

United States General Accounting Office

Report to the Chairman, Select
Committee on Narcotics Abuse and
Control, House of Representatives

THE WAR ON DRUGS

NATIONAL CONTROL

FOR THE PEOPLE



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National Security and
International Affairs Division

B-244220

July 16, 1991

The Honorable Charles Rangel
Chairman, Select Committee on Narcotics
Abuse and Control
House of Representatives

Dear Mr. Chairman:

In response to your request, we reviewed narcotics control efforts in Panama. Our objectives were to determine (1) the extent to which narcotics-related activities are occurring in Panama and (2) the status of U.S. and Panamanian efforts to reduce these activities. This is the first of several reports we expect to complete this year on drug-related issues in Latin America.

Results in Brief

Although U.S. officials lack comprehensive statistics on narcotics-related activities in Panama, they believe that drug trafficking may be increasing and that Panama continues to be a haven for money laundering. U.S. and Panamanian efforts to reduce the flow of illegal drugs into the United States have been hindered because Panama's law enforcement agencies lack the training and resources necessary to conduct effective anti-narcotics operations. In addition, Panama's environment is conducive for money laundering because of the large volume of transactions processed through the banking and commercial sectors.

Panama has taken measures to help identify potential money laundering activities, and the governments of Panama and the United States have signed agreements to promote cooperation in reducing drug trafficking and money laundering. The United States is also providing Panama with a total of about \$1 million in aid for fiscal years 1990 and 1991 to assist Panama's law enforcement agencies in reducing narcotics-related activities, but these assistance programs have experienced delays.

Background

General Manuel Noriega was removed from power in late 1989 during Operation Just Cause, a U.S. military operation. One of the operation's objectives was to combat drug trafficking by apprehending Noriega and bringing him to the United States to be tried for drug trafficking. The operation was the culmination of 2-1/2 years of U.S. pressure against the rule of General Noriega. After the operation, the civilian government

that was elected democratically on May 7, 1989, and led by President Guillermo Endara, was installed.

Under the Noriega regime, all military and law enforcement agencies were part of the Panama Defense Forces. General Noriega was the commander of these forces. After the operation, President Endara abolished the Panama Defense Forces and in early 1990 established law enforcement agencies with minimal military functions. The agencies involved in anti-narcotics activities are the Special Anti-Narcotics Unit of the Judicial Technical Police, the National Maritime Service (a Coast Guard), and the Customs Service. With these changes, Panama has had to create its drug enforcement capability from scratch.

Drug Trafficking and Money Laundering Continue to Be Problems

Although reliable statistics are not available, U.S. officials believe that drug trafficking in Panama may be increasing. According to a Drug Enforcement Administration official, the actual volume of drugs passing through Panama is not known. However, the amount of cocaine seized in Panama has increased. According to Drug Enforcement Administration data, Panamanian authorities seized 3,959 kilograms of cocaine in 1990 compared to 1,728 kilograms in 1989. According to State Department records, seizures in 1990 included the largest single seizure in Panamanian history—2,118 kilograms—during an operation in Colon that was directed by the Drug Enforcement Administration. In addition, data on monthly seizures of cocaine from September 1990 to March 1991 showed an increase. Over 1,300 kilograms were seized from January to March 1991 compared to the 418 kilograms seized during the prior 3-month period. Although seizure amounts may not reflect actual amounts of drugs passing through Panama, on the basis of these data, most U.S. officials we interviewed believe that trafficking may be increasing, and a Drug Enforcement Administration agent believes that trafficking may have doubled since Operation Just Cause.

According to U.S. Embassy officials, drug trafficking continues because Panama's law enforcement agencies are unable to patrol all of the known transshipment points and areas around Panama's border. In addition, according to a Drug Enforcement Administration agent, traffickers no longer have to make large payments to Panama Defense Forces officials for drug shipments to pass through Panama.

U.S. officials believe that money laundering is Panama's most serious narcotics-related problem, although the extent of this problem is

unknown. According to the economics advisor at the U.S. Embassy, comprehensive statistics on the volume of money being laundered through Panama are not available, but an Embassy official estimated that billions of dollars were laundered during the Noriega regime. According to the State Department and the Drug Enforcement Administration, Panama continues to be a haven for money laundering due to its commercial and financial infrastructure. Panama has numerous banks and trading companies. In addition, Panama's dollar-based economy, weak economic conditions, reputation for not enforcing laws that prohibit narcotics-related activities, and geographical proximity to cocaine-producing areas in South America make Panama's environment conducive to money laundering.

Until recently, Panama did not require banks to report large cash transactions, which facilitated money laundering. However, to curb money laundering, the Panamanian government issued regulations that require banks to record certain information concerning currency transactions for amounts of \$10,000 and greater. These regulations are intended to prevent and penalize banking operations with funds originating from narcotics-related activities. The regulations went into effect in May 1990, and Panamanian government officials reported that banks have been complying with the regulations. The Drug Enforcement Administration indicated that banks' compliance with the regulations was sporadic. In January 1991, the regulations were strengthened to include all easily negotiable items such as traveler's and cashier's checks. Fines for violating these regulations range between \$100,000 and \$1 million. In addition, the Panamanian Supreme Court has reinterpreted certain banking laws to allow greater access to bank records during criminal investigations for drug-related crimes.

A political adviser at the U.S. Embassy believes that Panama is experiencing an increase in money laundering. The advisor stated that narcotics-related activities temporarily slowed after Operation Just Cause until traffickers could assess the new government's ability to deal with drug trafficking and money laundering. Once the traffickers became aware of the government's inability to detect and deter drug activity, money laundering flourished.

According to U.S. Embassy officials, traffickers are able to disguise illegal transactions among the high volume of legitimate transactions at

the Colon Free Zone.¹ When funds from money laundering activities are commingled with legitimate business revenues before they are deposited into banks, efforts to identify and prosecute drug traffickers become complicated. In addition, according to a Drug Enforcement Administration official, drug cartels continue to establish corporate entities in Panama as a front for their laundering activities.

Panama's Enforcement Capability Is Limited

Panama lacks the enforcement capability to address the current drug trafficking and money laundering problems. Each of the law enforcement agencies involved in anti-narcotics activities—the Special Anti-Narcotics Unit of the Judicial Technical Police, the National Maritime Service, and the Customs Service—is staffed with new recruits that are not adequately trained to combat narcotics-related activities. These agencies also lack the necessary equipment for conducting effective anti-narcotics operations. The government of Panama has provided limited funding for law enforcement efforts against narcotics activities.

According to the State Department's narcotics affairs officer, the Judicial Technical Police's Special Anti-Narcotics Unit has 56 personnel, mostly young college graduates, with basic law enforcement training and limited narcotics training. The State Department believes that the new personnel appear to be highly motivated, but they need additional training before they will be effective in combating narcotics activities.

The National Maritime Service, whose responsibilities include enforcing maritime law, stopping fishery violations, and interdicting drug shipments, has 350 personnel. The U.S. Coast Guard assessed the service after Operation Just Cause and issued a report on its findings. The report stated that maritime law had not been enforced in Panama for several years and that the Coast Guard should train the Maritime Service's personnel as soon as possible. A U.S. Coast Guard officer said that in March 1990 the U.S. Coast Guard gave Maritime Service personnel a 1-week course on ship-boarding procedures and that courses on patrol boat operations, maritime law enforcement, and other maritime issues are planned.

The U.S. Customs Service Attache stated that the Panamanian Customs Service's Anti-Narcotics Unit, which has approximately 85 drug inspectors, has received limited training from both the U.S. Customs Service

¹The Colon Free Zone is a large free-trade zone. Billions of dollars of trade, which is not subject to banking restrictions, occurs in the zone each year.

and the Drug Enforcement Administration but is in need of specialized training to combat drug trafficking effectively. For example, containerized shipments from the Colon Free Zone are a major drug interdiction problem. Only 5 percent of the containers are inspected due to the high volume of cargo shipments and limited number of Panamanian Customs Service inspectors. In response to this problem, a U.S. Customs Service contraband enforcement team trained 40 Panamanian inspectors in containerized inspection techniques in the spring of 1991.

All three agencies lack facilities, basic supplies, and law enforcement equipment such as cars, radio communication equipment, and technical field equipment. Much of these assets were destroyed during Operation Just Cause or looted in its aftermath.

The Drug Enforcement Administration Attache said that he has loaned weapons, two-way radios, and cars to the Special Anti-Narcotics Unit to conduct certain counter-narcotics operations. The official added that the unit's ability to conduct operations is limited because it has no aircraft and only five cars, which the Panamanian government limits to a total of 10 gallons of gasoline per day.

According to the U.S. Coast Guard, after Operation Just Cause, Maritime Service vessels were stripped of all electronics and other equipment and have received no maintenance since then. As a result, they are not currently operational. The vessels will need to be refitted with communications and navigational equipment and the engines and hulls repaired before they can be used. Consequently, the service is currently leasing two commercial shrimp boats to patrol both the Caribbean and the Pacific coastlines.

The U.S. Customs Service Attache stated that he has provided the Panamanian Customs Service with basic photographic and office supplies. The official added that the Panamanian government does not always provide the funds needed to feed the five-dog canine drug detection team used by Panamanian inspectors.

The Panamanian government is providing only limited monetary assistance in support of the drug enforcement effort. The director of a U.S.-funded program to improve Panama's judicial system stated that the Panamanian government does not appear able to adequately fund the Special Anti-Narcotics Unit. A U.S.-funded independent review of narcotics control efforts in Panama reported that the Panamanian government will not increase funding for its Special Anti-Narcotics Unit in

1991. According to the Director of the U.S. Embassy's Narcotics Affairs Section, the Panamanian government is not capable of contributing much to the drug enforcement effort at this time because of Panama's poor economic and financial conditions.

The United States Is Helping Panama in the War Against Drugs

To help combat narcotics-related activity, the United States signed several anti-narcotics agreements with Panama.

- A narcotics control program agreement was signed in April 1990 to improve Panama's counter-narcotics operations. Under the agreement, Panamanian enforcement agencies will receive \$550,000 from the State Department in fiscal year 1990 narcotics aid. A follow-on agreement was signed in May 1991 to provide an additional \$460,000 in fiscal year 1991.
- An essential chemicals agreement was signed in May 1990 to help restrict the movement and control the sale of chemicals used to produce cocaine. Under the agreement, U.S. and Panamanian personnel will coordinate efforts to interdict illegal shipments of chemicals.
- A maritime agreement was signed in March 1991 to provide for joint operations between the U.S. Coast Guard and the Panamanian Maritime Service. The Coast Guard will provide assistance, training, and operational support and will deploy vessels to help the Maritime Service stop illegal activities, including drug trafficking.
- The Mutual Legal Assistance Treaty was signed in April 1991. The treaty will allow the United States increased access to information concerning large currency transactions and other related banking documents. It will also facilitate the exchange of information and expedite the slow and complex process of obtaining bank records and related documents. Although the treaty is not expected to have immediate or remarkable results, it will serve as a legal basis for future collaborative law enforcement efforts between the United States and Panama. According to the U.S. Embassy, the treaty will become effective once it is ratified by the U.S. Senate and the Panamanian National Assembly.

The U.S. government realizes that Panama's weak economic structure and limited enforcement capability hinder its ability to combat narcotics-related activities. As a result, several U.S. agencies are involved in programs to assist and strengthen Panamanian enforcement agencies in their efforts to eliminate drug trafficking and money laundering. The U.S. Ambassador wants these programs to focus on helping Panama become capable of conducting drug investigations and prosecutions without U.S. involvement.

To meet these objectives, the State Department opened a Narcotics Affairs Section in Panama in June 1990. The section has a director and one assistant who are responsible for implementing and coordinating U.S. programs to assist Panama in reducing the flow of illegal drugs. The U.S. Coast Guard, the Customs Service, and the Drug Enforcement Administration are cooperating with these officials to provide training, services, and equipment to Panamanian law enforcement agencies.

The Director worked with a budget of \$1 million, for both fiscal years 1990 and 1991, to formulate programs designed to strengthen Panama's ability to identify, apprehend, and prosecute narcotics traffickers. The Director used assessments provided by the U.S. agencies involved in anti-narcotics efforts to develop the budget and objectives for each program to receive U.S. funding. For example:

- \$200,000 was budgeted for vehicles, office and field equipment, training, and aerial surveys for the Special Anti-Narcotics Unit to control illicit drug trafficking;
- \$100,000 was budgeted for equipment, training, and vehicles to create the Joint Information and Coordination Center, which will increase U.S. and Panamanian information collection capabilities;
- \$70,000 was budgeted for a 22-foot Boston Whaler boat and \$10,000 for U.S. Coast Guard training for the Maritime Service to strengthen its ability to interdict drug shipments in coastal waters;² and
- \$40,000 was budgeted for technical field equipment and training for the Panamanian Customs Service to increase its ability to trace and interdict shipments of illegal drugs and chemicals and seize traffickers' assets.

As of April 1991, about 76 percent, or \$420,000, of the \$550,000 fiscal year 1990 budget had been committed for specific purchases. The Director stated that supplies and equipment to be purchased with fiscal year 1990 funds were not ordered until late 1990 because the section was not established until June 1990, and the needs of the Panamanian government had to be identified first. As of May 1991, all of the supplies and equipment purchased, with the exception of four automobiles, had arrived in Panama and were turned over to the Panamanian government during an official ceremony on June 14, 1991. All of the fiscal year 1991 funds were obligated in May 1991. According to the U.S. Embassy, these funds will be used to purchase commodities and training. However,

²The Maritime Service will also receive about \$900,000 in prior year military aid credits to obtain spare parts, tools, repair work, two 22-foot boats, and other equipment. These items will support overall maritime enforcement efforts. U.S. officials could not estimate what portion of the funds would be devoted to anti-narcotics activities.

Panama's law enforcement agencies and the Narcotics Affairs Section have not determined the specific uses.

According to the President's 1991 National Drug Control Strategy, Panama is one of two countries that will receive priority consideration for fiscal year 1992 counter-narcotics aid funding. However, an estimate of the amount of aid Panama may receive is not yet available.

The Drug Enforcement Administration office in Panama, which was closed in May 1989, reopened in May 1990. It currently has five staff members, including three agents and one intelligence analyst. The office handles drug investigations in Panama and assists and provides training to the Special Anti-Narcotics Unit on technical and routine matters. According to Drug Enforcement Administration agents, most of the cases that the office investigates deal with tracking shipments of drugs and arresting the traffickers once the drugs arrive in the United States. In May 1991, the Drug Enforcement Administration proposed stationing additional personnel—two agents and one intelligence analyst—in its Panama office to assist and train Panamanian personnel to deal with the drug trafficking problems. The State Department is studying the proposal.

Military officials from the U.S. Southern Command explained that they had a limited role in assisting narcotics control efforts in Panama. Occasionally, they have provided Blackhawk helicopters, primarily for surveillance and intelligence gathering activities, to support Drug Enforcement Administration operations. The officials said that they would consider arrangements to provide helicopters, vehicles, and communications equipment to support Panama's law enforcement agencies if the U.S. Ambassador requested such assistance and the Congress authorized it. However, U.S. Embassy officials said that it would not be appropriate to use U.S. military assets to assist Panama's civilian law enforcement agencies to conduct drug operations.

Scope and Methodology

To accomplish our objectives, we met in Washington, D.C., with officials from the Departments of State and Defense and the Drug Enforcement Administration and with money laundering experts at the Treasury Department's Financial Crimes Enforcement Network. In Panama we met with U.S. Embassy officials that are responsible for U.S. counter-narcotics activities and assistance programs and with officials at the U.S. Southern Command. With the exception of a meeting with the Director of the National Maritime Service, we limited our work in

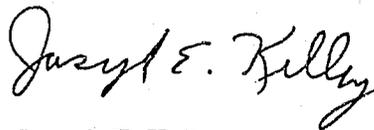
Panama to U.S. agencies due to the sensitive nature of ongoing negotiations between the United States and Panama on the Mutual Legal Assistance Treaty.

We conducted our work between February and May 1991. With the exception of the limitations on our contacts with Panamanian officials, our work was done in accordance with generally accepted government auditing standards. We did not obtain written agency comments on this report. However, we provided a draft of this report to officials from the Departments of State and Defense and the Drug Enforcement Administration and incorporated their comments where appropriate.

We are sending copies of this report to the Secretaries of State, Defense, and the Treasury; the Attorney General; the Director, Office of National Drug Control Policy; and other interested parties. We will also make copies available to others on request.

Please contact me on (202) 275-4128 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

Sincerely yours,



Joseph E. Kelley
Director, Security and International
Relations Issues

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

John Brummet, Assistant Director
Andres Ramirez, Assistant Director

Dallas Regional Office

Oliver Harter, Regional Management Representative
Patricia Nichol, Evaluator-in-Charge
Carolina Martinez, Evaluator

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