

INTERVIEW: KONSTANTIN SOROKIN

Can U.S. and Russia Ally To Combat Drug-Money Laundering?

Sept. 6, 2013—With the United States supplying the main military contingent of the now 12-year-long NATO deployment in Afghanistan, the Afghan opium and heroin trafficking economy has expanded an estimated 40 times. As long-established narcotics traffickers accumulate massive fortunes from heroin throughout Eurasia, including the dramatic increase in heroin addiction among youth in the Russian Federation, NATO intends to simply “walk away” from this disaster. In April 2013, the non-governmental Joint U.S.-Russia Working Group on Afghan Narcotraf-ficking presented a report on how the Russian and U.S. governments could cooperate to eliminate this ongoing threat: **Afghan Narcotraf-ficking: A Joint Threat Assessment**. The report resulted from a project sponsored by the East-West Institute. Russian President Vladimir Putin and Victor Ivanov, director of the Russian **Federal Drug Control Service (FDSC)**, have appealed for this threat to be jointly attacked, most recently at the June 2013 International Drug Enforcement Conference in Moscow hosted by the FDSC and the U.S. **Drug Enforcement Administration (DEA)**. Russia will now be heading the **OECD’s Financial Action Task Force (FATF)** in Paris.



Konstantin Sorokin is an expert in financial crimes, an advisor to the Department of Training and Methodology and Research Projects, International Training and Methodology Center for Financial Monitoring of the Russian Federal Financial Monitoring Service. He was a contributor to the above-mentioned report.

Roger Moore of EIR’s bureau in Wiesbaden, Germany, submitted written questions to him, which he answered in Russian. The views expressed in this interview are Sorokin’s own, and not necessarily those of any government agency.

EIR: Could you elaborate on the dimensions of this problem and some of the ideas discussed on how to deal with the challenge of the Afghanistan-based, Eurasian heroin economy?

Sorokin: First of all, Afghan drug trafficking should be seen not only as a national security threat for countries in Eurasia, but also as a global threat to all nations, including the U.S. and the European countries. I do not think that the term “Eurasian heroin economy” is quite correct in this context. The source of the Afghan drug trafficking problem is opium poppy cultivation in Afghanistan. In addition to Afghan opiate production, it is necessary to take into account the fact that, according to several sources, drugs from Southeast Asia (the “Golden

Triangle” countries) are shipped through Afghanistan. The discrepancy between the transit volume and the volume of drug production in Afghanistan, including an estimate of the stockpiles accumulated within the country, is evidence of this. Thus what we have here is a global problem, not just a regional one.

At present, the Russian side chiefly emphasizes the need to destroy the opium poppy crops. The position of the Western countries comes down to the idea that if you destroy the crops, it can cause discontent among the local population, for whom opium cultivation is often the only source of income. This in turn may lead the population to take up arms against the international troops stationed in Afghanistan. Both sides, however, recognize that real positive results have been achieved through occasional joint operations to destroy drug labs and other infrastructure. This is clearly not enough, yet the Western countries do not want to move for complete crop eradication—although they are well aware of the consequences of not doing so.

The large-scale withdrawal of the international forces (ISAF) in Afghanistan will mean, in addition to the loss of control over several areas (provinces), an increase in opium poppy cultivation, drug production, and trafficking. The troop withdrawals themselves, with the accompanying increase in the transit of military equipment and troops, will also mean an additional margin of growth of drug trafficking. This might involve private initiatives by individual soldiers, who would view a certain amount of drugs they take home with them as “severance pay”; the drugs could be sold for cash. Also, organized groups of corrupt soldiers who have gotten into larger-scale drug trafficking, thus undercutting the interests of their military service and discrediting the international contingent.

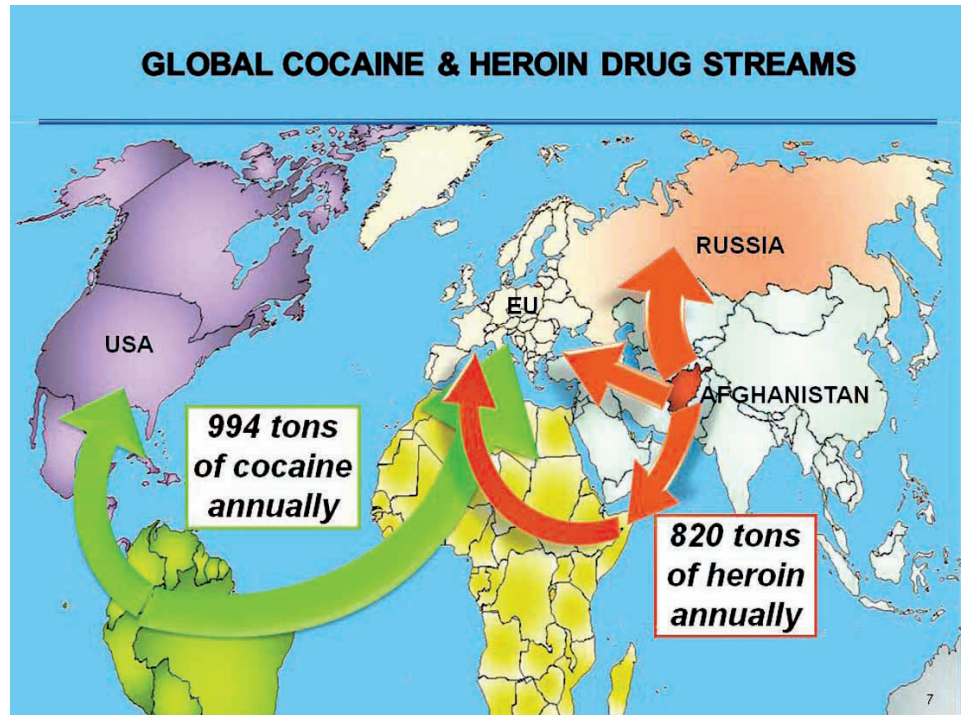
In addition to the transfer of opiates, which is illegal and a source of illegal money, we need to consider the consequences of the drug threat and its financial com-

ponent. Its greatest effect is the damage to the national economy due to the premature death and reduced lifespan of drug addicts, their asocial behavior and degradation, and the increase in crime, when drug addicts commit crimes to get the money for their next fix.

One of the key aspects is the actual cash flows of drug money, which even respectable financial institutions (banks, etc.) gladly accept and legalize on a global scale. These funds, mixed with other money, including of criminal origin (for example, from illegal weapons sales and illegal migration), are laundered through the international shadow markets, and then integrated into the legitimate world economy. Such funds are then often used for bribing government and law enforcement officials, lobbying on behalf of laws desired by the criminal community, and other illegal purposes.

Drug Legalization

Today, however, there is another problem, which tends to be misunderstood and underestimated. In a number of countries in Latin America that are facing the drug threat in the form of armed insurgencies and criminal armies funded by drug production, the idea of allowing the cultivation and sale of drugs under state control is gaining traction. The aim is firstly to preserve



Victor Ivanov, the director of the Federal Drug Control Service of the Russian Federation, used this map in a speech in Washington on Nov. 18, 2011.

the security and integrity of the state, and secondly, to redistribute the resources, thus depriving the criminal groups of sources of funding. The Golden Triangle countries in Southeast Asia have similar problems, when whole provinces are controlled not by the government, but de facto by the drug cartels. Unable to regain control over these provinces, governments are forced to propose such initiatives [as legalization] in order to save the state and prevent the collapse of the country. Even some countries with less of a problem of separatism, including separatism associated with drug money, support the idea of a state monopoly on drugs.

At the first stage, the idea is just the sale of such drugs to the local population. Then there is indirect evidence that the special services of such countries also promote the export of drugs and handle the illegal income, including its integration into the formal economy. I am deliberately avoiding specific examples, but there is information in the public domain, if you want to find it, about which countries have initiated, and in what form, not only the legalization of consumption, but also the cultivation and sale of drugs under state control. You can find out where such initiatives have been introduced in parliament and what happened with them. The main theme of official rhetoric in favor of these schemes is the idea of redistributing income from the sale of narcotics, away from the informal organizations and into state coffers. What form this may ultimately take is not yet clear.

Thus, we have a split in the world. In Europe the legalization of soft drugs was not aimed at deriving a profit at the state level. But the initiatives of several Latin American countries should at least be evaluated by the leading countries of the world community. I am not saying what that evaluation should be, but without a coordinated assessment of drug legalization and the possibility of governmental participation in this, it will be absolutely impossible either to prevent drug use or to suppress drug production and trafficking. This is a



U.S. Army/Spc. Jacob Warren

Afghan farmers harvest opium poppy in Kandahar province, April 2011. Opium is the region's primary source of income. The opium economy in the country has expanded 40-fold since the NATO deployment there.

global trend that demands evaluations and solutions. It may also require providing assistance to some governments to eliminate the drug cartels, which de facto control part of their territory.

As for Afghanistan and related regional issues, certain aspects can be elaborated. Undoubtedly, the Russian position, which requires the total destruction of the opium poppy plantings, is correct by definition. If there's no poppy, there won't be any production. I do not think anyone would argue with that. Other countries should not focus on criticizing the Russian position, but rather on looking for alternatives for the farmers who are now growing opium poppy in Afghanistan. And the most important thing is to ensure a market for the alternative crops and organize supply chains to bring such products to market.

It is my personal opinion that if we take this idea further, it would make sense to establish some kind of international institution or body under UN auspices, that could provide for the purchase of food grown by Afghan peasants and direct it to the regions of the world where there is hunger. This will not yield any profit, and would most likely be quite a loss-making project; but if we calculate how much we can save by eliminating the consequences of today's Afghan drug trafficking, the effect will be enormous, incomparably greater than its costs. And the savings, for example on health care in the

transit countries and those where Afghan opiates are consumed (with reduced trafficking, it would not be necessary to spend enormous amount of money on health care for drug addicts, as their numbers diminish) are another way free up funds, only in a slightly different form.

An international contingent, under UN auspices and with a UN mandate (rather than under the auspices of NATO alone), could destroy the local terrorist groups and protect the Afghan farmers, who could grow new crops instead of opium poppy. All this will, given the troop reductions, require additional resources that at this moment are not available. However, if you take into account China's obvious interest in this region, Chinese forces might be brought in under UN auspices to address this set of issues. I suspect that the official U.S. government reaction to this proposal would be sharply negative, as would the reaction of the part of the Afghan leadership that intends to continue receiving income from the drug trade, but I still think that, from a military standpoint, China could be especially helpful in solving the problem.

Alternative development policies for Afghanistan, an armed international presence under UN auspices, and demand-prevention in countries with drug transit and consumption, are, in my opinion, the most effective and viable options for eliminating the drug threat from Afghanistan, with all its implications. Consider once again that today, as noted above, we are witnessing a new trend of state-supported drug production in certain countries, and such initiatives are supported by these countries' neighbors. In the long term, in my view, the problems created by legalization and state support for drug production in Latin America and Southeast Asia will be significantly worse than the Afghan problem is today. To ignore this trend today would be a very big mistake.

Narcoterrorism

EIR: Jihadi terror operations, from Afghanistan through the Caucasus, Syria, northern Africa, and Mali, have been interfaced with, and financed from, criminal drug trafficking and other criminal operations. Could you elaborate on some of the documentation of this problem, often called "narcoterrorism"?



U.S. Marine Corps/Cpl. David Hernandez

U.S. Marines burn poppy plants in Afghanistan's Sangin Valley. The Russian position is that complete crop eradication is essential, along with international cooperation to help provide alternate means for Afghan farmers to make a living.

Sorokin: I would like to clarify one thing: Terrorism has no nationality or religion, and the concept of *jihād*—meaning effort or zeal—has nothing to do with terrorism. Some media push the view that terrorism, and belonging to a particular religion, should be equated. This is totally unacceptable.

As for narcoterrorism and the specific features of the region, I want to draw attention to the experience of Iran, which employs the most effective anti-drug-trafficking measures along its borders. Yet Iran is unfairly isolated, ultimately for purely political reasons. Nonetheless, cooperation with Iran against drugs is very, very urgent. Iran has the highest relative interdiction rate for smuggled drugs. It is very unfortunate that a number of nations are pursuing a policy of isolating Iran and of religious intolerance, rather than firmly involving Iran in joint projects to combat drug trafficking. Iran has unique experience and extensive historical and cultural ties with the countries in the region and categorically rejects the drug trade, and would therefore be a most promising ally for all countries interested in solving the problems of drug trafficking from Afghanistan. The active involvement of Iran in suppressing Af-

ghanistan's opiates should become one of the main issues on the agenda.

As already mentioned, in a number of countries in Latin America and Southeast Asia, some provinces are actually not under government control. The cartels that actually control them use drug money to equip rebel armies and carry out terror attacks. In Afghanistan, the presence of the ISAF contingent has not yet allowed such a scenario there. But we should remember what happened after the Soviet forces withdrew. The end of fuel and lubricant supplies made it essentially impossible for the Afghan National Army to function—primarily its aircraft and armored vehicles. The opposing forces quickly destroyed the delicate balance of power in the region and plunged Afghanistan into the chaos of civil war. Then they themselves were pushed out to the periphery by the Taliban, in both a literal and figurative sense. Thus, narcoterrorism and the financing of opponents of the government by drug money is a real threat, and not just in Afghanistan.

I would like to note that the concept of narcoterrorism should also be seen as a legal category. This issue is given significant attention by all post-Soviet states within regional FATF-style groups. The **Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)** is a FATF-style regional body. In particular, “financing of terrorism” has been criminalized under Russian laws, which, due to the similarity of the legal systems in the post-Soviet countries, serve as a benchmark for many of the others. According to Article 205.1 of the Criminal Code of the Russian Federation, “Promotion of Terrorist Activity,” the financing of terrorism is defined as the provision or collection of funds or the provision of financial services with the knowledge that they are intended to finance the organization, preparation, or commission of at least one of the offenses covered under several other articles of the Criminal Code. Those articles include:

- Terrorism (Article 205)
- Promotion of terrorist activity (205.1)
- Public appeals to commit terrorist acts or public justification of terrorism (205.2)
- Taking of hostages (206)
- Organization of or participation in an illegal armed formation (208)
- Theft or hijacking of aircraft, ships, or railway rolling stock (211)
- Illegal handling of nuclear materials or radioactive substances (220)

- Theft of nuclear materials or radioactive substances, or obtaining them by extortion (221)
- Attempt on the life of a government official or public figure (277)
- Forcible seizure of power or forcible retention of power (278)
- Armed rebellion (279)
- Attacks on internationally protected persons or institutions (360).

This includes support for an organized group, illegal armed group, or criminal association (criminal organization) established or being established for the commission of at least one of these offenses. Similar articles, with some specific variations, have been adopted in the laws of other post-Soviet countries.

In drawing the link between narcoterrorism and the funding of terrorist organizations, the following specifics should be noted. Terrorist activity as such, in the initial stage when terrorist groups are preparing their attacks, is not generally done openly or publicly (especially if it is not geographically isolated to a region controlled by the groups). Claims of responsibility for acts of terrorism, issued after they have been committed, are an exception. The connection to drug money has to be detected primarily through intelligence work by special services. Sometimes it comes to light in another way, when the terrorists' ties are identified during the investigation of a terrorist attack after it has happened. And the key point here is that such organizations often operate with cash, and less frequently with prepaid cards and other payment instruments. They tend to use illegal money transfer networks (*hawala*).

Drug trafficking belongs to the “shadow” sector at all levels, from mass production and marketing to the end user. It goes on in deep secrecy. For example, in the leading Western countries, technologies are used for selling drugs to the end user, in which there is no direct contact with him (after he transfers money to an e-wallet or cell phone, he is given the location of the hiding place where he can pick up the narcotics). All the facts discovered in such cases are part of criminal cases and usually cannot be made public until the trial. Therefore it is not currently possible to state specific numbers. But it is indisputable, first of all, that Afghan opiates require armed support, which can be provided by terrorist organizations based in Afghanistan and neighboring countries, and secondly, that Afghan opiates are a source of cash and non-cash money.

There is no question that terrorist groups receive

funds from the Afghan drug trade. And the experience of other countries, in Latin America and Southeast Asia, shows the need, first, to deprive terrorist groups of their operational foothold, so that they don't have territory of their own, and, second, to completely destroy drug production as a source of cash. After all, one of narcoterrorism's goals is to destroy the institutions of a law-based state, and thus it poses a real threat. And it is transnational in nature, and global in its scale.

Money Laundering and the Banking System

EIR: In the course of the 2007-08 financial crisis, the trans-atlantic banking system froze up, as the London Interbank market, used for highly leveraged speculative trading, shut down. Numerous experts on organized crime and drug trafficking have charged that massive sums of illegal cash were brought into the banking system to replace the London Interbank liquidity.

Antonio Maria Costa, the former head of the United Nations Office on Drugs and Crime (UNODC) in Vienna; FDCS Director Victor Ivanov, and Yuri Chikhanchin, the head of Russia's Federal Financial Monitoring Service, have all made comments to this effect.

In light of your area of responsibility, how much of a problem is the criminal cash laundered in the *Western* banking system for your own work on countering money laundering in Russia and the areas of the **Eurasian Group (EAG)**—Russia, the Central Asian nations, India, China) that your country works with?

Sorokin: In answering this question, I want to emphasize a fundamental point. Assessing the involvement of foreign countries and their financial and non-financial institutions in money laundering is, above all, a job for the professionally competent authorities of the country in question, working together—the financial intelligence, police, security services, and regulatory authorities—as part of national risk assessment. The priority tasks of the Financial Intelligence Units, as defined in their regulations, do not include the systematic receipt or active collection of intelligence on the extent of the involvement of specific banking and non-banking institutions and foreign entities in laundering the proceeds, in the way that classic intelligence services in many countries do this.

But at the same time, one of the tasks of Russian financial intelligence, in accordance with Russian Federation Presidential Decree #808, "Issues of the Federal

Service for Financial Monitoring," dated June 13, 2012, and the "Regulation on the Federal Service for Financial Monitoring," is to function "as a national center for analyzing threats to national security arising from laundering the proceeds of crime, financial support for terrorism, and the proliferation of weapons of mass destruction (WMD), and for developing measures to counter these threats." Among the functions of the Federal Service for Financial Monitoring, according to the aforementioned decree, are to analyze national security threats posed by laundering of the proceeds of crime and financial support for terrorism, as well as to report annually to the President of the Russian Federation on such threats and measures to neutralize them.

The Financial Intelligence Units exchange information among themselves, on request, with regards to specific cases, as well as conducting joint typological research,¹ including in the framework of regional FATF and FATF-style groups.

Given limited public and private sector resources, however, the latest FATF recommendations (from February 2012) place great importance on analyzing the risks of money laundering and the financing of terrorism, and on implementing a risk-based approach. Now coming to the fore is the role of financial institutions that can assess, based on geography or customer profile, the degree of risk that a particular structure may be involved in money laundering or in financing terrorism and/or WMD proliferation, and inform the authorities. It is important to understand that the FIUs cannot monitor every single transaction. Most countries therefore use a threshold approach, as recommended by the FATF, meaning *mandatory* reporting to the FIUs by a private sector institution (such as a bank) when certain limits are exceeded. These financial institutions can also proactively report about *suspicious* transactions; this is one of the key basic elements of the timely detection of illicit financial flows. Thus, the existing FATF mechanism (mutual evaluation), which, according to the new methodology, is focused not only on formal compliance with FATF's 40 Recommendations, but also on such things as efficiency, will make it possible to answer this question more accurately over time.

But at the same time, the main problem related to Afghan opiates, in my personal opinion, is the transport of, first, large quantities of cash and marketable instru-

1. Typology is a way of describing groups of respondents displaying different clusters of behaviors, attitudes, or views of the world—ed.

ments (jewelry, precious stones, and precious metals) along dual-purpose drug-trafficking routes; and second, the problem of consolidation and legalization of the proceeds from the sale of opiates from Afghanistan into the economies of a number of countries, especially those of the Persian Gulf.

If we consider the problem of the Russian banking system and compare it to that of other countries, we can see that in recent years the former has undergone far-reaching, positive changes. The special anti-money-laundering operations systematically conducted by the Russian police also have a significant effect.

As for the Western countries—this is my purely subjective view—there is not yet any sign of adequate efforts. Remember the scandals around money-laundering services for the Mexican drug cartels, provided by a respectable financial institution (for reasons of correctness I won't name it),² which was heavily fined by U.S. regulators. Russia has never experienced this kind of large-scale incident involving drugs, not even in our worst years.

Therefore, from this point of view, I can say that Russia's financial system in this respect, is more successful than its Western counterpart.

As for India and China, they are quite closely integrated with the economies of the West, but they have their own specifics. China has a strong state sector. And although it is not without its own particular features, China also looks successful compared with Western banks. India also has very unique characteristics, but given the large population and widespread poverty, it seems to me that the main problem in their banking system is making financial services accessible to the greatest possible number of people. And to involve Indian banks in drug trafficking (through legalization of drug money) today would be inadvisable. The same goes for China.

The target destinations of laundered funds are the developed economies of the West. That's where bank accounts are opened and assets are acquired. Developing sector banking systems are not usually preferred asset destinations, but in some cases they serve as sources of funds and as transit countries. The countries of the West, which actually some years ago realized the

2. *EIR* has published extensive coverage on the notorious case of HSBC, the historical Hongkong and Shanghai Bank Corporation of Britain's Dope. Inc., which was caught laundering money for the Sinaloa drug cartel using dummy accounts, fake Federal Tax I.D. numbers, and other ruses—ed.

problem and created the FATF, are worse off in this regard.

For a more accurate comparison of countries and sub-regional groups by the degree of involvement of their financial sectors and institutions in the legalizing/laundering of proceeds, I suggest waiting for the results of the mutual assessments being done under the FATF and regional FATF-style groups. Then there will be some documentary evidence.

Methods of Investigation

EIR: At the October 2012 annual press conference in Wiesbaden, Germany of the Bundeskriminalamt (BKA), presenting their Financial Intelligence Unit Annual Report, the head of the FIU, Dr. Michael Dewald, stated, "There is no indication that due to the financial crisis, the criminal money that was transferred between states or from within them, and invested in states, in fact increased disproportionately and/or led to dramatic shifts." Dr. Dewald said he based this assertion on an investigation by the Operational Working Group on the Financial Crisis, conducted by the OECD's Financial Action Task Force.

Is there really unanimity within the FATF community on this issue?

Sorokin: Regarding the financial crisis and money transfers, the first thing that comes to mind is the recent example of Cyprus, where a number of Western banking institutions, through branches of Cypriot banks located outside Cyprus (in London, for example), withdrew a substantial amount of funds, including in the form of cash, to avoid having their bank accounts frozen and paying the proposed confiscatory tax. I cannot comment about there being any common position on the part of certain countries or groups of countries, because there will always be different views of any question, depending on the interests of the parties. But every crisis, as we know, implies the redistribution of both legal and illegal cash flows, as well as of the preferred routes for these transfers. This is the classical economic theory of "capital flight" from unprofitable and risky sectors or national jurisdictions, as capital "looks for" new territories or a "safe haven." The fact that a specific working group has not discovered certain things doesn't mean they don't exist.

Politics: A Double Standard

And then there is the political factor, which financial intelligence is unable to influence. Sometimes, corrupt

officials may gain political asylum in other countries, despite the fact that their activities have little to do with politics, but fall exclusively under criminal law. A number of foreign countries respond rather coolly, to put it mildly, to Russian requests for assistance or extradition. It would be advisable to consider at least some form of remote prosecution of such persons, and the establishment of special working groups, composed of representatives of the country in question and Russia, to consider the issue of repatriation to Russia, after an open public trial about assets illegally exported overseas. If the foreign court, based on the work done by the joint investigative team, finds a person guilty, he could serve his sentence in the host country.

The main thing for financial intelligence, in my opinion, is the identification and repatriation of assets to Russia. Unfortunately, some countries profess the principle of non-cooperation. It's a double standard. Consider the case files, carry out the investigation jointly with Russian colleagues, identify and confiscate the illegally exported assets, and assist in their repatriation to Russia. But if a particular person is, well, very much appreciated, and you give him political asylum, and that person is fond of, say, Foggy Albion, then let him serve his sentence there. But in fact, given the trend in Russian law toward humane practices and amnesties, such persons might even be exempt from punishment at home under Russian law, if they made a deal with the prosecutors and returned their illegally exported assets. This defines a wide area for further cooperation and work.

But the key point, in my opinion, should be cooperation on identifying, freezing, seizing, and repatriating assets. In this case, extradition (FATF Recommendation No. 39) may essentially no longer be such an important part of the process (in cases of money laundering alone). As for terrorism, extradition should be mandatory. There are other specific areas related to the effectiveness of Financial Intelligence Units, but these are highly specialized, and need not be included



From Victor Ivanov's November 2011 presentation.

in the context of your question.

I also want to mention that the financial intelligence and drug enforcement agencies of any country usually stay out of politics or are only minimally politicized, because they have a common cause and shared goals. Financial intelligence organizations are the most professional and least politicized.

'Too Big To Fail'

EIR: In 2012, the U.S. Senate Permanent Subcommittee on Investigations released a 335-page Case History report on the London-headquartered HSBC bank and its role in massive money laundering, in particular for the Mexican cocaine cartels. In December 2012, the U.S. Department of Justice refused to prosecute HSBC, and instead entered into a Deferred Prosecution Agreement (DPA) and imposed a fine, which amounted to a small percent of the profits generated by HSBC's criminal money laundering. Attorney General Eric Holder and then-Criminal Division head Lanny Breuer explicitly defended the lack of prosecution, saying they didn't want to provoke a crisis in the financial system. Many, including among law enforcement and regulators, have criticized this "Too Big To Jail" protection of the "Too Big To Fail" London and Wall Street megabanks.

As less than 1% of the criminal money laundered through the financial system is ever discovered and

seized, including the tens of billions of dollars documented in the U.S. Senate HSBC report, what do you think needs to change to address this “Too Big To Jail” problem?

Sorokin: As we know, a number of transnational corporations operate across multiple national jurisdictions, exploiting loopholes in the laws of their own countries and other jurisdictions. Over the years, this has allowed large multinationals to “optimize” taxation. And the banking institutions that service these corporations and assist them in making money transfers, ought at least to realize that these operations are not entirely legal. But the first step determines all subsequent ones, up to and including the willingness to work with “dirty money.” In turn, the sources of the dirty money have a certain amount of political influence and can assist their banking partners. If necessary, they may even lobby successfully for financial bail-outs of failing banks, as well as help in settling various problems with oversight agencies. In my view, such systemically important banks should be held accountable, either by fully nationalizing them and replacing their management, or through prosecuting them, along with individual prosecution of their former senior management, with the preferable penalty being liquidation of the legal entity.

Although under the legal systems of Russia and a number of other post-Soviet countries, legal entities may not be held criminally liable (in these legal systems, the concept of “guilt” applies only to a natural person), in most Western countries such liability is quite possible.

But this is not what happens. Why? The answer lies in the double standards systemically applied in Western societies, where, depending on the current political or economic state of affairs, one and the same event can be interpreted in diametrically opposite ways. And when the governments of several Western countries violate the sovereignty of other countries, carrying out armed interventions and overthrowing legitimate governments, confiscation of the target countries’ assets in Western banks is done with the involvement of only a small circle of insiders among major bank CEOs. And these institutions may in turn demand preferential treatment and support from the government on different issues.

If banks such as these have problems, they can always ask the government, “So, are you any better than we are? What right do you have to judge us, when

you use our services to finance regime change in other countries, and—with our assistance—you take the bank accounts of foreign leaders out of their names and hand them over, without any legal grounds, to a terrorist group you have hired (which you call ‘the opposition’) or simply confiscate the funds? And all we do is transfer money, say from the sale of drugs, and that money remains in the country and creates legitimate jobs and helps the economy; unlike you, we do not kill anyone, sending in our soldiers under cover or hiring private military companies.” This kind of rhetoric makes the government hesitate to act, and thus it impedes effective intervention or prevention of such situations. Again, we can see here the clear priority of political considerations over economic ones.

In my view, when we encounter “soft” or “inadequate” government measures with regard to any institution, we need to look for the government’s informal or shadow connections with that institution. Such ties may be so strong that that they are more important than fighting money laundering or the financing of terrorism. In that case, I would say that the financial institutions are promoting the export of state terrorism in exchange for being let off the hook, plus receiving some financial support in times of crisis. As the saying goes, “You scratch my back. . .”

I would just like to note that this doesn’t happen in Russia, where banks bear severe liability for the slightest violation of the law. You can criticize Russia as much as you like for the harshness of some of its measures—which, by the way, will now be adjusted to reflect the views of the banking community, based on the risk-based approach recommended by the FATF—but I do not remember a case in which a systemically important bank in Russia acted as a laundry for Third World drug cartels, with the government pumping money into it to prevent it from going bankrupt. But in advanced Western society such things occur.

Glass-Steagall

EIR: Several bills are now before the United States Senate and House of Representatives on reinstating Franklin Delano Roosevelt’s 1933 Glass-Steagall law. Congress is reacting to massive sentiment in the U.S. population against the Too Big to Fail, Too Big to Jail megabanks. By enacting Glass-Steagall, the bankrupt toxic assets in the investment banking divisions, as well as the commercial banking divisions, would come under direct government scrutiny. This could help iden-

tify criminal assets laundered and built up in the financial system.

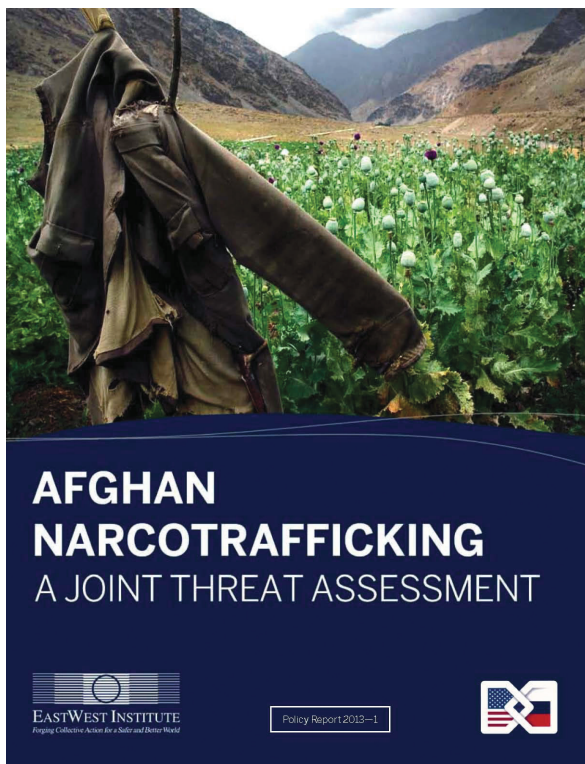
In your professional opinion, would Glass-Steagall assist you, and your U.S. and European counterparts, in identifying the trillions of criminal proceeds that have been laundered and legalized by the financial system?

Sorokin: The United States has recently adopted many ambiguous laws, to put it mildly, which go beyond generally accepted notions of national sovereignty: for example, the odious Foreign Account Tax Compliance Act (FATCA), which directly affects the sovereignty of third countries and economic entities based in those countries. In a number of cases it is not quite clear how the proposed initiative would work without violating the norms of national and international law and existing practice. And within a country, it is not possible to sort out U.S. laws. This is unfortunate.

As for the restoration of the Glass-Steagall Act, I don't think it has any direct relation to money laundering. It focuses on the stability of the financial system. Of course, any legislative changes will alter existing schemes of money laundering, and they will be taken into account in working out new schemes for tax evasion, capital flight, and other purposes. They will also be considered by the Financial Intelligence Units in planning their activities. But this law does not have any direct relationship to AML/CFT [Anti-Money Laundering and Counter-Terrorism Financing] issues.

The Potential for U.S.-Russian Cooperation

EIR: In April 2013, a joint U.S.-Russia Working Group issued the report, "Afghan Narcotrafficking—A Joint Threat Assessment." You were a contributor to the report. Could you elaborate for our readers its importance? Do you think, in light of the U.S. military presence in Afghanistan and the coming withdrawal, that it



Sorokin commented that this joint Russian-American project had the advantage that "the group consists just of experts, and not politicians and bureaucrats who are subject to various restrictions and political pressure."

is now time for the United States and Russia to come out with a "Strategic Policy To Combat the Narcotrafficking Cartels," including the cartels' allies in the financial system? The U.S. military commands, such as SOUTHCOM and EUCOM (Stuttgart), have military assets and intelligence capabilities that track narcotrafficking entities. How might U.S. intelligence and military capabilities, in the context of the Afghan withdrawal, be used in cooperation with Russia to deal with the financial clusters that have promoted narcotrafficking and terrorism for decades?

Sorokin: Yes, the Russian curators of the project invited me as an independent expert. This was an East-West Institute project, fi-

nanced by the Carnegie Corporation of New York. The purpose of the project is to assess current and future threats in light of the reduction of the number of international troops in Afghanistan. Great assistance to the group's work has been provided by government and diplomatic agencies in both countries, those engaged in fighting drugs. The main focus of the project is drug trafficking and related problems. My areas of specialization within the project are not only money laundering and the financing of terrorism, but also economics (customs policy and alternative development strategies for Afghanistan), and military and political issues (the balance of power and political interests in the region and the involvement of regional groups in Eurasia).

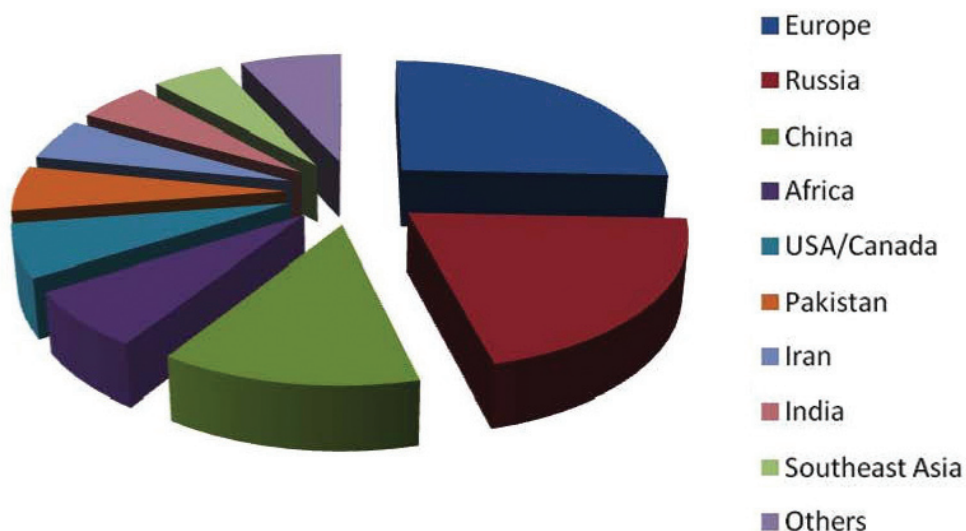
The coordination of positions with our American colleagues is a very interesting process. Each side has a certain consistent position, which is often at odds with that of the other party. And often that position is formed on the basis of the assessments of individual experts, who may also differ among themselves. So finding an approach acceptable to both parties is really quite interesting, especially considering that the group consists

just of experts, and not politicians and bureaucrats who are subject to various restrictions and political pressure. This is an advantage of the project. I think it is important that experts, independent of their governments, are dealing with these issues and can make a contribution. For example, the Ivanov-Kerlikowske group³ addresses a certain set of tasks, and the work of our group can significantly supplement that project and bear fruit through political decisions made in our two countries.

Here is just one example of our group's work. A NATO official who was invited to Brussels to meet with our group stated clearly and unequivocally that the withdrawal of troops after 2014 just means a reduction in numbers. When asked whether there was a plan to bolster the numbers of Afghan army and security forces, he clearly said—No! And how should this gap be closed? During the discussion, various options were proposed, such as the active involvement of China under UN auspices (it has armed forces and wants to gain a foothold in the region); the return of Russian border guards to the Tajikistan-Afghanistan border; as well as the active engagement of Iran, which is fighting drug trafficking virtually alone in its area. It would have been almost impossible for Russian and American officials to sit in the same room and seriously discuss these three factors, considering the political circumstances—not to mention to deliberate on alternative development policies for Afghanistan and finding markets for Afghan agricultural products other than opium poppy. But our group was able to do that. And we also

3. The Counternarcotics Working Group of the U.S.-Russia Bilateral Presidential Commission (established 2009) is headed by Gil Kerlikowske and Victor P. Ivanov, respectively the directors of the U.S. Office of Drug Control Policy and Russia's Federal Drug Control Service. The group coordinates U.S.-Russian cooperation in three areas: Drug Treatment and Prevention, Supply Reduction, and Financial Intelligence—ed.

FIGURE 1
Global Heroin Consumption, 2008



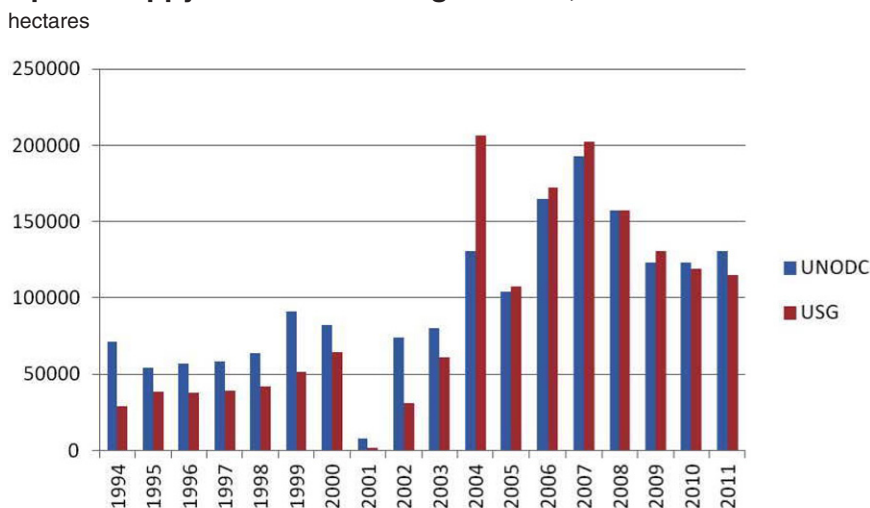
Afghanistan Narcotrafficking: A Joint Threat Assessment, April 2013

had the opportunity to discuss it with invited representatives of NATO, the diplomatic corps, and law enforcement agencies. A free exchange of views in order to arrive at the best, most balanced solutions is one of the features of our group. And I would also like to take this opportunity to thank the Carnegie Corporation, the East-West Institute, and all of my colleagues in the group for the opportunity to participate. This is a truly unique project.

In addition to the published report, containing an assessment of threats, the findings of the project will be submitted as recommendations on a political level for interested countries, notably the United States and Russia. This work is underway at the present time.

I would like to note that integration tendencies now can be observed again among the countries of the former Soviet Union, things like economic integration in the EurAsEC [Eurasian Economic Community] Customs Union. In addition to Russia, Kazakhstan, and Belarus, other states on the so-called “North Route” of Afghan heroin shipments plan to join this group. A customs union implies the removal of internal barriers, and in fact this will mean an end to customs inspections at the internal borders of the Customs Union. This means that the transfer of drugs, cash, and migration flows will need to be identified at the external borders of the Customs Union. It is also necessary to focus on the source: Afghanistan itself. In these circumstances, measures to

FIGURE 2
Opium Poppy Cultivation in Afghanistan, 1994-2011



Afghanistan Narcotraficking: A Joint Threat Assessment, April 2013

strengthen the external borders of the Customs Union and its possible new members, especially the Tajik-Afghan border, become a high priority. Operational and combat activities in Afghanistan to identify drug crops, drug laboratories, warehouses, and shipment routes, and to destroy this infrastructure, rise in importance by an order of magnitude.

Both SOUTHCOM and EUCOM, along with Russia, should be actively involved in upgrading operations in Afghanistan against drug crops, drug labs, warehouses, and shipment routes. These measures are the only way to reduce the threat from Afghan heroin, but they do not solve the problem. Once again, it must be stressed that partnership, under UN auspices, with the countries of the region, especially Iran, Pakistan, and China, should be in focus on the agenda.

Eliminate the ‘Financial Infrastructure’ of Drug Trafficking

Of even greater importance, however, are the identification and elimination of the financial infrastructure of drug trafficking. Cash from Afghan drug trafficking does not entirely return to Afghanistan, but is made legitimate through international money-laundering facilities and then integrated into the economies of leading countries. The focus here should be on the Persian Gulf states, the USA, and the EU. That is where we need joint efforts to look for assets related to Afghan drug trafficking.

In my personal opinion, if law enforcement agen-

cies focus on intercepting consignments of drugs, and military and political leaders eventually agree on replacing Afghan opiates with other crops and destroying drug production infrastructure, there will still be one area not covered, and that is the financial component of the drug business.

It’s not only a question of current operations. The agenda should include identification of assets from earlier periods, at least since the Soviet withdrawal from Afghanistan [1988-89]. During this period, a great number of financial transactions have been made to legalize the proceeds of drug sales. Some of these funds were spent on the purchase of weapons, in-

cluding in Western countries, starting with the armed conflict after the collapse of pro-Soviet Afghanistan. After the Taliban takeover, the financial flows from Afghan opiates changed their “architecture.” The same thing happened when the international contingent entered and the Taliban lost their positions. I believe that all of these events and the financial flows associated with them should be a constant focus of the Financial Intelligence Units of law enforcement agencies all over the world, taking into account that in many countries the FIUs were created relatively recently, about 10 years ago. In parallel, work must also be done on current operations. It is especially urgent to gain practice and collaborate on identifying, freezing, and confiscating criminal assets, as well as repatriating them. And this work should be highly prioritized throughout the world.

In conclusion, I would like to point out that Russia’s efforts have been recognized by the international community, and in July of this year Russia assumed leadership of the FATF. This gives us hope that the problem of Afghan drug trafficking and related financial flows will be reflected in the activities of all countries, and that making the financial infrastructure of drug trafficking a target of our law enforcement agencies will make it possible, forgetting about our political disputes, to strike a crushing blow against this international evil.

—Translated from Russian by Henry Söderström