
The many criminal heads of the Golden Hydra:

How the Tri-Border Area's Interlocking Arcs of Crime Create LatAm's #1 International Fusion Center



**COUNTER
EXTREMISM
PROJECT**

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About the Authors



Dr. Vanessa Neumann

Dr. Neumann is an authority on Latin American politics and security, as well as on crime-terror pipelines, particularly on stemming illicit trade as a counter-terrorist and counter-insurgency strategy that supports businesses. She is the author of *Blood Profits: How American Consumers Unwittingly Fund Terrorists* (St. Martin's Press, 2017), one of the top-ranked books on Amazon in the categories of terrorism, international law, and trade & tariffs. Dr. Neumann served four years on the OECD's Task Force on Countering Illicit Trade (since its inception) and on their Advisory Group. She holds a Ph.D. in political philosophy from Columbia University, and fellowships at Yale University and the Foreign Policy Research Institute. Her company Asymmetrica is a member of the Global Counter Terrorism Research Network (GCTRN) for the United Nations Security Council's Counter-Terrorism Committee Executive Directorate (CTED). Her other work for government and law enforcement has encompassed INTERPOL, the Asymmetric Warfare Group, the US State Department, and the US Defense Department. Notably, Dr. Neumann edited and reviewed the teaching and reference text for the US Special Operations Command (USSOCOM) on counterinsurgency in Colombia.

In the 1990s, Dr. Neumann worked in corporate planning and finance at Venezuelan petrochemicals conglomerate Corimon, through its NYSE IPO by Merrill Lynch. She then supported lobbying efforts of the US government for oil

industry interests under Venezuela's Minister Counselor for Petroleum Affairs and helped bring the first case before World Trade Organization. She then returned to industry to negotiate raw material price & payment terms with ICI, 3M, DuPont, etc. to improve margins in petrochemicals manufacturing in five Latin American countries. She has conducted field work in the reintegration of Colombian paramilitaries & research on Latin American security for think tanks. She is currently advising a Latin American political campaign.

Dr. Neumann has spoken at Columbia University, Yale University, Princeton University, Johns Hopkins University School of Advanced International Studies (SAIS) and the National Defense University (NDU) at Fort Lesley McNair in Washington, DC. She has also spoken at many US military bases around the world, and was a keynote speaker at the February 2018 meeting of the American Bar Association's National Security Committee. She is a regular guest on the Fox Business show, Varney & Co., the most-watched business show in the US. Dr. Neumann has written for The Wall Street Journal, The Daily Beast, The (London) Sunday Times, The Guardian, The Daily Telegraph, The Weekly Standard and Standpoint. She also appears regularly on CNN en Español, Fox Business, Qatar's Al Jazeera, Brazil's Globo TV, and Colombia's NTN 24. She has been interviewed for The New Yorker, The New York Times, The New York Post, The Daily Beast, USA Today, Foreign Policy, The Miami Herald, France's Libération and Agence France-Presse, and Brazil's Veja. Other media include: MundoFox, MSNBC, the BBC, China's CCTV (China Central Television), Fox News. Caracol Radio, and others.



Mr. Stuart Page

Mr. Page is a highly experienced international senior executive and security expert in international affairs and engagement in the Australian diplomatic service, security, intelligence, military and the United Nations. He was previously with the International Centre for Sport Security (ICSS) and still serves on the Board of a group of companies that have an average turnover in excess of 500 million USD in over 50 countries, Mr. Page has previously held senior positions for over 20 years in the Diplomatic Service (The Department of Foreign Affairs & Trade [Australia]) both domestically and overseas, for the Department of Defence, an Australian Intelligence Agency, Australian Military and the Department of the Prime Minister & Cabinet, where he advised former Australian Prime Minister John Howard. Furthermore, Mr. Page was requested and seconded in 2008 by the Peruvian Government and in partnership with the US State Department to provide strategic advice on the planning, security and operational aspects of APEC to the Peruvian Vice President Luis Giampietri Rojas in Lima. Mr. Page has been a specialist Adviser to FCO (UK) and US government on national security matters.

Mr. Page's last senior diplomatic post was Assistant Secretary Diplomatic Security Branch, where he was responsible for the security & safety of the Australian diplomatic corps overseas. This involved responsibility for the protection and safety of 7,000 personnel; AUD 3 billion in assets (Embassies, buildings, equipment, vehicles); & classified information in over 100 countries. He has extensive experience operating in countries with complex or

non-permissive environments, including Afghanistan, Iraq, Pakistan, Indonesia, China, Libya & North Africa.

Mr. Page led a Security Task Force in 2004 for a major review to assess the urgent security needs of all Australian overseas diplomatic missions and delivered a fully costed whole-of-government strategy (subsequently endorsed by Cabinet) for enhanced security measures in the wake of the Australian Embassy (Jakarta) bombing. The three months review and final submission were approved by the Prime Minister and his National Security Cabinet which contained a long-term strategy for managing security at Australian Embassies at a cost of \$874 million – the largest funding and review in DFAT’s history still to this day.

Mr. Page also has served as Australia's representative on an oversight committee of Technical Security Counter-Measures (TSCM) & Cyber Security for five countries. He is a contributor and founding partner of the Private Security Companies charter International Code of Conduct for Private Security Providers (www.icoc-psp.org), a code of ethics for security and intelligence companies.

As Chief of Operations (APEC 2007) to the Australian Prime Minister John Howard, Mr. Page implemented all the logistical, physical and operational security measures for one of the largest significant international series of meetings hosted in Australia. He managed APEC 2007 so well, he was personally thanked in writing by POTUS George W. Bush.

Mr. Page continues to serve as Director and/or an Adviser on several international companies including Asymmetrica in the USA, Africa and Europe alongside his charity support to Streets Kids Africa, Global Sports Integrity education fund with 6 universities in Europe (www.maisi-project.eu/the-international-advisory-board)

and 65 Degrees North (disabled war veterans rehabilitation through sport) , as well as board member and served a rotation in the Vice President position on the Board of Trustees to UNICRI, since 2009, where he develops innovative ideas, frameworks, and budgets, providing strategic guidance on plans and projects in the international environment for United Nations initiatives through UNICRI.

Executive Summary

The Tri-Border Area (‘TBA’) that straddles the intersection of Argentina, Paraguay and Brazil is considered the “Golden Hydra,” as it is the lucrative regional entry point of many “heads” of transnational criminal organizations (TCOs) and foreign terrorist organizations (FTOs) that all lead to the underworld of illicit trade for more than forty years. This is partly a consequence of its ethnic composition and open borders, set by a policy to facilitate immigration from the Middle East, and also the connecting infrastructure to facilitate cross-border trade. The TBA gained notoriety in the 1990s after the bombings of the Israeli embassy (1992) and the AMIA center (1994), both in Buenos Aires, by Lebanese Hezbollah militants. The money, operatives and bomb parts all moved through the TBA. After 9/11, it again became the target of US counter-terrorism surveillance, as a ‘safe haven’ for terrorists from groups like Al Qaeda and Hamas, in addition to Hezbollah. With the world’s attention firmly focused on the Middle East since then, the TBA has grown into a mini-state that benefits a corrupt elite while maintaining a large and efficient money laundering center for the world’s organized crime and terrorist groups, not just in the region, but throughout the world, yielding TCOs and FTOs an estimated US\$ 43 billion a year.

Illicit trade of all sorts (including the illicit trade in tobacco products, ‘ITTP’) has been growing rapidly in recent years, corrupting good governance in all three countries and exploiting the degrading security and economic situation in both Argentina and Brazil. The TBA has become a regional crime fusion center where corrupt politicians work with drug cartels from Bolivia, Colombia, Mexico and Brazil, as well as organized crime groups from China, in conjunction with a large Lebanese merchant community, part of which gives support to Hezbollah.

Though illicit funding for Hezbollah is generally high on the US agenda, that is not the case for the countries of the TBA. For historical reasons, Hezbollah is on the political agenda of Argentina. Brazil, however, does not consider Hezbollah a terrorist group; it considers only three groups as terrorists: the Taliban, Al Qaeda and ISIS. Paraguay considers Lebanese Hezbollah a group that poses a problem for its neighbors Argentina and Brazil, but not for Paraguay.

During the field research, the observation team came to the conclusion that the center of gravity in the TBA’s illicit trade is Paraguay. By its political structure and distribution of

authorities and mandates, Paraguay is constitutionally structured for corruption and illicit trade. Despite its smaller population and economy, it is the source and economic driver of illicit trade and money laundering affecting the other two countries. At the heart is Paraguay's lame-duck president, Horacio Cartés, the architect of the region's ITTP; he is the owner of Tabesa tobacco company. Furthermore, the removal of Cartés from the presidency and its assumption by his successor (and fellow party member) Mario Abdo Benítez, will not reduce this illicit trade: Cartés will continue to wield tremendous power as a senator; several of his close friends will also enter the Senate, and his party won the presidency in the April 2018 elections.

Security is the highest-ranked agenda item in Brazil's upcoming presidential elections in October 2018. This is primarily because of the military operations in Rio's *favelas*, where the criminal group *Comando Vermelho (CV)* and its affiliates are so widespread and heavily-armed, they are challenging the state for supremacy. The CV is enabled and funded by drugs and weapons that come mainly from Paraguay. This growing illicit trade has also turned Brazil into a prime export point for narcotics from South America to North America, Europe, Asia and Africa.

Because of the complexity of the TBA's organized crime cluster, as well as the weakness of regional counter-terrorist protocols, we recommend engaging international authorities with regional mandates over the core crimes of corruption, money laundering, and proceeds of crime, with the aim of dismantling the source from the fusion centre. These authorities include: the IMF, UNODC, UN CTED, and FATF. Given that the US is largely absent from the region, it is recommended to open pathways to the US and European enforcement communities and the aforementioned authorities through well-structured workshops in Washington, DC and other key cities to build awareness. The other way to influence regional ITTP is to become a larger stakeholder in the Paraguayan tobacco industry.

Introduction

In March 2018, Asymmetrica was commissioned to lead a research observation team to assess the risks from the Tri-Border Area (straddling Argentina, Brazil and Paraguay with interconnecting links into Bolivia) on trade, law enforcement, rule of law, economic stability and security, with a particular focus on corruption, and the possible involvement of transnational criminal organizations (TCOs) in funding violent extremism or foreign terrorists organizations (FTOs).

This study of political, legal, security and economic frameworks and their nexa with convergent threats was funded by a grant from the Counter-Extremism Project. The authors further wish to thank Gaston Melo Felgueres (of Johns Hopkins University School of Advanced International Studies) and Maria Teresa Belandria (of the William J. Perry Center for Hemispheric Defense Studies at National Defense University) for their significant contributions to this report.

The New Routes: “The new silk roads of LatAm crime”

The Tri-Border Area is under some point of scrutiny and/or what seems to be limited surveillance by many agencies to follow the money laundering and other illegal activities. The Cartés government is now working with the Drug Enforcement Administration (USA) and the Federal Police of Brazil, who are trying to reduce the prevalence of money laundering. In 2016 Argentina’s Minister of Justice Patricia Bullrich signed an agreement with the government of the United States to increase the number of DEA agents in the area. However this a commitment that requires a lot more investment in resources and capacity building to dismantle a 40+ year organized crime cluster.

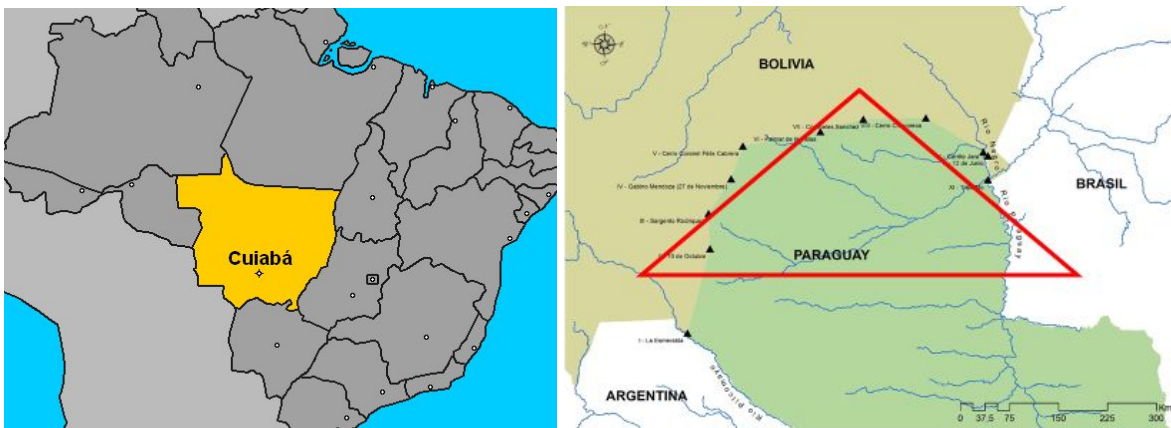
This is one of the many reasons to look more closely into activities in the “East Triangle” area, between Santa Cruz de la Sierra/Puerto Suárez/Port Quijarro in Bolivia and the cities of Cuiabá and Curumbá in Brazil. This is seen as a fusion point and a significant criminal choke point since the signing of the agreement with the DEA.

Brazilian authorities report that a main source of illegal commerce are ships that cruise the rivers of Brazil in the free trade zone of the triple frontier, using the new routes to move drugs from Bolivia (funding the Shining Path and other criminal groups) through

The many criminal heads of the Golden Hydra

the east triangle to Argentina, Brazil and into Atlantic Ocean ports that facilitate circulation across to the EU, Africa or up into the Caribbean more easily, as well as into the USA. US and European law enforcement agencies are a pivotal force to assist in this endeavor because of the flow of narcotics into the USA and EU. We think further counter-narcotics support on a trilateral basis (US, EU, TBA [combined Task Force]) could have a significant impact.

Money laundering is now the keystone interlocking criminal piece linking ITTP to terrorist organisations being funded. DEA, EUROPOL, INTERPOL, UNODC and importantly FATF are key to more focused efforts to reducing money laundering in the TBA.



Methodology

Our methodology consisted of a mixture of three approaches, and two products: a preliminary report and a concluding report based on field collection.

Prior to dispatching a team for the field research, a preliminary report was prepared of the illicit traffic hot spots enabling traffic in and through the TBA. The preliminary report was completed by Latin American, USA and European experts in security, LEA, diplomatic and economic fields, based on phone conversation interviews with in-country experts plus proprietary military, LEA, security and political knowledge of the region.

The three approaches consisted of:

- In country field research: observation of trafficking hot spots plus conversations with high-ranking law enforcement, economic, military leaders, as well as senior government officials, and legislators from all three countries.
- Interviews with subject matter experts (SMEs): consultation with Western Hemisphere security experts in the USA and Europe, and as well as phone interviews with experts in each of the three countries
- A desk review of the pertinent legislative framework, based on open vetted sources

Regional CTF Analysis

ITTP in the TBA: A Criminal Entry Point

The observation team found a tobacco smuggling pandemic, stemming mainly from Paraguay. This finding supported the conclusion in a 2009 Uruguayan think tank report prepared for the World Health Organization (and funded by the Bloomberg Foundation), that the principal actors in the region's ITTP are not the major transnationals in Argentina and Brazil, but rather criminal gangs that "have links with, or directly own, cigarette factories in Paraguay."¹ The same report found that the transnational linkages impact countries as far afield as Europe the US and Africa.

In short, we have come to the conclusion that the illicit trade in tobacco products in the Tri-Border Area is the soft entry point (tip of the iceberg) to a much larger criminal

¹ Alejandro Ramos, *Illegal trade in tobacco in MERCOSUR countries* (Montevideo: CIET Uruguay, 2009), 6.

iceberg that lies below the waterline that has serious impact on political governance, citizen security and economic development in the region, with ramifications deep into the rest of the world.



Magnitude

According to the Brazilian company Souza Cruz, 48% of the Brazilian tobacco market is illicit. 46 percentage points of those 48 are illicit cigarettes from Paraguay. This is equivalent to 43 to 45 billion sticks a year.

Argentina also has a high prevalence of ITTP, which is growing. Recent Argentina intercepts of tobacco smuggling have resulted in concomitant seizures of narcotics, confirming the overlay of various criminal enterprises through the same routes and money laundering mechanisms.

According to a report for the World Health Organization on illicit tobacco trade in the TBA, Paraguay generates 11% of global ITTP: 63.5 billion out of 600 billion sticks in 2006.² Sources on the ground consulted by the observation team think this trend is growing.

² Ramos, 53.

Impact

According to that same 2009 study of ITTP in the TBA, Mercosur countries were losing US\$ 900+ million a year in tax revenue due to contraband tobacco. 71% of that loss is in Brazil. In other words, “fiscal losses in Mercosur countries constitute between 2% and 5% of the estimated worldwide loss due to the illegal tobacco trade.”³ Industry and government sources consulted in March and April 2018, put the estimate higher, **at US\$ 2.9 billion a year in fiscal losses to Brazil alone.**⁴

Furthermore, as noted below in the Brazil country study, the economic impact is palpable to industry, the labor market and the tax base: Brazilian tobacco company Souza Cruz closed a factory in February 2015, laying off 190 employees. That makes 190 people eliminated from the legitimate labor market, the tax base and targets for black market or criminal employment.

According to a Brazilian government study of the problem of ITTP, published on August 3, 2017:⁵

- 33% of contraband cigarettes in Brazil end up in São Paulo
- Between January and June 2017, São Paulo alone lost R\$5 billion in tax revenue to contraband
 - R\$ 1.6 billion was lost to contraband cigarettes
- The #1 brand of contraband cigarettes in São Paulo was Tabesa-owned brand Eight, with 33.7% of the market
- 6,838,000,000 contraband cigarettes were sold in São Paulo in the first six months of 2017, at prices between R\$3.00 and R\$3.50 (as opposed to the legal minimum of R\$5,00)
 - That equates to R\$1.0257 billion to R\$1.197 billion income to criminal organizations in the first semester of 2017 to criminal organizations in São Paulo alone.

³Alejandro Ramos, *Illegal trade in tobacco in MERCOSUR countries* (Montevideo: CIET Uruguay, 2009), 54.

⁴ Tax evasion in 2017 is a calculation based on official Brazilian IRS tax collection (Legal Market) combined with Industry estimate based on 48% Illegal market size from Ibope Research Institute.

⁵ Mercado Legal, *Dia Estadual de Combate ao Contrabando*, 3 de agosto de 2017.

- That equates to **US\$592 million to US\$709 million a year in income to tobacco smuggling criminal organizations from São Paulo alone.**

Causes

The prime causes of the prevalence of ITTP in the TBA are:

- Tax differentials
- Weak border controls
- Weak domestic enforcement
- Corruption.

Argentina

The new emergent security threat in Argentina is human smuggling and trafficking of Chinese workers by Chinese triads. While some enter directly on flights from China into Buenos Aires (which are increasingly inspected by authorities, who frequently find contraband of foods not allowed in the country), most of them enter through Paraguay and some through Bolivia. Argentine law enforcement is now finding 50 Chinese illegal immigrants a day. According to interviews, they pay \$20,000 each to reach Argentina. According to Argentina's *Dirección Nacional de Migraciones*, most arrive without proper documentation or with false documentation (mainly passports) from adjoining countries. The names in those forged documents, it was later found, did not match the names the Chinese immigrants had in their records in China. Argentine law enforcement officials know the activity is related to triads and that these triads are growing their presence in Argentina. This is evidenced by the number of supermarkets featuring Chinese or Japanese groceries, whose façades are painted in the colors of the triad that protects them. This form of extortion is called in Spanish *derecho de piso*, "right to floor [space]." Argentine security forces are also seeing a spike in mafia-style assassinations.

Cross-Border Smuggling Routes and Modalities

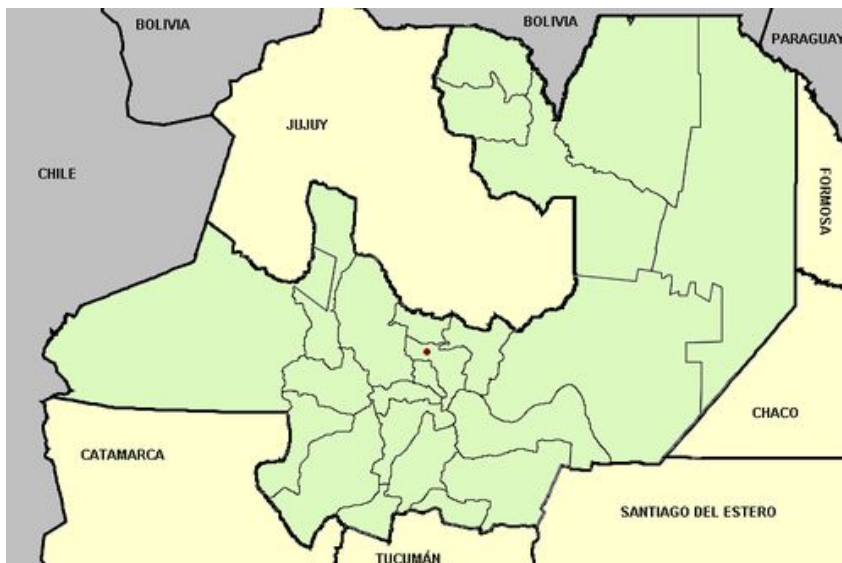
While triad activity is now evident all over Argentina, there are concentrated clusters of triad activity along the border with Paraguay, most of all, in the vicinity of Foz do Iguaçu,

along the border with Bolivia, and across some of the mountain passes along the border with Chile, which is its longest.

The countries with which Argentina shares a border are:⁶

- Bolivia: 942 km
- Brazil: 1,263 km
- Chile: 6,691 km
- Paraguay: 2,531 km
- Uruguay: 541 km

In the NW Argentine province of Salta (a horseshoe-shaped province that borders Chile, Bolivia and Paraguay), TCOs are taking advantage of those isolated mountain passes.

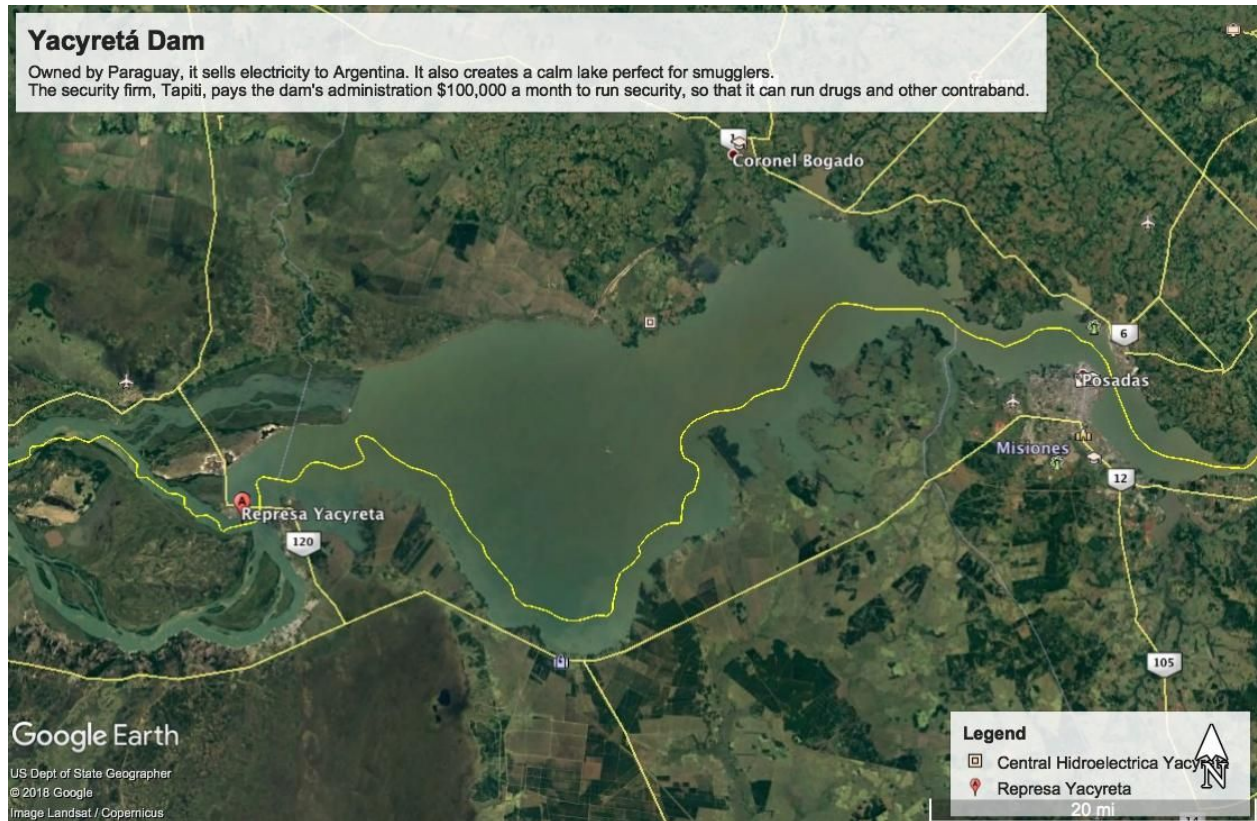


Illegal crossings from Paraguay have risen sharply recently, across the lake south of Ciudad del Este, in the vicinity of the Yacyretá dam. An undercover Argentine operative decided to test out the border crossing security from Paraguay into Argentina. He approached Paraguayan border control at the lake at Yacyretá dam. The undercover operative approached the border guard without any documents and said he was in a hurry to get back to Argentina, claiming he had to be at work in the morning. The border guard told him to go speak to a particular man with a small speedboat. After paying the boat owner a fee, the boat man took him across the lake, in full view of the crossing guards. Once on the other side, the boat driver directed the undercover operative towards

⁶ Central Intelligence Agency World Factbook:

<https://www.cia.gov/library/publications/the-world-factbook/geos/ar.html>

the best land routes to evade Argentine security. The undercover operative observed that the permeability of the border was greatly due to Paraguayan complicity.



Another drug smuggling method mitigates risk of capture by limiting manual labor. The smugglers have studied in detail the ebbs and flows and currents of the river. They drop floating bags of contraband and let the river carry them to the other side, where the bags of contraband get picked up by their Argentine partners. That way no one is in possession of the contraband (usually narcotics in this case) at the border crossing. A senior-level Argentine policeman says that the TCOs in Ciudad del Este (CDE) share logistics and collude.

Lebanese, Hezbollah or Otherwise

According to Argentine law enforcement, the TBA's domination by the Lebanese is primarily in Brazil: the Lebanese community dominates Foz do Iguaçu: it is on that side of the border that they are protected by their numbers. It is this enormous Lebanese community that is the primary merchant class for goods from Paraguay: Chinese and Paraguayan goods in Ciudad del Este (CDE), Lebanese merchants in Foz do Iguaçu. The same senior Argentine police officer says that local estimates (Argentine and Brazilian)

are that Hezbollah raises \$200 million a year in the TBA, defined as comprising CDE and Foz. Argentina, he says, has a large and well-integrated Muslim community throughout the country, that are predominantly unproblematic. Venezuela, by contrast, he says, is the heartland of Hezbollah in Latin America. It is perhaps unsurprising that a senior member of the Argentine security forces would make either of these claims: that Argentina does not have a problem with its Muslim community, and that any problems are in countries, particularly another country in the region that is currently failing

The Politics of Border Security

According to a senior border security law enforcement official, who has been in his position for many years, the prior Kirchner governments specifically did not authorize the use of radar over the lake 24 hours a day; they only allowed 12 hours a day. So poor children from the area worked as lookouts for the *narcos* and would let them know as soon as the radar was switched off, so they could resume their smuggling. The officer stopped short of directly accusing the Kirchner governments of complicity with the smuggling operations, but noted wryly that “this new government has a different politics; the radar is on 24 hours a day.” “Now”, he said, “we have the political will to improve border security.” However funds are limited.

“Now we have the political will to improve border security.”

Border control is the responsibility of the *Gendarmeria Nacional*, but constitutionally, the border can be in the custody of any of the four national military forces. The main problem with border security has been the corruption of Argentine agents who remain in situ too long. Three to four years ago, there was an enormous scandal about the endemic and pervasive corruption of the gendarmeria agents posted in Salta. Since then, security logistics have been amended to rotate *gendarmeria* officers more frequently. However, they can still be corrupted quickly by the choice of *plata o plomo* (“silver or lead”, money or a bullet): in the *vija* (slum) known as Vija 1114, the gendarmes were totally corrupted. The gendarmes were earning ARS 15,000 a month; the criminals offered to pay them ARS 40,000 a month, and killed them if they didn’t accept.

Emergent Trends in Public Security and Smuggling

There is a growing collusion amongst TCOs from around the globe clustering into Latin America as a “soft touch.” Argentine law enforcement know that there is a broader pattern or underlying cause that they have not yet been able to uncover, but is posing a serious security threat to the state and its communities.

Santa Fe province, for example, “was completely bought by *narcos*,” said one senior official in charge of countering transnational crime. The strategic importance of Santa Fe is because of its port, as most drugs travel by boat.



Then drugs are shipped by boat out of Argentina to onward markets that offer greater profits. A senior Argentine counter-narcotics agent provided the following market price points for cocaine:

- Price per kg in Buenos Aires: USD 7,500
- Price per kg in the EU: EUR 45,000
- Price per kg in Australia: AUD 200,000. This price point and trafficking route has also been confirmed by a former senior officer of the DEA’s Special Operations Division.

Drugs have been arriving by boat from Mexico in electrical transformers and other electronics. The Mexican cartel with the biggest presence in Argentina is Los Zetas, who appear to be working with members of ‘Ndrangheta’, a mafia from the southern Italian city of Calabria, that encompasses more than 100 *cosche* (families), “each of which claims sovereignty over a territory, usually a town or village, though without ever fully conquering and legitimizing its monopoly of violence,”⁷ and, according to the officer, distributes narcotics to more than 40 countries in and around Europe. They realized some unusual confluence was occurring (whose cause and dynamics they still do not fathom) when the heads of two major Colombian cartels were arrested in Argentina in 2011 and 2012: Jesús López Londoño (known as *Mi Sangre*, “My Blood”), who was extradited to the US in a high-security operation in 2016,⁸ of the Urabeños, and the Norte del Cauca’s Ignacio Álvarez Meyendorff, the man credited with pioneering the use of submarines to smuggle drugs to the US.⁹ In June 2010, Luís Agustín Caicedo Velandia (known as “Don Lucho”) was captured outside a food store in Argentina, holding a Guatemalan passport. He was the leader of a “super cartel” that “distributed cocaine to every continent except Antarctica.”¹⁰

Then in September 2017, Rocco Morabito, the “cocaine king of Milan,” of ‘Ndrangheta’ was arrested in Uruguay. He had been living in the upscale resort town of Punta del Este, Uruguay, since 2002, with false identity papers from Brazil under the name of Francisco Capeletto, fitting his role as the *capo* of the Brazil-Italy drug trafficking route.¹¹ Both Uruguay and Brazil are members of the Mercosur trade pact, which includes: Argentina, Brazil, Paraguay and Uruguay. Mercosur allows the citizens of one country to reside freely in any other Mercosur member.

⁷ <https://en.wikipedia.org/wiki/%27Ndrangheta>

⁸ Ramiro Barreiro, “Argentina extradites drug lord ‘Mi Sangre’ to US,” *El País*, 18 November 2016.

https://elpais.com/elpais/2016/11/18/inenglish/1479473778_597079.html

⁹ “Argentina arrests ‘man behind Colombia drug submarines,’ BBC News, 27 April 2011.

<http://www.bbc.com/news/world-latin-america-13217187>

¹⁰ Andrew Hough, “World’s biggest drugs ‘super cartel’ smashed by US authorities in Colombia,” *The Daily Telegraph*, 18 June 2010,

<https://www.telegraph.co.uk/news/worldnews/southamerica/colombia/7838143/Worlds-biggest-drugs-super-cartel-smashed-by-US-authorities-in-Colombia.html>

¹¹ “Rocco Morabito: Italian mafia boss held in Uruguay,” BBC News, 4 September 2017. <http://www.bbc.com/news/world-latin-america-41146886>

Created during the 1990's at a time where Argentina and Brazil wanted to improve relations, Mercosur became a political and economic block. The treaty of Asunción, signed in 1991 permitted the “free movement of goods, services, and factors of production between countries.” The block has asserted its commitment to democracy and has activated the Ushuaia Protocol on Democratic Commitment twice, banning Paraguay for one year in 2012, and Venezuela in 2016. The case of Venezuela is a good example of Mercosur's political fractures, as not only was the country suspended for infringement on democratic values and human rights issues, but Venezuela also failed to comply numerous times with the block's trade regulations.¹² Economically, with the expulsion of Venezuela, and recessions in Argentina and Brazil, Paraguay and Uruguay's 4% and 2% growth respectively are insufficient to carry the block on a path to greater economic prosperity. Amidst the corruption probes in Brazil, illicit trade in Paraguay, deficit in Argentina and poor growth in Uruguay, Mercosur is more a failed political idea rather than a common economic front.

In terms of combating corruption and money laundering, Mercosur countries organized the “*Primer Encuentro de Órganos Superiores de Contralor de la Corrupción en el MERCOSUR*” in 2012¹³, in which countries shared experiences, successes and challenges without actually setting forth a regulatory framework like the European Union Anti-Money Laundering Directive, which is mandatory for EU countries and gives members a two-year window for implementation.

In addition, Mercosur created the *Comisión de Prevención del Lavado de Dinero y del Financiamiento del Terrorismo* along with a document “Patterns of minimum regulation to be adopted by the financial supervisors for money laundering and terrorism finance prevention” (*Pautas de Regulación Mínima a Ser Adoptadas por los Supervisores Financieros para la Prevención del Lavado de Dinero y el Financiamiento de Terrorismo*)¹⁴. This four-page document outlines general regulation based on FATF, GAFILAT and GAFIC recommendations. Mercosur's only punishments to states have

¹² <https://www.cfr.org/background/mercursosouthamericasfractioustradebloc>

¹³ <http://presidencia.gub.uy/comunicacion/comunicacionnoticias/corruccion-narcotrafico-soborno-mercursos-jutep-organos-contralor>

¹⁴ http://www.sgt4.mercosur.int/es-es/Documents/2016-01-14%20-%20Mercosul%20-%20GMC%20-%20SGT-4%20-%20CPLDFT%20-%20Resolu%C3%A7%C3%A3o%20051-2015_ES_Pautas%20Prev%20Lavagem%20Dinhairo.pdf

been on the basis of democratic issues, rather than fulfillment of their obligations to the block.

The latest cause for concern for Argentine law enforcement is the FARC peace agreement and its consequences. According to one senior Argentine officer, as part of the peace agreement, the FARC declared to the Colombian government that it had 11,000 weapons. The Argentine officer, however, thinks that number is closer to 40,000 and the remaining 75% will be moved through the TBA into Argentina and Brazil, worsening public security in both countries.

ITTP in Argentina

Argentina (like Brazil) is plagued by cigarettes smuggled from Paraguay. In November 2017, near the city of Reconquista, Argentina's *Prefectura Naval Argentina* (PNA) seized a multi-million dollar load from Paraguay of Rodeo brand cigarettes, made in Paraguay.¹⁵ This was the same brand as another major seizure in February 2017, made by the *Gendarmeria Nacional* near Avellaneda.

It is widely reported and known that the biggest producer of illicit tobacco in the region is Paraguay's lame-duck president Horacio Cartés. His cigarettes (particularly the Eight brand) are found throughout Brazil and Argentina, in loads routinely worth US\$1.5 million or US\$2 million each.¹⁶ ITTP from Paraguay is trending larger, as more loads are breaking previous records. It is the observation team's assessment that ITTP into Argentina will grow in 2018, as Argentina's projected inflation rate will be (according to the IMF; see below in "Key Findings") the highest of the three TBA countries, creating a hard currency arbitrage opportunity.

¹⁵ "Decomisaron un millonario cargamento de cigarrillos proveniente de Paraguay," Uno, 20 de noviembre de 2017, <https://www.unosantafe.com.ar/judiciales/decomisaron-un-millonario-cargamento-cigarrillos-proveniente-paraguay-n1509579.html>

¹⁶ "Capturan contrabando de cigarrillos en Brasil y Argentina de fábrica perteneciente al presidente de Paraguay," Mercopress, 17 de octubre de 2017, <http://es.mercopress.com/2017/10/16/capturan-contrabando-de-cigarrillos-en-brasil-y-argentina-de-fabrica-perteneciente-al-presidente-de-paraguay>

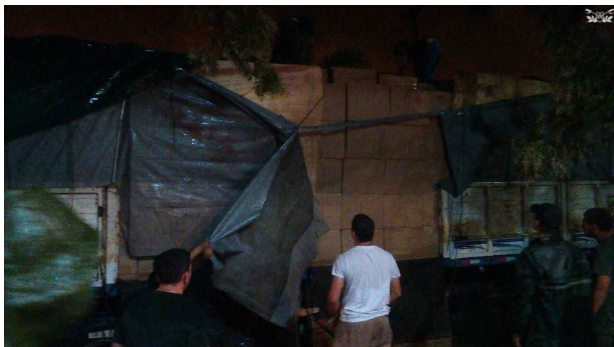
The many criminal heads of the Golden Hydra

Recent ITTP Operations and Intercepts in Argentina

27 March 2018, on a highway to Buenos Aires

On 27 March 2018, Argentine police, in an intelligence-driven operation, stopped a truck bound for Buenos Aires, Argentina from Asunción, Paraguay. Upon pulling back the black plastic covering (in line with reports to the observation team in Guaraní International Airport near Ciudad del Este), officers uncovered 69,000 cartons of cigarettes lacking import stamps. Members of the border security forces confirm they are also seeking another truck with cigarettes and marijuana.

Photos of Contraband Seized in 27 March Operation



28 March 2018, near Misiones, Argentina

In the early hours of 28 March 2018, police officers from Argentina detected the arrival of a “narco boat” in the city of Santa Ana, Misiones province. The interception resulted in a seizure of a shipment of cocaine, marijuana and illegal cigarettes.

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Police officers, located near the intersection of the Yabebyry stream and the National Route N ° 12, observed the arrival of a rowboat in the aforementioned area that carried several packages, and two people who, after throwing the load at the height of kilometer 1.624, undertook the return to Paraguay.

This type of operations by delinquents and their criminal organization is very common: they drop the contraband mid-river, from where it is collected by other members of the criminal organization. The police operation resulted in the capture of the criminals, who hoped to retrieve the merchandise:

- 10 kilos 710 grams of cocaine
- 50 kilos 925 grams of marijuana
- One thousand cartons of cigarettes

Photos of Contraband Seized on 28 March 2018



Money Laundering through Agriculture

Money laundering through agriculture was identified as an emergent trend by senior level Argentine law enforcement agents, who had previously worked a 17-year investigation of money laundering by the the Juárez drug cartel through real estate (residences and farm land) in the vicinity of Buenos Aires. Transnational criminal organizations, in their never ending quest to find new money laundering modalities that will evade law enforcement, are increasingly using agriculture to launder their proceeds. This fictionalized account was produced for our researchers by a senior Argentine officer to depict how the scheme works.

The company MONEY SA, whose shareholders carry out activities in the public works arena, with headquarters in the Autonomous City of Buenos Aires, set up a rubric for agricultural activities under the charge of Juan X, director of a law firm (PP & Asoc.) specialized in the activity. Juan X (Attorney) with Pedro Y (Agronomist), from the town of Gral. Pico, begin the process of leasing fields in the north of the province of La Pampa.

The Cooperativa Agropecuaria de Acopiadores Ltda. of the province of La Pampa provides stockpiling (warehousing) and sale of inputs for agricultural activities. Its director Paulo Z (lawyer) is a native of the town of Gral. Pico. Juan X and Paulo Z attended the same university, and they shared relationships with Pedro Y.

Juan X on behalf of Money S.A. signs an agreement with the Cooperative for the provision of inputs - seeds and agrochemicals - on credit, for the development of the productive process in the leased land. It states that Money S.A. It will sell all the production obtained to the cooperative.

Pedro Y contacts small producers in the area to purchase the production cycle. Obtaining a high number of tons of cereals.

Juan X acquires vehicles: vans and a high-cost sedan. On the other hand, it increases its expenses with credit cards in the acquisition of consumer goods. Also, Pedro Y acquires properties in the area for family use.

Money S.A. then sells the totality of the obtained production (having obtained an optimal production) to the Cooperative. The latter makes the discounts corresponding to the inputs used, and settles the operation by wiring the dividends into the Banco El Mercader accounts

- **Base crime: corruption**

- **Actors:**

- Money S.A
- Juan X
- Pedro Y
- PP & Asoc.
- Cooperativa Agropecuaria de Acopiadores Ltda.
- Bco. The Merchant

- **Alerts:**

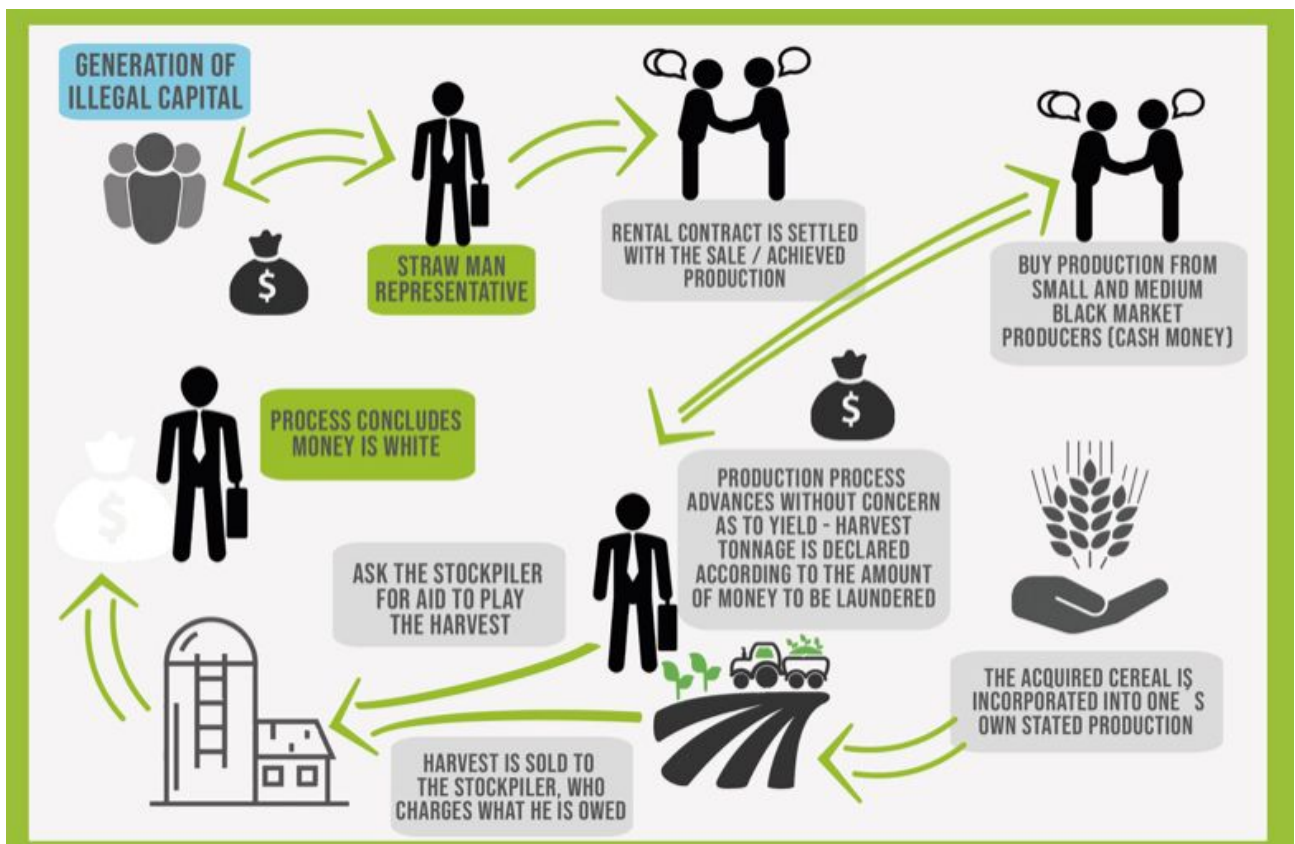
- Money Company's main activity and geographic location.
- Increase in the economic capacity of Juan and Pedro. No suspicious activity was reported
- The Bco. Mercader is signed as an entity related to money laundering activities

Money laundering mechanism

Some Gentlemen ("X") as a product of illicit activities (corruption, organized crime, tax evasion) form a "sowing pool" and hire a group of professionals ("A") to develop activities related to agricultural activity. "A" has knowledge in the sector, and some specifically in the activity, in addition to having their own agendas and knowledge of the territory.

1. First step: "A", as representatives, start the activity through the conclusion of lease agreements with holders of fields ("B"), with the clause to cover the lease costs once production is completed - which can be settled with part of the production or with cash.
2. Second step: "A" is contacted by the company that collects ("C") the area, which develops activities of collection and provision of inputs - seeds, fertilizers, agro chemicals, etc. - and a contract is established between both: where "C" supplies the inputs to be paid with part of the total production that "A" will sell.

3. Third step: "A" develops the agricultural activity, without the search for optimal yields - volume of production per hectare - (or there are establishments that do not directly initiate the productive process).
4. Fourth step: "A" before the end of the process - harvest - runs through medium and small producers ("D") who sell their grain production. This transaction is made without declaration and is paid in cash (black money). Said volumes of grain are incorporated into the production (if there was a sowing process) of the leased territorial extensions. That is, as the production volumes per hectare are variable, the lessee "A" declares an optimal yield.
5. Fifth step: "A" sells all the production to "C", the credits granted by inputs are deducted. Likewise "A" meets the commitments agreed with "B". Concluding in this way the operation and obtaining money in blank and vouchers of its origin that can be used by ("X").



The Trade in Stolen Cars

Argentine law enforcement calls Paraguay “a lost territory, where all activities are illicit.” In their view, the laws are structured to facilitate criminality through cracks in frameworks between agencies. For example, Paraguay is the regional node for cars stolen from Argentina and Brazil, which are then taken to Bolivia and traded for cocaine. Paraguay has abided by its laws: when it identifies a car stolen from another country, it publishes an announcement in Paraguayan newspapers asking for the car to be claimed by the rightful owner. When no one comes forward (because the rightful owner is in another country and not reading Paraguayan announcements), Paraguayan authorities sign over official ownership documents to the person in whose possession the car was found.

Paraguay is “a lost territory, where all activities are illicit,” technically “a failed state” artificially supported by OC funding and well entrenched corruption frameworks from the highest parts of government

Transnational Criminal Activity Through Foreign Embassies

The Iranian embassy in Buenos Aires was famously used as a main operational point in the 1994 AMIA bombing by Hezbollah (see below “Assessing the TBA’s Ties to Lebanese Hezbollah”). However there is evidence that some other countries may well be benefiting from the local illicit flows of goods to finance themselves, using their embassies and attendant diplomatic immunity and secrecy to traffic narcotics, for example. One recent salient example is Russia.

In late February 2018, Argentina’s *Gendarmeria Nacional* announced that it had found 389 kilograms (more than 850 pounds) of cocaine in the Russian embassy in Buenos Aires.¹⁷ Although the Russians tried to present it as a good news story of international law enforcement cooperation between Russia and Argentina dismantling a route managed by a temporary Russian contractor, the *Gendarmeria Nacional*’s investigation actually

¹⁷ Nathan Hodge and Maria Ilyushina, “The drug smuggling scandal Russia wants to wish away,” CNN, 1 March 2018,

<https://www.cnn.com/2018/02/28/europe/russia-drug-smuggling-argentina-intl/index.html>

tracked the smuggling to the upper echelons of the diplomatic corps, using Russian military aircraft.

Brazil¹⁸

Security Priorities

With a general election in October 2018, opinion polls show that security is a top priority for Brazilians – hence why President Temer has militarized security in Rio’s *favelas*. The biggest crime groups in the *favelas* in Rio de Janeiro are *Comando Vermelho (CV)*, *Amigos dos Amigos (ADA)* and *Terceiro Comando Puro (TCP)*. *Comando Vermelho* is known to both of whom also operate on the Paraguayan side of the border. The military intervention in Rio’s *favelas* has a political consequence: it has blocked an unpopular pension reform that would have required a change in the constitution, as such constitutional reforms are forbidden while a domestic military intervention is in force.¹⁹ Former defense minister Raúl Jungmann is the head of the newly-minted ministry of public security.

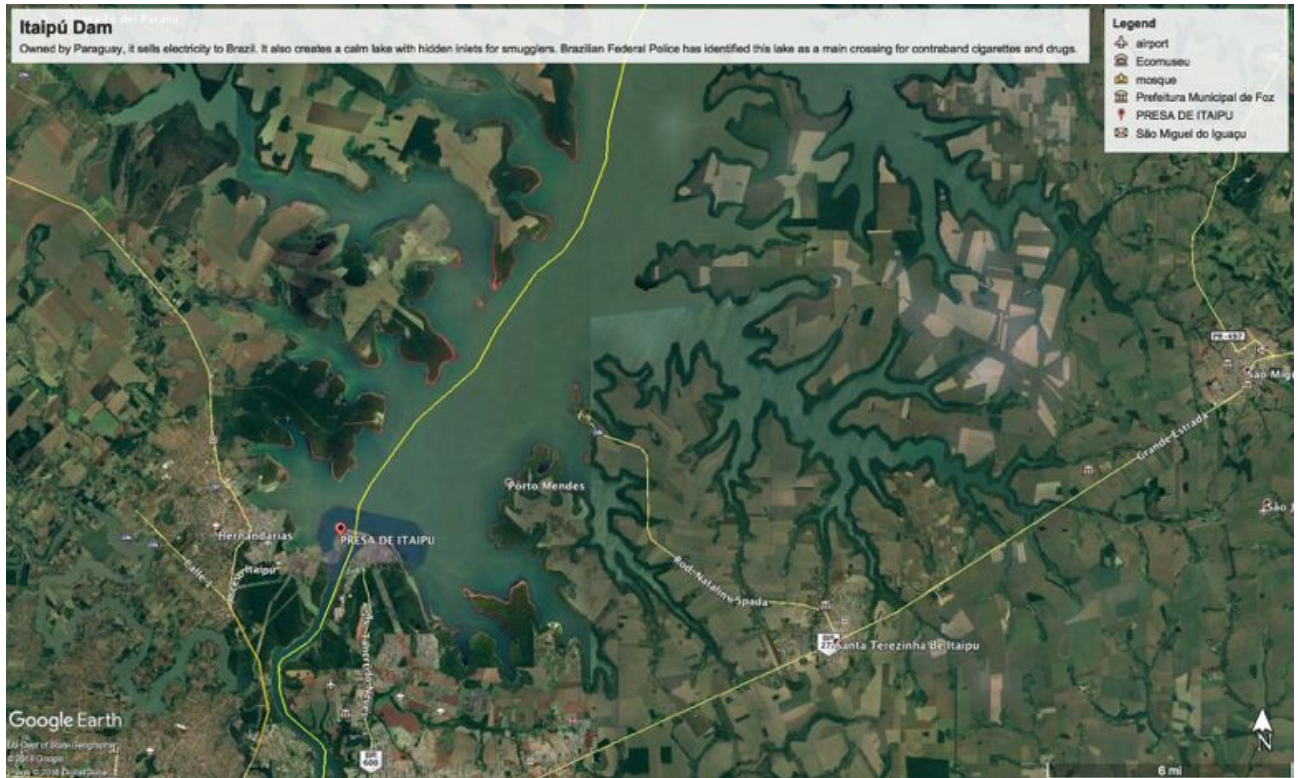
The observation team noticed that, unlike the Friendship Bridge, the area around the Itaipú Dam is very secure, and under tight Paraguayan control, since Paraguay owns 50% of the the dam.²⁰

¹⁸ Much of the insight into Brazil’s illicit trade panorama was provided by senior members of the Brazilian National Police, the most powerful law enforcement body in the country.

¹⁹ Andrés Schipani, “Brazil gets tough in war on crime in Rio’s slums,” *Financial Times*, 11 March 2018, <https://www.ft.com/content/48f3bf5a-22bb-11e8-ae48-60d3531b7d11>

²⁰ <http://www.itaipu.gov.py/en/company/agreements>

The many criminal heads of the Golden Hydra



The main export points for illicit Goods into Brazil, as identified by senior officers in Brazil's National Police, are as follows:

- Puerto Suárez, Bolivia: cocaine, (less frequently) weapons
- Ciudad del Este, Paraguay: cocaine, weapons
- Pedro Juan Caballero, Paraguay: marijuana and cocaine
- Salto del Guayrá, Paraguay: cocaine, weapons
- The main entry point for cocaine and weapons are from Paraguay: Ciudad del Este, Pedro Juan Caballero and Salto del Guayrá
- The export point for cigarettes are: Ciudad del Este and the boats on Lake Itaipú
- Weapons and marijuana enter mainly through Pedro Juan Caballero
- Cocaine, enters primarily through the areas surrounding Corumbá and Pedro Juan Caballero

Illicit Trade in Tobacco Products (ITTP) in Brazil

According to representatives of a local Brazilian cigarette manufacturer, cigarette smuggling falls below the line of enforcement “care” in Foz do Iguaçu. The organized crime group PCC is there, but ITTP is considered lower priority than drugs or weapons trafficking. Illicit cigarettes come in from Paraguay through Lake Itaipú, where the Brazilian authorities have very few and small patrol boats; there are no routine inspections. Most of the ITTP routes in Brazil are internal: they come from Paraguay into Paraná (either through Foz do Iguaçu or any of the porous points on Lake Itaipú) and they go via overland road routes to São Paulo, which is the main distribution point.

Most of the groups who traffic cigarettes do not traffic drugs; however, some drug trafficking groups do also get into cigarettes. It depends on what the group's foundational crime is. Lebanese crime rings are involved in both drugs and cigarettes, in which they are very strong smugglers. In the 1990s, Al Qaeda were in the TBA benefitting from cigarette smuggling. After 9/11, cigarette trafficking lost priority. More recently, Brazilian law enforcement's priorities have been protecting both the 2014 World Cup and the 2016 Summer Olympics from attacks by ISIS or Al Qaeda. Nevertheless, seizures of illicit cigarettes escalate yearly but with crime and safety in major towns a priority (particularly in the October presidential elections) tobacco crimes remain low on the priority list.

A key driver of the trade of contraband cigarettes into Brazil is the 70% sales tax imposed, which is much higher than tobacco taxes in Paraguay.

- Excise tax 8%, a selective consumption tax
- Sales tax 10%
- Import duty 22.5% (non-MERCOSUR)
- Other import duties: 1% air cargo service fee; 0.5% CIF (cost, insurance, freight) administrative fee;
- plus consular and customs broker charges²¹

The delta represents a profit margin for criminals who do not pay the tax on smuggled Paraguayan cigarettes. According to one senior government official, 55% of the points of sale of cigarettes in Brazil are taken by Paraguayan brands that pay no tax, and up to 98% of Paraguayan cigarette production is destined for illicit export to Brazil, where they are viewed as a scourge. The economic impact is real: local Brazilian company Souza Cruz closed one of its factories in southern Brazil in February 2015, resulting in the firing of 190 employees, with another 50 reassigned to other functions within the firm.²² The economic impact on Brazil is broader, but particularly evident in the “twin cities” that sit across the border from towns in other countries that are sources of contraband.²³ A strong dollar is another major driver of contraband into Brazil.

Once inside Brazil, either by crossing river or land borders, contraband moves swiftly down its 1.7 million kilometers of roadways. Brazil’s State Police forces, whose mandate is to police these roads, are short 155,000 agents, taking into account the numbers established by the state legislatures. Furthermore, on the border regions, the few agents there are, are highly corruptible. The main highways along which cigarettes and other contraband move in Brazil are: the north-south BR-163 and the east-west BR-277.²⁴

Photos of Illicit Cigarettes by the Observation Team in Foz do Iguacu

Notice that the Elegance brand purports to have been made in Germany, but features Arabic writing. This caused the observation team to wonder whether these might have

²¹ <http://www.who.int/tobacco/media/en/Paraguay.pdf>

²² IDESF, 5.

²³ IDESF, 10.

²⁴ IDESF, 7-8.

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been either produced or imported with the complicity or participation of Paraguayan *colonomenonitas*: the team learned in their field research that the *colonomenonitas* have vast land holdings in northern Paraguay, for which they pay little or no tax and have tariff exemptions for the importation of machinery for the processing of agricultural products, including tobacco, which they grow.



Smuggling in Brazil's Border States

Brazil has eleven border states, each with its own prevalent types of contraband goods, entry points and distribution routes. The routes (both into and within Brazil) are a combination of rivers and roads, sometimes a combination of each. The best way to understand how extensive the distribution pathways are is to see them in combination on a map.



The many criminal heads of the Golden Hydra

Brazilian State	Bordering Country	Contraband	Entry Points	Distribution Routes
Amapá	British Guyana, Suriname, French Guyana	Cigarettes, major volume of weapons	Santana Port in Macapá	By river, to Belém, in the state of Pará
Pará	Suriname, British Guyana	Cigarettes, electronics, cocaine	Cigarettes: from Suriname by river; electronics: Panama Canal; cocaine: Bolivia, Peru or Colombia, on the Amazon River	By road: BR-163, BR-320, BR-153, BR-010, BR-210, BR-230
Roraima	British Guyana, Venezuela	Gasoline, clothing, food. Lately (since Venezuelan collapse began): cocaine and military-grade weapons	Branco River	Branco River, heading to Manaus, and the south of Roraima
Amazonas	Colombia, Peru	Clothing, drugs and weapons	Federal roads (isolated jungle terrain) link north-south; Negro and Solimões rivers	By river, heading to Tabatinga, São Gabriel da Cachoeira, Tefé and Manaus
Acre	Peru, Bolivia	Cigarettes, clothing, tires	By road	BR-364 and BR-317
Rondonia	Bolivia	Cigarettes, clothing, tires		BR-364 all the way to São Paulo
Mato Grosso	Bolivia	Cigarettes, clothing, tires		BR-174, BR-070, BR-163
Mato Grosso do Sul (one of two biggest hot spots)	Bolivia, Paraguay	From Paraguay: cigarettes, electronics, cosmetics, drugs and weapons; from Bolivia: cigarettes, alcohol, clothing, tires, and drugs.	River routes	BR-267. BR-262, BR-060, BR-163, BR-463, BR-149, BR-158 to São Paulo, Minas Gerais, Goiás, Federal District
Paraná (biggest IT hot spot)	Paraguay, Argentina	From Paraguay: "everything," incl. Cigarettes, electronics, medicines, cosmetics, alcohol, drugs and weapons; from Argentina: food, clothing, alcohol	190 entry points, including Lake Itaipú towns: Foz do Iguazu, Santa Terezinha de Itaipú, São Miguel do Iguazu, Madianeira, Itaipulândia, Missal, Santa Helena, Entre Rios do Oeste, Pato Bragado, Marechal Cândido Rondon, Diamante d'Oeste, São José das Palmeiras,	BR-277, BR-163 To: Capanema, Toledo, Guaíra, Céu Azul, Casca-vel, Laranjeiras do Sul, Campo Mourão, Maringá, Londrina, Guarapuava, Ponta Grossa, Curitiba, Paranaguá.

The many criminal heads of the Golden Hydra

			Mercedes, Gauíra, Terra Roxa; Port of Paranaguá: contraband from China	
Santa Catarina	Argentina	Food, alcohol, clothing; some goods from Paraguay	Roads connecting to: BR-163, BR-282, BR-153, BR-470, BR-116, BR-101; Port of Itajaí: various goods from Asian countries	BR-163, BR-282, BR-153, BR-470, BR-116, BR-101 and state roads, reaching and affecting: São Miguel do Oeste, Guaraceaba, Barracão, Porto União, Chapecó, Mafra, Florianópolis, Joinville, Tubarão, Criciúma, Blumenau
Rio Grande do Sul	Argentina, Uruguay	Paraguayan goods: cigarettes, food, alcohol, electronics, others; from Uruguay: food, alcohol, medicines	via Paraná or via Argentina	BR-163, BR-285, BR-377, BR-386, BR-116, BR-290, BR-287, BR-471, BR-293, BR-392, BR-153, BR-468, as well as state and municipal roads; most affected cities: Uruguaiana, Barra do Quaraí, Seberi, Três Passos, Quaraí, Santana do Livramento, Lajeado, Santa Maria, Dom Pedrito, Bagé, Jaguarão, Chuí, Porto Alegre, metropolitan region.

Lebanese in Brazil

Brazil does not consider Hezbollah a terrorist group; it considers it a TCO. There are seven million Lebanese in Brazil (that's more than are in Lebanon); they are part of the country's fabric. They seem to want to stay a TCO, and are not seen as planning attacks as this would bring world attention to the TBA area. Therefore Brazilian law enforcement has largely left them alone, partly because Brazilian law enforcement had larger criminal and safety issues to attend to, including protecting the 2014 World Cup and 2016 Olympics from terrorist attacks and attending to escalating violence in Brazil's prisons and *favelas*. As a consequence, though, the Lebanese criminal groups and Hezbollah are

now so big, Brazilian law enforcement has started to look at them again – particularly since they are seeing growing nexa between Lebanese criminal groups and those of the Mexican cartels and the PCC, which is escalating the violence that is Brazil’s #1 priority. However, Brazil will need significant international support and resources to counter this growing hybrid security threat.

In 2015, Operação Mendaz uncovered a Lebanese ring sending money to Lebanon. Brazilian law enforcement could not ascertain whether the funding, sent from São Paulo, was going to Lebanese Hezbollah or ISIS or both²⁵. Another anti-drug operation in Carmelo, Operação “All In,” uncovered a father-and-son-led drug trafficking organization that flew cocaine from Bolivia, via Corumbá and into six Brazilian states:²⁶ Mato Grosso do Sul, Paraná (which borders Paraguay), São Paulo, Goiás, Mato Grosso and Minas Gerais. Both father and son were members of Lebanese Hezbollah.

Other TCOs in Brazil

Brazilian law enforcement has seen an increase in weapons arriving from Bolivia via Paraguay. They are mostly AK-47s made in Ukraine, Romania or Bulgaria. There are increasing numbers of Russians and East Europeans coming across the borders. The Lebanese and Chinese TCOs view them as competitors impinging on their market, but as far as law enforcement is concerned, the East Europeans might just be middlemen for the Russians.

Brazil sees the Chinese TCOs mainly in counterfeiting, but not primarily in guns or drugs. *Ciudad del Este* and *Pedro Juan Caballero* (PJC) are famous for their cartels. The flow of narcotics from PJC is strengthening PCC and Lebanese organized crime groups.

In May 2017, Brazil’s Federal Police announced the results of Operação Cullinan.²⁷ Colombian cocaine was moving through Brazil to Antwerp, Belgium and then onto Spain.

²⁵ Filipe Countinho e Daniel Haidar, “Polícia Federal descobre rede de apoiadores do Estado Islâmico em São Paulo,” *Época*, 4 September 2015, <https://epoca.globo.com/tempo/noticia/2015/09/policia-federal-descobre-rede-de-apoiadores-do-estado-islamico-em-sao-paulo.html>

²⁶ Francisco Leali, “Libanês é apontado pelos EUA como coordenador do Hezbollah no Brasil,” *O Globo*, 9 November 2014, <https://oglobo.globo.com/brasil/libanes-apontado-pelos-eua-como-coordenador-do-hezbollah-no-brasil-14512474>

²⁷ <http://www.pf.gov.br/agencia/noticias/2017/05/pf-combate-o-traffic-internacional-de-drogas-em-mg>

The buyers in Antwerp, though, were Russians and Bulgarians, so the cocaine was apparently destined for Russia. The cocaine was being trans-shipped in Brazil in boxes of granite, by Brazilian companies formed to export granite. The companies were purposely-formed fronts for the export of cocaine. In order to dismantle the trafficking network, the Brazilian Federal Police worked with Interpol and Colombia's National Police.

Enforcement Capability Gaps

Sources in Brazil criticized the Paraguayan military for doing public security and staying in one violent or TCO-dominated area for a long time, leading to their becoming integrated into the local community and then becoming corrupted and co-opted by the TCOs.

On the other hand, sources in Paraguay said that all the governors in Brazil's border states were corrupt and financially beholden to the TCOs smuggling into their states from neighboring countries, and that these corrupt governors in turn pressure local law enforcement and the local judiciary to be tacitly or explicitly complicit in the illicit trafficking.

Photos of Connectivity between Foz do Iguaçu and Ciudad del Este



How TBA Illicit Trade via Brazil Transits to the World



On Friday, 23 March 2018, federal officials in Brazil intercepted a shipment of 2,052 kilos of cocaine at the port of Santos in the country's southeast, near São Paulo. It was the biggest bust ever made at the port, according to Brazil's Federal Revenue service, *Receita Federal*. The bust reveals emergent trends and modalities in illicit trade from the TBA through Brazil and to the rest of the world.

Hundreds of cocaine tablets were found in three containers of legal, declared shipments of coffee, sugar, and soy (all major Brazilian exports): one container held 1.1 tons of cocaine, another had 500 kilos, and the rest was in the third. Authorities suspected the cocaine was hidden in the containers after they arrived at the terminal. The containers were to be loaded on a ship called the *Cap San Marco*, set to arrive at the port this weekend, and were destined for Hamburg, Germany; Le Havre, France, and Algeciras, Spain, port authorities told news site *Globo*.²⁸

According to the Economic Commission for Latin America and the Caribbean, Santos was the busiest port in Latin America in 2016, with 3.4 million TEUs, each of which is equivalent to one standard 20-foot-long shipping container. The port accounts for nearly one-third of Brazil's trade. Cocaine has become increasingly prevalent in Santos's trade.

²⁸<https://g1.globo.com/sp/santos-regiao/noticia/mais-de-2-t-de-cocaina-com-destino-a-europa-sao-interceptadas-no-porto-de-santos-sp.ghtml>

“The southeast corner of Brazil, where Santos is located, has also become a hub for smuggling, as it located near the tri-border region where Brazil, Argentina, and Paraguay converge.”²⁹ According to this same article, Brazil was the most frequently mentioned non-European country of departure for shipments of cocaine (2010-2015) to Europe, Africa, and Asia.

Observation: Because illicit trade patterns from the TBA and through Brazil extend into Europe the capabilities and authorities of Europol can be brought to bear on illicit trade from the TBA.

Paraguay

Asunción

Asunción is the center of gravity for all illicit trade through the Tri-Border Area. Asunción is the architect of the weak and porous frameworks of law enforcement, but the operational center of gravity is Ciudad del Este. In other words, Ciudad del Este operationalizes the strategies designed in Asunción. The trade flowing from Paraguay to the Tri-Border Area is enabled by the political structure stemming from the capital city of Asunción by creating weak and grey points in its agencies to be exploited. Asunci

Ciudad del Este

Ciudad del Este, located 327 kilometers from Asunción, was founded on 3 February 1957.³⁰ It became a free trade zone (FTZ) in 1970.³¹ It has 60 neighborhoods and about 500,000 inhabitants, with over 40 nationalities, predominant amongst which are: Brazilian and Argentine, followed by Taiwanese, Lebanese, Chinese, Korean, Bangladeshi

²⁹ Christopher Woody, “Latin America's biggest port just made its largest cocaine seizure ever — the latest bust in a thriving drug-trafficking corridor,” *Business Insider*, 23 March 2018, <http://www.businessinsider.com/brazil-port-santos-makes-biggest-cocaine-bust-in-drug-smuggling-hub-2018-3>

³⁰ “Ciudad del Este: 61 años de mucha dinámica comercial y desarrollo turístico,” *Contacto Turístico*, No. 369, febrero 2018, 26.

³¹ Roberson, 8.

and Japanese.³² It was the opening of the Route 7 and the Friendship Bridge that enabled the sharp influx of residents between the 1970s and 1990s.



Ciudad del Este is the core of the region’s illicit trade. An estimated seventy percent of all goods traded evade official oversight.³³ It functions as the key node in a self-contained money laundering biosphere, that benefits local officials of all three TBA countries, as well as criminal groups and terrorist groups of all types. The dominant trading groups in the city are Chinese and Lebanese. This is evident from all the writings on the billboards, the music played in cafés, the shisha shops, the signs in Chinese all over the shopping centers.

³² “Ciudad del Este,” 27.

³³ Roberson, 9.

The many criminal heads of the Golden Hydra



The TBA is a self-contained financial ecosystem (a country-within-a-country) that benefits the locals greatly, but its income does not get distributed to the capitals of the three countries, so it does not feed back into their public works or other programs. The TBA's illicit trade therefore benefits a small elite. Brazilian governors on border states of Paraguay are all involved in illicit trade: they are on the payroll of TCOs and the Brazilian local or state police with the respective border regions. The TBA balance is fragile, though, because one currency fluctuation or downturn in one of the countries will destabilize the system and alter the flow. It is also subject to political parties changing with new anti-corruption mandates with only Brazil leading the way more vocally due to Brazilian corruption scandals at the top of government and a significant economic downturn.

Photos of Illicit Trade in Ciudad del Este



Ciudad del Este Guaraní International Airport

The many criminal heads of the Golden Hydra

Ciudad del Este Guaraní International Airport is very isolated, with very few flights and has no security to speak of. The team observed one young man on a motorcycle at the checkpoint at the entrance to the airport grounds, no surveillance cameras, and the only aviation security officers were private. No police, who would be in charge of domestic control of contraband, were observed.

An airport employee confirmed it receives cargo planes from China with unknown content, 99% of which is sent to Brazil via Ciudad del Este and Foz do Iguacu, according to two law enforcement sources in Asunción. Our observation team saw one of these planes (a Boeing 747) as they traveled through the airport. It was away from the terminal it dwarfed. The plane our team observed is apparently grounded, but further inquiries yielded reports that two planes like it a week, land at Guaraní airport: one from China and one from Dubai.





According to an employee at the airport who lives locally, the illicit trade in cigarettes coming from Paraguay is directed by the president himself and the military is complicit. Tabesa has a factory close to the border, and the boxes are shipped out in the night, wrapped in black plastic. The aircraft is also used to send back contraband and cash into Asia.

The real estate of Encarnación, Paraguay, the border town across from Posadas, Argentina, rose sharply in value over the past couple of years as illicit trade across that border grew. Posadas residents cross into Encarnación to buy cheap Chinese goods and sell them back into Argentina. This trade increased sharply as inflation in Argentina has stayed very high over the years. Then the Argentine authorities enforced better border security and Encarnación real estate prices came down.

Law Enforcement Landscape

SENAD, a police force, is in charge of interdicting trafficking in drugs, weapons, and cigarettes. Meanwhile, the military run joint operations on border control. They provide the external border defense, and are particularly in charge of “wet borders,” where the

boundary is water; the police-run customs are in charge of land borders. The police run internal security, control the domestic checkpoints.

In the north of Paraguay, there is a well-funded (with a proprietary budget) joint task force (combining military and police) to combat the EPP (*Ejército del Pueblo Paraguayo*) insurgency, which some claim is allegedly also funded by the Venezuelan Bolivarian government. The joint task force:

- Owns their budget
- Is directed by the presidency
- Is headed by a military commander, usually a general or colonel

The joint task force is in charge of all routes of contraband in drugs, cigarettes and weapons through the region and to the rivers Paraná and Paraguay. While this is a good idea in principle, without credible international observation, corruption is still prevalent.

Of the *Fuerzas Públicas*, the police are in charge of internal security, while the military protects the territory. The president's CPP (close personal protection) is done by the military, *Regimiento de Escolta Presidencial*, where one of the interviewees was posted for 4 years.

Stopping contraband is not part of the military mission in Paraguay, whereas it is part of the mission of the Brazilian military. The Paraguayan military therefore cannot act if they see contraband; they must call the police and the special counter-narcotics agents of the SENAD.

The SENAD are a mixture of counter-narcotics agents (like DEA) plus military. The SENAD is currently commanded by a retired colonel, but it has also been led by civilians and police. The head of the SENAD is chosen by the president and has the rank of minister. The SENAD therefore depends directly on the president of Paraguay. The military protects the perimeter of SENAD operations, which always include a prosecutor. Curiously, however, the military do participate in the destruction of marijuana.

The head of the *Dirección Nacional de Aduanas* is personally appointed by the president. Its special investigative bodies include DETAVE (*Departamento Técnico Aduanero de Vigilancia Especial*) and COIA (*Coordinación Operativa de Investigación Aduanera*). Cross-border investigations are done by a police sub-group confusingly nicknamed Interpol.

The US, Argentina and Brazil all have military personnel in Asunción, with the mission of planning training of Paraguayan military in their country. Brazil is the country with

which Paraguayan police and military mostly often train. However, about two years ago, about 50-60 soldiers went to Colombia to train in COIN to combat the EPP.

The EPP Insurgency and *Colonomenonitas*

Kidnappings by the insurgent Marxist group *Ejercito del Pueblo Paraguayo* (EPP) are now the top security issue in Paraguay. Paraguay has seventeen departamentos. The EPP are strongest in Concesión and San Pedro, which is the poorest *departamento*, but the EPP have even made it to the capital, Asunción.

The EPP have been kidnapping farmers known in Paraguay as *colonomenonitas*. *Colonomenonitas* are farmers who came from Europe and were given tax concessions to work land they were given, after 70% of Paraguay's men were killed in the war of the Triple Alliance, against Argentina, Uruguay and the Empire of Brazil.³⁴ *Colonomenonitas* have been made wealthy by large land holdings, tax credits to import machinery to industrialize their farming, including cattle and tobacco. (This could explain the German packet with Arabic writing that was found by the observation team.)

According to one interviewee, a recently retired senior military commander, the EPP is domestic and spontaneous; it is not supported by Venezuela. There is no Hezbollah in Paraguay, and there are only a few Lebanese in the Tri-Border Area. Their biggest threat is from PCC and *Comando Vermelho*, both of whom are major Brazilian drug traffickers across the Paraguayan-Brazilian border. Both groups are present in Pedro Juan Caballero and broader Amambay, where they battle for turf. In short, the senior Paraguayan military commander claimed that the problems of the TBA come from Brazil, not internally from Paraguay. The observation team assessed that this line of commentary was part of official military rhetoric.

Organized Crime and Smuggling Trends

Canindeyú and Amambay are the center of marijuana trafficking, with the presence of a Mexican cartel, operating particularly through Amambay's capital Pedro Juan Caballero. That is also where Lebanese *capos* (like the murdered Rafat) operated. Even though that

³⁴ <https://www.britannica.com/event/War-of-the-Triple-Alliance>

is a dry border and police should be in charge, there are strategically placed military bases; the military is under the direct control of the president of the republic.

Paraguayans claim Chinese electronics enter via Brazil; Brazilians, on the other hand, claim they enter Brazil from Paraguay, via Lebanese merchants connecting the Ciudad del Este and Foz do Iguacu communities. The observation team believes the latter assertion, which is consistent with both the preponderance of reports and observations made by the observation team.

According to one informant in the Guaraní International Airport near Ciudad del Este, everyone in the region knows that the large cargo planes come in from China and most of that cargo is smuggled into Brazil. Furthermore, lame-duck Pres. Cartés owns a tobacco factory close to the border with Brazil. Over ninety percent of its production is smuggled: he claims to have seen the boxes of cigarettes wrapped in black plastic and shipped out.

Facilitation of illicit trade occurs not just with the political structure and mandates (or lack thereof) of enforcement authorities, but also through the diplomatic corps. It is alleged that Paraguay's consulates in Miami, Panama and Salta (Argentina) have price lists for fake visas.³⁵

Paraguay's Current Political and Economic Landscape Generally

Paraguay is macroeconomically stable: it benefited financially from the commodity boom and managed its spending with more conservatism than either Brazil under 'Lula' and 'Dilma' or Argentina under the Kirchners. However, it is not well positioned to survive an economic shock: 64% of its population is poor and its main industry is commodity exports, which does not enable it to ramp up and catch up to its debt, which, after doubling under Cartés and the last bond issuance now stands at 26% of GDP. Local politicians consider it risky.

Presidential elections were on the 22nd of April 2018. The candidate of the Colorado party, Mario Abdo Benítez, was victorious, but by a narrower margin than anticipated. The Liberal party's candidate was Efraín Alegre. Fernando Lugo is the Catholic bishop of San Pedro; his candidacy was supported by Venezuela, and he won a seat on the Senate in the April 22nd elections.

³⁵ Roberson, 14.

Paraguay's main products are grains, soybeans, wheat and beef, but it is trying to expand into the service industry, such as hotels and restaurants. There are various things that make Paraguay attractive for FDI: economic stability, a steady exchange rate, low inflation and capital guaranteed by a solid legal framework and the Ministry of Industry and Commerce.

On International Women's Day 2018 the new Attorney General Sandra Quiñones was approved by the Congress. The selection process is the president of the republic nominates three people and the Congress votes on them. Sandra Quiñones had the public backing of her fellow Center for Hemispheric Defense Studies (CHDS) alumni, who lobbied the Congress and wrote open letters of support in the newspapers.

The April 22nd elections were close run for the Colorado party: they won the presidency with Mario Abdo Benítez and got Horacio Cartés elected to the Senate, where they remained the party with the largest representation, but far from achieving a majority, they in fact lost three seats in the *Cámara de Senadores* (Chamber of Senators). Senators are directly elected in a single nationwide constituency by proportional representation vote to serve 5-year terms. Likewise with the *Cámara de Diputados* (Chamber of Deputies). All of its 80 seats were also up for re-appointment in the April 22 elections: its 80 members were directly elected in 18 multi-seat constituencies (corresponding to the country's 17 departments and capital city) by proportional representation vote, to serve 5-year terms.

Now that Mario Abdo Benítez was elected to the Paraguayan presidency on April 22nd, Cartés will move to become a full senator with voting rights. Though according to the constitution all former presidents automatically become honorary senators for life, they do not get a vote which is been reviewed currently. Cartés wants a vote. But the new Senate takes office July 1st, and the new president takes office on August 14th. Cartés would therefore have to resign as president to take his position as senator, and he needs the senate to approve that he would be a fully-fledged senator before then. The Vice President who also ran for the Senate and will be approved, because he is of the same political team as the president-elect Abdo Benítez; Cartés is from a different political team. Abdo Benítez was not Cartés's choice for Vice President; it was Santiago Peña, who was the Finance Minister, and quit his job to run as VP.

The current big issue before the Congress is the PPP (public-private partnership) laws. The national airport at Asunción was going to be privatized until it was revealed that the

privatization was the result of a bribe.³⁶ Now there is a law to make it a PPP, but it is complicated in Congress, with uncertain passage. Which shows that rule of law reform is hard to achieve and can be easily derailed.

Political trials are in the House of Representatives; the Senate then become the court that decides sentencing or forgiveness. International agreements start in the Senate, then go to the House of Representatives for approval. Congressional legislation and its backers can be tracked on the open website: <http://silpy.congreso.gov.py>.

Paraguay and Brazil are co-infiltrated because most of the soy farmers in Paraguay are Brazilian, because they don't pay tax in Paraguay, whereas they pay 40% in Brazil. According to Paraguayan law, foreigners should not own land within 50 kilometers of the border, yet Brazilians own all the border land in Canendiyú, Amambay (whose capital is Pedro Juan Caballero) and Guayirá (whose crossing is one of the main entry points of cocaine and weapons into Brazil). They call them *braziguayos*.

Mercosur also grants a concession to Paraguay on its importation of capital goods for farming and industrialization, such as computing and farm equipment. Our observation team was told that this is to compensate for its being a landlocked country.

Political Landscape and Its Impact on ITTP and Other Illicit Trade

Tobacco is of good quality and well industrialized. The opposition sought to impose a tax on the commercialization of tobacco. The tobacco control law came in through the Senate. Roberto Acevedo, one of the members of the Liberal party who signed the bill on tobacco control (*Transparencia de Cadena de Suministros de Tabaco y Sus Productos*) is a *narco*. All parties in Paraguay are center-left, but Colorado is the more agrarian party.

According to two former senior Paraguayan government officials (one from each of the judicial and legislative branches), Paraguay needs to strengthen its rule of law in order to combat corruption (there seems to be no incentive to do so). After the next presidential election, the constitution could be reformed to make the judiciary independent from the political parties. Now, senior judges have to be approved by two senators, two congressmen and one presidential appointee, and judges serve until they turn 75 or are removed by an indictment.

³⁶ This nuance is from one of our proprietary informants.

The police report to the Minister of the Interior (not directly to the president), and **over 90% of them are corrupt and involved in trafficking of: weapons, drugs, tobacco and cars.** (See above “Stolen Cars.”) Cigarettes are trafficked by police to the border, where they get taken up by PCC and Lebanese, who may or may not be Hezbollah. Corruption is built into the system. To be considered a candidate to the Senate, you must pay \$500,000 to the party. A Senator earns \$10,000 a month and is a senator for 5 years. To recoup the losses, the senator must work with TCOs or take money for influencing bidding on public works.

There are only 13,000 military, but 30,000 police, and they are much better funded. It is the police who are really in charge of trafficking; the military, who run the border are paid to look the other way – and fired if they don’t. The military commander at the border gets an envelope full of cash and disburses the cash to his men. If the commander does not accept the envelope, the local politician requests his transfer in 48 hours.

The three most corrupt institutions in Paraguay are:

- Judiciary
- Parliament
- National police

TBA border communities often have dual citizenship (Brazil-Paraguay, Argentina-Paraguay or Brazil-Argentina), and people cross the border to vote for local politicians in each country in exchange for money: they are paid for their votes on both sides of the border. Furthermore, all the borders (even the “wet” ones) are effectively controlled by the Paraguayan police, who have a strong relationship with the Brazilian police, as they often train together and that is where the nexus for cross-border investigations cooperation lies but where corruption bonds begin. Furthermore, all the Brazilian governors in the border states are in control of the corruption and the police.

Pres. Cartés vetoed a law (a law that had passed both houses of Congress) to tax exports of unprocessed soy (processed soy is exported tax-free in order to encourage the local economy to add value to its commodities). Local politicians say he did so because Cartés is in the pocket of US agribusiness conglomerates. Local rumor is that the US State Department supports these conglomerates, in exchange for the US not prosecuting Paraguay’s ITTP. This purported policy should be investigated through engagement with the State Department in Washington, DC.

There are other stories of connections between Paraguayan corruption and US influence. In 1995, Paraguay suffered a huge financial crisis, where 10 banks failed and 2,400 bank workers were left unemployed. Then Pres. Wasmosy intervened in the banks and allegedly stole \$6 billion. The *Instituto de Previsión Social*, the healthcare system for poor laborers, nearly collapsed. When US ambassador to Paraguay Timothy Tower retired, he stayed in Asunción. Pres. Wasmosy hired him for \$10,000 a month to lobby the US government, under the then-Pres. Bill Clinton, as Tower had strong ties to the Democratic party. Wasmosy was president of Paraguay 1993-98; Bill Clinton was POTUS 1993-2001.

The observation team was informed of a former police commissioner, known as “Viviano,” owns a private security firm called Tapiti.³⁷ It has 800 personnel, all former police – so all have relationships with the police. Tapiti bid for the contract to run the security of the Yacyretá dam: allegedly, Tapiti pays the Yacyretá administration authority \$100,000 a month to do their security. That dam is a major crossing point of drugs into Argentina.

The observation team was told that Viviano is renowned for his brutality. When he was police commissioner, his brother was his chief of staff. When a policeman kept a cocaine shipment for himself, Viviano’s brother allegedly ordered the policeman’s house burnt down, with his wife and two daughters in it. “So when Viviano issues an invitation, people go,” said the informant.

Cartés and Tabacalera del Este

Our team was informed that Pres. Horacio Cartés claims that he pays tax on all of Tabacalera del Este (Tabesa) production in Paraguay on the basis that it is for consumption within Paraguay. He further asserts, we are told, that it is not his responsibility if his distributors smuggle his goods into Brazil and Argentina or elsewhere: he cannot held liable for their misdeeds. While the former assertion appears true, the latter is rather more dubious.

Public domain articles support the claim that Tabesa pays all tax on the basis that the products will be consumed in Paraguay. Indeed, his company is the top payer of

³⁷ <http://www.tapiti.com.py>

consumption tax in Paraguay. ³⁸ Furthermore, the website of Paraguay's tax authority, SET of the *Ministerio de Hacienda* (Treasury), publicly shows that Tabacalera del Este was the country's second-biggest taxpayer overall in 2016, second only to the national electric company, ANDE.³⁹

However, Pres. Cartés either knows or should know that the production levels on which he is paying tax for local consumption exceeds local consumption by a factor of twenty. In other words, 95% of the production on which he is paying local consumption tax is actually heading to Argentina and Brazil, which have much higher tobacco consumption taxes than Paraguay. It is unlikely that any successful business owner is so unaware of their market as to unwittingly produce twenty times that market's demand. The net effect is that payment of the Paraguayan tax protects Mr. Cartés of any accusation of evasion of corporate tax in Paraguay and gives him cover in the story that it must be just the distributors. However, that local tax payment is effectively a subsidy that robs Argentina and Brazil of their rightful tax receipts by an estimated R\$ 9.7 billion, which at today's rate⁴⁰, is roughly equivalent to US\$ 2.9 billion. It also simultaneously undercuts the legitimate and tax-paying producers in both those recipient countries.

Assessing the TBA's Ties to Lebanese Hezbollah

Overview

Most estimates are that 90% of Arabs in the TBA are of Lebanese descent, and they are primarily resident in the twin cities of Foz do Iguacu and Ciudad del Este. Most of these immigrants arrived in two waves:⁴¹ in the 1950s, as a result of the Arab-Israeli War, and

³⁸https://www.lanacion.com.py/negocios_edicionimpresa/2017/06/03/tabasa-es-el-mayor-aportante-del-iva-y-selectivo-al-consumo/

³⁹<http://www.set.gov.py/portal/PARAGUAY-SET/detail?folder-id=repository:collaboration:/sites/PARAGUAY-SET/categories/SET/Estadistica/ranking-de-mayores-aportantes-al-fisco&content-id=/repository/collaboration/sites/PARAGUAY-SET/documents/estadistica/ranking-de-contribuyentes-con-mayor-aporte-a-l-fisco/contribuyentes-con-mayores-aportes-de-la-set-ano-2016.pdf>

⁴⁰ April 20, 2018.

⁴¹ Roberson, 5.

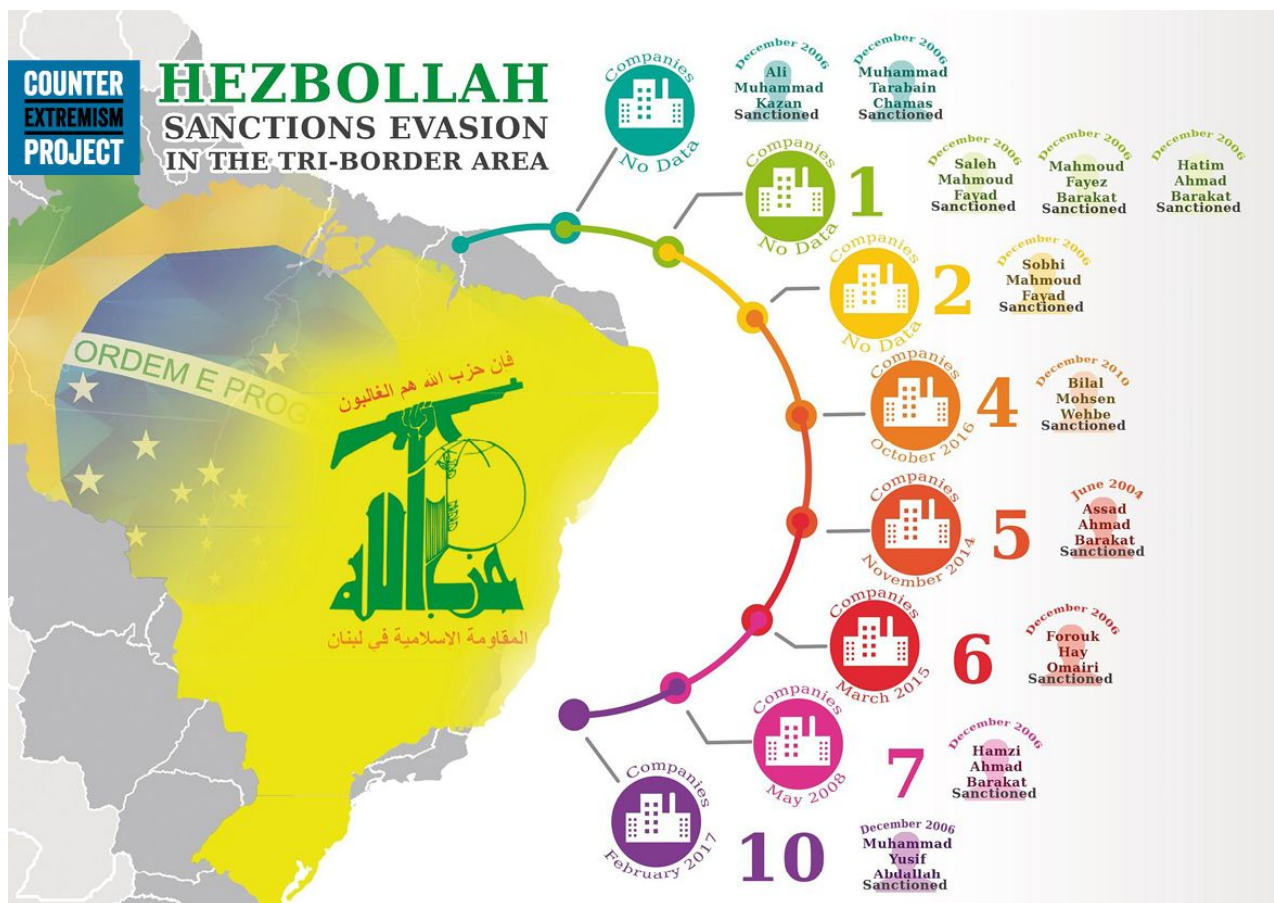
in the mid-1980s, after the Lebanese Civil War. Further, Egyptian, Syrian, Jordanian and Iraqi immigrants came to the area in the early-21st century. It is thought that Hezbollah first placed operatives in the TBA during the Lebanese Civil War in the 1980s. Admittedly, those with ties to Hezbollah are only a small minority of the Lebanese community, and there have been many other terrorist groups active in the region, including: Hamas, Islamic Jihad, and Al Qaeda. There are also both indigenous mafias of the three countries and those of China, Korean, Hong Kong and Russia.

Law enforcement and senior government officials of each of the three countries in the TBA (Argentina, Brazil, Paraguay) had different assessments of the relationship of the TBA (defined as the Ciudad del Este - Foz do Iguacu - Puerto de Iguazu area) to Lebanese Hezbollah.

- Paraguayans basically denied any involvement with Hezbollah, but did say that the Lebanese community in Foz do Iguacu were the main merchants of Paraguayan goods into Brazil, and if Hezbollah is funded, it is only small and tangential.
- Brazilians do not consider Lebanese Hezbollah a terrorist group. Brazil has seven million Lebanese within its borders, whom it knows is very involved in illicit trade, but has decided not to interfere in that community, which has traditionally been considered not to pose a serious threat to the Brazilian state. Furthermore, Brazilian Federal Police have been particularly preoccupied with terrorist threats to its 2014 World Cup and 2016 Olympics, and not had the capacity to attend to Lebanese-led smuggling and money-laundering. That view is changing, however. Brazil faces an enormous public security challenge from *Primeiro Comando Capital* (PCC) and *Comando Vermelho* (Red Command) organized crime groups, and these are benefitting from cross-border trafficking from Paraguay and business ties with the Lebanese, who are often business intermediaries. In the view of Brazilian law enforcement, the Lebanese organized activities have grown into “a monster” that now needs to concern the Brazilian state. The TBA is helping fund the gang warfare in Brazil and dismantling the TBA area can assist in settling crime and safety in Brazil.
- Argentina has the most complicated but shifting view of the TBA’s Lebanese community. Argentina suffered two terrorist bombings in its capital Buenos Aires (1992 and 1994) conducted by Hezbollah, under direct orders from Tehran, with major operational support coming through the Lebanese community in the TBA,

particularly businesses in Foz do Iguacu, Brazil, owned by Lebanese who were active members of Hezbollah, and worked in concert with diplomats at the Iranian embassy in Buenos Aires.⁴²

- Overall, the TBA provides a very permissive environment for sanctions evasion: sanctioned LH members have been able to open new businesses with impunity.



Relevant Nexa

The TBA’s connections to LH are primarily as a fundraising and money laundering center, where operations can be conducted with near-perfect impunity. According to interviewees in March 2018, the TBA is estimated to generate US\$35 billion annually – and growing. While measuring illicit financial flows is always challenging, there are higher estimates: Edson Vismona, the president of ETCO, an organization that advocates

⁴² Marcelo Martínez Burgos and Alberto Nismán, *Office of Criminal Investigations: AMIA Case* (Buenos Aires: Investigations Unit of the Office of the Attorney General, 2013), 15.

for fair trade rules (anti-corruption and ethical competition), estimates that US\$ 43 billion a year flows through the TBA and into criminal and terrorist coffers.⁴³ That means that , the TBA is well on its way to becoming an economically independent and fully criminalized sub-state structure that poses significant risks not only to the three countries it touches, but the world: not just Hezbollah, but all terrorist and criminal groups and kleptocrats can come to the TBA to launder their money and fund their activities anywhere else in the world. It is growing to be the world's best centre and easiest centre to launder funds.

US\$ 43 billion a year flows through the TBA and into criminal and terrorist coffers... TBA is well on its way to becoming an economically independent and fully criminalized sub-state

The TBA's significant historical and ongoing nexa and funding sources for Hezbollah and other FTOs (including Al Qaeda), should make it a security priority for unilateral and multilateral organizations that have the mandate to disrupt the funding of terrorism, including the US, the UN and the EU.

Assad Ahmad Mohamad Barakat & the Barakat Network

Born in Lebanon in 1973, Assad Barakat fled Lebanon for Paraguay with his father(a chauffeur for a Lebanese politician) to escape the Lebanese Civil War. An OFAC-designated SDGT (Specially Designated Global Terrorist), Barakat started his threat finance and money laundering operations with an electronics wholesale store in the Page Gallery, called Apollo Import Export. Then he expanded into Mondial Engineering and Construction with offices in both Ciudad del Este and Beirut. He was also intimately involved in the planning and financing of the 1994 AMIA bombing, and has since been one of the two heads of a counterfeit US dollar ring in the TBA. Barakat was imprisoned in Paraguay and nine of his associates have been designated. His businesses continue to be monitored by the US Treasury's Terrorist Finance Tracking

⁴³ Anabella Quiroga, "Celulares, cigarrillos y ropa, las estrellas del contrabando," *Clarín*, 29 April 2018, https://www.clarin.com/economia/celulares-cigarrillos-ropa-estrellas-contrabando_o_Sk2onZZaf.html

Program (TFTP). He was released from prison in 2009 and his whereabouts are currently unknown.

Sobhi Mahmoud Fayad

Sobhi Fayad seems to have arrived in the TBA from Lebanon in the mid-1990s. Paraguayan authorities arrested him in 1999 for surveillance of the US embassy in Asunción, but later released him in exchange for his cooperation with the investigations. He is known to have sent over US\$ 3.5 million to Hezbollah's Martyr's Organization (al-Shahid), for which he received a thank you letter from Hezbollah's Secretary General (and supreme commander) Sayyed Hassan Nasrallah. Paraguayan National Police's Anti-Terrorism Department (DAT) believe Sobhi Fayad, Assad Barakat (for whom Sobhi appears to have been executive secretary and enforcer) and Ali Hassan Abdallah were Hezbollah's three main fundraisers assigned to the region.

Fayad was also imprisoned in Paraguay, but released in 2009, still denying any ties to LH or any other FTO. His current whereabouts are also unknown.

Ali Khalil Mehri

A Lebanese-born, Paraguayan naturalized citizen resident in Ciudad del Este, Mehri was indicted by the Paraguayans for selling millions of dollars of counterfeit software and funneling the proceeds to Hezbollah and its offshoot martyr organizations, al-Muqawama and al-Shahid, as well as creating propaganda films for them. Mehri escaped custody in 2000 and was later reported in Syria. Interpol failed in their attempt to capture him in 2001 and he remains at large.

Threat Finance Modalities

Islamic Community Remittances

There is a sophisticated Muslim community network between Ciudad del Este and Foz do Iguaçu. The team observed that each city has a major mosque that almost perfectly

mirrors the other's location across the river. In our experience, this creates chatter and coordination across borders.

Aside from religious donations and remittances, most Lebanese expats in the TBA remit money home to Lebanon for their relatives there. While most of that is legitimate, that, in conjunction with the nearly-perfect money laundering mechanisms of the Ciudad del Este FTZ, creates a funnel of cash within which laundered money and donations to terrorists can hide. A 2004 report from the US Naval War College estimated Hezbollah raised at least US\$ 10 million in Paraguay alone.⁴⁴ We estimate that this is likely a conservative figure.

Money Laundering

Funding to Hezbollah or other terrorist organizations usually comes through a cover business, such as Barakat's electronics wholesaler. Then with false invoicing or over-invoicing, money is laundered and sent to charitable organizations affiliated with drug trafficking organizations (DTOs), such as so-called martyr organizations, which financially compensate the relatives of suicide bombers, providing a financing and justifying mechanism for *jihad*.

Drug Trafficking

The TBA is located in close proximity to the world's main source of cocaine, and (despite Hassan Nasrallah's assertions to the contrary) Hezbollah has a long and rich history in drug trafficking, stemming from its roots in the Beqaa Valley, rich in hashish. Many of the drug trafficking centers in the TBA countries (according to both local law enforcement and the observation team), have significant representation by Mexican, Colombian and Venezuelan cartels. Some of the most prominent individuals in this trade have been or are:

Ayman Joumaa

A Lebanese-Colombian, linked to both Lebanese Hezbollah and Mexico's Los Zetas cartel, who laundered an estimated US\$200 million *a month*. He was apprehended as part of

⁴⁴ Roberson, 26.

the investigation into the Lebanese-Canadian bank. He often recruited Hezbollah operatives to safeguard narcotics shipments throughout Latin America and West Africa.

Tareck el-Aissami

The observation team was informed that Venezuela's OFAC-sanctioned Vice President currently operates a major drug smuggling and money laundering operation in the TBA, and has a network of informants. El-Aissami has direct ties to both LH and Syria's Assad regime and is widely considered to be the key node in the world's biggest drug trafficking and threat finance network.

Cigarette Trafficking

Hezbollah is widely considered the biggest cigarette smuggling TCO in the Western Hemisphere. They are deeply involved in cigarette smuggling in Colombia, the US and the TBA. Everyone with whom the observation team spoke identified Hezbollah as the most cohesive of all the groups and the one most deeply involved in (and effective at) the cross-border traffic of cigarettes.

According to all Brazilian and Argentine sources (as well as Paraguayans not in the current government), Paraguay is the biggest source of illicit cigarettes. The biggest illicit brand (Eight) is owned by Paraguay's lame-duck president, Horacio Cartés. Lebanese merchants in Ciudad del Este and Foz do Iguacu move them across the border and handle their regional distribution. In short, the same Lebanese traders that are moving Chinese electronics and counterfeits, narcotics, and laundering money, are also moving Paraguayan cigarettes, with some of this money going to Lebanese Hezbollah. Smuggled Paraguayan cigarettes are part of the DTO financing portfolio.

Country Experiences with Hezbollah

Argentina

Argentina has suffered two major bombings in Buenos Aires conducted by Lebanese Hezbollah:

- March 17, 1992: Israeli Embassy: a Ford truck loaded with explosives ran into the Israeli embassy in Buenos Aires and exploded the three-story embassy, as well as a nearby Catholic church, a school and the apartment building across the street. Most of the casualties were Argentine civilians, mainly children from the school. The bombing is understood to have been Hezbollah's retaliation for the assassination of then-Secretary General of Hezbollah Sheikh Abbas al-Musawi by the Israel Defense Forces on February 16, 1992. Islamic Jihad publicly announced its operational support for the bombing. Training is thought to have happened at a terrorist training camp in Tres Lagoas, Foz do Iguaçu.
- July 18, 1994: *Asociación Mutual Israelita Argentina* (AMIA): a Renault Trafic filled with 600 pounds of ammonium nitrate fertilizer was parked in front of AMIA and set off. It was the same mixture of explosive material as in the 1992 Israeli Embassy and the later 1995 Oklahoma City bombings. The explosion killed eighty-six people and destroyed the 100-year old archives of the history of Jews in Argentina. 150,000 Argentine citizens took to the streets of Buenos Aires to publicly condemn the terrorist attack.⁴⁵ Assad Barakat (see above, "Relevant Nexa") and Imad Mughniyah (Hezbollah's head of international operations) played significant operational roles in the AMIA bombing. The AMIA bombing investigation continues to roil Argentine politics. It is widely accepted that as a result of the 2013 indictment based on the 2006 report by the Investigations Unit of the Office of the Attorney General Marcelo Martínez Burgos, and signed by Attorney General Alberto Nisman:
 - Attorney General Alberto Nisman died January 18, 2015 under suspicious circumstances: an improbable self-inflicted gunshot to the head in his bathroom. The death was later ruled a murder.⁴⁶ The prevailing view is that he was murdered by Argentine intelligence under direct orders by then President Cristina Fernández de Kirchner, who was then negotiating a grains-for-oil trade deal with Iran, in exchange for covering up Iran's involvement in the 1994 AMIA bombing in Buenos Aires.

⁴⁵ Roberson, 50.

⁴⁶ Daniel Politi, "Aide Accused of Playing Role in Death of Argentine Prosecutor," *The New York Times*, December 26, 2017.

<https://www.nytimes.com/2017/12/26/world/americas/argentina-nisman-indict-homicide.html>

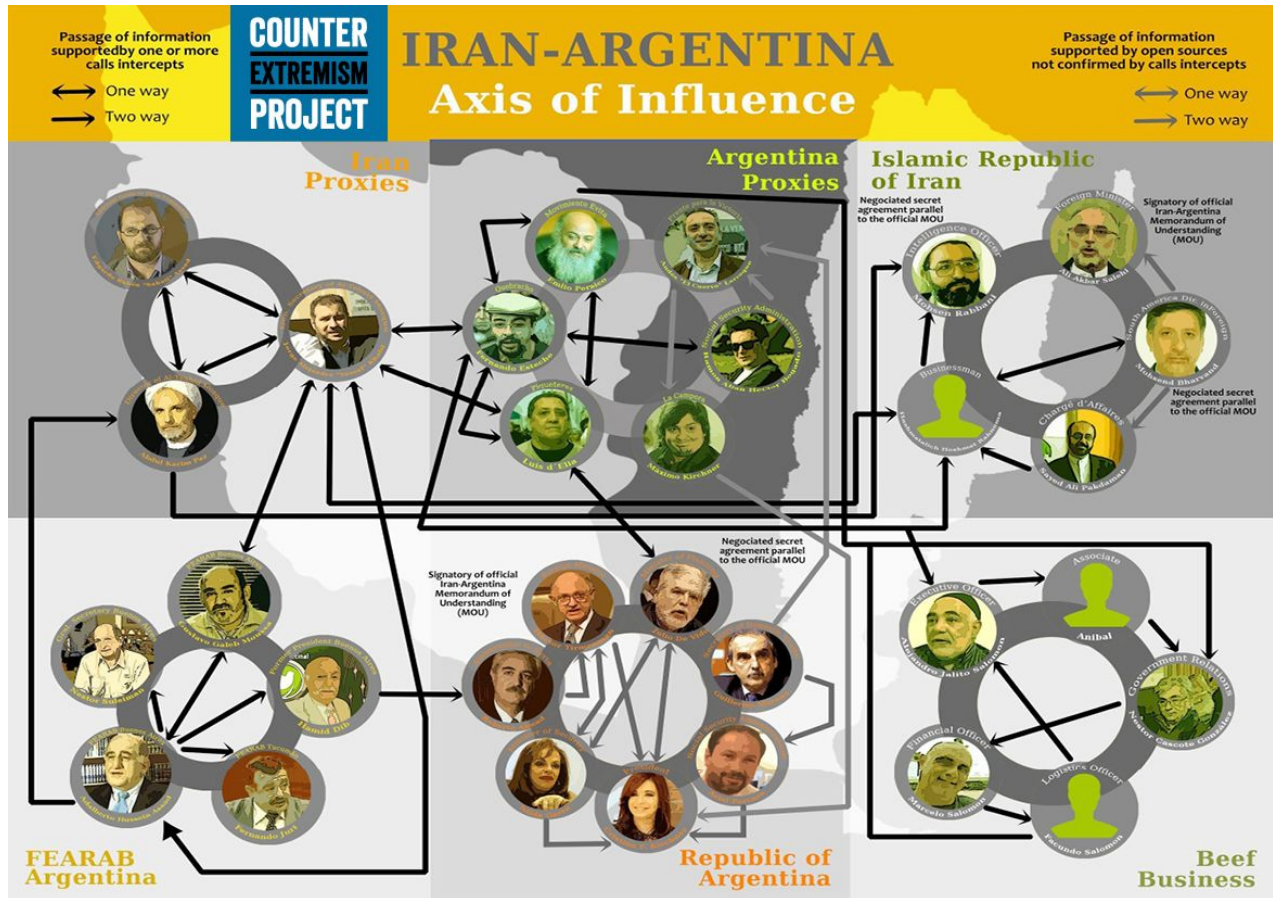
- The December 2017 indictment of former Pres. Cristina Fernández de Kirchner for treason.⁴⁷ Since she is currently a senator, it would take an act of Congress to strip her of immunity for her to be arrested. However, there is precedent: her former planning minister Julio de Vido had his immunity stripped and was arrested in one day.

The judicial complaint by the late Attorney General Alberto Nismán, filed before the Argentine Federal Criminal Court on January 14, 2015, detailed a network for a covert backchannel between the Argentine and Iranian governments to relay information ahead of the Memorandum of Understanding (MoU) signed between the two countries two years earlier. Lobbying efforts on behalf of the Iranian proxies to the Argentine government were handled through the Islamic association *Federación de Entidades Arabes* (FEARAB), while exploitation of the Argentine beef export business (Brazil's beef business has lately heavily been implicated in *Lava Jato* as well) provided commercial cover for Iran's intelligence collection activities in Argentina. The coordination of the two clusters was designed to provide plausible deniability for Iran's secret negotiations for impunity in the AMIA bombing from the Argentine government.⁴⁸

⁴⁷ Caroline Stauffer and Jorge Otaola, "Argentina's Fernández charged with treason, arrest sought," Reuters, 7 December 2017,

<https://www.reuters.com/article/us-argentina-fernandez/argentinas-fernandez-charged-with-treason-arrest-sought-idUSKBN1E11Q4>

⁴⁸ Joseph Humire, *After Nisman: How the death of a prosecutor revealed Iran's growing influence in the Americas* (Washington, DC: Center for a Secure Free Society, June 2016) 34-35.



Brazil

Brazil has seven million Lebanese and has suffered no terrorist attacks from Hezbollah – nor does it anticipate any. Brazil is well aware that Hezbollah raises significant funds and proselytizes potential recruits in Brazil (*Veja* has published endless articles on the subject), but it does not consider Lebanese Hezbollah a terrorist organization. Furthermore, Brazilian law enforcement is well aware of the dominance of the Lebanese community in the country’s illicit trade, but has preferred a non-confrontational relationship with the community. Besides, Brazil’s federal police had assigned priority to its operational capacity to preventing terrorism by Daesh or Al Qaeda at its international events, such as the World Cup and the Olympics.

Brazil's law enforcement is turning its attention to Hezbollah. A law enforcement officer referred to Hezbollah as "a monster that has grown unchecked" to members of our observation team. While Brazilian security forces still do not deem Hezbollah a terrorist threat to them, they stated that they are now starting to take it seriously as a

transnational criminal organization with a pivotal role in Brazilian corruption and money laundering, as well as in its collusion with the PCC, which is now posing serious security threat to the Brazilian state. Organized crime, such as Comando Vermelho, has successfully challenged the Brazilian military in Rio's favelas, while PCC effectively controls the prisons throughout the country, and stages audacious bank robberies that embarrass Brazilian police.

Another concern Brazilian law enforcement has with the Lebanese TCO is a likely escalation of violence, from two causes: connectivity with incoming terrorists, and confrontation with other TCOs. As Venezuela collapses on Brazil's northern border, there is a flood of immigrants into Brazil. While most are impoverished and desperate refugees, a few of them might be Hezbollah's operatives: some Brazilian law enforcement officers claim that "Venezuela is Hezbollah's heartland in Latin America." Furthermore, they are aware that Venezuela has issued around 10,000 legitimate passports to Lebanese, Syrian and Iranians, a number of them are suspected terrorists. This poses an additional challenge for Brazil's border and internal security.

Along with that immigrant flow, Brazil is seeing a stunning influx of Chinese and Russians, who are smuggling and setting up and strengthening illicit trade networks in the region, which will concern the current US administration. These Chinese and Russian TCOs are viewed as territorial invaders by Lebanese TCOs. Increasing violent clashes amongst the groups are therefore inevitable.

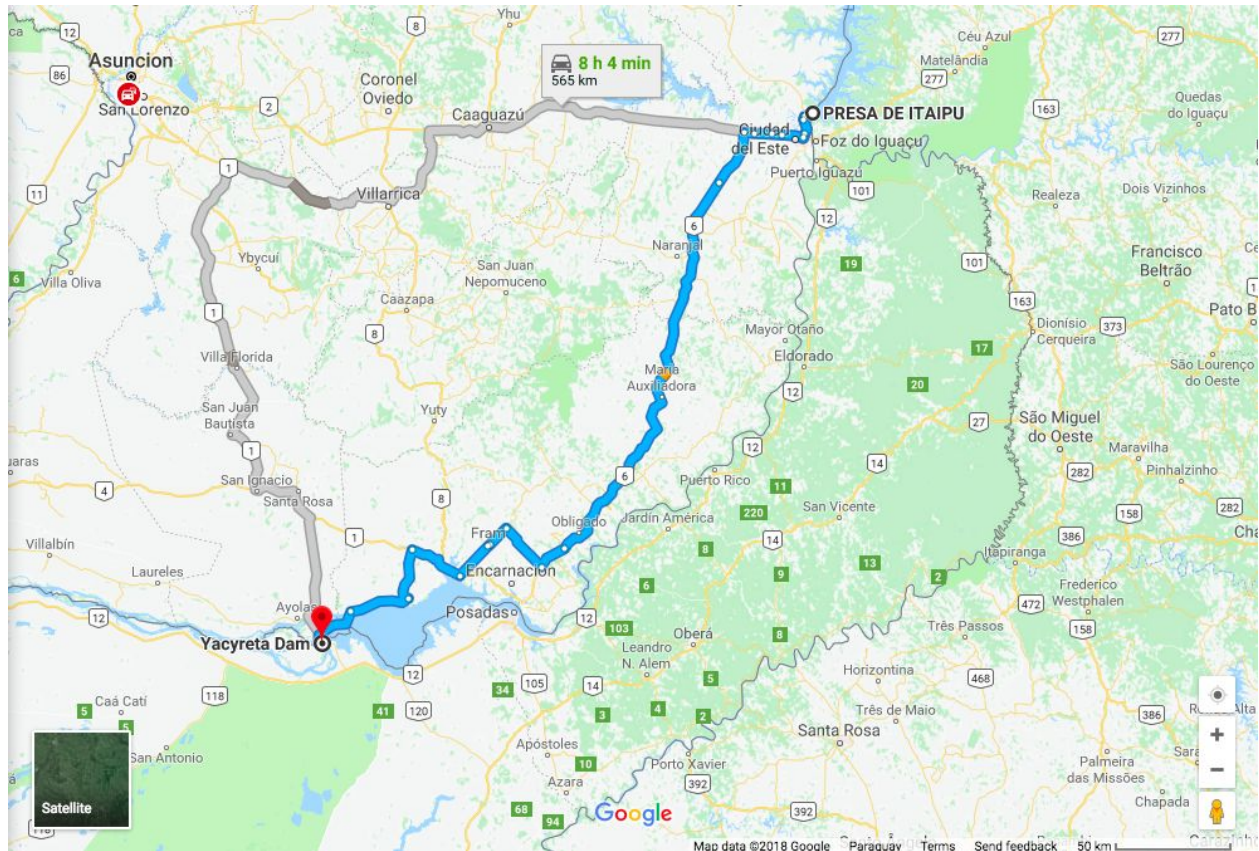
Paraguay

A significant finding is that Paraguay denies having any problems with Hezbollah. It assigns their presence to over-the-border in Brazil and Argentina. Nevertheless, Paraguay has had several significant Hezbollah operatives reside within its borders (see above, “Relevant Nexa”). It appears, though, to have cooperated with foreign-made requests for arrest, particularly those made by the US. Paraguay has also tried and imprisoned several Hezbollah operatives, but it has also swiftly lost track of them upon their release, whether planned or accidental.

Key Findings

- Most of the warehouses in Paraguay are owned or run by the state, from which the traffic of goods (legal and illegal) is generated. Legally manufactured and traded goods enter the warehouses, from which some are pilfered (with the apparent tacit consent of authorities), taking those goods into the black market. For example, our team learned that when cigarettes are taken out of a warehouse, the boxes are shrink wrapped in black plastic and distributed across the border illegally.
- When contraband leaves the warehouse, it travels down roads whose checkpoints are run by police whose mandate it is to stop it. However, these checkpoints are rare.
- When the contraband gets to the border with Argentina and Brazil, it is not stopped by the military, who are constitutionally mandated to protect the border, but not to intervene in contraband shipments. Furthermore, in practice, their postings are sparse, with light manning, and light equipment, with no sophisticated technology.
- Contraband particularly takes advantage of egress points on lakes created by hydroelectric dams, with little population and controls, which they traverse on small vessels that cross between jagged coastlines, giving smugglers multiple options. The main two dams that create such navigable lakes are: Itaipú, between Paraguay and Brazil, and Yacyretá, between Paraguay and Argentina.

The many criminal heads of the Golden Hydra



- Paraguay owns both half the lakes and the dams, whose electricity they sell to Brazil and Argentina, at triple the production cost. So Brazil and Argentina are dependent on the dams. Hence, they are unlikely to intervene at these points over cigarettes.
- The structure of the Paraguayan government is such that the president of Paraguay has direct control over the entire supply chain of contraband: not only does he control the warehouses, but the military answers directly to him, and a special regiment are even his personal bodyguards.
- The police, who are the most corrupt (90%) and have the greatest control over contraband flows, do not answer to the attorney general, but to the minister of the interior, appointed by the president. That means that the attorney general has little *de facto* investigative authority.
- To get to the senior levels of the military and the police, requires sponsorship by a senior political party member. This indicates that the vulnerability and corruption points are at the top of the government, not in the middle or lower echelons and this system has been entrenched for decades.

- The system of illicit trade stemming from Paraguay is extremely stable and resilient to changes in the presidency, because it is not only entrenched from the top, but pervades the entire political and economic system. Here is an example of the system's stability: there are political deals being struck to interpret the constitution to allow Pres. Cartés to serve as a fully-fledged senator, giving him a vote in tax and trade legislation, even as his party's candidate is preparing to enter the presidency, thereby ensuring the continuation of his substantial influence.
- Two attempts at reform of the Cartés-led power structure were the bill to tax tobacco commercialization and the bill on transparency in the supply chain of tobacco products. Both failed. Congressional legislation and its backers can be tracked on the open website: <http://silpy.congreso.gov.py>.
- Most of their police and military are not trained in the US, but rather in Brazil, in first place, followed by Argentina, in second place, increasing the odds of camaraderie and corruption. According to police and senior government officials, the incidence of police corruption is 60% - 90% across all three countries.
- There is very little activity amongst the three countries of the TBA on cross-border crime, unless it is prioritized by narcotics and weapons. This is confirmed by Paraguayan military and Brazilian national police. Cross-border smuggling from Paraguay into Brazil is handled by a small and underfunded 'Interpol.' (not to be confused with the famous international policing organization by the same name.)
- Economic turmoil and spiking inflation in the countries on the other side of the natural egress points (Argentina and Brazil) create a solid black market economy pathway. As inflation grows higher in Argentina,⁴⁹ illicit trade into Argentina is expected to grow.
- The Lebanese community acts as the point of exchange and money launderers for all goods transiting outside official government channels. They are particularly involved with the sale of cigarettes coming from Paraguay (especially the brands owned by lame-duck Pres. Horacio Cartés) and Chinese counterfeits and electronics flown into Guaraní airport on cargo planes.
- The TBA is a cash society, which is in the interest of all three countries, which consequently have little incentive to dismantle the system of illicit financial flows

⁴⁹ "Latin America and the Caribbean: Stuck in Low Gear, *Regional Economic Outlook Update* (Washington, DC: International Monetary Fund, 31 October 2017), 28.

that keeps growing for over a half century. Therefore, the central issue is money laundering, which encompasses cigarettes in its net. The two international authorities with the mandate to counter money laundering are the UNODC and FATF (GAFILAT). These AML initiatives are also supported by the AML initiatives of IMF and IADB.

- Illicit trade originating in Paraguay is feeding the emergent security threats to Argentina and Brazil:
 - Argentina is seeing a spike in Chinese triad regional dominance, trafficking and violence. They appear to be related to the influx of Chinese contraband – some coming directly into Argentina, and some coming across the Paraguayan border from Ciudad del Este and Encarnación
 - Brazil is battling a spike in cocaine trafficking and the concomitant escalation of PCC dominance and violence – as well as that of second-place *Comando Vermelho*. The PCC's enrichment through drug trafficking has Paraguay, as well as Bolivia and Colombia (via Paraguay), as its center of economic gravity.

The TBA is a self-contained economic microcosm that functions as a non sovereign state-within-a-state, funding local politicians, LEA, military and workers, but not sharing its profits with the three capitals. Its activities would be greatly curtailed by greater rule of law and fiscal reform and more enforcement capacity, which could be a condition of IMF loans to the three countries and help for further capacity building in enforcement.

- As there is a large security concern of safety in Brazil because of TCOs and criminal gangs exhibiting increasing territorial control, dismantling the TBA's money laundering cluster will help decrease funds to gangs and assist in law and order.
- There is concern that one of Paraguay's tactics is to keep flooding the market in Brazil to make local brands go bankrupt, further strengthening the demand for goods from Paraguay.
- **The TBA sends US\$ 43 billion a year to criminal and terrorist coffers⁵⁰**

⁵⁰ Anabella Quiroga, "Celulares, cigarrillos y ropa, las estrellas del contrabando," *Clarín*, 29 April 2018, https://www.clarin.com/economia/celulares-cigarrillos-ropa-estrellas-contrabando_o_Sk2onZZaf.html

Resulting Theory of Change

- Given the tight interlinking of the three economies in the TBA, our analysts predict that as Argentine inflation grows in 2018 (as predicted by the IMF, in the box below),⁵¹ and Paraguay remains the stablest economy of the three, illicit flows will increase through the Encarnación, Paraguay to Posadas, Argentina route and in the vicinity of the Yacyretá dam.

Table 1. Western hemisphere: Main economic indicators

	Output growth (percent)					Inflation (end of period, percent)					External current account balance (Percent of GDP)				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
			Est.	Projections				Est.	Projections			Est.	Projections		
North America															
Canada	2.6	0.9	1.5	3.0	2.1	2.0	1.3	1.4	1.6	1.9	-2.4	-3.4	-3.3	-3.4	-2.9
Mexico	2.3	2.6	2.3	2.1	1.9	4.1	2.1	3.4	6.1	3.5	-1.8	-2.5	-2.2	-1.7	-2.0
United States	2.6	2.9	1.5	2.2	2.3	0.5	0.7	2.2	1.8	2.3	-2.1	-2.4	-2.4	-2.4	-2.6
Puerto Rico	-2.1	-1.1	-2.6	-2.8	-2.5	0.1	-0.2	0.5	1.1	0.9	...	...	...	...	...
South America															
Argentina	-2.5	2.6	-2.2	2.5	2.5	23.9	...	...	22.3	16.7	-1.5	-2.7	-2.7	-3.6	-3.7
Bolivia	5.5	4.9	4.3	4.2	4.0	5.2	3.0	4.0	4.3	5.0	1.7	-5.7	-5.7	-4.7	-4.8
Brazil	0.5	-3.8	-3.6	0.7	1.5	6.4	10.7	6.3	3.6	4.0	-4.2	-3.3	-1.3	-1.4	-1.8
Chile	1.9	2.3	1.6	1.4	2.5	4.7	4.4	2.8	2.4	2.9	-1.7	-1.9	-1.4	-2.3	-2.8
Colombia	4.4	3.1	2.0	1.7	2.8	3.7	6.8	5.7	4.0	3.1	-5.2	-6.4	-4.3	-3.8	-3.6
Ecuador	4.0	0.2	-1.5	0.2	0.6	3.7	3.4	1.1	0.8	0.7	-0.5	-2.1	1.4	-0.7	-1.6
Guana	3.8	3.1	3.3	3.5	3.6	1.2	-1.8	1.5	2.6	2.7	-9.6	-5.7	0.4	-2.0	-1.1
Paraguay	4.7	3.0	4.1	3.9	4.0	4.2	3.1	3.9	4.0	4.0	-0.4	-1.1	1.7	1.1	0.4
Peru	2.4	3.3	4.0	2.7	3.8	3.2	4.4	3.2	2.7	2.5	-4.4	-4.8	-2.7	-1.5	-1.6
Suriname	0.4	-2.7	-10.5	-1.2	1.2	3.9	25.1	52.4	9.1	12.3	-7.9	-16.4	-2.8	9.4	6.1
Uruguay	3.2	0.4	1.5	3.5	3.1	8.3	9.4	8.1	6.2	6.7	-4.5	-2.1	-0.1	-0.4	-0.8
Venezuela	-3.9	-6.2	-16.5	-12.0	-6.0	64.7	159.7	302.6	1,333	2,530	2.3	-6.6	-1.6	-0.4	-1.3

- These are the factors that would assist in making ITTP a priority for the Paraguayan government:
 - Increased economic prosperity in Brazil and Argentina
 - Cartés does not have a seat in government
 - President of Paraguay is no longer directly influencing control of police
 - There is a shift in US/Europe policy to actively train more capacity, and fund more detection and intelligence on ITTP
 - If you enforce taxation on goods and services, then the proceeds go back to the central government to support security and infrastructure initiatives
- What could lead to results:

⁵¹ "Latin America and the Caribbean: Stuck in Low Gear, Regional Economic Outlook Update (Washington, DC: International Monetary Fund, 31 October 2017), 28.

- Inter-regional task force of the three countries of the TBA (Argentina, Brazil and Paraguay) with heavy support of training, equipment and intelligence from the US/Europe
- UNODC focusing and publishing more studies prioritizing the TBA's money laundering
- Foreign direct investment into the Paraguayan tobacco industry would create more influence toward reform

Recommendations

1. Through workshops in major capitals (that include law enforcement from the three TBA countries and other stakeholders, such as FATF, UNODC, and IMF etc.), this will start opening pathways to awareness and international prioritization on tackling this threat finance problem.
2. IMF AML initiatives should become a key factor in influencing the three countries to enhance rule of law, fiscal reform and law enforcement capacity and cooperation.
3. Accelerate reform of the rule of law and anti-corruption initiatives to promote a stable economic platform for greater foreign direct investment.

Appendix A: Overview of Paraguayan and TBA Customs Capacity

Routes by air, road and water (Paraná River & sea ports)

By Air:

Paraguay has 878 airports but has only 12 with connections throughout the country. The principal airports are: Silvio Pettrossi (serving the capital Asunción) and Guaraní International Airport (serving Ciudad del Este, on the Brazilian border in the south east).

By Road:

Paraguay has 12 national routes in total, with 2128.30 miles in total. It has 46,401 miles of routes with asphalt, cement, and earth. They connect throughout the country and are used for the transportation of people and commerce. Paraguay does not have metro systems and large highways but it is possible to cross the whole country by car and truck.

By River / Ship:

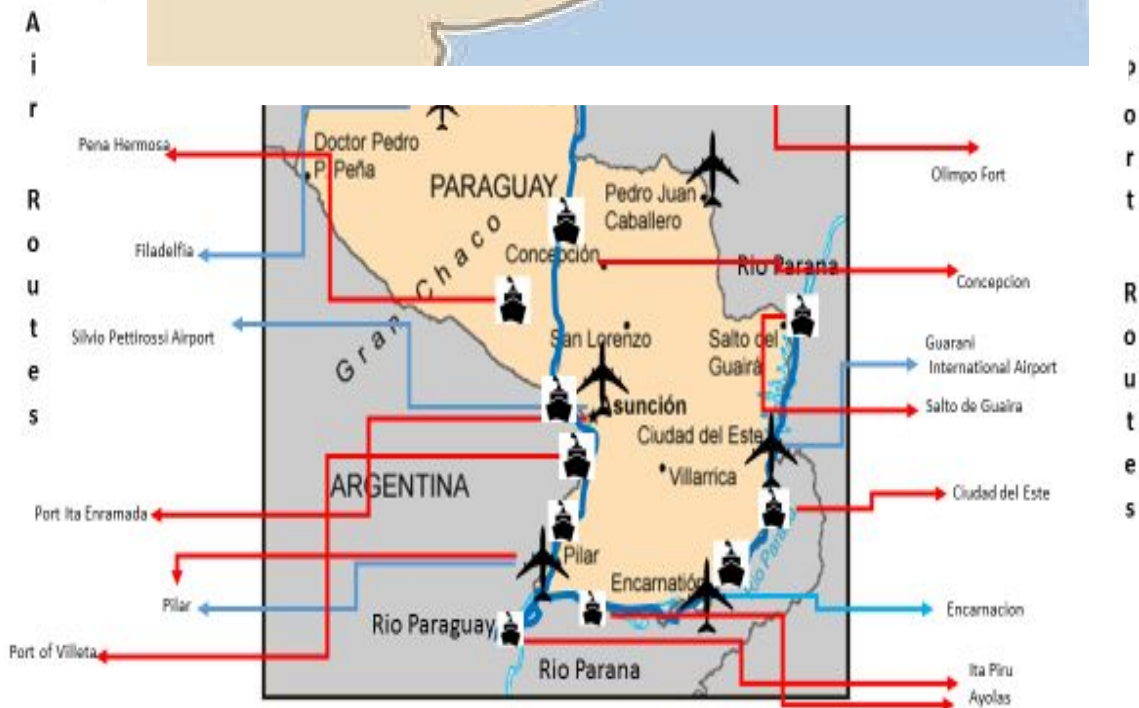
Paraguay has 12 ports. The principal ports are La Asunción and Villeta ports, especially for commerce export and import. The Bahia Negra Port is for internal commerce. Ports exist in all the branches of the principal rivers: Paraguay and Paraná, but the infrastructure and facilities of commerce are in the principal ports.

Rivers

The large river systems that can accommodate regional trade throughout the TBA have an expanse of 2,100 miles. The main river systems go from Port Caceres, Mato Grosso, Brazil to Nueva Palmira in Uruguay. The main river systems cross five countries: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. This natural deep river corridor supports the legal

The many criminal heads of the Golden Hydra

and illegal economy on the triple frontier and with Paraguay. Dams create large lakes with concealed crossing points.



The Friendship Bridge on the Triple Frontier



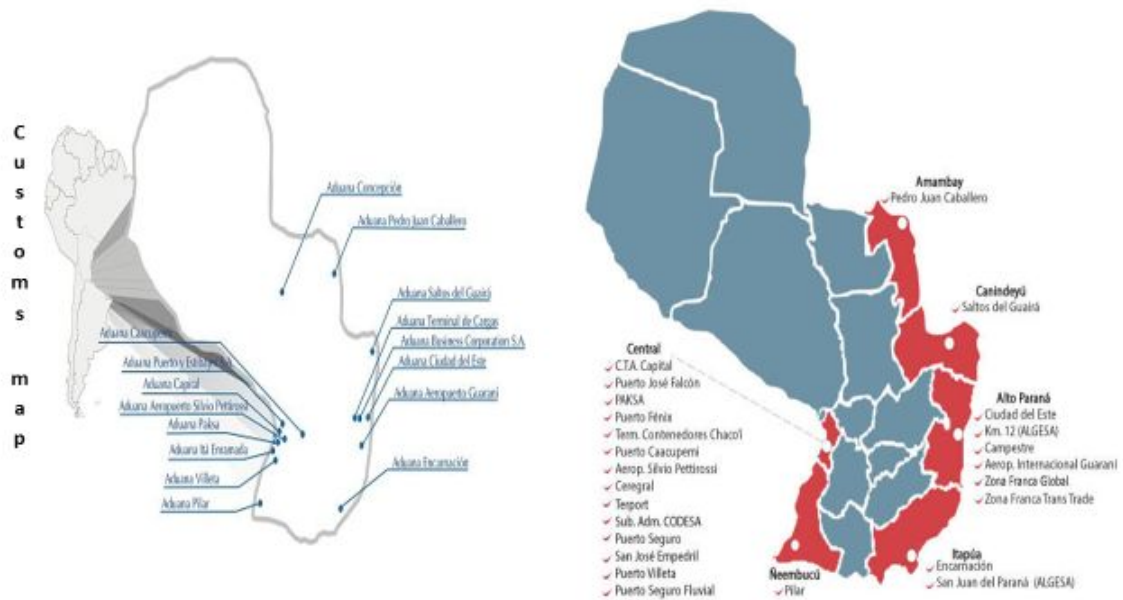
Customs Checkpoints

The systems of customs posts are divided into two categories: main ports on the river systems and airports. The map shows the principal and secondary customs posts in

The many criminal heads of the Golden Hydra

Paraguay. The number of employees depends on the type and volume of customs trade and people at each post.

Location of customs:



There are 34 main customs checkpoints according to the official website,⁵² with the locations on the above map. The number of personnel at each checkpoint depends on volume. 75% of employees at the checkpoints are from private companies, with 25% from the civil service including military, customs and police. They work together in different steps of the procedures to import and export. Customs Code 2422 is the legal framework and describes the responsibility of the personnel.

⁵² <http://www.aduana.gov.py>

Observation

Private company employees play a large part in corruption and the facilitation of illegal trade, as they are not under same scrutiny and jurisdiction as government officials and are usually owned by corrupt business persons with political connections. They are a significant weak point in the framework of enforcement.

Providing aid packages for LEA in the form of capacity building programs would eliminate private companies and provide a significant increase in USA/EU trained law enforcement agencies that at the moment is a low priority for this region. OLAF should be introduced as new key stakeholder.

Furthermore, the national customs agency (Dirección Nacional de Aduanas) explicitly disavows any institutional responsibility for illicit activity. Any malfeasance or liability stemming therefrom is specifically attributed to the individual customs agents; the organization, in its charter, rejects all institutional liability. “Artículo 10.- Responsabilidad de los funcionarios aduaneros. Los funcionarios de la Dirección Nacional de Aduanas son personalmente responsables por sus actuaciones irregulares, toda vez que la misma sea consecuencia de su acción u omisión dolosa o de su ignorancia, impericia, imprudencia o negligencia.” (“Article 10.- Responsibility of the customs officers. Officials of the National Directorate of Customs are personally responsible for their irregular actions, whenever the same is a consequence of their act or deliberate omission or ignorance, incompetence, recklessness or negligence.”) In order to improve institutional integrity, there should be an international watchdog mechanism that creates an accountable integrity framework, with whistleblower protections and protocols.

The principal customs point in terms of duties collection is CENTRAL-TERPORT in Asunción with reported income 1,901,475,369,445 guaranies (equivalent to US\$ 1 billion) during 2017. The customs authority at Ciudad del Este claims to have the biggest traffic of cargo vessels in the region, more than Brazil and Argentina together, but this claim is difficult to verify and seems improbable. According to World Bank data,⁵³ container port traffic (TEU: 20 foot equivalent units) for the three TBA countries is as follows:

- Argentina 1,593,545 (2016)
- Brazil 9,289,501 (2016)

⁵³ <https://data.worldbank.org/indicator/IS.SHP.GOOD.TU?locations=PY>

- Paraguay 7,045 (2009)

The World Bank has no more recent data for Paraguay than 2009, and their chart shows a pattern of decline in Paraguayan cargo shipping volume. There are three possible explanations for this:

1. Commercial traffic through Paraguay is really in decline.
2. Less cargo traffic through Paraguay is being officially recorded and reported to the government in Asunción and on to international entities.
3. Most of the cargo through Paraguay is not in TEUs (20 foot equivalent units), but in smaller containers.

Based on field observations, the first explanation is the least likely. Our observers found that most of the trade is done in smaller containers and is not properly recorded, i.e., illegal. This would indicate an upwards trend of illegal activity in the Tri-Border Area with the complicity of Paraguayan customs agents.

Paraguay's cargo numbers do not match its import and export figures, cited in the CIA World Factbook:⁵⁴

- Exports:
 - \$11.53 billion (2017 est.)
 - \$10.83 billion (2016 est.)
 - Partners: Brazil 35.4%, Argentina 10.5%, Russia 7.6%, Chile 6.1% (2016)
- Imports:
 - \$10.37 billion (2017 est.)
 - \$9.617 billion (2016 est.)
 - Partners: China 27.3%, Brazil 24.3%, Argentina 14.3% US 7.1% (2016)

Those numbers are very high for only 7,000+ TEUs. It would seem that the Paraguayan customs authority would have some explaining to do.

Bolivia and Paraguay have 434,959 miles of frontier with their principal crossing locations at: Villazón in Chuquisaca, Villamontes and Yacuiba in Tarija and Boyuibe in Santa Cruz, where customs checkpoints do not exist and the few that do are usually manned by defence personnel. The transit of merchandise that is both legal and illegal is very easy because the checkpoints under military control are small outposts and very susceptible to corruption. Furthermore, the military do not have the mandate to stop contraband.

⁵⁴ <https://www.cia.gov/library/publications/the-world-factbook/geos/pa.html>

The combination of the Brazilian and Paraguayan economic crises alongside a mixture of customs, military, police and private companies backed by politicians on the border regions, has produced a fusion cell of easily-traded illegal items, corruption and money laundering. There is no real multilateral enforcement task-force that regularly communicates. The Tripartite Command of the Tri-Border Area (also known as the 3+1 Group) includes the TBA's three countries plus the United States. Established in 1996, the 3+1 Group initially focused its efforts on gaining better control of commerce and the large international population in the region; then shifted its mission in 1998, to the fight against smuggling, money laundering, drug and gun trafficking, and terrorism. In 2006, the 3+1 Group created a new South American regional intelligence center in Paraguay, designed to increase cooperation between members so as to better combat illicit activity in the region, but it is widely considered ineffectual. The US provides no financial support to the intelligence center, though it claims to assist "on many important aspects of security in the Tri-Border Area." In short, the TBA is a fusion cell of interregional crime bases that have export routes along multiple channels in particular through Brazil to the world with little to no intelligence collection capacity protected by politicians and weak frameworks of enforcement.

The Tri-Border Region Inter-Regional Crime Fusion Center

A particular area of interest is the area located near the cities of Ciudad del Este (Paraguay), Iguazu Port (Argentina) and Foz do Iguacu (Brazil). The National Security Agency and the Pentagon state that it: "is the most important base of Hezbollah outside Lebanon." More than 25,000 Lebanese and Arabs live in the tri-border region. It is also one of the main fusion centers for money laundering, illegal trafficking and illegal commerce in the region with Paraguay being the dominant leader of coordination. It has also fueled the rise of other interregional crime groups geographically associated with the easy exit and entry points for illegal commodity trading posts along the main river systems, like the emergence of the Shining Path from Bolivia through Paraguay to help raise cash for their cause, facilitated by the weak law enforcement framework across the three countries.



According to Assistant Professor of Anthropology at Wheaton College Christine Folch: “Their main economic activity is the "reexport" trade to Brazil. Merchants in Paraguay import-export cigarettes, clothing, electronics, perfumes, and other luxury items from the United States, Europe, and China and then sell them to Brazilian *sacoleiros* (petty merchants, from the Portuguese for "bag") who take the products into Brazil to be resold in Rio de Janeiro (over 900 miles away), São Paulo (over 650 miles away), and everywhere in between.”⁵⁵

The area gained importance after September 11, 2001 because the intelligence agencies suspected jihadists lived and/or had safe harbors there within the Lebanese and Arab communities. It is considered a porous border-zone because it combines natural routes by the rivers and through jungles connected to many routes throughout the three countries. One of the reasons the TBA is so frequently cited in discussions of threat finance and transnational crime, is precisely because it is so easily accessible, with high permeability, and with a very diverse ethnic and commercial composition.⁵⁶

⁵⁵ Christine Folch, “Trouble on the Triple Frontier,” *Foreign Affairs* (Council on Foreign Relations: September 6, 2012).

⁵⁶ Marcos Alan Fagner Dos Santos Ferreira, *A Política de Segurança dos Estados Unidos e a Tríplice Fronteira No Pós 11 de Setembro: Uma Análise dos Interesses Norte-Americanos e o Posicionamento Brasileiro* (Campinas, Brazil: Universidade Estadual de Campinas, 2010), 4.

The War of Paraguay (in which Paraguay fought against Brazil, Uruguay and Argentina, 1864-1870) decimated a large part of the Paraguayan population. Subsequently, the Paraguayan government encouraged immigrants to populate some regions of the country, especially border regions. Simultaneously, Brazil and Argentina established military outposts in the region.⁵⁷ According to reports to our observation team, 70% of the male population was killed and the government gave concessions to German Mennonite immigrants to farm land in northern Paraguay, where the Marxist insurgent group *Ejército del Pueblo Paraguayo* (Army of the Paraguayan People) ‘EPP’ is now active. These became the wealthy *colonomenonitas*, who also grow tobacco. A spike in immigration to the TBA occurred in the 1960s, driven by two factors: an investment in infrastructure that brought in manual labor, and problems in Lebanon that prompted a wave of emigration.⁵⁸

One of the most important illegal trades is in tobacco. The Tabesa Company (*Tabacalera del Este*), is owned by lame-duck Paraguayan President Horacio Cartés, and located very close to the triple frontier. Different companies exist within the same holding company: a) Agrotabacalera del Paraguay, which sources the raw material; b) Tabesa, the cigarette manufacturer; c) Tabacos del Paraguay, the marketing affiliate; d) TABACOS USA.

Our observation team was informed that well over 90% of Paraguayan tobacco production is estimated to cross the frontier to Brazil and Argentina into the global black market. An informed statement to United States Congress said the Mexican drug cartels and Hezbollah use ITTP to launder money.⁵⁹

In February 2018, the Argentine police force performed two raids and confiscated: 16,200 packets of cigarettes in the Argentine checkpoint “Puerto Rico” and 14 boxes of brand Eight and 9 boxes of brand Classic (both made by Tabesa) on the Paraná River. None of the containers had a document to export.⁶⁰

⁵⁷ Dos Santos, 4-5.

⁵⁸ Dos Santos, 5.

⁵⁹ For more details this report made by Mercado Legal of Brazil have the size of illegal trade in tobacco (ITTP) in Brazil <http://www.imcgrupo.com/fsb/f32789be4a7f9f0boe2ce825b4f55474.pdf>

⁶⁰ “Incautan cigarrillos de Tabesa,” *ABC Color*, 18 February 2018, <http://www.abc.com.py/nacionales/decomisan-cigarrillos-de-tabesa-en-argentina-1675439.html>

Appendix B: Key Persons and Places in TBA Illicit Trade

Pedro Juan Caballero

The Paraguayan town of Pedro Juan Caballero is a key node in the illicit traffic between Brazil and Paraguay. There, the illicit traffic of goods and services is concentrated in the Amambay Casino. Its many change houses are used to sell illicit merchandise and launder money.



Fadh Jamil Georges

Fadh Jamil Georges (known variously as the “Lord of the Frontier,” “The King of the Frontier” or “The Padrino”) is a Brazilian and Lebanese citizen, and was one of the most important capos of illegal commerce. He is connected with mafias in tobacco, counterfeit products, money laundering, and the trafficking of guns and drugs. He has worked closely with the Bolivian drug cartels, as well as Hezbollah, FARC-EP and the PCC⁶¹ in Brazil. He lived in the shadows in Paraguay for many years. The authorities claim he was responsible for the murder of the journalist Santiago Leguizamon in 1991. The murder was allegedly committed by Jamil Georges’ son.⁶² In 2005 he was arrested and convicted in Brazil for money laundering and drug trafficking and sentenced for 30 years, but in 2012 the Brazilian courts reversed the sentence; he now

⁶¹ PCC, Primer Comando de la Capital or First Command of Capital is a gang founded in 1993 in the Jail of São Paulo, Brazil. It has more than 13,000 members, with 6,000 in the prisons. It operates in 22 states.

⁶² “Un asesinato sin castigo,” *ABC Color*, 26 de abril de 2012, <http://www.abc.com.py/nacionales/un-asesinato-sin-castigo-394299.html>

lives in Ponta Bora, Paraguay. He was a close friend of Stroessner (1954-1989), the last dictator of Paraguay. He had two partners: Jorge Rafaat Toumani in the frontier with Brazil, and Horacio Cartés in Paraguay. He publicly supported Horacio Cartés in his presidential campaign.



Gandi Jamil Georges

Gandi Jamil Georges, a dual citizen of Lebanon and Brazil, is the brother of Fadh Jamil Georges, was a federal deputy for Mato Grosso do Sul and connected with the legislature.⁶³ In 2012 he re-entered politics as Mayor of Ponta Pora on the platform of PMDB, but without their support. The people of the triple frontier claim he is the “good face” of the family but is involved in the illegal business with his brother.



Jorge Rafaat Toumani

Jorge Rafaat Toumani (alias “Sadam”) took over Fadh Jamil Georges’ business after the latter’s arrest. However, Toumani introduced changes in the process of money laundering that increased costs for the dealers and the cartels. It is thought that this is the reason he was killed in 2016 on orders of the Bolivian drug mafia and Brazil’s

⁶³ Jayme Brener, “Paraguay: An Unpunished Crime” (TNI: 1 December 1997), <https://www.tni.org/en/article/paraguay-unpunished-crime>

PCC. The assassination was executed by former Brazilian military Special Forces, with military weaponry.⁶⁴



Horacio Cartés

The second partner of Fadh Jamil Georges is President Horacio Cartés, who started his business career with animal breeding and agriculture, but expanded into the Amambay Hotel Casino and a money exchange business that became Amambay Bank. In 2012 the Amambay Bank, property of Cartés, was suspected of money laundering. According to Moody's,⁶⁵ at the time (in June 2012) Banco Amambay had around 2.8% of Paraguay's deposits, was Paraguay's 13th-largest by loan size, and its top 20 depositors accounted for 61% of its deposits.

Prior to the arrest of Fadh Jamil Georges, Pres. Cartés's business interests prospered in Pedro Juan Caballero. Cartés diversified into financial houses and trade in electronics products, jewelry, chandeliers, watches, and other counterfeit products manufactured in the triple frontier by specialized workers from South Korea and China. When Lugo resigned from the presidency in 2012, Cartés ran in the presidential election and won, despite only having registered to vote in 2009.

His holding company Grupo Cartés encompasses about two dozen businesses across tobacco, soft drinks, banking, meat production and sporting goods. He has twice been jailed for financial fraud, and once a plane

⁶⁴ "Dieciséis tiros para 'O Rei do Tráfico': los narcos van a la guerra en Paraguay," *El Confidencial*, 14 July 2016, https://www.elconfidencial.com/mundo/2016-07-14/dieciseis-tiros-para-o-rei-do-trafico-los-narcos-van-a-la-guerra-en-paraguay_1232398/

⁶⁵ https://www.moody.com/research/Moodys-rates-Banco-Amambay-SA--PR_257372

carrying narcotics was seized on his ranch; he claimed the plane had made an emergency landing. The DEA has investigated Cartés, but do not have enough evidence to accuse him of drug trafficking or money laundering. His tobacco company exports to the EU, Africa and the rest of the world. The observation team was told he exports his cigarettes to China out of Guaraní International Airport near Ciudad del Este, near to where he has a tobacco factory.

As president, Cartés has started the process on bidding to set up a hotel casino inside the Customs Directorate of Ciudad del Este, in violation of Paraguayan law (which does not allow gambling on government land). Despite opposition, the project has advanced to the point that it has accepted proposals from international investors (including the Hard Rock Café) and two companies of uncertain ownership have been formed expressly to participate in the bidding.⁶⁶

There are more than one hundred warehouses in the Ciudad del Este region, under the brand name “Mercosur Park.” Its clients include cigarette manufacturer Tabesa, as well as distributors of alcohol, electronics and home appliances.⁶⁷ Much of its contents becomes contraband destined to Argentina and Brazil.

⁶⁶ “New hotel-casino may be built next to Paraguayan customs,” *Games Magazine*, 22 June 2017, <http://www.gamesbras.com/english-version/2017/6/22/hotel-casino-built-next-paraguayan-customs-3016.html>

⁶⁷ <http://www.parquemercosur.com.py/parque-mercursosur.html>

The PCC: *Primeiro Comando Capital*

The Brazilian organized crime group *Primeiro Comando Capital* (PCC) was formed in the prisons of São Paulo in the 1990s, with the stated objective of defending the rights of prisoners. However, it has since become the dominant drug trafficking organization (DTO) group in the TBA and throughout Brazil with branches in Colombia and Bolivia. It has also gained notoriety for spectacular bank robberies.

Amongst the PCC's leadership are the following individuals: Marcos Willians Harba Camacho (alias, "Marcola"), a Brazilian; Luís Carlos da Rocha (a Brazilian drug trafficker); and Carlos Sánchez (PCC leader in Paraguay). They are involved in the traffic of narcotics and other contraband through the TBA and throughout the Southern Cone.



Marcos Willians Herba



Luis Carlos Da Rocha



Carlos Sánchez



Photo credit: By Dearlow - Own work, CC BY-SA 4.0,
<https://commons.wikimedia.org/w/index.php?curid=35284295>

Marcos Willians Harba Camacho

Marcos Willians Harba Camacho, aka ‘Marcola,’ is currently serving 234-year prison sentence in maximum security prison Presidente Venceslau, but he nevertheless continues to lead the PCC from inside the prison. This is logical since the PCC started – and continues to operate – as a prison gang. ‘Marcola’ is considered one of the highest-ranking drug traffickers in Latin America. He is responsible for 29 prison riots. In May 2006, to avoid his imminent transfer to a higher-security prison, ‘Marcola’ ordered a series of strategic attacks on Brazilian police that murdered 40 officers and unleashed clashes that rocked São Paulo and spread over the next two days to the cities of Paraná, Mato Grosso do Sul, Minas Gerais, and Bahia, killing an additional 110 people. Former President of Brazil Lula da Silva condemned the violence as narco-terrorism.

His brother Alejandro Camacho, Jr., was arrested in a 2016 raid that ensnared 36 others and seized half a ton of cocaine and 36 tons of marijuana.



Luís Carlos da Rocha ('Cabeça Branca')

Prior to his July 2017 arrest by Brazil's Federal Police, da Rocha passed himself "as a prosperous agriculturalist, with a wife and small son." His nickname was *Cabeça Branca* ("White Head") for his grey hair as well as for his habit of living in the shadows, like a ghost. One of the Latin America's most notorious drug traffickers, who supplied cocaine to overseas markets, including the United States, he successfully evaded capture for nearly three decades through a combination of violent acts of intimidation and a series of facial plastic surgeries. He was finally arrested in the city of Sorriso, living under the alias of Vitor Luiz de Moraes.



Carlos Rubén Sanchez ('Chicharõ')

On May 22, agents from Paraguay's anti-drug agency (SENAD) arrested Carlos Rubén Sánchez, alias "Chicharõ," a Colorado party congressional alternate for the border province of Amambay. He was arrested near a shopping center in Asunción, while in the company of Congressman Marcial Lezcano.

In 2010, Chicharõ was convicted in Brazil of drug trafficking and money laundering and sentenced to four years in prison. However, in 2011 he fled to Paraguay, where he successfully ran for office, and was arrested again in 2013. After serving a short stint in a Paraguayan prison, Chicharõ was released in September 2014.

In July 2014, while Chicharõ was still in prison, a drug plane linked to him crash landed on a road, killing two women and a child. Investigations have been slow and produced few results.⁶⁸

⁶⁸ <https://www.insightcrime.org/news/brief/politicians-arrest-puts-paraguays-justice-system-on-trial/>



Previous investigations have suggested Chicharõ works for Luiz Carlos Da Rocha, alias “Cabeça Branca,” a Brazilian drug trafficker, making him a lynchpin in a new drug trafficking dynamic in Latin America’s Southern Cone, in which criminal groups are increasingly focused on supplying domestic drug markets rather than moving cocaine to the United States. Paraguay is at the heart of this shift in drug trafficking trends, and the case shows the rampant corruption and impunity in the country.



Carlos Godoy

One of the key figures in ITTP in the TBA is Carlos Godoy, owner of Liza S.A., a customs agency of great prestige and influence in the TBA.

Carlos Godoy was once detained (along with his wife, Liliana Frutos) for smuggling a shipment of “San Marino” brand cigarettes, produced by Tabesa (owned by lame-duck Paraguayan president Horacio Cartés), into Brazil, using the river systems and then in trucks down BR-487, which originates by Porto Camargo, on the Paraná River (which is a border between Paraguay and Brazil), north of Salto de Guayrá. Carlos Godoy is a senatorial candidate for the Colorado party; he is also a close friend of fellow Colorado party member, the outgoing Pres. Horacio Cartés.

One of the main contraband routes Godoy uses is the route known as “Puerto Falcón,” by which all sorts of goods (including electronics and cigarettes) are smuggled in trucks down Paraguay’s Route 6 and then across into Misiones and Clorinda, Argentina, with the complicity of some local authorities.

Ejército del Pueblo Paraguayo and its partner TCOs



Army of the Paraguayan people (in Spanish: *Ejército del Pueblo Paraguayo* – formerly, *Patria Libre*) was founded in 2008. Their ideology is Marxism and Leninism, environmentalism and internationalism. They allegedly have economic support from the government of Venezuela and are engaged in illicit trafficking in drugs, tobacco and guns. Their main area of operation (AOR) is in the north of Paraguay, in the departments of San Pedro, Concepción and Amambay. The EPP has strong relations with Colombia’s FARC-EP and Peru’s *Sendero Luminoso* (Shining Path). They use the same practices as these other groups: kidnapping, car bombs and explosions in key public buildings. Membership estimates range from 150 to 350 guerrillas.

The EPP’s principal target is the community of Menonite farmers, known as *colonomenonitas*. In 2013, the government of Horacio Cartés created a task force to find and capture the guerrilla group’s leadership. In February 2018, Sonia Muñoz, chief of logistics of EPP, voluntarily surrendered to the judicial authorities. She had been sought since 2008 for the kidnapping of cattle rancher Luís Lindstron.⁶⁹ The political debate about the effectiveness of the task force is one of the hot topics in the current presidential campaign.

The Police authorities and the Armed Forces have tested the relationship between EPP and the PCC (*Primeiro Comando Capital*) in Brazil, the Movement to Socialism Party and Cocalero Unions of Bolivia, Hezbollah and the FARC-EP. These criminal groups all work together in the drug trafficking (production and commerce) from Bolivia using the triple frontier and the adjacent rivers as corridors to the ocean, also distributing the cocaine to dealers in Brazil through the PCC and laundering money destined for the FARC-EP and Hezbollah.

⁶⁹ “Se entrega presunta integrante del EPP,” *ABC Color*, 13 February 2018,

<http://www.abc.com.py/nacionales/se-entrega-presunta-secuestradora-del-epp-1674753.html>

Appendix C: Relevant Legislative Framework

Brazil, Argentina and Paraguay are all signatories and bound by accords with the UN, FATF and IMF.

Key International Observer Organisations:

- Asia/Pacific Group on Money Laundering (APG)
- Inter-American Development Bank (IADB)
- CICAD (OAS)
- CICTE (OAS)
- International Monetary Fund (IMF)
- Interpol
- UN Office on Drugs and Crime (UNODC)
- UN Security Council Committee against Terrorism (CTC)
- World Bank

UNODC

The Law Enforcement, Organized Crime and Anti-Money-Laundering Unit of UNODC is responsible for carrying out the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism, which was established in 1997 in response to the mandate given to UNODC through the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988. The Unit's mandate was strengthened in 1998 by the Political Declaration and the measures for countering money-laundering adopted by the General Assembly at its twentieth special session, which broadened the scope of the mandate to cover all serious crime, not just drug-related offences.

The broad objective of the Global Programme is to strengthen the ability of Member States to implement measures against money-laundering and the financing of terrorism and to assist them in detecting, seizing and confiscating illicit proceeds, as required pursuant to United Nations instruments and other globally accepted standards, by providing relevant and appropriate technical assistance upon request from Member

States. It is possible that through workshops on the issue, Member States will be motivated to make such a request.

United Nations Convention Against Corruption (UNCAC)

The United Nations Convention against Corruption⁷⁰ is the only legally binding universal anti-corruption instrument. The Convention's far-reaching approach and the mandatory character of many of its provisions make it a unique tool for developing a comprehensive response to a global problem.

The Conference of the States Parties (COSP)⁷¹ is the main policy-making body of the Convention, supporting States parties (183) and signatories in their implementation of the Convention and giving policy guidance to UNODC to develop and implement anti-corruption activities. The actual implementation of the Convention into domestic law by States parties is evaluated through a unique peer-review process, the Implementation Review Mechanism.⁷²

To support States parties' efforts to fully implement the Convention, UNODC delivers technical assistance in various corruption-related thematic areas,⁷³ such as prevention, education, asset recovery, integrity in the criminal justice system, etc.

- Argentina was ratified as a member 28 August 2006
- Brazil was ratified as a member 15 June 2005
- Paraguay was ratified as a member 1 June 2005

Financial Action Task Force (FATF) Standards

In April 1990, the Financial Action Task Force on Money-Laundering (FATF) issued a set of 40 Recommendations for improving national legal systems, enhancing the role of the financial sector and intensifying cooperation in the fight against money-laundering. These Recommendations were revised and updated in 1996 and in 2003 in order to reflect changes in money-laundering techniques and trends. The 2003 Recommendations are considerably more detailed than the previous ones, in particular with regard to customer identification and due diligence requirements, suspicious transactions reporting requirements and seizing and freezing mechanisms.

⁷⁰ <http://www.unodc.org/unodc/en/corruption/uncac.html>

⁷¹ <http://www.unodc.org/unodc/en/corruption/COSP/conference-of-the-states-parties.html>

⁷² <http://www.unodc.org/unodc/en/corruption/implementation-review-mechanism.html>

⁷³ <http://www.unodc.org/unodc/en/corruption/thematic-areas.html>

The FATF extended its mandate in October 2001 to cover the fight against terrorist financing and issued 8 Special Recommendations on combating the financing of terrorism. A 9th Special Recommendation was adopted in October 2004. These new standards recommend the criminalization of the financing of terrorism in accordance with the UN Convention for the Suppression of the Financing of Terrorism, address practices used by terrorists to finance their activities (such as the misuse of wire transfers, alternative remittance systems and non-profit organizations) and call for the implementation of specific asset freezing, seizing and confiscation mechanisms.

Taken together, the FATF 40 Recommendations⁷⁴ and the 9 Special Recommendations⁷⁵ on terrorist financing provide a comprehensive set of measures for an effective legal and institutional regime against money-laundering and the financing of terrorism.

Resolution 1617 (2005) of the UN Security Council and the Annexed Plan of Action of Resolution 60/288 of the UN General Assembly (20 Sept 2006), stress the importance of the implementation of the FATF 40 Recommendations and the 9 Special Recommendations on terrorist financing.

⁷⁴ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

⁷⁵ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/methodologyforassessingcompliancewiththefatf40recommendationsandfatf9specialrecommendations.html>

Financial Action Task Force of Latin America (GAFILAT)



Argentina, Brazil and Paraguay are all members of GAFILAT (FATF). The purpose of the Financial Action Task Force of Latin America, GAFILAT,⁷⁶ (formerly known as Financial Action Task Force of South America, GAFISUD) is to work toward developing and implementing a comprehensive global strategy to combat money laundering and terrorist financing as set out in the FATF Recommendations.

The effort includes encouraging the creation of the offence of money laundering in relation to serious crimes, the development of legal systems to effectively investigate and prosecute these offences, the establishment of systems for reporting suspicious transactions, and the promotion of mutual legal assistance. GAFILAT also fosters the training of persons involved in anti-money laundering efforts. GAFILAT enables regional factors to be taken into account in the implementation of anti-money laundering measures.

The origins of GAFILAT go back to ongoing efforts to integrate anti-money laundering efforts in South America and was encouraged by the creation of other anti money-laundering regional groups that were established following the FATF model.

It was created as GAFISUD on 8 December 2000 in Cartagena, Colombia by means of a memorandum of understanding by representatives of the governments of nine South American countries. The Organization of American States (OAS) is also a member in an advisory capacity through the Inter-American Commission against Drug Abuse (CICAD). Following the events of 11 September 2001, GAFISUD expanded its scope to include the

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<http://www.fatf-gafi.org/publications/methodsandtrends/documents/financing-recruitment-terrorist-purposes.html>

countering of terrorist financing. The GAFISUD Plenary of 7-11 July 2014 approved the change of name from GAFISUD to GAFILAT to reflect the expansion of its membership to include all Latin American countries.

GAFILAT is committed to carrying out mutual evaluations and coordinating anti-money laundering training and educational efforts in the region. Its work mandate is set out in a memorandum of understanding containing specific terms of reference for the group.

GAFILAT is supported by a Secretariat, which serves as the focal point for its activities.

GAFILAT became an Associate Member of FATF in 2006.⁷⁷

GAFILAT Members

- Argentina
- Bolivia
- Brazil
- Chile
- Colombia
- Costa Rica
- Cuba
- Dominican Republic
- Ecuador
- Guatemala
- Honduras
- Mexico
- Nicaragua
- Panama
- Paraguay
- Peru
- Uruguay

⁷⁷ www.gafilat.org

Observer Jurisdictions

- Canada
- France
- Germany
- Portugal
- Spain
- United States

Organization of American States, CICAD

CICAD's Anti-Money Laundering (AML) Section was established in late 1999, due to CICAD's increased activities of training and assisting Member States in the control of money laundering. The section focuses its efforts on providing technical assistance and training on judicial, law enforcement and financial matters. It also acts as the technical secretariat of CICAD's Expert Group on the Control of Money Laundering.

The Expert Group is the hemispheric forum to discuss, analyze and draft policies to deal with money laundering and the financing of terrorism. Through this expert group, which was founded in 1990 under the Legal Development Unit, the Model Regulations on Money Laundering Offenses Related to Drug Trafficking and Other Criminal Offenses⁷⁸ were drafted and approved in 1992. These regulations serve as a permanent legal reference document to provide a legal framework to Member States.

The Anti-Money Laundering Section works with international and national institutions to develop training activities and technical assistance. The main partners are the Inter-American Development Bank (IADB), the Bureau of International Narcotics and Law Enforcement Affairs (INL) of the U.S. Department of State, the Ministry of Interior and the *Plan Nacional de Drogas* of Spain, and the United Nations Office on Drugs and Crime (UNODC). Similar cooperation links were established with the governments of Canada and France for joint training efforts in the region. CICAD has trained more than 1,800 officials to date.

In 1999, the IADB-CICAD project for training employees of banking and financial supervisory institutions was initiated in eight South American countries. In 2001, another

⁷⁸http://www.cicad.oas.org/lavado_activos/eng/Model_regula_eng12_o2/REGLAMENTO%20LAVADO%20-%20ENG.pdf

program was developed to work with judges and prosecutors in eight South American countries. In 2002, a project to create and strengthen financial intelligence units was initiated in Argentina, Brazil, Chile, Ecuador, Peru, Uruguay, and Venezuela.⁷⁹

IMF and the Fight Against Money Laundering and the Financing of Terrorism

The IMF has an office in Brazil, but not in any of the other TBA countries.

October 30, 2017 IMF statement on the threats from money laundering

There is no doubt that money laundering and terrorist financing can threaten a country's economic stability, which is why the IMF has become increasingly active in supporting and promoting the AML/CFT efforts of our member countries, based on the [Financial Action Task Force] standard. What started as a small endeavor some 20 years ago has become part of our core work—from analysis and policy advice, to assessing the health and integrity of financial sectors, to providing financial assistance when needed, to helping countries build institutions and increase operational effectiveness.

- Christine Lagarde, Managing Director of the IMF

Money laundering is the processing of assets generated by criminal activity to obscure the link between the funds and their illegal origins. Terrorism financing raises money to support terrorist activities. While these two phenomena differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and opacity in carrying out transactions.

In 2000, the IMF responded to calls from the international community to expand its work on anti-money laundering (AML). After the tragic events of September 11, 2001, the IMF intensified its AML activities and extended them to include combating the financing of terrorism (CFT). In 2009, the IMF launched a donor-supported trust fund to finance AML/CFT capacity development in its member countries. In 2014, the IMF's Executive

⁷⁹ http://www.cicad.oas.org/Main/Template.asp?File=/lavado_activos/default_eng.asp

Board reviewed the Fund's AML/CFT strategy⁸⁰ and gave strategic directions for the work ahead.⁸¹

A threat to economic and financial stability

The IMF is especially concerned about the possible consequences of money laundering, terrorist financing, and related crimes to the integrity and stability of the financial sector and the broader economy. These illicit activities can discourage foreign investment and distort international capital flows. They may also result in welfare losses, draining resources from more productive economic activities, and even have destabilizing effects on other countries. Argentina and Brazil are suffering exactly this sort of destabilization and loss of fiscal revenue. In an increasingly interconnected world, the harm done by these activities is global. Money launderers and terrorist financiers exploit the complexity inherent in the global financial system as well as differences between national laws; jurisdictions with weak or ineffective controls are especially attractive for moving funds undetected. Strong AML/CFT regimes enhance the integrity and stability of financial sectors, which in turn helps countries become integrated into the global financial system. They also strengthen governance and tax/fiscal administration.

⁸⁰ <http://www.imf.org/external/np/pp/eng/2014/022014a.pdf>

⁸¹ <http://www.imf.org/en/News/Articles/2015/09/14/01/49/pr14167>

International Standards that Guide Effective AML/CFT Regimes

The Financial Action Task Force on Money Laundering (FATF),⁸² a 37-member inter-governmental body established by the 1989 G7 Summit in Paris, has primary responsibility for developing a worldwide standard for AML/CFT. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs). According the FATF website:⁸³

The FATF and FSRBs are interdependent partners in the global anti-money laundering and countering the financing of terrorist network. This common purpose is best achieved by a collaborative approach to their activities, in particular the peer review process. These high-level principles and objectives also form the basis for the work of the Global Network Coordination Group, a working group within FATF which is co-chaired by a representative from an FATF member and a representative from an FSRB member. The high-level principles and objectives were updated in February 2016 and in February 2018, with the inclusion of an annex on principles on Financial Governance for FATF/FSRBs.

To help national governments set up effective AML/CFT regimes, the FATF issued a list of recommendations that set out a basic, universally applicable framework of measures covering the criminal justice system, the financial sector, certain non-financial businesses and professions, transparency of legal persons and arrangements, and mechanisms of international cooperation. In 2012, these recommendations were revised and updated (The FATF Recommendations). In 2013, the FATF adopted a revised common Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems.⁸⁴ The IMF Board later endorsed the revised recommendations and assessment methodology, and in 2014 Fund staff participated in the first five mutual evaluations conducted under the revised standard and methodology (with Belgium, Norway, Spain, Australia and Malaysia). It also led the assessments of

⁸² <http://www.fatf-gafi.org>

⁸³ <http://www.fatf-gafi.org/publications/fatfgeneral/documents/high-levelprinciplesfortherelationshipbetweenthefatfandthefatf-styleregionalbodies.html>

⁸⁴ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfissuesnewmechanismstostrengthenmoneylaunderingandterroristfinancingcompliance.html>

Italy And Canada and is currently conducting assessments of Mexico and Colombia. The Group of Seven and Group of 20 have supported these efforts, most recently in the context of initiatives to address corruption and cross-border tax evasion.

The IMF's Role in AML/CFT Efforts

During the past 15 years, the IMF has helped shape domestic and international AML/CFT policies. Staff work has included more than 70 AML/CFT assessments, numerous involvements in Article IV consultations, Financial Sector Assessment Programs (FSAPs),⁸⁵ and inputs into the design and implementation of financial integrity-related measures in Fund-supported programs, as well as many capacity development activities and research projects. The IMF staff has been particularly active in providing financial integrity advice in the context of surveillance, evaluating countries' compliance with the international AML/CFT standard, and in developing programs to help them address shortcomings. The IMF also analyzes global and national AML/CFT regimes and how they interact with issues such as virtual currencies, Islamic finance, costs of and mitigating strategies for corruption, and the withdrawal of correspondent banking relationships.

In line with a growing recognition of the importance of financial integrity issues for the IMF, the AML/CFT program has evolved over the years. In 2004, the Executive Board agreed to make AML/CFT assessments and capacity development a regular part of IMF work. In 2011, the Board discussed a report on the evolution of the AML/CFT program over the previous five years. Directors supported the mandatory coverage of financial integrity issues in specific circumstances and further specified in the 2012 Guidance Note the inclusion of AML/CFT in surveillance and FSAPs. In the context of Article IV consultations, staff is required to discuss AML/CFT issues in cases where money laundering, terrorism financing, and related crimes (such as corruption or tax crimes) are serious enough to threaten domestic stability, balance of payments stability, or the effective operation of the international monetary system. In the 2014 review of the Fund's AML/CFT strategy, the Board encouraged staff to continue its efforts to integrate financial integrity issues into its surveillance and in the context of Fund-supported programs, when financial integrity issues are critical to financing assurances or to achieve

⁸⁵ <http://www.imf.org/en/About/Factsheets/Financial-System-Soundness>

program objectives. The Board also decided that AML/CFT should continue to be addressed in all FSAPs but on a more flexible basis.

In 2009, the IMF launched a donor-supported trust fund—the first in a series of Topical Trust Funds (TTF)—to finance capacity development in AML/CFT that complemented the IMF’s existing financing accounts. The TTF leverages staff expertise and experience to deliver tailored AML/CFT capacity development. The TTF’s first phase ended in April 2014. Considering its success and the continuing high demand for capacity development in this area, a new five-year phase started in May 2014 and donors (France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland and the United Kingdom) pledged more than \$25 million in support. The contribution to the TTF has helped deliver \$6.5 million annually in direct technical assistance and training to more than 40 recipient countries.

Argentina

AML and Transnational Threats Legislation

Argentina has 14 laws and regulatory frameworks pertaining to money laundering and transnational crime. They can be found in their original and complete text here:

<https://www.imolin.org/imolin/amlid/search.jsp?match=Argentina>

In summary, they are:

1. Resolution 18 – 2003
2. Resolution 2 – 2002
3. UN Convention Against Transnational Organized Crime – 2000
4. Criminal Procedural Code – Law 23984 – 1991
5. Law 25246 amending certain sections of the Criminal Code – 13 April 2000
6. Law 25815 – Modification of the Penal Code and Substitution of Article 1027 of Law 22415 – 2003
7. Law 26087 – Amendment to Law 25246 – 2006
8. Resolution 10 – 2003
9. Decree 169 – 2001
10. Decree 1500 – 2001

11. International Convention for the Suppression of the Financing of Terrorism – 1999
12. Law 21526 – 1977
13. Law 24767 – 13 January 1997
14. Extradition (Drug Trafficking) Order of the United Kingdom, 1997

Brazil

Transnational Threats Authorities

The investigation of transnational threats is basically spread across three authorities. The Brazilian Treasury's financial intelligence unit (FIU) is the Conselho de Controle de Atividades Financeiras (COAF), legally established by Lei n^o 9613, de 1998,⁸⁶ to be the authority with the greatest reach into banking information.⁸⁷ Its mandate is to track money laundering and the financing of terrorism. According to its website: "The crime of money laundering is characterized by a set of commercial or financial operations that seek to incorporate into the economy of each country, temporarily or permanently, resources, goods and values of illicit origin and which are developed through a dynamic process that involves, theoretically, three independent phases that often occur simultaneously."⁸⁸ The three phases are: placement, concealment (sometimes called 'stacking') and integration.⁸⁹ The COAF authorities were strengthened by Lei n^o 12.683, de 2012, which: eliminated the long list of antecedent crimes and criminalized the laundering of the proceeds of any crime, expanded the list of required reporting entities to include financial consultants, agents to celebrities and sports figures, and festival organizers; increased the penalties to R\$20 million.⁹⁰

COAF reports to FATF, GAFILAT, Edgmont Group, and works with several FSRBs (FATF-style reporting bodies) and other international organizations, including:

⁸⁶ http://www.planalto.gov.br/ccivil_03/Leis/L9613compilado.htm

⁸⁷ Dos Santos, 164.

⁸⁸ <http://coaf.fazenda.gov.br/menu/pld-ft/sobre-a-lavagem-de-dinheiro>

⁸⁹ <http://coaf.fazenda.gov.br/links-externos/fases-da-lavagem-de-dinheiro>

⁹⁰ <http://coaf.fazenda.gov.br/menu/pld-ft/sobre-a-lavagem-de-dinheiro>

1. Caribbean Financial Action Task Force on Money Laundering and the Financing of Terrorism (CFATF / CFTATF)
2. Asia-Pacific Financial Action Task Force on Money Laundering and the Financing of Terrorism (APG)
3. Committee Against Money Laundering, Illicit Resources and the Financing of Terrorism (MONEYVAL)
4. Anti-Money Laundering and Eurasian Terrorism Financing (EAG) Group
5. East and South Africa Anti-Money Laundering Group (ESAAMLG)
6. Middle East and North Africa Financial Action Task Force Against Money Laundering and the Financing of Terrorism (MENAFATF)
7. International Money Laundering Information Network (IMoLIN)
8. Interpol
9. Inter-American Commission Against Drug Abuse (CICAD OAS)
10. United Nations Office on Drugs and Crime (UNODC)
11. World Bank
12. International Monetary Fund (IMF)
13. Inter-American Development Bank (IDB)
14. Bank for International Settlement (BIS) - Basel Committee on Banking Supervision
15. International Organization of Securities Commissions (IOSCO)
16. International Association of Insurance Supervisors (IAIS)
17. Wolfsberg Group, where 12 leading multinational banks define AML and KYC
18. Transparency International, the anti-corruption body

Counter-terrorism monitoring is conducted by the Brazilian intelligence service, ABIN. High-level and complex cases of many varieties are investigated by the federal police, Policia Federal (PF). Their mandate includes: transnational crime, threat finance and corruption.

After the 9/11 attacks, the PF created a counter-terrorism unit.⁹¹ However, prior to the 2014 World Cup, Brazil lacked specific counter-terrorism legislation. Therefore, the PF could not arrest a foreigner simply on the accusation of being a terrorist; for the PF to act on information from Interpol, the individual needed to have committed other acts

⁹¹ Dos Santos, 160-1.

criminalized under Brazil Penal Code, including homicide, robbery, and possession of explosives.⁹²

There are a few prominent cases of such arrests with international cooperation, both before and after 9/11. Brazil's Federal Police tracked down Lebanese citizen Marwan al Safadi, wanted by the US for his involvement in the 1993 World Trade Center bombing, to Foz do Iguaçu, where he hid in the broader Lebanese community there, before escaping to Asunción, Paraguay. Two days later he was arrested by local police and put on a C-17 US military plane bound for the US.⁹³ However, Brazil is not always this cooperative with extradition requests. Momamed Ali Abou Ibrahim Soliman, a native of Port Saïd, Egypt, was first arrested by the PF in 1999 for not having a passport. He was also suspected of being a member of the terrorist group al-Gama'a al-Islammiya, and the Egyptian police wanted him for his participation in the 1997 terrorist attack in Luxor. Nevertheless, Soliman was released subsequent to a Brazilian Superior Federal Tribunal finding that his extradition would be unconstitutional as Egypt could not prove Soliman's participation in the attack.⁹⁴

In 2016, ahead of the start of the summer Olympics, Brazil changed its counter-terrorist legislation. After the new legislation passed in 2016, anyone with an Interpol red notice on terrorism who belongs to any of the three groups Brazil legally recognizes (Taliban, Al Qaeda and ISIS), may be detained and extradited on charges of terrorism. However, any other suspected terrorist, who does not belong to any of these groups will only be detained if he has committed a crime already typified in Brazil's criminal legislation, or if he has committed a crime that Brazil considers to be a terrorist crime. In this case Interpol has to forward all the information on the person and Brazilian authorities will evaluate if it means terrorism for Brazil. However, Brazil's legislation is very restrictive on the typification of terrorism. For instance, confession to terrorism is not typified as a crime. So if anyone is on a red notice for such a confession, he is not a terrorist under Brazilian legislation.

The Brazilian criminal code criminalises passive and active corruption as well as embezzlement of public funds. The accused may be imprisoned for one to eight years, in addition to losing his/her mandate, and incurring fines.

⁹² Dos Santos, 157.

⁹³ Dos Santos, 158-9.

⁹⁴ Dos Santos, 159.

In this case, immunity rules apply and those in elected positions have special guarantees (*prerrogativa de foro*), and can only be judged by a judicial instance one level above the federative judicial structure (for instance, members of the congress can only be judged by the supreme court and mayors by the higher court at the state level), preventing trial courts from being used as political instruments.

AML Legislation

Brazil has 57 laws and regulatory frameworks pertaining to money laundering and threat finance. They can be read in their full original text here:

<https://www.imolin.org/imolin/amlid/search.jsp?match=+Brazil>

The fifty-seven laws are:

1. BACEN Circular 2.826/98
2. Law 6.815/80: the Alien's Law
3. Law 9.296/98: Anti-Money Laundering Legislation
4. Law No. 9.034, from 3 May 1995
5. SUSEP Circular 200/2002, addressing customer identification, record keeping procedures and suspicious transactions
6. Decree 2.799/98, approving the Bylaws of the Council for Financial Activities Control (COAF)
7. Constitution of Federal Republic of Brazil
8. Central Bank of Brazil (BACEN)
9. Complementary Social Security (SPC)
10. Council for Financial Activities Control (COAF)
11. Securities and Exchange Commission (CVM)
12. Superintendence of Private Insurance (SUSEP)
13. SUSEP Circular 74/99, establishing periods of time to keep documents and store data
14. COAF Resolution 016/2007, concerning transactions by politically exposed persons
15. BACEN/CMN Resolution 2524/98

16. BACEN Circular Letter 3.136/2004
17. Code of Criminal Procedure
18. Decree 5.015/2004
19. Law 11.343/2006
20. Law 4.483/94
21. SRF / Normative Instruction 117/98
22. UN Convention Against Transnational Organized Crime, 2000
23. BACEN/CMN Resolution 1655/89 on Securities Companies
24. BACEN Circular 3.339/2006
25. BACEN/CMN Resolution 2690/2000
26. BACEN Circular 3098/2002
27. BACEN/CMN Resolution 2817/2001
28. COAF Resolution 013/2005
29. BACEN/CMN Resolution 3040/2002
30. COAF Resolution 014/2006
31. BACEN/CMN Resolution 3442/2007 on Credit Companies
32. Law 6.015/73. The Law of Public Registers
33. BACEN Circular Letter 3246 of 2006
34. Law 7170/83
35. Law 9.069/95
36. Law 9.613 of 1998: Money Laundering and Council for Financial Activities Control (COAF)
37. SPC/Resolution 8/2004
38. SUSEP Resolution 81/2002
39. BACEN Circular Letter 3.246/2006
40. Code of Penal Procedure
41. COAF Resolution 003/99, regulating lotteries
42. COAF Resolution 009/99, modifying Resolutions 003/99 and 005/99
43. Complementary Law 105/2001
44. COAF Resolution 006/99, regulating payments cards and credit administrators
45. CVM Circular 74/99, establishing periods of time to keep documents and store data
46. COAF Resolution 008/99, regulating the commerce of works of art and antiques

47. CVM Instruction 301/99, addressing the identification, registration, activities, reports, limits, and administration of supervised entities
48. CVM Instruction 387/2003, establishing standards and procedures to be followed in electronic trading and registration systems
49. BACEN Circular 2.852/98
50. BACEN Circular 3.030/2001
51. COAF Resolution 004/99, regulating the commerce of jewelry, precious stones, and metals
52. COAF Resolution 005/99, regulating legal entities that operate bingos and/or similar games
53. COAF Resolution 007/99, regulating commodity exchanges and their brokers
54. Law 7.560/86: Anti-Drugs Legislation
55. BACEN/CMN Resolution 2554/98
56. COAF Circular Letter 014/2006
57. COAF Resolution 010/2001, regulating nonfinancial legal entities that provide cash transfer services

Paraguay

Anti-Corruption and AML Legislation

Corruption in Paraguay is criminalised under the Article 300 of the national criminal code which states that civil servants cannot “solicit, accept or let themselves be promised” any undue benefit derived from their post. Articles 302-303 define and prohibit offering and accepting bribes and Article 30 implicates all accomplices in these acts (*Departamento de Derecho Internacional & OAS 2008*). Articles 57 and 60 of the Public Function Act (Law 1626) expressly prohibit undue influence on citizens through the utilization of entrusted power and state resources as well as the receiving of gifts and the swaying of elections by influence from official posts. Similarly, Articles 313 of the criminal code and Article 1 of Decree 448/40 prohibit embezzlement and illicit enrichment.

When it comes to money laundering, however, the situation is more complex. While Article 196 of the national criminal code stipulates against money laundering, legal experts consider that the complexity of the article makes its application difficult and very situational (Preda 2013). Prosecutor Federico Espinoza noted to US authorities in a press conference in early 2016 that since this criminalisation does not exist, legal processes against money laundering cannot be undertaken unless they are also violating other laws, noting that not even private sector bribery is a punishable offence (La Nación (Paraguay) 2016).

Paraguay has nineteen laws and regulatory frameworks to combat money laundering, which can be found here:

<https://www.imolin.org/imolin/amlid/search.jsp?match=Paraguay>

They include:

1. Law 1015/96 of 3 December 1996 on Preventing and Penalizing Unlawful Acts to Launder Money or Property
2. Law 1036/07 Establishing and Regulating Societies that Acquire Credits
3. Law 811/96 creating the Administration of Investment Fund of 12 February 1996

4. Rules of Procedure to be followed by cooperatives for the prevention of money laundering. Resolution Number 262 of 7 November 2007 and amended by Resolution No. 89
5. Law No. 1340 of 22 November 1988 that suppresses the smuggling of narcotics and dangerous drugs and other related crimes, and that establishes preventive measures and the recovery of drug addicts. As amended by law No. 1881/02.
6. Rules of Procedure to be followed by pawnshops for the prevention of money laundering. Resolution No. 265 of 7 November 2007, as amended by resolution No. 267
7. Criminal Procedure Code Law 1286-98 of 8 June 1998
8. Resolution No. 61 of 13 March 2008. Regulations for the Prevention and Suppression of Money Laundering or Property for persons doing physical cross-border transportation of currency or bearer negotiable instruments
9. Insurance Law No. 827 of 12 February 1996
10. Law 861/96 on “General Banking, Finance and Credit” of 24 April 1996
11. Regulations for the Prevention and Suppression of Money Laundering or Property for the Securities Market. Resolution No. 59 of 13 March 2008.
12. Criminal Code (Amended by Law No. 3440 of 26 July 2008).
13. Resolution No. 233 of 11 October 2005 regulating the procedures to be followed by banks, financial entities, exchange agents and other entities subject to the supervision of the Superintendency of Banks, as amended by Resolution No. 312 of 2006.
14. Resolution No. 263 of 7 November 2007, “which regulates the procedures to be followed by institutions subject to the supervision and control of the Superintendency of Insurance”
15. Rules of Procedure to be followed by legal and natural entities which are intermediary in the purchase and sale of real estate for the prevention of money laundering. Resolution No. 264 of 7 November 2007.
16. Organic Law of the Central Bank of Paraguay (Law No. 489)
17. Regulations for the Prevention and Suppression of Money Laundering and Property to natural and legal persons engaged in sending and / or reception of remittances. Resolution No. 060 of 13 March 2008

18. Regulations for the Prevention and Suppression of Money Laundering or goods for casinos and companies engaged in the operation of games of chance. Resolution 62. March 2008.
19. Extradition (Drug Trafficking) Order of the United Kingdom, 1997.

Track & Trace for Tobacco Products

T&T Bill was originally proposed by the opposition party prior to Parliamentary Recess and was introduced at Deputies Chamber on December 19th 2017 during an ‘extraordinary session.’ Once the Bill is in the Deputies Chamber there is then a 90 day period (this does not include the recess period) within which to treat this bill within this chamber. Both the T&T and Excise bills were approved in the Deputies Chamber on the 21st March 2018. The key here though is that the bill that was approved was not the original bill proposed by the opposition party. The Colorado party (then under the leadership of the Pres. Cartés) suggested a number of amendments that should be made to this original bill (summarised below) which significantly diluted its impact. Both the bill and the suggested amendments were approved by the Deputies. Industry was invited to provide comment on the bill but the time period given was extremely short and furthermore only national industry were invited to the meeting arranged to discuss the bills.

Summary of the Approved Bills:

Track & Trace

1. Track and trace bill’s content is related to tax activities and control procedures (stamps/holograms). No product tracing.
2. Ministry of Finance is included as a regulator (original bill only included Ministry of Health and Ministry of Industry and Commerce).
3. Definition of “economic operator limited to manufacturer, importer, and distributor” (the original bill also included wholesalers, intermediates, storage, export).
4. Replacement of “unique ID” for “specific identifier technology” that could only determine their tax payment, authenticity, and legitimacy compliance.

5. Technology and standards will be defined in future rulings by Ministry of Finance within 180 days after Law issuing.

Excise

Tobacco excise increase to 18% as a minimum and 22% as a maximum, *ad valorem* over product cost.

Précis of the Session of the Deputies Chamber

The Deputies' Chamber approved with amendments the track & trace bill of law and the excise increase bill of law. Both bills will now return to the Senator's Chamber where the amendments should be discussed. In order to reject the changes, the senators need 23 votes.

Track & Trace bill

- The bill of law's amendments were approved with 57 votes in favor, and 19 against after a prolonged discussion.
- All amendments were included under the following rationale:
 - The bill presented by the Senators chamber had many drawbacks in its wording that made it impractical
 - The application of the bill is impossible because of its high complexity and high economic cost for all those affected in the value chain
 - It can even promote and stimulate both illegal production and the sale of contraband if the retailer does not want to adapt or cannot adapt to the new rules
 - The law must be applicable, it must be fair for the State but also for the producer
 - There is no competent authority to monitor and control the unique identifier
- Allegations made to reject the amendments included:
 - Rocio Casco (Opposition party – *Avanza País*): complained the little time they had to analyze the amendments in detail. The original bill had many

more articles than the one presented by the committee, hence the goal of the bill has changed

- Celso Kennedy (Opposition Party – *Partido Liberal*): Senators bill is more suitable for the goal of the bill. With the proposed amendments the bill is now applicable but useless for track and trace purposes
- Victor Rios (Opposition Party – *Partido Liberal*): the authorities to monitor and control the bill will be assigned and trained in time. Deputies should control the legislation of the country, not Jose Ortiz

Excise increase Bill of Law

Amendments were approved with little discussions with 74 votes in favor and 1 against. Media impact was centered in the excise bill (with a negative tone) rather than the T&T (track and trace) bill (which got positive tone, but had no mention of the distortion of the bill's content), even though the debate in the plenary was much more extended when discussing the T&T bill (15 minutes vs 1 hour and a half).

US Legislation and Sanctions Against Hezbollah

INKSNA: Iran, North Korea, and Syria Nonproliferation Act Sanctions

On March 21, 2017, the United States imposed sanctions of 30 foreign entities and individuals in 10 countries pursuant to the Iran, North Korea, and Syria Nonproliferation Act (INKSNA). These actions apply to the specific individuals and entities that will be listed in the federal register and will be in effect for two years. These determinations were the result of a periodic review of sanctionable activity as required by the INSKNA. The US Department of State makes those determinations:

<https://www.state.gov/r/pa/prs/ps/2017/03/269084.html>

Status: Public Law

HIFPA: H.R. 22297: Hizballah International Financing Prevention Act of 2015

Applies to an entity that: “facilitates a transaction or transactions for Hizballah; facilitates a significant transaction or transactions of a person on specified lists of specially designated nationals and blocked persons, property, and property interests for acting on behalf of or at the direction of, or being owned or controlled by, Hizballah; engages in money laundering to carry out such an activity; or facilitates a significant transaction or provides significant financial services to carry out such an activity.”

This bill amends the Hizballah International Financing Prevention Act of 2015 to impose specific sanctions on: (1) foreign persons that knowingly assist in or provide support for fund raising or recruitment activities for Hizballah; (2) agencies of foreign governments that provide Hizballah with financial support, arms, or other assistance (export license requirements are included in addition to sanctions if such government is a state sponsor of terrorism); and (3) Hezbollah, including by reason of Hezbollah's significant transnational criminal activities.

The bill expresses the sense of Congress that sanctions should be placed on financial institutions that serve Lebanese government officials affiliated with Hezbollah.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 is amended to sanction foreign financial institutions that facilitate efforts by Iran or the Islamic Revolutionary Guard Corps to aid Hizballah.

The bill prescribes reporting requirements or reporting modifications with respect to: (1) foreign persons that knowingly assist or provide significant financial, material, or technological support for foreign persons assisting Hizballah; (2) financial institutions that are owned or organized under the laws of state sponsors of terrorism; (3) Hizballah's racketeering activities; (4) combating illicit tobacco trafficking networks used by Hizballah and other foreign terrorist organizations to finance their operations; (5) the estimated net worth of senior Hezbollah officials and how these funds were acquired and used; and (6) countries that support Hezbollah or in which Hizballah maintains important logistics networks or financial networks and steps such countries are taking to disrupt such networks.

The many criminal heads of the Golden Hydra

Status: Public Law 114-12 (12/18/2015). 2017 amendments have passed the House and was received in the Senate on October 26th, 2017. Read twice. Placed on Senate Legislative Calendar under General Orders. Calendar No. 253.

<https://www.congress.gov/bill/115th-congress/house-bill/3329>

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Glossary of Terms

ABIN:	Agência Brasileira de Inteligência
AML:	Anti-money laundering
AQ:	Al Qaeda, a terrorist group
CDE:	Ciudad del Este
DTO:	Drug-trafficking organization
FATF:	Financial Action Task Force
FTO:	(designated) foreign terrorist organization
IMF:	International Monetary Fund
ISIS:	Islamic State or Daesh, a terrorist group
IT:	Illicit trade
ITTP:	illicit trade in tobacco products
LH:	Lebanese Hezbollah
NSAG:	Non-state armed group
OC:	Organized crime
PCC:	Primeiro Comando Capital, Brazil's biggest crime group
TBA:	Tri-Border Area. In this case, the border intersection of Brazil, Paraguay and Argentina
TCO:	Transnational criminal organization
TEU:	Twenty-Foot Equivalent Unit, which can be used to measure a ship's cargo carrying capacity. The dimensions of one TEU are equal to that of a standard 20' shipping container: 20 feet long, 8 feet tall.
TOC:	Transnational organized crime
UN CTED:	United Nations Counter-Terrorism Executive Directorate
UNCAC:	United Nations Convention Against Corruption
UNODC:	United Nations Office on Drugs and Crime