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The Financial Action Task Force is Expected to Include Ecuador on its High Risk Jurisdiction List

The Financial Action Task Force ("FATF"), the inter-governmental body responsible for developing and promoting national and international policies to combat money laundering and terrorist financing, is expected at its meeting this month to include Ecuador on its high-risk jurisdiction list ("FATF List") at the request of G-20 finance ministers.

Various media articles ("Media Reports") have reported that concern with Ecuador has increased since 2008. Specifically, an Ecuadorian government investigation revealed that the drug trafficking Revolutionary Armed Forces of Colombia ("FARC") possessed an extensive network in Ecuador that includes some of President Rafael Correa's ("Correa") closest aides and that Correa may have allowed the FARC to partially fund his 2006 election campaign. The FARC has been designated a terrorist organization by both the United States and the European Union.

The Media Reports also indicated other concerns about Ecuador and the Correa administration: (i) strong evidence that senior members of the Correa government have supported the FARC; (ii) strong indications that the judiciary remains deeply corrupt and that it has freed important drug traffickers who have been caught escorting loads of cocaine; (iii) accusations from Correa's older brother that members of Correa's inner circle are engaged in extensive corrupt business practices; (iv) strong evidence that the Correa government has illegally manipulated the international bond markets to benefit itself and the Venezuelan government; (v) increasing drug trafficking and organized crime; and (vi) constant attacks on the media and efforts to restrain freedom of expression.

Finally, Ecuador's lifting of visa requirements for nationals of most countries and the adoption of the U.S. dollar as Ecuador's national currency have created new vulnerabilities for Ecuador and advantages to foreign criminal organizations.

If Ecuador is placed on the FATF List, U.S. financial institutions will have to consider, among others, the following:

- Ecuadorian banks which maintain correspondent accounts in the United States will be classified as "certain foreign banks" under Section 312 of the USA Patriot Act and subject to enhanced due diligence.
- Possible response by the Financial Crimes Enforcement Network ("FinCEN") through a special measure pursuant to Section 311 of the USA Patriot Act.
- Increased concern by state and federal banking regulators with customers and transactions to-and-from Ecuador.

A copy of the Media Reports are attached to this Alert.

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Should you wish to receive further information concerning matters discussed in this publication, please contact:

Clemente L. Vazquez-Bello

305.376.6082 • cvazquez-bello@gunster.com

Andres A. Fernandez

305.376.6097 • afernandez@gunster.com

Marina Olman

305.376.6069 • molman@gunster.com

MIAMI 475555.1

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Ecuador emerges as hub for international crime

Ecuador is emerging as a focus for transnational criminal groups, according to US and European officials. Colombian and Mexican drug traffickers as well as Chinese and African human traffickers use it as a business hub.

The Financial Action Task Force (FATF), the inter-governmental body responsible for combating money laundering and the financing of terrorism, is expected at its meeting in February in Abu Dhabi to include Ecuador on its high-risk jurisdiction list at the request of G20 finance ministers.

The officials and analysts say concern about Ecuador has been mounting since an Ecuadorian government investigation revealed in December that the drug trafficking Revolutionary Army of Colombia (FARC) possessed an extensive network in Ecuador that includes some of President Rafael Correa's closest aides and may have allowed the guerrillas to partially fund his 2006 election campaign. FARC has been designated a terrorist organization by both the United States and the European Union.

The investigation into a 2008 Colombian bombardment of a jungle camp on Ecuadorian territory, in which the FARC's second-in-command Raul Reyes was killed, relied heavily on 600 gigabytes of data found in computers and hard drives in the destroyed camp and authenticated by Interpol. Correa has denounced the investigation, which he initiated.

Ecuador attracting transnational crime

FARC's penetration of Ecuador's government and judiciary, the country's weak institutions and anti-money laundering laws and its nonexistent anti-terror financing laws as well as its porous borders with its drugs producing neighbors have turned Ecuador into a place where transnational criminal organizations from Latin America, Russia, China, India and Africa can conduct business, according to a just-released report by the Washington-based International Assessment and Strategy Center (IASC).

"Ecuador (is) attractive to a host of Latin American criminal organizations, particularly for money laundering activities," the report says.

The report goes on to say that Ecuador is "increasingly attractive for Russian organized criminal groups, both for weapon sales to the FARC and to launder money" and that "Chinese triads, particularly those involved in smuggling human beings, have greatly increased their presence in Ecuador." The Financial Action Task Force warned in 2007 that Ecuador had failed to comply with 48 of its 49 recommendations on money laundering and terrorist financing.

The officials say the lifting in 2008 of visa requirements for nationals of most countries and the adoption in 2000 of the US dollar as Ecuador's national currency make it easy for Russian, Chinese, Indian and African criminal organizations to operate in Ecuador.

The dollarization of Ecuador's economy, lax restrictions on the movement of large amounts of money and some of world's strongest bank secrecy laws enable the laundering by Russian crime groups of proceeds of Mexican drug and Asian and African human traffickers. A recent study by Quito's San Francisco University concluded that annually up to \$1 billion (0.7 billion euros) are laundered through Ecuador. US law enforcement officials say the figure could be substantially higher.

The lifting of visa requirements has allowed Chinese triads as well as Indian and African human traffickers to process people they are trafficking through Ecuador, the Washington institute's report says. US diplomats say that virtually every non-Latin American immigrant caught since the lifting entering the United States from Central America and Mexico has transited through Ecuador. "They are mostly Africans or Central Asians, which raises security concerns," one diplomat said.

Shady financial dealings

US concern about Ecuador is compounded by recent agreements between Ecuador's central bank and Iranian financial institutions subject to sanctions by the United Nations and the United States. The agreements allow the Export Development Bank of Iran (EDBI) to deposit \$120 million in the central bank to fund trade between the two countries. US officials note that trade between Ecuador and Iran has never passed the \$2.5 million mark and has dropped in recent years to as low as \$16,000. The US Treasury imposed sanctions on EBDI a month before Ecuador concluded its agreement with the bank.

The agreements allow Bank Saderat, an EBDI subsidiary, to open a branch in Ecuador. Analysts say the agreements were in retaliation for alleged US support of the Colombian attack on Ecuador in 2008. The US has denied guiding the Colombian aircraft or providing munitions and intelligence for the attack.

The attack was part of Colombia's US-backed military campaign against FARC that has effectively pushed the guerrillas from the center of the country to its borders with Ecuador and Venezuela. Increasingly dependent on Ecuador for the supply of precursor chemicals, food, medicine and weapons and the delivery of its cocaine to foreign markets, FARC has sought to ensure its access to the country.

Judicial system corrupted

The investigation into the Colombian attack concluded that to do so, FARC has corrupted Ecuador's judicial system. "What is at stake is the security of the country itself," the investigation report warned. It quotes a 2008 handwritten note from Reyes, the killed FARC commander, to Ecuador's then prosecutor general, Xavier Garaicoa, saying that "we have received with satisfaction your message of solidarity with our organization, in benefit of the Colombian people and thank you for your offer to use your good offices on our behalf."

The report lists multiple seizures of cocaine by the police and military in which none of those arrested served significant jail time. It said the military was investigating some 50 cases in which armed forces personnel were suspected of "not complying with authorized procedures, carrying out business with illicit irregular forces, and maintaining unauthorized contacts. Every day more cases of complicity are added, involving cases of trafficking in drugs, weapons, precursor chemicals and fuel."

The report goes on to say that numerous court cases have been annulled and cites among many that of Lt. Col. José Hidalgo Obando, who was tried for frequently failing to arrest FARC patrols on Ecuadorian territory. "The judicial process was annulled on Oct. 1, 2008, and the reports of his actions rest in the archives of the armed forces," the report says.

Speaking to Ecuadorian journalists, the investigation's coordinator Francesco Huerta warned that Ecuador is "becoming a narco-democracy." The journalists quoted him as saying that FARC wielded influence throughout Ecuadorian society in politics, the church, the military, justice, civil society and

the media. Huerta said the prosecutor general's office was dragging its feet on investigating crimes identified in the report.

The report, nonetheless, carefully evaded attributing any direct blame to Correa himself. FARC's Raul Reyes was less diplomatic in his appraisal of Correa.

"This place is a trap," he wrote in his diary days before he was killed in the Colombian air raid. "They have me tied up here under the pretext that I should receive the international delegations. All this stuff is very false... The revolutionaries who visit me, save for a few people, only want money and deals. I ask myself, how many of them are infiltrators who work as double agents? I feel the presence of double agents in Correa's intimate group, without a doubt. Trusting Correa was suicide. All the contributions of money for Correa's campaign weren't worth a damn."

Author: James M. Dorsey
Editor: Rob Mudge

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Ecuador at Risk: Drugs, Thugs, Guerrillas and the Citizens Revolution

by [Douglas Farah](#), [Glenn R. Simpson](#)

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REPORTS

[Read the full report.](#)

Executive Summary

When Rafael Correa assumed the presidency in Ecuador in January 2007, it was widely hoped his administration would use its strong mandate to end a decade of debilitating political and economic turmoil. The chaos and corruption had led to the collapse of the nation's political and judicial institutions completely discredited the traditional ruling class. From 1997 until Correa's election, Ecuador had six presidents, none of who served a full term in office. The economy and banking sector had collapsed, wiping out two decades of GDP growth and leading Ecuador to adopt the U.S. dollar as its official currency.

By Ecuadoran standards Correa's mandate was stunning. A novice on the national political stage, he won 56 percent of the vote while his political coalition, Alianza País (National Alliance) fielded no congressional candidates. Rather, he staked his political survival on convoking a constituent assembly that would bring "rapid, radical and profound change" to Ecuador and amassing almost unchallenged power for himself and the office of the president.

The changes he proposed in his "Citizens Revolution" were largely of the traditional left, advocating a strong executive, a strong state role in the economy, heavily redistributive tax policies, and an end

to the U.S. military presence at its Forward Operating Location in Manta. But perhaps his most important promise was to end the traditional bickering and corruption that had characterized the prior governments and to usher in a new era of "clean hands," honesty and accountability.

The new constitution was overwhelmingly approved on Sept. 28, 2008. As part of the reforms, new presidential elections were held on April 26, 2009. Correa won in the first round, beginning a new four-year term.

In his second inaugural address Correa promised to "deepen democracy and radicalize this revolution," reiterating his "revolutionary" commitment to carry out "deep, rapid transformation, in peace, as we postulate for this citizens' revolution."

It is not hard to understand the appeal of radical change in a country that had become Latin America's most unstable for more than a decade. After a relatively smooth transition from military rule to civilian government in 1979, the country enjoyed 17 years of comparative stability under five democratically elected presidents. As in much of the hemisphere, the transition resulted from a pact between the military leadership and the civilian political elite that excluded most of the country's indigenous population and, while observing some of the trappings of democratic governance, left much to be desired. It unraveled with astonishing speed and consequences.

The pressing challenges to the Correa administration include:

- o Credible charges that his campaign received funds generated by the sale of cocaine from the Revolutionary Armed Forces of Colombia (Fuerzas Armadas Revolucionarias de Colombia-FARC);
- o Strong evidence that senior members of his government have supported the armed insurgency that has been designated a terrorist organization by the United States and European Union;
- o Evidence that members of his inner circle had direct

- contact with transnational drug trafficking organizations tied to the FARC;
- o Strong indications that the judiciary remains deeply corrupt, including the freeing of important drug traffickers who have been caught escorting loads of cocaine;
- o Persistent accusations from his older brother (who ran his presidential campaign's finances) that members of his inner circle are engaged in extensive corrupt business practices;
- o Strong evidence that the Correa government has illegally manipulated the international debt bond markets to benefit itself and the Venezuelan government;
- o Increasing drug trafficking and organized crime, largely but not exclusively attributable to the FARC that have led one government commission to lament that Ecuador is on the verge of becoming a "narco-state;"
- o Constant and internationally condemned attacks on the media and efforts to curb freedom of expression, in large part because the private media are among the few levers of power and influence Correa and the AP do not control.

Many of the underlying issues of structural corruption, drug trafficking, money laundering and the presence of the FARC predate the Correa administration by many years. Ecuador's geographic position has also made it a vulnerable and attractive crossroads for transnational non-state armed groups. Ecuador's decision to adopt the U.S. dollar as its official currency in 2000 also created numerous new vulnerabilities for the state and advantages to criminal organizations.

These factors, taken together with the changing internal situation in Colombia and the expanding influence of the Mexican drug cartels have, over the past three years, helped turn Ecuador into an important and growing center of operation for transnational organized criminal gangs. This poses a significant threat not only to the Ecuadoran state but all of Latin America and the United States.

After decades as a transit route for cocaine and a secondary money laundering center, Ecuador is emerging as a key meeting ground for multiple transnational criminal and terrorist organizations and an important part of a pipeline that moves not only cocaine but human cargo, weapons, precursor chemicals and hundreds of millions of dollars a year.

Many of these pressing transnational issues remain relatively low priorities for the Correa government and many have grown markedly worse over the past two years. Among the most worrisome developments are:

- o The significant growth of FARC drug trafficking networks through Ecuador, driven by the guerrillas' increasing dependence on the cocaine trade for financing and the Colombian military's success in pushing the rebels out of the center of the country toward the border regions with Ecuador and Venezuela.
- o The increasing reliance of the FARC on its Ecuadoran supply lines for precursor chemicals, food, medicine and weapons, and the size and permanence of the FARC base camps in Ecuador.
- o The growing presence in Ecuador of Mexican drug trafficking organizations, who now do business directly with the FARC in Ecuadoran territory, delivering cash (dollars) and chemical precursors in exchange for cocaine.
- o The growing presence of Russian and Chinese organized crime groups in Ecuador, drawn in part because Ecuador lifted visa requirements for almost every country in the world.
- o The growing role of Ecuador as a money laundering center for multiple transnational criminal organizations including some such as the FARC that are also designated terrorist organizations.
- o The official presence of Iranian financial institutions at the invitation of the Correa government that have been placed on United Nations and U.S. sanctions list.
- o The increasing unwillingness to honor international law

and arbitration in the rapidly growing number of international disputes in which the Correa administration is engaged.

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