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The Misuse of Afghan Trade to Launder Narcotics Proceeds

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The Problem

- **Regional factors foster the perfect storm**
- **Opportunity vs. response**
 - **Lack of capacity and/or will by countries to address problems**
 - **Limited regulation/oversight**
 - **Drug production/trafficking**
 - **Cash/trade based environment**
 - **Hawala**
 - **Facilitates money laundering**
 - **Porous borders**
 - **Limited Customs monitoring**
 - **Facilitates smuggling**
 - **Presence of terrorist and criminal groups**

The Solution

- **Regional factors are not likely to change enough**
 - **Achieving solution will be extremely challenging**
 - **Limited regulation/oversight**
- **Limit opportunity**
- **Improve responsiveness**
 - **Crack down strongly on corruption**
 - **Interdict drug production/trafficking**
 - **Regulate Hawala system/cash flow**
 - **Develop trade controls/Customs monitoring**
 - **Disrupt/dismantle terrorist and criminal groups**

Understanding Regional Risks

- Geographical
 - Tri-Border Region
 - Middle East
 - Eurasia
 - Europe
 - United States
 - Mexico
 - Africa
 - China
- Cultural vulnerabilities
 - Bribery/corruption
 - Accepted business practice
 - Drug trafficking/money laundering
 - Black Market Peso Exchange
 - Lack of government transparency
- Level of criminal/terrorist threat



TRI-BORDER AREA



Regional Risks - Afghanistan

- **Geographical**
 - Land locked
 - Border countries include Pakistan and Iran
 - Border with Pakistan extremely porous
 - Many unchecked crossing points
- **Cultural vulnerabilities**
 - Extremely rampant bribery/corruption
 - Ranked 179 out of 180 countries
 - Largest opium producer in world (90%)
 - Hawala/cash/trade based money laundering
 - Lack of government capacity
- **Terrorist threat**
 - Afghan Taliban
 - Al-Qaeda



Regional Risks - Pakistan

- Geographical
 - Goods from Dubai shipped through Port of Karachi and transited to Afghanistan in accordance with the Afghan Transit Trade Agreement
 - Porous border causes extensive trade fraud
- Cultural vulnerabilities
 - Significant bribery/corruption
 - Ranked 139 out of 180 countries
 - Trade fraud/money laundering
 - Facilitated by Hawala
 - Lack of government will
- Terrorist threat
 - Al-Qaeda
 - Pakistani Taliban
 - Afghan Taliban
 - Lashkar-e-Taiba (LeT)



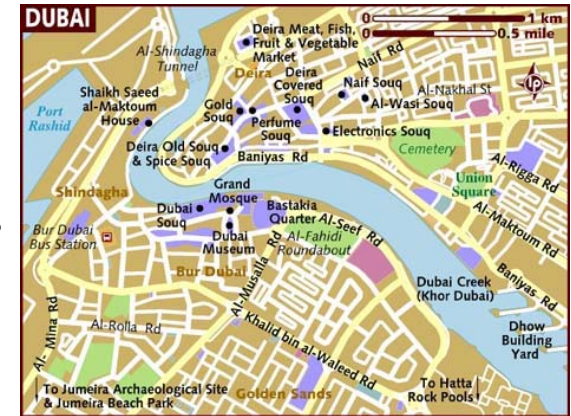
Regional Risks - Iran

- **Geographical**
 - Goods from Dubai shipped through Port of Bandar Abbas and transited to Afghanistan in accordance with the Afghan Transit Trade Agreement
- **Cultural vulnerabilities**
 - Rampant bribery/corruption
 - Ranked 168 out of 180 countries
 - 60% of narcotics smuggled out of Afghanistan are transited through Iran
 - Serious drug use problem in Iran
 - Lack of government transparency
 - Volatile domestic problems
- **State sponsor of terrorism**



Regional Risks - Dubai

- **Geographical**
 - Island in the United Arab Emirates
 - Free trade zone
- **Cultural vulnerabilities**
 - Commodities purchased in Dubai are shipped through Pakistan and Iran to Afghanistan
 - Facilitates drug/trade money laundering
 - Money laundering haven
 - Hawala
 - Takes in flight capital from Afghanistan and Pakistan
 - Non-cooperative with other countries
 - Building boom and market problems required financial bailout from Abu Dhabi



Terrorist Groups in Region

- **Al-Qaeda**
 - Has evolved into three different and distinct entities
 - The core vanguard group
 - Al-Qaeda franchises
 - The broader grassroots jihad movement
- **Afghan Taliban**
 - Control opium trade in Afghanistan
 - Trades drugs for weapons with Russian Organized Crime
 - Maintains presence in Pakistan
 - Traditionally supported by Pakistani intelligence (ISI)
- **Pakistani Taliban**
 - Fighting with government of Pakistan
- **Lashkar - e - Taiba (LeT)**
 - Pakistani based
 - Affiliated with Al-Qaeda
 - Responsible for Mumbai terrorist attack

Afghan – Paki Border

- **Unique region unto itself**
 - Fragmented
 - No clear mandate of control
 - Cultural/historic understanding
- **Extremely porous demarcation line**
 - Transited at many points
 - Lack of Customs control
- **Major militant players**
 - Afghan Taliban
 - Pakistani Taliban
 - Al-Qaeda
 - Insurgents control much of border territory



Corruption in Afghanistan

- One of the most corrupt countries in the world
- Part of every day life
 - One out of every two people pay bribes
 - Afghans paid U.S. \$2.5 billion in bribes over past 12 months
- Those responsible for upholding the law are seen as most guilty of violating it
- Undercuts traditional power structures
 - Taliban regularly exploits this vulnerability
- Corruption is the biggest impediment to improving security, development and governance in Afghanistan
 - Facilitates drug trafficking, terrorism and money laundering
- Need for independent, fearless and well financed anti-corruption authority

Trade Based Money Laundering

- The most complex money laundering methods are often those that use trade to transfer value into or out of countries
- Encompasses a variety of schemes
 - Over and under invoicing
- Most common in Western Hemisphere is Black Market Peso Exchange (BMPE)



Alternate Remittance Systems

Money Movement

Remitter / Sender
Cash / Currency



Code, Chit, or Identifier

Remitter / Sender
Cash / Currency



Hawala Dealer

UAE, Pakistan,
Saudi Arabia, etc



*Telephone call, Fax,
or Email*

Hawala Dealer

United States,
Europe

No Legal Records, No Tracking Mechanisms
Popular with Middle Eastern Countries
Viewed as Legitimate

How the System Operates

- Generally based on strong family, ethnic, or business relationships
- Parallel to formal banking system
- No audit or financial reporting requirements
- Account reconciliation conducted between Hawaladars
- Often part of other business operations
- Typically, money does not move between origin and destination
- Remittance can use formal banking system but involves layering before it reaches destination
- Can involve over / under invoicing of commodities

Invoice Manipulation Strategies

- Under invoicing: moves money OUT
- Over invoicing: moves money IN
- The transfer of funds is concealed by the shipment of goods
- The paper trail justifies the transaction



Afghan Transit Trade

- **Afghan Transit Trade Agreements (ATTA)**
 - Separate agreements with Pakistan and Iran
 - Goods shipped primarily from Dubai to ports in Pakistan and Iran are transited into Afghanistan
- **Lack of controls/accountability**
 - Goods coming through Pakistan exempt from Pakistani duties or Customs tariffs
 - Many goods smuggled back to Pakistan for resale
- **Value laundered primarily through trade**
 - **Informal systems**
 - **Hawala**
 - Hawala dealers in Helmand and Kandahar transfer more than \$1 billion in narco money per year

Afghan Transit Trade

- Trade is both traditional way of doing business and traditional way of transferring value
 - Barter system
 - Opium for commodities or services
- Facilitates:
 - Smuggling
 - Fraud
 - Corruption
 - Hawala
 - Terrorist financing
 - Trade based money laundering



Afghan Transit Trade Scheme

Example One:

- Payment for narcotics smuggled from Afghanistan to the United Kingdom via Iran and the Balkan Route is made via bank-to-bank wire transfer from the UK to Peshawar, Pakistan
- From Peshawar, continuing payment is fragmented
 - Part goes to hawaladar in Helmand who credits the narcotics criminal/terrorist organization that supplied the narcotics
 - Other profits are used by the narcotics criminal/terrorist organization to finance imports of commodities from Dubai via the ATT
- The goods directly remunerate the narcotics criminal/terrorist organization or they can be sold for further profit



Source: The Afghan Transit Trade: How AF/PAK Drug Lords & Terrorists are Moving Money and Trafficking Value, by John Cassara

Afghan Transit Trade Scheme

Example Two:

- A Peshawar-based hawaladar facilitates a deal between an Afghan drug lord and a Dubai-based businessman that wants to purchase drugs
- The drug lord exports opium
- The drug lord prefers to receive payment in commodities
- Payment is made in vehicles imported in Afghanistan via the ATTA and entered into Iran at the Port of Bandar Abbas
- The exchange is completed via partnerships in Pakistan, the UAE, Iran and Afghanistan



Source: The Afghan Transit Trade: How AF/PAK Drug Lords & Terrorists are Moving Money and Trafficking Value, by John Cassara

Flight Capital from Afghanistan

- Hub of cash transfers to Dubai
- Estimates of over \$1 billion a year
 - Flows mostly to Dubai
- Wealthy Afghans park family and funds in Dubai
- Funding Sources
 - Funds directed from aid
 - Drugs
 - Fraud
 - Smuggling
 - Saudi donations
- Facilitated by Hawala
- Declaration process
 - Weak/inconsistent
 - Opaque
- U.S. dollars, Euros, Saudi riyals