



2014 International Narcotics Control Strategy Report (INCSR)

Bureau of International Narcotics and Law Enforcement Affairs

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Argentina

Volume I: Drugs & Chemical Control

I. Summary

Argentina

Argentina is a transit country for Andean-produced cocaine, and domestic cocaine production and consumption are small but growing problems. Marijuana is Argentina's most-used illegal drug, but cocaine is the leading illegal drug for which Argentines seek help at treatment centers, with cocaine base ("paco") a particular problem among the poor. Many Argentines believe drug-linked violent crime is increasing. Argentina's Ministry of Security (MOS) resumed limited cooperation with the United States in 2012, ending the hiatus following Argentina's 2011 confiscation of sensitive U.S. military cargo, and included information sharing and offers of trainings and seminars. The United States did not receive authorization to cooperate with provincial Argentine security forces.

The MOS continued to implement reforms designed to improve police performance in 2013. However, additional coordination among federal and provincial forces is needed. Argentina also continued to dedicate resources to Operation Northern Shield, which aims to deter illicit flights and drug trafficking, but has had only modest effect. Redeployment of police away from the northern border likely reduced barriers to traffickers. Judicial backlogs continue to complicate prosecutions.

Most cocaine transiting Argentina goes to Europe. Seizures of cocaine production facilities and widespread availability of "paco" suggest that domestic processing is growing, though it remains small. Argentina has not released annual cocaine seizure statistics since 2010. Incomplete data suggest seizures in 2013 surpassed totals for 2011 and 2012.

Argentine officials estimate annual prevalence of cocaine use at 0.9 percent of the population. Concern is growing about rising use of synthetic drugs and "paco" by Argentine youth. In December 2012, Argentina published an updated national strategy to treat drug addiction.

The Argentine government neither encourages nor facilitates illicit production or distribution of narcotics or laundering of proceeds. An independent judiciary and press pursue allegations of corrupt practices involving government authorities. During 2013, Argentine officials accused several members of the security forces of involvement in trafficking.

While Argentina worked to improve its drug control effort in 2013, implementation of operational reforms was gradual. More resources and improved capabilities will be required to adequately address the challenge. Constructive steps

that Argentina could undertake include focusing its interdiction efforts on targeted investigations; enhancing cooperation with international partners; complementing radar deployments in the north with equipment and personnel to impede trafficking; improving coordination among federal and provincial entities; and boosting judicial efficiency in processing investigations and prosecutions.

Volume II: Money Laundering and Financial Crimes

Countries/Jurisdictions of Primary Concern

Argentina

Argentine and international observers express concern that money laundering related to narcotics trafficking, corruption, contraband, and tax evasion occurs throughout the financial system. Observers also believe most money laundering operations in Argentina are conducted through transactions involving specific offshore centers. The most common money laundering operations in the non-financial sector involve transactions made through attorneys, accountants, corporate structures, and the real estate sector. The widespread use of cash (including U.S. dollars) in the economy also leaves Argentina vulnerable to money laundering. Tax evasion is the predicate crime in the majority of money laundering investigations.

Argentina has a long history of capital flight and tax evasion. Traditionally, Argentina is an economy with strong links to U.S. currency. Many Argentines prefer to hold their savings in U.S. dollars and/or dollar-denominated assets as a hedge against inflation and peso devaluation that commonly occur in the Argentine economy. Government restrictions on access to foreign exchange create a thriving black market for U.S. currency, with an unofficial exchange valuing the dollar more than 50 percent higher than the official government rate. Argentines hold billions of U.S. dollars outside the formal financial system, both offshore and in country, much of it legitimately earned money that was not taxed. Estimates of the size of the informal economy vary from 25 to 40 percent, though it is clear that a very significant amount of economic activity is taking place outside of government supervision. The general vulnerabilities in the system expose Argentina to a risk of terrorism financing.

Argentina is a source country for precursor chemicals and a transit country for cocaine produced in Bolivia, Peru, and Colombia, and for marijuana produced in Paraguay. While most of the cocaine transiting Argentina is bound for the European market, virtually all of the marijuana is for domestic or regional consumption; there was an increase in domestic drug consumption and production. Argentine officials also identify smuggling, corruption, and different types of fraud as major sources of illegal proceeds. The unofficial peso-dollar exchange market provides significant illicit revenue and opportunities for arbitrage. Informal value transfers occur when unregistered importers, for example, use entities that move U.S. currency in bulk to neighboring countries where it is deposited and wired to U.S. accounts or to offshore destinations. Products from the United States are often smuggled into Argentina, or the shipping manifests are changed to disguise the importer and merchandise. U.S. law enforcement agencies consider the tri-border area (Argentina, Paraguay, and Brazil) to be a major source of smuggling, especially of pirated products. For additional information focusing on terrorist financing, please refer to the Department of State's Country Reports on Terrorism, which can be found at: <http://www.state.gov/j/ct/rls/crt/>

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

“All serious crimes” approach or “list” approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

KYC covered entities: Banks, financial companies, credit unions, trusts, tax authority, customs, currency exchange houses, casinos, athletic societies, securities dealers, insurance companies, accountants, notaries public, dealers in art and antiques, jewelers, real estate registries, real estate agents, money remitters, charitable organizations, auto and boat dealers, and postal services

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 35,705 in 2012

Number of CTRs received and time frame: Not available

STR covered entities: Banks, financial companies, credit unions, trusts, tax authority, customs, currency exchange houses, casinos, athletic societies, securities dealers, insurance companies, accountants, notaries public, dealers in art and antiques, jewelers, real estate registries, real estate agents, money remitters, charitable organizations, auto and boat dealers, and postal services

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 20: January – September 2013

Convictions: 0: January – September 2013

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: YES Other mechanism: YES

With other governments/jurisdictions: YES

Argentina is a member of the FATF and the Financial Action Task Force against Money Laundering in South America (GAFISUD), a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/dataoecd/3/60/46695047.pdf>

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2011, Argentina passed Law 26.734, which criminalizes the financing of terrorist organizations, individuals, and acts, and increases monetary fines and prison sentences for crimes linked to terrorism financing. The Government of Argentina’s implementation of Law 26.734 remains mixed. To date, most applications of this law were targeted at individuals wanted for actions that took place during Argentina’s military dictatorship. In one case breaking with this pattern, in March 2013 the FIU reacted to reports that an individual under indictment was wanted for international terrorism-related crimes and exercised its power to freeze assets. To date, the FIU has not frozen terrorist assets based on intelligence it developed through its own investigations.

Argentina established a new prosecutorial unit to address money laundering and other financial crimes. A chief prosecutor oversees specially appointed ad hoc prosecutors focused on six operating areas: money laundering and terrorism financing; economic and bank fraud; capital markets; tax fraud and smuggling; insolvency and bankruptcy; and government related crimes. This prosecutorial unit signed a memorandum of understanding with the FIU promising closer cooperation and better information sharing. Opposition lawmakers noted the ad hoc method of appointing prosecutors makes them more likely to be politically dependent on the executive branch. Commentators have raised concerns about the prosecutorial independence of this new organization.

In an attempt to attract U.S. dollars held by nationals, Argentina instituted a voluntary tax compliance program that allowed undeclared U.S. dollars to be exchanged for certificates of deposits or bonds. The certificates of deposits

were designed to be used in real estate transactions and could be redeemed for U.S. dollars after they were used in a commercial transaction. The bonds were designed to channel money into energy and infrastructure projects. Originally scheduled to run from June to September, the program was extended to the end of 2013, after attracting minimal interest from Argentine taxpayers.

Argentina continues to make substantial progress on its action plan to address AML/CFT deficiencies. Changes to the AML/CFT regime raise public awareness of AML efforts and improve the financial sector's approach to customer due diligence. While Argentina made progress, its assessment of suspicious transaction reports (STRs) has not shown the progress that many experts expected. The number of STRs the FIU receives increased dramatically over the past few years, but analysis of these reports and conversion to actionable intelligence continues to lag. Technical deficiencies and challenges still remain in closing legal and regulatory loopholes. Most of the challenges Argentina now faces are in implementing laws and regulations in a proper, non-politicized manner. Going forward, the government should continue to address the implementation of these laws to demonstrate the effectiveness of its AML/CFT infrastructure. Argentina also should take steps to foster the principals of transparency and good governance; criminalize tipping off; foster a culture of AML/CFT compliance; combat corruption; insure the court system is efficient; and, build high ethical standards for police officers, prosecutors and judges, as well as professionals such as lawyers, accountants, and auditors.