

## **IDENTIFYING THE MECHANISMS OF LAUNDERING OF MONEY OBTAINED THROUGH TRADE IN OPIATES ORIGINATING FROM AFGHANISTAN. LEGAL COOPERATION AND GLOBAL STRUGGLE AGAINST DRUG MONEY.**

### **Introduction**

Cultivation of opium poppies has ancient roots, however it has become globalised only in 20<sup>th</sup> century. Nowadays it is not only a medical drug, scarcely produced and moderately used for recreational measures, but a cornerstone of an institutionalised, hierarchically built, integrated multinational illegal business enterprises, yielding billions of quick profit for those running it.

Drug trafficking is a grave crime detrimental not only for the health of a particular individual and his or her close ones but also for the entire communities. To add to the sorrows of the consumer state, farmers cultivating opium poppies are entirely dependent on the sales to make their ends meet what undermines the vigorous running of the state order as such. Criminal gangs patronising farming often collide in an effort to protect or take over the control over the most lucrative shares, what deteriorates the status quo putting civil strife and protracted violence on the top of it.

In Afghanistan, a developing country with poverty rate at almost 40 per cent<sup>1</sup>, violence and conflicts are common place. Having an important geopolitical location between the lower Asia, Middle East and Central Asia, Afghanistan has been historically a battlefield for divergent ruling dynasties and ethnicities coming from around.<sup>2</sup> It has also been the stage for the notorious “Great Game”, where it served as a buffer state for the military manoeuvres of two enemies: the Russian and British empires.<sup>3</sup>

Nowadays, producing roughly 7000 tons of opium per year Afghan drug dealers have monopolised the world drug market (95% of global supply).<sup>4</sup> Heroin, being a substance derived from the morphine, is the central opiate, processed from the Afghan opium and priced

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<sup>1</sup> World Development Indicators on Afghanistan by World Bank, available at <http://data.worldbank.org/country/afghanistan>, (d/a 28/0/2013).

<sup>2</sup> For further details on the afghan political history refer to <http://www.nationsonline.org/oneworld/History/Afghanistan-history.htm>(d/a 28/0/2013).

<sup>3</sup> ADD A REFERENCE

<sup>4</sup> The Globalisation of Crime: A Transnational Organized Crime Threat Assessment, UNODC, 2009, p. 109, (available at [http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA\\_Report\\_2010\\_low\\_res.pdf?bcsi\\_scan\\_E6B5D3DA0AAC65B7=0&bcsi\\_scan\\_filename=TOCTA\\_Report\\_2010\\_low\\_res.pdf](http://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf?bcsi_scan_E6B5D3DA0AAC65B7=0&bcsi_scan_filename=TOCTA_Report_2010_low_res.pdf), d/a 28/01/2013).

as expensive as 2800 USD per kg yet inside the country.<sup>5</sup> While an average laboratory can manufacture around 10 kg of finished heroin a day, it may generate revenue as much as 1 mln USD.<sup>6</sup>

Afghan opiates leave their home in two different directions. The Northern route, headed to the Russian Federation through the Central Asia, accumulates around a quarter of an annual flow. The value of the heroin headed north is estimated at 350-400 million USD while when it eventually reaches the Russian Federation it will be worth thirty times this amount,<sup>7</sup> around 15 000 USD for a single kg.<sup>8</sup> There are an estimated 1.5 million heroin users in the Russian Federation, making it the single largest national heroin consumer in the world.<sup>9</sup>

Another corridor through Iran and Turkey leads to Europe (Balkan route). A kilogram of heroin costs 3000 USD on the Afghanistan-Pakistan border and around 5000 USD on the Iran/Afghanistan border. At the Iran/Turkey border it costs already 8000 USD, a 60% increase. Based on the estimated flows through this route, Iranian crime groups organizing heroin trafficking from the Afghanistan/Iran border to the Turkey/Iran border stand to pocket some 450-600 mln USD per year. Revenue volume in Europe hits as high as 55 mln USD, consuming 250 kg daily Europe has become the key market for Afghan opiates. Most of the profits in this market go to the international drug traffickers.<sup>10</sup>

Within Afghanistan trafficking to Central Asia appears to be dominated by five major Afghan narcotics networks, comprised of officials, warlords, organized crime groups and possibly one insurgent group (Hizb-I-Islami).<sup>11</sup> These networks are strongly tied to organised crime groups in Pakistan, the Islamic Republic of Iran and Central Asia. According to the head of the Tajik Drug Control Agency, approximately 20 large “networks” control the drug trade in Tajikistan, with many smaller groups in the border areas. Further alongside the route, the Russian Ministry of Internal Affairs estimates that there are 450 criminal organizations with some

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<sup>5</sup> “Opiate Flows through Northern Afghanistan and Central Asia. A Threat Assessment”. UNODC, 2012, p. 34 (available at [http://www.unodc.org/documents/data-and-analysis/Studies/Afghanistan\\_northern\\_route\\_2012\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/Studies/Afghanistan_northern_route_2012_web.pdf), d/a 28/01/2013).

<sup>6</sup> “The Afghan Opium Trade: a Threat Assessment”, UNODC, July 2011.

<sup>7</sup> P. 109, supra n. 4.

<sup>8</sup> P. 118, *ibid.*

<sup>9</sup> *Id.*

<sup>10</sup> P. 116, *id.*

<sup>11</sup> P. 116, *id.*

12,000 members in the Russian Federation, suggesting a proportionately smaller number of larger organizations.<sup>12</sup>

Europe leading route is at the start maintained by large criminal groups and sometimes, insurgency groups. Kurdistan Workers Party is reported to control taxation over drug shipments, pocketing upwards of 50 to 100 mln USD from heroin trafficking alone.<sup>13</sup> Further upstream the shipments are taken over by various ethnic groups within their territorial limits.

All in all, the trade is strictly controlled by existent trafficking networks, which, in cooperation with corrupt segment of government launder their money via banks, real estate, casinos, large financial investment, art and other valuables. One of the usual suspects is a financial hub of Dubai due to proximity of which to Afghanistan, makes it particularly vulnerable to illicit financial transactions supported by resident significant groups of South Asian origin.<sup>14</sup>

### **Research topic and methodology**

The aim of my prospective dissertation project is not to merely explore the opiate trafficking volumes worldwide and the *modus operandi* of this shadow economy. The focus will be rather on the large monetary earnings acquired from the sale of Afghan opiates and the laundering thereof. The illegal proceeds are useless ends unless inserted into the market and to do so, the drug lords have to justify the existence of these sums by providing a realistic validation. In other words, by processing of criminal proceeds in order to disguise their illegal origin (laundering), perpetrators enable themselves to enjoy profits without jeopardising their source.<sup>15</sup>

Due to illegal nature of transactions accurate statistical data is not available, yet according to the International Monetary Fund estimates in 1998, the magnitude of the total annual turnover may be equivalent to the size of an economy like Spain, for instance.<sup>16</sup> Albeit this aggregate indicator does not reflect trafficking in opiates in its entirety, it is, nevertheless a useful example to have a clear picture of how well-organised and long living the processing can be.

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<sup>12</sup> P. 117, id.

<sup>13</sup> SOCA, "The United Kingdom Threat Assessment of Organized Crime", October 2009, p.26.

<sup>14</sup> P.223, supra n.4.

<sup>15</sup> "What is Money Laundering?", Financial Action Task Force FAQ at <http://www.fatf-gafi.org/pages/faq/moneylaundering/>, d/a 30/01/2013.

<sup>16</sup> Ibid.

Off-shore jurisdictions and so-called “tax heavens” serve as a safe harbour for the illicit funds while certain banks and bank institutions have already earned the reputation of being laundering hubs for international narcotic networks<sup>17</sup>.

The author aims to explore the drug money laundering mechanisms and which factors, be it in private or public sector, empower the criminals to proceed their illegal gains in a smooth and unpunished manner. Convictions for money laundering of drug dealers are recurrent, yet the author believes that most often, only insignificant portions or those who became redundant are brought before court, while the key figures are hiding behind the skirts of the corrupt officials benevolently hiding them from justice. In parallel, the author will underscore existent legal mechanisms on national, regional and international levels built to curb the proceeding of illegal funds from opiates originating from Afghanistan. In doing so the author believes to reveal the weaknesses of the national and supranational crime prevention systems and identify the areas for enhancement of national strategies and law enforcement.

It will also be discussed to which extent the efforts of international and regional community are effective in responding to this threat. The performance of the domestic law enforcement and criminal justice systems will also be questioned in attempt to reveal the inner vicious circles preventing justice to be delivered.

In doing so the author plans to employ a wide range of methods and research techniques, mostly concentrating on reports and publications of pertinent international institutions like FATF, IMOLIN, World Bank, UNODC, Interpol and many others. Online and offline statistical data of financial institutions and leading banks, compliance related organizations, independent watchdogs and NGOs as well as scientific manuscripts and scholarly articles on the topic shall also be explored. In addition, the author plans to attain practical knowledge on criminal networks in the region under the focus by means of possible occupation with an office, working on similar issues on a daily basis. In course of which interpersonal communication with high portfolio professionals, participation in governmental and intergovernmental liaison events on the topic would be foreseen.

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<sup>17</sup> “Treasury Identifies Lebanese Canadian Bank Sal as a “Primary Money Laundering Concern””, 02/10/2012 at <http://www.treasury.gov/press-center/press-releases/Pages/tg1057.aspx>, d/a 08/01/13.

## **Outline**

Introduction

Table of abbreviations

Glossary

Chapter 1. Trafficking in opiates

1. Transnational organized crime phenomenon: trade in opium
2. Afghanistan: roots of cultivation
3. Contemporary trade: why and why not?
4. En route abroad
  - a. Northern route
  - b. Balkan route
5. Face of a criminal: identifying key actors

Chapter 2. What we know about dirty money

6. What is money laundering?
7. Calculating the profit
  - a. Northern route
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8. Proceeding the funds
  - a. Offshore states
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Chapter 3. Prosecution

10. National criminal justice systems
  - a. UNODC model laws for national legislation
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11. Regional and international criminal justice networks
  - a. Transnational nature of the crime
  - b. Mutual legal assistance and transboundary cooperation
  - c. Legal cooperation systems

Conclusions and recommendations

Bibliography

## **Timeline**

October 2012 – February 2013

Signing of the dissertation agreement, finalisation of the topic, consultations with supervisor

February – March 2013

Submission of the research proposal: research area and methodology, application for scholarship

May – June 2013

Renewed consultations with the supervisor, research and compilation of relevant data, possible qualification training in the area of interest

July – August 2013

Presentation of the second, modified research proposal and /or initial draft of the first chapter

December 2013

Consultation with the supervisor, further research and presentment of the final draft of the first chapter, possibly the skeleton of the next part

July – December 2014

Drafting of the final draft of the second chapter, consultations with supervisor

January – July 2015

Drafting of the last part of the dissertation. Finalisation and work on style, language, grammar. Defensio.

## **Bibliography**

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