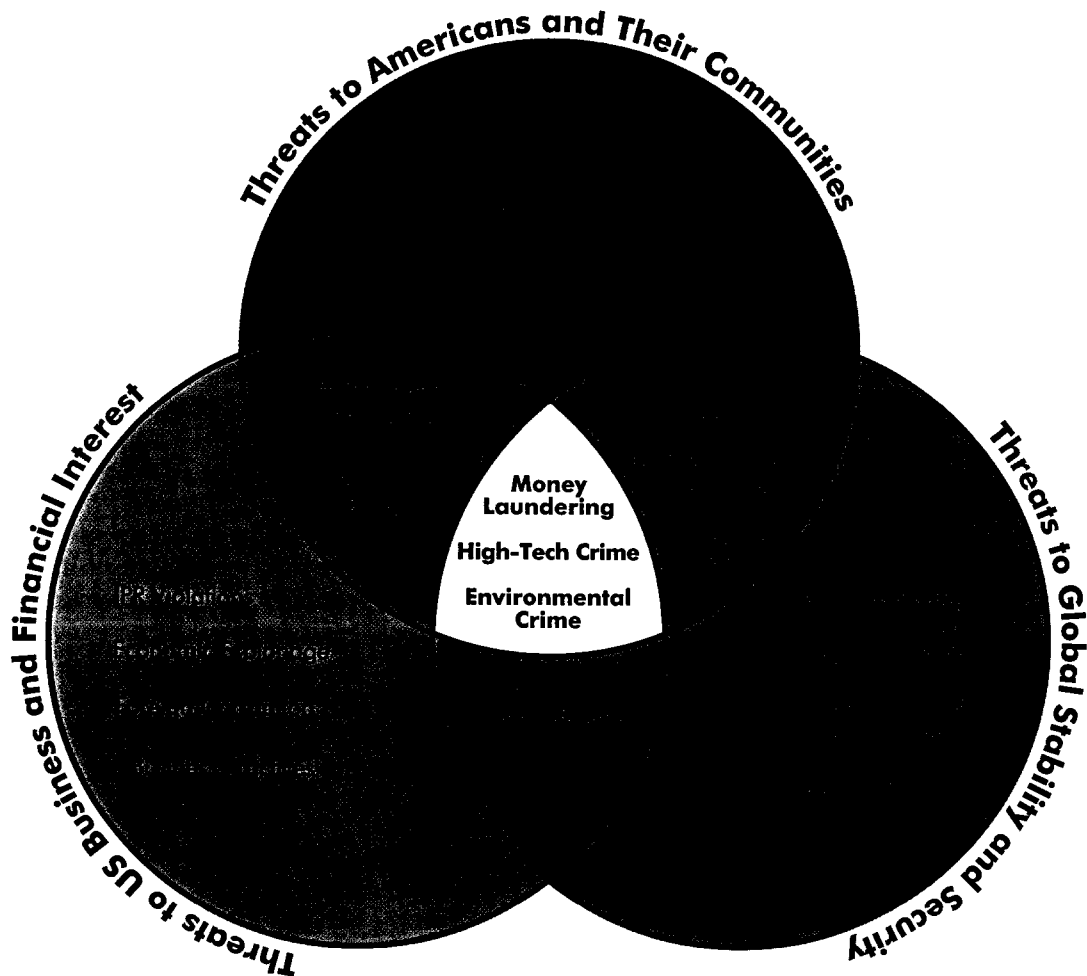
- Law enforcement and security agencies increasingly may need to treat the security apparatus of sophisticated international criminal organizations the same as hostile intelligence services.

Finally, while globalization has allowed international criminals to operate virtually without regard to borders, governments and law enforcement agencies remain limited by national boundaries. National sovereignty concerns and jurisdictional restrictions are impediments to targeting criminal activities that cross international boundaries. Unlike criminals, governments and law enforcement agencies must respect other nations' sovereignty and legal statutes in law enforcement operations.

**APPROVED FOR RELEASE
DATE: JAN 2001**



International Crimes Affecting US Interests



This graphic depiction of how international crimes affect US interests should not be interpreted as suggesting any level of threat magnitude; crimes intersecting all three circles of threats to US interests are not necessarily a greater threat than those intersecting two or only one.

Chapter II

International Crimes Affecting US Interests

The threat to the United States from international crime continues to grow as criminals exploit the globalization of trade and finance and rapid changes in technology. These developments have helped create new mechanisms for trafficking contraband, conducting illicit trade, laundering money, and engaging in large-scale economic crimes. They have also opened the door to new criminal opportunities. While organized crime groups have greatly benefited from these developments, the pace of globalization and technological advancements also have inadvertently resulted in some legitimate businesses becoming engaged in economic criminal activity.

The President's International Crime Control Strategy states that international crime threatens vital US interests in three broad, interrelated categories:

- **Threats to Americans and their communities**, which affect the lives, livelihood, and social welfare of US citizens living in the United States and abroad.
- **Threats to American businesses and financial institutions**, which affect US trade, the competitiveness of US products, and the US interest in a stable worldwide financial system.
- **Threats to global security and stability**, which affect the broader US national security interest in promoting regional peace and democratic and free market systems, particularly in regions where outlaw regimes aspire to develop weapons of mass destruction or where US forces may be deployed.

This chapter addresses the major international crimes identified as a threat to US interests in the International Crime Control Strategy, including their impact and costs to American citizens, businesses, or national security interests. This survey does not address them in any priority order indicating severity of threat to US interests.

- International terrorism and drug trafficking most directly threaten American lives and property.

international crimes are addressed in greater detail in the State Department's annual *Patterns of Global Terrorism* and *International Narcotics Control Strategy Reports* and the administration's annual *National Drug Control Strategy*.

- Illegal immigration, worldwide trafficking of women and children, and environmental crimes may pose direct threats to safety, health, stability, values, and other interests of American communities—as well as to the entire world community of which the United States is a leading member.
- The illicit transfer or trafficking of products across international borders—including the violation of US or international sanctions, illicit transfer and smuggling of materials for weapons of mass destruction, arms trafficking, and trafficking in diamonds and other precious gems—undermines US national security objectives of isolating pariah regimes and promoting regional stability.
- Economic trade crimes such as piracy, the smuggling of contraband, the violation of intellectual property rights (IPR) through product piracy and counterfeiting, industrial theft and economic espionage, and foreign corrupt business practices rob US companies of substantial commercial revenues and affect their competitiveness in world markets.
- Financial crimes such as counterfeiting US currency and other monetary instruments, sophisticated fraud schemes directed at both individuals and businesses, high-tech computer crimes targeting businesses and financial institutions, and money laundering cause significant financial losses to American citizens and companies at home and overseas and contribute to instability in the international financial system.

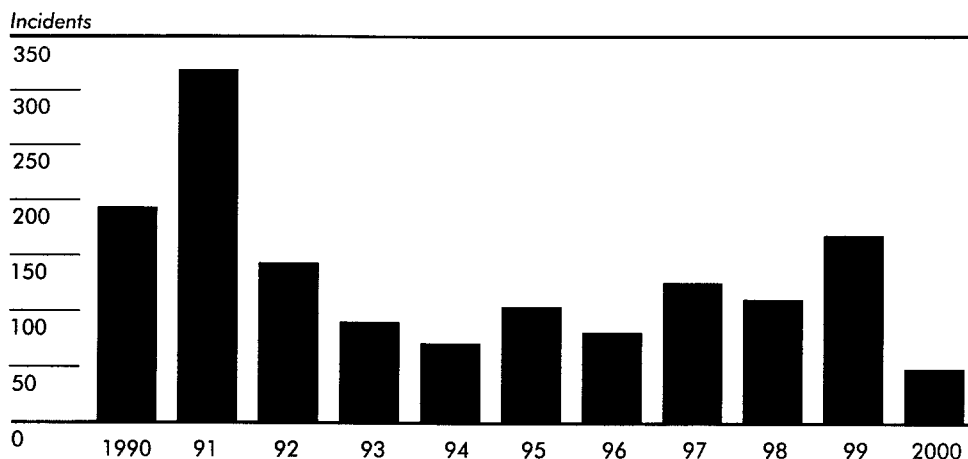
Terrorism

Many international terrorist groups continue to see US interests as prime targets. Terrorists continue to demonstrate their operational ability to strike at a broad

APPROVED FOR RELEASE
DATE: JAN 2001



Anti-US Terrorist Incidents, 1990-2000



array of targets using both crude and sophisticated methods. The 1993 World Trade Center bombing in New York City; the 1995 and 1996 bombings in Saudi Arabia; the 1997 massacre of Western tourists in Luxor, Egypt; the 1998 bombings of US Embassies in Kenya and Tanzania; and the October 2000 suicide attack on the USS Cole in Yemen highlight the international terrorist threat posed to American lives and property, at home and abroad.

- In 1999, there were 169 terrorist attacks against US targets worldwide, a 52 percent increase from 1998, when there were 111 anti-US terrorist attacks—including the bombing of US Embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania.

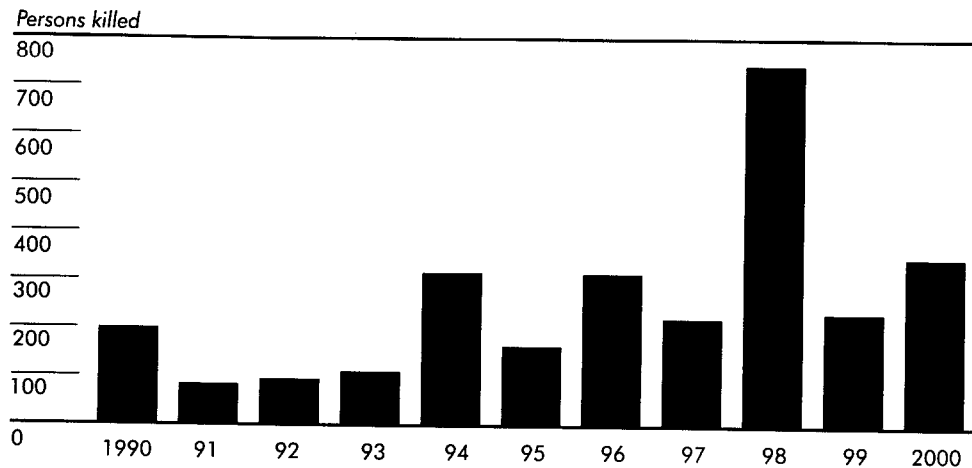
The terrorist threat to US citizens and national security interests comes principally from organized groups with political, ethnic, or religious agendas in their countries, state sponsors of terrorist organizations, and transnational groups with broader goals.

Traditional, established terrorist organizations—some backed by state sponsors such as Iran, Iraq, Syria, Libya, Sudan, North Korea, and Cuba—remain a dangerous threat. Iran, which still considers terrorism a legitimate foreign policy tool, maintains a terrorist infrastructure and ties to Islamic extremists and Palestinian groups that give it a worldwide terrorist capability.

Islamic terrorist groups with vague international agendas have become a growing threat in recent years. These groups are sometimes loosely organized, draw their membership from communities in several different countries, and obtain support from an informal international network of like-minded extremists rather than from state sponsors of terrorism. Many of these terrorists met while fighting against the Soviets in Afghanistan or have since received military and explosives training there.



Total Persons Killed Worldwide in International Terrorist Incidents, 1990-2000



- The group led by Ramzi Yousef, the convicted mastermind of the World Trade Center bombing, and the network maintained by Afghanistan-based terrorist Usama Bin Laden are prime examples of this evolution in the international terrorist threat.
- Algerian national Ahmed Ressam, who was arrested in Port Angeles, Washington, attempting to smuggle bombmaking material into the United States from Canada, was associated with an extremist group based in Algeria that has ties to Bin Ladin's organization.

The international political and economic changes that drug-trafficking and organized crime groups are exploiting to facilitate their activities are enhancing the ability of terrorist groups to operate worldwide. International terrorist groups are particularly adept at exploiting the advantages of more open borders and the globalization of international commerce to move people, money, and material across national borders. Like drug trafficking and other criminal organizations,

terrorist groups are becoming more sophisticated in the use of computer technology that enhances their communications and logistic networks.

Although terrorist groups and criminal organizations have similar requirements for moving people, money, and material across international borders, traditionally there has been minimal cooperation between them. Terrorist groups maintain their own clandestine networks and typically control all aspects of their operations to minimize the risk of exposure. There is the potential, however, for cooperation between transnational terrorist groups and criminal organizations.

- Some terrorist groups that lack a single state sponsor may use criminal activities to help finance their operations.
- Some terrorist groups look to organized crime groups to assist them in acquiring more sophisticated weapons or materials.

Drug Trafficking

The worldwide illicit drug industry is one of the greatest threats to social stability and welfare in the United States. In addition to the terrible human cost of addiction and associated health concerns—including HIV and AIDS—endured by users of illicit narcotics, drug abuse has a significant impact on the social fabric that affects all Americans. Drug abuse undermines family cohesion and has a terrible daily and often lifelong effect on the lives of children across the country.

- Results from the most recent National Household Survey on Drug Abuse indicated that 14.8 million Americans—about 6.7 percent of the population 12 years or older—were current users of illicit drugs, having used them within the previous 30 days.
- In 1999, according to a study sponsored by the Office of National Drug Control Policy (ONDCP), there were about 3.3 million hard-core users of cocaine and 977,000 hard-core heroin users in the United States.
- ONDCP estimates there were 52,600 drug-related deaths in 1995, including 14,200 who died directly from drug consumption. This was the only year for which this estimate, derived from a methodology that incorporates deaths from other drug-related causes, was made.
- Medical examiners from 42 metropolitan areas in the United States reported more than 10,000 direct drug abuse deaths in 1998, the latest year for which figures are available, according to a survey conducted by the Drug Abuse Warning Network.
- Drug-related causes accounted for about 33 percent of new AIDS cases for men and 42 percent of new AIDS cases for women in the United States in 1998, according to data from the Centers of Disease Control and Prevention.

The economic costs of drug abuse to US citizens and society are substantial. These include significant personal spending of disposable income on illegal drugs; costs associated with medical care and drug rehabilitation programs for drug abusers; lost productivity in the workplace; and spending required by federal, state, and local law enforcement agencies and judicial and penal systems to deal with drug-related crimes.

- In 1999, Americans spent \$63 billion on illegal drugs, according to a study sponsored by ONDCP.
- The estimated total costs of drug abuse in the United States—including health care and lost productivity—were \$110 billion in 1995, the latest year for which data are available, according to the US National Institute for Drug Abuse (NIDA). Nearly \$12 billion of that was for health-care costs and medical consequences.
- US Department of Labor studies have shown that drug users are less dependable than other workers; they are twice as likely as nonusers to take unexcused absences from work, are nearly twice as likely to switch jobs, and are more than three times as likely to be terminated.
- More than 8.3 million Americans in the work force age 18 and older used illicit drugs in 1998, according to the National Household Survey on Drug Abuse; 6.4 percent of full-time workers and 7.4 percent of part-time workers reported current illicit use in the survey.
- Drug use is estimated to cost \$77 billion a year in decreased productivity and lost earnings in the United States, according to a 1998 report by NIDA.

Drug abuse also leads to antisocial behavior and promotes disrespect for laws and institutions. The drug trade brings with it high levels of street crime and violence by addicts needing to pay for drugs and by drug groups fighting for turf. There is a strong correlation between drug abuse and crime.

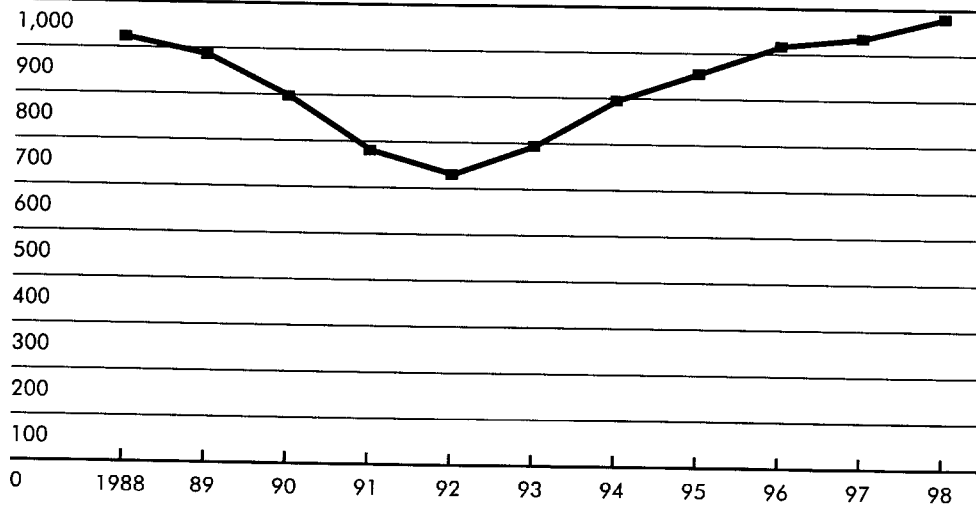
- More than two-thirds of the adult males arrested for crimes tested positive for at least one drug in 1998, according to the Arrestee Drug Abuse Monitoring Program sponsored by the National Institute of Justice.
- In 1995, the latest year for which data are available, almost 225,000 people were incarcerated in state prisons and nearly 52,000 in federal prisons for drug offenses. About 60 percent of the federal prison population was incarcerated for drug-related crimes.



Estimated US Hard-Core User Population for Heroin and Cocaine, 1988-98

Hard-Core Heroin-User Population^a

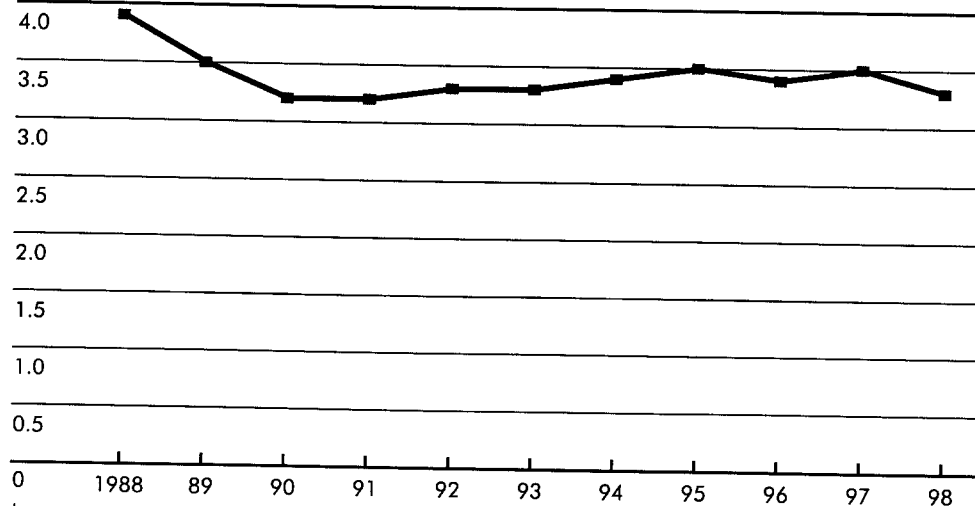
Thousand users



^aHard-core users are defined as those who used heroin at least 10 times in the previous month.

Hard-Core Cocaine-User Population^b

Million users



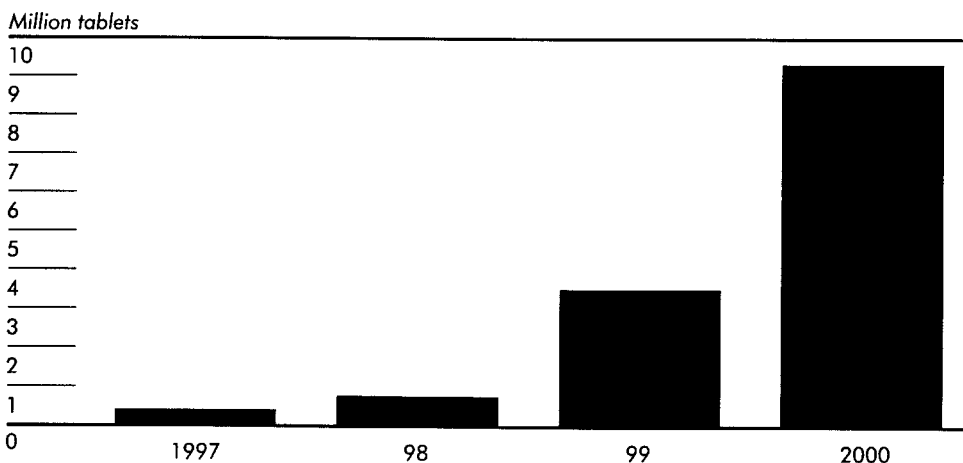
^bHard-core users are defined as those who used cocaine at least one or two days a week every week during the year.

Estimates are from a 1999 report sponsored by the US Office of National Drug Control Policy.

APPROVED FOR RELEASE
DATE: JAN 2001



US Customs Seizures of MDMA (Ecstasy), 1997-2000



Data for fiscal years provided by US Customs Service.

Illicit Drug Production

The most dangerous drugs of abuse in the United States—cocaine, heroin, MDMA (also known as ecstasy), and much of the methamphetamine—are smuggled into the country by international criminal organizations from source countries in Latin America, Asia, and—for MDMA—Europe. **Cocaine** consumption in the United States, the world's most important and largest market, has declined somewhat since its peak in the late 1980s, but has remained relatively stable for most of the last decade. Cocaine is produced in the South American Andean countries of Colombia, Peru, and Bolivia; Colombia is the source of an estimated 90 percent of the cocaine supply in the US market.

- In 1999, the United States seized some 73 metric tons of cocaine at its borders, according to the US Customs Service.

Fueled by high-purity, low-cost heroin introduced into the US market by Southeast Asian and Colombian traffickers, **heroin** use in the United States increased significantly in the early-to-mid 1990s and has leveled off in recent years. The purity of heroin currently available in the United States is higher than ever. Southwest Asia's "Golden Crescent" (Afghanistan and Pakistan) and Southeast Asia's "Golden Triangle" (Burma, Laos, and Thailand) are the world's major sources of heroin for the international market, but Colombia is the largest source of supply for the US heroin market and Mexico the second largest. Colombia and Mexico account for about 75 percent of the US heroin market, with heroin from Southeast Asia making up most of the remainder.

- About 875 kilograms of heroin were seized at US ports-of-entry in 1999, according to US Customs Service data.

APPROVED FOR RELEASE
DATE: JAN 2001

The use of synthetic drugs in the United States, many of which come from abroad, has become a more significant problem over the last decade. Beginning in the 1990s, there has been a dramatic surge in the worldwide production and consumption of synthetic drugs—particularly amphetamine-type stimulants, including **methamphetamine** and **ecstasy**.

- The majority of methamphetamine available in the US market is produced by Mexican traffickers operating in the United States or in Mexico; the US Drug Enforcement Administration (DEA) estimates that Mexican trafficking groups control 70 to 90 percent of the US methamphetamine supply. There has been a significant increase in methamphetamine production in Southeast Asia in recent years. Although little has found its way to the US market from Southeast Asia, increasing quantities of “Thai Tabs” have been seized in the western United States.
- Most of the ecstasy in the US market is produced in the Netherlands. Amsterdam, Brussels, Frankfurt, and Paris are major European hubs for transshipping ecstasy to foreign markets, including the United States. US law enforcement reporting indicates that the Dominican Republic, Suriname, and Curacao are used as transshipment points for US-bound ecstasy from Europe and that Mexican and South American traffickers are becoming involved in the ecstasy trade. In FY 1999, according to the US Customs Service, 3.5 million ecstasy tablets were seized being smuggled into the United States—a sevenfold increase over the 400,000 tablets seized in 1997. For FY 2000, more than 9.3 million tablets were seized.

Marijuana remains the most widely used and readily available illicit drug in the United States. It is the gateway drug for nearly all users of more dangerous illicit drugs. While most of the marijuana consumed in the United States is from domestic sources, including both outdoor and indoor cannabis cultivation in every state, a significant share of the US market is met by marijuana grown in Mexico, with lesser amounts coming from Jamaica, Colombia, and Canada. Very little of the cannabis grown in other major producers—including Morocco, Lebanon, Afghanistan, Thailand, and Cambodia—comes to the United States.

- In 1999, some 536 metric tons of marijuana were seized entering the United States, most of which came from Mexico.

Drug-Trafficking Networks

International drug-trafficking organizations have extensive networks of suppliers and front companies and businesses to facilitate narcotics smuggling and laundering of illicit proceeds. Colombian and Mexican trafficking organizations dominate the drug trade in the Western Hemisphere. Colombia supplies most of the cocaine and contributes the largest share of heroin to the US market, and Mexico is the major avenue for cocaine trafficking into the United States as well as a major supplier of heroin, marijuana, and methamphetamine. In the Asian source regions, heroin production is dominated by large trafficking organizations, but the trafficking networks smuggling heroin from Asia are more diffuse. Asian heroin shipments typically change hands among criminal organizations as the drug is smuggled to markets in the United States and elsewhere.

The evolution of the international drug trade in the last decade has included greater involvement by a growing number of players and more worldwide trafficking of synthetic drugs. Criminal organizations whose principal activities focus more on traditional contraband smuggling, racketeering enterprises, and fraud schemes have become increasingly involved in international drug trafficking. Although they generally are not narcotics producers themselves, many organized crime groups—including those from Russia, China, Italy, and Albania—have cultivated and expanded ties to drug-trafficking organizations to obtain cocaine, heroin, and synthetic drugs for their own distribution markets and trafficking networks. Traffickers from many countries increasingly are eschewing traditional preferences for criminal partnerships with single ethnic groups and collaborating in the purchase, transportation, and distribution of illegal drugs. Nontraditional trafficking groups—including rebel armies and extremist organizations—have also turned to the drug trade as a means of raising revenue.

Taking advantage of more open borders and modern telecommunications technology, international drug-trafficking organizations are sophisticated and flexible in their operations. They adapt quickly to law enforcement pressures by finding new methods for smuggling drugs, new transshipment routes, and new mechanisms to launder money. In many of the major cocaine- and heroin-producing and transit countries, drug traffickers have acquired significant power and wealth through the use of violence, intimidation, and payoffs of corrupt officials. They are ruthless in protecting their operations, threatening and sometimes resorting to violence against US law enforcement officers and Americans working and living in drug-producing and transit countries.

Global Implications

The consequences of drug abuse and trafficking are also a major challenge to countries worldwide, and they have become serious enough in recent years to affect regional stability. Countries that today are major narcotics producing or transit areas have significant drug addiction problems that grew with their involvement in the drug trade. In some countries, large segments of the population are stricken by AIDS, undermining economic growth and future prospects. The social, economic, and political stresses these problems cause are felt across national borders, contributing to regional economic problems and political tensions.

Alien Smuggling

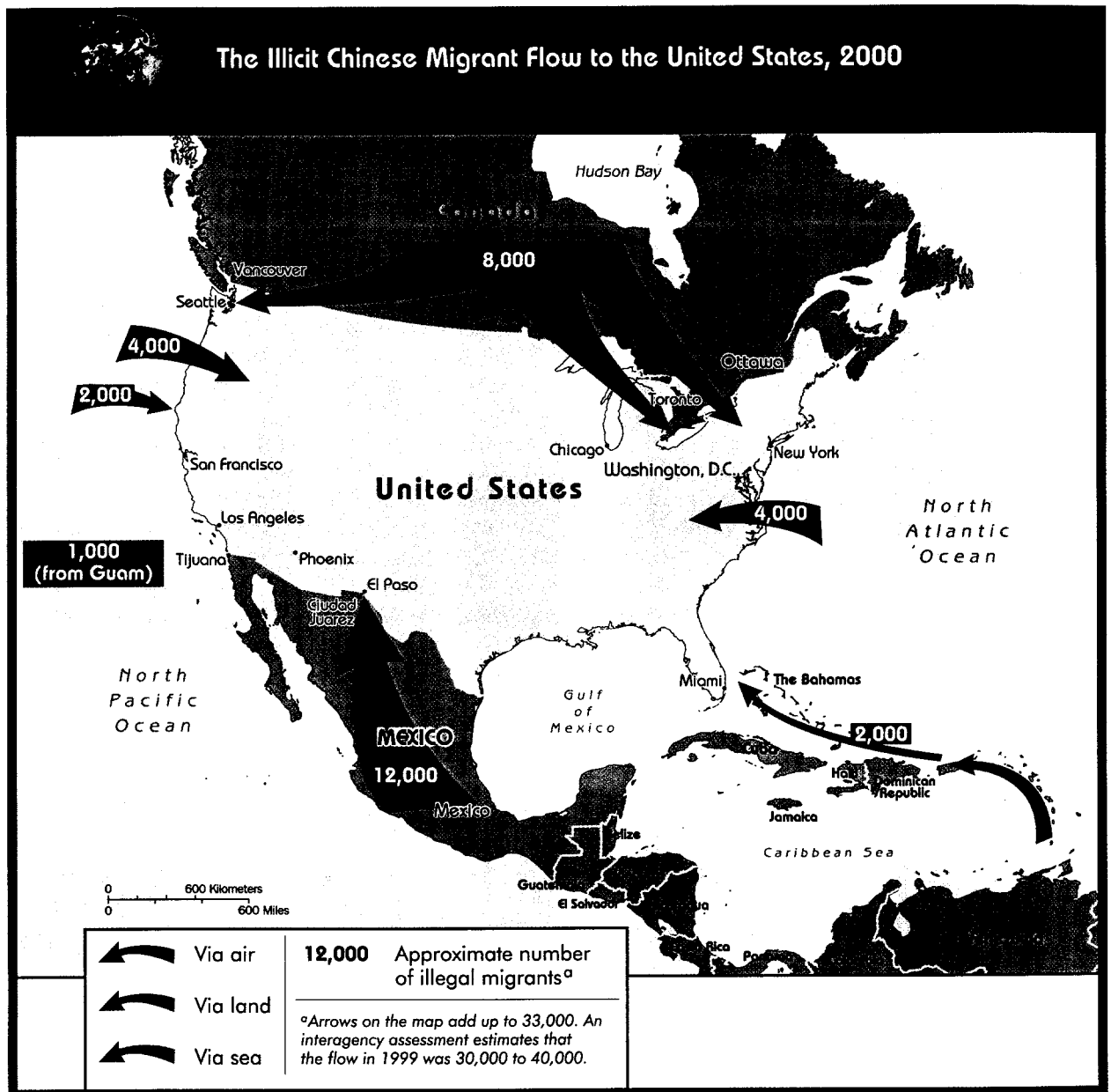
Alien smuggling groups traffic in "human cargo," criminally orchestrating the movement of undocumented or fraudulently documented foreign nationals to the United States and other prosperous countries in often cramped, unhealthy, and dangerous conditions. Countries under economic or demographic stress—particularly China, India, and Pakistan in Asia, and Mexico, Caribbean island nations, and Central American states in the Western Hemisphere—are the major sources of illegal migrants seeking new homes and livelihoods in the United States and Canada. While most illegal migrants come for economic reasons, some are criminals and associates of extremist groups. Once in their destination country, illegal immigrants disappear into ethnic communities to find work and avoid the authorities.

The US Immigration and Naturalization Service (INS) estimated in 1996 that there were about 5 million undocumented aliens illegally in the United States, representing about 2 percent of the total US population. More than half of the illegal immigrants in the United States—some 2.7 million—are Mexican nationals; another 700,000 came from Central America. Most illegal aliens entered the United States without passing through immigration controls. The remainder—about 40 percent—overstayed their visas. Nearly 80 percent of foreign nationals illegally living or working in the United States are concentrated in five states: California, Texas, New York, Florida, and Illinois. Forty percent live in California alone.

- The US Government estimates that 500,000 illegal migrants are brought into the United States annually by organized alien smuggling networks; another estimated half-million enter without the assistance of alien smugglers. Most illegal migrants enter the United States overland from Mexico or Canada.
- According to US Government estimates, some 500,000 to 600,000 illegal migrants who entered the United States in 1999 were Mexican nationals, and another 225,000 were Central American nationals.
- Chinese smugglers, known as snakeheads, often move aliens into the United States by maritime vessels, including offshore transfers of migrants, but also transit South and Central America, Mexico, and Canada. The US Government estimates that 30,000 to 40,000 Chinese were smuggled into the United States in 1999.

Alien smuggling contributes to the broader problem of increasing numbers of foreign nationals illegally resident in the United States, as well as in other relatively prosperous countries, who are straining social and economic resources and contributing to rising crime and anti-immigrant sentiment. Illegal aliens undermine wages and working conditions for legal employees, increasing the potential health and safety risks to the work force. Illegal immigration also increases the burden and cost of some government social programs.

**APPROVED FOR RELEASE
DATE: JAN 2001**



Indications of links connecting some alien smuggling to drug trafficking, terrorist or extremist political organizations, and other organized crime groups are a major cause for concern. Persistent—but largely unverified—reporting from a variety of sources suggests that drug shipments are sometimes collocated with illegal aliens in transit to the United States. Some

primarily drug-trafficking groups are believed to include or work with alien smugglers. Many ethnic-based criminal organizations—particularly Nigerian, Chinese, and Russian crime groups—employ illegal aliens smuggled into the country to undertake higher-risk criminal activities. Terrorists and members of extremist organizations seeking to enter the United

States and wanting to avoid detection at ports-of-entry sometimes use the services of alien smuggling networks, including document forging services.

- Several of the conspirators in the 1993 World Trade Center bombing entered the United States with false documents.

Alien smuggling also raises serious human rights concerns. Most illegal migrants come to the United States willingly in search of a better livelihood and higher standard of living, and they pay alien smugglers high prices for that opportunity. However, because they lack legal status and rights, they are often abused en route and once they reach their destinations. Some illegal migrants die in transit from cramped, unhealthy, and unsafe conditions or from abusive treatment by their handlers. Once in the United States, most illegal aliens work in menial jobs with few benefits, and their status puts them very often at the mercy of exploitative employers. To pay off large debts to their smugglers, many illegal immigrants wind up working in unregulated and untaxed industries. Some alien smuggling evolves into trafficking situations where the illegal migrants are forced by their smugglers into other crimes or virtual slavery to pay off their debts.¹

- To avoid US law enforcement authorities, it is not uncommon for smugglers to abandon their clients in the desert without food or water, or to toss them in frigid waters. On Chinese alien smuggling vessels in 1999, a number of migrants were beaten by smugglers until they lost consciousness, according to the US Coast Guard. Smugglers also coerced female migrants into sex by withholding food or otherwise

¹ The US Government and two different UN protocols make a distinction between **alien smuggling**—in which foreign individuals willingly contract to be smuggled into a country by persons who gain financial or other material personal benefit from procuring the illegal entry—and **trafficking in persons**, in which individuals (particularly women and children) are recruited or transported, by means of fraud, deception, coercion, abduction, or the abuse of power, for purposes of exploitation, including sexual exploitation, forced labor or services, or slavery. Often illegal aliens who are voluntarily smuggled into the United States are thereafter forced into virtual slavery in unregulated industries by their smugglers. US law prohibits forced labor regardless of the victim's initial consent to work; an undocumented person who is brought into the United States and maintained in service of another by force or coercion is treated by law and policy as a trafficked person, not merely an illegal alien.

making the journey miserable for noncompliant females.

In the last two years there have been several major incidents involving would-be illegal Chinese immigrants found dead inside cargo containers, including three in Seattle in January 2000 and 58 in Britain in June 2000.

Alien Smuggling Networks

Illegal migration facilitated by organized alien smuggling networks is on the rise. The easing of national border controls worldwide, growth of commercial travel options, availability of technology that can be readily adapted to forge identification and travel documents, and the rising sophistication of global criminal networks are key factors contributing to this development. The vast pool of potential migrants seeking economic opportunity in the United States and other developed countries, diminished opportunities for legal migration as the world's more prosperous countries seek to reduce immigration, and increased border enforcement and interdiction of illegal migrants have translated into substantial profits for alien smuggling groups.

- The UN estimates that migrant smuggling worldwide involves 4 million people and \$7 billion annually, according to a report in December 1997.

Besides being a profitable criminal business, smuggling illegal immigrants is less risky than trafficking in other illicit contraband, such as drugs. Only a handful of source and transit countries have enacted criminal statutes against alien smuggling, and virtually no ethnic group stigmatizes the practice. Most governments—including those in Central America, a primary conduit for smuggling illegal migrants into the United States—are lax toward alien smuggling because they view it largely as a US problem and perceive higher bilateral priorities with Washington.

Alien smuggling thrives in corrupt environments, and bribery undermines effective enforcement against illegal border crossings and false documentation where corruption is less endemic. The ready availability of means to counterfeit and forge travel documents also minimizes the risks for traffickers in "human cargo."

The networks involved in alien smuggling are highly efficient movers of people across national frontiers. Unlike other international criminal organizations, some of which smuggle illegal aliens as an adjunct to other criminal activities, alien smuggling groups typically are less hierarchical and more characterized by loose networks of associates to facilitate the movement of illegal migrants across regions and continents. These networks typically include local agents who recruit people interested in illegal immigration to the United States and elsewhere and bring them together for departure; travel processors who arrange for identification and any necessary travel documents; and international "brokers" along the way who facilitate intermediate passages and make arrangements for arrival at final destinations. The widespread dispersion of associates gives alien smuggling groups the flexibility to quickly and easily shift routes or call upon different operatives if law enforcement or other conditions disrupt their operations. The fact that groups of illegal aliens are typically handed from smuggler to smuggler during portions of their journey makes it difficult to target and disrupt alien smuggling networks.

Central America has emerged as the primary gateway for US-bound illegal migrants from all over the world. Scores of loosely linked networks that span the region and extend into Asia facilitate their movement. These networks include an abundance of smugglers and escorts, fraudulent document vendors, safehouse keepers, corrupt airline and bus company employees, and corrupt officials. While illegal migrants from China and elsewhere outside the Western Hemisphere have handlers for all stages of their journey through Central America, many Central American migrants do not enlist the services of a smuggler until they independently reach Mexico. Many illegal migrants caught in Central America are deported to the country from which they most recently arrived, which is usually another country in the region or hemisphere, because they travel without documents indicating their country of origin. From there, they usually resume traveling northward.

Although many alien smuggling groups are highly specialized, the growing profitability of this criminal business has increased the involvement of larger poly-crime syndicates. Some groups have engaged in moving both drugs and people, although not necessarily at the same time.

- The Chinese Fuk Ching Gang, for example, has engaged in large-scale smuggling of illegal immigrants by sea. This group was reportedly responsible for organizing the voyage of the *Golden Venture*, which ran aground off New York City in 1993 with hundreds of illegal Chinese aliens from Fujian Province aboard.

Trafficking in Women and Children

Trafficking in human beings, especially women and children, across international borders for sexual exploitation and forced labor is an increasing crime problem as well as a grave violation of human rights. People caught in human trafficking rings are placed in situations of abuse and exploitation—including enforced prostitution, sexual slavery, sweatshop labor, domestic servitude or other forms of coerced labor, service, or subjugation—that subject them to the threat of violence, rape, battery, and extreme cruelty.

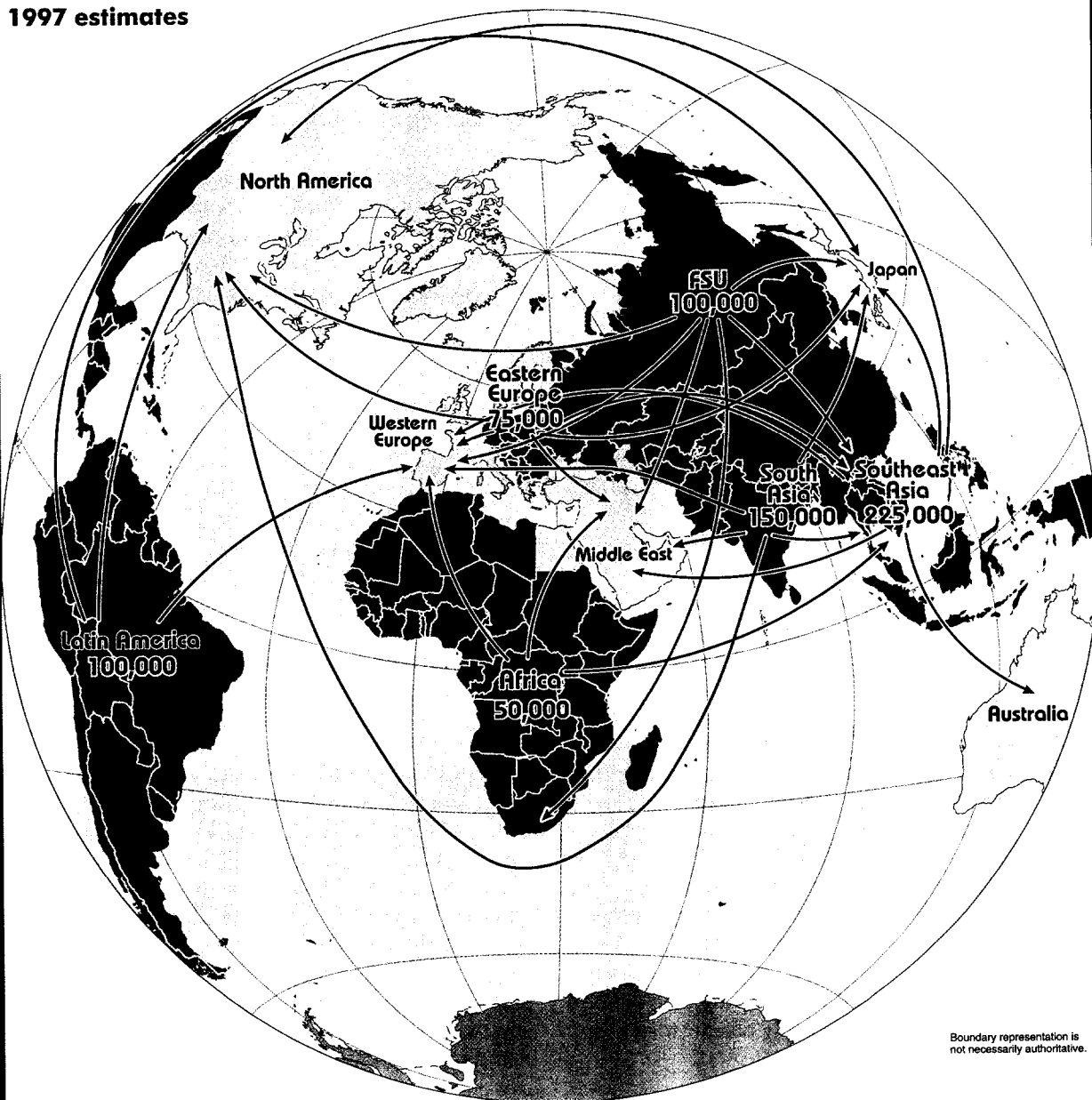
- The US Government estimated in 1997 that 700,000 women and children were moved across international borders by trafficking rings each year. Some nongovernmental organizations estimate the number to be significantly higher.
- The worldwide brothel industry earns at least \$4 billion from trafficking victims, according to US Government estimates.

Some 45,000 to 50,000 women and children were trafficked to the United States, according to US Government estimates for 1997, about 6 to 7 percent of the worldwide total. Most are from Southeast Asia and Latin America. There have also been a few cases where American women have been trafficked abroad. US international airports in New York, Miami, Chicago, Los Angeles, and San Francisco are major entry points for traffickers bringing women and children into the United States. Greater Customs and Immigration scrutiny at these airports have caused the District of Columbia, Cleveland, Orlando, Atlanta, and



Global Trafficking in Women and Children: Major Source Regions and Destinations

1997 estimates



Numerical estimates include intraregional trafficking but exclude intracountry trafficking. For the purpose of these estimates, children are defined as females younger than 18 years old. This segment of the trafficking—mostly for prostitution—accounts for approximately 30 percent of the total, according to various reports. Males under 18 years old account for a very small fraction—approximately 2 percent of the total. Trafficking, mainly for slavery.

APPROVED FOR RELEASE
DATE: JAN 2001

Houston to emerge as significant ports-of-entry for victims of trafficking rings. Like alien smuggling in general, trafficking in women and children helps build criminal support structures in the United States.

- Trafficking to the United States violates US criminal, immigration, and labor laws, as well as the Victims of Trafficking and Violence Protection Act. Trafficking also usually involves conspiracy and visa, mail, and wire fraud. The gross, systematic violation of human rights, which often includes kidnapping, extortion, and enslavement, is also a violation of US laws.
- In 1997, Florida police arrested a brothel operator who smuggled Mexican women and underage children into the United States and forced them to work as prostitutes to pay off their \$2,000 smuggle fee.

The dramatic rise in cross-border crimes against children is a growing concern. US law enforcement agencies also report an increase in international sex tourism in which adults—including US citizens—travel to foreign countries to have sex with children.

- Typically, the children—some not yet teenagers—are victims of trafficking, having been sold by their families or kidnapped and forced into bondage.

Trafficking Networks

Traffickers of women and children, much like narcotics traffickers, operate boldly across sovereign borders. They prey on women from countries where economic and employment prospects are bleak, organized crime is rampant, and females have a subordinate role in society. Often these women are tricked into leaving their countries by false promises of a better economic life abroad; traffickers lure victims with false advertisements and promises of jobs as models, dancers, waitresses, and maids. Once the women are abroad, traffickers use a variety of coercive means to sell and enslave them. In other instances, traffickers buy young girls from their relatives. The UN Commission on Crime Prevention and Criminal Justice has reported a dramatic increase in the abduction of children for commercial purposes by organized crime syndicates.

- According to the US Government, an estimated 225,000 women and children from Southeast Asia were trafficked across international borders in 1997, accounting for nearly one-third of the worldwide total. Nearly half are younger than 18, and most—60 percent—are trafficked within the East Asia-Pacific region, primarily to wealthier markets such as Thailand, Hong Kong, Singapore, Japan, and Australia. An estimated 30,000 women from Southeast Asia were trafficked to the US market in 1997, about two-thirds of the total trafficking victims brought into the United States that year.
- Latin America was the second-largest source region for women and children trafficked to the United States in 1997. About 10,000 of the total 100,000 women and children caught in Latin American trafficking rings in 1997 were sent to the United States, according to US Government estimates.
- The former Soviet Union and Eastern Europe is becoming an important center for trafficking in women and children. The US Government estimates that about 175,000 of the women and children from countries in these regions were caught in trafficking rings in 1997. Most—an estimated 120,000—were sent to Western Europe, with Germany, Italy, and the Netherlands the most likely destinations. About 4,000 women and children from the former Soviet Union and Eastern Europe were brought to the United States.
- Some 150,000 victims from South Asia were trafficked to buyers elsewhere in the region, in the Middle East, and in Southeast Asia in 1997.

Traffickers of women and children use a variety of methods to move their victims across national and international boundaries. They sometimes operate through nominally reputable employment agencies, travel agencies, entertainment companies, or marriage agencies. Legitimate travel documents are often obtained and used to cross international borders, after which the trafficking victims disappear or overstay their visas. Traffickers, however, also use fraudulent

documents to obtain genuine travel documents or use altered or counterfeit documents to move the women and children. Victims caught in these trafficking rings are most often moved out of their home countries and regions by commercial airlines. Traffickers typically move them in small groups, change flights frequently, and vary their routes in efforts to avoid being caught.

While small trafficking groups with loosely connected networks and affiliates dominate the global trade in women and children, the role of large, polycrime international criminal organizations is becoming an increasing problem. Because women and children are seen as a reusable commodity, trafficking in human beings is becoming a major source of income for some organized crime groups. Profits from this activity are laundered and fed into other illicit activities, including narcotics and arms trafficking.

Corrupt officials often facilitate trafficking in the source, transit, or destination countries. Law enforcement officials in the source countries often ignore the recruitment process, since they believe that in most cases the actual coercion takes place at the final destination.

- In Bulgaria, four senior officials—including two involved in security or anticrime forces—were fired in April 1997 because of their links to an organized crime group involved in procuring women for forced prostitution, according to Bulgarian press.
- In Thailand, traffickers recruit military and police force members to serve as escorts for women who are being trafficked to foreign sex markets.

Trafficking in women and children to the United States and abroad is likely to continue increasing in the years ahead given the large profits, relatively low risk, and rare convictions for traffickers. Lack of visa and border controls, as well as almost nonexistent antitrafficking legislation in many source and transit countries, will only further embolden the traffickers. Economic hardship, poor employment prospects, and the low status of females in many source countries will continue to underpin the problem.

- These concerns are leading to increased international countermeasures. In 1998, the G-8 heads of state, for example, used their communique at Birmingham to call for activities to prevent trafficking, prosecute the criminals, and protect the victims.
- In 1998, the United States introduced a resolution on trafficking in women and children that was adopted by the UN Crime Commission. The resulting protocol on trafficking in persons, cosponsored by the United States and Argentina, will be attached to the UN Convention Against Transnational Organized Crime.

Environmental Crimes

Environmental crime is one of the most profitable and fastest growing new areas of international criminal activity. Growing international environmental concerns have led to the proliferation of multilateral conventions and national laws and regulations to control pollutants that are health or environmental hazards, to prevent wanton exploitation of scarce natural resources, and to protect endangered plant and animal species. Criminal organizations around the world—most notably in Italy, Russia, China, and Japan—have taken advantage of the significantly greater costs for waste disposal, as well as the much-increased value of rare or precious natural resource commodities that are the subject of tight trade and sale restrictions, to earn substantial illicit income from circumventing environmental laws and regulations.

- The US Government estimates that local and international crime syndicates worldwide earn \$22-31 billion annually from hazardous waste dumping, smuggling proscribed hazardous materials, and exploiting and trafficking protected natural resources.



Selected Criminal Groups' Involvement in Environmental Abuses

Environmental Abuse	Criminal Syndicates or Individuals Involved	Estimated Yearly Dollar Value or Value per Abuse
Birds	Asian, European, and American syndicates	\$200-\$500 million per year; \$250,000 per bird
Ivory and other bones	Asian syndicates	\$100-\$200 million per year
Reptiles and insects	Asian syndicates	\$100-\$200 million per year
Fish	Asian syndicates	\$100-\$200 million per year
Wild plants	Asian syndicates	\$100-\$200 million per year
Alcohol	Asian syndicates	\$100-\$200 million per year
Drugs	Asian syndicates	\$100-\$200 million per year
Gold	Asian syndicates	\$100-\$200 million per year
Amber	Asian syndicates	\$100-\$200 million per year
Spices	Asian syndicates	\$100-\$200 million per year
Antiques	Asian syndicates	\$100-\$200 million per year
Art	Asian syndicates	\$100-\$200 million per year
Stamps	Asian syndicates	\$100-\$200 million per year
Coins	Asian syndicates	\$100-\$200 million per year
Books	Asian syndicates	\$100-\$200 million per year
Manuscripts	Asian syndicates	\$100-\$200 million per year
Paintings	Asian syndicates	\$100-\$200 million per year
Other	Asian syndicates	\$100-\$200 million per year

The tremendous costs for legally disposing of pollutants and dangerous chemicals have created new illicit business opportunities for criminal organizations, who earn \$10-12 billion per year for **dumping trash and hazardous waste materials**. Organized crime groups are taking increasing advantage of the multibillion-dollar legal trade in recyclable materials, such as scrap metals, to comingle or illegally export or dump toxic wastes. Most of these wastes are shipped in "trash-for-cash" schemes to countries in Eastern and Central Europe, Asia, and Africa where disposal costs and enforcement of environmental regulations are lower. The lack of specific legislation governing such crimes in many countries and poor enforcement or limited legal penalties in many others (often only fines that are insignificant in comparison to the millions in profits that can be made from this activity) reduce the risks for international crime groups involved in dumping hazardous wastes.

While crime groups in Russia, Japan, and elsewhere have increasingly moved into illegal waste disposal, Italian criminal organizations are the most involved largely because of their success in infiltrating Italy's industrial waste disposal sector. They have used their control over waste-disposal businesses, both legitimate and front companies, to secure contracts in Italy and elsewhere in Europe and illegally dump wastes to boost profits.

- About half the 80 million metric tons of waste produced annually in Italy disappears and is presumed to be illegally dumped, according to Italian press sources. In 1997, Italian law enforcement authorities investigating the role of Italian organized crime in the illegal export and dumping of hazardous wastes claimed that criminal groups control most of Italy's waste disposal contracts.
- Italian authorities claimed in 1997 that 11 million metric tons of toxic and industrial waste are deposited annually in some 2,000 illegal domestic dump sites in local waterways or in the Mediterranean.
- In 1997, there were at least 53 Italian crime groups trafficking and disposing of hazardous waste, which was shipped to dumpsites in Albania, Eastern

Europe, and the African west coast, according to European law enforcement officials cited in the press.

The lack of inexpensive, adequate, safe disposal options for **radioactive waste** is also attracting the increased involvement of organized crime groups throughout Europe. In many cases, these groups appear to be using illicit networks already in place for smuggling arms, drugs, and other contraband.

- European authorities are investigating illegal dumping of radioactive wastes from Austria, France, and Germany—all of which have good, but costly, disposal options—and Eastern Europe into the Mediterranean and Adriatic Seas by companies purportedly hired by Italian organized crime groups. In 1998, an 'Ndrangheta Italian organized crime family was being investigated by Italian authorities for dumping radioactive waste off Italy's southern coast, according to press reports.

Criminal groups also smuggle **environmentally harmful products**, particularly ozone-depleting chlorofluorocarbons (CFCs) whose legal trade is subject to stringent international restrictions. The illegal trade of these substances into the United States and other markets is accomplished through false labeling, counterfeit paperwork, and bogus export corporations.

- The size of the global black market for ozone-depleting substances is estimated by the UN to range from 20,000 to 30,000 metric tons annually, with more than half entering the United States. Illegal imports of these substances are far cheaper than CFCs that are legally recycled or obtained from limited existing stocks.

The stealing and illicit trade of natural resources is also a significant income generator for criminal organizations, earning them \$5-8 billion per year. Well-organized criminal groups in Africa, Eastern Europe, Latin America, China, and Southeast and Southwest Asia are heavily involved in illegal logging and trade of forest timber. Illegal logging threatens bio-diversity and has contributed to the significant decline in forest

areas worldwide. Russian and Chinese crime groups earn substantial income from illegal fishing. Poaching not only depletes seafood stocks, but also deprives seafood industries of legitimate earnings and government authorities of import and export revenues.

- Russian crime syndicates are believed to earn as much as \$4 billion annually from the illegal export of some 2 million metric tons of seafood, according to press reports citing Russian law enforcement estimates. The poaching of sturgeon from the northern Caspian Sea and the sale of crab and other seafood to Japan make up much of the trade. Japan, in 1997, imported more than \$1 billion worth of fish from Russia—six times the volume that Moscow says it exported, according to trade data.

The illegal trade in animal parts—in particular elephant, whale, and hawksbill turtle parts—and endangered animal species has also become a lucrative business, particularly for Chinese and other Asian criminal groups. The illegal trade in exotic birds, ivory and rhino horn, reptiles and insects, rare tigers, and wild game is estimated to earn criminal groups \$6-10 billion per year. In April 1999, waiver of the international ban on the African ivory trade to allow shipments to Japan caused a surge in poaching and smuggling of African and Asian elephant ivory.

Sanctions Violations

Some states of concern use international criminal networks to help in their efforts to undermine US and multilateral sanctions aimed at isolating those states from the global community. Regional and international networks of front companies, unethical businessmen, and crime groups help these regimes evade trade, military, and financial sanctions by facilitating clandestine shipments of embargoed products, including weapons, and executing financial transfers.

- In the 1990s, trade and other sanctions on Serbia and Montenegro in the former Yugoslavia, Iraq, Libya, and Haiti were imposed by Western countries or the United Nations. In addition to these sanctions, the United States has maintained financial sanctions, as

well as extensive trade embargoes, on Cuba, North Korea, Iran, and several other countries.

Iraq, which unlike the other states of concern is currently under comprehensive trade sanctions, has used traditional means for smuggling contraband to earn substantial illicit export revenue that Baghdad uses to fund procurement of embargoed goods. Much of Iraq's smuggling-derived income comes from Baghdad's illicit exports of gasoil through Iran's territorial waters and across its land borders. Barges, small tankers, cargo ships, and dhows are used by the Iraqis for maritime smuggling of gasoil exports.

In most cases, states of concern make use of legitimate and illicit business infrastructures to circumvent sanctions. Much of this activity takes place in countries with a high volume of commercial trade, including legal commerce with the regime, that could mask surreptitious dealings. In some cases, organized crime groups have played a significant role in attempts to circumvent trade sanctions. Most notably in the former Yugoslavia, local crime groups have flourished by stepping in to arrange clandestine shipments of embargoed goods and to provide covert financing.

Illicit Technology Transfers and Smuggling of Materials for Weapons of Mass Destruction

Several countries—including Iran, Iraq, Libya, Pakistan, and North Korea—have relied on networks of independent brokers and front companies to acquire controlled technology and circumvent US and international efforts to prevent them from developing weapons of mass destruction. The threat posed by continuing indications that states of concern and terrorist groups are intent on acquiring nuclear, chemical, or biological weapons increases the likelihood that international criminal networks may be used to smuggle the materials needed for their production.

There is no confirmed reporting that organized criminal groups have planned or attempted to steal nuclear warheads or weapons-usable nuclear material

(uranium with greater than 90-percent uranium-235 concentration and plutonium). Known thefts of weapons-usable nuclear material have primarily been committed by opportunists with insider knowledge of the facility storing nuclear material but without buyers identified prior to the theft.

- To date, there have been a total of 14 confirmed seizures totaling 15.3 kilograms of weapons-usable uranium at various enrichments and 368.8 grams of plutonium—far less than what is necessary for a nuclear weapon.

Arms Trafficking

Illicit gray- and black-market arms sales became an increasing problem during the 1990s and pose an array of threats to US national security and foreign policy interests. The end of the Cold War and the winding down of several regional conflicts, such as those in Lebanon and Central America, increased the availability of both newly produced and used weapons. The items typically sold on the illegal arms market include spare parts for large weapons systems, particularly for clients under UN embargoes or sanctioned by the original seller; small arms, including assault rifles, and man-portable antitank and antiaircraft weapons; and ammunition for both small arms and larger artillery and armor systems. In some cases, however, larger military systems also are sold.

- The US Government estimates that military equipment worth several hundred million dollars is sold annually on the illegal arms market to countries under UN arms embargoes. Insurgents, terrorists, and organized criminal groups acquire smaller quantities of small arms and other light infantry weapons on the illegal arms market.

Most illegal arms sales are through the **gray arms market**, which has been dominated by individual brokers—and their arms brokering firms—during the past decade. Gray-market arms transfers exploit legitimate export licensing processes, usually by using false paperwork to disguise the recipient, the military nature of the goods involved, or—more rarely—the supplier. Obtaining licenses, however fraudulent, allows gray-market players to make deals appear legitimate, helping them to arrange payment and international transportation for transactions that can be valued at millions of dollars and involve hundreds of tons of weapons.

- In some cases, however, large illegal arms shipments arranged by gray arms brokers will be smuggled as contraband. Illicit arms sold or transferred to combatants in Afghanistan and the former republics of Yugoslavia were often provided by foreign suppliers donating and transporting tens of millions of dollars worth of weapons disguised as “humanitarian aid.”

The end of the Cold War has made the bloated defense industry and large inventory of weapons in Russia and other former Warsaw Pact countries an easy mark for gray-market brokers. Since 1992, for example, combatants in civil conflicts in Afghanistan and the republics of the former Yugoslavia have purchased dozens of complete helicopters and fighter aircraft from gray arms suppliers. Brokers also acquire military equipment from US and other Western suppliers.

Black-market arms transfers do not go through an export licensing process. Rather, smugglers rely exclusively on hiding contraband arms from government officials. Black-market transfers usually involve smaller quantities of weapons, often pilfered from

military stocks or gunshops. The theft and illegal sales of weapons and other military stocks has become a significant problem in Russia.

Organized crime groups have become increasingly involved in arms trafficking since the end of the Cold War, taking advantage of both the availability of large numbers of infantry weapons from the former Soviet Bloc countries and regional conflicts.

- In the midst of conflicts in the former Yugoslavia, Italian and Russian criminal organizations have been buying and selling military-style arms on the black market, and criminal groups operating in the region are increasingly well armed.

Threats to US Security Interests

Illicit arms sales help fuel conflicts and undermine US political and military efforts to promote stability in several regions of the world. The illegal arms trade has helped arm combatants in the former Yugoslavia and Africa. Countries under UN or other international arms embargoes in which the United States participates are major clients in the illicit arms market. Purchases by insurgents and factions in civil war increase the risk to US military personnel and law enforcement officers operating in hostile environments overseas.

Insurgents and extremists acquire some small arms and ammunition to augment their own inventories of weapons. Although terrorist groups frequently try to obtain weapons on their own, their greatest source of conventional military weapons continues to be state sponsors like Iran and Libya.

Drug traffickers and organized criminal groups have increasingly turned to the illicit arms market in the 1990s. In addition to smuggling weapons via the black market, these organizations have used gray-market acquisitions of military weapons to strengthen their ability to defend their operations from government forces and rival organizations.

Trafficking in Precious Gems

The lucrative market for diamonds, gold, and other precious gems has attracted the interest of organized crime groups as well as become the dominant source of revenue for warlords and insurgent groups in war-torn diamond-rich areas in Africa. Diamond brokers traditionally have given little scrutiny to the source of rough diamonds they purchase for the global industry in precious gems and jewelry. Trafficking in diamonds, gold, and other precious gems has not generally undercut the profits of legitimate mining industries, but has deprived national governments of significant export-related revenues.

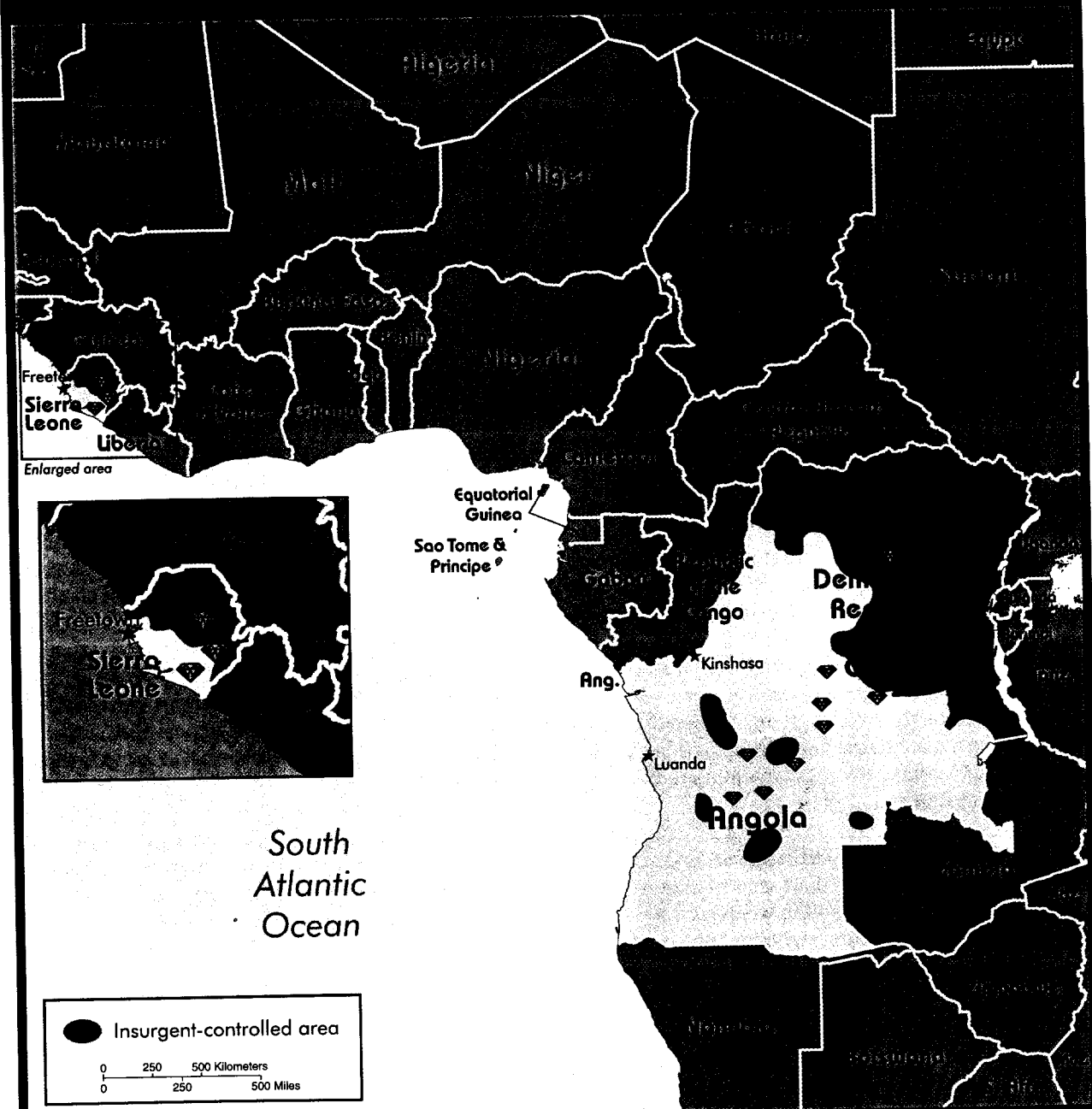
- Nearly three-quarters of the world's rough diamonds—valued at about \$5.2 billion on the open market—are mined in Africa, according to 1998 industry estimates. Of the total 1998 diamond production in Africa, 13 percent was mined informally, mostly by insurgent groups.

Russian, Chinese, Italian, and African criminal groups are involved in the illegal trade of precious minerals and gems. Russian crime groups are believed to have infiltrated the legitimate diamond and gold industries in Russia to smuggle precious gems out of the country. They use an array of front companies to conceal and facilitate smuggling operations. Payoffs to local authorities allow them to avoid customs duties and other tariffs, increasing their profit potential when they sell these precious gems at market value to industry brokers.

- Russian crime groups illegally extract and sell 300 metric tons of amber worth an estimated \$1 billion each year, according to 1998 press reports.



Diamond Mining in African Conflict Areas



APPROVED FOR RELEASE
DATE: JAN 2001

- Criminal syndicates operating in South Africa stole 20 metric tons of gold and diamonds valued at \$350 million in 1996, according to press reports citing South African police.
- In Southeast Asia, smuggling of precious gems was a major source of revenue for the Khmer Rouge insurgency in Cambodia and remains a secondary source of income for drug-trafficking insurgent armies based in Burma.

In recent years, trafficking in diamonds by insurgent groups in Africa to finance their wars in the face of regional and international efforts and embargoes to end the fighting has become a significant problem. The UNITA insurgent group in Angola, rebel militias in the Democratic Republic of the Congo (DROC), and the Revolutionary United Front (RUF) in Sierra Leone exploit the lucrative diamond mines located in areas they control to raise revenue for arms purchases and other operational expenses. The RUF's principal supporter—neighboring Liberia—also profits from the illicit diamond trade in Sierra Leone.

The sale of diamonds for arms and other supplies by insurgent groups in Africa has stymied regional and international peace efforts and kept the fighting at high levels, resulting in significant casualties and displacement of civilian populations. Insurgents' control of most of their countries' diamond mines has also deprived the governments of substantial revenues.

- According to an industry estimate, the value of rough-cut diamonds trafficked by UNITA rebels in 1998 was about \$300 million, as compared to earnings of about \$230 million for producing mines in areas controlled by the Angolan Government. Since the government offensive in late 1999, however, the loss of diamond mines and international sanctions have curtailed UNITA's diamond production in 1999-2000 to about \$100 million.
- The same industry source indicates that rough-cut diamonds from source-areas partly controlled by insurgent groups in DROC were valued at about \$338 million in 1998.
- Most of the diamond trade in Sierra Leone, earning about \$45 million annually, is controlled by the RUF insurgents.

Growing international concern about the ability of African insurgent groups noted for their atrocities against civilians to finance their operations through the trafficking in rough-cut diamonds has led to movements for international certification regimes, although much work remains to be done.

Piracy

Maritime piracy, which is particularly prevalent off the coasts of Southeast Asia and Africa, threatens the security of some of the world's most important sea lanes as well as the safe and orderly flow of international maritime commerce. Piracy raises insurance rates, restricts free trade, increases tensions between the affected littoral states, their neighbors, and the countries whose flagged ships are attacked or hijacked. This criminal activity also has the potential to cause enormous damage to the sea and shorelines when ships carrying environmentally hazardous cargoes are targeted. Pirates endanger navigation by leaving vessels, including fully laden tankers, under way and not in command, increasing the risk of collision or grounding.

- According to data made available by the US Coast Guard, direct financial losses incurred as a result of high-seas piracy are estimated at about \$450 million per year.

Reported incidents of maritime piracy have more than doubled since 1994, according to data from the International Maritime Bureau (IMB) Piracy Reporting Center based in Malaysia, averaging between 200 and 300 per year over the last five years as compared to an average of less than 100 piracy incidents between 1990 and 1994. These figures, however, understate the extent of the problem because most piracy attacks go unreported. In particular, incidents involving coastal fishermen and recreational boaters are heavily under-reported.

- In 1999, there were 285 attacks on ships at sea, at anchor, or in port, according to the International

**APPROVED FOR RELEASE
DATE: JAN 2001**

Maritime Bureau's Piracy Reporting Center. Piracy attacks increased by 25 percent from 1998 to 1999, with 408 crewmembers taken hostage in ship boardings.

Most acts of maritime piracy take place in poorly patrolled straits and coastal waterways, where pirates are able to strike quickly with little warning. Piracy is a significant problem (as it has been for centuries) along the coasts of Indonesia, Malaysia, Thailand, and the Philippines, where numerous maritime chokepoints channel large numbers of merchant ships into coastal waters where they are most vulnerable to attack. The west coast of Africa, off Nigeria and Senegal, and Somalia's east coast are the most piracy-prone areas in Africa. In East Africa, the ports of Mombasa, Kenya, and Dar es Salaam, Tanzania, are plagued by pirate attacks against berthed or anchored ships. While a large number of piracy attacks are targets of opportunity, local press reporting indicates that in some cases ships are specifically targeted for their cargo and the sale of their goods is prearranged on the black market.

- Of the total piracy incidents reported for 1999, eight ships were hijacked, mostly in the waters off Southeast Asia and Somalia.
- Pirate groups generally appear to operate independently, but some may be linked to more traditional organized crime groups.

The growing sophistication and increasing violence of piracy is a major concern to the maritime industry and to governments, particularly in Asia where piracy is having greater impact on maritime commerce. There are increasing incidents of maritime pirates coordinating multiship attacks and attempting to disguise their vessels. They often appear to be familiar with shipping schedules, plotting their attacks and hijackings of cargo accordingly. In some cases, pirates target only local shipping lines, which may own only one or two vessels, rather than ships from larger shipping companies. In addition, many of the pirate ships are increasingly well-armed and inclined to use force when seizing targeted vessels. From 1995 to 1998, the

number of crewmembers assaulted, injured, or killed increased each year, according to data from the International Maritime Bureau in Malaysia.

Nondrug Contraband Smuggling

Nondrug contraband smuggling across international borders—including illegal import and export of legitimate goods such as alcohol, cigarettes, textiles, and manufactured products—is a highly profitable criminal activity that typically carries lighter criminal penalties than narcotics trafficking. The evasion of tariffs and taxes on commodities can reap sizable illicit profits for criminal organizations or companies engaged in illegal trade—often at the expense of US companies—both by saving tax payments and by undercutting the market price of legitimate sales. The trafficking of contraband across international borders is prevalent in countries with large volumes of commercial trade, which helps minimize the risk of law enforcement detection and high import duties.

- High profits and lighter penalties in contraband smuggling have attracted criminal organizations from Asia, the former Soviet Union, the Middle East, and Central and South America.

Consumer demand for contraband—particularly tobacco and alcohol products and expensive items such as luxury automobiles—is especially high in countries where high-import tariffs and excise taxes add significantly to the price of legitimate sales. International contraband smuggling rings cater to consumers seeking to acquire luxury items cheaply by avoiding customs duties and other taxes. Revenue losses caused by the trafficking and black-market sale of contraband commodities can be significant.

- Russia, China, and countries of the former Yugoslavia are among those with the highest tariffs on luxury imports, making them prime markets for contraband smuggling.

- Colombian drug traffickers often use illicit drug proceeds to purchase cigarettes that they smuggle into Colombia for black-market sales, avoiding high tariffs and taxes on legal tobacco imports, according to the US Bureau of Alcohol, Tobacco, and Firearms.
- Cigarette smuggling into European Union countries cost them \$3.7 billion in 1999, according to an EU study. The Scandinavian countries have also suffered major revenue losses because of trafficking and black-market sales of tobacco and alcohol by crime groups, primarily from the former Soviet Bloc and former Yugoslavia, that circumvent their import, excise, and value-added taxes.

Illegal imports and exports are a particular problem for the United States, which is considered by criminals with international connections to be both a major market and source for contraband as well as a transit avenue for international contraband smuggling. Criminals involved in smuggling contraband rely on the volume of export trade in the United States to conceal their illicit activities.

- US Customs data indicate more than 1.3 million people, 341,000 vehicles, and more than 45,000 trucks and containers enter the United States daily. The Customs Service is able to physically examine only about 3 percent of all goods crossing US borders each day. Five years from now, US Customs will be able to inspect only 1 percent of all goods entering the United States if resource levels remain unchanged.
- Contraband, such as firearms, alcohol, or cigarettes, is frequently concealed in shipping containers or packaging for seemingly legitimate goods.

In addition, the United States is frequently a transit country for merchandise being shipped to another foreign destination. Routing contraband through a transit country helps to conceal the true country of origin on merchandise that is controlled or restricted by the importing country.

Most contraband smuggling is facilitated by physical concealment of the illicit goods or by a fraudulent misrepresentation of facts. False invoicing, over or

under valuation of goods, and transfer price mechanisms are frequently used to misrepresent the value of smuggled goods; undervaluation of goods allows contraband traffickers to avoid tariffs or excise taxes, while overvaluation is used either to disguise the true identity of the item or to launder illicitly derived proceeds.

Contraband Smuggling Into the United States

The volume of contraband commercial goods entering the United States skews the marketplace for some manufacturing, retail, and even high-tech industries by providing consumers with less expensive substitutes for legitimate products, hindering the competitiveness of US businesses. Moreover, many contraband imports are **substandard products**—such as tainted foods, substandard automotive parts, or dangerous imitation pharmaceutical drugs—that may threaten public health and safety.

The uncontrolled movement and disposal of **hazardous wastes and material** into and within the United States may cause harm to public safety and the ecosystem. The black market for chloroflourocarbons (CFCs), which deplete ozone from the atmosphere, in the United States and Europe is an extremely lucrative illicit business for international criminals. Russia, China, Mexico, and India are major sources of the approximately 10,000 to 20,000 metric tons of CFCs that US Customs has reported are smuggled into the United States each year. In addition to undermining international progress toward eliminating the use of ozone-depleting substances, the illegal CFC trade evades the high cost of US excise taxes on legally imported CFCs and takes business away from US companies developing ozone-safe chemicals and the equipment that uses them.

- Brokers in Mexico can purchase freon, much of it legally imported from China, for less than \$2 per kilogram and sell it in Los Angeles for 10 times as much, according to US Customs officials.

- Industry estimates in 1998 indicated that smugglers of ozone-depleting substances earn as much as \$600 million annually from sales to buyers in Europe and North America and deprive the US Government of some \$150 million in excise tax revenues each year.

The United States is most often the destination of illicit trade in **protected wildlife and rare plants**, although both the United States and Canada are also raided to obtain exotic plants and animals. Trafficking in exotic species threatens bio-diversity and could expose unsuspecting Americans to deadly diseases.

Contraband Smuggling Out of the United States

Illegal exports of contraband leaving the United States are a significant problem, with criminal networks engaged in this activity taking advantage of US federal and state laws as well as the border control focus on the smuggling of drugs, illegal immigrants, and other contraband into the United States. Commodities smuggled out of the United States are often items restricted for export by US law and involve munitions list items, firearms, and defense-related technologies tightly controlled for export by the US Government. Other items frequently smuggled out of the United States include stolen automobiles, dual-use items, and other goods that are difficult to obtain.

- Illegal trafficking in **US-origin firearms** has become a security issue of concern for many foreign governments. Foreign law enforcement agencies continue to uncover US-manufactured firearms owned by narcotics traffickers, insurgents, terrorists, and organized crime groups. Several foreign governments are pressing the US Government to stem the international flow of weapons from the United States. The US Customs Service seized nearly \$4.6 million in arms and ammunition at US ports-of-entry and exit in 1999.

The illegal smuggling and trafficking of US-manufactured **cigarettes and alcohol** by worldwide criminal networks results in major losses of legitimate state revenues in Europe, Russia, Asia, and the Western Hemisphere. Some alcohol and tobacco contraband are legally exported but stolen in transit—often at an intermediate stop—or after they legally entered the destination country for black-market sales. Some US cigarette manufacturers sell directly to known smugglers. If US taxes on cigarettes rise over the

eral years, international crime syndicates may expand smuggling operations into the United States to circumvent import taxes.

Contraband smuggling groups with worldwide networks are meeting a growing demand for **stolen vehicles** from the United States, as well as Western Europe and Japan. Luxury and sports utility vehicles are in particular high demand by criminals because of their high international black-market values and low probability of being detected by law enforcement in overseas markets. The annual global contraband trade in stolen vehicles is estimated at \$10-15 billion.

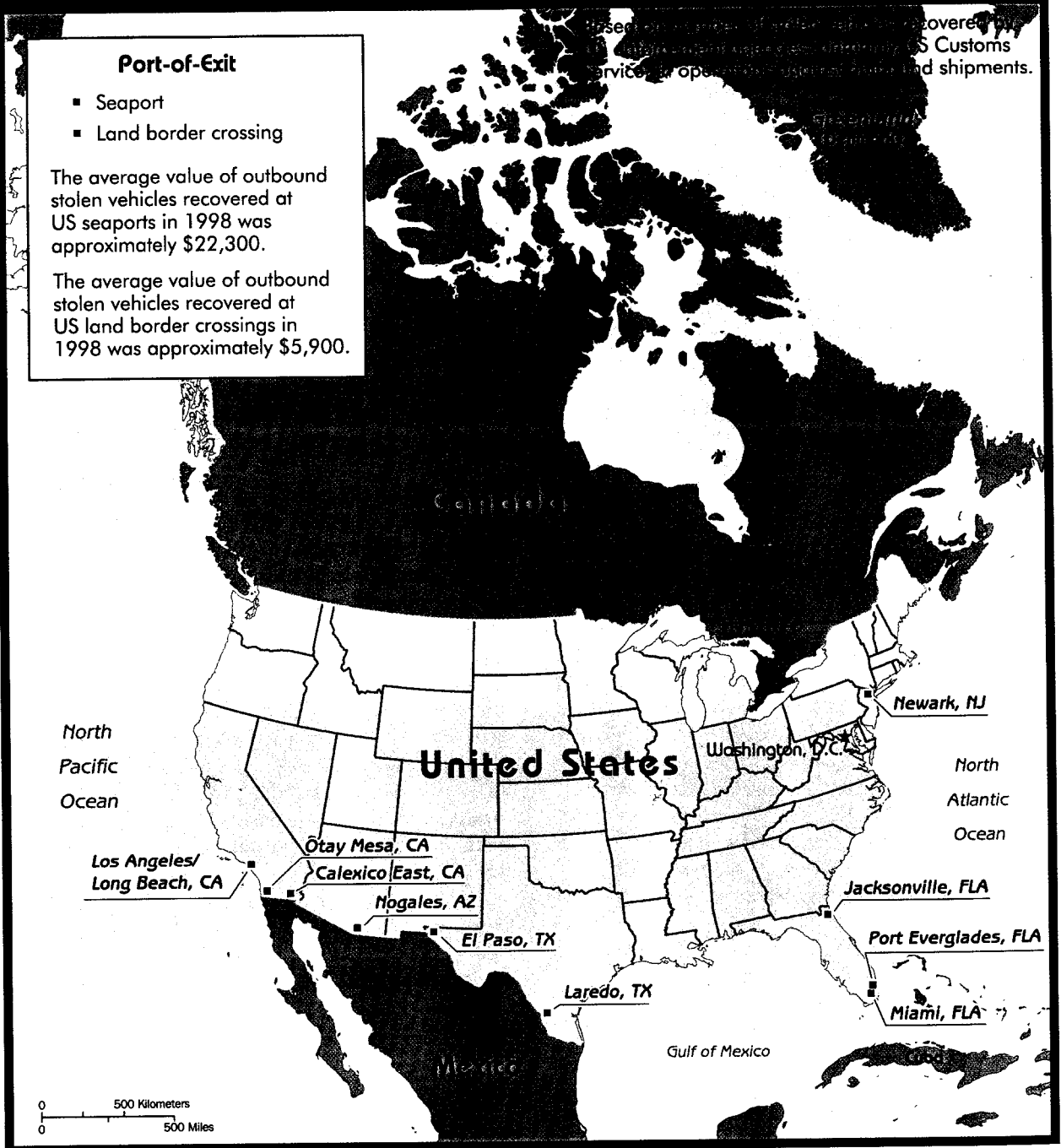
- In 1997 the FBI Uniform Crime Report estimated that 1.4-1.6 million automobiles are stolen annually in the United States, of which 200,000 valued at approximately \$20,000 each are illegally transported out of the country—making the overseas black market for stolen US vehicles worth about \$4 billion. Fewer than 1 percent of US stolen vehicles smuggled overseas are repatriated.
- European law enforcement agencies report that 300,000 vehicles worth some \$5 billion are acquired by car theft rings annually in the European Union countries.

The demand for stolen luxury cars is especially high in Russia and China, where import tariffs average more than 100 percent for most types of luxury vehicles, according to data from the US Commerce Department and industry sources. According to estimates by the National Insurance Crime Bureau, stolen vehicles sold in Europe fetch three to four times their US market value.

Crime syndicates from China, Russia, Eastern Europe, and Mexico dominate much of the world trade in stolen cars. Russian and Asian crime groups rely on members or associates in the United States, who often collaborate with local theft gangs in US cities, to steal vehicles and arrange for transport overseas. Both Russian and Asian criminal groups cooperate with Mexican smuggling rings that appear to be responsible for

APPROVED FOR RELEASE
DATE: JAN 2001

Major US Ports-of-Exit for Stolen Vehicles Being Smuggled Abroad, 1998



APPROVED FOR RELEASE
DATE: JAN 2001

moving stolen vehicles across the US-Mexican border for re-export to Russia and China, according to insurance industry and press sources. Automobile smuggling syndicates export most of the vehicles stolen in the United States in maritime shipping containers either directly from US seaports, or after driving the vehicles into Mexico. Most vehicles stolen in Western Europe, on the other hand, are simply driven to Russia or other destinations.

- International car theft rings run by Russian, Asian, and other crime groups appear to be increasingly organized and professional in their operations, according to US Customs reporting. Their operations include altering vehicle identification numbers so the stolen vehicles cannot be traced. Many countries in which these vehicles are sold lack the technical expertise to detect such tampering.

Trafficking stolen vehicles also helps crime groups facilitate other international criminal activities. Stolen vehicles, for example, sometimes are used to conceal and transport narcotics or other smuggled contraband.

Intellectual Property Rights (IPR) Violations

Most intellectual property rights (IPR) crimes affecting US businesses involve the theft of trade secrets and copyright, trademark, and patent violations. Criminal violations of intellectual property rights—particularly the sale of counterfeit or illegally manufactured products—distort international trade, undermine the legitimate marketplace, and cause extensive revenue losses to legitimate industries. The explosion of digitization and the Internet have further enabled IPR violators to easily copy and illegally distribute trade secrets, trademarks, and logos.

US businesses are particularly vulnerable and especially hard hit by counterfeiting and other forms of copyright, trademark, and patent infringement because the United States leads the world in the creation and export of intellectual property—primarily in motion pictures, computer software, sound recording, and book publishing. These industries contributed more than \$270 billion to the US economy in 1996, or approximately 3.65 percent of GDP, according to

International Intellectual Property Association estimates. Copyright industry products have surpassed agricultural products as the single-largest export sector in the US economy, and America's three largest software companies are now worth more than the steel, automotive, aerospace, chemical, and plastics industries combined.

Counterfeit or illegally manufactured products compete with, and often displace, legitimate sales. US businesses increasingly are losing legitimate sales due to the manufacture and distribution of illegal products that violate intellectual property rights. Many of these illegal products are exported to the United States, but most are circulated in markets abroad in direct competition with the legitimate products of US firms. In some countries, illicit products saturate the domestic market so completely that it is impossible for owners of intellectual property copyrights and trademarks to establish legitimate manufacturing or distribution interests.

US businesses experience significant profit and market loss due to the **theft of trade secrets**. Foreign companies seek to steal US trade secrets—particularly theft of sensitive information pertaining to research and development, production processes, and corporate strategies—to erode US companies' overseas market competitiveness and technological leadership. By so doing, they also try to outmaneuver or underbid US companies, hoping to tilt the playing field in their favor. The American Society for Industrial Security, which conducts a comprehensive survey of Fortune 500 companies, estimated in 2000 that potential known losses to all American industry resulting from the theft of proprietary information amounted to \$45 billion.

Copyright violations primarily involve the illicit production and sale of computer software, recorded music, and videos. The International Intellectual

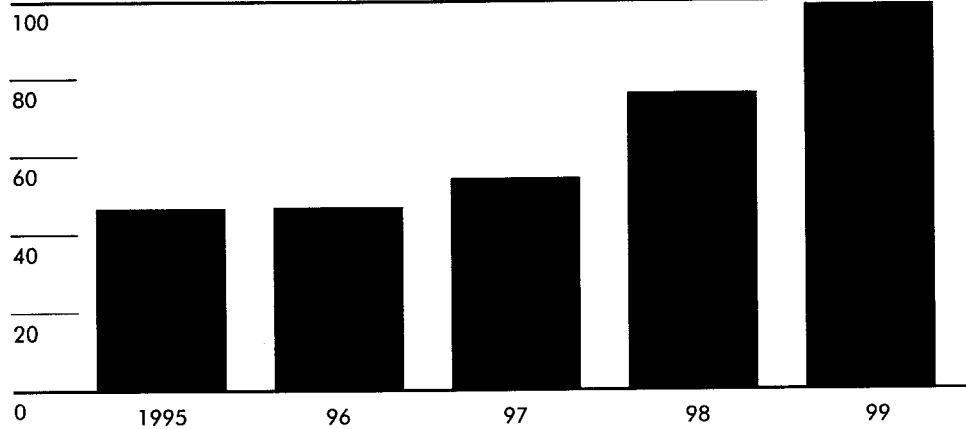


US Customs Intellectual Property Rights (IPR) Seizures, 1995-99

Yearly estimated domestic values of IPR seizures

Overall Total Values (IPR)

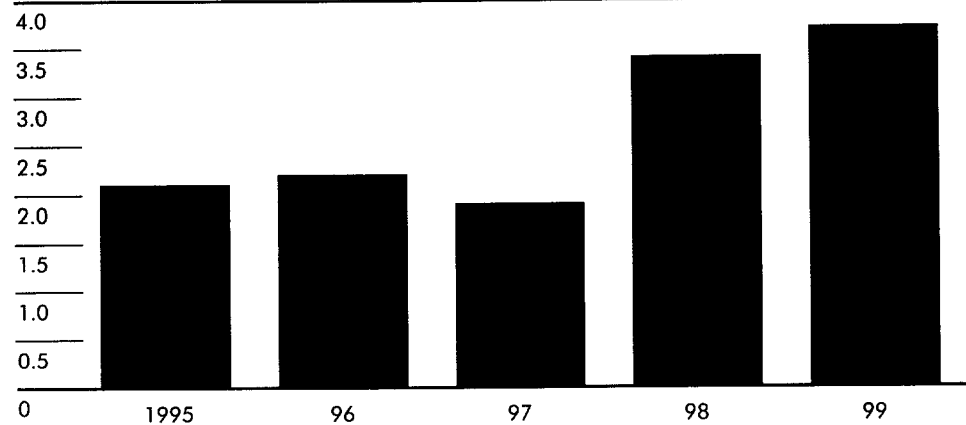
Million US \$



Yearly seizures

Number of Seizures

Thousands



Data for fiscal years provided by US Customs Service.

APPROVED FOR RELEASE
DATE: JAN 2001

Property Alliance estimated that, in 1998, trade losses suffered by US-based industries due to copyright violations totaled nearly \$12.4 billion, with losses to the motion picture industry of \$1.7 billion, the sound recording and music publishing industry at \$1.7 billion, the business software industry at nearly \$4.6 billion, the entertainment software industry at \$3.4 billion, and the book publishing industry at \$685 million. In 1996, law enforcement raids around the world resulted in the seizure of nearly 5.1 million unauthorized copies of motion picture videocassettes, according to the Motion Picture Association; also seized were more than 25,000 VCRs with an estimated production capacity of almost 33 million pirate videos per year.

- Globally, one in every three compact discs (CDs) sold is a counterfeit copy, according to an estimate published in 1998. Data provided by the International Federation of the Phonographic Industry indicate that, in 1999, worldwide sales of pirated sound recordings totaled more than \$4 billion.
- The situation is as bad for computer software. According to current estimates by the Business Software Alliance, stolen software costs the industry \$12 billion globally and topped \$59 billion during the last five years. The average global piracy rate for software is 38 percent of total sales, with a US rate of about 25 percent. In 1997, Global Software Piracy Report estimated that 225 of the 523 new business software applications sold worldwide in 1996 were pirated copies.

Trademark violations include the counterfeiting of certain products and trademark goods. According to current estimates by the International Chamber of Commerce (ICC), counterfeit trademarked products account for approximately 8 percent of world trade—roughly \$200 billion annually. A recent survey of 10 leading apparel and footwear companies by the International Trademark Association indicated annual losses of nearly \$2 billion. Online counterfeit sales may exceed \$25 billion annually worldwide, according to ICC estimates.

In 1999, US Customs seized a record \$98.5 million in counterfeit imported merchandise, an increase of \$22

million during the previous year. Record media—including audiocassettes, videocassettes, and CDs—computer parts, sunglasses, and clothing were the commodities most commonly seized.

Patent violations involve the illegal manufacture of products using production processes, designs, or materials that are protected by patents giving the holder the right to exclude others from making, using, or selling an invention for a specified period of time. The 1995 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) requires that members of the World Trade Organization protect most inventions for a period of 20 years and that their domestic laws permit effective action against patent infringement.

- The Pharmaceutical Research and Manufacturers Association estimates that the pharmaceutical industry loses more than \$2 billion annually due to counterfeit medications sold on the open market. US nongeneric pharmaceutical sales totaled \$110.8 billion worldwide in 1997; estimated sales for 1998 were \$124.6 billion.

Besides significant business losses, IPR crime costs the US Government tax revenue and reduces potential jobs available to US citizens. The International Anti-Counterfeiting Coalition (IACC) estimated in 1998 that product and software counterfeiting costs the United States more than \$200 billion per year in lost sales, jobs, and tax revenues. The US Customs Service has estimated that foreign counterfeiting of US products has caused the loss of 750,000 jobs in the United States.

IPR crimes threaten consumer interests in the United States and elsewhere when counterfeit products are reproduced using bogus or inferior materials and poor quality controls that can affect public safety and health. Since 1990, US authorities have identified or seized nonconforming parts in US-produced automobiles and commercial airplanes and substandard materials used in household products and consumables such as infant formula and pharmaceuticals.

- The World Health Organization estimated in 1997 that at least 7 percent of the medicines sold worldwide are counterfeit products. US authorities have confiscated misbranded and counterfeit pharmaceuticals, including birth control pills and AIDS, heart, diabetes, cancer, and diet medications.

Global Dimensions

IPR violations are a global phenomenon. Most countries have brought laws protecting intellectual property rights up to international standards, but few are devoting the political or budgetary support necessary to enforce the laws. Intellectual property violations are flourishing because of ineffective laws, weak enforcement, inadequate resources devoted to investigations and prosecutions, corrupt government officials, and uninformed or inadequately trained law enforcement officers. In many of the countries that are major IPR violators, the government turns a blind eye to the activity in the interest of boosting its industries' competitiveness in the international marketplace.

- East and Southeast Asia are primary regions of IPR violations that cause significant losses to US businesses. China and Hong Kong harbor major duplicators of Western toys and clothing, while firms in Malaysia, Singapore, and Taiwan copy US audio, video, and software products. According to the US Customs Service, 56 percent of US IPR seizures (mostly music CDs, computer software packages, and movies) in the first half of 1999 were from China and Taiwan.
- In Eastern Europe, Ukraine has emerged as the leading producer of illegal optical disc pirated products, exporting pirated CDs for distribution throughout the world. Most of the NIS in the former Soviet Union are improving IPR laws for their admission to the World Trade Organization, but implementation and enforcement are uncertain.
- Israel's substantive laws remain deficient under the 1995 TRIPS Agreement, and it remains a key distribution hub in a regional network for pirated optical media products that extends into Russia and Eastern Europe.

- Latin America is the third-largest market for illegal duplication of CDs, videos, and cassettes, according to the International Intellectual Property Alliance. Illegal production of these products is centered in Brazil and Argentina, whose governments have toughened their IPR laws but nonetheless are resisting further IPR improvements. Paraguay continues to be a regional center for pirated goods, especially optical media, and serves as a transshipment point for large volumes of IPR-infringing products from Asia to the larger markets bordering Paraguay, particularly Brazil.

Although many IPR crimes are committed by ostensibly legitimate foreign manufacturing, business, and import/export enterprises to enhance their competitiveness, criminal organizations are becoming common players in all stages of IPR crime, from manufacture to distribution. Product piracy and counterfeiting are attractive to criminal organizations because of the absence of strong criminal counterfeiting laws and the potential for large profits in the counterfeit goods market. Moreover, some criminal and terrorist organizations use the proceeds from producing and selling counterfeit brand name consumer goods to fund other types of criminal activity, both in the United States and elsewhere.

- In New York City, ethnic Chinese crime syndicates are increasingly counterfeiting consumer products as a source of tax-free income. The Vietnamese gang "Born to Kill" reportedly relies on the sale of counterfeit Rolex and Cartier watches to fund gang activities. The group's founder has claimed earnings exceeding \$35 million from counterfeit product sales.

- In 1995, law enforcement officials in Los Angeles discovered several Chinese criminal groups—including the Wah Ching, the Big Circle Boys, and the Four Seas triad—engaged in counterfeiting floppy discs and CD-ROMs. Asset seizures totaled more than \$17 million in illicit products and manufacturing equipment, plastic explosives, TNT, and firearms.
- Past press reporting indicated that the Provisional Irish Republican Army funded some of its terrorist activities through the sale of counterfeit perfumes, veterinary products, home videos, computer software, and pharmaceuticals.

Foreign Economic Espionage

The stealing of trade secrets from the US Government and from US businesses through economic espionage, in addition to industrial theft, is a growing threat to US global economic competitiveness. These activities are typically carried out by foreign governments, intelligence agencies, or industries to illicitly acquire sensitive or restricted information related to critical technologies, trade, finance, or corporate strategy. The United States has enacted the Economic Espionage Act of 1996 to criminalize both state-sponsored and commercial theft of trade secrets, but few other countries have similar laws. Indeed, collecting “business intelligence”—including by means considered foreign economic espionage—is a commonly accepted business practice in many countries.

- Foreign companies and governments routinely take advantage of technological advances in global communications, such as the Internet and digital communications, that have increased opportunities for industrial theft and the ease of information transfers.
- The potential losses to all US industry resulting from economic espionage were estimated to be about \$300 billion, according to a 2000 estimate by the American Society for Industrial Security, which conducts a comprehensive survey of industrial theft. This figure is three times what it was a few years ago.

Some foreign governments engage in economic espionage to acquire US trade secrets involving sophisticated technologies with potential military applications or to help enhance the global competitiveness of their commercial industries. Economic espionage supporting commercial industries is directed against corporate strategies, marketing plans, or bidding strategies of US businesses or US Government positions in bilateral or multilateral trade negotiations.

Foreign Corrupt Business Practices

Foreign corrupt business practices cost US firms billions of dollars each year in lost contracts. While the United States banned bribery of foreign government officials more than 20 years ago with the Foreign Corrupt Practices Act, other industrialized countries continue to permit overseas bribery, and some still allow tax deductions for such payments. However, bribery of government officials is against the law in virtually every country where it might occur.

Foreign firms often use bribes to help win international contracts. About half of the known bribes in the last five years were for defense contracts, with the other offers directed at major purchases by governments and parastatal organizations for telecommunications, infrastructure, energy, and transportation projects. The actual extent of the practice is probably much larger than available evidence indicates. Procurement corruption is common in virtually all parts of the developing world in Asia, Africa, and Latin America, as well as parts of Europe.

Global Implications

Corrupt business practices have significant costs for the governments that allow them. Governments that regularly allow bribery may ultimately undermine legitimate business activity, creating disincentives for US and other foreign firms to invest in their countries. Domestic companies that are allowed to use bribes to exclude foreign competitors may create undeserved monopolies that deter healthy economic growth and development. Bribery also contributes to poverty and

instability in developing countries by undermining the legitimacy of state structures and wasting government resources.

Bribes related to government or parastatal contracts promote official corruption—including at the highest political levels—which adversely affects internal government operations and fosters negative foreign perceptions of such governments. In recent years, government leaders in South Korea, Pakistan, India, Greece, and elsewhere have become enmeshed in procurement corruption scandals. Bribe recipients are vulnerable to exposure in countries with alternating political parties, a free press, or independent judicial authorities.

Although international initiatives are under way to limit international bribery, effective curbs may be years away. In December 1997, member states of the Organization for Economic Cooperation and Development (OECD)—a group of the major industrialized countries—signed an international convention obliging them to pass laws comparable to the US Foreign Corrupt Practices Act.

- The Convention on Combating Bribery of Foreign Public Officials in International Business Transactions does not directly address the once-common practice of permitting businesses to deduct bribes paid to foreign officials from their income taxes, but the OECD has recommended that all member states act to eliminate the tax deductibility of bribes. Most member countries have begun to implement such a change.
- Effective enforcement of laws against foreign commercial bribery will remain a longer term goal. To date, no country other than the United States is known to have prosecuted anyone for violation of a law passed to implement the OECD convention.

The implementing laws of many countries for the OECD antibribery convention—which had been ratified by 21 of the 34 signatory countries as of July 2000—may take years of negotiation and further legislative action to finalize. The Inter-American Convention Against Corruption, which entered into force in 1998 and which the United States ratified in September 2000, and the Criminal Law Convention Against Corruption of the Council of Europe, which the United States signed in October 2000, are

state parties to pass laws against the bribery of foreign public officials in business transactions. In addition, multilateral lending institutions such as the World Bank and the International Monetary Fund are making efforts to combat corruption by addressing it in the context of their lending programs and by supporting governmental anticorruption efforts.

Counterfeiting

US dollars are the most commonly counterfeited currency in the world because they are the currency of choice worldwide. International criminals produce, distribute, and use counterfeit US money for profit, to make illicit transactions, to finance illegal operations, and to promote illicit activities. Profits for criminal groups placing counterfeit US money into circulation are close to 40 cents per dollar, according to the US Secret Service. Moreover, selling counterfeit currency can provide criminal organizations with capital to invest in other illicit activities, such as the purchase and distribution of illegal weapons and narcotics.

International counterfeiting schemes also include reproducing financial instruments such as commercial checks, traveler's checks, and money orders. Fictitious securities and negotiable instruments are increasingly being used by international criminal enterprises to defraud governments, individuals, corporations, and financial institutions. Criminals have used bogus instruments to obtain government benefits, to underwrite loans, to serve as insurance collateral, and to defraud individual investors, pension funds, and retirement accounts.

About half of counterfeit US currency is produced abroad, where many of the illicit financial transactions by terrorist, drug trafficking, and organized crime groups take place. The US Federal Reserve estimates that about \$570 billion of genuine US currency is in circulation worldwide, of which two-thirds circulates outside the United States.

- About one-third of US counterfeit currency distributed in the United States in the past three years originated in Colombia, according to US Secret Service data. Lax counterfeiting laws and established drug-trafficking networks in Colombia are key factors that facilitate the production and distribution of counterfeit US dollars.

APPROVED FOR RELEASE
DATE: JAN 2001



US Counterfeit Currency Activity

Millions

	1991	1993	1995	1997	1999
Passed or Seized in the US	36.7	53.8	107.8	72.2	52.8
Passed or Seized Abroad	10.8	120.8	231.3	51.0	128.0
TOTAL	147.5	174.6	339.1	123.2	180.8

Amount of counterfeit US currency identified as having been passed at retail level or seized by law enforcement.

Source: US Secret Service.

The circulation of counterfeit US currency is growing worldwide despite vigorous anticounterfeiting measures in the United States and overseas. This increase is due in part to the improved quality and modernization of reproduction equipment. Advanced design, copying, and publishing technology has enhanced production of high-quality counterfeit US currency and other financial instruments. Counterfeit US currency produced with advanced reprographic capabilities and distributed in the United States has increased from less than 1 percent in 1995 to 50 percent in 2000.

- Continued improvements in counterfeiting technology would enhance the quality and increase the quantity of counterfeit US currency in circulation, making it more difficult for law enforcement and financial institutions to identify false currency.

Counterfeit currency and financial instruments are also a problem for other governments. Foreign countries lacking adequate government oversight and enforcement of counterfeiting regulations are often susceptible to domestic production and distribution of

counterfeit currency. Counterfeiters are also able to take advantage of countries with corrupt, poorly regulated, or poorly equipped financial institutions.

Threats to US Interests

While, at present, the production and circulation of counterfeit US currency present a minimal threat to the US economy, technological advances in counterfeiting and the extension of counterfeiting knowledge to more criminal groups may, in some circumstances, undermine US economic interests. US interests are most threatened by the use of counterfeit currency by some criminal organizations—including terrorist groups—to expand and finance activities and purchases that such groups could otherwise not afford. Some organized crime groups, drug traffickers, and terrorist organizations appear to be involved in producing and distributing counterfeit currency to reap profits and to finance other illegal activities. The international expansion of these criminal organizations has helped increase distribution of counterfeit currency.

- Some Italian and Russian crime groups may be involved in printing counterfeit US dollars, possibly to purchase narcotics, military weapons, and other contraband.

Internationally isolated states of concern, like North Korea and Iran, that have in the past resorted to illegal means to finance their operations may be involved in printing or distributing counterfeit US currency.

Financial Fraud

Wide-ranging and complex financial fraud schemes by international criminal organizations are stealing billions of dollars annually from US citizens, businesses, and government entitlement programs. Financial fraud crimes have become more prevalent in recent years as greater amounts of personal and corporate financial information are made available through computer technology and access devices, such as credit cards, debit cards, and smart cards. Worldwide economic and financial systems are continuing to evolve toward a cashless society; plastic cards containing digitized financial information are increasingly being used to effect commerce. In addition, Internet-related financial crime is of growing international concern. Criminal organizations—including Russian, Nigerian, and Asian groups—have taken advantage of these developments to become involved in a wide range of sophisticated fraud schemes.

Financial Fraud Against Individuals

US citizens are direct targets of many fraud schemes originating outside the United States. These include soliciting money for ostensibly legitimate charities or overseas investment or business opportunities. In addition, the accessibility of personal financial information and the ability to gain access to financial accounts, through stolen bank cards or fraudulent

means, allow criminals to steal personal savings or use personal financial assets as collateral for their own investments or transactions such as setting up illicit front companies.

- Advance fee frauds committed largely by Nigerian criminal syndicates are among the most lucrative financial crimes targeting individuals and businesses worldwide. Criminals purporting to be officials of their government, banking system, or oil companies mail or fax letters to individuals and businesses in the United States that entice victims with the opportunity to take part in million-dollar windfalls, provided up-front fees are paid for necessary expenses such as bribes, taxes, and legal fees. In 1999, US victims reported losses of several hundred million dollars to advance fee frauds, according to US law enforcement. The Secret Service has reported receiving approximately 100 calls and 300 to 500 pieces of correspondence per day from potential victims.

To a limited extent, international criminals have also used Internet banking to target individuals in financial fraud schemes. The 1997 collapse of the Antigua-based European Union Bank (EUB), whose Russian owners fled Antigua with perhaps as much as \$10 million in depositors' funds, highlights the threat posed to individuals from financial frauds facilitated by evolving Internet-enabled banking services. The first off-shore bank to operate exclusively on the Internet, EUB actively solicited depositors over the Internet with offers of complete privacy, confidentiality, and security. The bank's collapse was precipitated by substantial loans to shell companies owned by EUB shareholders.

- Within a one-month period, EUB's advertisement was accessed 7 million times, which led to 10,000 e-mail messages from potential clients and almost 150 activated accounts for the bank, according to press reporting. The EUB Web site was so successful, it was the recipient of a 1997 "Top Business Site" award by *ComFind*, an Internet business directory.

Financial Fraud Against Businesses

The victimization of US businesses and financial institutions through sophisticated financial fraud schemes results in substantial lost revenue, as well as less tangible but nonetheless real lost opportunities and jobs. International criminals are able to use computer technology and access devices to manipulate accounts and direct the illicit transfer of funds. The ability to rapidly move funds between distant banks or financial institutions hinders law enforcement's ability to track financial transactions and allows sophisticated criminal organizations to mount complex financial fraud schemes.

- In 1996, the Association of Certified Fraud Examiners estimated financial losses from fraud perpetrated by domestic and international criminals in the United States at more than \$200 billion per year.

Frauds involving credit, debit, and smart cards and communications systems that transfer financial data are a growing problem. International criminals are exploiting electronic payment technology through false purchases and by producing counterfeit cards for the commercial marketplace, according to industry and law enforcement reporting. The huge profits and relatively minor penalties associated with the crime make these kinds of financial frauds attractive to criminal groups that have the capability to pull them off.

- According to current industry estimates, fraudulent credit cards cost the US banking industry at least \$2 billion annually; losses worldwide are estimated to be an additional \$1 billion each year.

Industry experts indicate that organized crime groups play a significant role in credit card frauds and other schemes to defraud banks and financial institutions.

Nigerian crime groups capitalize on their ability to produce fraudulent identities and to suborn key employees of banks and companies in order to steal customer credit card data. Chinese and Japanese criminal groups are adept at producing forged credit cards. Russian criminal syndicates are using their access to computers and technological expertise to access account data.

While South America and Mexico are emerging as centers for producing counterfeit credit cards in the Western Hemisphere, Chinese crime groups with operations in major commercial centers in East Asia (particularly Hong Kong) and North America are most notorious for fraudulent credit card activity.

- A crackdown on counterfeit credit card manufacturing in southern China resulted in the seizure of thousands of fraudulent cards, uncut blank credit cards, magnetic strips, issuer holograms, encoders, laptop computers, and extensive manufacturing equipment. Law enforcement investigations revealed that the scheme stretched to Hong Kong, Macau, Taiwan, Bangkok, Canada, Honolulu, and Buffalo.

Financial fraud schemes are also directed against the insurance industry, government entitlement programs, and government tax revenues. Medical fraud scams—including staged accidents and false billing to insurance companies—are a particularly lucrative source of income. Fraudulent claims from theft, property damage, and automobile accidents cost insurance companies millions of dollars each year. The federal medicare and welfare systems suffer substantial losses due to fraudulent claims for benefits, including false medical billings and false identities, many of which victimize real intended beneficiaries.

- Nigerian and Russian criminal groups have been implicated in these kinds of financial fraud crimes. Russian crime groups in the United States also orchestrate computer, telecommunications, and consumer goods contract fraud.



CSI/FBI 2000 Computer Crime and Security Survey

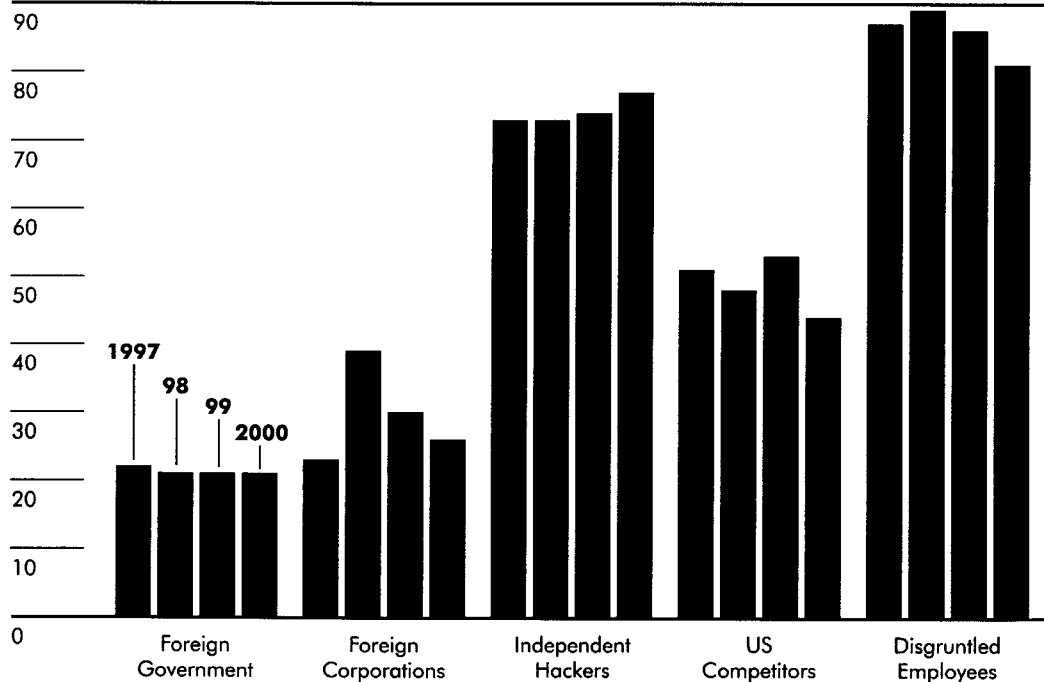
How Big Is the Problem?

2000 Computer Security Institute/FBI Study

- 70-percent of companies polled reported computer security breaches within the last 12 months.
- Total financial losses from 273 organizations was \$265.5 million.

Likely Sources of Attack

Number of incidents



Source: Computer Security Institute.

High-Tech Crime

High-tech crimes targeting computer networks are becoming an increasing law enforcement and national security problem because of the growing reliance in the United States of government entities, public

utilities, industries, businesses, and financial institutions on electronic data and information storage, retrieval, and transmission. Increasingly, other countries around the world face the same vulnerability. The creation of complex computer networks on which

APPROVED FOR RELEASE
DATE: JAN 2001

many government, public, private, and financial services depend has created opportunities for illicit access, disruption, and destruction of information by a wide range of hackers. Although most computer attacks are conducted by disgruntled employees and independent hackers, according to US law enforcement information, the threat from foreign intelligence services and foreign corporate competitors is significant for US national security interests. Moreover, international terrorist and criminal organizations have increasing capability to penetrate and exploit computer-based information and data systems.

- Illegal penetration of computer systems provides criminals the ability to access and manipulate personal, financial, commercial, and government data. The introduction of computer viruses can compromise data system integrity. Hostile hackers—whether individuals, industrial spies, foreign governments, terrorist or criminal organizations—could potentially disrupt critical public-sector assets.

The greater dependence on computer systems for daily business and administrative functions—and the increasing interconnections between computer networks—has increased both the vulnerability and potential costs of systems penetration. US communications and information industries have developed the most technologically advanced systems and networks in the world. Many critical public infrastructure industries—including power and energy, telecommunications, and transportation systems—are operated or managed by computer networks. According to the US Customs Service, all major international industries, businesses, and financial institutions rely on interconnected computer systems for commercial and financial transactions to remain competitive.

- Attacks on computer and information systems of US corporations, financial institutions, universities, and government agencies through unauthorized access by employees and external system penetration ranged from denial of service and sabotage to financial fraud and theft of proprietary information, according to surveys jointly conducted by the FBI and Computer Security Institute.

Illegal intrusion and exploitation of computer networks in the United States have sizably increased over the last several years, causing millions of dollars in losses to US businesses and potentially threatening the reliability of public services.

- According to the joint 2000 FBI-Computer Security Institute survey of security practitioners in US corporations, financial institutions, universities, and government agencies, 273 of the respondents cited financial losses of \$265.5 million from computer crime—almost double the reported losses of \$136.8 million in 1998.
- The number of US businesses reporting computer intrusions through Internet connections rose from 37 percent in 1996 to 70 percent in 1998, according to the joint survey.
- A significant percentage of the information needed to carry out essential government functions is processed at some point by information systems in the nonfederal sector of the national information infrastructure.

Criminals Exploiting High Technology

As worldwide dependence on technology increases, high-tech crime is becoming an increasingly attractive source of revenue for organized crime groups, as well as an attractive option for them to make commercial and financial transactions that support their criminal activities. With little of the risks and penalties associated with more traditional criminal activity, high-tech crime allows criminals to operate in the relative security of computer networks, often beyond the reach of law enforcement where the crime was committed.

International criminals, including members of traditional organized crime groups, are increasingly computer-literate, enabling them to use cutting-edge technologies for illicit gain. International criminals rely on publicly available sources to obtain information on system vulnerabilities. E-mail mailing lists routinely distribute vulnerability information and software that can be used to exploit computer systems.

In addition, vulnerabilities are publicly exposed in books, magazine and newspaper articles, electronic bulletin board messages, and a growing list of Web sites that are targeted at informing a wide-ranging global network of potential hackers about the latest methodology for staging computer attacks.

- Criminal groups may also exploit businesses and government agencies using programmers, many of whom are lesser paid foreigners, to make software fixes or write new programs to gain access to computer systems and the information they contain. Press reports indicate that a Russian-speaking crime group in the United States recruited unemployed programmers in Russia to hack into other syndicates' computer systems, embezzle funds, and create programs to protect its funds in US banks.

International criminals are using computers to support a wide range of criminal activity, including as an innovative alternative means to commit many traditional crimes. The use of computer networks allows criminals to more securely and efficiently orchestrate and implement crimes without regard to national borders. Drug traffickers, for example, are using encrypted e-mail and the Internet to avoid detection and monitoring of their communications over normal telephone and communications channels.

The Internet has also become the primary means used by international child pornography rings to disseminate their material worldwide. International child pornography rings are operating in dozens of countries, peddling their illicit wares through the Internet and other global distribution networks. Modern technology allows these child pornographers to store vast quantities of digital images on small portable computers easily smuggled into the United States and elsewhere.

Moreover, criminal commercial and financial transactions through computers occur amidst countless legitimate public, business, and personal uses of computer networks, making them especially difficult to identify. Transactions involving technology or components for weapons of mass destruction or embargoed items under US or international sanctions are being done through computers. Virtually any commodity,

including weapons of mass destruction and their component parts and delivery systems, is being offered for international sale on Internet sites.

- US Customs investigations show that many Internet sellers of contraband materials openly advertise that they have been in operation for many years without being caught by law enforcement. In December 1999, there were about 100 ongoing US Customs investigations involving the sale of counterfeit goods over the Internet.

Computers are also exploited by international criminals to facilitate a wide range of economic crime—particularly targeting US commercial interests. High-tech financial fraud through illicit access to credit card numbers and commercial accounts has the potential to cause serious losses for US businesses conducting electronic commerce over the Internet.

- According to a joint FBI-Computer Security Institute survey in 1998, 241 US business respondents reported \$11.2 million in losses caused by computer financial frauds. Telecommunications fraud from computer attacks cost these companies an additional \$17.2 million in losses.
- In March 1999, hackers pleaded guilty to breaking into US phone companies for calling card numbers that eventually made their way to organized crime syndicates in Italy. US law enforcement information indicates that this high-tech theft cost the US phone companies an estimated \$2 million.

Intellectual property rights violations through the penetration of computer networks are also an increasing threat to US businesses. US businesses responding in the 1998 survey reported losses of \$33.5 million in theft of proprietary information from computer attacks.

International criminals may be using computer hacking and related methods for financial gain. Industry and law enforcement reporting indicates that high-tech criminals are using advances in technology to target banks and other financial institutions. The anonymity and speed of electronic transactions may

encourage criminal exploitation of these technologies. While US and many Western and Asian banks and financial institutions maintain adequate security safeguards to prevent outside penetration of computer-based data financial transaction systems, some have outdated or lax security practices that high-tech criminals are able to exploit.

- In October 2000, according to press reports, Italian authorities dismantled a Sicilian Mafia-led crime group that was planning to steal as much as \$900 million in European Union aid earmarked for Sicily. Employing corrupt officials from the targeted bank and a telecommunications firm, the crime syndicate broke into the bank's computer network, created a virtual banking site linked to the interbank payments network, and was able to divert \$115 million of the EU aid to Mafia-controlled bank accounts in Italy and abroad before they were discovered.
- In China, a computer hacker was convicted in November 1999 of breaking into the Shanghai Securities Exchange, where he changed transaction records that cost two Chinese companies more than \$300,000, according to Chinese press reports.
- In South Africa in November 1999, an unidentified crime syndicate stole hundreds of thousands of dollars from local banks by using the Internet and bank-by-telephone services to hack into financial institutions, according to press reports.
- In 1994, individuals in St. Petersburg, Russia—aided by insider access—attempted to steal more than \$10 million from a US bank by making approximately 40 wire transfers to accounts around the world. Members of the gang have since been arrested in several countries, and most of the stolen funds have been recovered.

Money Laundering

Money laundering allows criminals to hide and legitimize illicit proceeds derived from criminal activities. Money laundering hinders efforts by regulatory and law enforcement agencies to identify the source of

illegal proceeds, trace the funds to specific criminal activities, and confiscate criminals' financial assets. Moreover, the successful laundering of illicit funds helps to support and finance future criminal activity, including any of the international crimes identified in this assessment. While international law enforcement, intelligence, and financial experts agree that the amount of illegal proceeds in the world is huge and growing, there is little analytical work supporting most estimates of money laundering. A few estimates have been attempted, but no consensus view has emerged about the magnitude of money laundering on a global, regional, or national scale.²

- According to one recent estimate, worldwide money-laundering activity is roughly \$1 trillion per year, with \$300-500 billion of that representing laundering related to drug trafficking. A former Managing Director of the International Monetary Fund (IMF) has estimated worldwide money laundering at 2 to 5 percent of the world's gross domestic product—some \$800 billion at the low end of the range and perhaps as high as \$2 trillion.

The infrastructure used by international crime groups to launder illicit proceeds—which must be placed, layered, and integrated to be “legitimized” in the legal economy—is extensive and worldwide. There are many methods for laundering money. Among those favored by criminal organizations is to establish seemingly legitimate businesses as fronts for illegal activity and money laundering. These tend to be cash-based businesses—such as hotels, casinos, restaurants, financial service firms, construction companies, and travel agencies—whose ostensibly legitimate operations involve substantial cash-flow. This makes it difficult for law enforcement agencies to identify illegal

² There is uncertainty about the feasibility of measuring the amount of money laundering because of the difficulty in obtaining consistent data. Money laundering is a crime in the United States, but is still not a distinct criminal offense in many other countries, especially when the laundering is not related to illicit drug proceeds. Even where money laundering is a distinct crime, estimates are usually measured in connection with one or more of a wide variety of underlying and predicate criminal offenses—which differ markedly between countries.

proceeds. Front companies enable criminals to combine legitimate and illicit funds in the business, in addition to providing a plausible source of wealth to deny involvement in criminal activity.

The international banking and financial systems are routinely used to legitimize and transfer criminal proceeds. Huge sums of money are laundered in the world's largest financial markets—such as Hong Kong, Japan, Germany, the United Kingdom, and the United States—even though extensive legislation and enforcement measures make it more difficult and risky to conduct illicit financial transactions in these jurisdictions. Launderers also use banks located in secrecy havens to hide illicit funds. In some cases, money launderers may recruit bank employees to conduct money-laundering transactions on behalf of the criminal organization. Some organized crime groups have sought to gain ownership of banks to facilitate their own money-laundering activity.

Several factors contribute to a country's vulnerability to money laundering: a lack of adequate legislation or appropriate enforcement to address the problem, bank secrecy laws, weak or corrupt financial institutions, and inadequate or ineffective regulatory supervision of the financial sector.

- In Latin America, money-laundering investigations are hamstrung by bank secrecy laws, lack of trained personnel, inadequate legislation, or corruption. Weak enforcement of existing legislation in some countries does little to discourage illicit financial activities. In addition, many countries have only drug-related money-laundering laws, which limit the government's ability to prosecute the laundering of proceeds from other crimes.
- In Russia and the NIS, which are transitioning to free market economies and developing their financial sectors, organized crime groups have capitalized on industry privatization programs to gain a foothold in the legitimate economy. Weak banking regulations, lax law enforcement, and a general lack of money-laundering controls provide a favorable environment for illicit financial activity.

- **Offshore banking centers**—such as Liechtenstein, The Bahamas, Nauru, and Lebanon—typically offer bank and corporate secrecy, low tax rates, ease of corporate formation, and low incorporation fees. These provisions can provide incentives for criminals to conduct illicit financial activities in these countries. Moreover, smaller, emerging offshore havens, typically in the South Pacific, lack money-laundering legislation and are less regulated than some established offshore financial centers.

In Southeast and Southwest Asia and the Middle East, parallel **informal banking systems**—known primarily as the hawala, hundi, or hui kuan—offer an alternative for laundering funds outside the formal banking system. These traditional nonbanking systems are increasingly being used by criminals, drug traffickers, and terrorist organizations operating throughout the world to launder and move illicit funds across long distances because they facilitate the rapid and cost-effective transfer of money and leave virtually no useful paper trail for law enforcement investigators or financial regulators.

- The multinational Financial Action Task Force (FATF), established at the G-7 summit in 1989 to examine measures to combat money laundering, has noted the significant role that alternative remittance systems are playing to facilitate money laundering worldwide.

The FATF has also observed an increase in illicit funds being laundered through nonbank financial institutions, such as currency exchange houses, money remitters, and gaming establishments. These organizations tend to be less regulated than banking organizations and are often used to place money into the legitimate economy.

- The Colombian **black-market peso exchange** is a primary money-laundering system used by Colombian drug traffickers, according to the US Treasury Department. This laundering system works by traffickers selling their US-dollar drug proceeds at a discount to brokers who credit them with an equivalent amount of pesos in Colombian banks. The dollars in the United States are then sold to Colombian businessmen at an exchange rate better than the official Colombian rate, who then use these funds to finance the purchase and export of dollar-denominated goods from the United States. In this way, the dollars that began as drug proceeds are laundered through a process that effectively circumvents both US and Colombian currency reporting requirements: Colombian drug profits in the United States, in effect, are repatriated in the form of trade goods. US law enforcement estimates that the black-market peso exchange may be responsible for laundering up to \$5 billion in drug proceeds annually.

- Colombian, Mexican, and Dominican drug cartels are suspected of using certain **money remitters** to launder drug proceeds. These businesses arrange payments to recipients in exchange for a commission, usually up to 10 percent of the transaction value. In the United States, money remitters are now required to report suspicious activity, file currency transactions reports for transfers exceeding \$10,000, and register with the federal government. They will soon be required to conduct enhanced recordkeeping and reporting for certain high-risk transactions.

- **Casinos** and other forms of gaming establishments are popular for money laundering because of the large, daily volumes of cash transactions that help hide money-laundering activity. Furthermore, launderers can take advantage of the increasingly sophisticated financial services offered by gaming establishments. Organized crime groups and narcotics traffickers are opening new casinos and other gaming establishments or acquiring existing ones. In the United States, reporting of suspicious activity by casinos will soon be mandatory.

Securities brokers and dealers and **money service businesses**, such as check cashers and money order sellers, are also vulnerable to money laundering. There are an estimated 200,000 money service busi-

nesses in the United States. Like money remitters, these businesses will soon be required to register with the federal government and to report suspicious transactions. Within three years, US regulations will require securities brokers and dealers to report suspicious activity, which they may now do voluntarily.

Threats From Money Laundering to World Economies

The International Monetary Fund has identified a number of adverse macroeconomic effects resulting from money laundering, such as greater volatility in foreign exchange markets and interest rates and distortions in market expectations. While current money-laundering activity in the United States has not undermined economic stability, it has hindered US Government efforts to collect taxes and resulted in greater government expenditures in regulating the banking sector, financial markets, and the business environment.

In developing economies, the accumulation and movement of large quantities of illicit funds can destabilize the economy. Investments by criminal groups in licit business enterprises can scare away honest investors and place companies owned by legitimate businessmen at a comparative disadvantage. Widespread money laundering can undermine the solvency and credibility of banks and other financial institutions and erode the public's trust in the financial system. It can also drive away potential investors and place legal investors at risk. Small economies are also vulnerable to destabilization from sophisticated fraud schemes that are attracted to large amounts of free-flowing cash. Finally, developing economies are particularly vulnerable to attempts by money launderers to corrupt institutions and key individuals with large amounts of cash, potentially undermining political stability.

- Widespread money laundering and fraudulent pyramid investment schemes orchestrated by Italian and Albanian criminal groups in the mid-1990s led to significant political instability in Albania, the effects of which are still being felt.

Efforts by some countries, such as those in the former Soviet Bloc, to develop modern banking systems can be greatly inhibited by criminal involvement in their financial sectors. Criminal infiltration into the banking sector can impede government efforts to reform the banking industry. Moreover, criminal organizations with control or significant influence over domestic banks are not likely to use sound banking practices. Rather, criminals may use bank capital to finance illicit activities, acquire businesses, or make bad loans, raising the risk of bank insolvency and disruption of domestic financial markets.

Increasing international attention to money laundering has led many countries to implement money-laundering legislation and other preventative measures. In addition, international standards are being established to increase banking transparency and to reduce bank secrecy and other processes that disguise asset ownership.

- Since 1994, 53 countries have implemented legislation or regulations requiring banks to maintain records of large currency transactions. During the same time period, the number of countries requiring banks to maintain uniform financial records grew from 25 to 82.

- In addition, more countries are beginning to establish controls over nonbank financial institutions. Currently, 47 countries require these institutions to meet the same customer identification standards and reporting requirements required of domestic banks.
- In June 2000, the FATF publicly named 15 jurisdictions—The Bahamas, Cayman Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevis, and St. Vincent and the Grenadines—as being noncooperative and deficient in their anti-money-laundering regulatory systems and practices. In July 2000, the US Government issued advisories to US financial institutions noting that the anti-money-laundering regimes in these jurisdictions were deficient. Other members of the G-7 issued similar financial advisories.

Chapter III

Worldwide Areas of International Criminal Activity

The end of the Cold War and globalization of business and travel have given international criminals unprecedented freedom of movement, making it easier for them to cross borders and to expand the range and scope of their operations. As a result, virtually every region or country in the world has seen an increase in international criminal activity—as either a source or transit zone for illegal contraband or products, a venue for money laundering or illicit financial transactions, or a base of operations for criminal organizations with global networks. Many regions or countries serve all three purposes for international criminal operations. Besides making the law enforcement and security challenges for the United States more complex, the global spread of international crime threatens vital US interests at home and abroad.

This chapter addresses the world's major regions and countries of international criminal activity that threaten Americans, US business and economic interests, and US security interests. Each regional or country overview focuses on three key issues:

- The dynamic forces—especially relating to political and economic change or a greater role in the global economy—in different regions or countries that are helping to drive international criminal activity there and how crime groups are taking advantage of them.
- The impact of criminal activity and crime-related corruption on political and economic stability.
- The characteristics, criminal activities, and scope of operations of major organized crime threats originating in the different regions and countries.

Western Europe

Like the United States, the West European countries are both a lucrative target and an attractive operating environment for international criminals because of their relative wealth and modern financial, telecommunications, and transportation infrastructure. The well-to-do West European population rivals the United States as the most desirable market for drugs, as well as other contraband, and an arena for financial fraud schemes victimizing individuals, businesses, and government entitlement programs. The speed and efficiency of modern commercial and banking services available in West European cities make them particularly vulnerable to illicit financial transactions—including money laundering and arranging financing for illegal activities. The single-market reforms of the European Union (EU) under the Schengen Agreement that permit unfettered movement of goods, services, labor, and capital throughout most of Western Europe; sophisticated infrastructure for facilitating international trade; and tremendous volume of people and goods passing through commercial airports and seaports are exploited by international criminals to move drugs, arms, illegal aliens, and other contraband throughout Western Europe and to use EU gateways to reach every other region in the world.

Western Europe has long been popular for money laundering and illicit financial transactions because of its advanced economies and financial systems. Terrorist groups and states of concern use West European

commercial and financial centers in efforts to evade international embargoes or to acquire proscribed technologies and materials for weapons of mass destruction. Most West European governments have changed, or are changing, their domestic laws to conform to FATF anti-money-laundering standards. Despite these recent legal changes and improved enforcement mechanisms, however, Western Europe remains a primary locale for money laundering by criminal organizations operating both inside and outside the EU because it offers numerous alternative channels through which to place and legitimize illicit proceeds.

EU members are facing an increasing threat from international drug traffickers and from illegal migrants, many of whom wind up employed by ethnic-based crime groups to make their livelihood. The size and profitability of the West European drug market are close to rivaling that of the United States. Turkish and Albanian criminal groups dominate wholesale distribution of Southwest Asian heroin in most of the EU countries, according to European law enforcement information. South American drug traffickers—working closely with Italian organized crime—have been developing a growing cocaine market since the early 1980s.

- The Netherlands' deepwater ports at Amsterdam and Rotterdam and Spain's extensive rocky coastline are primary entry points for drugs—particularly South American cocaine—entering Western Europe, according to analysis of seizure data and law enforcement information. According to Interpol, cocaine seizures in Europe have more than tripled in the last decade from 14.3 metric tons in 1990 to about 44 metric tons in 1999.

The EU countries are also a primary destination for illegal migrants, including women and children smuggled into the continent for prostitution and entertainment businesses controlled by organized crime.

Organized crime has flourished most in the poorer Mediterranean region of the continent. Relatively stagnant economic conditions and high unemployment in this region, compared to northern Europe,

have helped to drive organized criminal activity. Organized criminal activity has thrived particularly in southern Italy and the Balkans, and along the traditional cross-Mediterranean and cross-Adriatic smuggling routes on historical trade arteries between Europe, North Africa, the Middle East, and Asia. Moreover, traditional cultural and societal emphases on familial ties have promoted group cohesiveness within criminal organizations. In southern Europe, particularly Italy, organized crime groups have expanded their influence through political involvement.

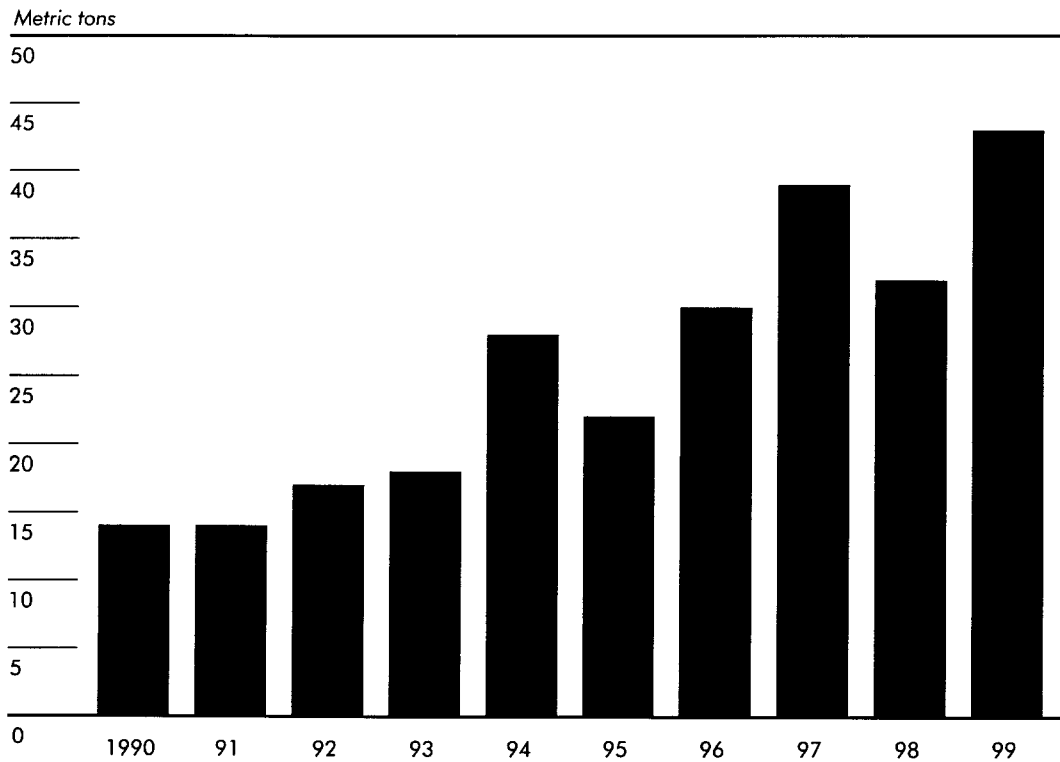
Playing on these historical factors, organized crime remains deeply entrenched in Italy despite the implementation of new antimafia laws and the arrests of several high-ranking crime bosses since 1990. Italian organized crime groups continue to have a significant impact on the economy. Through the companies they control, Italian organized crime groups have secured public works contracts worth billions of dollars. They have profited from cost overruns and kickbacks in fulfilling these contracts.

- According to Italian trade association estimates, Italian criminal organizations in 1997 earned more than \$74 billion from illicit activities as well as involvement in legitimate economic sectors, as compared to \$69 billion in 1993. The Italian trade association estimates that Italian organized crime groups have combined assets totaling \$200-225 billion.

Indigenous criminal organizations are less entrenched elsewhere in Western Europe, but foreign ethnic-based crime groups have established footholds in expatriate enclaves in most EU countries. Cultural and linguistic ties between the Iberian Peninsula and Latin America are exploited by South American drug traffickers who stimulate the demand for cocaine in Western Europe's more profitable market. Liberal immigration or refugee policies have led to large migrant populations in



Cocaine Seizures in Europe, 1990-99



Source: Interpol.

many West European urban areas where criminal cells with ties to Turkey, Iran, the Balkan countries, North Africa, and other regions have taken root. These criminal groups are largely involved in contraband smuggling, including drugs and arms. Some—Turkish and ethnic Albanian crime groups, for example—rely on legal and illegal immigrant communities that maintain drug distribution networks in Western Europe.

- Although Turkish criminal groups remain the primary source of supply, ethnic Albanian crime groups appear to have largely replaced the Turks as the principal distributors of Southwest Asian heroin to parts of Western Europe, according to press reports. They are also challenging Italian criminal syndicates for control of other rackets in West European countries.

The Political Dimension

Public perceptions in many EU countries blame foreign ethnic organized crime groups for high crime rates as well as other societal ills. The sometimes volatile anti-immigrant sentiment and support for nationalist parties in several countries are attributed in part to the role of foreign criminal groups in drug trafficking, gunrunning, financial frauds, and alien smuggling. Although Europeans historically have tended to take a liberal view toward drug use, viewing drug addiction as a medical and social problem, EU governments have become increasingly concerned about abuse trends and have taken a more aggressive stand toward narcotics trafficking.

- Heroin remains in general the most serious drug problem facing Western Europe; it is the drug most often cited in drug-related crime, deaths, demand for treatment, and HIV infection. The cocaine problem in Europe has been growing for the last decade, and EU data since 1995 suggest that cocaine has overtaken heroin as the most frequently used hard drug in Spain and France. Meanwhile, according to annual EU reports, the use of synthetic drugs—particularly amphetamines and ecstasy—has increased markedly since 1992 in virtually all member countries, particularly among adolescents and mainstream young adults.

With the criminal threat they face having become more multidimensional in the last decade because of the collapse of Cold War barriers, the implementation of the Schengen Agreement, and the growing presence of Russian and ethnic Albanian criminal groups, the West European countries in general have increased their attention to the problem. Italy's aggressive law enforcement campaign targeting the Sicilian Mafia in the early 1990s that resulted in the arrests of several key Mafia bosses has weakened its power and influence. Other West European countries are more focused on foreign ethnic organized crime groups operating inside their borders.

- The United Kingdom and Italy are particularly concerned about Nigerian criminal groups; Italy, Germany, and several Nordic countries are concerned about the growing crime role of ethnic Albanian

groups; and Russian criminal groups have attracted attention throughout Western Europe. Switzerland jailed Russian crime boss Sergey Mikhaylov, leader of the powerful Solntsevo syndicate, but failed to convict, in part because of the Russian Government's lack of cooperation in the criminal investigation. France has expelled a top Russian crime figure.

Greater awareness of the international criminal threat has increased anticrime cooperation within Western Europe. In the mid-1990s Europol was established for sharing information and to help stimulate law enforcement collaboration. Police cooperation among EU members against international criminal networks has been enhanced, particularly against groups involved in drug trafficking, financial frauds, and money laundering.

Recent scandals involving illicit financial transactions in Switzerland and Liechtenstein have focused attention on the criminal exploitation of West European banking centers. Switzerland—a former bank secrecy haven—has become significantly more active in combating money laundering in recent years, passing new money-laundering legislation in 1998 that set tighter standards for the banking sector and initiating a practice of alerting foreign governments to suspicious transactions in Switzerland. In Liechtenstein, press reports of money laundering by Russian organized crime groups have brought renewed attention to the need to reform its financial services sector. Since the early 1980s, there is evidence that major criminal organizations—including Latin American drug-trafficking groups, Italian organized crime, and Russian crime syndicates—have taken advantage of Liechtenstein's weak banking controls and strong tradition of banking secrecy to launder money and make other illicit financial transactions.

- As a result of its FATF listing as a noncooperative jurisdiction, Liechtenstein has taken several actions to try to remedy these defects.

Italian Organized Crime

Italy's largest criminal organizations—the Sicilian Mafia, Calabrian 'Ndrangheta, Neapolitan Camorra, and Puglian Sacra Corona Unita—were born and bred in rugged rural areas, where they engaged in local criminal rackets and were generally esteemed as protectors of local peasant interests. The defeat of Italian fascism in World War II allowed these groups to extend their influence into urban areas, which provided greater openings to the outside world. Many of Italy's banking, commercial, and port facilities fell under the influence or control of organized crime. In the last half century, Italian organized crime groups have become self-sustaining, multifaceted criminal organizations with considerable clout in Italy's political and economic systems. They have proven to be resilient and opportunistic, often emerging stronger from periodic government attempts to crack down on organized crime and taking advantage of new criminal opportunities.

- Italian criminal organizations share the characteristic of incorporating close-knit crime families or clans. According to the FBI, the four major Italian organized crime groups comprise 540 crime families and more than 21,000 members. The Sicilian Mafia is the oldest, most powerful, and most hierarchical of Italy's crime groups.

As Italian criminal organizations became more ruthless and concerned with accruing power and wealth, there was increasingly strong public support in Italy for a crackdown against organized crime. By largely abandoning their traditional "code of honor," which, for example, did not tolerate common crime or violence against women and children, the Sicilian Mafia in particular began forfeiting public acquiescence; unlike in the past, large numbers of Sicilians now publicly oppose the Mafia. Encouraged by strong public outcry—including outrage over two particularly notorious Mafia assassinations of leading Italian anticrime prosecutors Falcone and Borsellino in 1992—authorities have mounted an aggressive campaign against organized crime. Aided by informants, Italian law enforcement authorities have made some significant arrests that have disrupted Italian criminal organizations.

- The January 1993 arrest of reputed Sicilian Mafia "boss of bosses" Salvatore Riina; the 1996 arrest of his heir—Giovani Brusca—who claimed responsibility for more than 100 murders, including setting off the bomb that killed Falcone; and a series of sweeping prosecutions and convictions in both Italy and the United States have weakened the power and influence of the Sicilian Mafia. The Camorra was hurt by the February 1993 arrest of one of its leaders, Rosetta Cutolo.
- In October 2000, Italian authorities captured Salvatore Genovese, one of the most wanted Sicilian Mafia leaders who had been a fugitive for seven years. Genovese is believed to have been the right-hand man of Sicilian Mafia boss Bernardo Provenzano, who is also a fugitive. Despite being on the run, Genovese, before his arrest, continued to control public works contracts.

The testimony of informants indicates that Italian criminal organizations have responded by making organizational and operational adjustments, including restructuring into smaller compartmented cells, that have tightened security and allowed them to continue widespread international criminal activities.

International Connections

Italian organized crime groups have moved well beyond their home regions in southern Italy and are now firmly entrenched throughout Europe, in Central and South America, the Caribbean, Canada, and the United States. Expatriate Italian communities and established international criminal connections in these regions have given Italian organized crime groups the infrastructure and capability to move highly profitable contraband products—including drugs, arms, and cigarettes—and launder illicit proceeds on a global basis. They maintain legitimate business holdings worldwide that are often used as a cover for their criminal operations. Italian crime groups' longtime investments in real estate and entertainment enterprises—particularly gambling casinos—in Germany, France, Monaco, Spain's Costa del Sol, and the Caribbean are conduits for money laundering. Since the early 1990s,



Italian Crime Groups



APPROVED FOR RELEASE
DATE JAN 2001

Italian criminal organizations have been reported buying properties and businesses in Eastern and Central Europe and many of the NIS of the former Soviet Union to launder money. According to media accounts, Sicilian Mafia front companies have been identified in virtually every East European country and in Russia.

Although Italian criminal organizations continue to operate largely independently in their traditional contraband smuggling and extortion rackets, their extensive involvement in international drug trafficking, arms smuggling, and money laundering has caused them to develop cooperative longterm relationships with each other and with foreign criminal groups. The Sicilian Mafia, 'Ndrangheta, Camorra, and Sacra Corona Unita have shared well-established international smuggling routes and sometimes helped finance each other's trafficking operations, according to US law enforcement. Collaboration with criminal groups from Turkey, Asia, Russia, the Balkans, and Latin America has assured Italian organized crime reliable sources of supply for drugs and arms. Italian criminal syndicates have worked with Albanian crime groups in trafficking women and children from the Balkans and Nigeria and illegal migrants to Italy. They have also played a prominent role in money laundering for Colombian traffickers and other foreign criminal organizations.

Drug and Arms Trafficking

The role of Italian criminal organizations in the European drug market has diminished, but drug trafficking remains an important source of revenue for Italian crime syndicates. Italian criminal organizations have traditionally procured Southwest Asian heroin from Turkish traffickers and have more recently established heroin-trafficking links to Russian, ethnic Albanian, and Asian crime groups. Italian crime groups also collaborate with South American traffickers to acquire cocaine.

Since the collapse of the Soviet Bloc, local crime groups in the volatile Balkan states have become a major source of arms and explosives for Italian organized crime. The former Yugoslavia and Albania appear to be the primary arena for Italian criminal organizations to both acquire and sell illicit weapons.

Press reports in 1998 and 1999 indicated that black-market prices for Yugoslav-origin infantry weapons ranged from 100 to 500 percent more than the commercial prices for those weapons, and profits on explosives are enormous.

- With its traditional base of operations along Italy's southern Adriatic coast, the Sacra Corona Unita is extensively involved in smuggling arms from the Balkans.

Environmental Crimes

The illicit trafficking and disposal of hazardous wastes and trash is emerging as one of the most lucrative activities for Italian organized crime groups. The leading environmental group in Italy estimates that Italian syndicates earn \$3.5-8.5 billion annually from the illegal dumping of hazardous wastes and from other environmental crimes, such as trafficking in endangered species. According to Italian press reports, front companies and legitimate waste-removal businesses controlled by Italian crime groups dominate both the legal and illicit waste disposal business throughout Italy and in parts of France and Switzerland.

- In 1999, Italian law enforcement officials reported more than 26,000 crimes against the environment and identified 138 criminal groups involved in such activity.

The dumping of hazardous wastes and trash appears to be the most significant source of illicit income for Italy's Camorra crime syndicates, topping their narcotics, prostitution, and embezzlement activities. Camorra clans control the collection of solid waste in Naples and surrounding municipalities. At the regional level, Camorra crime groups collect, transport, and dispose of hazardous and noxious wastes coming from other regions.

US Presence

Italian criminal organizations maintain an active presence in the United States and are involved in drug trafficking, arms smuggling, financial frauds, extortion, illegal gambling, counterfeiting, and money laundering. US law enforcement indicates that the Sicilian Mafia is the most active Italian organized crime group in the United States and maintains close contact with US La Cosa Nostra crime families in New York, Newark, Los Angeles, Chicago, Philadelphia, Detroit, Buffalo, and Tampa. 'Ndrangheta, Camora, and Sacra Corona groups also operate in the United States, particularly in Florida.

Italian organized crime groups continue to be involved in smuggling drugs into the United States, although they no longer are as significant as they had been in the 1960s and 1970s, when they were responsible for as much as 85 percent of the US heroin trade, according to DEA information. A series of investigations and prosecutions in Italy, Turkey, and the United States targeting Italian networks supplying heroin to the United States in the 1970s and 1980s substantially reduced the role of Italian organized crime in the US drug market. Italian crime groups make extensive use of specialty companies as fronts to move drugs and probably to launder drug money in both the United States and Canada.

Several Italian organized crime families continue to smuggle heroin into the United States using connections in Venezuela and Canada.

Eastern and Central Europe

In Eastern and Central Europe, the fall of Communist regimes and end of tight border controls have attracted foreign criminal organizations. International criminal activity in the region increased rapidly in the early 1990s as new democratic governments focused on more fundamental political, social, and economic problems. Russian, Italian, ethnic Albanian, Nigerian, and Chinese criminal organizations and Colombian drug-trafficking groups have all made inroads into this region since the breakdown of the old order. In addition to developing these countries as targets for criminal activity, international organized crime groups are exploiting their relatively weak law enforcement and loose border controls to circumvent traditional points

of entry into Western Europe, where customs and law enforcement measures have become more stringent. Several of the region's countries are transit routes for Southwest Asian heroin, and Poland and Croatia may be emerging as transportation routes for South American cocaine destined for Western Europe and new markets in Eastern and Central Europe.

- Italian and Russian criminal organizations, in particular, have been active in developing mutually beneficial relationships with local criminal groups in transitioning former Communist countries that help facilitate their drug and arms trafficking operations.

Geography is one of the primary factors in the growth of organized crime in Eastern and Central Europe. The region is a strategic crossroads between Russia and the NIS—major “source” areas for international criminal activity—and Western Europe, a primary market for drugs and other illicit products. Contraband trade also crosses the region from West to East, as international criminal organizations—primarily Russian—smuggle alcohol and tobacco products, luxury automobiles, and other high-demand consumer items generally unavailable or prohibitively expensive in Russia from Western Europe.

- Hungary's borders with seven countries and relatively well-developed transportation system make it a major transit zone for all kinds of contraband smuggling. Stricter border controls and concerted efforts against organized crime in recent years have helped alter drug-trafficking routes and shipping methods, but Hungarian officials caution that the amount of drugs moving through the country probably has not decreased.
- Poland and the Czech Republic are also crossroads for smuggling directed at West European markets and extensive traffic in stolen vehicles being moved from Western Europe to the East. EU officials considering Poland's admittance to the European Union fear that weak border controls on Poland's eastern border with Ukraine could provide a gateway for illegal immigrants and organized crime into northern Europe.

APPROVED FOR RELEASE
DATE: JAN 2001

- Bulgaria and Romania remain key countries on the traditional Balkan route between Turkey and central and northern Europe. Criminal groups in the region take advantage of the heavy volume of commercial traffic along this route to conceal and smuggle contraband. The Balkan route—with Bulgaria as its gateway—has traditionally been the major avenue for smuggling Southwest Asian heroin to profitable West European markets. In the busiest months, some 1,000 vehicles—including trucks bonded and sealed under International Truck Route (TIR) procedures—cross from Turkey into Bulgaria on their way to other European destinations.

Criminals in Eastern and Central Europe have taken advantage of increased trade and commercial relations with Western Europe. Many criminal gangs from these countries have expanded their local criminal rackets into Western Europe. Polish crime gangs, for example, are now competing with the Netherlands as a significant source of amphetamines for Western Europe. Polish-produced amphetamines, known for their purity, make up at least 25 percent of the European market, according to European law enforcement officials. Poland, the Czech Republic, and Romania are key sources for women and children illegally transported to Western Europe and elsewhere, including the United States.

- Bulgaria was the world's second-largest source—after China—of pirated and counterfeit CDs in 1997, according to US Justice Department information. The government has cracked down on violators since early 1998 by introducing licensing procedures and raiding illicit CD-production operations. Because of its geographic location, Bulgaria is also a significant transit country for illegal CDs produced throughout the region, with pirated goods produced in Greece, Moldova, and Ukraine moving easily across its borders.
- Some 75,000 of the women and children caught in trafficking rings in 1997, more than 10 percent of the worldwide total, were from Eastern Europe, according to US Government estimates.

Since the European Union countries began implementing and enforcing tougher regulations against

money laundering in the early 1990s, criminal organizations from both East and West have moved some of their money-laundering activities into the transitioning economies of Eastern and Central Europe. They have taken advantage of inadequate legislation—including lack of laws granting government agencies regulatory and criminal investigation powers—and poor enforcement of the region's developing modern banking and financial systems to smuggle cash and legitimize large sums of illicit profits.

- The multilateral Financial Action Task Force has estimated that money laundering in Poland alone has grown from \$2 billion to \$8 billion per year during the 1990s.

In recent years, press reporting citing government and law enforcement officials indicates that Italian and Russian criminal organizations have moved aggressively into the legitimate economy of many formerly Communist East and Central European countries. These criminal organizations and unscrupulous businessmen have taken advantage of poor regulations guiding privatization of national assets and capitalization of banks to purchase or invest heavily in banks, financial institutions, and businesses and to defraud fledgling stock markets. These activities have enabled criminal organizations to operate companies as fronts for smuggling contraband between East and West and for laundering illicit proceeds. Concerns that criminal elements have tried to take advantage of the privatization process has made officials in some of these countries more cautious about foreign investment.

The impact of criminal activity within their borders has focused the concerns of government and law enforcement officials in Eastern and Central Europe. As they have transitioned from a socialist system to market-oriented economies, the formerly Communist Eastern and Central European countries have had to confront crimes that were previously nonexistent. The previous regimes had no laws or regulations for dealing with crimes such as money laundering, stock market fraud, and theft of intellectual property rights.

- Criminal activities, often abetted by corrupt officials, have undermined the economy in many of the region's countries. For example, unsecured insider lending and laundering of the proceeds through financial outflows contributed to the collapse of Bulgaria's banking sector in 1996. The Romanian Government recently estimated that at least 40 percent of the country's finances flow from the "gray" economy. Corruption in Slovakia, particularly relating to privatization, has slowed economic growth. Polish officials estimated \$60 million in revenue was lost from pirated music CDs in 1997. IPR legislation enacted by Poland in 2000 has the potential to reduce this problem.

Crime, corruption, and drug addiction have become salient political issues in many East and Central European countries. According to a November 2000 public poll in the Czech Republic, 80 percent of that country's citizens believe economic crime and corruption are the country's most serious problems. Crime was a major issue in the May 1998 elections in Hungary that toppled the former socialist government and brought in a new center-right administration; the new government's Interior Minister declared that an appropriate response to organized crime was one of the new government's top priorities.

Bulgaria's government, elected in 1997, also made combating organized crime and corruption a policy priority, including cracking down on product piracy. In December 1999, the prime minister sacked two-thirds of his cabinet, in part in response to allegations of corruption, according to local media. In August 2000, Bulgaria ordered the expulsion of eight international crime figures, according to media accounts.

The interest of most of the region's countries in becoming members of the European Union has encouraged them to consider regulations and legislation to deal more effectively with a broad range of criminal activities, including cross-border smuggling and money laundering. Government and law enforcement officials from these countries have been meeting with their West European and US counterparts to set up training and assistance programs for combating international criminal activity within their borders.

Russia, the Baltics, and the Newly Independent States

A major side effect of the end of the Cold War is that Russia and the NIS that were part of the former Soviet Union have become fertile ground for organized crime to expand its illicit activities. The end of police states, the relaxation of social controls, and the opening of borders in these formerly "closed" societies have allowed both local and foreign criminal organizations unprecedented freedom to operate. Criminal networks comprised of traditional organized crime groups, highly skilled professionals, and corrupt officials and politicians have moved quickly to fill vacuums created in climates of radical political, economic, and social change.

- The intertwining of organized crime and official corruption in Russia is undermining development of democratic and free market institutions.

Criminal groups have been aggressive in cultivating business relationships with politicians, government officials, and business magnates—a major factor in their becoming a pervasive and powerful force in Russia, the Baltics, and other NIS countries. Corrupt officials in Russia have also provided criminal front companies with export licenses, customs exemptions, and government contracts.

The greater integration of Russia and the other states of the former Soviet Union with much of the rest of the world since the end of the Cold War has opened new avenues for international criminal activity. Russian crime groups are using the region's fledgling free market and banking sectors to move large amounts of capital across borders, to launder money, and to transact a variety of financial frauds. The removal of Moscow's formerly tight control over travel between different regions of the former Soviet Union and open

borders with Europe in particular has greatly facilitated the smuggling of drugs, arms, illegal immigrants—including trafficking of women and children—stolen vehicles, alcohol, cigarettes, and other illicit contraband.

- The former Soviet Union has become a significant market and international transit route for hashish, opium, and heroin from Southwest Asia, particularly Afghanistan. With several Central Asian countries bordering on Afghanistan, good east-west rail connections from Central Asia to Ukraine and western Russia, and lax enforcement, the former Soviet Union has become very attractive to international traffickers as an alternative to the traditional “Balkan Route” through Turkey and the former Yugoslavia for moving drugs and other contraband to Western Europe.

In Russia and many of the NIS, an alliance of corrupt government, criminal, and business elements resisted the effective implementation and enforcement of legal and economic reforms that would have inhibited their ability to gain control or substantial influence over the productive resources formerly owned by the Soviet state and to expand their illegal activities. Russian organized crime groups have capitalized on weak enforcement of existing regulations and inadequate or nonexistent legislation. They exploited the fitful growth of the private sector by investing in banks and businesses, providing protection of persons and property, settling disputes and contract fulfillment, and offering seemingly affordable loans with expensive strings attached. Law enforcement capabilities are hamstrung by cutbacks in funding, poor training and equipment, lack of sophisticated investigative techniques, and laws that do not apply to many of the illicit activities carried out by criminal groups, particularly financial crimes.

- Russia passed a criminal code in 1996, but implementation and enforcement have been weak. With a draft criminal procedure code having languished in

the Duma for several years, the Russians are relying on a heavily amended criminal procedure code from the Soviet era. Inconsistencies between the new criminal code and the criminal procedure code now in use impede the effective prosecution of crimes.

- Russia has drafted anti-money-laundering legislation that generally meets international standards, but has yet to submit it to the Duma for ratification.
- None of the countries in the former Soviet Union have legislation that would enable law enforcement to arrest those who conspire in criminal activity, not just those who actually commit the crime.
- While most of the NIS in the former Soviet Union are improving IPR laws for their admission to the World Trade Organization, none consistently enforce them, and few impose criminal penalties. IPR reform in the Eurasia region faces opposition by organized crime groups trafficking in counterfeit and pirated products.

Russia

Political Context

Economic and political instability following the dissolution of the Soviet Union in 1991 allowed organized crime to consolidate its position in Russian society. The government's continued ownership of major enterprises and role in regulating the economy created enormous opportunities for bribery and corruption of government officials in economic ministries and throughout government bureaucracies. Besides profiting from insider influence in privatization offerings and a broad range of economic-related criminal activities, Russian organized crime on occasion has been able to influence the legislative agenda.

Russian criminals continue to buy political influence to protect their assets, to facilitate criminal activities, and to avoid prosecution. Some crime groups invested in the political process by participating—directly and indirectly—in election campaigns, including funding parties and candidates. Corruption in Russia's security and law enforcement institutions is an additional impediment to dealing effectively with the power of Russian crime groups.

Economic Penetrations

Crime and corruption have had a significant impact on the Russian economy. Russian organized crime groups have cashed in on privatization of formerly state-owned industries. Most significantly, Russian criminals have made substantial inroads into lucrative strategic sectors of the economy. Russian criminal experts say that organized crime is present in practically all of Russia's regions.

Russian organized crime is invested in Russia's developing **financial sector**. To some extent, Russian criminal groups have penetrated the banking sector by periodically providing cash infusions to financially troubled banks, using extortion or intimidation, and purchasing existing banks outright or establishing new ones, according to media accounts. They use their control or influence over banking institutions to launder illicit proceeds, to obtain financial information about competitors or potential extortion targets, and to withhold financial information from government regulators. By early 1998, Russian criminal groups had penetrated more than 550 banks, according to one Russian Government estimate.

Some of the **business enterprises** associated with criminal organizations in Russia are large transnational corporations engaged in import/export trade and commodities brokering whose networks and assets deprive the Russian Government of substantial legitimate revenues. Like many legitimate enterprises, businesses associated with crime—groups appear to be well-connected to political elites in Russia and other

NIS and use their political ties, as well as bribery, to win concessionary contracts or to protect criminal transactions.

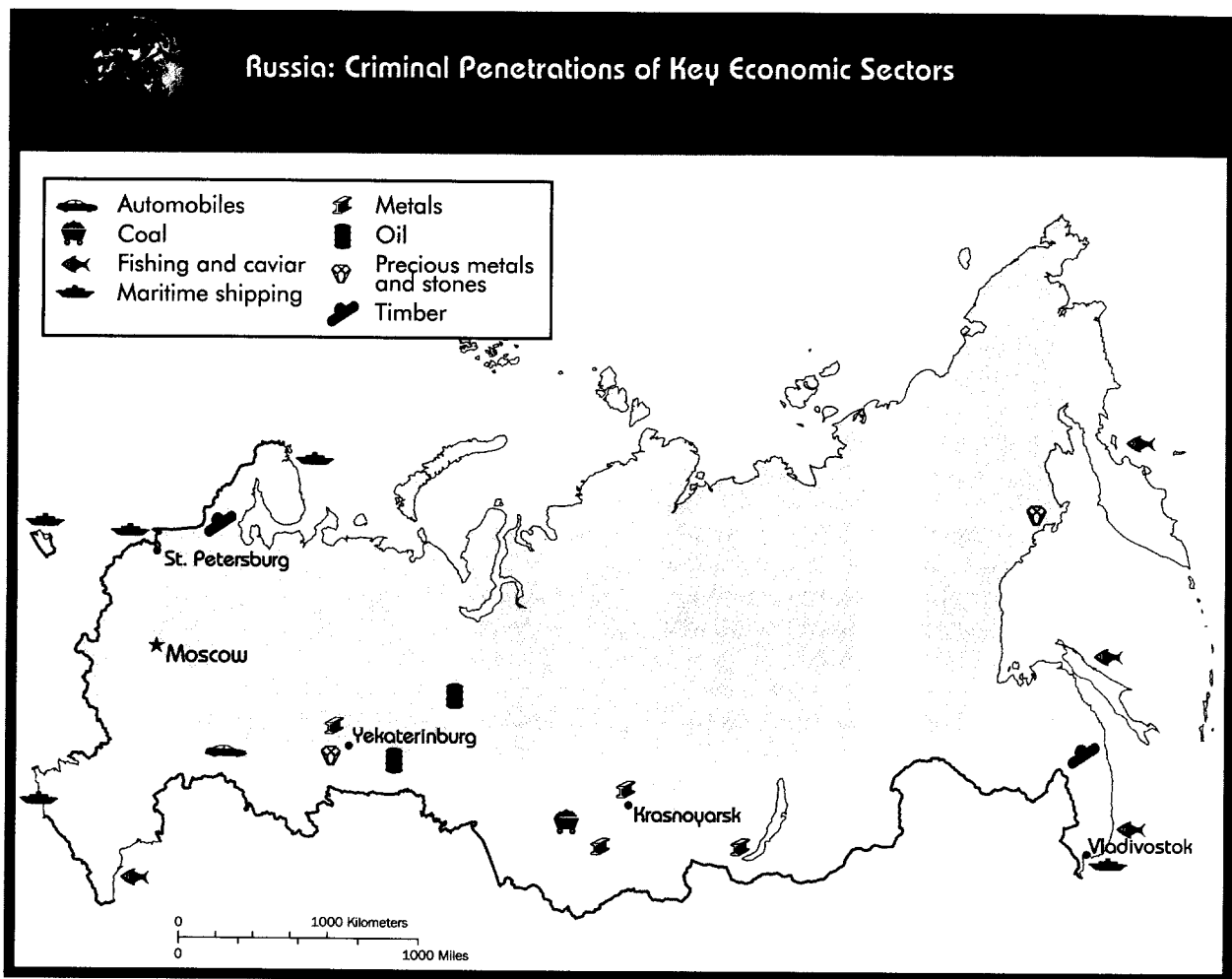
The hard-currency-earning **oil and gas trading sector** of the Russian economy is one of the most lucrative havens for organized crime. The international scope and relative profitability of Russia's oil and gas industry are attractive for conducting money laundering and other illicit financial activity. Criminal groups are involved primarily in oil and gas distribution, embezzlement, extortion, oil theft, and money laundering. Russian crime groups gained considerable clout in fuel and energy industries by supplying short-term business loans to oil companies and providing access to corrupted government officials who can lobby for favorable legislation, or influence business deals.

Russia's **aluminum industry** has been a target of criminal groups because of its multibillion-dollar revenues. In addition, the fact that the aluminum industry is highly concentrated—four plants produce more than 75 percent of Russia's total output—allows criminal groups to infiltrate this industrial sector with relative ease.

Russian organized crime has also been extensively involved in smuggling **gems and precious metals** out of the country. According to Russian Government estimates, \$100-300 million worth of diamonds are smuggled out of Russia each year. In 1998 and 1999, Russian law enforcement removed from illegal circulation about 1 metric ton of gold, more than 1 metric ton of silver, and 28,000 carats of uncut diamonds, cut gems, emeralds, rubies, sapphires, and pearls.

Impact on Russia's Financial System

Although not directly responsible for Russia's fiscal, banking, and investment problems, Russian organized crime groups have contributed to their severity by exacerbating systemic problems. Capital



flight, estimated by the Russian Government to be about \$1 billion a month, almost certainly includes some laundering of money from organized criminal activity. Russian crime groups reinvest little of their profits from even ostensibly legitimate business activity—such as hotels, restaurants, and casinos—domestically, instead frequently transferring their proceeds to more secure West European and offshore financial centers. Failure to repatriate export earnings and fictitious import deals reportedly are the most common methods used by Russian criminals to move capital abroad.

- A researcher at the UK-based Organized Russian and Eurasian Crime Research Center conservatively has estimated that organized crime money accounts for about 25 percent of total capital flight from Russia. Using the recent estimate of \$1 billion-per-month capital flight from Russia, this would mean that Russian crime groups are sending about \$3 billion annually overseas to launder or hide.

According to one Russian estimate, the underground economy accounted for 40 percent of the country's GDP in 1996. Moreover, Russian crime syndicates almost certainly conceal all or part of the income generated by businesses they control from tax authorities by sending most of the money outside Russia.

- According to a 1997 study by then-President Yeltsin's staff, 70 to 80 percent of private businesses paid extortion fees to organized crime amounting to 10 to 20 percent of their revenue, making them unlikely to meet their full tax obligations.

Russia's financial problems are primarily exacerbated by a poor investment climate that fails to attract the capital necessary for economic growth. Besides government corruption, weak enforcement of contracts, and high taxes, legitimate investors—both domestic and foreign—are deterred by widespread extortion and the violence associated with having to deal with organized crime. According to published Russian figures, 79 Russian bankers and at least twice as many businessmen were assassinated in contract killings between 1994 and 1997. In 1999, there were 155 contract killings in Russia, according to published figures.

US and other foreign businesses interested in investment and joint-venture opportunities not only cannot compete on a level playing field due to the poor investment climate, but must also cope with criminal extortion and racketeering to do business in Russia. In the absence of effective legal protections, Russian businesses often rely on criminal groups and pay significant fees for protection, debt collection, capital, and information gathering. Representing their business "clients," criminal groups often play a role in negotiating contracts or resolving business disputes, which often end violently.

- Western businessmen are not immune from criminal strong-arm tactics. In November, 1996 US businessman Paul Tatum, part owner of a major hotel in Moscow who was involved in a financial dispute with his Russian business partners, was killed in a

"contract style" shooting. Although no one has ever been brought to justice for the crime, Russian investigators suspect organized crime was involved.

Social and Political Implications

Besides its significant impact on the economy, criminal activity has taken a substantial toll on Russian society. Rising crime rates are overwhelming judicial systems in Russia, which are woefully underfunded and vulnerable to bribes from criminals, according to Russian press accounts. Criminal violence remains rampant, with crime groups targeting rivals, uncooperative businessmen and bankers, and anticrime media, enforcement, or political crusaders for assassination. Many Russian citizens have been victimized in robberies and elaborate schemes defrauding them of property and savings, some of which end in murder.

Over the past five years, Russia's domestic market for illegal drugs has grown substantially as the flow-through of hashish, heroin, and other opiates from Southwest Asia, through Central Asia and Russia, to Western Europe—fed by the surge in Afghan opium production—increased with the end of Soviet travel controls and the opening of borders with Europe. Official Russian data show dramatic increases in drug addiction and crime rates since the collapse of the Soviet Union. In 1999, according to Russian data, there were 350,000 officially registered drug users in Russia, of which 175,000 were considered drug addicts. The Russian Ministry of Interior (MVD) and Health Ministry, however, estimate that the actual totals are 10 times greater—more than 3 million users and almost 2 million addicts; 3 million users would be about 2 percent of the Russian population. Russian and international health officials estimate that intravenous drug users are responsible for 80 to 90 percent of the 36,000 officially registered HIV cases; because of the lack of comprehensive HIV testing and reliable reporting methods, government officials and international experts suspect the actual number of Russian HIV cases may be five to 10 times higher than official estimates.

The growth of crime and widespread corruption, together with Russia's struggling economy, is undermining Russia's transition to a fully functioning democracy and free market economy. Many Russians blame free market reforms for the breakdown of law and order and for having benefited primarily criminal entrepreneurs. Discredited for corruption and political ineffectiveness, it has become increasingly difficult for the Russian Government to meet its citizens' expectations for social justice, equality of opportunity, and improved living standards. Popular perceptions of liberal democracy as ineffectual, corrupt, and even in league with organized crime may boost the appeal of antidemocratic politicians opposed to further reform.

The Baltic States

The relative dependence of Estonia, Latvia, and Lithuania on Russian energy supplies and the importance of Baltic ports for Russian transit trade provide significant opportunities for Russian and other organized crime groups. Although all three countries have reoriented their trade more toward the West, Russia remains a major trading partner for Latvia and Lithuania. The Baltic states are the major commercial outlet between Russia and the West; according to Interfax Foreign Trade Report figures, the major Baltic ports handle nearly 13 million tons of Russian cargo annually. Russian and other organized crime groups are taking advantage of the high volume of trade through these ports to smuggle contraband both ways, including drugs transiting Russia to Western markets and automobiles stolen in Europe for Russian buyers. The trade in strategic commodities—particularly fuel and energy resources—is a particularly lucrative target for criminal groups.

- Operating within the sizable ethnic Russian population in the Baltic countries, Russian crime groups have taken advantage of the privatization process to buy business enterprises that became part of their criminal empires. They have established numerous front companies, particularly in the import/export sector for the purposes of facilitating illicit trade and laundering money.

The rapid growth and poor government oversight of the Baltic countries' financial sectors enabled a few Russian criminal groups to acquire some control or influence in banking institutions to launder money and to make insider loans to their own front companies. The collapse of Latvia's Bank Baltija—the largest commercial bank in Latvia at the time of its failure in August 1995—illustrates the potentially severe implications of this trend. Bank Baltija was the centerpiece of a Russian and Latvian crime syndicate that used the bank to make bad loans to its own companies, defrauding the bank's accounts of as much as \$40 million. The bank's collapse provoked a major financial crisis in Latvia, contributed to the fall of the government, and forced Latvia to seek short-term assistance from the International Monetary Fund. This episode prompted Latvia to adopt tougher laws regulating the banking sector.

Ukraine and Moldova

As a strategic crossroads between East and West, Ukraine has experienced a significant increase in all forms of organized criminal activity during the 1990s. Transportation routes through Ukraine are used by Russian and Ukrainian organized crime groups to smuggle arms, drugs, other contraband, illegal immigrants, and trafficked women between Russia, Ukraine, and Western Europe. The volume of legitimate trade, including in strategic commodities such as oil, make Black Sea ports in Odesa and in the Crimea attractive to organized crime. Russian organized crime groups are particularly well-connected in Crimea and Odesa—dating back to Soviet rule.

Organized crime has flourished in Moldova over the past decade, especially in the breakaway Transnistria Region. Moldova's local crime groups have established close ties to Russian, Ukrainian, and other foreign criminal syndicates that also act in the country. Criminal groups in Moldova are frustrating government efforts to attract needed foreign investment and are contributing to political and social instability.

- Moldova is one of the largest per capita sources of trafficked women and girls in the NIS, primarily for the sex industry in Turkey, Greece, Italy, and the Balkans.

As in Russia, the overlapping connections among the new business class, criminal groups, and government officials have made corruption a significant problem for Ukraine and Moldova. Political connections have assisted criminal groups and their front companies' efforts to acquire lucrative contracts or state-issued licenses for exports, particularly in the energy and metals-trading industries. Corruption in Ukraine has contributed to a significant level of gangland violence that has involved or targeted government officials.

The Caucasus and Central Asia

In both regions, criminal groups are taking advantage of nominal border controls and weak law enforcement. The mountainous, remote Caucasus countries of Georgia, Armenia, and Azerbaijan, have traditionally not had the benefit of active control by law enforcement. Criminal activity there has been largely local and focused on extortion, robbery, smuggling, and kidnapping. The Central Asian countries have become an increasingly important alternative to traditional Southwest Asian-Balkans routes for heroin and hashish shipments from Afghanistan destined for Russia and Europe. Tajikistan is the major gateway for Afghan heroin being smuggled into Russia. Organized crime groups in Central Asia and the Caucasus will look to take advantage of development in the Caspian Sea oil basin, which gives them potential access to lucrative oil revenues.

The Central Asian countries are increasingly calling for action against the expanding drug trade from Afghanistan. Uzbekistan, Kyrgyzstan, and Tajikistan in particular believe that drug trafficking is a major source of funds for insurgencies threatening their national security.

Russian Organized Crime

Powerful Russian criminal organizations with international networks are one of the most troubling and dangerous legacies of the former Soviet Union. Russian criminal groups had their genesis in the Soviet era

when the black market helped to grease the wheels of the command economy, including ensuring that large state-owned factories received the necessary supplies to keep operating. They also developed allies among Soviet officials by providing them goods and services difficult to obtain in the USSR. While in Soviet prisons during the 1970s and 1980s, some of the top crime leaders forged personal ties that today facilitate occasional coordination of activities, sharing of business investments, and support for one another when in trouble. Russian organized crime groups exploited the privatization of state-owned resources and systemic weaknesses in Russia's fledgling market economy following the collapse of the Communist system to build powerful criminal empires. They cultivated mutually beneficial relationships with government officials and politicians to become powerful players in Russian politics and society.

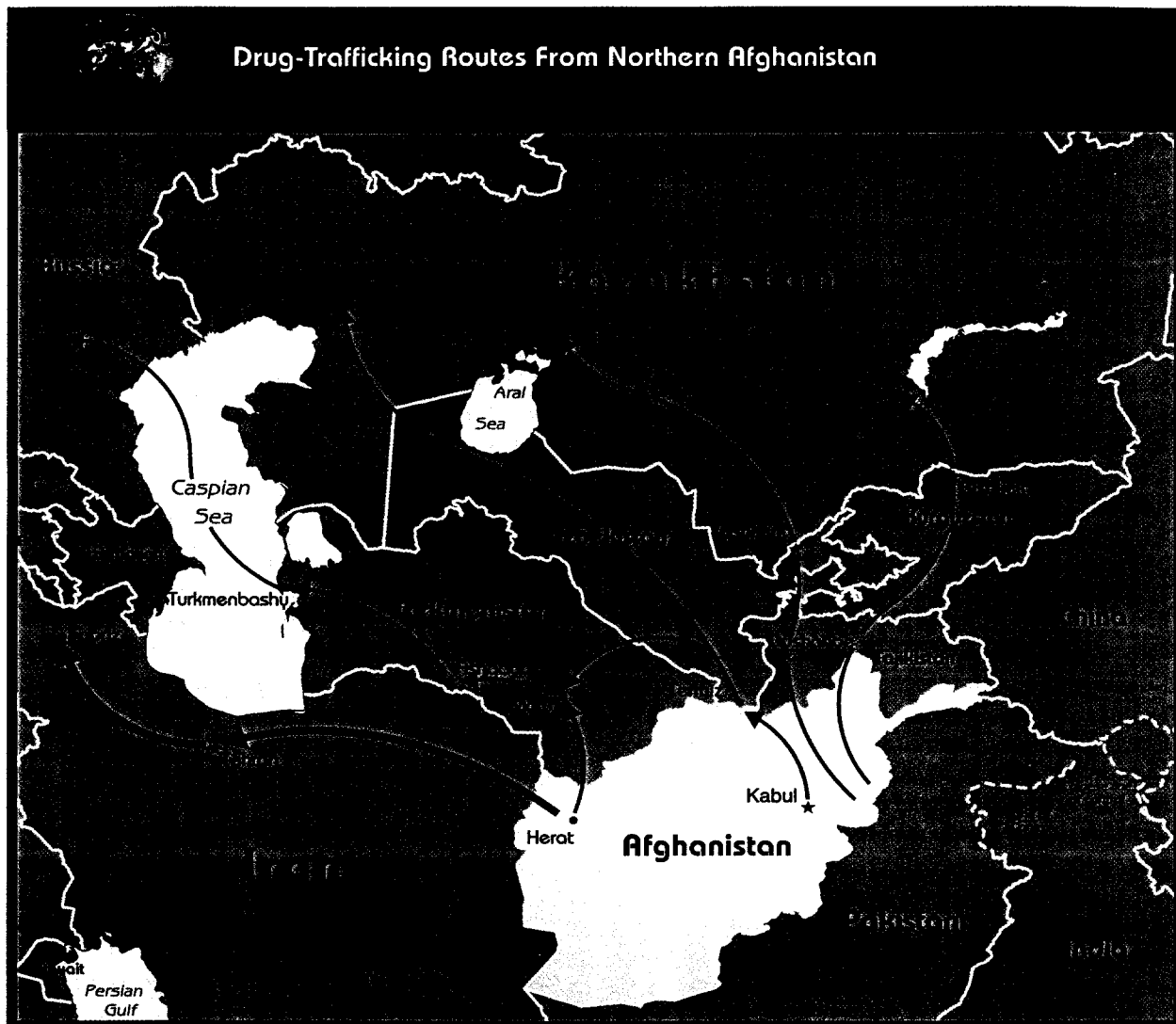
According to the MVD, there are 89 major criminal communities in Russia that comprise about 1,000 smaller criminal groups. Eleven of these communities, made up of 243 groups with some 50,000 members, also operate in 44 other countries. The US Government estimates there are about 200 sophisticated organized crime groups in Russia with a broad range of operations, some of which extend beyond Russia's borders in some 60 different countries. Most Russian criminal organizations are located in industrial and commercial centers, giving them opportunity to make inroads into lucrative sectors of the Russian economy.

Russian crime groups are characterized by ruthlessness and violence, and many are very well armed—presenting a formidable challenge to Russian law enforcement elements, which are often outgunned, and underfunded particularly at the local level. There is no apparent supreme hierarchy among Russian organized crime groups, nor is any one group masterminding the activities of the others. Instead, Russian criminal organizations have their own spheres of influence that are generally defined by geography, ethnicity, and, in some cases, specific criminal activity.

International Bases of Operation

From their Russian base, the leaders of major Russian organized crime groups have broadened their influence worldwide through political and business contacts, which they have used to facilitate their legitimate and illicit business interests on a global

APPROVED FOR RELEASE
DATE: JAN 2001



scale. Since the collapse of the Soviet Union, Russian organized crime groups have spread rapidly beyond the former Soviet borders and have a presence in some 60 countries in Europe, North and South America, the Caribbean, Asia, and Africa. The international presence of Russian organized crime, however, is most pronounced in Eastern and Central Europe, where Russian crime groups are involved in narcotics and

weapons trafficking, car theft, and financial crimes. Russian organized crime money-laundering operations have been observed in offshore banking centers in the South Pacific, Cyprus, and various Caribbean islands as well as in East European economies. These groups tend to mount sophisticated large-scale financial fraud schemes.

Solntsevo: Russian Organized Crime Group With International Dimensions

The Solntsevo criminal organization is widely perceived to be the most powerful Russian crime syndicate in terms of wealth, influence, and financial control. Its leadership, structure, and operations exemplify the new breed of Russian criminals that emerged with the breakup of the Soviet system. Rather than the traditional "thieves-in-law" who dominated the criminal underworld during the Soviet period and played more of a "godfather" role in overseeing loosely organized criminal networks, the leaders of Solntsevo and other post-Soviet Russian criminal groups are not only more flamboyant, aggressive, and politically savvy, but also well-versed in modern technology and business practices that allow them to operate efficiently across international borders.

The power and wealth of the Solntsevo crime group derive largely from its financial and business network in Russia and highly placed political connections. According to press reports, Solntsevo benefits from Moscow city projects through its reported links to a construction, tourism, real estate, and utility conglomerate that obtained many of its properties from the city and holds others jointly with the municipal government.

While dominating Moscow's criminal underworld—including the market for drugs, particularly cocaine—Solntsevo also has extensive worldwide operations. Solntsevo's international criminal activities are said to include trafficking narcotics and arms and money laundering.

Outside former Soviet Bloc borders, Russian criminals take advantage of places that are most attractive to Russian businessmen and tourists, using them as cover and opportunity to engage in a broad range of criminal activities. Russian criminals use overseas resorts frequented by Russian speakers to run

extortion rackets and prostitution rings, trade in black-market consumer goods and drugs, and to launder money.

Russian crime groups are also attracted to countries that have liberal cash circulation laws, few restrictions on direct investment, and allow nonresidents to establish businesses. Investments in the real estate, tourist, and entertainment sectors, interest in banks and financial services companies, and the establishment of front companies in countries frequented by tourists and businessmen from the former Soviet Union provide a ready haven for laundering and hiding illicit proceeds earned there and smuggled out of Russia and the NIS.

- Russian organized crime groups have affiliated themselves with Italian criminal organizations to increase their illicit profits and range of operations, according to press reporting. They have used their ties to Italian criminal groups to establish extensive businesses in Italy—investing as much as \$4-7 billion between 1993 and 1995 alone, according to Italian trade industry estimates—primarily to facilitate money laundering. Russian and Italian criminals cooperate in international drug trafficking, arms smuggling, and counterfeiting.

Over the last several years, Russian organized crime groups have been expanding their operations internationally by establishing international business enterprises in offshore financial centers. Low incorporation fees and quick startup provisions in many offshore havens have enabled Russian criminals to change firm names—complicating any law enforcement investigations against them—with relative ease and low cost. The use of nominee shareholders and directors also hides ownership and helps to avoid account inquiries in the case of litigation or criminal investigations.

Once Russian criminal proceeds have been placed in an offshore firm, they can be moved quickly and relatively safely through the global electronic funds transfer network supporting international banking and commerce.

Transnational Crimes

Russian organized crime groups are heavily involved in **economic crimes**. The bulk of the most serious economic crimes are in the credit and financial spheres; the Russian Government reported more than 300,000 economic crimes in 1999, about 10 percent of the total crimes registered. The most common financial crimes include credit defaults, theft by bank employees, and forging of documents.

Russian criminal groups take advantage of the tourist industry and prey on Russian tourists and Russian-owned businesses overseas, particularly in the countries they most frequent. Tourism industries abroad catering to Russian visitors are shaken down and exploited by Russian organized crime. According to Russian press reporting in 1998, Russian crime groups routinely demand 10 to 15 percent of the revenue from hotels, casinos, and restaurants frequented by Russian speakers. Crime groups from the former Soviet Union use the tourism industry to move women—posing as tourists or members of large tour groups—overseas to serve in prostitution rings. Some, if not most, of the women reportedly are held in virtual slavery.

Some Russian crime groups own interests in several airlines, air charters, and travel agencies operating in the former Soviet Union and elsewhere that they use to facilitate and conceal their criminal operations overseas. The travel industry provides Russian criminals with cover and the means to smuggle contraband from abroad into Russia, including drugs and electronic appliances, clothing, and other consumer goods that they sell on the black market.

With the former Soviet Union having opened as an avenue for narcotics shipments from Afghanistan, Russian criminal organizations have gotten increasingly involved in the **drug trade**. There is little information confirming major Russian involvement in the

transit of narcotics across the former Soviet Union, but Russian organized crime groups dominate the domestic drug market and take advantage of Baltic seaports and Russia's now-porous borders with Eastern Europe to smuggle heroin into West European markets and bring cocaine into Russia.

- Press reporting from the region says that Russian troops in Tajikistan have accepted large bribes to facilitate the movement of Afghanistan-produced narcotics into Central Asia and are themselves involved in drug trafficking. In the most notable incident, Tajikistan officials seized 109 kilograms of opium from a Russian Border Guards helicopter in August 1996.

International drug traffickers and Russian criminal groups have established relationships both to move narcotics through the former Soviet Union and to supply the Russian market. Press reporting, which cited Russian law enforcement and Interpol information, indicates that by the mid-1990s Italian and Russian crime groups had at least tacit agreements to cooperate in the movement of narcotics through the former Soviet Union.

With close ties to corrupt officers and soldiers in the Russian armed forces, Russian organized crime groups are heavily involved in **illicit arms trafficking**. Most Russian criminal arms deals involve sales within Russia and other countries of the former Soviet Union, including to combatants in ethnic conflicts in Chechnya, Georgia, Armenia, and Azerbaijan. Some Russian arms trafficking has been to countries in the throes of civil conflict. Unconfirmed press reporting indicates that Russian criminal groups have sold large caliber weapons to Latin American drug traffickers in exchange for cocaine.

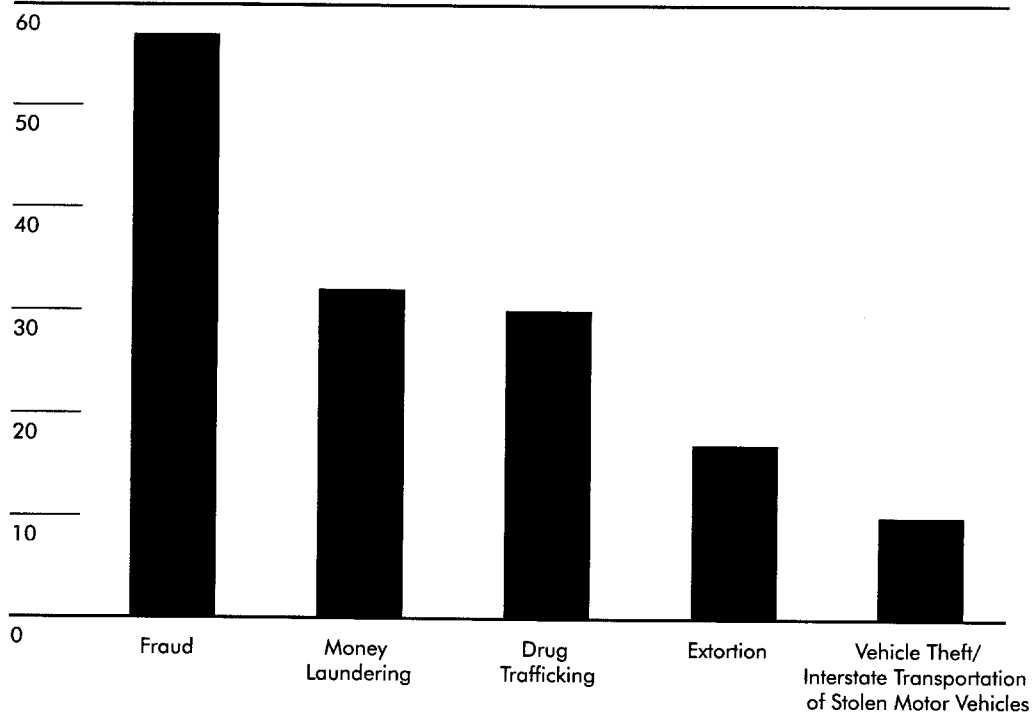
Russian Organized Crime in the United States

Russian organized crime has been a growing law enforcement problem in the United States since small groups began establishing a foothold in this country in



Most Frequent Violations Found in US Investigations Involving Russian Organized Crime, FY 2000

Percent of criminal violations



Based on the 2000 FBI Field Division Crime Survey.

the late 1970s. Although many Russian crime groups are based in the United States, others are cells of criminal organizations based overseas. As in Russia, there is no supreme authority tying these groups together in the United States.

Larger Russian criminal organizations based in Moscow and other locations overseas have become an increasing law enforcement concern since they began establishing a US presence after the 1991 dissolution of the Soviet Union. Unlike the smaller gangs that were already established in Russian-speaking enclaves—whose criminal focus is on white-collar fraud crimes and which do not have any specific ties to Russian organized crime abroad—these larger groups are involved in large-scale criminal activities, with international dimensions, that generate enormous profits. Their connections to powerful criminal organizations in Russia provide them a source of illicit contraband and criminal expertise. The US-based members or affiliates of these groups provide services like laundering large sums of money or acquiring drugs for the Russian market.

- Russian criminal organizations in the United States are adept at moving funds through a global complex of front companies, offshore financial service centers, and crime-controlled banks to facilitate extraction of criminal proceeds originating in Russia, as well as to launder funds generated from US-based criminal operations.

Although Russian organized crime is still not as significant a threat in the United States as La Cosa Nostra and some other ethnic-based crime groups, the sophistication and international connections of Russian crime groups in the US make them well-positioned to expand their criminal operations. US law enforcement indicates that Russian criminals in the United States are, in general, better educated and more skilled than members of La Cosa Nostra; law enforcement analysts consider Russians among the best in the world in orchestrating economic and financial crimes.

- Russian criminal organizations operating in the United States are primarily involved in extortion, drug trafficking, auto theft, cigarette smuggling, trafficking in stolen art and icons, and money laundering. Russian crime groups are not major players in the US drug market—although the potential is there—but use the United States as a transit avenue for cocaine destined for Russia.

- Russian criminals are also extensively involved in a wide array of fraudulent schemes, including health care fraud and defrauding financial institutions. Some of these scams are in league with La Cosa Nostra. Insurance fraud schemes in the United States by Russian crime groups netted \$2 billion from California's subscribers to one insurance company in the 1990s, according to press reports, and \$200,000 from an insurance company in Boston in the late 1990s.

The Balkans

The breakup of the former **Yugoslavia** and ensuing regional conflicts there have led to a sharp rise in criminal activity in the region. Previous Serbian, Croatian, and Bosnian Governments all used criminal networks as a means to evade international sanctions and acquire material necessary for the war effort. The collusion between governments and local criminal gangs weakened law enforcement and provided an environment ripe for corruption. Under Milosevic, the Serbian Government colluded with criminal smuggling networks to evade Western sanctions. These networks were critical in supplying the black market, which served as Serbia's de facto service economy, and may have accounted for some 20 to 40 percent of the country's GDP.

Many of the criminal business enterprises set up to circumvent earlier sanctions are still operating. The lifting of many sanctions since the Dayton peace accord in 1995 did not diminish the activities and local influence of criminal groups in the region because they were now firmly rooted in society. As the region struggles to rebuild local economies, criminal groups have little trouble finding gang-member recruits from the large number of unemployed and underemployed, many of whom view crime as an attractive source of income. Organized crime in the former Yugoslavia also continues to benefit from corruption and weak law enforcement.

Local crime groups in all the countries of the former Yugoslavia are taking advantage of opportunities for gunrunning, smuggling liquor and cigarettes, trafficking in women for prostitution, extortion, and money laundering. Trafficking of heroin through the former Yugoslavia toward markets in Western Europe has become a major business for organized crime groups.

APPROVED FOR RELEASE
DATE: JAN 2001

Criminal groups tied into manufacturing enterprises are engaged in theft of intellectual property rights. Moreover, the region's local crime groups have established cooperative networks to move relatively freely across borders.

Local crime groups not only threatened implementation of police and justice provisions of the Dayton peace accord, but their activities also impeded efforts to promote political reconciliation and economic reconstruction. Criminal gangs remain a significant problem throughout Bosnia.

Kosovo remains plagued by criminal activity. Ethnic Albanian, Bosnian, Croatian, and Serbian organized crime groups are taking advantage of corruption and the region's porous borders to traffic women, drugs, arms, and other contraband. The former Kosovo Liberation Army may have used its organized crime links to Europe to obtain arms and ammunition.

Organized crime groups from outside the region, primarily from Italy, have forged ties to local criminal groups in the former Yugoslavia to facilitate their own international criminal activities—particularly arms and drug smuggling. They have also used the opportunity to set up various criminal rackets in the region, including financial fraud schemes involving investments that can destabilize the economy. Italian organized crime groups have strengthened criminal relationships across the Adriatic, according to press reporting.

Albania, once the most isolated country in Europe, became a haven for local and foreign criminal groups after the collapse of its Stalinist regime. The opening of the country's borders and political disarray in Tirana have allowed Albania to become a primary alternative to traditional Balkan smuggling routes through the former Yugoslavia that were disrupted by the breakout of ethnic fighting in the early 1990s. Italian organized crime groups—particularly the Sacra Corona Unita from Italy's Puglian region across the Adriatic Sea—were quick to establish a presence in Albania. They routinely use Albania's long and now virtually unguarded coastline as a staging area for smuggling drugs, arms, and other contraband across the Adriatic Sea to Italy.

Albanian crime gangs flourished in the political and economic chaos that followed the Hoxha regime's downfall. They are very well armed—having acquired

sizable quantities of weapons from former government stocks—and dominate much of the rural countryside, particularly in the southern part of the country. Criminal syndicates have a powerful presence in the port cities of Durres and Vlore and other major cities. Relying on longstanding cross-Adriatic and Balkans smuggling routes, Albanian crime gangs control the local black market in consumer goods, weapons, and narcotics. In addition to acquiring heroin from Turkish criminal organizations, Albanian crime groups have become involved in cocaine trafficking, with some South American cocaine being shipped directly into Albania. Albanian crime groups are cultivating marijuana throughout Albania for distribution in both the domestic and broader European market, particularly Italy and Greece.

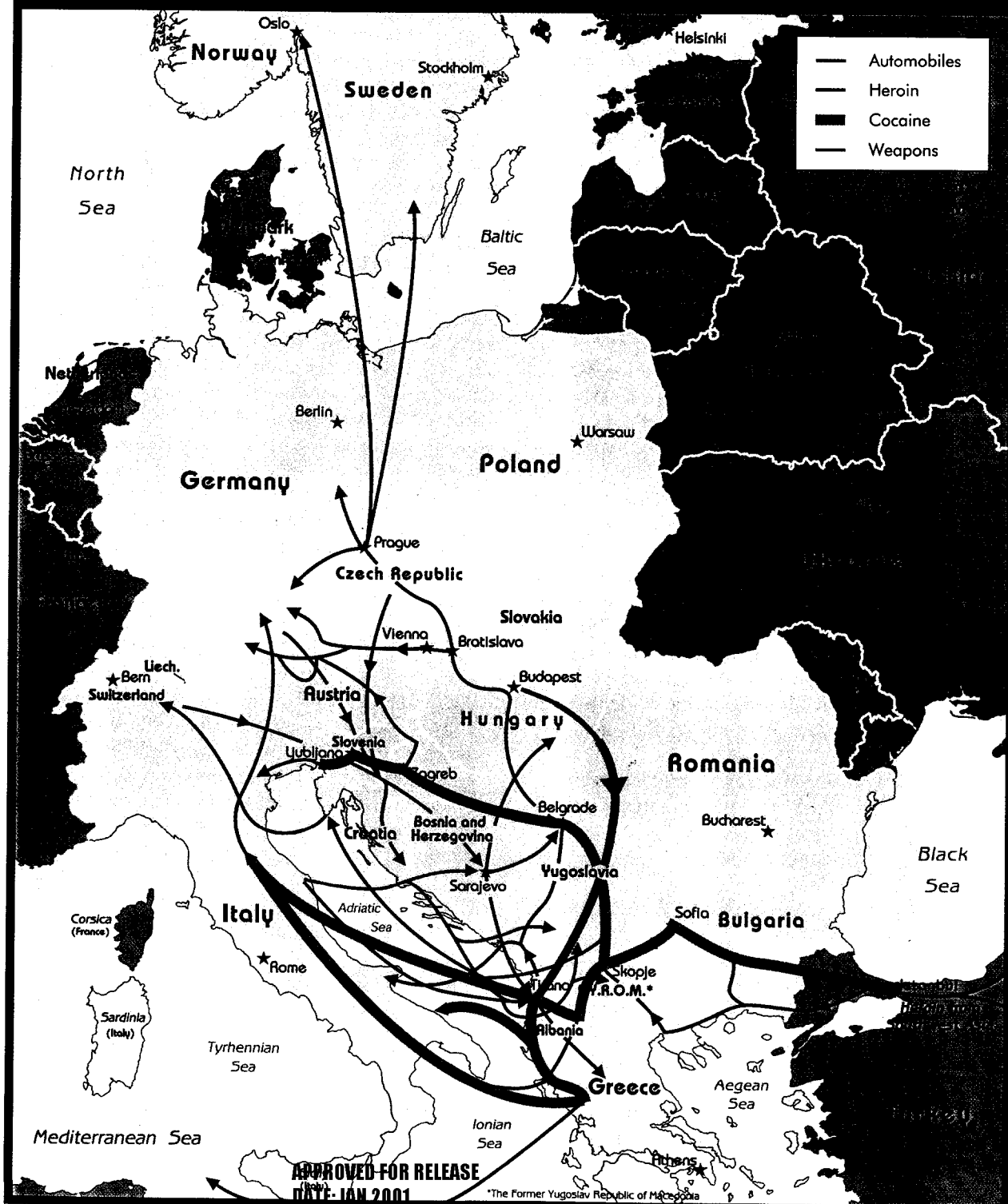
- As a result, Albania has become a Balkans hub for drug trafficking—including cocaine and heroin for the European market—alien smuggling, and other contraband smuggling. Albanian crime groups have expanded their criminal operations across the Adriatic into Italy, where they have become a significant criminal threat.

Organized crime has influenced political and economic developments in Albania. Thousands of Albanians lost their life savings to complex countrywide pyramid investment fraud schemes run by Albanian crime gangs and largely stage-managed by Italian criminal organizations. The collapse of the pyramid firms in late 1996 provoked a political crisis so severe it toppled the central government. Despite the restoration of public order since then and efforts by the government and police to curb their activities, Albanian crime groups remain powerful and a corrupt influence on Albania's fragile institutions.

Ethnic Albanian Criminal Groups

Ethnic Albanian criminal syndicates are one of the most significant of the smaller, more local crime groups that have recently expanded beyond their country's borders. Primarily a legacy of the political, social, and economic chaos that resulted from the downfall of Albania's Stalinist regime and the breakup of the former Yugoslavia in the early 1990s, ethnic Albanian crime groups have established a presence

APPROVED FOR RELEASE
DATE: JAN 2001



throughout Europe and are becoming a growing problem for European law enforcement. Albanian crime groups, whether originating in Kosovo or Albania itself, are typically from tightly knit clans.

By collaborating with criminal organizations in neighboring countries and with Italian organized crime groups, ethnic Albanian crime gangs have become very active in smuggling drugs, arms, cigarettes, and illegal aliens and trafficking women throughout the region. Ethnic Albanian criminal gangs have also used ties to foreign organized crime groups and the large number of expatriate Albanians to expand their operations into the European Union countries. While relying on Turkish traffickers as a source for heroin, ethnic Albanian groups have become major competitors of Turkish criminal groups in trafficking drugs—particularly Southwest Asian heroin—to parts of central and northern Europe, according to police agencies throughout the continent. Police officials have been quoted in the media as saying that Albanians now dominate local sales of heroin in Norway, Sweden, southern Germany, and Switzerland. Albanian criminal groups may also be challenging Italian organized crime interests in Italy, including heroin distribution and movement of illegal aliens from southern Italy to the north. According to Italian law enforcement, Albanian crime syndicates by 1999 controlled most of the prostitution rackets in Italy and were smuggling heroin, hashish, cigarettes, weapons, and other contraband into Italy for shipment to Western Europe. Italian law enforcement officials claim ethnic Albanian crime groups also traffic women and children to Italy.

- Albanian criminal syndicates are moving into the northeastern United States, although their criminal activities are still small-scale.

South Asia, Turkey, the Middle East, and Eastern Mediterranean

Criminal organizations with international networks centered in Turkey, Pakistan, India, the United Arab Emirates (UAE), and Cyprus operate within a centuries-old commercial tradition of moving contraband merchandise through the South Asia-Middle East-Eastern Mediterranean region. The region is a focal point for narcotics and arms smuggling between Europe and Asia and for brokering a wide range of illicit deals, including to evade US or international sanctions and to transfer controlled technologies and

materials associated with weapons of mass destruction. Major port and commercial cities in the region—particularly Istanbul, Karachi, Mumbai (Bombay), and Dubai—are key centers of criminal activity. Criminal organizations in these cities exploit extensive underworld connections, pervasive political and business corruption, and the large volume of trade and financial transactions. Although commercial centers now have modern financial services, criminals also hide their funds and arrange illicit financing through complex, virtually impenetrable underground banking systems.

South Asia

The South Asia region is a primary source of heroin for the international drug trade, primarily for the West Asian, European, and Eurasian markets. Afghanistan is the world's largest producer of illicit opium. Pakistan is a major transit country for Afghan-produced opiates and is also a source of illicit opium poppy. In India, substantial amounts of opium are diverted to the black market from legal production for pharmaceutical industries in the United States and elsewhere. South Asian heroin traffickers maintain extensive networks throughout the region in commercial centers and port cities to arrange financing and movement of drugs. Interpol reports that some 80 percent of the heroin used in Western Europe comes from South Asia.

- The US Government's annual crop estimates show that opium production in Afghanistan is more than eight times higher than in 1990. Illicit opium poppy cultivation has increased despite public pronouncements by the Taliban, which controls most of Afghanistan, that they were cutting back on the opium industry. Afghanistan by itself now accounts for 72 percent of illicit worldwide global opium production.
- Illicit opium poppy cultivation in Pakistan, on the other hand, has declined from once significant to marginal levels, in large part because of intensive eradication efforts. Pakistan now accounts for less than 1 percent of the world's illicit opium production.
- Illegal drug abuse has skyrocketed in the major source and transit countries that are at the crossroads of the Southwest Asia heroin trade: 3.5-5 million local addicts consume much of the region's opium and heroin production, according to UN estimates.

APPROVED FOR RELEASE
DATE: JAN 2001

In Pakistan alone, the heroin addict population has grown from virtually none in 1980 to more than 2 million and perhaps as high as 4 million, according to some estimates.

Under predominantly Taliban rule, international terrorists and drug traffickers have been able to operate with impunity in **Afghanistan**. The Taliban have given sanctuary to renegade Saudi terrorist Usama Bin Ladin, allowing him and other terrorist groups to operate training camps in Afghanistan. Bin Ladin, in return, has used his extensive wealth and business network to help financially support the Taliban. Despite the Taliban's public condemnation of the illicit narcotics industry, virtually all of Afghanistan's opium poppy cultivation and morphine base and heroin processing laboratories are located in Taliban-controlled territory. The Taliban profits from the Afghan drug trade by taxing opium production and drug movements.

Iran remains the most important conduit for Afghan drugs being moved toward lucrative markets in Western Europe. Traffickers use historical trade routes to move drugs, as well as other contraband, from Southwest Asia through Iran to Turkey, or to Iranian Persian Gulf coast seaports and harbors for shipment to the Arabian Peninsula. Bedeviled by its own large opium and heroin abuse problem, Iran has given high priority to drug interdiction and harsh punishment for captured traffickers. In recent years, Iran has been among the top countries in making drug seizures and has paid a high price in lives with more than 3,000 killed in armed confrontations with traffickers since 1988.

Pakistan and **India** both have traditional and modernizing criminal underworlds involved in contraband smuggling, including drugs, gold, and consumer goods. Until Afghanistan began emerging as a major center for refining opiates into morphine base and heroin in the mid-1990s, most of the region's opiate processing laboratories were located in remote Pakistani territory adjacent to the Afghan border. With its better-developed infrastructure, including a major regional commercial center and port in Karachi, Pakistan remains a major transshipment route for Afghan-produced opiates. India's well-developed transportation infrastructure, long and porous coastline, and lenient export policies and controls have played into the hands of criminal smuggling operations for drugs, gems, and other prized contraband.

depots provide an easy means of smuggling drugs and other contraband from the interior to Indian seaports like Mumbai, Goa, Chennai (Madras), and Calcutta that handle a large volume of international trade.

India's legitimate industries that support the world's pharmaceutical markets are a source of supply for raw materials and precursor chemicals for the illicit drug trade. Indian officials acknowledge a significant problem of diversion from India's extensive legitimate opium industry—which supplies much of the world's pharmaceutical market—to the more lucrative black market. As much as 25 percent of India's projected 1999 opium crop may have been diverted to the black market, according to Indian officials. In addition, some Indian-produced ephedrine and pseudoephedrine intended for pharmaceutical manufacturers has gone toward the production of methamphetamine in Southeast Asia.

Turkey

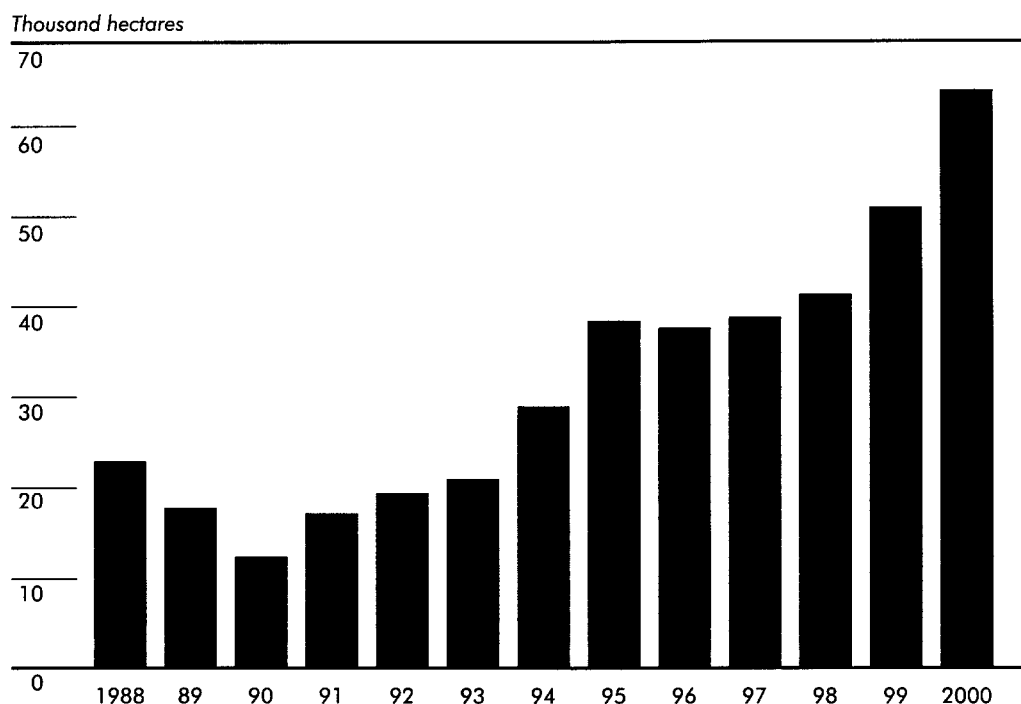
Astride the Europe-Asia continental divide, Turkey also has a traditional criminal underworld and history of smuggling. While traffickers are making greater use of the former Soviet Union as an alternative route for moving Southwest Asian heroin to Western markets, Turkey remains a linchpin in the region's heroin trade. Narcotics brokers in Turkey play a critical role in buying morphine base and heroin from producers in Southwest Asia and moving the drug to distribution networks in Europe and North America. Much of the heroin entering Turkey passes through territory in the southeast controlled by the Kurdistan Workers Party (PKK), which is considered a terrorist group. The PKK reportedly levies taxes on traffickers moving drugs through border crossings with Iran or territory in southeastern Turkey that it controls.

- PKK members in Europe have been involved in wholesale and retail distribution of heroin, as well as other criminal activities, to help fund their operations. Some may funnel narcotics and criminal proceeds into party coffers. It is unclear, however, whether or to what extent the PKK central command may direct or participate in such activities, or has ties to other drug-trafficking groups in Turkey.

APPROVED FOR RELEASE
DATE: JAN 2001



Afghanistan Opium Cultivation



The United Arab Emirates

As a regional transportation, banking, and commercial crossroads between Europe, the Middle East, North Africa, and Asia, the UAE—with its permissive business environment—has emerged as an important locus of criminal activity. The UAE maintains an advanced maritime shipping infrastructure, including at least 15 commercial seaports, to facilitate international trade. According to the international shipping industry, UAE seaports are handling nearly 5 million containers per year, 2.8 million in Dubai alone. More than 70 percent

of containers arriving in UAE ports are in transit and are not inspected by customs officials, making them an attractive shipping option for criminals trafficking contraband through the region. The UAE also has extensive international air connections; more than 60 airlines provide scheduled passenger service between Dubai and more than 150 foreign destinations. Some UAE-based firms are probably front companies for criminal organizations or states of concern.

APPROVED FOR RELEASE
DATE: JAN 2001

South Asian Heroin Trafficking and Criminal Networks

Much of the Afghan opium industry and drug trafficking in Southwest Asia is controlled by a network of traffickers based in Pakistan and Afghanistan. Their ethnic, tribal, and political affiliations give them the connections and capability to negotiate drug transactions, assemble drug loads, and transport shipments to wholesale buyers in Turkey and other international markets. This network of loosely affiliated traffickers frequently cooperates with other traffickers based in Pakistan, Afghanistan, Iran, and the UAE.

Powerful Indian criminal syndicates, particularly Mumbai-based crime groups, became involved in international drug trafficking in the mid-to-late 1980s when the Iran-Iraq war disrupted traditional Southwest Asian heroin trafficking routes from Pakistan, through Iran, to Turkey. Relying on Indian expatriates living in the UAE, Indian crime syndicates use long-established networks for smuggling gold, silver, counterfeit currency, electronic goods, and other contraband to transship heroin from South Asia to markets in Europe and, to a lesser extent, North America.

Indian criminal syndicates also may be involved in arms trafficking, alien smuggling, and trafficking in women. Narcotics trafficking may be an important source of revenue for Indian crime syndicates; trafficking patterns show connections to Europe, Africa, Southeast Asia, and regionally to Sri Lanka. Indian crime groups also dominate the methaqualone drug trade in eastern and southern Africa; South Africa is a particularly important market for methaqualone, also known as mandrax, which is produced primarily in India.

- There is extensive smuggling of contraband through Dubai, into whose ports more than half of the containers shipped to and through the UAE arrive. Dubai is an important transit point for precursor chemicals required for the production of heroin in Afghanistan and Pakistan. The UAE is becoming a

more important transit avenue for drug shipments from Southwest Asia on their way to Turkey, Europe, and Africa.

- Organized crime groups from Russia and other former Soviet countries—particularly from Central Asia—have established criminal and money-laundering networks in Dubai.

Dubai has become a significant center for financing illicit activities, in part because the preference of many businesses to deal in large amounts of cash makes it difficult for banks to distinguish between legitimate and illicit transactions. Drug traffickers, criminal organizations, and terrorist groups appear to use the Dubai banking system to launder money and conduct major financial transactions. The UAE is also a major center for underground banking hawala networks tied to India and Pakistan.

- According to press reports, money-laundering activity in the UAE may total \$1 billion annually. The UAE is actively considering statutes that would make money laundering a crime, and the UAE Central Bank has recently issued new regulations to combat money laundering.

Lebanon

Although its political situation is stabilizing, Lebanon remains a haven for terrorist training, as well as a minor drug-trafficking and processing center. Several Islamic extremist and Middle East terrorist factions continue to maintain training camps in the Bekaa Valley, and some have used the country as a staging area for terrorist attacks against Israel. Syrian and Lebanese authorities cracked down on opium and cannabis cultivation in the 1990s, but drug traffickers continue to operate in the area. Opiates from Southwest Asia and cocaine from South America appear to be moving through Lebanon into Turkey, Syria, Israel, Jordan, the Arabian Peninsula, and other destinations.

Israel

Since the collapse of the Soviet Union, Israel has become a significant operating area for Russian criminals, who take advantage of Israel's large Russian immigrant community of more than 600,000 to conduct criminal activities in Israel and abroad and launder illicit proceeds. Several international criminal figures from Russia, Ukraine, and other NIS have obtained Israeli citizenship and passports, often fraudulently, for the purpose of establishing a safehaven in Israel and to facilitate their international travel.

According to press reports, Israeli police officials have estimated that 10 to 15 organized crime groups from the former Soviet Union, including Solntsevo, have a presence in Israel.

- Russian criminals who have obtained Israeli citizenship appear to believe they are protected from foreign law enforcement investigations and that they will not be extradited to a foreign country to stand trial for crimes committed there.

Prior to Israel's passing a law making money laundering a crime in August 2000, strict bank secrecy laws and the absence of currency import controls and bank reporting requirements made Israel a major haven for money laundering by Russian criminal syndicates. Israeli police sources estimate that organized crime groups have invested as much as \$4.5 billion in Israel since the early 1990s. The security of Israeli investments and the stability and growth of the Israeli economy are attractive to criminals seeking investment opportunities for their illicit proceeds. One recent press report cited Israeli police sources as saying about \$5 billion of Israel's \$17 billion in foreign exchange reserves may be attributed to money belonging to Russian organized crime.

The growing presence of Russian crime groups has exacerbated the organized crime problem in Israel. Russian crime groups traffic women into Israel from Russia and the NIS, control prostitution rackets, and illegally produce and import music and computer software CDs. Russian criminals in Israel may also be involved in diamond smuggling; Israel is a hub of the legitimate international diamond trade, importing more than half of worldwide diamond production.

Cyprus

With a business environment that features a minimum of regulations and a location astride major commercial routes, Cyprus has been a regional center for arms trafficking, sanctions evasions, and trade in dual-use goods related to weapons of mass destruction. Nicosia's focus on developing the island's offshore business sector through corporate-friendly policies intended to lure legitimate businesses to Cyprus also attracted firms and individuals involved in illicit international trade and illicit financial transactions. Banking and corporate secrecy, little or no taxes, and simplified incorporation procedures have made it easy for states of concern, terrorist groups, and organized crime groups to set up numerous front companies to facilitate illicit arms transshipments, acquire proscribed technologies, and launder funds. Commercial information indicates that the island's development of free ports and free trade zones in Limassol and Larnaca have been attractive to businesses seeking to transship illicit cargo because goods in transit are rarely inspected; according to industry journals, about 5,000 ships from some 100 shipping lines call at Cypriot ports annually.

- There are some 24,000 offshore firms registered in Cyprus, of which approximately 1,100 maintain a physical presence on the island.

Greece

With its extensive Mediterranean and Aegean coastlines, numerous islands, overland borders with the Balkans, and vibrant banking sector, Greece has emerged as an increasingly active hub for international criminal activity. Greece is located along two spurs of the traditional Balkans route for drug trafficking. Crime syndicates from the Balkans—including ethnic Albanian crime groups—Western and Central Europe, Africa, and the former Soviet Union use Greek territory to smuggle drugs, arms, cigarettes, and illegal migrants to Western Europe. Italian criminal organizations control the illegal cigarette trade in Greece, according to press reports, and earn as much

Southeast Asian Drug-Trafficking Networks

Heroin and methamphetamine production in Southeast Asia is dominated by ethnic drug-trafficking armies operating mostly in Burma's remote opium-producing region. The drug-trafficking armies had begun as insurgent groups and still claim to have an ethnic-based social and political agenda, but the largest have become primarily engaged in the production and trafficking of heroin and methamphetamine and in other illicit and lucrative economic activities—including gem smuggling and illegal logging and timber smuggling. Since its continuing crackdown on the prodemocracy movement began in 1988, the military regime in Burma has reached agreements with most of these ethnic armies in remote regions which have allowed the regime to focus on prodemocracy threats in critical urban areas while turning a blind eye to drug trafficking and other criminal activities.

- *With the breakup of the Mong Tai Army, which had been led by the notorious heroin kingpin Khun Sa, in 1996 as a result of disruptions caused by the arrests of high-level associates in a joint US-Thai law enforcement operation, Thailand's closing of border checkpoints used by the trafficking group, and Burmese military pressure, the United Wa State Army (UWSA) has become the largest drug producer in Southeast Asia. In addition to being the biggest regional producer of heroin, the UWSA is also the dominant producer of methamphetamine, for which there is a large market in Thailand.*

Ethnic Chinese and Thai criminal networks in Thailand and Burma play a major role as brokers, financial backers, and transporters in the Southeast Asian heroin trade. Operating in major regional commercial centers like Bangkok, Hong Kong, Singapore, and Taiwan and using a wide array of interchangeable front companies and legitimate businesses, Chinese and Thai criminal networks also arrange financing and transportation of drugs, routing drugs through many different ports—largely by commercial shipping—to their final destination.

as \$500 million per year from cigarette smuggling. Greek law enforcement officials are particularly worried about the presence of

that are engaged in money laundering, extortion, and trafficking women for the sex industry.

- According to Greek police officials, international crime syndicates operating in Greece take in as much as \$11.5 billion annually from their criminal operations.
- Weak enforcement of money-laundering laws has made Greece an attractive locale for money laundering, particularly by Russian organized crime.

Southeast Asia

The export-oriented economies of Southeast Asia provide both opportunity and cover for international criminal activities, as well as a market for drugs, counterfeit products, and other contraband. Bangkok, Singapore, and Kuala Lumpur are attractive locales for international criminal activity because they are the region's largest commercial centers. The high volume of land and maritime trade, particularly containerized shipping, extensive manufacturing industries, and breadth of financial activity facilitate contraband smuggling, money laundering, and violations of trademark and intellectual property rights. Firms in Malaysia are major counterfeiters of US audio, visual, and software products. Nearly one-third of all the women and children victimized by trafficking rings for the worldwide sex industry are from Southeast Asia. Singapore is an increasingly important hub for drug and other contraband smuggling because of its high-volume seaport.

- According to trade data, Singapore vies with Hong Kong as one of the world's busiest container ports, handling 15.3 million containers; 80 percent of all Southeast Asian maritime traffic destined for US west coast seaports has a Singapore nexus, according to the US Customs Service. Singapore's international airport is Asia's busiest air cargo terminal.

Investments in the region's infrastructure development by businessmen engaged in a wide variety of illegal trade activities have facilitated contraband smuggling and money laundering. Unscrupulous businessmen in all of the region's countries, many of whom had long been involved in drug or contraband smuggling, exploited Southeast Asia's economic boom prior to

APPROVED FOR RELEASE
DATE: JAN 2001

late 1997 to raise wealth and significant political influence. In Thailand and Singapore in particular, they took advantage of ambitious government programs for economic growth and infrastructure development to establish lucrative criminal enterprises alongside legitimate businesses. Some have accumulated significant wealth through dealings in narcotics, illegal gambling, lotteries, illegal logging, prostitution, extortion, contraband smuggling, and arms trafficking. Major drug traffickers in Burma reportedly have become significant investors in infrastructure development, which can be used to facilitate both drug smuggling and money laundering.

Opium poppy growing regions in remote areas of Burma and Laos make Southeast Asia the world's second-largest source region, after Southwest Asia, for illicit opium for the international heroin trade.¹ Opium poppy cultivation is an important income-earner for the hill tribes residing in these impoverished regions, where the infrastructure for supporting legitimate economic activity is either lacking or in poor repair.

- Southeast Asia accounts for more than half of illicit opium poppy cultivation, according to the US Government's narcotics production estimates, despite poor growing weather from 1997 to 2000 that substantially reduced the size of the crop. Nonetheless, Burma alone accounted for about 50 percent of the world's illicit opium cultivation in 2000. In contrast to its high cultivation, Burma produced only 21 percent of the world total of illicit opium. Laos ranked third with 4 percent of illicit global production. Southeast Asia's opium production is substantially lower than Southwest Asia's only because opium yields are about one-fourth those of Afghanistan.

Unskilled young males in or from these regions—especially those who have migrated to urban areas where they have few job prospects—are a prime source of recruits by drug trafficking and other criminal organizations. Many of the crews of fishing boats used to smuggle heroin through the Gulf of Thailand to major commercial maritime transshipment ports in the region—Singapore and Hong Kong,

for example—are migrants from northeastern Thailand and similarly impoverished regions in Burma and Cambodia.

The social and political consequences of criminal activity have been considerable for all countries in the region. A large criminal underground largely immune from law enforcement and judicial actions because of bribes and favors bestowed on powerful politicians, bureaucrats, police, and military figures has helped undermine the credibility of Southeast Asian institutions. Criminal earnings, especially from the drug trade, underpin important new investments in Southeast Asia. Russian crime groups, for example, are involved in the tourism industry in Ban Phattha Ya, Thailand. Meanwhile, Southeast Asia's longtime role as a major conduit for Burma-produced narcotics—both heroin and, more recently, methamphetamine—has fed a growing drug addiction problem.

- About 800,000 Thai are infected by HIV, some 10 percent from heroin abuse, according to Bangkok's Ministry of Health.

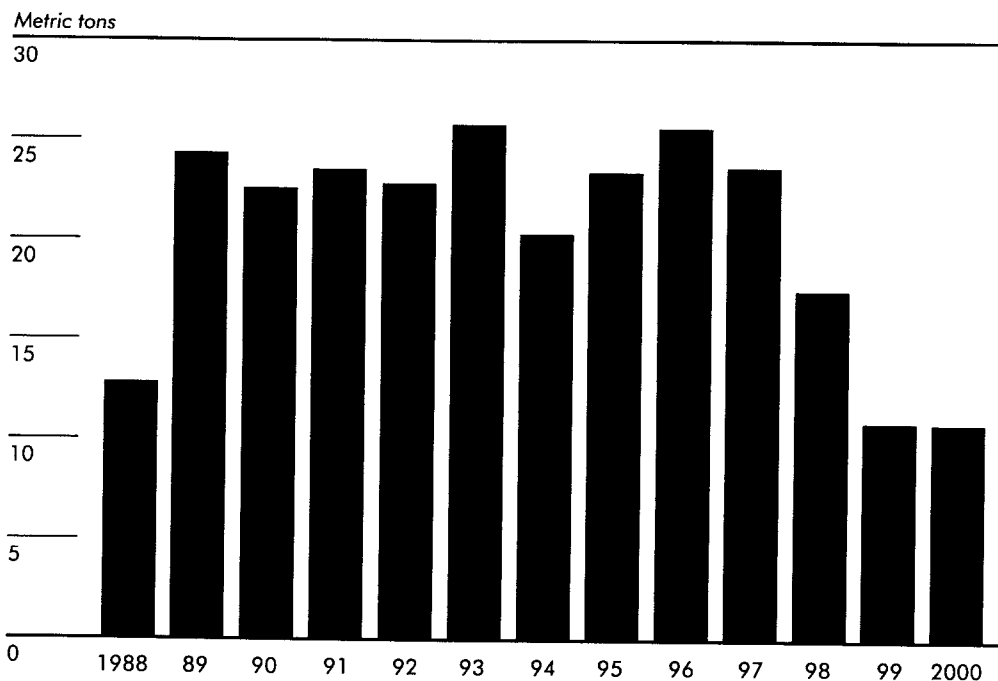
In recent years, international criminal activity has become a more significant problem for Indochina. As a result of Thailand's intensified efforts against drug smuggling, traffickers primarily use southern China as a transit route but have also increased their use of Cambodia and Vietnam as an alternative transshipment route. Opium poppy cultivation has become established in northern Vietnam, and Hanoi's efforts to improve the country's transportation and import/export infrastructure are making Vietnam more attractive to drug traffickers and other criminals. Phnom Penh's renewed emphasis on economic development has increased opportunities for corrupt business entrepreneurs like Teng Boonma, a longtime reputed drug trafficker in Southeast Asia. According to the Cambodian press, Teng owns most of Kampong Saom—the country's most important port city—and a key transit point for Cambodian marijuana.

¹ Thailand, which in the past had been a larger producer of opium, now accounts for less than 1 percent of the region's total opium production because of effective crop eradication efforts.

**APPROVED FOR RELEASE
DATE: JAN 2001**



Burma's Opium Production, 1988-2000



China

China's increasing role as a source area of international criminal activity, including greater worldwide influence of Chinese criminal syndicates, has paralleled its emergence as a global economic power and Beijing's opening to foreign investment. US law enforcement reporting indicates that, since the early 1990s, more than half of the heroin produced in Burma now transits Yunnan Province and other regions of China on its way to drug markets in China itself and in North America and Australia. Fujian Province is a major base of operations for criminal brokers known as "snakeheads" who, using contacts around the world, orchestrate the movement of illegal Chinese immigrants to the United States, Canada,

Europe, Latin America, Asia, and Australia. Legitimate textile works, factories, and high-tech manufacturers in Guangdong Province are major producers of pirated and counterfeit products; according to the International Intellectual Property Alliance, China is a leading violator of US intellectual property rights.

- Criminal activity flourishes in China despite extremely strict penalties, including death, for many crimes.

APPROVED FOR RELEASE
DATE: JAN 2001

Beijing's economic reforms and priority given to promoting international trade and investment have created opportunities for both mainland and overseas Chinese organized crime syndicates.

- Economic liberalization has allowed criminal syndicates to establish front companies and to invest in legitimate business enterprises. As in legitimate ventures, government officials and enterprises are often enlisted as partners to help facilitate business operations. In some cases, participation of Chinese authorities in criminal business ventures helps shield them from investigations and prosecutions.
- The substantial improvements being undertaken or planned for mainland China's seaport facilities—including expanded capacity to handle large container ships—open more options for Chinese criminals using international trade as a cover for their operations. Larger capacity ports allow them to diversify routes by transporting illicit cargoes, including drugs and arms, directly across the Pacific to major seaports in the United States, Canada, or Panama without having to transit Hong Kong, Taiwan, Singapore, or Japan. Moreover, technology improvements at the new port facilities—together with corrupt local customs enforcement—allow criminals to move goods faster, cheaper, and often with less risk.
- The decline of some traditional Communist social policies in China has given criminal groups unprecedented flexibility. The abolition of internal travel controls facilitates moving drugs, arms, and illegal migrants to coastal ports for smuggling out of the country, as well as the movement of contraband to big city markets inside China. Moreover, the large "floating population" of rural migrants seeking work provides a steady source of recruits for Chinese crime groups.

Widespread corruption, particularly at the local level, has contributed to increasing international criminal activity in China. Often lacking modern equipment and training in modern police tactics, China's police are ill-equipped to deal with the growing crime problem. In some regions of China, local military units have supplemented the police in law enforcement operations, especially against smuggling networks. Corrupt officials in some Chinese Government organizations and state-run business enterprises have been involved in illicit activities ranging from facilitating drug trafficking and alien smuggling, to providing arms to criminal groups in the black market, to smuggling strategic materials—particularly petroleum products—into the country.

The entrepreneurial stake of many Chinese officials in various business enterprises—fully legitimate and otherwise—lends itself to criminal activity for profit. Chinese arms factories under pressure to earn hard currency and attracted to easy money on the black market may be a source of weapons for Chinese arms traffickers. Ephedrine and pseudoephedrine produced in China for the world's legitimate pharmaceutical markets are also illegally exported or diverted to the international illicit drug-producing market, where these commodities are key components in the production of methamphetamine; in November 1997, authorities in Shaanxi Province seized 10 metric tons of ephedrine that was on its way to Burma.

These developments, together with Beijing's policy of inviting overseas Chinese businessmen to trade and invest in China, have allowed powerful Chinese triad criminal organizations from Hong Kong, Macau, and Taiwan to establish strong footholds on the mainland, especially southern China. The triads have set up

many varied businesses in Guangdong and Fujian Provinces, the Shenzhen and Xiamen Special Economic Zones, and Beijing where there is a significant international business presence and a substantial volume of trade and financial transactions. Firms associated with import/export trade and manufacturing may be used as cover for drug trafficking, arms trafficking, alien smuggling, and the piracy and distribution of products protected by intellectual property rights. Entertainment businesses—such as gambling, prostitution, nightclubs, karaoke parlors—that cater to Chinese elites and foreign businessmen are cash-intensive and provide excellent cover for money-laundering schemes.

- Press reporting indicates the Hong Kong triads have been cultivating Chinese officials since the early 1990s to ease their way into mainland China.

Mainland Chinese crime groups exploiting widespread corruption have established strong ties of their own to Chinese officials and entrepreneurs. In Fujian Province, Chinese alien smuggling networks operate with the assistance of corrupt officials, local police, and customs officers. Through these activities and the establishment of international networks, mainland Chinese criminal syndicates may be eclipsing the once-dominant role played by triad members from Hong Kong and Macau.

Political and Economic Impact

Chinese authorities are increasingly concerned about the impact of criminal activity on Chinese society. Drug abuse and violent crime have become more pronounced, challenging China's police and social services and undermining Communist Party authority. The impact on the Chinese economy has been significant; criminal activities have cost the Chinese Government sizable losses in tax revenues, impeded industrial growth, and aggravated the difficulties facing legitimate state-owned enterprises. The Chinese leadership is particularly focused on corruption

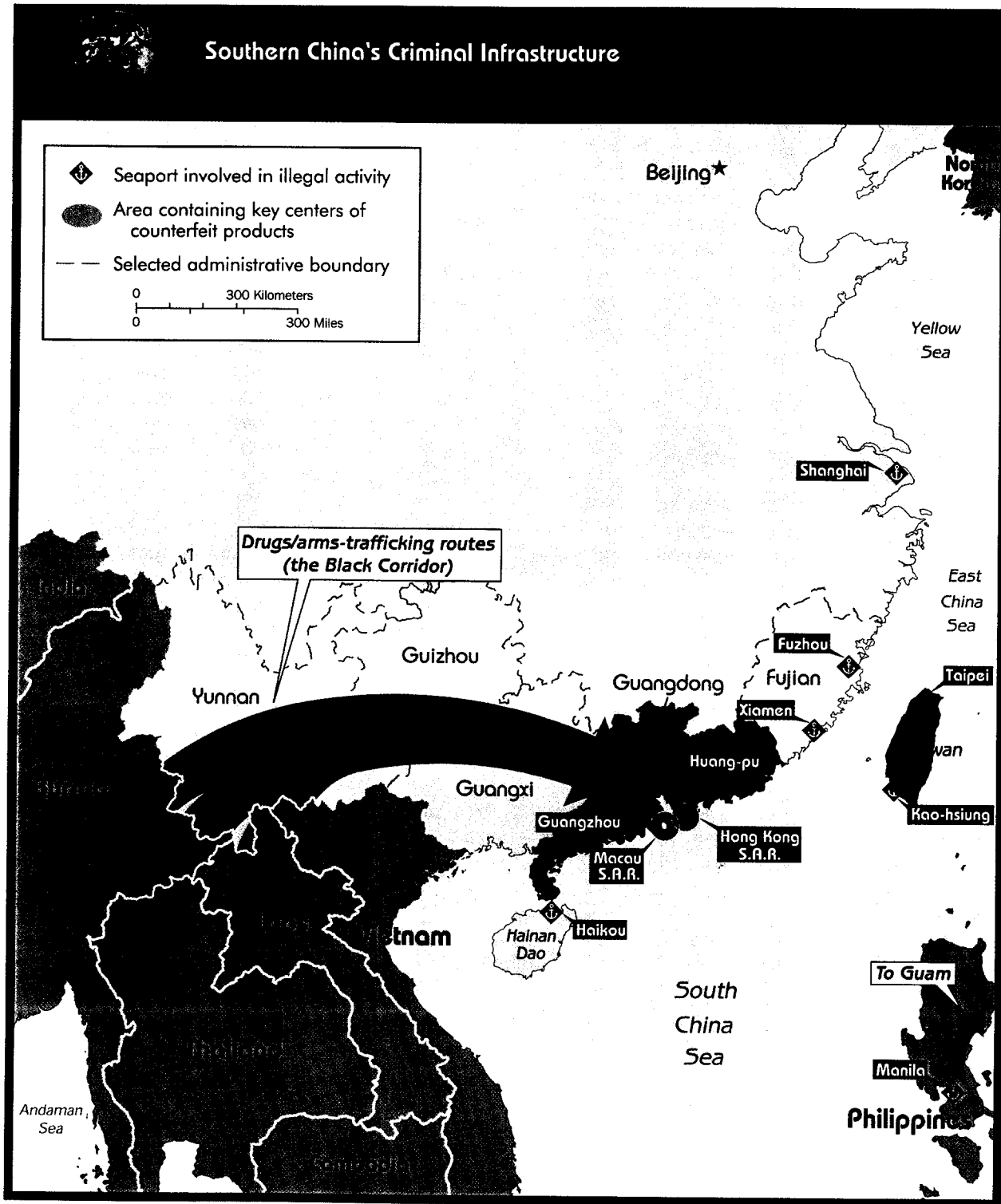
because the perception of widespread corruption at all levels of government and law enforcement is corroding the credibility and performance of Chinese leaders and law enforcement personnel.

- Public concerns about corruption were a factor in the social tensions leading up to the Tiananmen protests and crackdown on the prodemocracy movement in 1989.
- In the last year in particular, China has selectively investigated, prosecuted, convicted, and punished several high-level provincial officials for criminal corruption, including trade frauds. The dynamics of leadership politics and rivalries, however, have kept several high-level political and military leaders and their families safe from prosecution despite credible allegations of their involvement in criminal or corrupt activities.

Heroin addiction has become an enormous problem since China became an increasingly important transshipment route for heroin produced in Burma. Before 1990, when most Southeast Asian heroin transited Thailand, China had few problems with drug trafficking or addiction. Between 1990 and 1998, however, the number of registered drug abusers in China increased by a factor of 10 from some 70,000 to nearly 700,000, according to official Chinese statistics; unofficial estimates of drug addiction in China range from 1 to 12 million.² A January 1998 Chinese press article reported that addicts in China spend some \$17 billion annually on illicit drugs.

² The reliability of some Chinese statistics is questionable, particularly for much of the data dealing with the societal consequences of crime. In some cases, China does not have good data collection, which almost certainly underestimated—perhaps significantly—the scale of these problems. Since 1997, Beijing has waged an intensive publicity campaign to encourage honesty and accuracy in reporting data.

Southern China's Criminal Infrastructure



APPROVED FOR RELEASE
DATE: JAN 2001

- Intravenous heroin use is contributing to a significant HIV/AIDS problem in China, accounting for 70 to 90 percent of HIV transmissions, according to Chinese press reporting. In late 1998, Chinese officials estimated there were some 300,000 HIV/AIDS cases in China, but this figure is probably conservative given weaknesses in China's HIV/AIDS reporting and monitoring system. The Chinese Academy of Preventive Medicine forecasts more than 10 million by 2010 if control efforts are not successful.

Contraband smuggling has become a target for a major law enforcement crackdown beginning in July 1998. Chinese Premier Zhu Rongji in August 1998 announced that rampant smuggling had reached unprecedented levels in terms of its scope and quantity of products. He also blamed smuggling for corrupting government officials, poisoning social morals, and a surge in other crimes. China's high tariffs and taxes, as well as nontariff barriers to trade, make smuggling of foreign-produced automobiles, cigarettes, computer software and equipment, electronics, petroleum products, and other goods extremely lucrative for criminal groups and corrupt officials. Illegal imports, besides depriving the government of substantial customs revenue, have seriously disrupted China's key oil industry, as well as the country's computer, automobile, and cigarette sectors, according to press reports. Organized crime syndicates, including Hong Kong's 14K triad and mainland criminal groups, are heavily involved in the smuggling of automobiles and cigarettes into China for Chinese consumers and for reexport to foreign markets.

- Local press reports in 1998 indicated that the value of goods smuggled into China totals about \$12 billion annually. During the first eight months of 1998, Chinese officials seized more than \$650 million in smuggled goods that would have netted \$200 million in customs duties. A good portion of China's capital flight—estimated by one business industry journal at \$20 billion for 1998—is said to go toward smuggled goods.

China is also struggling to control a growing black market in small arms, including military weapons, that are sold to criminal groups throughout East Asia. Increasing quantities of firearms have shown up inside

China, contributing to the crime problem and sometimes challenging the firepower available to local Chinese police and security officers. Chinese police in Guangdong and Liaoning Provinces have encountered crime gangs armed with military-style assault rifles. A portion of the weapons traded on China's black arms market are sold to criminal groups in Hong Kong and Macau, adding to Beijing's concern about crime and social order in both enclaves. Chinese authorities claim most of the arms come from Vietnam and that Vietnamese gunrunners dominate the trade, but many of the weapons trafficked in China probably are from police and military stocks or from Chinese arms factories.

Infrastructure development projects in China designed to attract and support foreign trade and investors are a major draw for investment by Chinese criminal groups. Some Chinese criminal syndicates try to profit from ambitiously planned infrastructure development projects in China by direct investment, offering loans, or arranging financing.

- Chinese authorities report that organized crime groups target legitimate investors in large-scale scams. According to 1998 press reports, Beijing closed down 25 large-scale investment scams each involving \$125,000, and in the last half of 1998 the Chinese broke up pyramid schemes worth more than \$250,000.

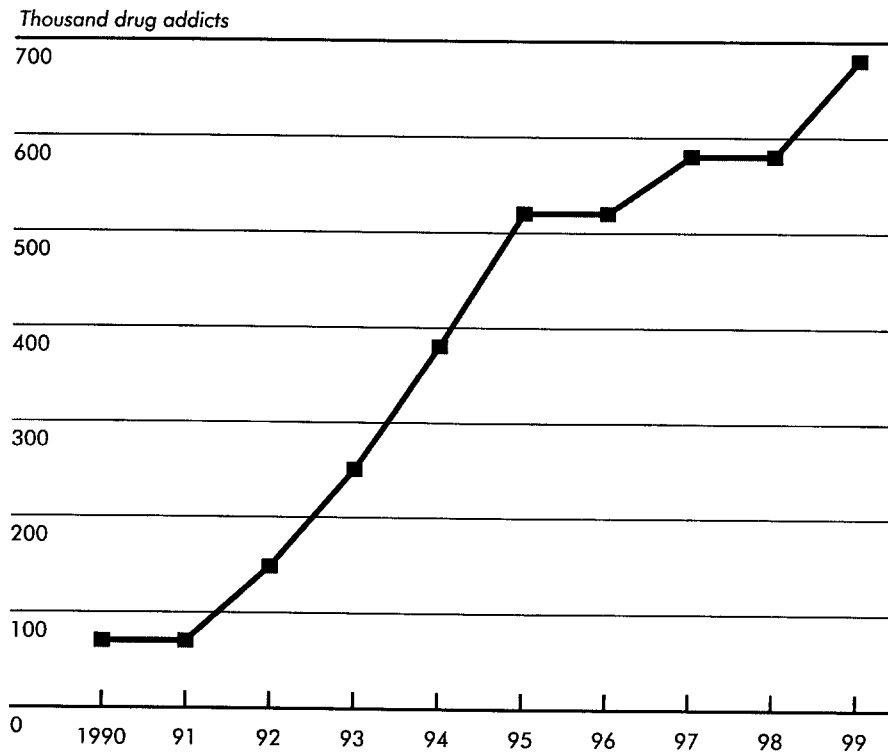
Hong Kong

As one of the world's leading commercial, financial, and transportation centers, Hong Kong has long been a hub of criminal activity in East Asia—a status that has not changed since China assumed sovereignty over the territory in 1997. The massive volume of trade in containerized shipping through Hong Kong offers substantial opportunity for criminals to smuggle all kinds of contraband, including drugs and arms, and illegal migrants.

- Handling some 16 million containers annually, according to Hong Kong Government data, Hong Kong vies with Singapore as the busiest container port in the world.



China's Registered Drug Addicts, 1990-99



APPROVED FOR RELEASE
DATE: JAN 2001

- In October 2000, Hong Kong Customs officials discovered 26 illegal Chinese migrants hidden in a maritime container about to be shipped to Long Beach, California.

The volume of traffic between Hong Kong and the Chinese mainland provides enhanced cover for international criminal transactions. In 1999, according to Hong Kong Government data, some 12 million travelers and 700,000 vehicles crossed the land border from China.

- The projected growth in Hong Kong's international transportation connections is expanding the options available to Chinese criminal syndicates for smuggling drugs, arms, and other contraband products.

Hong Kong's status as one of the world's most developed financial centers makes it vulnerable to attempts to use its financial institutions for laundering illicit proceeds. Wide-ranging links to the international business community and the modern banking sector in Hong Kong provide extensive cover for money-laundering operations and for financing illicit activities.

- Daily foreign exchange turnover amounted to about \$90 billion and total bank deposits approached \$280 billion at the time of Hong Kong's reversion to China in 1997, according to press reports, illustrating both the potential scope and the difficulty of monitoring illicit transactions.
- Hong Kong is one of East Asia's major sanctuaries for heroin drug profits. Heroin traffickers launder proceeds through numerous businesses in Hong Kong that are associated with Chinese triads.

Hong Kong's ethnic Chinese organized crime groups, commonly known as triads, control local criminal activity. As they did during the former British colonial rule, triad members continue to infiltrate and cultivate contacts in Hong Kong's civil service, political parties, news media, and stock exchange who can help protect or further their interests. While they do not monopolize international smuggling and illicit financial transactions, triad members frequently help

broker deals and facilitate shipments of drugs, arms, and other illicit contraband through Hong Kong to overseas destinations.

Hong Kong's two largest triads, the 14K and Sun Yee On, protect many of the retail businesses involved in manufacturing and distributing counterfeit compact discs and are engaged in buying, moving, and selling contraband CDs. A series of raids against several compact disc factories by Hong Kong authorities in 1998 resulted in the seizure of more than 1.8 million pirated discs. Moreover, Hong Kong's lucrative film industry is widely regarded as controlled by the triads.

As an international commercial and financial center, Hong Kong probably continues to attract both legitimate and illicit business enterprises from the Chinese mainland. Relatively simple procedures for registering companies allow criminals to establish front companies, particularly export/import firms, to facilitate their attempts at smuggling and money laundering. At the same time, however, increasing direct interactions between southern China's major commercial centers and the international business community reduce the incentive for criminal groups or illicit businessmen to move to Hong Kong's much stricter law enforcement environment.

In stark contrast to much of the rest of China, Hong Kong has made major headway against corruption, primarily because of its strong and effective anticorruption agency, deeply entrenched common law system, strong rule of law tradition, and well-organized and well-equipped law enforcement bodies. Over the years, Hong Kong has developed strong legal and financial systems to counter money laundering. It is substantially in compliance with the standards set by the FATF, and Hong Kong is a leader in the regulation and supervision of its financial sector. Nevertheless, despite recent legislative improvements, banking and other financial institutions in Hong Kong continue to operate with loopholes that can be exploited by international criminals, including the lack of mandatory

reporting for currency deposits exceeding certain levels, tight bank secrecy laws, low taxation rates, the absence of controls on money flows into and out of Hong Kong, and the availability of underground banking networks.

Macau

Since Macau's reversion to Chinese administration in 1999, organized crime continues to have substantial influence over the enclave's economy. Organized crime groups still dominate Macau's gaming industry, the primary engine of the economy. In addition to the substantial revenues they generate of their own accord, gambling and prostitution rackets in Macau are used by local and other crime groups for money laundering.

- Macau business tycoon Stanley Ho, a reputed organized crime figure, controls the gaming monopoly that has the sole license for casino gambling in Macau. In 1999, according to press reports, Ho's gaming monopoly generated a net profit of about \$100 million.

Contributing to and exploiting pervasive corruption and lax law enforcement in Macau before the colony's handover to China, triad criminal groups also controlled or had substantial influence in many legitimate business enterprises, including manufacturing plants, some of which were used to cover for criminal activities. With easy access to Hong Kong, a more open border with the mainland, and few extradition or mutual legal assistance treaties with other jurisdictions, Macau had also become a transit route for arms traffickers and alien smuggling groups.

- Turf wars to control gaming parlors, loan-sharking, protection rackets, and prostitution rings were widespread in Macau before the handover.

Local and national Chinese law enforcement authorities have been working to diminish the power of organized crime in Macau since its reversion to China. Although triad involvement in casinos and other businesses remains a serious problem, there has been a marked decline in organized-crime-related violence in Macau: there were only seven murders in Macau in the first 10 months of 2000, compared to 37 murders the previous year.

- The weakness of Macau laws to combat money laundering remains a serious problem.

Taiwan

Organized crime is deeply entrenched in Taiwan's business and political sectors. Large ethnic Chinese criminal syndicates such as the United Bamboo and Four Seas triads—which followed the ruling Kuomintang party from the mainland to Taiwan in the late 1940s—and Taiwanese criminal gangs have established strong influence in Taiwan's local communities. Criminal groups are extensively involved in feeding off Taiwan's generally strong economy. They reportedly have been involved in direct extortion of "protection" money from construction firms, engage in bid-rigging for public works projects, and have tried to manipulate the island's stock market.

- Three gangs were said in 1997 to be taking 8 to 15 percent of southern Taiwan's budget for public engineering contracts, according to press reporting.

Although the organized crime problem in Taiwan is largely domestic, Taiwan-based criminal groups use the island's extensive international trade and financial links to further their illegal activities overseas. According to world trade data, the port of Kao-hsiung handles some 5 million containers annually, the third largest volume after Singapore and Hong Kong, making it vulnerable to narcotics and contraband smuggling through Taiwan to other international destinations. Shipping and other businesses in Taiwan, some influenced by organized crime, that have established subsidiaries and partners in major commercial centers in other countries, particularly Panama and elsewhere in Latin America, are believed to be used as fronts for smuggling, illicit transactions, and money laundering.

Increasing indirect trade between China and Taiwan, and Beijing's policy of encouraging investment by Taiwan businessmen, probably is contributing to growing contacts between Taiwan and mainland Chinese criminal syndicates. Some Taiwan-based triads have links to Hong Kong and China, including establishing front companies or investing in specific criminal ventures. In 1998, Chinese authorities discovered two Taiwanese-financed methamphetamine drug laboratories in Hunan Province.

Vote buying has provided criminals significant influence within Taiwan's political system, especially at the local level. Members of crime groups themselves seek, and often win, public office, which allows them access to lucrative public contracts and offers limited immunity from prosecution and a chance to cleanse criminal reputations.

- Political corruption and the ties of former ruling party politicians to organized crime continue to be potent political issues in Taiwan. Taiwan's new President, who won election in March 2000 largely on an anticorruption, clean government platform, has pledged to make this one of his highest domestic priorities.

Ethnic Chinese Criminal Networks

The international criminal threat posed by ethnic Chinese criminal networks has become more complex as crime groups originating in mainland China have joined the traditional triad societies of Hong Kong, Macau, and Taiwan in expanding their networks far beyond China's borders. While the powerful triads, which trace their origins to Chinese secret societies in the 17th century, are the largest of the Chinese criminal associations, they continue to operate largely according to traditional practices and their criminal activities are largely focused on more traditional extortion, gambling, drug trafficking, gunrunning, and alien smuggling enterprises. The upstart Chinese criminal groups from mainland China, on the other hand, are more loosely organized, their members more flamboyant, and their criminal operations often more sophisticated. These groups are also extensively involved in international drug trafficking, alien smuggling, arms

trafficking, and money laundering, but they have also moved more aggressively than the triads into more sophisticated and highly profitable areas of credit card fraud, theft of computer chips, software piracy, and other intellectual property violations.

Both the triads and crime groups originating in mainland China have established relationships with ethnic Chinese crime groups in countries throughout the Pacific Rim, Europe, and the Western Hemisphere. Using traditional Chinese practices of networking, ethnic Chinese crime groups rely on a broad criminal fraternity that can broker contacts in any country where there is a large ethnic Chinese community and help facilitate transnational criminal activity.

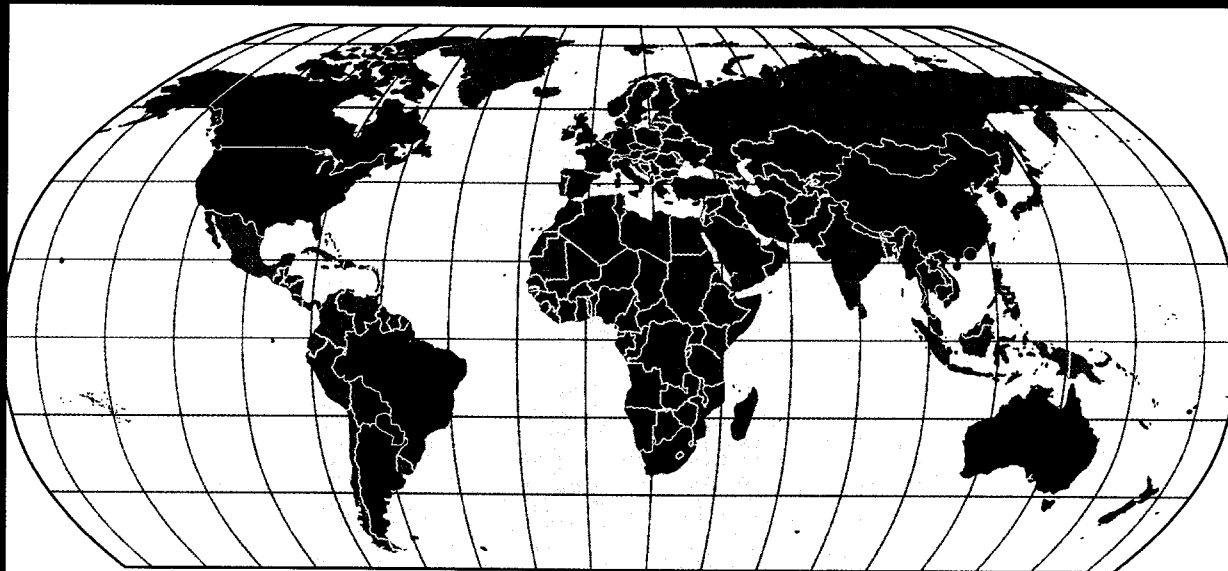
- Chinese organized crime has strong roots in Chinese ethnic enclaves around the world. Local Chinese crime groups—ranging from street gangs to more formally structured groups modeled after, or affiliated with, traditional triads—typically are extensively involved in local rackets like gambling, loan sharking, narcotics distribution, prostitution, and business extortion.

While they are closed and secretive to outsiders, Chinese criminal organizations generally have few qualms about cooperating with other ethnic criminal groups in profitable joint ventures. For example, in the United States, Canada, and Europe, Chinese organized crime groups have worked with Italian and Dominican criminal organizations in trafficking heroin.

Europe and North America are major targets for Chinese criminal networks. Although ethnic Chinese groups are not as powerful as Italian or Russian organized crime in Europe, they have long-established footholds in the Chinese communities of several European nations from which they appear to conduct most of their illegal operations. International Chinese organized crime groups are particularly strong in the Netherlands, the United Kingdom, and Germany. Since the late 1980s, Chinese criminal organizations have also established themselves in Central Europe, which has become a major conduit for moving illegal Chinese immigrants to Western Europe.



Worldwide Triad Activity, 1998



Extensive

Australia	Macau S.A.R.
Austria	Malaysia
Belgium	Netherlands
Belize	Panama
Cambodia	Paraguay
Canada	Philippines
China	Slovakia
Czech Republic	Taiwan
Dominican Republic	Thailand
Germany	United Kingdom
Hong Kong S.A.R.	United States
Japan	

General

Argentina
Brazil
Burma
France
Italy
New Zealand
Saudi Arabia
South Africa
South Korea
Spain
Vietnam

Boundary representation is
not necessarily authoritative.

APPROVED FOR RELEASE
DATE: JAN 2001

Triads Versus Mainland Chinese Criminal Groups

Most triad societies are based in Hong Kong, Taiwan, or Macau, but their influence spans international boundaries with members located in virtually every country that has a sizable Chinese community. Triads, which collectively have an estimated worldwide membership that exceeds 100,000, are fluid associations of ethnic Chinese criminals and quasi-legitimate businessmen involved in an array of criminal enterprises. Most Hong Kong triads have evolved into loose-knit groups operating and cooperating with each other on the basis of personal introductions and mutual interests. Triad leaders do not dictate to members what criminal activities they should pursue and generally do not receive monetary benefits unless they are directly involved with the actual criminal enterprise.

- Hong Kong police estimate there are 50 to 60 different triad societies operating in Hong Kong. Currently, Hong Kong's largest triad, Sun Yee On, is the only one with a true hierarchical structure. By contrast, the 14K triad, still one of the most powerful, is comprised of more than 15 loosely affiliated groups.
- In addition to their traditional criminal enterprises, Hong Kong triads have diversified more into sophisticated white-collar crimes. Recent Hong Kong government figures suggest increased triad involvement in high-tech computer crimes and criminal activities such as possible manipulation of the stock and futures markets. Using connections in mainland China and taking advantage of the different legal systems in Hong Kong and the Guangdong region of southern China, the Hong Kong triads have also increased their cross-border criminal activities.

The major triads like 14K and Sun Yee On, both based in Hong Kong, and the United Bamboo Gang, based in Taiwan, have autonomous branches extending worldwide that help to facilitate transnational criminal activities. In the 1990s, Hong Kong triads strengthened their presence and relationships in Western countries, including by making various investments in legitimate businesses, as a hedge against the political, economic, and law enforcement uncertainties of Hong Kong's reversion to China in 1997. The two largest Hong Kong triads, 14K and Sun Yee On, have made substantial property investments in Canada this

decade. The 14K reportedly is the fastest growing triad in Canada. The FBI also reports there is a substantial 14K presence in the United States.

- It is not unusual for different triad groups, both in Hong Kong and abroad, to work together where there is a specific opportunity for mutual profit. Hong Kong police, however, maintain that there is no international triad network or centralized control over cross-border activities, such as drug trafficking or alien smuggling, between mainland China and Hong Kong. Most cooperation in such criminal enterprises is more ad hoc collusion, according to Hong Kong authorities.

Criminal groups from mainland China, typified by the Big Circle Gang and the Fuk Ching Gang, have cells operating in countries around the world that cooperate with one another on an ad hoc basis to conduct far-reaching criminal schemes. These criminal cells typically operate autonomously with no known central authority controlling them. Cell leaders use their extensive connections to organize often very complex criminal operations that require a high degree of organization and planning. The coordinated efforts of members in various countries enable them to carry out international drug trafficking, arms trafficking, alien smuggling operations, as well as a variety of more sophisticated financial fraud crimes.

- US and Canadian law enforcement reporting indicates the Big Circle Gang, which is the dominant organized crime group in China, has in a short time become one of the most active Asian criminal organizations in the world. By the early 1990s, the Big Circle Gang had established criminal cells in Canada, the United States, and Europe. It is extensively involved in drug trafficking, alien smuggling, vehicle theft and trafficking, and various financial, intellectual property rights, and high-tech crimes. Big Circle Gang cells are also highly sophisticated in their use of technology to thwart law enforcement investigations, according to US law enforcement. Since first appearing in the United States in the early

1990s, Big Circle Gang members have been detected in New York, Boston, Seattle, San Francisco, and Los Angeles.

- The Fuk Ching Gang is most notorious for alien smuggling, including the Golden Venture tragedy off New York in 1993.

Chinese Criminal Threat to the United States

The United States faces a growing threat from Chinese organized crime groups that are using Canada as a base from which to conduct criminal activities that impact our country. Members of ethnic Chinese criminal groups from China, Hong Kong, Taiwan, and Macau have exploited Ottawa's immigration policies and entrepreneur program to enter the country and become Canadian residents, which makes it easier for them to cross into the United States. Canada has become a gateway for Chinese criminal activity directed at the United States, particularly heroin trafficking, credit card fraud, and software piracy.

The two largest Hong Kong triads, 14K and Sun Yee On, increased their presence and made substantial property investments in Canada during the 1990s. Prominent 14K members from Hong Kong and Macau have emigrated to Canada during this time, and Sun Yee On triad members have settled in Toronto, Edmonton, and Vancouver. The 14K, which maintains a chapter in Toronto, also has been tied to Asian criminal activities in New York and other US cities. Sun Yee On members are involved in trafficking heroin and methamphetamine, as well as alien smuggling, to the United States, where the triad has ties to New York's Tung On Gang.

The most active Asian criminal group operating in Canada, however, is the Big Circle Gang. The Big Circle Gang is responsible for importing much of the Southeast Asian heroin entering Canada—much of which is then smuggled into the United States—and the source for many of the counterfeit credit cards used in North America.

Japan

Over the years, Japanese crime syndicates, known as yakuza, have exploited their traditional roles in arbitrating disputes and loan collection to gain a wide measure of public acceptance. The yakuza's

of "sokaiya," corporate extortion, often by threatening to disrupt corporate shareholders meetings, has been generally tolerated by Japanese society, despite the economic influence it has given organized crime. Their role in local communities has sometimes placed the yakuza in a better position than the government to respond to civic emergencies, such as when they responded more quickly and efficiently than the Japanese Government in bringing relief aid to victims of the 1996 earthquake in Kobe. The yakuza have also benefitted from historically weak anti-crime legislation and limited law enforcement investigative authority. By adhering to rules of conduct that preclude violence against the police and innocent civilians, Japanese crime syndicates traditionally have been able to operate largely in the open, including highlighting the location of their headquarters in local communities.

The yakuza were able to cash in on Japan's economic and real estate boom in the 1980s to expand their profit-making activities beyond their traditional criminal arenas of drugs, gambling, prostitution, and corporate extortion. Housing loan companies, *jusen*, that were affiliated with major Japanese banks reportedly issued a portion of their loans, many of which were not repaid, to yakuza-tied firms as part of the speculative boom in real estate in the 1980s. As a result, the yakuza were behind many of the problem loans leading to the 1996 collapse of the *jusen* mortgage industry.

- One expert on Japanese crime believes that yakuza interests may have directly accounted for 10 percent of the banking industry's bad loans, which he estimated as high as \$700 billion, and an additional 30 percent of the bad loans may have been indirectly tied to yakuza affiliations.³ The president of a Japanese corporation assigned to help collect the bad debts stated in 1998 that yakuza-affiliated companies tied to billions of dollars of bad debt were the most formidable obstacle to recovering those loans.

³ One press report estimated the banking industry's bad loans to be as high as \$1 trillion.

APPROVED FOR RELEASE
DATE: JAN 2001

In some cases, the yakuza sought to block the disposal of real estate assets that underlie the bad loans.

Although information is limited, press accounts indicate it is very likely that the yakuza have links to Japanese Government officials and have influenced some government decisions. Few of these incidents are widely publicized. In November 1997, however, yakuza connections to sokaiya scandals involving major Japanese banks and similar related allegations against members of the powerful Finance Ministry were widely reported in the Japanese media.

Despite the longstanding tradition of tolerance for the yakuza, the Japanese have become less accepting of organized crime activities in recent years, primarily because of public concerns about increasing street crime and drug abuse, rather than the yakuza role in the financial crisis and banking scandals. "Anti-yakuza" legislation implemented in the early 1990s and updated in 1997, such as recently implemented legislation allowing wiretaps in some criminal investigations and a nationwide crackdown on sokaiya, appears to have helped curb some organized crime activities. Despite the yakuza, ethnic Chinese criminal gangs linked to illegal immigration, drug smuggling, and arms trafficking are publicly perceived as the most serious criminal threats to Japan.

Japanese Yakuza

Taken as a whole, the yakuza are among the world's largest and most powerful criminal confederations. The yakuza are highly structured and criminally diverse organizations that have thoroughly penetrated Japanese society, including the legitimate economic sphere, through their extortion-like practice of "sokaiya." There are an estimated 3,000 yakuza groups and subgroups based in Japan. According to Japan's National Police Agency, 60 percent of the estimated 90,000 members and associates of yakuza families are affiliated with one of three groups: the Yamaguchi-Gumi, Sumiyoshi-Kai, and Inagawa-Kai. These groups control most organized criminal activity in Japan, including gun trafficking, drug smuggling, alien smuggling, prostitution, illegal gambling, extortion, and white-collar crime through infiltration of legitimate businesses.

- Academic specialists on Japanese organized crime have estimated the annual revenue of the yakuza at about \$13 billion.

While most of their criminal operations are in Japan, yakuza groups have established a presence throughout Asia, Australia, and the Western Hemisphere. The yakuza have used their international networks primarily to acquire narcotics, guns, or illegal immigrants—particularly women for prostitution—for the Japanese market.

- Yakuza groups acquire most of their heroin and methamphetamine from Chinese criminal groups in Taiwan and Hong Kong and may have established relationships with South American trafficking organizations for obtaining cocaine.
- China, Taiwan, and Russia are major sources of firearms for the yakuza; Japanese police officials have estimated that 90 percent of the illegal weapons seized each year come from overseas because of Japan's strict gun control laws.
- The yakuza also rely on their international connections for illegal aliens to work in the prostitution, entertainment, and construction enterprises they control in Japan. The Yamaguchi-Gumi group, which includes 900 affiliated gangs throughout Japan, runs extensive prostitution rings that prey on women from Latin America, Russia, and Southeast Asia.
- Some of the Chinese migrants smuggled into Japan continue on to the United States, but there is only fragmentary evidence indicating that yakuza groups are directly involved in smuggling illegal aliens into this country.

Although most yakuza criminal relationships overseas are used to facilitate their own criminal activities, some yakuza families are establishing more longterm alliances with other international crime organizations. The Russian connection appears to be particularly important to yakuza groups; in 1992 the Japanese press reported that the head of the Yamaguchi-Gumi

North Korea's Role in International Drug Trafficking

A large share of the methamphetamine consumed in Japan comes from North Korea, according to media reports; more than 40 percent of the methamphetamine seized in Japan in 1999 came from North Korea. There have been regular reports from many official and unofficial sources that impoverished North Korea has engaged in drug trafficking—mostly to Japan, Russia, and China—as a criminal state enterprise to raise badly needed revenue. Over the years, customs and police officials of many countries have apprehended North Korean persons employed as diplomats or in quasi-official capacities at North Korean state trading companies trying to smuggle drugs produced elsewhere.

had announced his intention to establish working relationships with the Russian mafia. Russia has become a major source of firearms and prostitutes, and a growing source of drugs, for the Japanese yakuza. The establishment of regular flights between major Japanese and Russian cities and relaxed travel restrictions are likely to facilitate long-term ties between Russian and Japanese crime groups.

Yakuza Threat to the United States

One of the most significant threats posed by Japanese organized crime groups is their investment in legitimate businesses in foreign countries to launder proceeds from their criminal operations in Japan. The yakuza reportedly have invested heavily in US and Canadian real estate, ranging from golf courses to hotels. By playing the stock market, yakuza groups have also laundered criminal proceeds through US financial institutions, according to US law enforcement.

- Japanese criminal activity in the United States has primarily involved fraud and money-laundering activity.
- The Inagawa-Kai yakuza crime group, which is involved in drug and arms trafficking, extortion, investment frauds, and money laundering, has invested heavily in Hawaii and the states on the west coast of the United States.

Africa

Porous borders, ample routes for smuggling drugs, weapons, explosives, and other contraband, and corruptible police and security forces make Sub-Saharan Africa an inviting operational environment for international criminals, drug traffickers, and terrorists. Major Sub-Saharan cities with extensive commercial, financial, and sea and air transportation links to Europe, the Middle East, and Asia are hubs for international criminal activity, particularly by Nigerian criminal syndicates. These include Nairobi and Mombasa in Kenya, Addis Ababa in Ethiopia, Abidjan in Cote d'Ivoire, Johannesburg in South Africa, and Lagos in Nigeria.

Nigeria

Nigeria is at the center of international criminal activity coming from Africa. Powerful and sophisticated criminal syndicates based in Nigeria have extensive networks that reach into the Western Hemisphere, Europe, Russia and the CIS, Southeast and Southwest Asia, Australia, and Africa. With Nigeria an historical trading crossroads both in Africa and along maritime routes between East and West, the international criminal operations of Nigerian syndicates are the legacy of a history of moving capital and commodities on a global scale.

Nigerian criminal syndicates centered in Lagos, many of which have global networks, operate with virtual impunity in an environment of pervasive corruption. Decades of mostly military rule in Nigeria have exacerbated the problem, ruining the Nigerian economy and nearly bankrupting the Nigerian Government. Moreover, decades of gross economic mismanagement, with which the newly elected civilian government has just begun to grapple, have left not only private citizens but also government and law enforcement officials and junior and noncommissioned military officers with great incentive to engage in criminal activity to make ends meet. Under the recent military regime, many of Nigeria's political and military leaders, government bureaucrats, and business elites routinely accepted and demanded bribes or kickbacks in

**APPROVED FOR RELEASE
DATE: JAN 2001**

return for facilitating profitable business activity—whether in the lucrative oil sector, competitive procurement contracts, or the drug trade.

Corruption and resource constraints have made meaningful law enforcement investigations and prosecutions against the crime barons very difficult in Nigeria. Corruption extends to all levels of the military, which has dominated politics in Nigeria for most years since independence. Likewise, civilian politicians and bureaucrats have engaged in massive corruption, whether during periods of civilian or military rule. Nigerian sea and airports are rife with corruption, and borders are porous to criminals, terrorists, and illegal migrants. The decades-long history of corruption and mismanaged exchange rates has also benefited the money-laundering activities of Nigerian criminal syndicates.

Past Nigerian regimes have typically tried to cast the drug trafficking and financial frauds committed by Nigerian criminal syndicates as victimless crimes that are driven by demand in Western countries. Anticorruption campaigns mounted by military and civilian governments alike have yet to alter the culture of corruption in Nigeria. Nevertheless, some Nigerian elites, including in the military, have come to recognize that pervasive crime and corruption in Nigeria have crippled the economy, contributed to social and political tensions, and undermined relations with major historical trading partners, including the United States and West European countries. Widespread fraud has caused Nigeria to lose billions of dollars in business and foreign investment, according to press reporting. These factors have caused many Nigerian elites to advocate a crack down on corrupt officials and criminal activity, and the new civilian government seems much more inclined to take up this challenge.

Nigeria's President Obasanjo, elected in the aftermath of a highly corrupt military regime, has pledged institutional reforms to cut down on pervasive corruption and to crack down on criminal activity, particularly drug trafficking. The country's history of widespread corruption, however, and the influence of powerful crime barons make effective follow-through on these promises highly problematic.

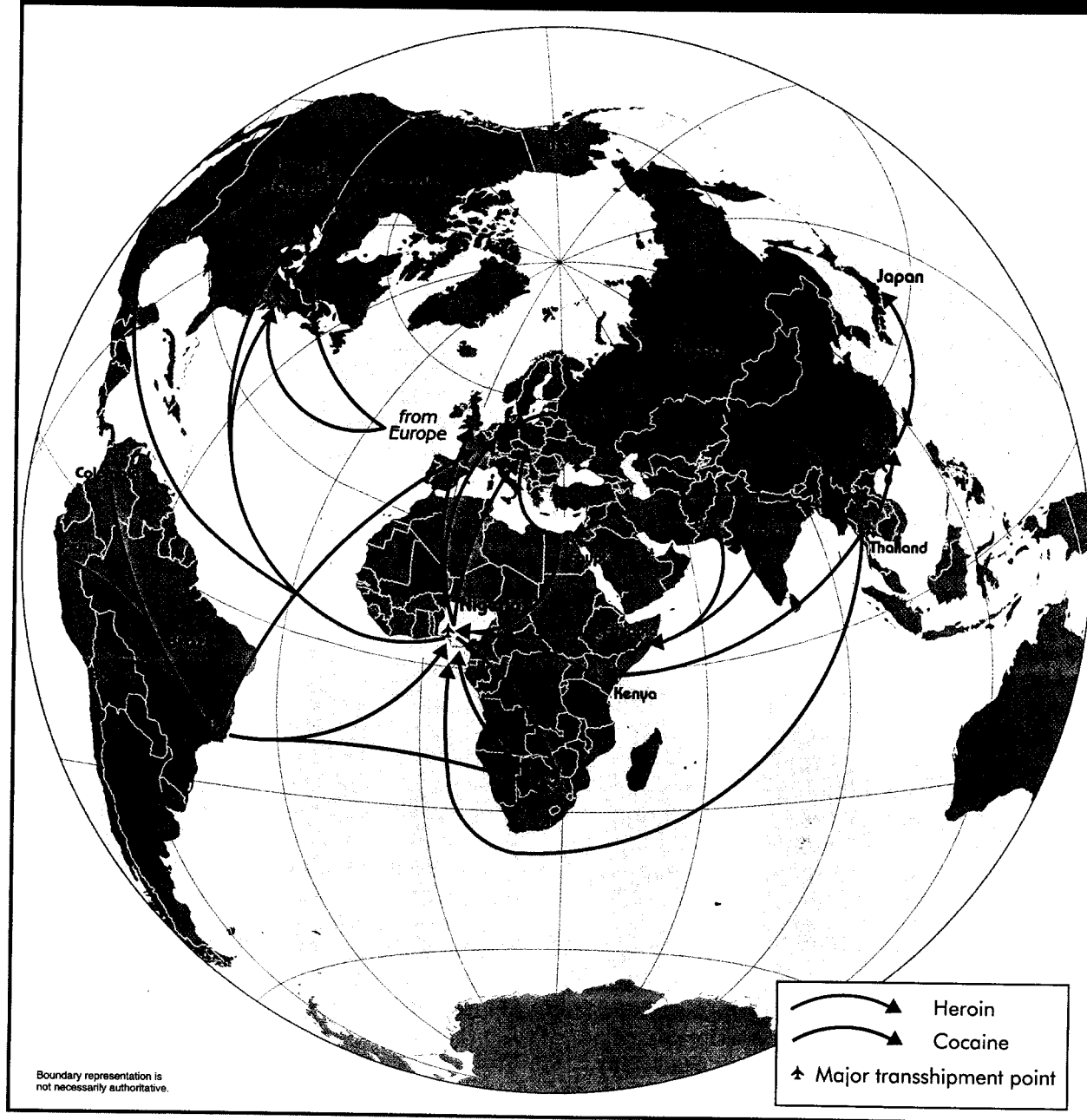
South Africa

As a major locus of maritime trade and air traffic between Asia, Europe, and the Western Hemisphere, South Africa is emerging as a significant hub of international criminal activity. The lifting of international trade sanctions with the end of apartheid has made South Africa readily accessible to international criminals whose operations take place within the framework of legitimate commercial business activities. South Africa's modern airports and harbors—including container ports at Durban, Cape Town, Port Elizabeth, and East London—are attractive to criminals smuggling narcotics and other contraband. South Africa's well-developed business connections to the West and political connections to some states of concern can be used by criminals to broker illicit transactions involving arms, controlled technologies, or strategic commodities. For criminal organizations, South Africa also has the advantage of a modern financial system linked to financial markets worldwide, which facilitates money laundering. And, as happened in Russia, criminal organizations recruit professionals with skills well-suited to competing in the modern business environment who were pushed aside or sidelined by the political and economic changes taking place in South Africa.

With the increase in international travel and business since the apartheid government turned over power in 1994, the scope of organized crime in South Africa has evolved from generally small-scale operations centered in localities to nationwide syndicates. South African police officials have identified almost 200 organized crime groups operating throughout the country, with at least 32 having international connections, according to press reports in 1998. Almost half of the 200 groups were reported to be primarily involved in drug trafficking, and approximately 60 groups were associated with financial crimes. Foreign organized crime groups, primarily Nigerian, Russian, and Chinese syndicates, have established bases of



Major Nigerian Drug Trafficking Routes



APPROVED FOR RELEASE
DATE: JAN 2001

operations in South Africa since the mid-1990s for a variety of illegal activity, including drug trafficking and other contraband smuggling, poaching and trafficking in endangered species, money laundering, and financial crimes.

- The South African police estimated in 1998 that more than 30 Asian, Italian, Nigerian, and Russian crime groups operating in the country were responsible for direct and indirect losses of government revenue totaling more than \$3 billion annually.

The international drug trade has become a particularly serious problem for South Africa. Nigerian traffickers are finding South African air and seaports to be attractive gateways for transshipping both cocaine and heroin into the West European market. South Africa's growing role in the international drug trade has increased its domestic addiction problem, especially for cocaine, which Nigerian traffickers have made widely available at low prices.

South African authorities are most alarmed by the presence and activities of Nigerian, Indian, and Russian criminal organizations. They are becoming concerned by growing numbers of Chinese triad criminal groups operating in South Africa. Nigerian criminal groups have established cells in expatriate communities in South Africa's major commercial centers, while Indian criminal organizations operate within the country's substantial South Asian population. Russian criminals have exploited legitimate business opportunities in South Africa to launder money and reportedly engage in money laundering, arms smuggling, automobile theft rings, and illicit strategic commodities transactions, including in gold and other minerals.

The dramatic increase in criminal activity in South Africa initially caught the government unprepared. Violent crime and drug abuse have grown substantially since the early 1990s. In late 1997, South African police estimated that there were between 5 and 8 million illegal firearms in the country. Efforts to confront organized crime are undermined by widespread corruption in the police and the lack of tough laws. This environment has contributed to the rise of ethnic-based vigilante gangs, particularly among the Muslim minority, that have taken the law into their own hands.

Alarmed by these developments, the South African Government has begun taking measures to improve its anticrime legislation and enforcement capabilities. In 1998, South Africa passed the Prevention of Organized Crime Act, which is similar to the US racketeer-influenced corrupt organization (RICO) statute, and which also contains anti-money laundering provisions.

East Africa

Having a long tradition of contraband smuggling, the countries along Africa's Indian Ocean coast are emerging as significant transit points for international drug traffickers, particularly in the Southwest Asian heroin trade. The large volume of cargo handled by major East African seaports in Mombasa, Kenya, and Dar es Salaam, Tanzania, probably hides substantial amounts of contraband trade, including drugs, coming from the Middle East, Pakistan, India, and Southeast Asia. In addition, Nairobi and Addis Ababa are major international air hubs in the region.

- An increasing amount of Southwest Asian heroin is appearing in Kenya, some reportedly en route to Chicago and New York.

Trade and customs agreements among the East African countries are probably widely exploited by international criminals and traffickers, including to move drugs and contraband into southern Africa. This route is used by South Asian criminal organizations smuggling methaqualone, also known as mandrax, produced primarily in India to the lucrative South African market. The terrorists who bombed the US Embassies in Kenya and Tanzania in 1998 took advantage of lax border controls in the region and immigration procedures to move materials and personnel into place.

- Sudan remains a safehaven for terrorist groups.

As countries along the traditional routes used for trafficking Southwest Asian hashish and heroin have given more emphasis to drug interdiction, East Africa

has become more attractive as a transshipment point not only because of its international transportation and commercial connections to the rest of the world but also because of lax law enforcement capabilities. Pre-occupied with regional crises and substantial domestic problems, including high local crime rates, East African governments so far have not given priority to targeting international criminal activity, and they lack the resources to do so effectively. In addition, international criminals and drug traffickers routinely bribe customs and law officials to ignore contraband trade.

- Allegations of official complicity in drug trafficking through Kenya have increased in the last year, given impetus by a multi-ton seizure of hashish in Mombasa in January 2000. Members of parliament and high-ranking police and administrative officials have been linked to facilitating or protecting that shipment.

Nigerian Criminal Enterprises

Worldwide, there are hundreds of Nigerian criminal cells located primarily in major metropolitan centers in North America, Europe, and Asia. Recent estimates suggest that more than 500 Nigerian crime cells are operating in at least 80 countries. Nigerian criminals take advantage of large West African ethnic communities in these cities to establish the infrastructure needed to support a wide range of criminal activity—foremost among them drug trafficking and sophisticated schemes to defraud individuals, businesses, and governments—which reap billions of dollars in illicit proceeds. Nigerian crime groups also facilitate illegal immigration of Nigerian nationals to metropolitan areas around the world, whom they then use for filling high-risk, low-level roles in drug trafficking, and are involved in trafficking women and children to Europe, especially Italy. The United States and Britain are the primary targets of Nigerian criminal activity, with Nigerian crime cells elsewhere in the world purchasing drugs or providing financial and logistical support.

- Between 25 and 30 percent of the heroin seized at US international airports in recent years was taken from couriers employed by Nigerian trafficking groups, according to US Customs data.

While a large number of Nigerian criminal groups operating overseas appear to be small and autonomous, many others belong to large criminal syndicates based in Nigeria. The smaller groups frequently pool resources and are able to tap into highly fluid networks in countries around the world to facilitate their criminal operations. Many Nigerian crime groups in countries around the world appear to be compartmented cells of larger syndicates controlled by crime barons based primarily in Lagos. The barons, some of whom have substantial economic and political clout in Nigeria, oversee the day-to-day operations of a network of crime cells deployed worldwide to undertake or support a wide range of criminal activities.

Drug Trafficking

Nigerian criminal syndicates are among the world's most active traffickers in Asian heroin—particularly to the United States—and are increasingly trafficking South American cocaine to various regions in Africa and throughout Europe. Producing no heroin of their own, Nigerian traffickers have well-established networks in Southeast and Southwest Asian countries to acquire the drug. The steady and virtually uninterrupted flow of Nigerian-controlled heroin from these source regions is facilitated by criminal cells in transit countries along the way. Nigerian traffickers typically smuggle only small quantities of drugs, using both express mail services and thousands of individual couriers in an effort to overwhelm market country customs and law enforcement capabilities and to lessen the cost of any seizures. They tend to avoid sending drug couriers on direct flights from drug-producing and key transit countries to market countries, relying instead on a widely diverse number of routes transiting airports throughout Asia, Africa, and Latin America.

- Using techniques and concealment methods similar to those used to smuggle heroin from Asia, Nigerian criminal syndicates dominate transatlantic cocaine shipments between Brazil and Africa, from where the drug is transhipped to markets in South Africa and Europe.

- In planning their drug courier runs, Nigerian traffickers make careful study of customs and security procedures in producer, transit, and market country air and sea ports. They readily adapt to international law enforcement measures against them. Nigerian traffickers, for example, are now recruiting "low profile" couriers who are less likely to draw the attention of international customs agents. These include Caucasians, women (often with children), and the elderly. To avoid scrutiny at US international airports, Nigerian traffickers sometimes deliver drugs to Canada or Mexico for overland transshipment into the United States.

Financial Fraud Schemes

In addition to their significant role in narcotics smuggling, Nigerian criminal syndicates are involved in a wide variety of financial fraud schemes that target private citizens as well as businesses, particularly in the United States and the United Kingdom. The most notorious of these are advance fee scams, in which thousands of unsolicited letters and faxes based on fraudulent representation are sent by Nigerian criminals to businessmen worldwide with the promise of great profits at the cost of upfront cash investment. The letters and faxes set forth simple investment schemes, promises of "easy money," elaborate assurances, and extraordinarily low risk. They provide detailed instructions for establishing linked bank accounts and exchange of authorization letters and account numbers to give the appearance of legitimacy, then require various transaction fees before any moneys can be released. Victims of Nigerian fraud schemes may be strung along for months or years paying transactions fees and taxes before realizing they are being conned.

- In 1999, US victims reported several hundred million dollars of losses to Nigerian advance fee frauds, according to US law enforcement. These figures do not include losses to victims from outside the United States. In addition, many people do not report being victimized by advance fee fraud schemes because of fear or embarrassment.
- During one six-week period in 1998, US postal authorities destroyed some 700,000 advance fee letters that had arrived in New York's JFK International Airport.

Nigerian criminal cells worldwide also specialize in sophisticated schemes targeting banks and financial institutions through credit card and check fraud, student loan and mortgage frauds; insurance companies through fraudulent claims for automobile accidents, personal injuries, and life insurance; and government entitlement programs through false or appropriated identifications and theft from legitimate recipients. Illicit funds raised through financial fraud schemes are often used to capitalize narcotics trafficking. The penetration of government bureaucracies in many countries has enabled local Nigerian cells to defraud government entitlement programs.

South America

As the exclusive source of cocaine for the world market, South America is a primary locus of the international drug trade. Colombian traffickers are responsible for producing most of the world supply of finished cocaine, and they have established drug-trafficking networks throughout the Western Hemisphere. Analysis of cocaine flows data from US detection and monitoring assets and data on cocaine use elsewhere in the world show that most of the cocaine produced in Colombia is for the US market. Colombia, Venezuela, and Ecuador are the primary staging areas for drug exports destined for the United States.

In the last decade, however, international criminal activities linked to South America have expanded beyond the drug trade and become more multifaceted. The continent's increased commercial and transportation links to Europe and Africa, as well as to the Caribbean basin and the United States, have attracted an increased presence of foreign criminal organizations. Greater regional economic integration has helped South America emerge as a significant source of counterfeit products for the international market. Money launderers are exploiting the region's weak enforcement against illicit transactions to move and shelter criminal proceeds.

The power and influence of criminal organizations have eroded good governance, diverted attention and resources away from more pressing political and security problems, and skewed the economies of many South American countries. Throughout the region, the activities of local criminal mafias have become a significant political, as well as law enforcement, concern. Crime groups in many countries have suborned local police officers and other public officials to safeguard their illegal activities.

Colombia

The drug trade in Colombia has helped fuel decades of violence, corruption, political strife, and, particularly in recent years, insurgency. Colombian drug profits since the 1970s have bought power and influence at the highest levels of the government, judiciary, and financial institutions. Government leaders have faced daunting obstacles, including bribes, threats, violence, and other tactics, as they to control drug-trafficking operations. The level of violence and narco-terrorism reached its apex in the late 1980s and early 1990s when countless police were killed by traffickers, a major presidential candidate was assassinated, the headquarters of Colombia's lead investigative agency was destroyed in a high-casualty bombing, and an airliner was destroyed in flight. In 1994, trafficker financial support may have been influential in the victory of President Samper in a close election. Bogota's anti-drug efforts since the mid-1990s—including arrests of key traffickers, increased interdiction, and recent extradition of three traffickers to face drug-trafficking charges in the United States—have reduced much of the overt influence exercised by powerful trafficking organizations, but Colombian traffickers have adapted to stay atop the worldwide cocaine trade.

- The dramatic increase in coca cultivation in Colombia—from less than 20 percent of the Andean total in 1994 to 67 percent in 1999—is the primary catalyst of the current crisis.
- The United States is committed to substantial support for Plan Colombia, Bogota's response to the crisis developed in close collaboration with Washington. Central to Plan Colombia's success will be crippling the drug trade by substantially reducing coca cultivation and the processing and movement of cocaine and heroin within three years.

Of particular significance in Colombia's current crisis, surging drug production is providing substantial resources to insurgent and paramilitary groups that threaten the country's stability. In more than half of Colombia's national territory, the FARC and ELN rebel groups or the paramilitaries have free rein. Promoting and protecting coca cultivation in the areas it controls, the FARC has emerged as a major player in the drug trade throughout Colombia, particularly in the south where cultivation increases have been the greatest. The substantial revenues raised by the FARC through its involvement in the drug trade have increased the ability of the insurgents to operate freely throughout the country and to finance growing numbers of armed combatants.

- US Government analysts estimate that the FARC could potentially earn nearly half of its total revenues from taxing the drug trade. Other illicit activities, which include kidnappings, robberies, and other crimes, account for most of the rest.
- Meanwhile, paramilitary involvement in drug trafficking is also increasing. The leader of the most notorious paramilitary group stated publicly that 70 percent of his budget comes from the drug trade.

Along with guerrilla attacks against economic targets, the drug trade has been a major factor in Colombia's economic difficulties. The black-market peso exchange used extensively by Colombian traffickers, through which drug proceeds in the United States are exchanged for trade goods that are smuggled into Colombia, has caused the contraband import industry to capture more than 25 percent of the country's retail market. Contraband trade goods financed largely by cocaine profits entering the Colombian marketplace were estimated to be as high as \$1.7 billion in 1999; the value of Colombia's legal imports in 1999 was about \$12 billion, according to the former Colombian trade minister.

- Colombia's imports from Panama, whose robust financial and commercial sectors make it an outlet in the black-market peso exchange, are now dominated

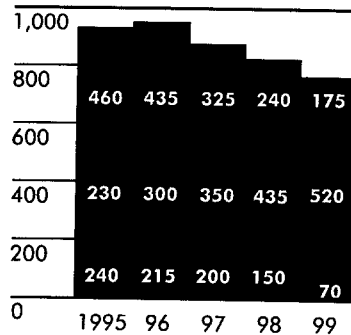


Andean Coca Cultivation, 1999

■ Peru ■ Colombia ■ Bolivia

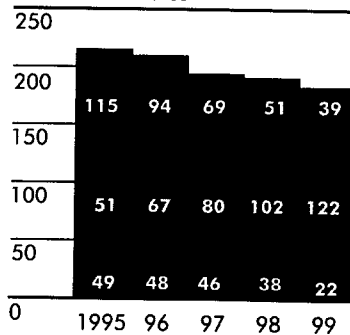
Andean Potential Cocaine Production 1995-99 (U)

Metric tons



Andean Coca Cultivation 1995-99 (U)

Thousand hectares



APPROVED FOR RELEASE
DATE: JAN 2001

by contraband. The Colombian comptroller's office reports that of \$1.3 billion worth of reexport goods entering Colombia from Panama's Colon Free Zone in 1997, only \$170 million was recorded as legal commerce.

- Colombian money transmitters have adapted to disruptions caused by successful enforcement operations—such as the 1998 Operation Casablanca, which targeted the Mexican financial system—and to US regulatory efforts, such as the Geographic Targeting Order in New York, to continue laundering drug proceeds through the black-market peso exchange.

Colombia is also the world leader in the production of counterfeit US currency. Ongoing investigations in Colombia indicate that drug trafficking and counterfeiting are linked; the same courier networks are often used for trafficking drugs and counterfeit US dollars. Many of the crime groups involved in producing and trafficking counterfeit currency originated from areas controlled by the FARC and ELN.

- Since 1986, some \$187 million in counterfeit US currency seized or passed in the United States and abroad was manufactured in Colombia.

The Andes

Along with Colombia, the other Andean countries are integral to the South American drug trade. Peru and Bolivia are major sources of coca for the cocaine trade; Venezuela is a major transshipment avenue for drug shipments destined for US and European markets through the Caribbean; and Ecuador's harbors and seaports have become more important as Colombian traffickers make greater use of eastern Pacific maritime routes to move cocaine to Mexico and on to the United States. Bolivia and Peru in recent years have had success in attacking the large coca economies in their countries through alternative development, voluntary eradication, and forcible eradication of coca crops. Although both countries have achieved substantial reductions in their coca crop—more than half in both countries between 1995 and 1999, according to US Government estimates—their coca constituencies remain strong. In Bolivia, powerful unions supporting

their coca growing constituencies continue to stage protests and blockades to impede the government's eradication efforts. In Peru, there are indications that a rebound in coca leaf prices is causing some farmers to return to coca cultivation.

- Ecuador and Venezuela are most vulnerable to coca cultivation spreading to their countries if the Colombian Government is successful in meeting its goal of substantially reducing drug crops and crippling the drug trade. Such a development would also increase the incentive for traffickers and farmers in Peru and Bolivia to grow more coca.

The role of foreign crime groups has been most pronounced in Bolivia, whose reputation as one of the world's most corrupt countries is attractive to international criminals. In recent years, Bolivia has been rocked by a corruption scandal involving ties that a Sicilian Mafia crime group has to high-level military, police, and political leaders. Pervasive corruption has also contributed to Bolivia being a major staging area for thousands of US-bound migrants from China and the Middle East.

Brazil and the Southern Cone

Expanding trade relations within the region and between South America and the rest of the world have helped make Brazil and the Southern Cone countries major venues for international contraband smuggling and economic crimes. Modern manufacturing capabilities in several South American countries have opened the door to illegal duplication of CDs, videos, and cassettes; illegal production of these products is centered in Brazil and Argentina, whose governments have toughened their IPR laws. Growing consumerism and middle class prosperity in the largest South American countries has made them an important market for drugs, pirated or counterfeit products, and other illicit contraband.

- Patent and trademark infringements in Argentina and Brazil cost US firms \$500 million in lost sales annually, according to a 1998 estimate by the International Intellectual Property Alliance.

Evolution of the Colombian Drug Trade

Colombia's drug-trafficking organizations are the most powerful and influential in South America. Prior to the incarceration of its top leaders in 1995 and 1996, Colombia's Cali drug mafia was believed by several international crime experts to be the world's most profitable criminal organization. Although the setbacks suffered by Cali traffickers have ended their dominance, Colombian traffickers not only continue to meet most of the world's cocaine demand, but have become the largest supplier of heroin available in the United States. Nevertheless, the disruptions caused to Colombian trafficking operations have allowed rival groups in Peru and Bolivia to increase their share of the international cocaine market—primarily in Europe and South America—by establishing direct relationships with foreign criminal organizations.

Despite the dismantling of the Cali cartel in the mid-1990s, the continuing shift in coca cultivation from Peru and Bolivia to Colombia that began then has increased the central role that Colombia plays in the Andean cocaine trade. Reinforced by substantially greater coca production in Colombia, Colombian traffickers continue to process most of the world's finished cocaine. Smaller, less powerful trafficking groups have emerged since the powerful Cali drug lords were imprisoned. While becoming less dependent on Peru and Bolivia for supplies of cocaine base, Colombian traffickers have greater expertise, more capital, and better overseas networks than emerging rivals from Peru and Bolivia. This new generation of Colombian trafficking groups maintains lower profiles, focuses on limited aspects of the drug trade, and forms more ad hoc alliances that make them more difficult law enforcement targets. In addition, Colombian traffickers have adjusted their routes and methods for moving cocaine.

International crime groups from outside the Western Hemisphere involved in drug trafficking, particularly Italian, Russian, and Nigerian syndicates, have increased their presence in Brazil, Argentina, and

Paraguay to take advantage of these countries' well-developed transportation and commercial connections to Europe and Africa. Asian criminal groups appear to be involved in a network of smuggling and counterfeiting enterprises in the "tri-border" region of Brazil, Paraguay, and Argentina. Some foreign criminal organizations have also established a foothold in South America's money laundering, gambling, racketeering, alien smuggling and trafficking in women, and auto theft crime sectors—although local crime groups dominate most criminal enterprises in the region. A 1996 UN study estimated that \$20 billion is laundered through Brazil annually from drug trafficking and contraband trade.

The Southern Cone countries have been hard pressed to cope with rising crime rates and criminal violence. Criminality is most severe in Brazil, where the illegal import of firearms, used frequently to protect turf and resolve disputes with rival crime gangs, and rising street crime, kidnappings for profit, and drug addiction have exacerbated social tensions. Allegations of criminal corruption have contributed to political scandals or crises in several countries, including Brazil, Argentina, and Paraguay.

The Caribbean

The Caribbean has long been a major transit route for cocaine, marijuana, and more recently smaller quantities of heroin moving from South America to the United States and Europe. It is also an avenue for smuggling illegal migrants and other contraband, including arms. The Caribbean's vast stretches of open water and thousands of islands and cays—too numerous for law enforcement to effectively patrol—afford drug traffickers and other smugglers many and varying transshipment routes. The Bahamas alone has some 700 islands and more than 2,000 cays.

- About one-third of the cocaine entering the United States transits the Caribbean, according to US Government estimates.

Caribbean Offshore Financial Centers That Facilitate Money Laundering

Offshore financial centers are defined as those with both offshore banking and other financial services.



APPROVED FOR RELEASE
DATE: JAN 2001

- Jamaica is the largest exporter of marijuana in the Caribbean and has well-established networks of crime gangs with ties to both Colombia and the United States.

Puerto Rico is a primary target of drug-trafficking flows in the Caribbean because of its central location astride the three major trans-Caribbean smuggling routes—directly from South America, through the Hispaniola countries of Haiti and the Dominican Republic, and through the Lesser Antilles island chain—and its attractiveness as a point of entry into the United States. Puerto Rico is a major commercial transit center in the Caribbean, with more than 14 million tons of cargo handled in San Juan alone each year. Once drug shipments or any contraband have been smuggled into Puerto Rico, they have entered the United States and can be moved to the mainland by commercial ships and planes generally not subject to US Customs inspections.

- Although Colombian traffickers are the prominent driving force in moving drugs through the Caribbean, Dominican trafficking groups dominate the transportation of cocaine and heroin from Puerto Rico to the US mainland. Their ties to Colombian traffickers, direct connections to the Dominican Republic—the primary staging area for drug shipments into Puerto Rico—and associations with Dominican criminal cells in major US eastern seaboard markets make them uniquely positioned to perform this role.

Drug traffickers and other international criminals also use offshore financial service centers in the Caribbean to launder their proceeds. Caribbean-based offshore and onshore banks, trust companies, international business corporations, casinos, and Internet gaming establishments are used by drug traffickers and Russian and Italian organized crime groups to launder illicitly derived funds. Many Caribbean financial centers, which were once characterized by strictly enforced bank secrecy legislation, have passed strong legislation that criminalizes money laundering related to drug trafficking and other crimes. Nonetheless, Panama and four Caribbean countries account for

one-third of the 15 countries and territories listed by the FATF as non-cooperating in combating money laundering.

International criminal activity in the Caribbean has inculcated an environment of widespread corruption, and most Caribbean island nations have weak law enforcement capabilities. Because Caribbean countries have economies reliant on financial services or tourism and gambling, they are particularly vulnerable to high-level criminal influence. Faced with few economic alternatives to these industries and the overwhelming amounts of illicit money that typically help to sustain them, few Caribbean islands have the resources or legislative framework to fight money laundering through Internet gaming establishments and effectively control economic citizenship programs. Powerful local criminals also rely on bribes and strong-arm tactics to supplement their economic clout.

Central America

The Central American isthmus is a major corridor to Mexico for the movement of US-bound illegal aliens and a significant avenue for drug shipments. It is also an avenue for arms shipments of weapons stocks from previous conflicts in Guatemala, El Salvador, and Nicaragua to Colombia. Alien smugglers and drug traffickers take particular advantage of the all-weather Pan-American Highway that runs the length of the isthmus from Panama into Mexico, bypasses virtually all of the region's major international airports, and is within 80 kilometers of most of Central America's major seaports on the Pacific Coast. To improve their odds of success, smugglers often fan out from the highway when approaching border points and cross in remote locations where inspection is more lax or nonexistent. Airlines operating in Central America have extensive routes to South America, offering attractive options for drug traffickers and alien smugglers alike. The many miles of unpatrolled Caribbean coastline in Central America, as well as several commercial seaports, have long been integral to maritime drug smuggling into the region. Guatemala is the primary staging

Cuba: Emerging Criminal Hub in the Western Hemisphere?

Economic and, to a lesser extent, political change in Cuba may make the island a major hub for criminal activity in the near future. As the Cuban economy becomes more liberalized and tourism increases, international organized crime groups would probably view Cuba as an attractive location for criminal activities, particularly if the Communist regime collapses and restrictions on travel are lifted. There are many favorable conditions in Cuba that could facilitate the penetration and growth of organized crime.

Cuba's geographic position astride Caribbean sea lanes between South America and the United States and its close proximity to US shores make it ideally situated as a potential hub for contraband smuggling. Its seaports already handle a significant volume of commercial maritime trade with South America, Europe, and Africa.

- *Drug traffickers in the past have flown through Cuban airspace to make airdrops to Florida and The Bahamas. In 1998, Colombian authorities seized a 7-metric-ton shipment of cocaine bound for Spain via Cuba, indicating the possibility that Colombian drug traffickers have been using Cuba as a transshipment hub.*
-

area for moving both drugs and illegal migrants into Mexico, from where they are smuggled across the US border.

Panama's position as a crossroads between the Atlantic and Pacific Oceans and between North and South America, and its modern and vibrant international trade and financial sectors, makes it one of the most attractive sectors for criminal activity in the Western Hemisphere. As a major hub of commercial activity, Panama has long been an important transit site for drugs smuggled in commercial maritime cargo and a

major offshore center for laundering criminal proceeds. Modern seaports adjacent to the Colon Free Zone and at the Pacific end of the Panama Canal handle large volumes of containerized and bulk cargo and are important terminals for transshipping Colombian cocaine in and out of Panama. Trafficker penetration of the shipping industry, corrupt port and Colon Free Zone authorities, and extensive use of front companies facilitate drug shipments. Drug traffickers and other criminals give significant priority to courting politicians and government officials, as well as executives in the financial sector.

As illegal migration from Latin America to the United States has increased, Panama's accessibility from South America has helped make it a key transit point for regional alien smugglers. According to US Government data, some 30,000 northbound migrants—including Ecuadorians, Peruvians, Colombians, Dominicans, Chinese, and Indians—transit Panama annually on their way to the United States. Dozens of alien smugglers are entrenched in the country, where they exploit porous borders, corrupt officials, and lax inspections by immigration authorities and airlines.

The huge volume of financial transactions handled by Panamanian banks has made Panama a significant offshore money-laundering center. Panama's dollar-based economy, robust offshore banking and company-formation sector, and extensive use of cash in the loosely regulated Colon Free Zone allow money launderers to conceal the origin of their funds.

- The value of the import/export trade turnover in the Colon Free Zone alone is estimated by trade journals at \$10 billion annually. The amount of money laundered in the Colon Free Zone has been estimated at \$1-4 billion annually, much of it through the black-market peso exchange.

Money-laundering investigations in Panama remain hampered by their complexity, the amount of time and resources required, and by inadequate anti-money-laundering legislation, which requires prosecutors to

tie money laundering directly to drug trafficking. Following Panama's inclusion on the multilateral FATF noncooperative list in 2000, the new Panamanian administration has passed new legislation expanding the list of predicate crimes and permitting Panama's financial analysis unit to share information with other countries.

After Mexico, Central America is by far the largest source of illicit migration to the United States. The US Government estimates that some 325,000 US-bound migrants originate from or transit through Central America annually before entering Mexico en route to the US border. This is equivalent to about two-thirds of the 500,000 non-Mexican illegal migrants who enter the United States each year.

- About 225,000 illegal migrants being smuggled through Central America on their way to the United States are native to the region. Most are from Guatemala, Honduras, and El Salvador, which have large immigrant communities in the United States that represent a pull factor by verifying the availability of jobs, providing housing upon US arrival, and sending remittances to family members considering immigration.
- Because alien smuggling networks are able to operate with virtually no constraints in the region, Central America is also a major gateway into Mexico and on to the United States for illegal aliens from outside the region. The US Government estimates that some 100,000 US-bound migrants from other regions—including 40,000 from South America, 12,000 from China, 6,000 from India, and the remainder from other Asian, African, and Middle Eastern countries—transit Central America each year. The 12,000 Chinese passing through Central America and Mexico account for about one-third of the total 30,000 to 40,000 illegal Chinese migrants estimated by the US Government to have been smuggled into the United States in 1999.

The Central American countries, along with Mexico, the Dominican Republic, and Colombia, are primary source countries for women and children trafficked throughout Latin America and to Western Europe, especially Spain.

Most US-bound illegal migrants from outside the region arrive in Central America by air, mostly on flights from South America. Several of the region's airlines regularly carry illegal migrants. Smugglers take advantage of corrupt employees, lax controls, and the extensive air service offered throughout the hemisphere by these airlines. Many Chinese migrants are brought to Central America by freighters; the US Government estimates that several thousand Chinese arrive by boat directly into the Central American region each year.

Alien smugglers in Central America rely on the Pan-American Highway as the main route for transporting their clients into Mexico. Its ready access to the coast and to international airports helps facilitate the efficient movement of US-bound illegal migrants coming from South America or Asia. Boats are sometimes used by smugglers to bypass part of their overland journey, particularly across the Golfo de Fonseca between Nicaragua and El Salvador and between Guatemala and Mexico.

In the last four years, nearly one-third of the South American cocaine transported to Mexico to be smuggled across the US southwest border transited through Central American countries, according to US Government estimates. Central America's importance has grown as drug flows to Mexico through the western Caribbean to the Yucatan Peninsula have declined in recent years because of increased maritime interdiction efforts. Panamanian sea and air ports are pivotal entry points for drugs entering Central America, but South American traffickers also deliver cocaine by

boat to remote beaches and harbors on both the Pacific and Caribbean coastlines. Colombian traffickers own most of the cocaine transiting Central America, but rely on regional organizations to arrange and coordinate overland transportation of drug shipments to Mexico.

Poorly policed borders and corrupt officials, some at the highest levels of government and law enforcement, are routinely exploited by drug traffickers and alien smugglers operating in Central America. Relatively low pay and standards of living for law enforcement officers and overburdened police and judicial systems allow drug traffickers considerable room for maneuvering. Corruption involving alien smuggling is particularly widespread, because most officials perceive they are committing no crimes against their own country since the migrants are only transiting en route to the United States. Corrupt officials in the Central American countries accept handsome bribes to assist alien smugglers by providing legitimate documentation, actively facilitating the movement of US-bound illegal migrants through airports and border crossings, or turning a blind eye to such activities.

While most Central American governments are in various stages of boosting their antidrug efforts, they are generally reluctant to deal with the problem of alien smuggling through their countries. Instead, press reports show that the region's governments tend to view the flight of poor citizens to the United States as a way to relieve pressure on their economies and provide a source of revenue for families in the form of remittances. Moreover, US-bound migrants from within and outside Central America may be seen as helpful to their economies because they fill hotels, buy food, clothing, and supplies, and use transportation services.

In most of Central America—with the exception of Nicaragua and Honduras, which have poor enforcement records—it is not illegal to aid and abet illegal migrants. Without antismuggling legislation, law enforcement agencies have few tools other than enforcing laws against illegal documents to deal with the problem. Constrained by small budgets and not enough law enforcement personnel, the region's governments give greater priority to committing resources against rising crime rates than to targeting alien smuggling networks.

Central American Alien Smuggling Networks

There are no major organizations or cartels that control or dominate alien smuggling through Central America or any particular country. The 325,000 US-bound migrants that are estimated to move through Central America are handled by several hundred independent smugglers who cooperate in loosely linked networks stretching across the region; a small number have extensive networks throughout Central America. Most smugglers cover a specific territory—one or two countries—from which they pass clients to other smugglers or guides known as "coyotes," rather than accompanying or having control over them for the full trip into the United States.

- The US Government estimates that alien smuggling networks in Central America generate up to \$1 billion in gross annual revenue.

Almost all Central American alien smugglers rely on widespread, illicit partnerships with agents in the travel industry to move their clients northward. Travel agencies, many of which are owned and operated by the smugglers themselves, arrange tickets and provide cover for groups of aliens moving through the region. Hotels and safehouses serve as rest stops and rendezvous points on each leg of a typical smuggling trip. Bus lines and rental car companies provide transportation. Alien smugglers also depend on corrupt officials to obtain travel documents or to facilitate the movement of US-bound illegal migrants across borders.

Some alien smugglers in Central America specialize in moving US-bound illegal migrants from Asia, especially China and India. They serve largely as regional subcontractors—with associates in Asia, South America, and the United States—that oversee the movement of US-bound illegal aliens through Central America. Unlike most of the other smugglers who organize alien smuggling runs on an ad hoc though frequent basis, these specialists tend to operate pipelines in

**APPROVED FOR RELEASE
DATE: JAN 2001**

which people movements are preplanned and consistent. Careful planning is essential because they must coordinate arrangements with the arrival of boats, from which their clients are often off-loaded offshore rather than in port, and flights carrying illegal migrants.

- A regionwide law enforcement effort against alien smuggling in 2000 resulted in Costa Rica's arrest of Gloria Nino Canales, who headed one of Central America's largest migrant-smuggling networks.

Mexico

Sharing a long 3,300-kilometer border with the United States, Mexico historically has been a hideaway for bandits and a staging area for cross-border smuggling. Terrain features ranging from the easily crossed Rio Grande to expansive stretches of remote, rugged, and inhospitable desert along the US southwest border have long been used by migrants and contraband smugglers to move back and forth across the border illegally. The urban sprawl that straddles both sides of the border in twin cities like San Diego-Tijuana and El Paso-Juarez has complicated the problem. In addition, inadequate law enforcement coverage of remote regions allows criminals to fly small aircraft or land small boats in US territory unnoticed. Multiple jurisdictions on both sides of the border further complicate organized, coherent efforts to control the border.

Criminal activity across the US southwest border has been aided by the increased volume of legitimate commerce, comparatively lower industrial wages that attract US manufacturing firms, and expanded bilateral trade agreements. The substantially increased volume of trade between the United States and Mexico resulting from NAFTA, while greatly benefiting legitimate business interests on both sides of the border, has also generated greater opportunity for traffickers smuggling drugs, as well as illegal migrants and other contraband, across the US southwest border. Extensive legitimate commerce and traffic make the border between the United States and Mexico the busiest in the world.

- The tremendous amount of legitimate commercial traffic that crosses the border on a daily basis makes effective interdiction an even more difficult challenge. Since 1993, when NAFTA went into effect, according to US Customs information, the number of commercial trucks legally crossing the US-Mexican border has increased by more than 70 percent, and the number of railcars entering the United States has increased about 60 percent.

- According to US Customs, 295 million people, 88 million automobiles, and 4.5 million trucks and railroad cars entered the United States from Mexico through 38 official points of entry in 1999. Mexico is the United States' second-largest trading partner, with more than \$100 billion of legitimate commercial trade crossing the US southwest border each year.

Powerful Mexican drug-trafficking organizations exert considerable influence on the Mexican side of the border, where they use bribes and violence in efforts to corrupt or intimidate police officials and private businessmen into allowing them to operate with limited constraint. They take advantage of the tremendous volume of cross-border trade to smuggle cocaine, heroin, marijuana, and methamphetamine into the United States.

- More than half of the cocaine smuggled into the United States comes across the southwest border with Mexico.
- Mexican traffickers have also come to dominate methamphetamine production and distribution in the United States, which had been controlled by outlaw elements in US motorcycle gangs.

Besides drug smuggling, Mexican criminal groups are involved in illegal alien smuggling, product piracy, and cross-border trafficking—from the United States into Mexico—of stolen vehicles, firearms, tobacco, alcohol, and other contraband. Mexico has become a key way station in the pipeline of illegal migrants, including large numbers from Asia, traveling from

South and Central America to the United States. Mexico also has a problem with businesses violating patent and trademark protections. From January to October 1998, Mexican authorities seized 23.4 million pirated goods, up from 12.6 million pirated items seized in all of 1997.

Mexico is the top money-laundering country in Latin America. Mexican drug traffickers reportedly repatriate much of their profits in bulk cash shipments directly from the United States to Mexico and launder funds using money exchange houses along the US-Mexican border, Mexican banks, stocks and commodities markets, and other financial institutions. Laundered funds have been used by Mexican criminal kingpins to invest in Mexico.

- Cross-border currency smuggling continues to be linked to both Mexican and Colombian drug money laundering, according to US law enforcement. There is evidence that dollar-denominated non-negotiable monetary instruments are being exported to Mexico from the United States as a way to avoid large bulk movement of paper currency across the border.
- Despite progress in Mexico's national money-laundering control policies and regulations, recent law enforcement initiatives indicate there are continued problems involving Mexican financial institutions.

The power and influence of Mexican criminal organizations are having a significant political and economic impact in Mexico. Law enforcement and press reporting clearly indicates that criminal violence—including between rival drug-trafficking organizations—kidnappings for profit, carjackings, and extortions have increased in recent years, making Mexico's rising crime rate a major political issue. Drug violence has been particularly noxious—from the 1993 killing of the Archbishop in Guadalajara, gunned down in cross-fire between rival drug-trafficking groups, to killings of law enforcement officials, to small-scale massacres in vendettas by one drug trafficking or criminal group against another.

- A major concern is the potential threat posed by particularly violent drug traffickers based in Tijuana

Mexican Drug-Trafficking Organizations

The Mexican drug-trafficking organizations that control cocaine movements through Mexico and are major distributors of cocaine, heroin, marijuana, and methamphetamine in the United States continue to grow. Powerful Mexican trafficking organizations receive up to half of each Colombian cocaine shipment moving through Mexico as payment for a successful smuggling operation, according to DEA. They also appear to have increased outright purchases of Colombian cocaine and have taken other measures to assert their independence from Colombian traffickers.

*The Mexican drug trade is controlled by several powerful trafficking organizations, most notably the **Arellano Felix organization** and elements of the **Carrillo Fuentes organization**, which split into factions since the death of drug lord Amado Carrillo Fuentes in 1997. These drug-trafficking organizations control most acquisition and transportation of drugs through Mexico and its trafficking across the US border. The Arellano Felix organization is considered by US law enforcement officials to be the most ruthless and violent drug-trafficking organization in Mexico.*

- Mexican drug-trafficking organizations are most likely to take a wait-and-see attitude toward the new reform-minded administration of President Fox.

and Juarez not only to Mexican rivals and law enforcement officers, but also to US enforcement officers operating on the US side of the border.

Widespread corruption associated with the drug trade has challenged the Mexican Government's ability to operate effectively. Corruption has certainly impaired Mexico's ability to target major drug traffickers. In several high-profile cases, senior officials, including the former Mexican drug czar, and police officers have been implicated in drug-related corruption.

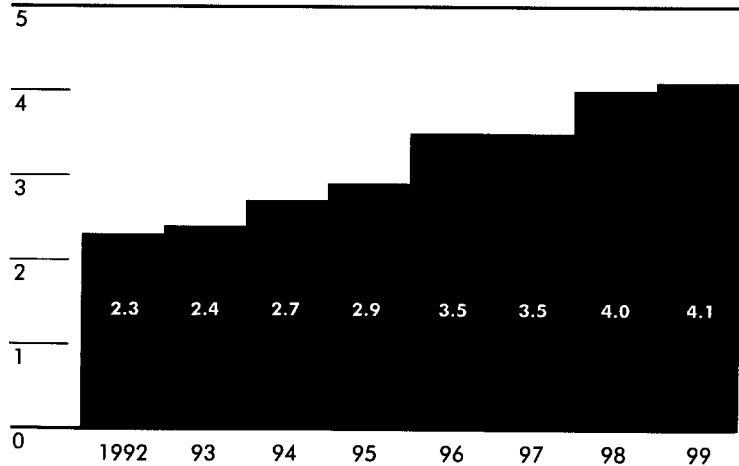
Commercial Trucks Entering the United States Through Southwest Border Crossings With Mexico, 1992-99



The number of commercial trucks entering the United States from Mexico has increased by 71-percent since 1993, when NAFTA went into effect.

Data for fiscal years provided by US Customs Service

Million trucks



APPROVED FOR RELEASE
DATE: JAN 2001

The fundamental change in Mexico's political landscape caused by Vicente Fox's election following 71 years of one-party rule presents an opportunity to attack corruption. Fox has called narcocorruption a "national cancer," promised to launch an aggressive campaign against Mexico's drug-trafficking organizations, and proposed changes to federal law enforcement agencies that would restructure the country's antidrug forces. Nonetheless, rooting out corrupt officials and reversing ingrained patterns of institutional corruption will be difficult and meet significant bureaucratic and political obstacles.

United States

The same factors of size, population diversity, economic strength, modern business and transportation infrastructure, and legal protections that make the United States a lucrative target for international criminals provide an environment that supports and sustains international criminal activity originating in this country and extending well beyond US borders:

- Continental breadth and extensive Atlantic and Pacific coastlines make the United States a trading crossroads to Europe, Asia, and the rest of the world—an advantage exploited by international criminals as well as by legitimate commercial and financial businesses.
- Both foreign and domestic crime groups are able to mask their criminal networks and activities within the broad ethnic diversity of the US population.
- With the world's largest and most diversified economy, and a high standard of living, the United States provides numerous opportunities for lucrative criminal ventures.
- International criminals operating in the United States also take advantage of the world's most modern telecommunications, transportation, and financial systems; extensive legal protection of intellectual and real property rights; and policies and laws that promote the free exchange of ideas and products that have contributed to the US global dominance as an economic and commercial power.

- Although the investigative and enforcement capabilities and effectiveness of US law enforcement agencies pose a considerable threat to organized crime, international criminals using the United States as a base of operations gamble that the legal protection of individual liberties and due process in this country and the integrity of the US judicial system will reduce their exposure and risk.

The United States is one of the world's leading sources of contraband luxury goods, firearms, tobacco products, and alcohol smuggled and sold overseas. Both US and foreign crime groups operating in the United States are involved in rackets stealing cars and other high-priced items and illegally shipping them out of the country. International criminal groups profit from evading import and other taxes in countries of destination and selling them below retail price to consumers unwilling to pay exorbitant markups and taxes in the legitimate marketplace. The smuggling of US-produced firearms to other countries is also a significant international problem; the United States is a primary source for criminal groups involved in the international smuggling of firearms because there are fewer restrictions on manufacture and sale of firearms than in most other countries.

The tremendous volume of goods entering and leaving the United States in legitimate trade provides criminal groups with unparalleled opportunities to smuggle contraband through US ports to overseas destinations. In addition to being a point of origin for contraband smuggled overseas, the United States is used by international criminals as a transit country for contraband being shipped from one foreign destination to another. International criminals know that containers arriving from the United States are less likely to arouse suspicion in most destination countries. According to the US Customs Service, more than 14 million standard shipping containers entered the United States by maritime, rail, and truck transport in 1998, most of which

contained products for the US market. Some containers, however, transited in bond to other countries; criminals transshipping contraband through US ports seek to hide the true country of origin of contraband products and hope to avoid rigorous US customs scrutiny.

While the United States is the world's leading importer of illicit drugs, it is also a major source of illegal drugs—some of which are smuggled overseas. The United States is one of the world's leading producers of marijuana, crack cocaine, and methamphetamine.

Latin American drug traffickers acquire many of the precursor chemicals they require for producing cocaine and heroin from US sources. They rely on US chemical sources of supply because the distance and transportation required to ship often unstable chemicals are shorter and more reliable than from other producers. Most of these chemicals are produced legally and exported overseas legally to legitimate users. Despite the enactment of sweeping US and international chemical control regulations, however, many chemical shipments are diverted from licit channels for use in the manufacturing of illegal drugs. Drug traffickers establish front companies, fraudulently obtain dealer licenses for chemical transactions, or acquire precursors through corrupt officials in chemical companies.

- In an effort to evade US interdiction, foreign drug-trafficking groups typically import chemicals into neighboring countries in an attempt to disguise their purpose and destination, before diverting and smuggling the chemicals to their drug-producing laboratories.

Despite strict regulations and currency reporting requirements, the United States continues to be attractive to international criminals seeking to launder money because of the complexity, strength, and stability of the US economy and financial system. Some international criminals exploit private or personal banking services to establish accounts for money laundering purposes. The wide variety of nonbank financial institutions that are more difficult for US law enforcement to monitor for illegal activity provide

launderers with many different options to dispose of criminal proceeds. These include brokers and dealers of securities, money order vendors, casinos, money transmitters, check cashiers, change bureaus, and the US Postal Service. Many foreign crime groups, particularly Latin American drug-trafficking organizations, use illicit proceeds to purchase consumer goods in the United States, which are then exported to their home countries for sale in the local currency. Moreover, international money launderers operating in the United States are increasingly using professional facilitators such as accountants, notaries, lawyers, real estate agents, and brokers to mask the origin of tainted funds.

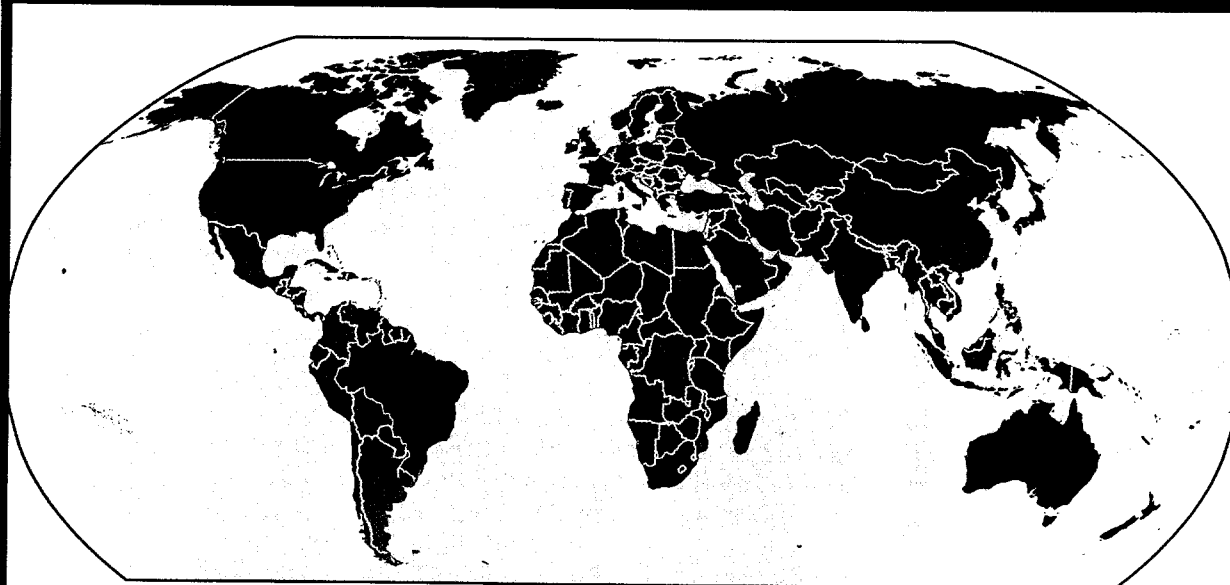
US Crime Groups Abroad

Some US crime groups have established cells and networks in foreign countries, and are engaged in a wide range of criminal activities. In many cases, the US crime groups use their overseas networks to acquire drugs and other illicit contraband or to prey upon US businesses, as they do in the United States. Law enforcement authorities in other countries also report that US crime groups are involved in money laundering, extortion, prostitution, drug trafficking, firearms smuggling, car theft, street crimes, and contract murders.

- The most notorious US crime groups operating overseas are outlaw elements of motorcycle gangs, according to US law enforcement agencies. Some of the approximately 900 motorcycle gangs that have been identified as having outlaw elements by US law enforcement have worldwide chapters and are expanding into other countries at a significant rate. The increasing overseas presence of US motorcycle gangs, together with their criminal members' tendency to associate with other crime groups to further their criminal ends, are causing increasing concern among law enforcement authorities around the world. Law enforcement authorities in countries where motorcycle gangs have established themselves indicate that the motorcycle gangs are extensively involved in organized crime and have



US Motorcycle Clubs: Presence Overseas



Australia
Austria
Belgium
Brazil
Canada
Denmark
Finland

France
Germany
Italy
Liechtenstein
Netherlands
New Zealand
Norway

Russia
South Africa
Spain
Sweden
Switzerland
United Kingdom

Boundary representation is
not necessarily authoritative.

**APPROVED FOR RELEASE
DATE: JAN 2001**

particularly bad reputations for violence, property crimes, prostitution and extortion rackets, and trafficking in drugs and firearms.

- According to US law enforcement agencies, the oldest and largest organized crime group in the United States, La Cosa Nostra, has extensive international connections. La Cosa Nostra has been historically linked to the Sicilian Mafia and other Italian criminal organizations, particularly for smuggling heroin and contraband into North America and firearms and cocaine to Canada and Europe. Some La Cosa Nostra members are involved in international racketeering activities, and the crime group controls several offshore casinos and Internet gambling sites. La Cosa Nostra's influence and control over certain labor unions in the United States has a far-reaching impact on some international commerce. Moreover, La Cosa Nostra's extortion and fraud schemes directed against US businesses may extend to their foreign operations. La Cosa Nostra launders illegal proceeds through offshore banks in the Caribbean, as well as through European and South American financial institutions and businesses. Of particular concern is La Cosa Nostra involvement in illegal stock market fraud and stock manipulation, which affects international investments and has the potential to destabilize US financial markets.

**APPROVED FOR RELEASE
DATE: JAN 2001**

Chapter IV

Consequences for US Strategic Interests

Consistent with the priority of protecting the lives, property, and livelihood of US citizens at home and abroad, the United States has a fundamental strategic interest in supporting democracy and free markets around the world. These are critical factors underpinning global political and economic stability. Increasing worldwide criminal activity and the growing power and influence of organized crime groups are significant threats to democratic institutions and free market systems in many countries and regions. Emerging democracies engaged in wide-ranging reforms to meet these objectives, including the former Soviet Union and Eastern Europe, are most vulnerable. Organized crime threatens democratic and free market systems, as well as vital US national interests, by:

- ***Increasing crime and societal problems.*** The activities of organized crime groups undermine societal values, lead to increased crime rates, and raise social expenditures. Crime groups seek to establish and enlarge local markets for drugs and other illicit contraband that earn substantial profits, which contributes to police corruption and street crimes. The social consequences of these activities can be severe; they include drug addiction, violence, property and financial fraud crimes, decreased respect for legitimate authorities, and increased medical and social welfare costs.
- ***Corrupting public officials.*** Although criminal groups rarely organize politically, they can and do gain considerable power over politicians and government officials through corruption and the economic influence they exercise. Criminal groups cultivate and rely on corrupt political elites, government officials, and law enforcement and security personnel to protect their operations and to provide cover for expanding their activities, often into the legitimate economy. They use their leverage to protect their illicit operations from public scrutiny and law enforcement pressure; to push for legislative and administrative regulations favorable to their criminal business interests; and to gain insider access and information to government economic strategy and plans that give them an unfair advantage over legitimate business competitors.
- ***Compromising the integrity of democratic institutions.*** Corruption of public officials inevitably erodes the integrity of democratic institutions, including legislatures and judiciaries. Criminal organizations attempt to manipulate political and legal systems to their advantage. They use illicit proceeds to help fund the campaigns of preferred candidates or to buy votes in the legislature in efforts to protect their safety, freedom, and criminal operations. Criminal influence in the legal system may short-circuit law enforcement investigations, preempt prosecutions, prevent convictions, or preclude long sentences. Damage to the integrity of democratic political and judicial institutions undermines their credibility and erodes public support for democracy.
- ***Penetrating the legitimate economy.*** Through investments in legitimate enterprises, criminal organizations can gain substantial interests in, or even control over, critical sectors of the national economy. Criminally controlled or influenced businesses have ready access to considerable amounts of interest-free capital to invest in productive enterprises, an advantage legitimate businessmen do not have. Such unfair competition may put legitimate business enterprises at a competitive disadvantage. Criminal groups tend to invest more in high-volume cash-flow businesses that provide good cover for money laundering or contraband smuggling. Business

enterprises influenced or controlled by criminal groups also put them in position to “steal” legitimate government and business revenue. Moreover, companies controlled by organized crime frequently create cost overruns or demand kickbacks in sectors such as public works projects.

- ***Damaging the credibility of banking and financial institutions.*** The use of banks and financial institutions to launder money and for other illicit financial transactions undermines their credibility. Poorly capitalized banks established by criminal organizations weaken the banking system and may increase the likelihood of a major domestic financial crisis. A weakened banking system increases the danger of domestic liquidity crises and can magnify the impact of foreign financial shocks on the economy. These developments can undermine confidence in a country’s financial system, leading to extensive capital flight and depriving the country of investment resources. If the financial system is closely integrated into global financial markets, the risk of contagion—the crisis spreading to other countries—increases.
- ***Undermining support for democratic and free market reforms.*** In countries with weak or developing democratic institutions or transitioning economies, like Russia, the NIS, and several in Eastern Europe, the intersection of organized crime with corrupt political elites can erode the public credibility of reforms and prevent democratic and free market systems from being consolidated and institutionalized. The general public feels it has no stake in political and economic reforms when reforms appear to benefit organized crime, unscrupulous businessmen, and corrupt politicians and government officials, rather than aiding citizens. Rising crime and societal problems intensify public disillusionment. Loss of faith in a newly democratic government’s ability to cope with the power and influence of criminal networks and corrupt officials may result in stronger political support for antidemocratic hardliners.

some countries to become “safehavens” where criminals can operate with virtual impunity. Criminal groups rely on safehavens as staging or transit areas for moving illicit contraband—particularly drugs, arms, and illegal immigrants—and for laundering, hiding, or investing their illicit proceeds. They also use these countries’ financial and commercial sectors to arrange illicit financing of criminal activities and to broker prohibited transactions, including those for regulated and proscribed materials and technologies of interest to states of concern or terrorist groups. Countries that limit extradition, do not recognize the relevance of some US laws, or that have no legal statutes to deal with some criminal activities are often home to criminals seeking to evade justice in the United States and other countries their criminal acts victimize.

- Weak financial regulatory systems, lax enforcement measures, and high-level corruption are key factors that make certain countries particularly attractive to international criminals as safehavens.

In some cases, state-sanctioned criminality and corruption may be so corrosive that the country itself has become a “kleptocracy.” Rather than serve the public interest, the top leaders in such countries use the resources of the state solely to enrich themselves and keep themselves and their cronies in power. Ruling their countries as virtually a personal business enterprise, kleptocratic leaders exploit the most profitable areas of the national economy for personal gain, often resulting in losses for the state treasury and sometimes impoverishing the country. Gross corruption aimed principally at enriching the political leadership leads to distorted economic decision making that weakens a sound economy. Kleptocratic governments also set the stage for social and political upheavals.

- Nigeria under Abacha, Zaire under Mobuto, Indonesia under Soeharto, and the Philippines under Marcos are examples of kleptocratic states. All of these

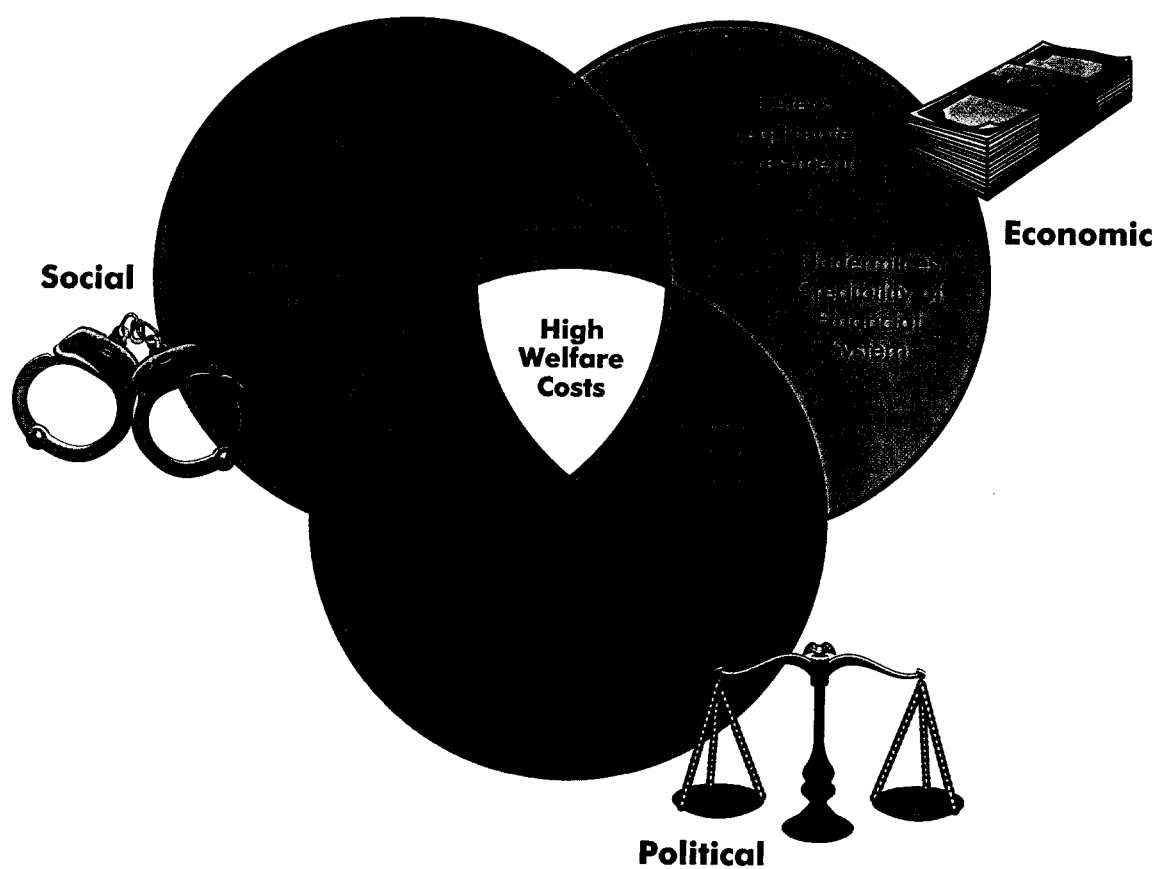
The Problem of Criminal Safehavens, Kleptocracies, and Failed States

Increasing power and influence of criminal organizations over political and economic structures may cause

**APPROVED FOR RELEASE
DATE: JAN 2001**



Organized Crime Threat to Society



APPROVED FOR RELEASE
DATE: JAN 2001

leaders used their authority to exploit their countries' economic resources for personal gain and demanded sizable kickbacks as the cost of doing business. They amassed fortunes worth billions of dollars, but also sowed the seeds that led to their downfall.

Unconstrained criminal activity may so corrupt and compromise the integrity of law enforcement and other government institutions that a country becomes a "failed state" incapable of meeting many of the accepted standards and responsibilities of sovereign control over its territory. In failed states, government institutions responsible for law enforcement, maintaining public order, or regulating the financial sector have broken down to such an extent that they are unable to maintain rule of law or to develop sufficient political motivation to act against criminal groups and activities operating in the country. Their governments are unable or unwilling to fulfill international obligations that would help prevent their countries from becoming major bases for global crime. The failure of institutions to fulfill the public responsibilities expected of them and any substantial breakdown of the rule of law may lead to significant economic deterioration and political unrest that threatens both internal and regional stability.

The international scope of the global crime threat places a premium on bilateral and international cooperation to prevent organized crime, drug trafficking, and terrorist groups and other criminal networks from establishing secure bases of operations. Without effective law enforcement throughout the international community, criminals will continue to threaten US

interests, as well as those of other democratic and free market countries, simply by conducting their activities from, and through, those jurisdictions where law enforcement is weak. The absence of effective law enforcement or political willingness to grapple with the problem in countries that are safehavens or failed states precludes effective counterdrug and law enforcement cooperation with the United States and other countries, stymies US efforts to enhance international measures against money laundering, corrupt business practices, and IPR violations, and complicates broader US political and security interests.

- Increasingly, however, many governments in countries criminals are exploiting as safehavens are coming to realize the far-reaching consequences of international criminal activity in their countries. In particular, in an increasingly global economy where any one country's economic growth and prosperity are to a significant degree dependent on international trade and commerce, more and more governments recognize that criminal activity can undermine the credibility and competitiveness of their country's financial and commercial sectors, which is bad for business and the economy.

Chapter V

The Future of International Crime

In 10 years, driven by globalization and the erosion of state authority, the international criminal threat to US interests is most likely to be more diversified and impact even more directly on US strategic interests. The extent and magnitude of the problem will depend on the global political and economic conditions prevailing at the time, the extent and effectiveness of measures taken to reduce societal or systemic vulnerabilities, and the degree to which national law enforcement and security institutions around the world develop appropriate cooperative mechanisms enabling them to operate—as international criminals will be able to—outside the parameters of national sovereignty and legal jurisdictions. For example:

- A radical breakdown of the Communist system in China could intensify the influence of Chinese criminal organizations within China's political and economic systems and provide a safehaven for expanding criminal operations abroad.
- Enhancements to protect the security and integrity of electronic money-transfer and financial transactions systems could make it more difficult for criminal organizations to defraud banks, financial institutions, or individuals or to manipulate financial and commodities markets.
- Flexible bilateral and multilateral agreements that allow US law enforcement agencies to pursue criminals and time-sensitive investigative leads in foreign countries with minimal impediments could help prevent criminal organizations from operating across international borders with virtual legal impunity.

Globalization and technological innovation will continue to change the nature of organized crime. While large criminal syndicates—Russian organized crime groups like Solntsevo, Italian criminal groups like the Sicilian Mafia, ethnic Chinese criminal groups including triads, and others—will remain powerful players with worldwide networks, law enforcement agencies probably will also be forced to cope with a very large number of highly skilled criminal entrepreneurs whose activities can have far-reaching impact.

- Individuals or small groups empowered by high-tech computer skills and telecommunications capabilities may be the future wave of international crime. They would not require the infrastructure or protection of large criminal syndicates to mastermind and implement wide-ranging and sophisticated schemes in the commercial or financial arenas to gain substantial illicit revenues. Through electronic theft or computer manipulation of markets, individuals or small crime groups could cause substantial public and private-sector losses, potentially even undermining the integrity of the institutions they target and compromising market stability.

- Meanwhile, for the same reasons, large organized crime syndicates may well be even more self-sufficient by 2010. The trend of greater cooperation among criminal organizations at the end of the 20th century may be replaced by one in which large international crime groups—because they have worldwide networks and employ highly skilled professionals—are able to produce or acquire, move, market, and distribute drugs and other contraband without any reliance on outside criminal brokers or crime groups. Such a development could mean the end of the dominance of Latin American drug-trafficking “cartels” as other criminal groups gain the ability to acquire and traffic cocaine from Latin America on their own.
- The criminal world in 2010 may be populated by large interactive networks of smaller, independent organizations who cooperate on the basis of comparative advantage. Crime groups within these networks would specialize in specific activities, trading or selling expertise as befits their criminal interests or criminal joint ventures.
- Criminal groups are also most likely to take advantage of scientific and manufacturing advances to produce new synthetic drugs or more high-quality counterfeit products—including high-tech components that may find their way into commercial transportation or military programs. Successful

APPROVED FOR RELEASE
DATE: JAN 2001

eradication efforts against narcotics crops may spur criminal organizations to exploit scientific pharmaceutical advances to produce synthetic heroin and cocaine for the illicit drug market.

Drug trafficking, alien smuggling, contraband smuggling, the trafficking of women and children, and many other traditional criminal rackets will continue to be a staple of organized crime groups worldwide. By 2010, however, organized crime groups are most likely to be a greater threat with regard to security issues that directly affect US strategic interests.

- Organized crime groups that have access to formidable weapons arsenals may assume a far more significant role in brokering illicit arms transactions for foreign armies, militias, or insurgencies, displacing the brokers and businesses that dominate today's gray arms market. They may also become a viable alternative to independent brokers and front companies by establishing sophisticated acquisition, transportation, and financial networks to facilitate the evasion of US or international sanctions by rogue regimes and terrorist groups.
- So far the threat of organized crime involvement in acquiring and trafficking nuclear, biological, or chemical weapons of mass destruction has been more potential than real. This potential may be realized by the end of the decade if the political and economic climates in countries both possessing and seeking WMD capabilities changed to make engineering such transactions more practical and less risky.

International criminal groups will keep pace with changes in technology and the world economy to enhance their capability in traditional organized crime activities and to move into new criminal business areas. Advances in computer and financial technology will increase the anonymity and speed of commercial and financial transactions, offering criminals more efficient and secure ways to smuggle illicit drugs and contraband, penetrate legitimate businesses, and launder and move money.

- By 2010, international criminal groups are most likely to be particularly proficient at exploiting computer networks upon which all modern government, public, private, and financial services will depend.

They also may be able to cause significant disruption to financial systems. Criminal organizations may be capable of financially exploiting or disrupting government, law enforcement, banking, or private-sector computer systems they are able to penetrate, undermining public services and the credibility of government and private institutions.

- Greater regional integration and worldwide interdependence of national economies will make it easier for criminal organizations to operate on an international scale and blend their operations into legitimate economic activity. Improvements in transportation infrastructures and modalities to facilitate international trade will increase the volume, speed, and efficiency of smuggling and commercial transactions by international crime groups.

Many countries are likely to be at risk of organized crime groups gaining significant leverage or even control over political and economic systems. Criminal organizations are likely to penetrate troubled banking and commercial sectors. Unscrupulous politicians and political parties may align themselves with criminal organizations for financial and other support. Once in office, they are likely to have difficulty constraining the activities of organized crime. Organized crime groups themselves may promote their own political agenda as the price of support.

- The world in 2010 may see the emergence of "criminal states" that are not merely safehavens for international criminal activities, but support them as a matter of course. The involvement of "criminal states" in the community of nations could undermine international finance and commerce and preclude effective international cooperation against organized crime. "Criminal states" may also adopt the political agendas of states of concern and terrorist groups, thereby weakening US political, economic, and security interests around the world.

APPROVED FOR RELEASE
DATE: JAN 2001

