

Former UNODC Head Talks About Drugs in the World Banking System

by Andrew Spannaus

From 2002 to 2010, Antonio Maria Costa was the Executive Director of the United Nations Office on Drugs and Crime (UNODC), headquartered in Vienna, Austria. He became world-famous in January 2009—only months after the meltdown of the trans-Atlantic banking system—when he stated, in an interview with the Austrian weekly Profil, that massive cash flows from the global narcotics trade were brought into the banking system to rescue banks after the inter-bank money markets shut down.

As Dr. Costa makes clear in the interview below, he has been at the center of efforts for almost 30 years that have investigated the interface between organized crime and banking, particularly efforts on money laundering. His work at UNODC put him at the center of international efforts to coordinate anti-narcotics and -crime activities around the world.

On March 13, Costa teamed up for a live Internet debate from London, titled, “It’s Time To End the War on Drugs,” with former New York State Attorney General, and then Gov. Eliot Spitzer, and former U.S. anti-drug czar Gen. Barry McCaffrey (ret.). Costa makes clear in the interview what financial interests are behind the campaign for drug legalization, and presents what amounts to a wake-up call for Glass-Steagall, and measures to end the interface of crime and banks.

Dr. Costa was interviewed by Andrew Spannaus in Italy on April 12, 2012.

EIR: Dr. Costa, in 2007 and 2008, the trans-Atlantic banking system essentially froze up as the interbank markets stopped functioning during the financial crisis. You have stated in the past that at that time, cash from the narcotics trade moved in to fill the gap in the finan-



UN/Eskinder Debebe

Antonio Maria Costa headed the UN Office on Drugs and Crime. In 2009, he charged that huge sums of drug money were funnelled into the rescue of the banking system.

cial system. Could you elaborate on that and tell us about the link between banks and narco-money in the system?

In the Beginning: The Mafia

Costa: I have to go back to the origin of the whole thing, and of the process of trying to clean the banking system from mafia infiltration. So we go back to the previous century. The relationship between the banking system and the mafia started in the 1960s and '70s. In the '60s and '70s, the mafia basically handled cash in large amounts, although not as large as today because international crime was much smaller. It was mostly Italian, North American, and with some other affilia-

tions, but it was limited in size.

Then, with the progressive opening of borders, communication, and business, in the late '70s and beginning of the '80s, organized crime, which also had established roots outside of Italy, started to use the banking system to transfer assets, to move their money around the world.

It is at that time—in the early '80s—that I was at the OECD in Paris, where we started noticing a significant amount of recycling of mafia assets through the banking system. So we launched the first exercise. It started in 1984, resulting in a key paper which I personally submitted to the G7 summit—at that time it was the G7—meeting in Paris, on the 14th of July, I recall. The G7 summiteers approved the establishment of the first and foremost anti-money-laundering institution, the Financial Action Task Force.

FATF, of which I am one of the founders, started to be very active with specialized recommendations. Your readers may be familiar with this. And these recommendations started biting, slowly and progressively, at least in the major financial institutions, on both sides of the Atlantic, but not only. Because of this, the recycling of criminal money through the banking system was reduced very significantly.

A few years later—let's say in 2002 and 2003—the first crisis hit, the IT bubble burst—and the banking system, which had spread enormously because of globalization, started to be infiltrated again by criminal assets. Namely, the anti-money-laundering controls which worked very effectively in Europe and North America in the 1990s, were weakened significantly in a number of off-shore jurisdictions which were much weaker. This started a new cycle of penetration of crime money.

The 2008 financial crisis, still unfolding, hit the entire trans-Atlantic banking sector. The illiquidity associated with the banking crisis, the reluctance of banks to lend money to one another, and so on and so forth, offered a golden opportunity to criminal institutions—which had developed huge financial power, money which was liquid because it could not be recycled through the banking system in earlier years. At this point in time, we're talking about the 2008-11 period, the need for cash by the banking sector and the liquidity of organized crime created an extraordinary opportunity for a marriage of convenience, namely, for organized crime to penetrate the banking sector.

We've had a number of historic episodes. The Wa-

chovia Bank¹ in New York is the most important one. According to the U.S. Justice Department, Wachovia recycled \$480 million over a period of three years. That was the most dramatic case, although there are similar cases, perhaps not in terms of size, but there are other well-known institutions both in Europe and North America.

The tragedy of the Wachovia case is that those who were responsible for the recycling of Mexican drug money were let go without any retribution. If not opening the gates to more of such criminal behavior, that fact certainly gave evidence that—and here I'm branching into something else, into drug control—the major instrument to fight drug trafficking, namely following the drug money and seizing it, well, that instrument is now lost.

The Banks Were Looking for Cash

EIR: Just to follow up on this point: Did the financial crisis offer an opportunity for the criminal associations to get their money in, or was the financial crisis an opportunity for the banks to bring more money in? Which side does it come from?

Costa: The penetration of the financial sector by criminal money has been so widespread that it would probably be more correct to say that it was not the mafia trying to penetrate the banking system, but it was the banking sector which was actively looking for capital—including criminal money—not only as deposits, but also as share acquisitions and in some cases, as a presence on Boards of Directors.

EIR: You spoke of Wachovia Bank in New York. What are the major venues where this takes place internationally? Are there specific venues, specific institu-

1. In March, 2010, the Obama Administration Department of Justice concluded a non-criminal settlement with Wachovia Bank regarding the bank's laundering over several years of \$378 billion for Mexican money-exchange houses, many linked to cocaine cartels. Although the DOJ in only one case established that \$110 million in narcotics-related transfers were conducted, with Wachovia not fulfilling its anti-money-laundering reporting responsibilities, sources have stated that billions of dollars of narcotics money was actually involved. The London *Guardian* reported on April 3, 2011, "A FinCEN source says that \$20 billion already examined appears to have 'suspicious origins.' But this is just the beginning." FinCEN is the U.S. Treasury Department's anti-money-laundering investigations unit which continues to investigate the Wachovia case. Emails from the private security company STRATFOR, revealed by Wikileaks, discuss a team of former CIA investigators, employed by the Mexican government, estimating \$70 billion in narcotics money run through the Wachovia channel—ed.

tions, specific types of institutions?

Costa: At the UN Office on Drugs and Crime—my former job—our responsibility, and my own role, has never been one of indicting people, or even pointing fingers at individual institutions or financial entities. Our role has always been one of making public opinion and governments in particular aware of the problem, and therefore assisting them to remedy whatever the problem is. So I will not, and I have not in the past—leaving aside the more evident case of Wachovia—I don't want to point at individual institutions.

For sure the FATF recommendations, as tight as they are, offer a certain amount of protection. But these recommendations work where they are taken seriously and are implemented. There are rogue jurisdictions, there are off-shore centers—typically people say in the Pacific, but it's also in Africa, it's also in Latin America, and so forth—where the very key principle behind the FATF recommendations, the so-called principle of

“Know your customer,” and therefore not accepting money if it is made available by people you do not know—that principle is not followed.

And if that principle is not followed, once money enters a financial institution in a rogue jurisdiction—at times in very large amounts—it can be transferred very rapidly, with practically zero controls, anywhere else in the world. So the Wachovia case proved very clearly that people were not necessarily walking into a branch of the bank somewhere in New York City with a suitcase full of cash. No, the deposit would be made in Mexico, or in some of the Central American countries, and then it would find its way to the Wachovia Bank in the U.S.

EIR: Have the new rules and agreements on blacklist countries reached since the financial crisis made a difference? There has been a stated intention to stop this, but has it actually changed anything?

Costa: Not really. Countries very aggressively fight

UN Drug Office: Dope Cash Rescued Banks

Antonio Maria Costa, director of the United Nations Office on Drugs and Crime (UNODC), singled out the role of drug money in propping up the disintegrating financial system, in an interview published in the Jan. 27, 2009 Austrian weekly Profil. Here is an excerpt.

The drug trade at this time could be the only growth industry, with little unemployment. The money that is being made, is flowing only partly back into illegal activities, in parts of Asia, Africa, and South America, where it is used to bribe politicians, buy elections, or finance insurgents, such as the Taliban in Afghanistan, the Tamil Tigers of Sri Lanka, or the FARC in Colombia, for example. . . .

[The rest of the money] is fed into the legal economic circulation through money laundering. We do not know how much, but the volume is imposing. As such, seen from the macroeconomic effect, this is simply bringing in investment capital. There are indications that these funds also ended up in the fi-

nance sector, which has been under obvious pressure since the second half of last year. . . .

It appears that interbank credits have been financed by money which comes from the drug trade and other illegal activities. It is naturally hard to prove this, but there are indications that a number of banks were rescued by this means. . . .

In many cases, drug money is currently the only liquid investment capital, to buy real estate, for example. In the second half of 2008, liquidity was the biggest problem the banking system had, and therefore, this liquid capital became an important factor. . . .

To get around the electronic surveillance of bank transactions, now criminals stash their funds in cash sums which can be up to hundreds of millions of dollars. This is the way they try to hold these funds liquid. . . .

We have to consider the interdependence of drugs and criminality; anything else would be irresponsible. . . . Legalization would inevitably send abuse way up. . . . [When the British gave out over EU100 million to compensate Afghan farmers for their opium crops] it had the opposite effect. Within one year, the cultivation doubled, because the farmers knew that if the drug traders did not buy their opium, then, “I'll get my money from the British.”

any attempt to be downgraded. A FATF downgrading is almost the moral equivalent of a credit agency downgrading. Unfortunately, I dealt with a very large number of Western African countries through which we—when I was the head of UNODC—spotted a lot of narcotics coming from Colombia, Venezuela, Brazil, on its way to Europe. What we have also seen, and this is not surprising, in many of these Western African countries, is the rapid growth of a banking sector which is not justified by the size of these economies, by the complexity of the real economy there.

EIR: To come back to the United States and European side of the question, you wrote a paper on your website entitled “The Economics of Crime,” and there you spoke of “an army of white-collar criminals—lawyers, accountants, realtors, and bankers—who cover up for the [drug traffickers] and launder their proceeds.” So you’re saying that the structure is also in the banks and the organizations in the Western countries. Are governments and government agencies prepared to deal with this? What do they need to be effective? Is it a question of intention, or is it a question of not having the proper instruments?

Costa: I would say probably both. Between the proper, well-organized banking system on the one hand, and the mafia and criminal organizations on the other

hand, between these two entities there is an army of bankers, financial advisors, realtors, notaries, lawyers, and so forth, that are very much part of the problem.

I have seen very little effort to hit them. Our countries, our societies, our governments, must be able to break that link between the real criminals, the ones who go around with guns in their belts, and the bankers. In the financial institutions there are people who are involved in laundering not necessarily the money, but the paperwork which is necessary for making blood money licit.

A Role for Glass-Steagall

EIR: *EIR* is well-known for proposing the reorganization of the financial system based on the Glass-Steagall Act of 1933; that is, the separation between commercial banks, ordinary banking functions, and investment banks, which have all of the operations that have to do with the financial markets and speculative functions.

Would you support a Glass-Steagall approach, and if you would, do you think this could have a role as regards transnational crime and the financial proceeds from that?

Costa: I’m not sure this would have a role in terms of fighting the penetration of criminal money in the banking system, although I’m in favor of it, for other reasons which are more related to trying to avoid the sort of crisis we just experienced. I’m definitely in favor of a Glass-Steagall type of legislation, not only for America, but everywhere in the world. Actually, I would even go beyond that. I am very much in favor of some of the European formulations—I guess the French have been particularly active on that, and the Germans as well—regarding putting some brakes on financial transactions, through taxation or other mechanisms; the so-called “sand in the wheels,” an expression used when I went to school, to [the University of California at] Berkeley.

The banking system has a fundamental role in supporting the real economy, but when it becomes an end in itself, I start having some reservations. There is no problem making money through purely financial activities, but if they become destabilizing to the system at large, then I believe that this is a perverse type of development. As a consequence, and to conclude on this, not only a Glass-Steagall sort of separation between commercial and financial activities, but I strongly support also cooling the financial transactions in order to render them part of the stability of the system and not a destabilizing force.

Offshore Banking Centers Are British

While there are dozens of “offshore banking centers” internationally, where lack of reporting requirements facilitate organized crime, the so-called British Crown colonies consistently appear at the top of the list.

According to the 2010 Global Financial Centres Index, for example, the five leading offshore financial centers are all in British sovereign territory. They are:

1. Jersey
2. Guernsey
3. Isle of Man
4. Bermuda
5. Cayman Islands

EIR: An opposite approach to the question of illicit money in the financial system from the drug trade is that of legalization. You recently participated in a highly publicized discussion on this question with other individuals, notably former New York Gov. Eliot Spitzer; Gen. Barry McCaffrey (ret.) who was the drug czar in the United States; and, on the other side, Virgin [Atlantic Airways] founder Richard Branson, who recently has helped step up the campaign for legalization publicly quite a bit. What is your opinion of this campaign, in particular in terms of its ramifications for the financial system?

Costa: It is most unfortunate that the question of drug abuse gets caught up into the debate about the

reform of the financial sector. Drug abuse is a dramatic problem worldwide: It kills half a million people a year. Drug addiction is a health condition. And therefore, anything which can be done to reduce the health problems caused by addiction—well, this should be done on the basis of the health dimension of drugs.

Look at the North American border between Mexico and the United States: A real war of sorts broke out there, that has caused 50,000 casualties so far. This is a perverse example of how lack of drug control has created a situation that people claim can only be redressed by legalizing drugs.

Now, please ask yourself: Why is the Mexican-U.S. border so dramatically affected by the war caused by

Costa: Drug Legalization Is New Opium War

March 22—Here is an excerpt from Antonio Maria Costa's remarks to the March 13 Google/YouTube Internet debate on drug legalization, in which he participated with Gen. Barry McCaffrey (ret.), and former New York Attorney General and Governor Eliot Spitzer.

With a passion uncommon in today's jaded culture, Costa went straight after the British East India Company's Opium Wars against China in his remarks:

Those arguing for legalization in the debate say, "Stop the war on drugs." I say stop *all* drug wars. Let me explain.

The people at this table represent 10% of humanity, and we propose drug policy for the world, forgetting the drug crime which we perpetrated? You see, in 2012, we celebrate a dreadful anniversary, one that makes my guts twist and turn: 150 years from the end of the Opium Wars, when the West, our countries, forced China to consume drugs. At that time, just like now, greedy investors—it was the East India Company as you recall—wanted to make money by poisoning the Chinese with opium. China opposed this. Our countries went to war; our countries won the war and forced the Chinese to consume drugs for



U.S. State Department
Former New York Gov. Eliot
Spitzer



U.S. Army
Gen. Barry McCaffrey (ret.)

a century. Tens of millions of people died in China from addiction, war, and famine.

The tragedy of drug legalization *we* forced on China dwarfs what is happening in Mexico, in Guatemala, Colombia, etc.

To conclude, when I hear investors in Europe and North America advocating drug legalization, behind the fig leaves of a campaign to stop the war on drugs, I cringe, and I say: Stop all drug wars, whether fought by bullets or by bombs; investors' greed can be as harmful as mafia guns. Drugs have come from both sides of the aisle, therefore vote no, and vote against this motion [to legalize].

drugs? Because of several conditions: money laundering in the United States which facilitates the recycling of Mexican drug money; free trade in military-grade weapons in the U.S., which are smuggled into Mexico for organized crime; then you have a flourishing cocaine market in the U.S.; then add to this corruption in Mexico. All of that causes the grave circumstances of today, which are erroneously approached via proposing the legalization of drugs. I'm afraid these two countries will have to attack their internal problems, and not by imposing on other countries, especially Africa or Asia, legalization of drugs. It is a problem of their own.

Lessons of the Opium Wars

EIR: You have mentioned in this context the British Opium Wars, in speaking about the question of legalization, the effects it has on the population, and in whose interest it is. Because obviously, some people, when they speak of legalization, say it's in the interest of the population: People can do whatever they want, and also then, we would take away the criminal aspect. But it seems that the historical parallel has shown something very different.

Costa: Yes, it did. While we have global examples of drug control, and the results it produces, we also have one very tragic example of drug legalization. I am referring to the two Opium Wars when Great Britain imposed opium legalization on China. Now that was done for commercial reasons, and not for colonial reasons, under the pressure of the East India Company, which itself made a huge amount of money by poisoning the Chinese.

This is an interesting example, because while we hear of legalizing drugs in order to weaken organized crime, and we hear proposals to legalize drugs because human beings are supposed to be free in what they decide, what we are seeing is something else: We are seeing big commercial interests lining up to develop drug brands, brands of drugs which today are prohibited, like cocaine, like marijuana, like opium and heroin and whatever else.

There are big commercial interests over there, almost—and this is mostly in Europe and North America—as if people were saying: Well, we lost all manufacturing to the Orient. What are we left with? We are left with the service industry. What can we do? Well, we can develop drug brands—another way of supporting Western banking and commercial interests. I am afraid it would be an historic error whose dimensions only future generations would recognize.

EIR: Let's take a step backwards to the question of production and trade. Victor Ivanov, the director of Russia's Federal Drug Control Service, has been very active recently regarding the drug trade and how to stop it. He has cited your work as well. In particular, as regards Afghanistan, Ivanov has said that the drug trade could be stopped in Afghanistan. He thinks that if the Shanghai Cooperation Organization and NATO were to work together, the SCO could stop the trade essentially coming out of Afghanistan, if NATO would work to block the channels inside.

So how important is this type of cooperation internationally to stop both the drug trade and the laundering then of the proceeds into the Western economies?

Costa: The Shanghai Cooperation Organization and NATO working together would certainly help. We see in Afghanistan, the mirror image of what we have seen in the past in Colombia and earlier in Peru: the symbiosis between illicit activity related to drugs, and insurgency. In these three countries—as was also the case in the eastern part of Myanmar, and to a large extent, also Laos and Cambodia, and in the Bekaa Valley [Lebanon]—we see that insurgents, in one way or another, either protect the farmers, such as in Colombia with the FARC and ELN, Peru with the Shining Path, the Taliban in Afghanistan; or they protect the trade, for example, the al-Qaeda of the Maghreb, protecting the trade of cocaine across the Atlantic coming from Colombia and Brazil, going through West Africa, and then the Sahara, and then to Europe.

So we see in all of these cases, insurgency protecting the drug trade, to gain the resources which are needed for their insurgent purposes.

In the case of Afghanistan, we have seen that NATO had never been involved, not to any significant extent, in counter-narcotics operations. It was only—and here I must say that my office played a key role in convincing NATO to recognize that the opium economy was generating a large amount of money for the Taliban—NATO became involved in attacking high-value targets, whether they were individuals or networks or deposits. And I insisted: Do not touch the farmers. The farmers' attitude is a political question, a social issue. But the traffickers and the traders are a criminal activity, and since crime has been funding insurgency, they should become a legitimate military target.

It worked. After a while NATO had some afterthoughts, and that is probably the reason why at the moment we still see Afghanistan caught in this double



“Britain imposed opium legalization on China,” Costa said, and the East India Company “made a huge amount of money by poisoning the Chinese.” Shown: English ships destroy Chinese war junks in Anson’s Bay, 1841. Painting by Edward Duncan (1843).

war of narcotics being produced and exported on the one hand, and of course, insurgency.

International Cooperation Is Essential

EIR: What is the role of the European Union in this situation? That is, in terms of supranational organizations, as opposed to nations. Regarding the drug trafficking and money laundering in general, do you think these issues can be addressed effectively by supranational organizations, or does it really depend on the specific drive and intention of nations that then may cooperate?

Costa: The role of nations is crucial, and will remain crucial, also because law enforcement is fundamentally a national responsibility. Supranational institutions, such as the European Union or international organizations like the United Nations, or Interpol for that matter, have a key role in integrating the law enforcement activities that are carried out at the national level. They cannot be replaced.

For example, in France, only the French police can arrest people. But the French police may be alerted through Interpol, or by other law enforcement officials of other countries, about certain illegal activity going on, money laundering, and so on and so forth. In other words, nothing can replace international cooperation in fighting crime.

EIR: A final question. To come back to the financial system: In the speech I mentioned by Ivanov at the CSIS [Center for Strategic and International Studies] in Washington, he said that he would support a total re-organization of the global financial system as a way to get the drug money out. I would ask for your view of what needs to be done in general terms to get the drug money out of the financial system, out of our economy.

Costa: I can repeat what I said earlier. Current efforts to fight money laundering have been successful, if we only refer to the formal banking sector. When we go to other forms of money transmitted across borders, for example, the *Hawala* system [an informal system of money-brokers, located in the Middle East, Africa, and South Asia—ed.], we see limited ability to

comply, or perhaps even limited willingness to comply. And therefore, all these sorts of mechanisms have to be monitored, and the same recommendations have to be enforced. And there are other activities as well: The travel industry, the casino industry and so forth, are only indirectly considered by the anti-money-laundering recommendations. Unless we hit them very hard, there are going to be other forms of channeling resources.

The inability or unwillingness of our financial regulators and our law enforcement to punish those who have been involved in money laundering is another incentive; this must come to an end. I don’t think we need new organizations. We just need to make sure that what is decided at the international level is complied with. At the moment, I see limited willingness to comply, especially at a time of financial crisis.

The other element is corruption. We see organized crime as one problem, drug trafficking and drug addiction as other problems, money laundering as another problem, the role of white-collar people as another issue, and corruption as another issue. In a sense, all these issues are interconnected. So the fact that international agreements are compartmentalized, to fight corruption, or organized crime, or drug trafficking—in a sense, it’s the whole culture of society which has to be looked at, because all of these are different manifestations of the same problem.