

INTERVIEW: KONSTANTIN SOROKIN

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

*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 narcotraffickers 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 Narcotrafficking presented a report on how the Russian and U.S. governments could cooperate to eliminate this ongoing threat: [Afghan Narcotrafficking: 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 (FDCS)**, have appealed for this threat to be jointly attacked, most recently at the June 2013 International Drug Enforcement Conference in Moscow hosted by the FDCS and the U.S. **Drug Enforcement Administration (DEA)**. Russia will now be heading the **OECD’s Financial Action Task Force (FATF)** in Paris.*



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*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.*

*We publish here excerpts from the interview, which is available in full at [www.larouchepub.com/pr/2013/130906\\_full\\_sorokin\\_intvw.pdf](http://www.larouchepub.com/pr/2013/130906_full_sorokin_intvw.pdf)*

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**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



*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.*

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 component. 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, 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 the security and integrity of the state, and secondly, to redistribute the resources, thus depriving the criminal groups of sources of funding.... 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....

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



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.*

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"?

**Sorokin:** I would like to clarify one thing: Terrorism has no nationality or religion, and the concept of *jihad*—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 Afghanistan's opiates should become one of the main issues on the agenda...

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...

In light of your area of responsibility, how much of

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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. . . .

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),<sup>1</sup> 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. . . .

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,

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1. *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.

which actually some years ago realized the problem and created the FATF, are worse off in this regard. . . .

## 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." . . .

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....

### '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



*From Victor Ivanov's November 2011 presentation.*

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....

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 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..."

### **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. . . .

**Sorokin:** Yes, the Russian curators of the project invited me as an independent expert. This was an East-West Institute project, financed 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 group<sup>2</sup> 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

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2. 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.

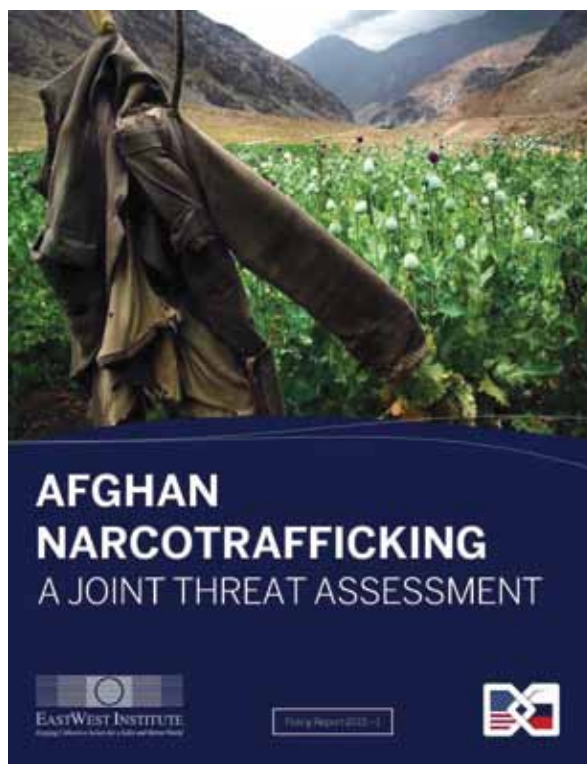
been almost impossible for Russian and American officials to sit in the same room and seriously discuss these three factors, considering the political circumstances—not to mention to deliberate on alternative development policies for Afghanistan and finding markets for Afghan agricultural products other than opium poppy. But our group was able to do that. ...

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 agencies 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.



*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.”*

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, including 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 fi-

nancial 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