



2015 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; however, domestic cocaine processing and consumption are moderate but growing problems. Marijuana is Argentina's most-used illegal drug, and 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. U.S. cooperation with Argentina's Ministry of Security has largely consisted of information sharing and offers of trainings and seminars.

The Security Ministry's counternarcotics mandate grew in 2014 with the establishment of a sub-secretariat dedicated to analysis and coordination. The Ministry managed a large deployment of federal police forces to the city of Rosario and a re-deployment of gendarmes along the northern border. Argentina continued to dedicate resources to Operation Northern Shield, which aims to deter illicit flights and drug trafficking, but has had only modest effect. Judicial case backlogs and vacant judgeships continue to complicate prosecutions, and prisons are overcrowded. There was progress in federal-provincial cooperation, but additional collaboration would be beneficial.

Most cocaine transiting Argentina goes to Europe. Seizures of cocaine production facilities and the widespread availability of "paco" suggest domestic processing is growing, though it remains small. While Argentina has not published annual seizure statistics since 2010, partial data indicates cocaine and marijuana seizures increased in 2014, likely due to an increased operational tempo by federal forces.

Argentine officials estimate the annual prevalence of cocaine use at 0.9 percent of the population, using the most recent official numbers from 2010. There is concern about the rising use of synthetic drugs and "paco" by Argentine youth. In March, Argentina announced a large increase in federal spending to treat and prevent addiction. One province implemented a drug court during the year.

The Argentine government does not encourage or facilitate the illicit production or distribution of narcotics or laundering of proceeds. An independent judiciary and press pursue allegations of corrupt practices involving government authorities. During 2014, Argentine courts investigated members of the security forces and several civilian officials for their involvement in trafficking.

Argentina took steps to improve its drug control efforts in 2014, but more resources, capabilities, and coordination are needed to fully address the challenge. Constructive measures Argentina could undertake include focusing interdiction

efforts on targeted investigations; improving coordination among federal and provincial entities; boosting judicial efficiency in processing investigations and prosecutions; making comprehensive statistics available; and coordinating strategies for supply and demand reduction.

Argentina has extradition and mutual legal assistance treaties with the United States which are utilized to the benefit of both countries.

Volume II: Money Laundering and Financial Crimes

Countries/Jurisdictions of Primary Concern

Argentina

Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion occurs throughout the financial system, often 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.

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. Most of the cocaine transiting Argentina is bound for the European market, while most marijuana remains in the domestic or regional markets. Contraband goods from the United States and other countries are smuggled into Argentina, especially through the tri-border area (Argentina, Paraguay, and Brazil), or through changes to shipping manifests designed to disguise the importer and the type of merchandise.

The widespread use of cash in the economy and Argentina's strong links to U.S. currency increase the country's vulnerability to money laundering. Many Argentines prefer to hold their savings in U.S. dollars and/or dollar-denominated assets as a hedge against high inflation and potential peso devaluations. Government restrictions on access to foreign exchange have created a black market for U.S. currency. During the first nine months of 2014, the unofficial exchange valued the dollar between 50 and 90 percent higher than the official government rate. This unofficial peso-dollar exchange market generates significant illicit revenue and creates significant opportunities for arbitrage.

Argentina has a long history of capital flight and tax evasion, and the latter is the predicate crime in the majority of money laundering cases. Argentines hold billions of U.S. dollars outside the formal financial system, both domestically and offshore, much of it legitimately earned money but not taxed. Estimates of the size of the informal economy vary from 25 to 40 percent, though it is clear a significant amount of economic activity is taking place outside of government supervision.

The general vulnerabilities in the financial systems expose Argentina to a risk of terrorism financing.

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: 36,079 in 2013

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: 13: January – August 2014

Convictions: 1: January – August 2014

Records exchange mechanism:

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

With other governments/jurisdictions: YES

Argentina is a member of the Financial Action Task Force in Latin America (GAFILAT), a FATF-style regional body. Its most recent mutual evaluation can be found at:

http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Argentina_3ra_Ronda_2010.pdf

Enforcement and implementation issues and comments:

Law 25.246 criminalizes actions such as “tipping off” by government officials and establishes penalties of six months to three years for such action.

In November 2014, the financial intelligence unit, the UIF, issued a resolution (N 473) that makes the agency responsible for undertaking an assessment of the country’s money laundering and terrorist financing risks in order to guide development of a strategy to mitigate those risks. The resolution adopts a risk-based approach to program implementation.

In an attempt to attract U.S. dollars held by nationals, Argentina instituted a voluntary tax compliance program that allows undeclared U.S. dollars to be exchanged without penalty for certificates of deposit or bonds. The certificates of deposit are designed to be used in real estate transactions and to channel money into energy and infrastructure projects. They can be redeemed for U.S. dollars after they are used in a commercial transaction. Originally scheduled to run for three months, the program has been extended several times. Since its introduction in June 2013 to November 2014, the program has captured slightly over \$1 billion.

Implementation of its AML/CFT regime remains a challenge for the Government of Argentina. While the number of reporting entities has grown to 30,000 and the number of suspicious transaction reports (STRs) the UIF receives has increased dramatically over the past several years, local experts say the government has had difficulty analyzing and prioritizing reports and converting them to actionable intelligence. Recognizing this weakness, the UIF has signed agreements with other government agencies, including the Economic and Money Laundering Prosecutor's Office (PROCELAC), through which they agree to coordinate information sharing and cooperate and support each other in investigations. The UIF is also conducting outreach and capacity building with reporting entities to improve the quality of STRs.

The government also continues to struggle to prosecute money laundering and terrorist financing cases. According to independent analysis, in the 14 years (2000-2014) that Argentina's AML/CFT regime has been in existence, there have been a total of 90,000 reports submitted to the FIU. Approximately 7,000 of those have resulted in inspections and 18 entities have been fined a total of approximately 220,000,000 Argentine pesos (approximately \$26 million). During the same period, there have been only four convictions, and in only one case were the perpetrators subjected to prison sentences, fines, and property confiscation.

In general, money laundering cases are pursued by a chief prosecutor, working as part of a prosecutorial unit focused on six operating areas. Opposition lawmakers and commenters have raised concerns about prosecutorial independence and note the ad hoc method of appointing prosecutors makes them more likely to be politically dependent on the executive branch. To date, most cases have been targeted at individuals wanted for actions that took place during Argentina's military dictatorship.

PROCELAC has a unit devoted specifically to asset recovery. The unit is charged with generating and maintaining a database of judicial actions taken to confiscate property. Under law 24767, Article 95, when the government takes action to freeze assets it retains the right to withhold a portion of the seized assets. To date, the UIF has not frozen terrorist assets based on intelligence it developed through its own investigations.

Now that Argentina has established the legal and regulatory infrastructure to underpin its AML/CFT program, it should be better-positioned to measure the effectiveness of its program. Critical components of this effort will be demonstrating the country's commitment to principals of transparency and good governance; fostering a universal culture of AML/CFT compliance; the ability to coordinate and investigate complex financial crimes; and improving the efficiency of the court system.